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POLICY BRIEF

A NEW WORLD TRADE ARCHITECTURE WITH THREE REGIMES TAKES SHAPE IN 2026



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World trade was more resilient than expected during 2025. Its growth probably resulted from the way the rest of the world reacted to the U.S. tariffs. Other factors also had an impact, including moves by exporters to the U.S. in the first half of 2025 to get ahead of the tariffs, and the boom in global tech capital expenditures driven by investment in artificial intelligence (AI).

The trade pattern observed in 2025 and early 2026 could point to a new architecture of world trade. There is no longer a coherent global system based on consensus decision making and the cardinal principle of non-discrimination. Rather, global trade is increasingly fracturing into three overlapping but distinct regimes, driven by different dynamics and ways of doing business. Most countries besides the U.S. and China (n-2) will likely coalesce around major regional trade agreements (RTAs). The other two regimes are driven more and more by the geopolitical priorities of the two superpowers, an arrangement under which individual trade partners are in disadvantaged positions relative to them.

This emerging world trade architecture of three regimes appears to be a second-best solution to the trade havoc in 2025; and less efficient than an open rules-based trade system. Each regime will evolve in terms of how it functions, and will affect economic activities in response to problems inherent in its configuration.

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1. Introduction

World trade was more resilient than expected during 2025. Despite the chaotic imposition in April 2026 by United States President Donald Trump of so-called 'Liberation Day' tariffs, and their subsequent reduction from August onwards, increased by 4.4%, accelerating from 2.5% in 2024, according to the Netherlands Bureau for Economic Policy Analysis. The [value of world trade](#) rose by 7%, according to UNCTAD, because of increases in import and export prices and a weakening of the U.S. dollar, raising the value of non-dollar denominated trade. The 2025 improvement was a surprising outcome, given widespread expectations of outright declines in world trade, as forecasted, for example, by the [World Trade Organization](#) (WTO) in April 2025.

The growth in world trade in 2025 probably resulted from the way the rest of the world reacted to the U.S. tariffs. Other factors also had an impact, including moves by exporters to the U.S. in the first half of 2025 to get ahead of the tariffs, and the boom in global tech capital expenditures driven by investment in artificial intelligence (AI). Moreover, after a series of changes following bilateral negotiations with the U.S., effective tariffs ended up much lower than the Liberation Day rates, with a less-negative impact than originally feared.

The trade pattern observed in 2025 and early 2026 could point to a new architecture of world trade. There is no longer a coherent global system based on consensus decision making and the cardinal principle of non-discrimination. Rather, global trade is increasingly fracturing into three overlapping but distinct regimes, driven by different dynamics and ways of doing business. Most countries besides the U.S. and China (n-2) will likely coalesce around major regional trade agreements (RTAs), with increasing efforts to deepen regional integration and to link them, to facilitate trade and investment based on stable tariffs and other agreed rules largely consistent with the current WTO approach.

The other two regimes are driven more and more by the geopolitical priorities of the two superpowers, an arrangement under which individual trade partners are in disadvantaged positions relative to them. One is driven by the U.S. taking unilateral trade actions to be settled through bilateral negotiations. The other involves countries finding ways to deal with China's state capitalist economic model that leads to overproduction in many manufacturing sectors, threatening to crowd-out other countries' producers from world export markets.

This emerging world trade architecture of three regimes appears to be a second-best solution to the trade havoc in 2025. Each regime will evolve in terms of how it functions, and will affect economic activities in response to problems inherent in its configuration.

