



AMERICA'S RETREAT AND THE FUTURE OF ECONOMIC MULTILATERALISM

Jordan Ryan

About the Author



JORDAN RYAN

Jordan Ryan is a Senior Consultant for the Swedish Folke Bernadotte Academy and Hamilton Advisors. He recently served as lead author of the UN integration review for the Executive Office of the Secretary-General. He is a member of the Toda International Research Advisory Council. Previously, Mr. Ryan was Vice President for Peace at The Carter Center and held positions as UN Assistant Secretary-General and UNDP Assistant Administrator, directing the Bureau for Crisis Prevention and Recovery (2009–2014). His UN career includes service as Deputy Special Representative in Liberia and UN Resident Coordinator in Vietnam. A founding member of Diplomats without Borders, Mr. Ryan holds degrees from Yale (B.A.), George Washington University (J.D.), and Columbia's School of International and Public Affairs (Master's in International Political Economy). He was also a fellow at Harvard's Kennedy School.

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Toda Peace Institute
Samon Eleven Bldg. 5F,
3-1 Samon-cho, Shinjuku-ku
Tokyo 160-0017, Japan

Tel. +81-3-3356-5481
Fax. +81-3-3356-5482
Email: contact@toda.org

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Abstract

The systematic retreat of the United States from multilateral institutions threatens global economic reform, coinciding with China's construction of alternative frameworks and rising great-power bilateralism. This leads to a growing incapacity for shared solutions on development finance, climate action, and tax coordination. The analysis identifies three strategic pathways—institutional evolution, adaptive pluralism, and functional cooperation—to preserve multilateral effectiveness. Success depends on recognising structural power shifts, redefining legitimacy through performance, and rebuilding trust by delivering economic justice. Without credible multilateral reform, global systems face cascading failures including debt crises, proliferating tax havens, and inadequate climate adaptation funding. The moment demands bold, inclusive reform or risks a return to systemic economic instability.

America's strategic retreat: Disengagement and its manifestations

The current United States administration has undertaken a series of specific actions that signify a profound strategic withdrawal from multilateral engagement. These actions, ranging from financial disengagement to boycotts of critical global summits, carry far-reaching implications for the global order.

The administration has implemented significant and systemic cuts to foreign aid, amounting to billions of dollars, and has eliminated thousands of positions within the State Department. A "stop-work order" froze payments for existing foreign assistance, leading to staff reductions and service terminations for programme implementers. The United States Agency for International Development (USAID), historically a primary implementing agency for global health efforts, has faced dissolution, significantly reducing its staff and programme capacity. Furthermore, 86 per cent of USAID awards were cancelled, totalling \$12.7 billion in unobligated global health funding. The proposed FY26 budget request includes a \$6.2 billion reduction in global health funding, alongside over \$1 billion in proposed rescissions of prior year funds. [1]

Beyond financial and programmatic disengagement, the United States has taken explicit steps to withdraw from or reassess its participation in several key international organisations. On 4 February 2025, the President signed an executive order specifically targeting international organisations, including the United Nations (UN). This order mandates a reassessment of all United States engagements based on their alignment with perceived national American national interests. [2]

Regarding the World Health Organisation (WHO), the United States formally issued a letter of withdrawal in January 2025, with membership slated to end on 22 January 2026.

[1] Kaiser Family Foundation (KFF), "The Trump Administration's Foreign Aid Review: Proposed Reorganisation of U.S. Global Health Programmes," accessed July 2, 2025, <https://www.kff.org/global-health-policy/fact-sheet/the-trump-administrations-foreign-aid-review-proposed-reorganization-of-u-s-global-health-programs/>.

[2] Kaiser Family Foundation (KFF), "Overview of President Trump's Executive Actions on Global Health," accessed July 2, 2025, <https://www.kff.org/global-health-policy/fact-sheet/overview-of-president-trumps-executive-actions-on-global-health/>.

For the UN Human Rights Council (UNHRC), the February 2025 executive order explicitly states that the United States will not participate in the UNHRC and will not seek election to that body, mandating the termination of the office of the United States Representative to the UNHRC. Despite this suspension, the United States is still scheduled for its Universal Periodic Review (UPR) in November 2025, a process whereby its human rights record is peer-reviewed by other UN member states.

This policy whiplash signals deep unreliability to international partners, making it exceedingly difficult for other states to invest long-term diplomatic capital in cooperative endeavours that involve the United States.

The situation regarding UNESCO presents a notable contradiction. While initial policy discussions stated United States membership was "under review" in 2025, the United States had, in fact, rejoined UNESCO in July 2023 during the Biden administration, after having left in 2018, and had planned to pay its \$600 million in back dues. However, the February 2025 executive order then states that the United States "will also conduct a review of its membership in UNESCO" to evaluate its support for United States interests and address concerns about anti-Semitism and anti-Israel sentiment. [3] This policy whiplash signals deep unreliability to international partners, making it exceedingly difficult for other states to invest long-term diplomatic capital in cooperative endeavours that involve the United States.

