

Martín Guzmán and Joseph E. Stiglitz
September 2026

Toward a New Deal for Global Trade

A Progressive Agenda



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Executive Summary

Trade rules have decisive implications for who gets to industrialize, who captures the gains from global value chains, and who absorbs the losses. This paper argues that the rules were not merely badly designed, they were written by the powerful, legitimized by a body of theory that rendered power and critical market limitations invisible, and enforced asymmetrically. Reforming them therefore takes better analysis and a strategy for a shift in the balance of power.

A polycrisis with three sources

The multilateral trading system faces three crises, distinct in origin and compounding in effect. The first is the developmental failure of the pre-Trump order, whose rules rested on assumptions that do not describe a twenty-first century economy: fixed technology, complete risk markets, costless factor mobility, permanent full employment, no power, no coercion. The second is China's integration into the global economy, which produced precisely the disruption that neoliberal theory said could not occur and created the political conditions for the backlash against globalization. The third is the one now underway. The Trump administration has pushed boundaries previously tested by prior US administrations and shown how far a sufficiently powerful state can go to break the rules and still find impunity. The readiness of so many governments to seek bilateral accommodation has enabled this strategy. What has been stripped away is the legitimating fiction that the rules were designed to be fair and applied symmetrically.

Power, not just bad theory, wrote the rules

Flawed economics supplied the cover story, but power drafted the rules. The Agreement on Agriculture locked in high subsidy ceilings for the United States and the European Union while capping developing countries at their low historical levels. The balancing of more or less restrictive intellectual property rules in the WTO TRIPS was done more through the eyes of the pharmaceutical and entertainment industries rather than those of global health or research. COVID-19 exposed the consequences—even if somehow masked by other constraints for production that may have been more binding at the time. The alleged flexibility in the rules, such as Article 31(b), was procedurally unusable at pandemic speed. Its coverage extended only to patents, not to trade secrets, regulatory data or manufacturing know-how. The threat of litigation and investor-state

claims deterred governments from invoking the flexibilities they formally held. The 2022 Ministerial Decision arrived after the acute phase and restated what already existed.

One point deserves emphasis for negotiators: while there are agreements within the WTO that have enshrined neoliberal principles, the agreement establishing the WTO itself does not do so. Everything proposed here is consistent with its terms.

Trade, finance and knowledge form a single architecture

Rules that push countries to specialize according to static comparative advantage keep developing economies undiversified, and undiversified economies are priced as risky. Risky economies face pro-cyclical capital flows, and hence shorter-term and more expensive financing, which raises their cost of capital and further blocks structural transformation. Trade asymmetries and financial asymmetries reinforce one another, while intellectual property rules simultaneously restrict the flow of knowledge southward and accelerate the flow of money northward. All of this in turn plays against diversification. A reform agenda confined to tariffs will not touch any of this.

Principles

Reform should serve human well-being, and any sense of equity would weigh particularly the benefits to the poorest. Most individuals and countries value being able to make their own choices—self-determination. Accordingly, reform should protect national autonomy, including the right to regulate and to de-risk. It should discipline beggar-thy-neighbor policies, where one country imposes costs on others, and deliver global public goods, climate above all. It should be fair in the Rawlsian sense, that is viewed behind a veil of ignorance, which makes it necessarily pro-development, and it should oblige advanced countries to share knowledge and finance capability-building, rather than merely permitting industrial policies that only rich countries can afford, which would exacerbate cross country inequality. It should defend most favored nation treatment—with possible exceptions for the poorer—while disciplining arbitrary selectivity, a reliable engine of rent seeking and corruption, which must be distinguished from transparent development-based differentiation. And it should stop treating labor institutions as neutral: where a

cost advantage derives from repression rather than productivity, trade discipline becomes a constraint on democratic choice. Progressive trade policy is no substitute for progressive domestic policy; trade policy cannot be allowed to override progressive domestic policies.

The reform agenda

Any reform agenda must address a few key issues.

Governance. Binding obligations to consult labor and social partners; independent assessment of who wins and who loses from any major rule change, potentially through the proposed International Panel on Inequality, with findings tabled at Ministerial Conferences; broader representation inside national delegations, which currently reflect producer interests; a genuinely deliberative WTO Public Forum; and far more transparency.

Enforcement. The right to retaliate is worth little to a country too small to inflict harm. Remedies are prospective, which rewards delay by the strong. Litigation costs make legal capacity itself an asymmetry. The answer is collective rather than bilateral response, including mechanisms to sanction those who decline to sanction. Transferable retaliation rights could help, but must be appropriately regulated by legal frameworks or they will reproduce the vulture-fund dynamics of sovereign debt.

Adjudication. Restore the Appellate Body. The U.S. complaint about judicial overreach is largely a ruse, since every legal system interprets. Investor-state dispute settlement is worse than anything at the WTO, and countries are right to exit it.

Knowledge. Prohibit evergreening, bar gene patents, and build in broad pandemic waivers alongside climate compulsory licenses and waivers, since licensing procedures move too slowly for emergencies. AI is altering the cost of innovation and therefore the optimal strength and duration of patents; which should be reassessed on the basis of empirical and analytical research rather than the strength of lobbying.

Digital. Insulate privacy, competition policy and content moderation from trade commitments. Reject absolute source-code protection where algorithmic audit serves the public interest. Build interoperability of AI governance through multilateral deliberation, not trade conditionality.

The strategic bet

Ideas alone do not shift paradigms. The route forward runs through coalitions of the willing: regional arrangements, where asymmetries are smaller and externalities more visible; issue-based alliances on climate, health and technology sharing; and potentially a broad grouping of every country prepared to be bound to comply with and enforce agreements—even against violations by the most powerful, excluding only those that refuse to do so. Narrower and deeper agreements, beginning with climate, will command compliance more readily than a comprehensive round.

The relevant counterfactual is not a world with rules against a world without them. A law of the jungle would be dysfunctional and unproductive. Recognizing that the powerful can engage in some coercion even with a seeming rule of law, the question is whether institutions can be built that raise the cost of deviation, of abuses of power. Had the governments threatened with tariff increases answered the threats collectively rather than queuing separately for exemptions, they would have found the cards were in their hands. Constructing the capacity and willingness to act together is the agenda.

1 Introduction

International trade rules shape the economic opportunities and living standards of billions of people around the world. They influence patterns of production, employment, technological diffusion, and the distribution of gains and losses from globalization—both across countries and within them. The patterns of production determine the inherent riskiness of economies, which affects the cyclical characteristics of global capital flows. Countries that are perceived as safer (riskier) face countercyclical, cheaper, and longer-term (pro-cyclical, more expensive, and shorter-term) private global financing with more (less) independence of financing from international financial institutions. These asymmetries in capital markets reinforce the asymmetries in productive patterns. Thus, the consequences of the international trade architecture and financial architecture are interdependent, and a holistic approach to the progressive reform of global rules needs to tackle both simultaneously. Equally, rules governing the global knowledge architecture (many of which are included within the global rules governing trade) determine whether the gaps in knowledge between advanced countries and others widen or shrink. This study focuses mostly on the international trade and knowledge architecture while accounting for the interdependencies with global finance.

This paper on what a 21st century progressive trade agenda might look like is divided into three parts. Section 2 discusses today's crisis in multilateralism, especially in the multilateral trade agenda. The neoliberal model that underlay the existing rules was built on assumptions that do not accurately reflect how the economy actually works, and in many ways are inconsistent with its behavior. Had the international community simply adhered to neoliberalism, that would have been one thing; but some of its implications, such as banning agriculture subsidies, were not acceptable to those shaping the post-World War II international trade order. Power overcame ideology; complex rules were adopted, which favored advanced countries—more precisely, corporate interests within those countries—and as if that were not bad enough, the rules were seemingly enforced asymmetrically, constraining the policy space of the developing countries that followed them while entrenching the interests of powerful corporations and powerful countries.

Section 3 enunciates a set of guiding principles for a progressive trade agenda. A central insight is that trade rules cannot be treated in isolation from the governance of global knowledge and finance and that a progressive agenda for the trade architecture must be designed for an environment of endogenous technological change, learning externalities, incomplete markets, and power asymmetries, with the objective of fostering innovation, closing knowledge gaps, and enabling structural transformation. Section 4 examines, in the light of these principles, some practicable reforms in governance, intellectual property, digitalization, and coalition-building that might move us in the right direction.

2 The Polycrisis in Multilateral Trade¹

Today, the multilateral trading system is undergoing a multiplicity of profound crises distinct in origin and character but deeply interconnected in their consequences. The first, and most foundational, is a developmental failure rooted in the pre-Trump trade order. The rules governing international trade were built on a theoretical framework that assumed away the features that matter most for development: learning by doing, innovation, imperfect risk markets, and power. The standard Ricardian assumptions supporting free trade simply do not describe a 21st century economy. That framework, combined with a rule-design process that to a large extent was captured by the interests of powerful corporations in advanced economies, produced a system that constrained developing countries from pursuing the industrial policies and technology transfer arrangements that had enabled earlier successful developers to structurally transform their economies.² The countries that developed best—including some outstanding success cases—found ways to pursue their development agendas within the broad set of effective international constraints, shaped by their economic, demographic, and power endowments, which generally differed from those of the developing countries that lagged. Those that lacked the power, will, audacity, and capacity to go against the wishes of the powerful, as well as the technological and economic prowess to do so, were largely left behind.³

The neoliberal model did not deliver on its promise to workers either in advanced countries or in middle-income and the poorest countries. Colonial trade patterns persisted. Trade liberalization has rightly been blamed for much of the growing inequality. Trickle-down economics did not work, either within or between countries. A rising tide does not necessarily lift all boats; some may be left dashed on the shore. Moreover, neoliberalism did not lead to the faster overall growth promised, either in advanced countries or the poorest. Growth in advanced countries slowed to a fraction of what it had been in the quarter century after World War II before the advent of neoliberalism. Hence, even if Trump had not simply abandoned the international rule of law, the neoliberal orthodoxy that underlay the design of much of the rule book had lost its credibility and support. A critical element in the failure of

neoliberalism was its inability to address yet another crisis—that of climate. Without government intervention, the market did too little to curb greenhouse gas emissions and there was too little green innovation. Indeed, some of the rules, especially related to investment (particularly those in many bilateral investment agreements) impeded countries' ability to respond to the climate crisis, contributing to the move to exit such agreements.

The second crisis emerged from the rise of China and its integration into the global economy. China's developmental strategy generated and is still generating massive structural disruptions in the rest of the world: shifts in productive capacity, dynamic comparative advantage, and income distribution produced deep discontent, particularly among workers in Western countries, and created the political conditions for a broader backlash against globalization. Had the underlying assumptions of neoliberalism been true—for instance, that there was perfect factor mobility at least within countries, that the more trade the better, and that somehow (perhaps through a mysterious trickle-down economics effect) all would benefit from this increased globalization—this backlash to globalization would never have occurred.

The third crisis is the one we are living through now: the abandonment of the rule of law by the United States under the Trump administration. This is a qualitatively different rupture. The Trump administration has shown that a large and powerful country can break the rules with impunity, and this has done much to strip away of the legitimating fiction that the rules were designed to be fair and applied symmetrically. Trump has renounced the ability of any international agreement to tie his hands, and the capitulation of so many countries around the world has seemingly confirmed his judgment.

Together, these three crises define the current polycrisis in multilateral trade.⁴

¹ "Polycrisis" was popularized by Tooze (2022).

² Many, admittedly, in an earlier world where there were not these constraining rules. See Chang (2002).

³ "Polycrisis" was popularized by Tooze (2022).

⁴ As we analyze later in the paper, the international trading system has also contributed in important ways to the current inequality crisis.

2.1 The developmental failure of the pre-Trump trade order

2.1.1 Economic theory, economic ideology, and trade policy: a brief reprise

Free trade, or at least trade liberalization, has long been at the forefront of the economic “reform” agenda. Adam Smith’s work has traditionally been seen as an attack on mercantilist doctrines that had earlier prevailed, and his “invisible hand” theorem—that the pursuit of self-interest would lead, as if by an invisible hand, to the well-being of society—has long been at the center of the “free market” ideology. But Smith himself did not believe in the invisible hand. He was, for instance, aware of power dynamics within his society, of the tendency of firms to collude, of the imperfections of information and other market failures that have been so much at the center of research over the last half century. But the free market ideology shunted these concerns of Smith aside and played a central role in shaping trade policy.

The design of international trade rules has been shaped and legitimized by a body of economic analysis that, for a long time, treated free trade as inherently welfare enhancing, and this was largely independent of institutional context, power asymmetries, and development stages. Ricardo, Smith, Heckscher, Ohlin, and a host of other scholars rightly pointed out some of the benefits that *might* accrue from trade under *certain* conditions—the gains from trade that arise from taking advantage of comparative advantage and from specialization. Samuelson (1938) provided a general proof of the Pareto efficiency, using a standard competitive model. Krugman (1980) provided an analysis in the context of a variant of the Dixit-Stiglitz model, where expanding the scale of the market allows for more specialization.