2. Timeline of U.S. tariffs

The announcement of the [Liberation Day tariffs](#), ranging from 11% to 50% (culminating to the highest level of [145% on many Chinese products](#)), on practically all U.S. trading partners shocked the world economy and triggered turmoil in financial markets, amid expectations of significant economic disruption. However, according to the Yale Budget Lab, because of many exemptions, the [effective average tariff rate](#) in the U.S. peaked in April 2025 at 22.5%, the highest since 1909. Following many changes, reflecting a series of bilateral agreements, the average rate had declined to a range of 16%-18% by the end of 2025. At the beginning of 2026, the rate was approximately 16.9% (pre-substitution from tariffed goods) and 14.3% (post-substitution). The U.S. Supreme Court then ruled in Febru-

ary 2026 that, in imposing tariffs under the U.S. International Emergency Economic Powers Act (IEEPA), President Trump had exceeded his authority, leading him to impose, under Section 122 of the U.S. Trade Act, a tariff of 10% on all countries (a 15% rate was mentioned but has yet to be formally executed), resulting in an effective average rate of about 13.7%. However, this could rise when current [Section 301 investigations into 16 countries](#) for structural excess capacity, and into [60 countries](#) for failure to take action on forced labor, are concluded, setting the stage for new U.S. tariffs.

Generally speaking, lower than expected effective U.S. average tariff rates have had a smaller negative impact on world trade and the global economy than feared. This explains to some extent the better-than-expected world trade performance in the past year.

3. Other Countries' Reactions: Reaching Out to Form Trade Links

More importantly, the way other countries have reacted to U.S. tariffs has led to both trade diversion and creation, cushioning world trade activities.

Except for China, most countries did not implement retaliatory tariffs against the U.S., but instead found ways (including threats of counter-measures from a few trade partners, such as the European Union) to make bilateral deals with Washington. The agreements have generally involved countries reducing tariffs on U.S. goods, in most cases to zero, while accepting lower U.S. tariffs than previously announced on their shipments to the U.S. Countries have also made commitments to invest in or buy from the U.S.

At the same time, other countries and jurisdictions such as the EU have reached out to strengthen or form trade links with each other, largely maintaining a stable tariff and trade regime among themselves.

Examples of such efforts include the [EU's conclusion of trade agreements](#) with Mercosur, India, Indonesia, Mexico, and Chile—and trade negotiations with Australia, Malaysia, the Philippines, and United Arab Emirates. In addition, the EU has launched the first [EU-CPTPP \(Comprehensive and Progressive Agreement for Trans-Pacific Partnership\) Trade and Investment Dialogue](#). The member states of these two trade blocs account for 32% of global GDP and 37% of global trade.

The UK has acceded to the CPTPP, signed a trade agreement with India, and reset trade relations with the EU.

Canada reached trade or investment agreements with India, Indonesia, Ecuador, and UAE, and accelerated negotiations with China, Australia, the Philippines, Thailand, and Mercosur. It has also strengthened the Comprehensive Economic and Trade Agreement (CETA) with the EU by announcing a new Strategic Partnership of the Future, and a new industrial policy dialogue to boost cooperation in clean tech, critical minerals, and supply-chain security. As Canada is also a member of CPTPP, it has been useful in connecting these two RTAs.

[India signed trade agreements](#) with the UK, Oman, the European Free Trade Association and EU, and New Zealand. India is pursuing a more open trade approach than ever before.

[Brazil reached a new agreement](#) with India to increase trade, signed a trade agreement

with South Korea, pivoted to China, which absorbs 37% of Brazil's exports, and has negotiated with Canada.

[Africa has increased its exports](#) by 5.3% and imports by 11.8%, most importantly with China but also with the U.S., despite higher U.S. tariffs and uncertainty about the extension of the Africa Growth and Opportunity Act (AGOA—[which was finally extended](#) to the end of 2026). Implementation of the (AfCFTA) picked up speed in 2025, raising hope of promoting [intra-African trade](#) which has remained low at 15%-18% of total African trade, compared to 60% in Asia and 60%-70% in Europe.

Worth mentioning is the case of Morocco which has a FTA with both the US and EU. It has moved [to diversified trade](#) from a strong relationship with European countries ([France and Spain](#) account for 43% of its trade). The country has increased trade with the US while negotiating an update of the FTA between the two, including a strengthening of rules of origins.

Morocco has also conducted more trade and investment activities [with China](#), taking advantage of the latter's elimination of tariffs on imports from 53 African countries; as well as boosted trade with partners in the AfCFTA.