A particularly stark manifestation of America's retreat was its formal decision to decline participation in the Fourth International Conference on Financing for Development (FfD4) in Seville in June 2025. This effectively constituted a boycott of a major global effort specifically designed to narrow the US\$4 trillion annual Sustainable Development Goal (SDG) financing gap. The United States rejected the outcome document on 17 June 2025, and announced its withdrawal from the entire preparatory process and the conference itself. The specific United States objections included concerns about interfering with the governance of international financial institutions, proposals for tripling multilateral development bank lending, and a proposed UN role in the global debt architecture. However, despite the United States' withdrawal, other major international actors, including the European Union, the G77, and the African Group, proceeded to unanimously adopt the "Seville Commitment," demonstrating a clear consensus and resolve to advance multilateral efforts without the direct participation of the United States. [4]

[3] The White House, "Withdrawing the United States from and Ending Funding to Certain United Nations Organisations and Reviewing United States Support to All International Organisations," Executive Order, February 4, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/withdrawing-the-united-states-from-and-ending-funding-to-certain-united-nations-organizations-and-reviewing-united-states-support-to-all-international-organizations/>.

[4] Joseph Wilson and Edith M. Lederer, "US skips global UN meeting aimed at raising trillions of dollars," Associated Press, June 23, 2025, <https://apnews.com/article/poverty-inequality-development-financing-un-spain-e7b965e2a160b7c51f7da6fcf58edc29>.

The broader crisis of legitimacy: Parallel architectures and fragmentation

America's retreat is not an isolated phenomenon but is accelerating a broader erosion of multilateral legitimacy. This crisis is characterised by the active construction of alternative frameworks by rising powers and the proliferation of ad hoc arrangements that bypass established institutions.

Beyond the United States' retreat, China is actively engaged in constructing parallel institutions, exemplified by the Asian Infrastructure Investment Bank (AIIB) and its increasing encouragement of treaty deposits and dispute resolution mechanisms centred in Beijing. A significant development in this trend is the formal launch of the International Organisation for Mediation (IOMed) in Hong Kong on 30 May 2025. This new institution was established with a signing ceremony attended by representatives from 33 countries, primarily from the Global South. IOMed's core mission is to provide an alternative venue for resolving state-to-state, investor-state, and commercial disputes through mediation, and it possesses international legal personality. [5]

The signatory countries are regionally diverse, including 15 African nations, six Asian countries (among them China), five Latin American and Caribbean nations, and five from Oceania/Pacific. The collective economic footprint of its founding states is substantial, with a total nominal GDP estimated at \$23.6 trillion, representing 21.1 per cent of the global economy. China alone contributes a dominant 78 per cent of this figure, amounting to \$18.1 trillion. Notably, major Western powers and other continental heavyweights like India and Brazil are absent among the initial signatories.

The establishment of IOMed is a deliberate and strategic effort by China and its partners to institutionalise a new global governance framework that explicitly reflects their interests and approaches to international relations. This signals a proactive reshaping of global norms, rather than just a reactive response to Western disengagement. The rise of parallel institutions like IOMed fundamentally contributes to a fragmented international legal landscape, potentially leading to conflicting precedents, inconsistent outcomes, and a weakening of the normative authority of established, universal bodies.

A broader trend sees major powers, such as Russia, deepening bilateral and regional agreements that intentionally bypass traditional multilateral channels. This leads to the emergence of a world order where multilateral institutions are no longer universally seen as essential public goods but rather as obstacles to be bypassed, arenas to be captured, or mere platforms for narrow strategic advantage. Major powers now achieve ceasefires in eastern Congo, broker energy access deals, and conduct pandemic response coordination outside of UN frameworks. This fragmentation creates significant coordination challenges, reduces predictability in international relations, and ultimately undermines the development and enforcement of consistent global standards and norms across various domains.

[5] IDOS Research, "FfD4 Outcome Document: What Should We Make of the Compromiso de Sevilla?," IDOS Research Blog, June 23, 2025, <https://blogs.idos-research.de/2025/06/23/ffd4-outcome-document-what-should-we-make-of-the-compromiso-de-sevilla/>.

The economic implementation gap: Practical obstacles to global reform

The erosion of multilateralism creates tangible and severe obstacles to practical cooperation on urgent global economic issues, leading to a critical "implementation gap" where institutions are mandated to solve complex problems but lack the legitimacy, funding, and enforcement capacity to do so.

The International Monetary Fund (IMF) has warned about the economic costs of fragmentation. Fragmentation of foreign direct investment (FDI) may reduce world output by about two per cent. [6] This highlights the inherent difficulty in precisely quantifying the broad economic costs of "fragmented approaches to global economic governance."