One of the problems was that policymakers did not understand the limitations of these models. Over the last 40 years, the limits of the classical analysis have become clear—even if we were to set aside power dynamics. And yet the trade regime has continued, with politicians voicing the same messages about the unconditional benefits of trade.

The shortcomings of the current trade regime can be better understood by revisiting the analytical foundations that informed it. Mainstream trade theory relied on a set of assumptions that are fundamentally incompatible with the realities of the global economy. These unrealistic assumptions were used to justify the policy mantra of *liberalize, liberalize, liberalize*. Doing so will increase standards of living *for all*, as resources move from inefficient protected

sectors to more productive export sectors. Not only were the pervasive market failures—such as the absence of risk markets and the costly mobility of factor—ignored, but distributional effects were either ignored or assumed as easily correctable through public policy, with the redistributions necessary to ensure that trade benefits everyone considered essentially costless. There was no need for policy interventions, which (in the eyes of the advocates of liberalization) are highly distortionary. The analyses also ignored political economy considerations. For trade liberalization to benefit all required redistributions, a policy intervention that by definition is the outcome of political processes influenced by power dynamics where one should not necessarily expect powerful winners from liberalization—groups that are supposed to compensate the losers from free trade policies—to be willing to do so.

The resulting vision of globalization led to enormous social and economic problems around the world (for an early analysis, see Stiglitz, 2002, 2017). When technology is assumed to be fixed, trade affects only allocation, not the evolution of productive capabilities. When learning is absent, there is no role for industrial policy or strategic protection, including through competitive real exchange rate policies as analyzed in Guzmán, Ocampo, and Stiglitz (2018) for the development of dynamic comparative advantages. When risk markets are complete, countries can insure against volatility, making exposure to large external shocks, which are more frequent in less diversified and more open economies, unproblematic. When market power is ignored, rents, monopolization, and the strategic behavior of firms and states disappear from the analysis. And when power is abstracted away, enforcement, bargaining asymmetries, and coercion play no role in shaping outcomes. When the economy is assumed to be always at full employment, trade liberalization, *by definition*, does not lead to unemployment.

In the real world, none of these assumptions hold, and the results are monumentally consequential.⁵ Technological change is endogenous and cumulative; learning by doing, spillovers, and path dependence shape dynamic comparative advantage. Risk markets are deeply incomplete, particularly for developing countries, making exposure to external shocks costly and persistent. Market power is pervasive. Under these conditions, trade liberalization can lock countries into low value-added activities, amplify economic volatility and inequalities, and create unsustainable political dynamics that include anger and frustrations for hundreds of millions of people. Trade liberalization, under these circumstances, may not enhance societal welfare.

⁵ All models involve simplifications. Our complaint is that the simplifications underlying neoliberal trade policy were consequential and had large adverse consequences for much of the world.

Some groups—including the poor—may be made worse off (i.e. it is not a Pareto improvement).⁶

These theoretical oversimplifications influenced the design of international trade rules, leaving aside the cognitive dissonance that if the assumptions of the perfect markets benchmark hold, no such rules would be necessary, as it would be in the interest of each country to liberalize. However, it must be noted that the Agreement Establishing the World Trade Organization does not enshrine neoliberal principles as such: it is defined on the basis of the general principle of providing a framework for the conduct of trade relations among its members. The reforms we propose are therefore fully consistent with the terms of the Agreement.

Trade came to be treated as an end in itself rather than as an instrument to be carefully managed to promote learning, diversification, and shared prosperity. Policy space for industrial development was constrained, while asymmetries such as market power and finance, which affect the design and enforcement of agreements, were largely ignored: all matters that are critical for the design of a system that promotes knowledge creation and diffusion.⁷ The legitimacy of the system rested on stylized presumptions that were more than oversimplifications—they were the denial of what was fundamentally important for understanding the workings of the economic system.

Crucially, these theoretical oversimplifications did not operate in a vacuum. By often rendering power invisible, thinking of the writing of the rules as essentially bargaining among equals, treating enforcement as symmetric, and market outcomes as pure reflections of competitive economic forces, the framework provided the intellectual cover under which powerful interests could shape the rules to their advantage without appearing to do so. The numerous criticisms both from the South and from northern scholars without vested interests meant it was, at best, a thin cover.

2.1.2 From theory to practice: the role of power

While a better understanding of how the economy functions is essential for a successful progressive reformed trade agenda, a central thesis of this paper is that it is also essential to understand power dynamics within and between countries (itself essential for understanding eco-

nomic functioning). As we have already noted, the *actual* trade rules, the World Trade Organization (WTO) rules-based system, only partially reflected the principles that derive from neoliberalism and the underlying neoclassical model. Though trade agreements were often referred to as free trade agreements, they were really managed trade agreements.

Countries might engage in a trade agreement for two reasons. The high-minded rationale is that they are at the core of global collective action. Standard normative theories provide clear guidance on what they should involve: curtailing activities with negative externalities, promoting activities with positive externalities, providing global public goods, and creating a mutually beneficial trade (and more broadly international economic) environment. This is what one would expect in the case of an agreement among equals.⁸ This is what the neoliberal trade order of the WTO alleged it was doing, at least in its limited domain: placing constraints on the behavior of each country that would result in all countries being better off.

But a close look at many international agreements suggests that they were not only about this: while they attempt to coerce weak countries into doing things that are in the interests of the powerful countries, they often do little to curtail the negative externalities exerted by the powerful countries. In other words, global agreements often look more like the projection of power than a cooperative arrangement to advance the well-being of the entire world. The weaker country signs the agreement because the alternative (say punitive tariffs) is worse.⁹

The world had largely tied its hands in the exercise of power through an agreement on the most favored nation (MFN) principle, except in regional agreements. This meant that even the most powerful countries agreed to limits on their power, although the powerful countries exercised power in other ways, such as threatening defense contracts or lodging complaints about unfair trade practices. These actions often took place under trade laws that went beyond the WTO, such as U.S. sanctions on discriminatory tariffs, even when those tariffs were imposed in retaliation against U.S. discriminatory tariffs that violate the MFN principles.

⁶ Over the last 50 years, a large theoretical and empirical literature has analyzed these adverse effects. See, for instance, Newbery and Stiglitz (1984) showing that with imperfect risk markets, all individuals could be made worse off; Greenwald and Stiglitz (2006) and Stiglitz and Greenwald (2014) showing that the growth of developing countries may be hampered; Guzmán and Stiglitz (2024b) showing that global growth could be lowered; Delli Gatti et al. (2012) showing that with costly labor mobility, even a technological improvement could have adverse effects, making all individuals worse off; Autor, Dorn, and Hanson (2013, 2016) showing the adverse effects of China's admission to the World Trade Organization (WTO) in places competing with Chinese goods, and Hakobyan and McLaren (2016) showing similar effects for the North American Free Trade Agreement (NAFTA); and Stiglitz (2002) showing the adverse effects of trade liberalization in countries with high levels of unemployment. Earlier, Stolper and Samuelson (1941) had shown the adverse distributional effects of trade liberalization within countries. Greenwald and Stiglitz (2006), Stiglitz and Greenwald (2014), and Guzmán and Stiglitz (2024b) have shown similarly adverse distributional effects across countries.

⁷ The trade rules were highly complex, for instance, using yellow, green, and red lights to categorize different types of subsidies. In a short paper like this, it is not possible to do full justice to the subtleties of the rules. But despite all the subtleties, certain realities prevail: advanced countries subsidize their agricultural goods, while many if not most developing countries are concerned that they would face anti-subsidy actions if they were to implement industrial subsidies, among other issues.

⁸ See, for example, Stiglitz (2024).

⁹ This becomes clear when we realize that there would be no need for a trade agreement if the competitive model underlying much of the policy analysis were correct: free trade would be in each country's own interests. The managed trade agreements running into hundreds of pages also show that these are more than just a stripping away of trade barriers.

It was in this context that the WTO rules were shaped and their enforcement or application determined, with the outcomes reflecting such power dynamics. For instance, the WTO Agreement on Agriculture effectively preserved large agricultural subsidies in advanced economies by locking in historically high support levels, while imposing limits on new subsidies and other trade instruments. Countries that already had extensive support regimes, such as the United States and member states of the European Union (EU), were permitted to retain significant subsidy ceilings based on past spending. Many developing countries, by contrast, entered the system with limited fiscal capacity and low historical support levels, and were therefore constrained by much lower permissible ceilings. As a result, even when their fiscal positions improved, they could not easily expand agricultural support to match that of advanced economies without breaching WTO commitments. Of course, as a *matter of principle*, a free trade regime would not have allowed any of these subsidies.

The WTO also imposed important and relevant restrictions in other areas that adversely affected developing countries and emerging markets. The system's design had critical features that would not enable developing countries to close the knowledge gap that separated them from the more developed countries. Even when there was formal symmetry of the rules, in many cases, this simply entrenched preexisting asymmetries.

A host of special provisions were designed for various special interests. Critical intellectual property provisions were designed to advance the interests of Big Pharma, not global health or global research, or to protect biodiversity or traditional knowledge.

More broadly, the Uruguay Round negotiations leading to the establishment of the WTO unfolded in a period of geopolitical transition—the end of the Cold War, the fall of the Berlin Wall, and the weakening of apartheid—during which developing countries' capacity to coordinate negotiating positions was limited. In some cases, governments entered into far-reaching liberalization commitments under conditions of foreign policy pressure and domestic transition. South Africa provides a telling example: during the final years of apartheid and the subsequent political transition, substantial trade liberalization commitments were undertaken in an attempt to buy diplomatic support—damaging not only the South African economy but also the chances of coordinating an African trade position. Some commentators have argued that the speed and scope of these commitments, combined with limited regional coordination, constrained subsequent industrial policy space and contributed to low levels of industrialization (Patel,

2022; Yanai, 2013). These are episodes that illustrate how power dynamics influence the design of trade rules.

A more recent illustrative episode of the structural limitations of the existing intellectual property rights regime was the WTO response to the COVID-19 pandemic. The episode has generated genuinely contested interpretations. Some experts argue that intellectual property rules were not the binding constraint on vaccine production: that the primary bottleneck was manufacturing complexity, which a compulsory license or waiver could not have resolved in the acute phase of the pandemic. From this perspective, vaccines were produced as fast as the global manufacturing system could have managed.¹⁰ A full assessment of these competing claims goes beyond the scope of this paper. What the episode did reveal, however, is a set of structural features of the existing intellectual property architecture that create serious risks in dealing with global health problems—risks that the interplay between the relevant parties made visible with clarity.

Four such features deserve attention. First, the existing flexibility mechanism for compulsory licensing with export rights (Article 31bis of the Agreement on Trade-Related Aspects of Intellectual Property Rights [TRIPS Agreement]) was procedurally unworkable at pandemic speed. Both the importing and exporting country had to notify the WTO's TRIPS Council separately, specify precise quantities, demonstrate insufficient domestic manufacturing capacity, issue compulsory licenses in both jurisdictions, and ensure specially labeled and packaged production runs. This process runs to over 2,400 words of treaty text that no country had successfully navigated before COVID-19 struck.¹¹ Second, even had Article 31bis functioned smoothly, it covers only patents. Producing a messenger RNA (mRNA) vaccine also requires access to trade secrets, regulatory data, and manufacturing know-how protected under other TRIPS provisions. The original India–South Africa waiver proposal had explicitly sought the suspension of obligations under Articles 39 and 39.3, which protect undisclosed information, trade secrets, and regulatory data, precisely because the proponents understood that patents alone were not the only relevant barrier. Third, the tacit knowledge required to manufacture mRNA vaccines at scale was neither covered by any flexibility mechanism nor voluntarily shared: For example, Pfizer/BioNTech and Moderna declined to cooperate with the World Health Organization (WHO) technology transfer hub established in South Africa, forcing researchers at Afrigen Biologics to attempt reverse engineering from scratch. Fourth, the formal legal framework was overlaid by the exercise of power: pharmaceutical companies and key high-income country governments made clear that invoking existing flexibilities would carry costs, including the threat of litigation through

¹⁰ The 2024 Rio de Janeiro Declaration of the G20 Health Ministers also stressed manufacturing capacity as the critical constraint. If that constraint were to be resolved, the WTO rules on the use of knowledge would become the binding constraint.

¹¹ Note that solving the patents problem is more difficult when a relevant product is affected by multiple patents, each of which requires its own compulsory license.

domestic courts and investor-state dispute settlement mechanisms, which may have created a chilling effect on governments and manufacturers that might otherwise have acted more quickly.