[ASEAN upgraded its trade agreement](#) with China to ACFTA 3.0, deepened ties with Asia-Pacific partners through the Regional Comprehensive Economic Partnership (RCEP), bolstered trade relationships with Japan, India, and South Korea, and launched the ASEAN Digital Economy Framework Agreement (DEFA) to promote AI, quantum computing, and digital activities by harmonizing standards.

4. Trade Diversification and Creation Driven by U.S. Tariffs

The active trade linkages described in section 3 have helped promote trade diversion (from countries with high tariffs, such as the U.S., to those with lower tariffs), in the process increasing trade activities (trade creation) during the course of 2025 and early 2026.

China's overall [exports and imports increased](#) by 3.8% to \$6.4 trillion in 2025. China posted a record trade surplus of \$1.2 trillion, despite reducing its exports to the U.S. by 20%, and its imports from the U.S. by 14.6%. This trade pattern was reinforced in the [first two months of 2026](#): China's exports increased by 21.8%, and imports by 19.8%, producing a trade surplus of \$213.6 billion. China has increased trade with almost all other countries and blocs, especially ASEAN (now accounting for 15.8% of China's trade), the EU (12.7%), BRICS (9.8%), Latin America (8.6%), and Africa (5%), while the U.S. share fell to 11.2%.

It is worth mentioning that ASEAN's trade in goods and services [increased by 8.9%](#) in 2025. In particular, [ASEAN increased its two-way trade with China](#) to a new record, exceeding \$1 trillion in 2025, cementing its position as China's top economic partner ahead of the EU and U.S. ASEAN also increased its exports to the U.S. by 28.9%, and its imports from the U.S. by 2.3%, leading to a 43.2% jump in the U.S. goods trade deficit with ASEAN, heightening concerns in the Trump administration.

India has diversified trade with more countries, in particular the U.S., China, the UAE, and Southeast Asia. Despite U.S. tariffs, in the [first eleven months](#) of the fiscal year April 2025-March 2026, India increased its total exports by 5.6% to \$790.8 billion, and imports by 7.4% to \$900.5 billion.

The EU has also exhibited both trade diversion and trade creation. The [EU increased its trade](#) by around 2.5% in 2025—more with the rest of the world and less with the U.S., posting a slightly smaller trade surplus of \$195 billion.

The [U.S. has also increased](#) its exports by \$199.8 billion to \$3.43 trillion, and its imports by \$197.8 billion to \$4.33 trillion, producing a trade deficit of \$901.5 that is practically unchanged from 2024, despite the high import tariffs. Overall, the U.S. has significantly reduced its trade deficit with China but increased its deficits with other countries, such as ASEAN countries, in particular Vietnam.

Canada is of particular interest. Under intense pressure from the U.S., [Canada has diversified its trade](#). Merchandise trade with non-U.S. markets rose by 14.3% in 2025, offsetting a 5.8% decline in its exports to the U.S. This has decreased the share of the U.S. in Canada's merchandise trade to 71.7% in 2025, from 75.9% in 2024.

Interestingly, Mexico has done the opposite: deepening its economic relationship with the U.S. In 2025, two-way trade between the U.S. and Mexico increased by 3.9% to a record level of \$872.8 billion. The US now absorbs 83%-84% of Mexico's exports. In 2025, Mexico was the top trading partner for the U.S. for the third year in a row, ahead of Canada and China. Also noteworthy is the fact that, as in January 2026, [Mexico imposed tariffs](#) of up to 50% on over 1400 imported products (in sectors including steel, aluminum, and automobiles) from nations that do not have FTAs with Mexico. This primarily targets China and other Asian countries. The aim of the tariff is to protect local industries and curb the use of Mexico as a 'back door' to the U.S. This step aligns Mexico's trade policy with that of the U.S., being viewed as parts of the country's preparation for the upcoming review of the U.S.-Mexico-Canada trade agreement by the three partners.

Thanks to its trade diversification efforts, mentioned above, [Brazil's exports rose to a new record](#) of \$348.7 billion in 2025, despite a 6.6% drop in shipments to the U.S. because of higher tariffs.