The loss of cooperative infrastructure is acutely felt within the global financial system. Efforts to coordinate tax transparency through the Organisation for Economic Co-operation and Development's (OECD) Inclusive Framework face challenges as major powers renege on data-sharing commitments. However, information from the OECD's June 2025 report on Base Erosion and Profit Shifting (BEPS) Action 14 describes continuing progress towards making tax dispute resolution more effective, highlighting 36 new peer review results and ongoing commitment from members to implement the Action 14 minimum standard. [7]

Reforms to international financial institutions—such as capital increases, governance restructuring, and debt relief mechanisms—also risk stalling, particularly without stronger United States engagement. While proposals for quota reforms that would increase emerging market representation are discussed, their implementation remains politically challenging. The 16th IMF quota review, for instance, approved a substantial 50 per cent increase in total quotas in December 2023. However, the process of member consent to these increases is ongoing and has faced delays, with a six-month extension approved until November 2025. [8] The G24, representing emerging and developing economies at the Bretton Woods Institutions, has highlighted that IMF quota reform processes are "ongoing but delayed." [9]

The loss of cooperative infrastructure is acutely felt in the global financial system's ability to address climate finance and development funding. Climate finance frameworks struggle to distribute pledged funds effectively, while pandemic recovery initiatives remain fragmented by political distrust. Multilateral development banks, including the World Bank and regional institutions, face contradictory mandates to increase lending while avoiding sovereign risk exposure. The United States boycott of the FfD4 summit, specifically designed to tackle the chronic underfunding of global development and the US\$4 trillion annual SDG financing gap, starkly underscores this challenge.

[6] CMS LAW-NOW, "Thirty-three countries sign Convention to launch the International Organisation for Mediation in Hong Kong," May 30, 2025, <https://cms-lawnow.com/en/ealerts/2025/06/thirty-three-countries-sign-convention-to-launch-the-international-organization-for-mediation-in-hong-kong>.

[7] International Monetary Fund, "The 4th Financing for Development Conference-Contribution of the IMF," Policy Paper no. 2025/022, May 2025, <https://www.imf.org/-/media/Files/Publications/PP/2025/English/PPEA2025022.ashx>.

[8] Organisation for Economic Co-operation and Development (OECD), "Inclusive Framework on BEPS Reports Continuing Progress Towards Making Tax Dispute Resolution More Effective," June 26, 2025, <https://www.oecd.org/en/about/news/announcements/2025/06/inclusive-framework-on-beps-reports-continuing-progress-towards-making-tax-dispute-resolution-more-effective.html>.

[9] International Monetary Fund, "Extension of the Period for Consent to Increase Quotas under the Sixteenth General Review of Quotas and to the NAB Rollback," Policy Papers no. 2025/021, May 16, 2025, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2025/05/16/Extension-of-the-Period-for-Consent-to-Increase-Quotas-under-the-Sixteenth-General-Review-567004>.

Three strategic pathways for multilateral resilience

Despite the current fragmentation and challenges, opportunities remain for reinvigorating cooperation. The analysis identifies three broad strategic approaches that can help restore functional multilateralism.

INSTITUTIONAL EVOLUTION

Institutional evolution centres on revitalising and modernising existing multilateral organisations such as the International Monetary Fund (IMF), the World Health Organization (WHO), and the United Nations. It assumes that with the right reforms—including weighted voting, stronger accountability mechanisms, and expanded mandates—these traditional institutions can regain both credibility and effectiveness. Success in this domain depends on sustained political will from member states and a demonstrated capacity to act decisively. Reforming the Bretton Woods institutions, in particular, to reflect 21st-century power dynamics is widely seen as essential for reconnecting global governance with emerging economies and reinforcing rules-based cooperation.

ADAPTIVE MULTILATERALISM

Rather than relying on comprehensive frameworks, adaptive multilateralism focuses on leveraging "coalitions of the willing". These informal or semi-formal groupings—such as the G20, the Loss and Damage Fund, or regional green finance alliances—are designed to respond flexibly and rapidly to specific challenges. While sometimes criticised for the risk of excluding marginalised voices, adaptive approaches may prove more agile in a divided geopolitical environment. Their legitimacy depends on transparency, inclusivity (where appropriate), and, above all, demonstrable results. The G20's Debt Service Suspension Initiative (DSSI) and the subsequent Global Sovereign Debt Roundtable exemplify this model. The DSSI provided temporary relief to 73 countries, suspending approximately US\$12.9 billion in debt service payments during the peak of the COVID-19 pandemic (May 2020 to December 2021).[10]

FUNCTIONAL COOPERATION

Functional cooperation acknowledges that states and non-state actors can still work together effectively in narrowly defined, often technical, areas even when broader political alignment is lacking. Examples include scientific collaboration on disease surveillance, regulatory harmonisation in financial technology, and shared satellite systems for disaster response. These arrangements deliberately avoid grand political bargains and instead emphasise pragmatic, tangible outcomes. The underlying hope is that successful functional cooperation can gradually rebuild trust and demonstrate the practical value of collaboration—ultimately laying the groundwork for broader and more ambitious multilateral efforts.