Despite the vast majority of WTO members supporting a temporary emergency waiver, the June 2022 WTO Ministerial Decision on the TRIPS Agreement did little more than reiterate existing flexibilities. It covered only vaccine patents; excluded diagnostics and therapeutics, where the manufacturing complexity is considerably lower and where intellectual property barriers were more clearly binding; arrived after the acute phase of the pandemic had passed; and restricted eligibility in ways that limited its practical scope. Whether or not intellectual property rules were the primary bottleneck for vaccine production in 2021, the episode demonstrated that the architecture of intellectual property protection embedded in trade rules is not designed for rapid, equitable response to global health emergencies, and that the political economy surrounding its flexibilities may make those flexibilities difficult to invoke even when formally available. The resulting disparities in access to vaccines, diagnostics, and therapeutics had enormous consequences, as the Global Council on Inequality, AIDS and Pandemics (2025) documents in *Breaking the Inequality-Pandemic Cycle: Building True Health Security in a Global Age*.¹²

2.1.3 A more constrained policy space for developing countries

While a group of countries in Asia managed to experience a structural transformation of their economies under the current trade architecture, most of the rest of the developing world did not. The anticipated “convergence” predicted by economic theory, and assured by the advocates of the WTO once trade liberalization was adopted, did not occur. Many specific aspects of the rules contributed to this (discussed, for example, in Stiglitz and Charlton, 2005). Here, we highlight how the regime constrained developing countries’ policy space, and how flaws in the global financial architecture exacerbated the inequities of the trade and intellectual property architecture.

First, international trade and investment rules constrained the policy space available to developing countries to pursue industrial upgrading, diversification, and technological learning. Restrictions on the imposition of performance requirements, local content policies, and technology transfer conditions—combined with strong intellectual property protections—reduced the scope for building domestic productive capabilities.

Of course, any international agreement necessarily constrains policy space in certain dimensions: Countries

agree, say, not to impose tariffs *if* the trading partner does not do likewise. But as we have already emphasized, the WTO rules were asymmetrical and, even when seemingly symmetrical, had asymmetrical effects on developing countries and emerging markets. While advertised as based on a set of economic principles that, if adhered to, would benefit all, the rules circumscribed developing countries’ policy space in ways that impeded their development and advantaged certain interests in advanced countries (see, for example, Stiglitz and Charlton, 2005).

This helps explain why many developing economies remain trapped in patterns of specialization centered on commodity exports, exposed to volatile terms of trade and debt vulnerabilities (Pontifical Academy of Social Sciences & Initiative for Policy Dialogue, 2025). These structural conditions severely limit their capacity to benefit from trade or to pursue sustained industrial and technological upgrading. The Asian countries that managed to break out of this pattern were less dependent on international financial institutions (except for the brief period during the East Asian crisis), so they had more leeway in charting their own course. For instance, they adopted industrial policies, including trade restrictions, demanded transfer of technology, and insisted on joint ventures. Some of these policies were allowed under international agreements. The conditionalities imposed on developing countries and emerging markets seeking assistance from international financial institutions often went beyond the requirements of these international agreements.

Second, the system is characterized by reinforcing asymmetries between trade and finance. Trade rules themselves cannot be separated from finance and macroeconomics. In a global economic environment in which economies differ in their levels of productive diversification—with advanced economies having more diversified production structures that are better prepared to absorb shocks, while developing economies are less diversified and thus riskier—a set of international trade rules that promotes free trade will ensure that each country specializes in the products in which it has a *static* comparative advantage. But this means that the asymmetries in the inherent risk levels across the two groups of economies will be perpetuated and even amplified: advanced economies will become even more sophisticated and resilient over time than developing economies, provided that they all follow the international rules.

What is needed are rules that allow governments to steer the economy toward greater diversification and resilience—even advanced countries are finally recognizing the importance of resilience, which markets alone do not ensure. And production should be based not only on static comparative advantage but also on dynamic comparative advantage, as we emphasize below. The WTO regime,

¹² The enforcement of these TRIPS conditions at such costs stands in marked contrast to the failure of the international community to enforce the massive violation of the basic MFN principles by the United States.

focused on static comparative advantage, positioned advanced countries to specialize in high value-added (and often complex) goods characterized by high levels of learning by doing, while developing countries produced goods that involve less learning. The regime makes it difficult for developing countries to adopt industrial policies aimed at transforming their comparative advantages and promoting diversification that would reduce country risk.

If the organization of the global economy includes liberalized capital accounts, such that capital can flow without regulation from one country to another, but the global environment is not one of perfect markets, as in the Arrow-Debreu benchmark—and instead debt and credit contracts and markets are incomplete, meaning that there is not perfect, or in many cases, any insurance against shocks, and investors in the global economy exhibit some degree of risk aversion, at least with respect to very large shocks—then private capital flows will be countercyclical in advanced economies and pro-cyclical in developing countries (Guzmán and Stiglitz, 2026). In times of abundant global liquidity, capital will flow to developing countries, which pay higher yields due to perceptions of higher risk, while in times of high global uncertainty capital will flow back to the relative safety of advanced economies. This pro-cyclical movement in capital in developing countries leads to a still higher cost of capital for developing economies, further undermining their chances of structural transformation and increasing asymmetries.

The unregulated movement of capital thus increases risk levels and interest rates in developing countries while reducing risk levels in countries that benefit from countercyclical capital flows, exacerbating asymmetries in the productive capacities of advanced and developing countries (cf. Pontifical Academy of Social Sciences & Initiative for Policy Dialogue, 2025; Diwan et al., 2025).

Therefore, the global trade and financial architectures are interdependent, and reform proposals must tackle both dimensions of the international economic system simultaneously. Nonetheless, this report limits itself to trade measures.

Finally, a potential objection to the analysis above could be that some developing countries succeeded without visibly violating the WTO rules. For example, some would say that China managed to achieve extraordinary development within the system. From this perspective, the failure of many poor countries to develop lies in their own policies—a failure to take full advantage of the policy space afforded by current rules.

There is no consensus on whether China violated the rules. Some claim that its industrial policies, subsidies, and market access restrictions constituted systematic violations;

others argue that China largely operated within the WTO rules. The empirical record of formal dispute settlement offers some guidance: as Schott and Jung (2019) document, the United States brought 23 cases against China at the WTO through 2019, winning 20 of them, with 3 remaining pending. This is a relatively small number given the scale of the trade relationship and the breadth of the allegations regularly made outside the dispute settlement process.

But this objection misses the point of the analysis. The question is not whether any particular country managed to develop under the existing rules, or whether it did so by violating them or navigating within them. The question is whether the rules systematically constrained the development prospects of countries that lacked the initial conditions to develop within the trading system—including not only the letter of the rules but also the global power dynamics that determined their implementation and enforcement. Success achieved under adverse rules does not validate the rules; rather, it reflects the exceptional combination of endowments, power, and strategic capacity that allowed certain countries to navigate their most binding constraints.

The effects of the rules were not uniform across different countries. Three dimensions of heterogeneity are particularly consequential. First, a country's initial endowments, such as its productive structure, determine the extent to which specializing according to static comparative advantage would also generate dynamic learning effects. For countries whose static comparative advantage happened to coincide with high-learning, high-spillover activities, trade liberalization is less harmful and possibly beneficial; conversely, for those whose static advantage lay in commodities or low-learning manufacturing, the rules lock them into trajectories with limited scope for structural transformation and knowledge accumulation. Second, power asymmetries determined the extent to which the most advanced economies could use trade rules, investment agreements, and geopolitical pressure to prevent the catch-up or surpassing of countries that aspire to move up the value chain. Third, the interaction between trade rules and the international financial architecture creates additional layers of conditionality for the most vulnerable. Countries that managed to promote high domestic savings,¹³ as was the case in most East Asian countries, became less dependent on global financial markets. Countries with less diversified productive structures are inherently riskier, face pro-cyclical capital flows, and are more likely to experience financial crises that make them dependent on the financing of the International Monetary Fund (IMF) and other multilateral institutions that are largely controlled by advanced countries. Countries are forced, *ex ante*, not only to liberalize trade but also capital flows and financial markets, making a crisis more likely. When a crisis materializes, policy space is further constrained—often for

13 Which may have been a function of their specific circumstances.

extended periods—through conditionalities that reinforce the very specialization patterns that made those countries vulnerable in the first place. The result is a self-reinforcing system in which the rules, financial architecture, and power asymmetries interact to perpetuate and deepen the development gap, independently of any particular judgment about individual country cases.

2.1.4 Rewriting the rules pre-Trump

Had we been writing this paper before the arrival of Trump, particularly if we had followed the fashion of the time and asked *what kind of rules would be fair and enhance global prosperity*, we would have had a daunting task. Still, there was a clear agenda for rewriting the rules of trade that would have better served the interests of workers in both developing and developed countries, and done more to protect the environment, improve global health, and promote development in poor countries. That was a world in which all countries, including the United States and the EU, claimed to support a rules-based system, a world in which we recognized (and criticized) the hypocrisies, inconsistencies, and inequities that pervaded the system—some the result of flawed understandings of the working of the global economy (the underlying weaknesses in neoliberalism that we have extensively discussed above) but others the result of the influence of special interests, especially of multilateral corporations and global financial enterprises, which often had undue sway even in democracies over the trade ministers that negotiated the rules. But still, it was a world that paid lip service to a principled and fair rule of law, and sometimes went beyond just lip service. Not surprisingly, rules were often defended when they aligned with national interests, and countries attempted to stretch the rules or reinterpret them when they did not. Battles within countries played out in battles between countries. The U.S. tech sector wanted the U.S. government to use trade negotiations to give them a free hand in operating abroad, without regulations concerning privacy, content moderation, market power, etc. This battle over trade policy was, in fact, part of the domestic battle: if they could establish global norms, it might be easier to restrain domestic policy.

The net effect of the interaction of domestic and international politics was a messy system, a glass half full, but also a glass half empty. Not surprisingly, the outcome did not evidence intellectual consistency. Subsidies for the implementation of industrial policies were not allowed or severely limited—an “unfair trade practice”—but as discussed earlier, powerful countries received exceptions, such as for the agricultural sector. There were constant fights over which regulations were unfair nontariff barriers. While people in developing countries rightly complained that

the system was deeply hypocritical, its formal procedures, adjudication mechanisms, and multilateral disciplines at times created space for developing countries to assert their rights via dispute settlements and to secure market access. Emerging market countries like Brazil did bring important cases to the WTO and won, and while victory did not assure compliance by advanced countries, in some notable cases there was compliance. (However, the least developed and powerful countries seldom brought cases, partly because of litigation costs, partly because it was difficult to secure compliance even when they won.) The old regime was thus flawed and inequitable, stacked against developing countries, favoring corporate interests in advanced countries, and malleable by the most powerful. Still, it retained enough institutional substance to provide some constraints on the unilateral exercise of power (cf. Guzmán and Stiglitz, 2024).¹⁴

We have oversimplified: complaints about the old trade rules came not only from developing countries, but also from workers and environmentalists in developed countries. Growing dissatisfaction with the global trading system in the United States long predated the current U.S. administration. The politics of trade negotiations, where multinational corporate interests were overrepresented at the table but those representing the environment not, and workers’ interests too often underrepresented, meant that trade agreements were lopsided. Profits were put ahead of the health of citizens and the planet. Globalization, as it was managed, was largely inattentive to distributional consequences—or even worse, with having a distribution impact in mind, the lowering of wages, deterioration of working conditions, and an overall weakening of the bargaining power of workers. It was also highly disruptive for hundreds of thousands of workers and families in advanced economies of the western hemisphere. Offshoring, wage stagnation in certain sectors, rising market concentration, and environmental degradation contributed to mounting frustration among workers who felt left behind.

Of course, in both the North and the South, the failures were not to be blamed just on international trade rules. Advanced countries could have engaged in more active labor and distributional policies to mitigate the adverse distributional effects of trade—if, as the advocates of the trade regime claimed, all countries were better off, they could have designed policies to ensure that all (or at least most) people within each country benefited. In some cases, they could have done more to protect the environment. But the power plays that resulted in corporate interests shaping international rules in ways that advantaged them simultaneously worked to limit the scope for such Pareto-improving policies. Corporate interests benefited from low wages, and through trade and investment agreements, low wages

¹⁴ Indeed, the design of the enforcement mechanism—involving the imposition of duties against a country that had broken the rules—limited enforceability. For example, a small island state relying on imports, say from the United States, would harm itself by imposing tariffs against the United States, while the impact on the United States would be negligible. See Stiglitz and Charlton (2005).

abroad helped drive low wages at home.¹⁵ Why should we expect that corporate interests advocate at home for policies that would have led to higher wages? Under a more enlightened view, there could have been a reason: to make globalization sustainable.