5. A New World Trade Architecture With Three Distinct Regimes

Emerging trends in the past year suggest a new world trade architecture is taking shape, in which the coherent global trade system underpinned by the WTO is fragmenting into three overlapping but distinct trading regimes.

Most countries except the U.S. and China (or n-2) are seeking to expand trade with each other—together they account for up to 75% of world trade. In addition to deepening regional economic integration, they would coalesce around efforts to link the key regional free trade agreements or areas (RFTAs). The EU has played the key role in these efforts. The EU has signed a trade agreement with Mercosur, launched a dialogue with the CPTPP, and deepened its strategic partnership with AfCFTA. Furthermore, it has concluded or accelerated negotiations on trade agreements with several countries (section 3). These arrangements aim to facilitate trade and investment flows among participating members, including many middle powers, and are based largely on current agreed WTO-compatible rules. Without a superpower, such as the U.S. or China, ignoring or distorting the rules for their benefit, countries participating in these arrangements can expect positive outcomes from a stable rule-based trading environment, and are thus incentivized to largely respect

the agreed rules and to resolve disputes within the WTO framework.

Those countries and jurisdictions have maintained a stable trade and tariff regime among themselves, operating under agreed rules compatible with the WTO. As they form the majority of WTO members, they can avail themselves of the organization's institutions and staff for support. In particular, they can use the trade-dispute panels and Dispute Settlement Body (DSB) to resolve trade disputes. However, if they want to appeal DSB reports, they have to use the ad-hoc [Multi-Party Interim Appeal Arbitration Arrangement](#) (MPIA), which has been set up by a group of member states to fill the void left by the non-functioning Appellate Body.

Besides the (n-2) trade regime providing diversification opportunities, many countries have found it more challenging to benefit from maintaining trading relationships with both the U.S. and China, the world's two biggest economies. They have tried to do this by refraining from aligning too closely with one superpower against the other. However, the path of non-alignment is not always cost free, and is likely to be more difficult to walk in the period ahead, as heightened geopolitical contention between the superpowers fosters the view that 'if you're not our friend, you're our enemy'. This dynamic may have contributed to the observed trend of [increasing trade between geopolitically close countries](#) relative to geopolitically distant ones, setting the stage for the evolution of the two superpower-centric trade regimes.

The U.S.-centric regime consists of trade and investment activities with the U.S. and accounts for [8% of world exports but 13.2% of world imports](#). In two-way trade, the U.S. accounted for [12% of world trade in 2024](#), but will have likely declined since then (eventually to an estimated 9% in 2034, according to Boston Consulting Group). However, the U.S. remains a major market for the exports of many countries, given the size and relative stability of its economy, and its transparent regulatory environment. As demonstrated so far, the U.S. has taken, and will take, unilateral actions using tariffs, quotas, and commitments to buy and invest in the U.S. to get what it wants from other countries. Since these countries have different degrees of exposure and dependence on the U.S., they have reacted individually, trying to reach bilateral deals with the U.S., and will likely continue to do so. Teaming up to respond to the U.S. as a group doesn't work, as no country can compensate others for the losses stemming from U.S. tariffs.

It is important to note that trade with the U.S. has increasingly morphed from free trade to managed trade based on bilateral negotiations, which significantly favors the U.S. over individual partners. Illustrative of this trend is an idea mooted at the U.S.-China trade meeting in Paris on March 16, 2026, to form a [Board of Trade](#) to manage bilateral economic relations, including determining what each should buy from, and sell to, the other.

A third regime involves trades with China—accounting for [13.6% of world trade](#). China's unique model of mercantilist state-run capitalism produces overcapacity that could overwhelm world export markets, and has threatened to crowd-out producers in many developed and developing countries. As such, trade with China has been characterized by agreed rules being interpreted differently by China and other private market-based economies. The playing field is tilted in favor of state-supported Chinese enterprises. The reactions of other countries differ significantly, depending on whether they are in a competitive position relative to China in manufacturing goods, or in a complementary position by supplying raw commodities to China and buying its products. Countries in the first group, mainly developed economies such as in Europe, would see their trading relationships as subject to tension, leading them to use restrictive measures to manage disadvantageous

trade imbalances. In the second group, including African countries, trade with China could be mutually beneficial at present, but could become an obstacle to those countries' development aspirations. In any event, China's market size gives it obvious advantages when dealing with other countries on a bilateral basis.