[10] World Bank, "Debt Service Suspension Initiative," accessed July 2, 2025, <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>.

Policy recommendations for institutional resilience and economic justice

Translating the preceding analysis into actionable policy recommendations is crucial for fostering institutional resilience and advancing global economic justice in a fragmented world.

- Recognise structural power shifts in multilateral institutions. Multilateral reform must begin with a clear-eyed view of changing global power dynamics. Institutions cannot survive by clinging to post-1945 hierarchies. Expand voting rights, leadership rotation, and agenda-setting authority for China, India, Brazil, and other emerging economies within key institutions such as the IMF, World Bank, and UN Security Council. Implement concrete governance reforms that reflect 21st-century economic realities rather than post-World War II power structures.
- Establish performance-based legitimacy frameworks for international organisations. In an era of declining trust, legitimacy must be actively earned through demonstrable results. Create clear, measurable performance metrics for institutions delivering debt relief, climate adaptation measures, and tax coordination. Conduct regular and independent accountability reviews with public reporting mechanisms. Implement robust course correction procedures when institutions fail to meet their mandates, including leadership changes and mandate adjustments.
- Link economic justice outcomes to institutional trust-building initiatives. Demonstrate that multilateral cooperation produces fairer and more equitable outcomes by actively addressing inequalities between and within states. Prioritise initiatives that measurably reduce global inequality, including progressive taxation frameworks, technology transfer mechanisms to developing nations, and development finance targeting the most marginalised populations. Measure institutional success not solely by efficiency or stability metrics but by equity and justice outcomes.
- Increase strategic investment in multilateral capacity building. Donor countries and philanthropic foundations should strategically prioritise core funding, leadership training, and technology support for multilateral bodies. Enhance digital infrastructure for remote participation and virtual collaboration across all major international organisations. Develop comprehensive training programmes for staff from developing countries to foster diverse expertise within institutions. Strengthen research capacity within institutions to anticipate and proactively address emerging global challenges.
- Foster functional cooperation zones where comprehensive reforms face political obstacles. Encourage innovation at the margins through regional pacts, technical exchanges, and public–private partnerships that demonstrate effective collaboration. Support initiatives in disease surveillance, regulatory harmonisation, and disaster response that build trust through practical results. Scale successful pilot programmes to broader multilateral frameworks, providing pragmatic pathways forward when grand bargains prove elusive.

What fails without reform: The global cost of breakdown

Without credible multilateral reform, global systems of economic cooperation face cascading failures. Debt sustainability will deteriorate as countries lose access to concessional financing, potentially triggering a wave of sovereign defaults that could dwarf the 1980s debt crisis. Tax havens will proliferate as international agreements on corporate transparency unravel, reducing government revenues precisely when public investment is most needed for climate adaptation and social protection. Climate adaptation will falter as loss and damage funds remain underfunded or politicised, leaving vulnerable populations to bear the costs of climate change without international support.

The economic consequences extend beyond immediate financial impacts: trust between regions and states will erode, undermining the foundations of international peace and amplifying populist backlash against the global order. This is not merely a technocratic risk; it is a profound geopolitical one that threatens the very stability of the international system. Historical precedents suggest that institutional breakdown often precedes broader conflicts. The collapse of international economic cooperation in the 1930s significantly contributed to the conditions that enabled global war.

Conclusion

America's strategic retreat has undeniably helped expose long-standing weaknesses and accelerated fragmentation within the multilateral system. However, this moment of crisis is also a moment of profound choice. Rather than defending the status quo or abandoning cooperation entirely, the world can seize the opportunity to rebuild legitimacy, redesign institutions, and restore faith in collective action.

This will require courage—from both traditional powers, who must adapt and share influence, and emerging ones, who must assume greater responsibility and engage constructively. The path forward demands moving beyond symbolic gestures and toward new forms of pragmatic, inclusive, and results-oriented cooperation. The future of global economic justice and stability may depend on this collective resolve. Success will not be measured by the preservation of existing institutions in their current form, but by their transformation into dynamic vehicles capable of addressing 21st-century challenges with 21st-century solutions. The ultimate objective is not multilateralism for its own sake, but effective collective action that reflects shared values of justice, sustainability, and human dignity.



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CONTACT US

Toda Peace Institute

Samon Eleven Bldg. 5 th Floor
3-1 Samon-cho, Shinjuku-ku, Tokyo 160-0017, Japan

Email

contact@toda.org

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