2.2 The integration of China into the global economy

2.2.1 Global macroeconomic imbalances and their origins

There is the further challenge today of integrating China into the global economic order. While it is not the only country racking up large trade surpluses, its surpluses have been massive, more than four times that of Germany, the country with the next highest surplus.¹⁶ The fundamental trade identity is that the sum of trade surpluses equals the sum of trade deficits: if China runs a large surplus, other countries must run corresponding deficits. In recent years, the United States has been the country running large trade deficits. At one level, one might say: so what. China wishes to consume less than it produces, the United States more than it produces.

But the mechanisms through which China's surpluses affect the rest of the world and the forces that give rise to its large surpluses deserve examination. When China's central bank intervenes in foreign exchange markets—accumulating foreign exchange reserves—it exerts downward pressure on the renminbi, making Chinese exports cheaper and imports more expensive, and thereby increasing China's current account surplus. The counterpart is a widening of the rest of the world's current account deficit. An increase in the United States' net trade deficit lowers aggregate demand. Monetary and fiscal authorities respond with lower interest rates and a greater fiscal deficit. But in the United States, there are already worries about the size of the national debt, and further increases in that debt are not only politically unpalatable but also would undermine the country's status as a reserve currency (the well-known Triffin paradox).¹⁷ If these two channels prove insufficient, the economy adjusts through a Keynesian income mechanism: output and employment fall, income declines, and savings fall. The current account deterioration is reduced—but instead of occurring through an increase in national investment, it happens through a decrease in national savings at a lower level of activity.¹⁸

Yet the assessment of whether a policy of accumulation of reserves and more competitive real exchange rates than what the free-market solution would provide is more complex. From a developmental perspective, there are good arguments for pursuing competitive real exchange rates. Such a policy facilitates developing tradable sectors that may entail extensive learning and institutional development, with strong positive spillovers to the rest of the economy (Greenwald and Stiglitz, 2006; Stiglitz and Greenwald, 2014) and thus contributes to economic development (Guzmán et al., 2018). The neoliberal trade order simply banned or severely limited certain classes of subsidies, but distinguishing “unfair” interventions from “fair” ones is close to impossible. For many countries, building up reserves was imperative, given the vagaries of global markets and the downside consequences of crises, including the loss of national autonomy that so many in East Asia and Africa experienced during previous crises. In a world without a reliable global financial safety net or good insurance markets—one that would provide credible liquidity support in times of stress without the imposition of conditionalities—reserve accumulation is a rational form of self-insurance, not necessarily a mercantilist strategy. But building up reserves entails a more depreciated exchange rate.

Moreover, without sufficient policy space to pursue alternative development instruments, given that the WTO appears to ban a wide range of subsidies pertinent to the structural transformation of developing countries, some countries viewed exchange rate policy as a second-best instrument. Others claimed it was a better instrument than subsidies, as the government did not have to pick winners. Any firm or product that did well with the depreciated exchange rate helped promote development.

More to the point, China's productive development also has to do with three other factors: (i) the size of its domestic market, which enabled economies of scale unavailable to smaller economies and made it an attractive market for multinationals; (ii) its long-term strategic planning capacity applied to industrial policy, which allowed it to guide the economy toward more innovation, such as in electric vehicles; and (iii) its massive, sustained investment in research and education. In a short span of time, China changed its comparative advantage from low-wage labor to engineering.¹⁹

China's reserves have not increased to an extent commensurate with the size of its trade surpluses, reflecting non-re-

¹⁵ As predicted by the Samuelson–Stolper theorem.

¹⁶ As a share of gross domestic product (GDP), the differences are smaller. Indeed, China's record trade surplus as a percentage of GDP is still smaller than that of Germany in 2015.

¹⁷ See Triffin (1960). For a broader discussion, see Greenwald and Stiglitz (2010a, 2010b).

¹⁸ These concerns have played into the discontent with the trade regime and helped drive the “Make America Great Again” (MAGA) movement in the United States and nationalism and protectionism in many countries. The United States has claimed that China is not playing by the rules, but in that case the enigma is why it has not used the dispute adjudication process more, especially considering that it won 20 out of the 23 cases that it presented against China until 2019, with the other 3 still pending (Schott and Jung, 2019).

¹⁹ Contrast that with what the United States is doing today in attacking its research and educational institutions.

serve accumulation of assets, such as loans to African countries under the Belt and Road Initiative. From a global perspective, this may be welfare enhancing, since these countries desperately need funds and Western financial institutions and other creditors, including official creditors, are unwilling or unable to supply them with capital. But from a Western geopolitical perspective, this may be less than desirable, as it extends China's influence over large parts of the world.^{20 21}

In the light of these facts, consider an alternative scenario for analysis: suppose that China runs a current account surplus of similar magnitude but, rather than accumulating foreign exchange reserves, it runs a capital account deficit of equivalent size—that is, China itself acquires ownership stakes in foreign assets including firms, real estate, infrastructure, and financial assets in the rest of the world. When reserves do not change, the current account equals minus the capital account, and the balance of payments identity is satisfied in either case, but the implications are qualitatively different. Rather than the surplus being recycled through official reserve accumulation, it would translate to a rising Chinese ownership share of productive assets abroad. For a country of China's size and growth trajectory, this could generate concerns of a different kind: not macroeconomic imbalances in the conventional sense, but questions of economic sovereignty, strategic control over critical infrastructure, and the distribution of ownership and returns from productive assets in the capital-importing countries. However, this is not primarily a matter for global trade rules. The appropriate instruments are the domestic regulatory and investment screening frameworks of the capital-importing countries—frameworks that define the conditions under which foreign ownership is permitted, in which sectors, and subject to what obligations. Global rules can establish a broad architecture of nondiscrimination and transparency, but substantive decisions about how much foreign ownership to permit, and in what domains, are matters of national sovereignty and democratic deliberation. Notably, especially in the era of neoliberalism, many argued for global rules that would put severe restraints on national investment restrictions. With the recognition that “borders matter” and the reigniting in the West of a new cold war, today such restrictions on investment are more widely accepted. What is important for global rules is to acknowledge the legitimacy of national regulatory space and domestic policies in recipient countries, which are calibrated to their own strategic and developmental priorities.

There are some other less sanguine aspects of the Chinese model: it focuses on expanding supply without sufficient

consideration of global demand, assuming that there is a global marketplace for its goods. When China was small, it could get away with that. It no longer can. This supply-driven orientation—which arises from decentralized competition across China's provinces and townships, each seeking to promote expansion within its jurisdiction—played an important role in China's early success (with the rise of the Township and Village Enterprises) but has become globally problematic. It has contributed to excess capacity in key sectors and has exerted deflationary pressure on world markets. The system does not seem to have the coordinating mechanisms to prevent excess capacities being generated in many sectors, whether tradable or not (like real estate). Markets nowhere perform these coordinating functions perfectly. There is a common joke about pizzerias: after one becomes successful, many others open, creating excess capacity and risking bankruptcy for all. Ironically, in the case of China, while markets have not developed sufficiently well to perform the necessary coordinating functions (and, as we have suggested, they often do not work well even in countries with much more developed markets), central planning has long been stripped down to the point where it too is not performing these coordinating functions.

Critics of China's rise point to a number of “unfair practices,” such as requirements for joint ventures.²² Such rules lie more typically within *investment* agreements than trade agreements. There were attempts to adopt a multilateral investment agreement in which such requirements might have been prohibited, but all such attempts failed, largely because of the “overreach” of advanced countries, which wanted provisions that would in effect stymie the development of developing countries. Critics of China's policies have often confused views about what *should* have been prohibited (had such an agreement been signed, allowing advanced countries to have dictated the terms) and the constraints imposed by actual agreements. Of course, when there is an agreement and China violates it, the WTO has a way to adjudicate the dispute.

Finally, it must be noted that in a world described by a neoclassical framework that features a full employment equilibrium at all times, the adoption of subsidies in one country that leads to an increase in global supply and lower global prices would decrease the cost of inputs for other countries; hence, the subsidies would create *positive* spillovers. Countries would welcome the subsidies, except if they were part of a predatory strategy to eliminate competition and then raise prices. The world has benefited enormously from the low-cost solar panels—perhaps one of the most important contributions in addressing climate change.

²⁰ Again, the appropriate remedy may lie in increasing assistance to these countries—just the opposite of what is happening today, especially in the United States with the dismantling of the U.S. Agency for International Development (USAID).

²¹ There have also been capital flows to advanced countries to acquire Western companies and access advanced technology, illustrating once again the intertwining of trade and finance. From a global perspective, the transfer of technology expands the world's production possibilities, and thus has beneficial effects, but it also has distributive effects. Earlier, we noted the limited extent to which domestic policies countered these distributive effects; matters are even worse at the global level, and these distributive effects become particularly salient in the midst of a new cold war.

²² For an analysis of China's successful push to develop its solar photovoltaic and wind power sectors with extensive use of local content and technology transfer requirements, see Mazzucato (2013).

But the world is not described by that model. Even relatively well-functioning economies face pockets of unemployment. Ordinary individuals always worry about jobs. Hence, beggar-thy-neighbor policies matter. But attributing the disruptions provoked by China's development simply to beggar-thy-neighbor policies would be an oversimplification. Over the past half century, China has created an economic system that has shown unparalleled growth, much based on unbridled competition within the country focusing on *supply*, with insufficient attention to domestic demand. It has worked in part because of its access to international markets. But the same model has been used for non-tradables, such as real estate. As in the case of so many Western economies, there are fundamental flaws in its economic system. The U.S. model results in persistent trade deficits, with persistent deficiencies in national savings. China has long recognized the flaws in its system, particularly its excessive dependence on exports. The magnitude of the trade imbalances to which its policies have given rise are increasingly viewed as unacceptable abroad. China says that it wants to change, to become more reliant on domestic demand, and the rest of the world feels similarly. Instead of matters getting better, over the last 2 decades they have become worse—even with Trump's tariffs. The question to be addressed is: Are there policies that would incentivize China and the world to accelerate the process of adaptation?²³

2.2.2 Dynamic learning and transition adjustment

Even setting aside the question of whether aggregate demand is fully sustained in deficit countries, China's rise created disruptions along two dimensions: the transition costs borne by workers mostly in Western countries, and the erosion of dynamic productive capabilities through the loss of learning-intensive activities in those countries.

The opening up of China was seen by corporations in advanced economies as an opportunity: in the short run, they could garner profits from selling to a vast new market, acquire goods more cheaply, and exert downward pressure on workers' wages in their own countries. This calculus left out China's dynamic response: to invest in learning and actually learn, to move up the value-added chain, and to outdo the West in areas of high engineering and science. But the failure was not only a misreading of China; it also reflected domestic policy failures in advanced countries, especially the United States. The failure to invest adequately in infrastructure, technical education, manufacturing know-how, skills, and technological upgrading at the levels required to compete effectively lies at the heart of the problem. China

is often blamed for what were to some extent weaknesses in domestic economic policy in advanced countries. Trade rules interacted with these domestic shortcomings in ways that amplified their effects.

The transition problem

Standard trade theory assumes that workers displaced from contracting sectors move smoothly and costlessly into expanding ones. In reality, such transitions are slow, incomplete, and painful, with hysteresis effects for the formation of human capital. Even if aggregate unemployment does not increase, the transition may impose costs on specific groups of workers, families, and communities. The jobs lost in manufacturing, which are relatively well paid, often unionized, and embedded in stable communities with dense supplier networks and local multiplier effects, may be replaced by lower-wage service jobs with weaker labor protections, fewer benefits, and possibly in different geographical locations. Workers who spent decades accumulating firm-specific and sector-specific skills find those skills devalued. The aggregate employment statistics may look acceptable while specific communities are being hollowed out. The compensatory payments that might have enabled all to benefit were seldom paid. The failure to have effective trade adjustment assistance—ensuring that those who bore the costs of structural change were adequately compensated by those who reaped the gains—was central to, although by no means the unique cause of, the failure of the neoliberal trade regime. The impact on the working class of the displaced industries in advanced Western economies was severe, a fact that is well documented in the literature (see Autor et al., 2013a, 2013b, 2016 for the United States; Milanovic, 2025 for more comprehensive global coverage).

The dynamic learning problem

There is a further dimension. Manufacturing activities, particularly in capital goods, electronics, and advanced engineering, are characterized by stronger learning-by-doing effects, knowledge spillovers to other sectors, and path-dependent accumulation of productive capabilities.²⁴ When these sectors contract, productive knowledge not only grows more slowly, it may actually be lost. With learning by doing, the country that keeps producing gets better; the country that offshores production gets worse.

There is, over time, a shift in dynamic comparative advantage that is not easily reversed. Unlike static comparative advantage, which depends on given factor endowments

²³ The discussion above should have made clear that countries might do more to protect themselves against the negative externalities associated with trade deficits, e.g., by limiting bilateral or multilateral deficits through the use of "trade chits" as suggested by Stiglitz (2017), thereby creating a more competitive real exchange rate for their trade balance relative to their capital account balance. However, international rules imposed by the IMF or other international agreements, or retaliatory threats from powerful countries using various instruments, may inhibit countries' ability to design effective responses. Inducing a change in China's behavior may require global collective action, e.g., many countries engaging in similar policies or appropriate changes in international rules that reflect the negative externalities to which outsized trade surpluses give rise. Broader changes in the global macroeconomic and financial architecture, such as those associated with Keynes' "Bancor" proposal, might also change the global environment in ways that disincentivize surpluses.