6. Challenges Facing the New Trade Architecture

The emerging trade architecture of three overlapping regimes is probably a second-best solution to the trade upheaval seen in 2025. Being fragmented, the new trade architecture is likely more complex and [less efficient](#) than an integrated global trading system. The emerging architecture therefore means lower potential growth of the world economy.

In the new trade architecture, the WTO could no longer function as a truly multilateral organization, in which all members negotiate non-discriminatory trade rules on a consensus basis. It functions more and more in a plurilateral context, supporting various groups of like-minded member states in their trade interactions, especially in dispute settlements. This has been illustrated by the recently concluded [14th Ministerial Conference](#) of the WTO: it failed to extend the moratorium on placing duties on ecommerce on a consensus basis—but 66 member states announced that a formal electronic commerce agreement was open for signatures by participating members.

As seen in 2025, it is likely that trade diversion in favor of countries granting low tariffs to others will continue, in the process helping to create new trade. Nevertheless, all three trade regimes will likely encounter problems in their evolution, especially in terms of changes in trade intensity within and across regimes.

The U.S.-centric regime's future will depend on the long-term effects of high tariffs and other trade protectionist measures adopted by Washington. The [Trump administration](#) has argued that after an initial period of adjusting to the new trade environment, high tariffs would lead to lower imports, lower trade deficits, more foreign direct investment to help America produce and export more manufactured goods, after having creating good manufacturing jobs, and tariff revenue for the government. So far, the most obvious result has been the generation of tariff revenue.

By contrast, many [mainstream economists](#) agree that imposition of tariffs is an inefficient economic policy that will increase inflation, reduce potential growth by misallocation of resources to inefficient sectors, and raise tax revenue from consumers in a retrogressive way, in the process weakening household consumption. If any of these negative outcomes become apparent, President Trump could respond by adjusting tariffs, as was done, for example, when in November 2025 because of public concerns about food affordability. In any event, unilateral tariffs surrounded by uncertainty and unpredictability will likely remain a core trade policy tool favored by Trump. What will happen to U.S. tariff policy after his term in office is an open question.

The China-centric trade regime is unique because of the nature of China's governance structure. China has a state-run mercantilist capitalist economy, led by the Chinese Communist Party (CCP), which controls practically all spheres of activity in the country, and increasingly relies on net exports to drive economic growth. This tends to give Chinese enterprises unfair advantage in dealing with international counterparts in countries organized as private market-based economies. China has impressively increased its share of world exports [from 4% to 16%](#) since joining the WTO in 2001. This helps explain why China has

strongly promoted the so-called rules-based trading system, which in reality has been tilted in its favor.

More specifically, China has achieved many of its objectives, as set out in its 'dual circulation' strategy and [Made in China 2025](#) game plan. This approach aims to promote Chinese manufacturing in practically all sectors, from basic consumer goods to advanced high tech and green tech goods, increasingly by employing AI-assisted automation to improve productivity in the face of adverse demographic changes. This strategy has raised domestic content in Chinese manufacturing in order to improve national economic security, while promoting Chinese intermediate products in foreign manufacturing in order to integrate China to the point of becoming indispensable in global supply chains. The share of [domestic value added](#) in China's exports rose from 66% in 2007 to 76% in 2020, driven by a decline in processing trade (assembly of imported parts for re-export) from 41% to 23% of exports. At the same time, the share of [Chinese intermediate inputs in foreign manufacturing](#) has increased significantly. This has raised concerns in the U.S. about the [transshipment of Chinese products](#) through third countries to avoid U.S. tariffs on China—posing a problem for countries that have benefited from processing trade, but which contribute relatively low shares of local value added in their exports.

Moreover, China's economic model has led to overcapacity in many manufacturing sectors, causing price deflation domestically and in exports. This in turn has threatened to crowd-out producers in other countries, both in their home markets and internationally.