²⁴ See Stiglitz and Greenwald (2014).

and can in principle be restored if the underlying endowments are restored, dynamic comparative advantage is path-dependent and cumulative: the longer a country stays out of a sector, the harder it becomes to reenter it. The country that increases production of learning-intensive goods moves up the learning curve; the others fall behind (Greenwald and Stiglitz, 2006; Stiglitz and Greenwald, 2014; Guzmán and Stiglitz, 2024b). Under some conditions—notably including learning by doing and no transmission of knowledge across countries but good transmission across sectors within a country—trade liberalization can lead not only to a worsening distribution of gains but also to lower global output (Guzmán and Stiglitz, 2024b).

2.3 A new stage in the exercise of power

Now, Trump has introduced a new element: the extortive use of power by the United States. Discussions of trade have always talked about power, both in the writing of the rules and their enforcement. But there was a façade—a façade that made a difference. There was a claim of an attempt to make *fair* trade rules, even if agricultural subsidies that hurt developing countries were allowed, but industrial subsidies that would help developing countries grow were not, and to enforce the rules fairly. Besides, even though the old rules-based system did not live up to its promise and undermined the development processes in many countries, access to international markets nonetheless provided the basis for growth in a group of Asian economies that concentrate a significant fraction of the world's population. Manufacturing export-led growth in these economies produced the fastest sustained growth over almost half a century that the world has ever seen, helping lift hundreds of millions out of poverty.

While the gains of East Asia were not necessarily *at the expense of* the United States and other advanced countries—trade is not zero sum—there is no doubt that trade *contributed* to the evisceration of the middle classes in advanced countries and the growth of inequality. (Parsing out the role of technological change and trade is difficult, but most economists attribute most of the adverse effects on workers to advances in technology; but globalization, without appropriate offsetting policies, made matters no doubt worse, and it was easier to blame foreigners for one's problems.) Rather than channeling the understandable discontent toward reforming corporate governance, strengthening labor protections, investing in public infrastructure and education, or redesigning trade rules to ensure more equitable outcomes, the backlash toward the worsening plight of workers was directed at foreign countries as the alleged source of domestic decline. In this narrative, the problem was not the structure of globalization or domestic policy failures, but “unfair” external competitors. No doubt, this spur to nationalism has shifted politics to the right

in advanced country democracies—and provided some of the support for Trump with his open war against globalization and the international rule of law. While he mostly complains about complying with the laws he has inherited (even if those rules were largely shaped by prior U.S. governments and the corporate interests they served), he even walks away from the agreements he himself signed. Now, there is no lip service by the Trump administration in the United States to a rule of law. Instead, the rule of law has been scorned by the current administration.²⁵ The current U.S. administration has come to treat trade policy as an instrument to extract benefits from less powerful economies. This approach is closely intertwined with the use of financial leverage (including that derived from the extensive use of the U.S. dollar as a means of exchange and a reserve currency) and, more broadly, with military, geopolitical, economic, and technological power to influence domestic political and economic dynamics in other countries.

The façade of a just and fair trade system has been stripped away. The world has seemingly moved to one where might makes right, a law of the jungle rather than a rule of law. The only context in which the word fair is ever invoked is one in which the U.S. administration claims that the trading system—the rules it played a dominant role in writing—is unfair to it. The word fair seems to have been denuded of any real meaning.

Trade policy is directed at extracting a larger share of the surplus from global value chains for the United States (than would have been the case, say, with competitive markets), and is a more core part of an attempt to impose the U.S. political agenda on others. And while trade sanctions had occasionally been used as an instrument of policy for countries viewed as violating international norms, they had never been used (or threatened to be used) so wantonly—even against allies undertaking policies the U.S. government disagreed with, such as the EU's digital policies or Brazil's judiciary prosecution of Bolsonaro for attempting to prevent the peaceful transition of power, the basis of any democracy.

This posture goes beyond economic nationalism and instead reflects a form of “supremacism”—the belief that power can legitimately be exercised to bend outcomes in favor of the dominant actor, whatever their whims. The geopolitical damage resulting from this approach is substantial: it undermines trust, weakens cooperation, and accelerates global fragmentation. The U.S. administration trampling on the international rule of law has raised a set of fundamental questions: Is there now, or has there ever been, a real international rule of law, consistently and fairly applied? Can there be a rule of law when there is no way that can be enforced against powerful countries? Perhaps the rule of law was simply a façade, something to constrain the weak, as it empowered the strong?

²⁵ There are exceptions: when Iran attacks ships going through the Strait of Hormuz, the Trump administration accuses them of violating international law.

The result will be a weaker global economy, as the world will be constrained in its ability to reap the gains from trade. Depending on how the world responds to the current U.S. administration unilateralism, however, it is possible, though by no means guaranteed, that the world as a whole could emerge better off than under the earlier flawed neoliberal rules-based order. We will describe this more positive outcome later in this paper.

Our analysis is largely normative, asking how *should* trade rules be structured, taking into account both the economic and political realities that were seemingly given short shrift especially in the era of hyper-globalization. We explain the inequities and inefficiencies associated with the current trade regime. We argue that there are better regimes—regimes with different rules in which workers in all or most countries do better (or at least regimes that would look better behind a veil of ignorance).

Some of what we describe below is in the spirit of traditional trade policy: Assume there is a shared belief in the international rule of law, and that such a rule of law should be based on sound economic principles and social justice. What modifications are needed to the old regime?

But if power is at the crux of the current dysfunctionality of the trade regime, we simply cannot wish it away. Trump has shown the fragility of any trade regime in the presence of asymmetries of power. The most powerful countries cannot be restrained too much: they have to weigh the benefits of an orderly world with cooperation with the costs of being restrained. Trump seems to have put little weight on the former and exaggerated the latter. By the same token, the trade regime cannot be too unfair, especially to the middle powers, which can (as we describe more fully below) reduce at least the economic power of the most powerful and form cooperative agreements among themselves, excluding any country that fails to agree to comply with the global rules. What makes the global architecture particularly frail is that cooperation is based on *perceptions* of its benefits, and as U.S. politics has shown, that can change quickly, and in ways that are untethered to reality. Moreover, power balances are constantly changing; rules written to favor certain countries may well become unacceptable in a new power configuration. Still, the recognition of how hard it is to rewrite the rules should provide some stability—and did so until Trump arrived on the scene.

There are then two approaches to restructuring the global architecture, which we explore below. One entails minimal agreements, where small and medium-sized countries recognize that they cannot stop a powerful country, such as a rogue United States, doing what it pleases.

The second is the *countervailing approach*, where small and medium-sized countries work together to limit the economic power of large countries. Interestingly, for the moment, there may be more opportunities for the success of this second approach, as China sees itself as having a credible comparative advantage in being a reliable trade partner that adheres to the international rule of law (whatever its stance on the rule of law domestically may be).

Enabling an effective system requires a renegotiation of trade power as it is today, not as it was at the turn of the century when China acceded to the WTO, let alone in the 1980s when the Uruguay Round was largely drafted, or in 1995 when it went into effect.

It is hard to gauge what would emerge from such a renegotiation. While most countries pay lip service to an international rule of law and democratic principles (recognizing that the billions in the developing world were underrepresented in the creation of the post-World War II economic and financial regime), many forces are preventing the rest of the world from coordinating a unified negotiating position vis-à-vis a unilateralist U.S. administration. Countries differ widely in their economic and political situations, their dependence on the U.S. market and on international institutions largely controlled by the United States, as well as on their security alliances. Geopolitical rivalries between major emerging economies further complicate collective action. However, were they to do so well, the “cards” would be for the most part in their hands, and a new brokered trade architecture would be likely to emerge, with a better balancing of the gains of trade than under the rules of the old agreement, and possibly even more efficient.

We do not fully articulate this new equilibrium, simply noting the decreasing share of global trade in both goods and services of the United States—according to the World Bank, the U.S. share of global exports (imports) was 8.44% (13.45%) in 2023, down from 12.71% (18.16%) in 2000—and that the United States may have control over crucial bottlenecks in a narrower set of goods and services than China, with its rare earths and minerals. Still, the advances in the United States in artificial intelligence (AI), which put it ahead of others, may be important. But at this juncture, it is not clear how important that advantage is compared with the cost advantage that China has in Huawei and other products, the higher efficiency of its AI, and China’s commitment to open source (especially since some leading U.S. companies are pushing strongly against open source).²⁶

Our approach differs markedly from how the current U.S. administration looks at trade policy today, which seeks not a fair regime, but one that would presumably maximize

²⁶ In a world without rules—the world the Trump administration in the United States seems to be pushing for—if other countries (including China) perceived that they were at a disadvantage, they could easily countervail with limited temporary duties. But such a response doubly disadvantages the tariff-imposing country: it suffers from the lack of technology and from the higher prices the firms in its economy pay for the inputs. For an intermediate good, this is seldom desirable. Still, in some cases, retaliatory measures are taken because the expected benefit from inducing the United States not to impose restraints on its imports or exports exceeds the costs. Moreover, restraining imports of, say U.S. chips, induces greater production—and innovation—in Chinese chips. China’s strong threats of retaliatory measures were effective in forcing Trump to back down.

U.S. well-being (even if the implemented policies do not achieve that outcome). It approaches trade with a *short-sighted* zero-sum perspective: If some other country benefits, it must mean the United States is worse off. It does not recognize that good rules, fairly enforced, could lead to every country being better off. But the United States is being shortsighted even in its own interests, as inevitably there is a process in play in which others become less dependent on the United States, so the United States gains less from trade and is able to extract less and less of the value of global supply chains.²⁷

Evidence to date suggests that the Trump-era trade strategy is not having success in achieving its central objectives. Manufacturing employment has not experienced sustained reshoring,²⁸ and although bilateral trade balances have shifted—particularly vis-à-vis China—the overall U.S. trade deficit has remained large, reflecting macroeconomic forces rather than the structure of tariffs.

²⁷ This is true even if the United States takes measures to punish countries that seek to become less dependent on it.

²⁸ The structure of the tariffs was not really directed at reshoring manufacturing. The failures also reflect some of the distinct advantages of China already noted, such as its competitive advantage in engineers, as well as others, such as its robust and resilient internal supply chains.

3 Core Premises for Rethinking International Trade Rules

As we think about how to reform our global trade regime, the deficiencies of the past regime give us some guidance into thinking about principles that might guide the construction of a new regime. We divide our analysis into two parts. The first summarizes four sets of lessons from the past failure, the second a set of forward-looking principles.

3.1 Insights from past failures

There are four crucial sets of lessons from past failures to take into account for the design of a progressive agenda for international trade rules.

Lesson 1: The economics of dynamic comparative advantage

A central feature of today's attitude toward globalization in the United States is the belief that it failed, especially in earlier years, to take the endogeneity the economics of dynamic comparative advantage.²⁹ The construction of a dynamic comparative advantage requires a strategy for sustaining investments in infrastructure, know-how, skills, and technology.

Lesson 2: Trade rules affect the domestic distribution and distributional politics

We have repeatedly noted the large distributional effects—the hollowing out of the middle class in advanced countries, the lowering of real wages of unskilled workers, and the adverse effects on the rust belt in the United States and similar geographies in other advanced countries. These too were largely failures of domestic policy.³⁰ In some cases, like the United States, where there were overall benefits from the rules, the failure to have effective trade adjustment assistance was essential to the failure. Trickle-down economics does not work. Even if a country's gross domestic product (GDP) goes up, it does not make all groups within society better off. Trade rules affect power between countries, but also power within countries. Trade liberalization weakened the power of workers and unions, and strengthened that of corporations and finance.

This is especially important because different groups will have rivaling interpretations of what national interest, sovereignty, and security mean. Different groups will be affected differently by any set of rules. Economic governance cannot be isolated from power and security—but neither can it be isolated from domestic distributive conflict.

The distributive consequences were not accidental. There are always distributive battles within countries, in some places and some times more open than others. Corporations wanted wages to be lowered. Trade and investment agreements were designed together in ways that weakened worker bargaining power. The design of international economic rules reflected prevailing coalitions of power, both domestically and internationally, and thus, not surprisingly, exacerbated and perpetuated them. This brought them to levels that large portions of the population viewed as unacceptable, whatever the alleged efficiency gains of globalization. But with economic power generally being translated into political power, the increased political power of corporations and billionaires was hard to check—and in many countries centrist parties failed to do so effectively, leading to the growth of extremist parties, especially on the right.

Lesson 3: Labor institutions and the design of trade rules

A central omission in the design of international trade rules concerns the interaction between trade and labor market institutions. Standard trade theory treats labor as a homogeneous factor and assumes that market outcomes reflect productivity differences. In reality, institutional arrangements influence production costs, income distribution, and the allocation of risk.

Consider two countries that begin with identical technologies and factor endowments but differ in their political systems. Country A is a democracy in which workers influence legislation, and hence labor conditions, through electoral and collective bargaining processes. Country B is governed by an authoritarian regime in which workers have no effective voice in determining labor standards. Suppose that Country A enacts limits on working hours, mandates social security contributions, guarantees paid leave, and

²⁹ With profound consequences discussed further below: it also failed to take into account the endogeneity of relative power.

³⁰ As we have already noted, economic theory predicted that these could be large, and at least some economists (such as Stiglitz, when a member and chair of the Council of Economic Advisers) warned them of this.

protects weekends and holidays. Country B imposes no such constraints and allows extended working hours without comparable protections.

If international trade rules require the full removal of trade barriers between the two countries, producers in Country A may face a competitive disadvantage relative to producers in Country B, not because of differences in productivity, but because of differences in labor institutions and power. The pressure to “restore competitiveness” in Country A may then take the form of demands to weaken labor protections. In effect, international trade disciplines can operate as a constraint on domestic democratic choices.

This problem is not captured by models that assume that all cost differences are efficiency-based, so trade necessarily gives rise to greater productivity as we take advantage of comparative advantage. When cost differences arise from repression, the absence of labor rights,³¹ or tax arbitrage, there may be no real productivity gains from trade—quite the opposite—and unrestricted competition may generate downward pressure on standards in democracies. The issue is whether trade rules should remain neutral with respect to institutional asymmetries that reflect differences in political rights.

If not, the design of trade rules cannot be detached from the institutional conditions under which production takes place. Labor provisions are central to the goals that a trade system should pursue—improving people’s lives.

Lesson 4: Geopolitics and geo-economics—power is endogenous

International trade rules are shaped by interactions among multiple sovereign actors with heterogeneous interests, capabilities, and constraints. These interactions cannot be analyzed independently from broader geopolitical dynamics.

Geopolitics is endogenous—it is the outcome of economic, technological, and military development.³² Power evolves with changes in productive capacity, technological leadership, financial power, and security capabilities.

The dynamics of geopolitical competition are inherent to economic systems’ uneven development. Periods of relative stability—such as the Cold War balance or the subsequent phase of U.S. unipolarity—should not be mistaken for permanent, sustainable, or equitable equilibria. In economics, the notion of a “Great Moderation” proved illusory; a similar misreading occurred in geopolitics. The rise of China marked the end of what might be viewed as

the geopolitical “Great Moderation.” China’s rapid growth and technological upgrading exposed the limits of a multilateral system designed under assumptions of a stable hierarchy dominated by the United States (or the United States and the EU). It also laid bare—at least to many in the developing world—the claim of the United States and the EU that the form of capitalism that prevailed in the advanced world in the latter part of the 20th century and first quarter of the 21st century was better than alternative economic/political arrangements, such as China’s peculiar form of state-led capitalism. At least for many countries, its institutional arrangements seemed to hold out the promise of faster increases in living standards than the neoliberal model being foisted on them by international financial institutions.

A key aspect of shifting and endogenous geopolitics is economic (and military) power—and the power that others have over one’s economy (and thus over one’s economic sovereignty, and thus over one’s political sovereignty). Both global rules and national policies have first-order effects in determining “who holds the cards.” Capital market liberalization *de facto* gives a strong political voice to Wall Street: if it dislikes a political candidate, it can threaten an economic crisis. China’s rare earth and mineral strategy over the past 20 years has resulted in it having enormous geopolitical power. Europe, by failing to develop its own cloud or satellite systems, has ceded enormous economic power to the United States. Germany, by becoming dependent on Russian gas, gave that country enormous power. But in each instance, precisely because such power is endogenous, the extent of the power is variable: Germany quickly built liquefied natural gas (LNG) regasification ports to eliminate Russia’s power (had it, instead, devoted those resources to renewables or to reopening its nuclear reactors, it would not have been as vulnerable to Trump’s war in the Middle East); Denmark acted to reduce its dependence on the U.S. cloud, as the United States aggressively moved against Greenland; and the United States is now trying to develop its own rare earth and minerals capacity, with a wide range of estimates for how long it will take to regain its national economic sovereignty in this dimension.

There are typically costs associated with reducing dependence on others, and whether or the extent to which one wants to bear those costs depends on whether one expects dependence to turn into exploitation. Until the pandemic and the arrival of Trump, there was widespread belief that we were moving, slowly and imperfectly, toward a borderless world, and in that context, countries could focus on static or dynamic comparative advantage. That has now changed. But the extent of “de-risking,” “de-linking,” and the best way of doing so remains a central question.

³¹ The WTO recognizes nonmarket advantages that arise from *explicit* subsidies, and with exceptions (such as in agriculture) has tried to curb them. It has paid less attention to the *implicit* subsidies provided through the suppression of worker market power. Ironically, but not surprisingly, corporations complain vociferously against regulations (such as on shatter-proof glass) that might put them at a disadvantage. And they have been resistant to creating a fair global tax regime for multinationals.

³² Economic power cannot always be separated from military power. As a recent example, the United States has used a combination of economic sanctions and a military blockade to try to enforce its will against Venezuela. The threat of military intervention is always in the background.

3.2 Principles for rethinking international trade rules

Out of these lessons emerge several principles that should guide us in rethinking international trade rules. The list below is not intended to be comprehensive, but to include some of the most important.

i. Well-being

Any reform in the international trade rules must be about promoting the well-being of people, not the projection of power or protection of narrow corporate interests. Many of the rules today cannot be seen as addressing the limitations and failures of the decentralized global market economy, but rather of enforcing rules that advance special interests, mostly in powerful countries. If the rest of the world cooperated, their collective power would exceed that of the United States or the EU—and if the workers of the United States and the EU joined in demanding a socially just trade regime, their voice would dominate the corporates of advanced countries, and it might be possible to construct a principled trade regime that benefits a wider number of people across the world. At least that would be the case if democracies worked like they are supposed to. Political rules of the game matter just as economic rules do, and if such rules allow massive economic inequalities to translate into political inequalities, even if the voices of workers *should* dominate, they may not. Power dynamics in our democracies matter, especially in countries like the United States where money matters so much in politics: indeed, it helps explain why we have gotten ourselves into the current situation.

ii. National autonomy

A belief in democracy means those in each society should have national autonomy. Only actions that have adverse effects on others should be proscribed. Of course, countries should be free to engage in mutually beneficial agreements—but when there are power imbalances, one must ask: Is the agreement coercive? Are the gains being fairly shared?

The rules of the international economic architecture need to be evaluated in part in terms of the consequences for national sovereignty—part of the criticism we noted earlier of capital market liberalization. We now know that we do not live in the borderless world that many aspired to create after World War II, and that means countries have to consider “de-risking” as an objective: in critical areas they may choose not to be too dependent on any other country, especially a powerful one that can do what it pleases. Preserving national autonomy includes the right to design

regulations and legal frameworks (including intellectual property rules) that reflect a country’s societal values and trade-offs, even if multinational corporations label them as nontariff barriers.³³ While this has been particularly relevant for services, it is even more so for the rules concerning digital trade and AI.

The most important change in the world of trade between 1995 when the WTO came into existence and today is digitalization. Trade frameworks should explicitly preserve national and collective control over digital and data infrastructures, ensuring open access, interoperability, and digital sovereignty.

iii. The need for a progressive response to trade

Progressive trade policy cannot substitute for progressive national policy. Education, labor market institutions, and industrial policy play a decisive role in determining comparative advantages. Domestic social protection systems are needed to protect against the risks posed by integration into the global economy. The better the social protection systems, the better able a country is to integrate into the global economy, taking advantage of comparative advantage and specialization.

iv. Global collective action

The global economic architecture (including for trade) should promote global public goods and regulate global externalities and public goods. Trade should not “trump” the environment; it should instead assist in developing a sustainable future for humanity. This has become especially important as we reach our planetary boundaries and we confront the challenges of climate change. The trade rules should discipline beggar-thy-neighbor policies (a form of negative externality) but promote global competition.

v. Fairness

A good global regime should be fair: a set of rules that would be judged to be fair by an impartial observer, following Rawls, which would be adopted behind a veil of ignorance. It would thus promote social justice/equity between and within countries—and accordingly, any principled trade regime must be pro-development.

vi. Knowledge diffusion

A fair global trade regime must be pro-development, given the disparities in incomes across the world. (Promoting development is also a characteristic of a globally efficient trade regime.) A pro-development trade agenda has to allow the closing of the knowledge gap between developing and developed countries, and that in turn means it has to

³³ This is not to say that regulations, such as phytosanitary conditions, have not been used as a nontariff barrier, e.g., by advanced countries against developing countries’ agricultural goods. Determining when a regulation is a reflection of national values vs. designed to be a trade barrier is a complicated matter beyond the scope of this brief paper.

allow for industrial policies. Today, it is recognized even by advanced countries that industrial policies may be desirable (Sullivan, 2023).

But this introduces a new asymmetry: advanced countries have more resources for industrial policy. Thus, while trade rules were supposed to level the playing field, the old trade rules prohibiting subsidies made it difficult for developing countries to catch up; but without any rules, the playing field may become even more tilted. Thus, any “fair” trading system must impose some requirements for advanced countries to share their knowledge and/or provide finance for developing countries to advance their technical capacities. Greater flexibility is also needed with respect to other instruments of structural transformation—including public procurement, state development banks, local content policies, technology partnerships, and regulatory tools that support learning and upgrading.

vii. Recognition of and dealing with power asymmetries within and between countries

Given the centrality of power, and the clear potential for the abuse of power, any good and effective global regime has to facilitate collective action to prevent abuses of power. Any sustainable rules-based order has to recognize the existence of asymmetries in power, and recognize that these will be reflected both in the design and enforcement of rules. Even advanced countries may benefit from a progressive trade agenda, and the stability that it gives to the global order; but a progressive trade agenda should also appeal to the better nature of those within the powerful countries that might lead them to restrain the abuse of power. The problem is that when confronted with an authoritarian figure such as Trump, such “appeals” carry little weight. Something more is required—incentives for collective action against such abusers of the rule of law.

viii. The MFN principle

The MFN principle has been a bedrock principle of the international rules-based order from the beginning. Violations of the MFN principle distort the international trade regime, undermining the efficiency of the market economy.³⁴ For the first time, the United States under Trump has put the power of extorting surplus to increase its own well-being clearly and globally over this fundamental principle.³⁵ The objective of MFN is to prevent discriminatory trade practices that serve narrow interests rather than legitimate public purposes, and most importantly, are little more than an attempt to grab a larger share of the value created through global supply chains.

However, the problem is not so much differentiation per se, but discretion without principle. Selective tariffs—and selective exemptions from tariffs imposed—can be a major source of corruption (rent seeking); indeed, much of the literature on rent seeking has its origins in trade protectionism. Selective exemptions from tariffs may be even more corrosive than generalized tariffs because of their lack of transparency. Global agreements about MFN thus can strengthen democracy.

There can sometimes be a legitimate role for preferential tariff treatment based on explicit, transparent, and development-oriented criteria, such as levels of economic or industrial development. Such differentiation may serve to close the knowledge gap between advanced and developing countries, and be part of a pro-development global trade policy. A progressive trade regime must therefore distinguish between arbitrary selectivity that fosters rent seeking and the abuse of power by a country and rule-based differentiation designed to promote convergence and development.³⁶

³⁴ The first fundamental theorem of welfare economics is predicated on all facing the same prices.

³⁵ A commitment to the MFN principle not only circumscribes this kind of abuse of power, but also facilitates trade by eliminating the necessity of rules of origin. It is important to recognize, however, that rules of origin may still be necessary in specific contexts—for example, within free trade or preferential trade agreements where differential tariff treatment applies, or in cases involving food, medical, or other products where source-tracing is justified on public health or safety grounds.

³⁶ There is thus an important trade-off between static efficiency (which MFN strives for) and dynamics. Greenwald and Stiglitz (2006), Stiglitz and Greenwald (2014), and Guzmán and Stiglitz (2026) discuss these trade-offs and how they can be balanced.

4 Toward a Progressive 21st Century Trade Agenda

With these principles in mind, we now turn to addressing just a few of the many issues associated with reforming the existing system. The section is divided into three parts. The first deals with the all-important issue of *governance*—who makes the rules and how are disputes adjudicated. The second deals with issues that are even more critical now than when global trading rules were conceived—patents in the age of AI, and the new era of digitalization. The third is a set of modest proposals for ways forward entailing *coalitions of the willing* and *deeper but narrower* trade agreements.