In short, China's economic strategy risks hollowing out manufacturing in developed countries—the charge President Trump has made in the case of the U.S.—while potentially frustrating development aspirations of more advanced developing countries that are trying to replicate the 'manufacturing for export' strategy successfully used by China and other East Asian countries. Many other developing countries, mostly in Africa, and participating in China's Belt and Road Initiative (BRI), have benefited from trade and investment relationships with China. They have exported raw materials to China in exchange for manufactured goods (including cheap solar panels needed to address acute electricity shortage), and investment in infrastructure and transportation facilities. While useful at the moment, this trade relationship needs to change over time to allow for indigenous industrialization, indispensable for Africa's long-term development.

In summary, trade with China will always have an element of tension, as those adversely affected by China's trade practices will have to find ways to deal with the problem. As a consequence, tariffs, quotas, and other counter measures are likely to be a regular feature in trading with China. In fact, [many economies](#), including the U.S., EU, Canada, Mexico, India, Brazil, Chile, Colombia, Peru, and Turkey, have imposed tariffs primarily on Chinese steel, aluminum, and automobiles (especially electric vehicles). In particular, booming exports from China have [put pressure on local industries](#) in several ASEAN countries, including Indonesia, Thailand, Malaysia, Vietnam, and the Philippines, prompting them to carry out anti-dumping investigations and tighten import restrictions on Chinese products, including textiles, steel, electronics, and automobiles.

The (n-2) trade regime has been fostered by the EU, which has taken the initiative in forging new trade links with like-minded countries. While being useful, the effectiveness of the EU has been hampered to some extent by the extraterritorial reach of its domestic regulatory framework. The most contentious case is the EU carbon border adjustment mechanism (CBAM), which imposes charges on foreign goods entering the EU that are subject to less-stringent environmental standards than those faced by EU producers. The EU has ar-

gued that such measures are not trade discrimination, but necessary for ensuring a level playing field between EU and non-EU producers. Other countries, especially in the developing world, have [criticized CBAM](#) as being protectionist and discriminatory against them.

Moreover, the EU [Common Agricultural Policy](#), designed to protect its agricultural sector, has been a sticking point in trade negotiations. In fact, concerns about agriculture have prompted several countries, including France and Ireland, to vote against the ratification of the [EU-Mercosur trade agreement](#), which was signed in January 2026 after 25 years of negotiations. This has forced the with Mercosur, while the full trade agreement goes through legal review.

These deeply held views in many EU countries about environmental protection and agriculture could hinder the EU's efforts to be more pro-active and effective in forging new trade agreements. The EU may have more success in promoting informal links between itself and other RTAs to facilitate trade, rather than in achieving new full-fledged free trade agreements, which usually take a long time to negotiate.

7. Concluding remarks

Beyond the specific challenges facing each of the three trade regimes, all countries must deal with an important root cause of the populist backlash against free trade and globalization. Many people, especially in Western countries, have felt left behind during the overall growth in prosperity brought about by trade liberalization. Complicating the situation, and making it harder to address, is the fact that [technological change](#) may have a more important impact on long-term labor displacement than open trade and outsourcing. This problem is more acute now as [artificial intelligence](#) has raised concerns about many white collar jobs being made irrelevant.

In any event, between 1990 and 2024, [the Gini coefficient](#) (measuring heightened income inequality as the coefficient rises from 0 to 1) in many countries has risen. For example, the Gini coefficient in the U.S. has risen from 0.43 to 0.49, while in China it has risen from 0.32 to 0.36, and in Germany from 0.29 to 0.32. More importantly, Gini coefficients for wealth inequality are much higher: 0.80 in the U.S., 0.71 in China, and 0.76 in Germany.

Failure to foster more inclusive growth to reverse the increase in income and wealth inequality could intensify the populist backlash in future, and create more obstacles to trade and other relations among nations. This would heighten the level of distrust, intensifying the current geopolitical contention to the detriment of all.

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The PCNS pleads for an open, accountable and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership, and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

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