4.1 Governance

4.1.1 Who makes the rules?

We have emphasized that power asymmetries were present in the writing of the rules: the interests of corporations in advanced countries were more effectively addressed than those of workers, especially in many developing countries (Stiglitz and Charlton, 2005). Over time, rules have to be interpreted, disputes adjudicated, and new rules adopted to enable any set of trade rules to be able to address today's economy. It should be obvious that who makes these decisions matters: corporate leaders might advocate for one set of decisions, environmentalists another; Americans one set, those from developing countries another. In the following paragraph, we outline a set of recommendations for determining who makes the rules and how they are made, which a progressive agenda must conform to. These reforms would enhance accountability and help ensure that trade commitments reflect broader social objectives, not only commercial interests.

- **Binding consultation requirements.** Governments should face clear legal obligations to consult social and labor partners before, during, and after trade negotiations. However, it must be noted that this is a domestic legislation issue, not an international one.
- **Independent assessments.** There should also be a commitment for an evaluation of the consequences of any major change in the rules, such as an assessment of the impact on human rights, inequality, health, or consumers. **In particular, independent assessment, say from a body like the recently proposed International Panel on Inequality, would enable a more objective assessment of the consequences of any trade reform**

proposal—who are the winners, who are the losers, and how does it all add up. This body should also be asked to suggest alterations to the proposal both to ensure that the aggregate gains are larger and that the gains are more equitably shared. Such recommendations should be required to be tabled at Ministerial Conference meetings where decisions are made.

- **Institutionalized representation within national trade delegations.** To too large an extent, trade ministries reflect producer interests, especially the interests of large multinational corporations, and thus trade negotiations among trade ministries reflect these interests, and not broader societal interests. Expanding representation would help rectify this imbalance and result in better ascertaining the full effects of any trade agreement—and therefore more balanced agreements.
- **Strengthening deliberative spaces at the multilateral level.** The WTO Public Forum should be empowered as a meaningful deliberative body rather than a largely symbolic one, drawing on the experience of engagement groups within the G20 framework. This would allow for structured input from labor, development, environmental, and other civil society actors into the multilateral trade agenda.
- **Greater transparency.** Too much of trade negotiations goes on behind closed doors—in some cases, without even elected representatives being able to see what is going on.

More inclusive representation and more objective analyses of the consequences of alternative proposals in international trade forums could alter power dynamics by expanding access to information. Knowledge of what is being negotiated, how decisions are made, and whose interests are prioritized is itself a form of power. Broader participation can reduce informational asymmetries and thus help rebalance influence within trade governance and improve the legitimacy and effectiveness of international trade rules.

4.1.2 The central problem of compliance/enforcement

Perhaps the most important determinant of compliance with an international agreement is the belief in the rule of law—an understanding that it is in our mutual interest that all comply with what has been agreed to, even when short-run incentives may point in the opposite direction and even

when a country disagrees with the Appellate Body's rulings. Compliance in the pre-Trump era was far from perfect. Powerful actors often delayed implementation, exploited procedural asymmetries, or used economic leverage to discourage weaker countries from enforcing rulings in their favor. The application of the rule of law was uneven and deeply influenced by power. Yet there remained, broadly, a presumption that the overt repudiation of agreed rules would carry some consequences. That presumption acted as a constraint on behavior, a more effective constraint for small and less powerful countries than for the large and rich. The Trump administration made open defiance of multilateral commitments an explicit instrument of policy. It is clear that Trump does not believe in the rule of law, either domestically or internationally, and that there are large numbers (largely in his own party) who seem to share that view. This has moved the question of enforcement front and center.

The WTO may have hoped for voluntary compliance, but it put in place a set of rules for dealing with situations where that failed. If a losing party fails to comply with a ruling, the prevailing party may be authorized to suspend concessions. But the "right to retaliate" has real value only if the complainant has sufficient power to impose meaningful economic harm, and if in imposing that harm the country with a grievance does not harm itself more. For small and developing economies, retaliation is often not a credible threat; it can be self-damaging without materially affecting the behavior of a large violator. As a result, retaliation is effectively usable only by countries with significant power. The formal symmetry of remedies thus conceals a profound substantive inequality in effective enforcement.

The asymmetries are compounded by the temporal structure of compliance. WTO remedies were largely prospective: they took effect only after litigation, adverse rulings, and findings of noncompliance. This creates incentives for delay. When power is asymmetric, delay becomes a strategic weapon for the strong. Prolonged procedures increase the costs borne by weaker complainants while imposing relatively low costs on powerful defendants, who can "buy time" by stretching out the process. (Differences in the time-value of money to advanced countries vs. developing countries introduces another source of enforcement asymmetry.)

Finally, high fixed costs of litigation make "legal capacity" itself an enforcement asymmetry. Even if the rules are formally available, litigation requires expertise and resources.

The principal enforcement mechanism when there is not voluntary compliance is the right to retaliate. The trade rules were designed to prevent a trade war. By giving countries the right to retaliate, it was hoped and presumed that the original offender would not then retaliate against the WTO-approved retaliation. That would set off a trade war. Any such retaliation was itself sanctionable. But again, Trump has destroyed another element of the global architecture, threatening (credibly) to retaliate against any retaliation against his tariffs. Later, we will discuss what to do about this important "whole" in the arsenal of enforcement. For now, we focus on the earlier noted enforcement asymmetry.

Some proposals seek to address this enforcement asymmetry by allowing retaliation rights to be transferred or delegated to actors with greater economic leverage. In principle, such mechanisms can enhance the credibility of enforcement by separating legal standing from market power. However, the design of transferability is critical. If retaliation rights were to become fully marketable, they could be acquired by actors who might abuse the power that it would give them.³⁷ A progressive enforcement architecture would therefore require that any delegation of retaliation rights be subject to clear limits on commercialization, jurisdictional arbitration, and use.

Taken together, these features imply that the WTO's current enforcement architecture embeds power asymmetries. A progressive reform agenda must therefore recognize unequal conditions and seek to rebalance effective power within the multilateral trading system.

Collective punishment, rather than bilateral retaliation, may be one of the most effective ways forward. If the international community had collectively responded to Trump's threats, they would almost certainly have been as effective as China's response to those threats. Acting together, the cards were in the hands of the rest of the world. Devising institutional arrangements for such collective responses would seem to be an important element of a progressive trade agenda.³⁸

Such mechanisms can partially restore effectiveness to the trading system without relying on unrealistic assumptions about symmetry (that a small country could possibly enforce noncompliance by a major country) or universal voluntary compliance.

³⁷ If fully monetized, these would be akin to creditor claims, and to the extent that say vulture funds bought such claims against vulnerable countries (or governments that represented their interests), whose incentives are disconnected from development objectives or systemic stability, the dynamics observed in sovereign debt markets, where legal claims are used for opportunistic extraction rather than compliance, could be reproduced (see Guzmán and Stiglitz, 2016, 2025; Guzmán, 2020; Blackman and Mukhi, 2010). These risks are compounded if enforcement or adjudication becomes concentrated in jurisdictions whose legal frameworks have historically favored creditor claims, as this would further tilt outcomes against weaker countries.

³⁸ For instance, one way in repeated game theory that such cooperation is ensured is to punish those who do not punish, i.e., punishing deviants is a public good, and those who do not cooperate in punishing deviants are, themselves, deviating from the cooperative agreement, and accordingly *should* be punished. Of course, its practicality will depend, among other factors, on the price that a small country will pay by punishing the world's largest economies, which severely limits the scope for the implementation of this idea in the current juncture.

Adjudication

Whatever the agreement, there will be disputes, as we have already noted. The question is, how should the disputes that arise be adjudicated? The United States has blocked the appointment of judges to the WTO Appellate Body, thus defenestrating the WTO dispute resolution process. The ability of a powerful country like the United States to hamstring the whole judicial system is another piece of evidence of the imbalance of power in the international trade regime.

On the other hand, the United States (and some others) claim that the adjudication process went off the rails: that the dispute settlement decisions, over time, generated jurisprudence that effectively expanded, say, the scope of liberalization beyond what was explicitly negotiated. Interpretations of broadly worded provisions have sometimes acquired quasi-constitutional status, shaping obligations in ways not clearly foreseen by member states. Clearer wording of the rules would also surely discipline the scope of adjudication.

The problem is that only with wording that contains some element of (what some call constructive) ambiguity can any agreement be reached, in a decision-making process that requires consensus. Some of the hard decisions are, in effect, left to later. While it is thus not unreasonable to advocate that interpretation remain anchored in clearly defined mandates and explicit consent, we should expect decisions that are viewed by one side or the other as “overreach.” If the system of rulemaking were fully functional, there would be a quick response to such concerns: a change in the wording of the rule to introduce clarity about the rule. But with the consensus-based WTO, that is not likely ever to work. There have been few if any cases where there is a consensus on judicial overreach.

In short, the U.S. objection about overreach may be nothing more than a ruse: the United States must know that any judicial process entails interpretation of ambiguities in laws, regulations, and agreements. The real concern may be that the United States has blatantly violated some WTO rules in ways in which there is no ambiguity, and it does not want to face the full consequences. China has already filed cases against the United States regarding semiconductors and certain tax credits under the U.S. Inflation Reduction Act, 2022.

This paper is mostly about the rules-based trading system, but we have noted at several points how trade is related to other parts of the global architecture and the rules that govern it. At several points we have noted the important role that investment agreements play. As problematic as the WTO system of dispute adjudication may be, the system used in most (bilateral) investment agreements is far worse. These allow private investors to sue the state, with adjudication done by three arbitrators: one picked by the state, one by corporations, and the two together picking the third. There is by now a large literature (see, for

example, Howse, 2015; Stiglitz, 2007, 2018) showing the deficiencies in this system—its lack of transparency, its bias, its failing to satisfy the norms of a 21st century judicial system. It is one of the reasons that many countries are announcing leaving such investment agreements.

4.2 Principled approaches to new trade issues

4.2.1 Patents in the age of AI

A central theme of this paper is that trade rules cannot be separated from those pertaining to the governance of global finance and global knowledge. Asymmetries in global finance *inherently* create an unlevel playing field between developing and developed countries, and trade rules that are predicated on creating a level playing field within trade alone do not adequately deal with the preexisting tilt to the playing field.

This is also crucially important in the area of knowledge. An efficient and fair global system would work to close the knowledge gaps between developing and developed countries and enhance the productive capacities of poor countries. The objective of the intellectual property regime is just the opposite: to enforce intellectual property rents going to the advanced countries and to constrain the flow of knowledge. There is an inherent tension—doubly so because intellectual property both limits the flow of knowledge to developing countries and increases the flow of money out of developing countries to developed countries.

The literature highlights that patents play a dual role in innovation-driven growth. On the one hand, they provide incentives for innovation by granting temporary monopoly rents; on the other hand, they impose dynamic costs by limiting diffusion and raising barriers to follow-on innovation. The optimal patent regime balances these opposing forces, and critically, depends on the underlying cost and nature of innovation. The balancing that was done in the intellectual property provisions of the WTO (in the TRIPS Agreement) was almost solely done through the eyes of advanced countries: they sought rules not that maximized global growth, let alone global equity, but simply the profits of the corporations of advanced countries, particularly in the industries that were central in the design of TRIPS, the entertainment and pharmaceutical industries. The rules were so unbalanced in some respects that they may actually have *hindered* rather than accelerated the pace of innovation (see Henry and Stiglitz, 2010).

Whatever balance was achieved in the past, and however flawed, the widespread deployment of AI may be fundamentally altering this balance, by altering trade-offs. On the one hand, AI may reduce the marginal cost of certain types of innovation—through the automation of research tasks, faster experimentation, and lower barriers to entry. This would weaken the traditional justification for long and strong patent protection: when innovation becomes

less costly, the incentive effect of extended patent duration diminishes relative to the social cost of monopoly power and restricted diffusion. On the other hand, AI may also intensify competition in innovation and in product markets after innovation occurs: if AI tools allow competitors to rapidly develop substitute products or work around existing innovations, the period during which an innovator can recoup investment from market advantage may shorten. What is clear is that a change has occurred in the technology of innovation significant enough to call for a serious reassessment of the right balance. That reassessment should be grounded in rigorous and continuously updated empirical analysis rather than in the interests of those who stand to gain from one outcome or another.

A progressive approach to patent policy would recognize that **the optimal strength and duration of intellectual property rights are endogenous to technological conditions**. More generally, intellectual property is a social construction to advance knowledge to improve human well-being; it is not just a source of market power to enrich monopolists. In this context, practices such as “evergreening”—the strategic extension of patent protection through minor modifications, secondary patents, data exclusivity, or procedural tactics that do not reflect substantive innovation—undermine the social purpose of the patent system.

By artificially prolonging exclusivity, evergreening raises prices, delays generic entry, and restricts access to essential goods, particularly medicines. Intellectual property rules should therefore forbid evergreening. So too, intellectual property rules should include broadly structured, effective *waivers* for pandemics and compulsory licenses for climate. While compulsory licenses are valuable tools, they do not suffice in global emergencies. Licensing procedures are generally implemented through complex process that may take longer than needed in an emergency, and the pressure from vested interests may be effective in delaying their adoption. Additionally, the production of complex products might require obtaining many, many compulsory licenses, and sales could not begin until all approvals were obtained. Therefore, waivers are of the essence.

Many other changes to the rules should be part of a progressive trade agenda, even in the area of health: one should not be able to patent genes. But as we think more broadly about a progressive global intellectual property regime, there are many other reforms—a subject of a paper on its own.

4.2.2 Digital trade

As stated earlier, a reformed trading system should be mindful of the principle of national autonomy. This is critical for the rules that govern digital trade, as commitments on cross-border data flows in trade agreements can directly constrain national regulatory space; provisions that prohibit data localization requirements or mandate free data flows across borders may prevent countries from adopting privacy protections, security measures, or industrial policies that

require data to be stored or processed domestically. The reasons that this is especially important now are (i) digital trade is of increasing importance; and (ii) as this is a new arena, many countries have not settled on the rules they prefer, given the complex trade-offs that may exist in their design. Given the way *trade* rules are typically designed, having them designed by trade ministers, thereby tying the hands of national governments, would be a big mistake: it would mean that, *de facto*, they would be designed primarily for producer interests, with a focus on profits and little else. While there are advantages to global coordination, this has to take a secondary place to the design of rules that reflect national values and the broader range of interests within a country.

Thus, trade agreements must include robust and clearly defined safeguards for legitimate public-policy regulation in the digital sphere—covering privacy and surveillance, digital competition, and content moderation, whether directed at protecting children, preventing hate speech, or combating dangerous misinformation. Each country has to decide for itself how it balances these values. Trade rules should not be designed in ways that preempt these legitimate national regulatory choices.

For example, provisions protecting source code from mandatory disclosure—found in several existing trade agreements—limit governments’ ability to audit algorithms, AI systems, and platform architectures for safety, competition, or public-interest purposes. A progressive trade framework should not treat source-code protection as an absolute trade commitment when the public interest in regulatory oversight is at stake.

As countries develop their own AI risk-classification and governance frameworks, trade rules should not push toward harmonization on the terms of the most powerful or least restrictive jurisdictions: interoperability of AI governance frameworks should be built through multilateral deliberation where the voices of multiple groups that may be affected are clearly heard, not imposed through trade conditionality. Sufficient interoperability can be achieved within a framework allowing diversity of regulatory choice.

Without such safeguards, digital trade risks reproducing and exacerbating existing hierarchies and comparative advantages in new technological domains and seriously undermining national sovereignty, with a key interest of those who dominate an industry now being to preserve that dominance. This is especially so because currently, most countries are totally or largely dependent on U.S. tech companies, and on the whims of the current U.S. administration. The fight today over the digital rules of trade—with the United States threatening to impose tariffs on the EU if it does not effectively abandon key parts of the regulatory structure it is in the process of creating, such as the Digital Markets Act (2022) and the Digital Services Act (2022), is partly about restoring and maintaining digital autonomy.

5 Strategies for Modest Ways Forward

As we suggested earlier in this brief, there are two basic ways forward—a minimalist architecture recognizing the asymmetries of power and the abuses that arise, especially at this moment when there has been an abandonment of the rule of law by the United States; and new coalition structures, where those committed to a rules-based system create “trade clubs” to seek the benefits of trade with partners they can trust.

The willingness of the United States to walk away so blatantly from the rules-based system—or from any commitment to an international rule of law—has taken much of the world by surprise. That surprise has given the U.S. administration a strategic advantage, which it has taken advantage of. It is unknowable whether it would have been able to do so to the same extent if trade partners knew that its actions would be declared illegal by the U.S. Supreme Court, and if the alternative *legal* instruments at its disposal were more blunt and less effective. (What is by now clear is that the Trump administration is not likely to be tamed anytime soon. One set of tariffs has been replaced by another, which had also been declared illegal [though now under appeal], and that has been replaced by a new set of tariffs, at rates much like the second, though with a new legal justification, clearly a ruse, and one that too may be declared illegal.³⁹)

With the notable opposition of China and Brazil, the Trump administration has achieved more success than some might have thought, simply because other nations have separately curried favor from the bully. Whether it is individually rational is not clear—evidently many expect Trump to be around for a short time, in which case minimizing the short-term pain may be optimal for each.

Dispassionate analyses suggest that had the countries had time to respond thoughtfully—and even more so, if they had time to respond *cooperatively*—the cards were in their hands, not those of the United States. The outcomes of the trade negotiations could have looked markedly different.

Moreover, the actions of the United States are shortsighted *even from its narrow perspective*. Its approach has neglected the possibility that the abuse of economic power may lead to the evisceration of economic power: over time, countries respond in ways that weaken the economic pow-

er of the nation that intends to impose its power in abusive ways. Those adjustments, however, take time. As does the creation of a new coalition architecture.

5.1 Coalition architecture

Most trade is still conducted under WTO rules, and Trump’s trampling on the rules has led to a greater appreciation of the importance of a rules-based system by most countries, especially the countries that are not the most powerful. There is, accordingly, a desire in many quarters to develop coalitions of the willing where power asymmetries are limited or might be better contained.

Regional cooperation represents a concrete actionable arena for progress in a fragmented global order. While power asymmetries may also be large within regions, they are often *relatively* smaller and embedded in denser institutional and political relationships than at the global level and therefore more likely to be responsive. For example, the externalities from hurting neighboring countries tend to be larger, for instance in the form of migration, so countries are more aware of and sensitive to them. Moreover, successful regional arrangements may improve the collective bargaining position of those within the region in global trade and financial negotiations. Still, diversity within a region may be less than diversity across the globe, so the gains from trade may be more limited.

However, coalitions can also be geographically cross-cutting and organized around shared interests. They may take the form of issue-based alliances (e.g., climate, public health production networks, and technology-sharing arrangements) or functional groupings designed to pool enforcement capacity, risk-sharing through multilateral financing, or market access. What binds such coalitions is the alignment of strategic objectives and the complementarity among members. A recent coalition has centered on states committed to ensuring democracy—and the supporting institutional structures, including appropriate digital frameworks. A broader coalition may entail those committed to a rules-based system, countries more willing to punish those that deviate from global norms and rules. This could be as broad as a G-1—excluding only countries

³⁹ See Stiglitz (2026).

like the United States that are committed to exercising power and not obeying the rule of law.⁴⁰

Coalition-building entails a process of **capacity creation**. Effective alliances require administrative coordination, fiscal resources, and institutional infrastructure. Behind a durable coalition lies the development of state and multilateral capabilities that enable members to implement commitments, manage disputes, and coordinate policies.

However, it must be recognized that precisely because coalitions can alter power dynamics, dominant actors often have incentives to try to prevent their formation—through bilateral pressure, selective concessions, or strategic fragmentation.

5.2 Narrower but deeper agreements

We suggested earlier that agreements work best when there is a broad understanding of the desirability of these agreements and compliance with them. Our society works better when there is a rule of law. Such support may be stronger in certain narrower areas—most importantly, today there is an understanding in most of the world that we need to deal with climate change. Thus, a coalition of the willing around the green transition, one involving not only trade, but also investment, research, and the sharing of technology, may more easily achieve voluntary compliance.

⁴⁰ The Madrid Declaration Toward a Renewed Charter for Open and Sustainable Trade represents one attempt to form such a coalition of the willing.

6 Conclusion

While ideas matter, ideas alone do not shift paradigms; political power is critical. The key to a positive reform for a more progressive trade regime relies on affecting the balance of power between countries, which requires the formation of coalitions of the willing to discipline the exercise of unilateral power.

But ideas can help shape coalition formation, by showing the mutual gains that can be derived, say, from one institutional architecture vs. another. Trump has shone a spotlight on the dangers that arise in a world without a rules-based system.

But ideas matter in two critical ways. Ideas can help shape coalition formation, by showing the mutual gains that can be derived, say, from one institutional architecture vs. another. Trump has shone a spotlight on the dangers that arise in a world without a rules-based system.

Ideas, along the lines of those presented in this paper, also matter because they shine a spotlight on flaws in the system that might be corrected. It is in the interests of all—or at least most—that there be reforms. Highlighting how special interests have shaped trade policies is a critical element in democracies in shaping change.

In this paper, we have highlighted the flaws in the international trade regime during the era of neoliberalism, in the era of Trumpian power, and in the short interregnum between the two.

Neoliberalism paid no attention to a country's resilience: like carbon, resiliency was unpriced. And that had consequences, helping bring down faith in neoliberalism itself. Part of a progressive trade agenda may entail imposing resiliency taxes, when private markets lead to an excessive dependence on, say, a single supplier or demander, giving too much power to some foreign government and undermining national sovereignty, and especially so when that entity has been shown to be unreliable. And neoliberalism imposed rules that impeded developing countries converging to the developed—though some countries, with the right initial conditions, nonetheless achieved remarkable success. Over the past half century, economists have made enormous progress in identifying the flaws in the neoliberal trade regime and what might be done to improve matters. But some of these flaws were apparent from the beginning—it was not flawed ideas that gave rise to a distorted trade regime but asymmetries in power.

These asymmetries now represent the real challenge to a progressive trade reform.

The relevant counterfactual is not a world with rules versus a world without them. Recent experience demonstrates that the powerful can and do exercise coercive trade power despite the existence of multilateral agreements. The point is not to defend existing arrangements but to design institutions that meaningfully raise the cost of deviation and strengthen the effectiveness of collective commitments. Changing how we think—our mental models—will be essential in engendering the “coalitions” of the willing and the institutions that can design and implement a fair rule of law, which will work together to respond to “deviants” in ways that both discourage such behavior and limit its adverse impacts. Dominant paradigms persist not only through rules but also through internalized assumptions about markets and power dynamics. Building a post-neoliberal order thus requires changing the cognitive infrastructure of policymaking. Trump's actions have highlighted not only some of the deficiencies in the old order but also the virtues of a fairly enforced rules-based order.

The rule of law, and the belief in the value of a rule of law, plays a central role in sustaining cooperation, but its effectiveness depends on rules and institutions that are perceived as fair and capable of constraining power asymmetries, and in promoting broader human values and ethics. A trade rule of law that is perceived as putting profits over lives or the environment will not be sustainable. A trade rule of law that is perceived as adopted behind closed doors, with only corporate interests at the table, will similarly not be sustainable. A trade rule of law that, if complied with, leads to a country staying poor or weakly industrialized, might be politically sustainable for some time if the damaged country does not have enough power to drive a system change, but it will be seen by many as illegitimate, undermining its long-term sustainability. A “rule of law” that inhibits an effective response to climate change or to the many other environmental challenges we face today is, of course, also not sustainable, either environmentally or politically or economically.

In a world inhabited by human beings with empathy for others, narrower climate-driven agreements among subsets of countries may offer a path forward. By focusing on objectives with broad domestic support—and aligning trade, investment, and technology policies—such agreements can reduce enforcement burdens and improve compliance.

There is some debate as to whether developing countries might have done more, within the rules, to promote their development. We are of the view that it would make more sense to devise better rules, rules based less on prior power asymmetries and neoliberal ideology. A fair system would institutionalize proportionality: greater tolerance for developing countries' subsidies, an international financial system that corrects or eases financial asymmetries, and technology transfer obligations that promote global health and the health of our planet. Cooperation under deep asymmetry of power is unlikely to be universal or comprehensive. But through coalitions, narrow and well-targeted rules, better governance, with more reliance on scientific assessment of the consequences of alternative proposals and more imagination in designing proposals, with special and differentiated responsibilities and enforcement mechanisms, cooperative agreements can be made possible where they matter most, such as in climate and pandemics and in preventing the most abusive trade practices. Even though today's world is marked by power imbalances and an exercise of power that often seems to suffer from lack of empathy toward others, there is still large scope for progress toward building a progressive trade agenda that those committed to global social justice might want. We hope this paper helps to provide some of the foundations for that agenda.

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Toward a New Deal for Global Trade

The current global trading system has failed to deliver prosperity for most people and is now collapsing under its own contradictions. Built on flawed economic theory and shaped by power asymmetries, the neoliberal order locked developing countries into low-value activities while hollowing out the middle class in advanced economies. More recently, the Trump administration's approach to trade has exposed how fragile these rules truly are.

This paper diagnoses these failures and proposes a progressive alternative grounded in genuine fairness, national autonomy, and human well-being. It offers concrete reforms to governance structures, intellectual property regimes, and digital trade that could enable broad-based development and sustainable growth. Rather than accepting the current trajectory, Guzmán and Stiglitz show how coalitions of countries committed to principled rules might construct a trading system that works for workers, developing economies, and the planet.

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