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The Multilateral Trading System

Resilience, Erosion, and the Role of Middle Powers

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About the author

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Ralph Ossa, who served as Chief Economist of the World Trade Organization (WTO) from January 2023 to June 2025, took up the UBS Foundation Professorship of Economics at the Department of Economics of the University of Zurich (UZH) as of July 1, 2025. Before joining the WTO, Ralph Ossa was already teaching and conducting research at UZH in the field of international economics, with a particular focus on policy-relevant questions. He was chairman of the Department of Economics from 2019 to 2022 and coeditor of the *Journal of International Economics* from 2016 to 2022. Prior to Zurich, he was on the faculty at the University of Chicago Booth School of Business. He holds a PhD in Economics from the London School of Economics.

Abstract

The multilateral trading system is widely perceived to be in crisis, undermined by geopolitical tensions, unilateral trade policies, and growing skepticism toward global cooperation. Yet this paper argues that such narratives are both overstated and insufficiently precise. While the system faces real and structural pressures, it continues to govern the majority of global trade and to deliver significant economic value.

Drawing on economic theory and policy practice, the paper disentangles resilience from erosion. It shows that core mechanisms – non-discrimination, reciprocity, and binding commitments – still anchor global trade, even as negotiation, implementation, and dispute settlement have weakened. At the same time, new fault lines have emerged: unresolved development tensions, the rise of state-driven competition, sustainability-related regulation, and the rapid expansion of digital trade.

Rather than calling for a wholesale reinvention, the paper outlines a pragmatic reform agenda focused on adapting rules and processes to contemporary realities. Central to this vision is a shift in political economy: with great powers less willing to underwrite cooperation, middle powers must assume a more active role in sustaining and renewing the system.

Introduction

The multilateral trading system is widely seen as being in crisis. Trade policy has become more confrontational, geopolitical considerations increasingly override economic ones, and confidence in multilateral cooperation has weakened. As a result, the system built around the World Trade Organization (WTO) is often viewed as increasingly misaligned with contemporary political realities.

This view has been shaped by a sequence of shocks that have altered the trade policy environment. The global financial crisis marked a turning point in globalization, after which trade growth slowed and became more volatile. The COVID-19 pandemic exposed the fragility of highly optimized supply chains and revived the strategic salience of domestic production. Russia's invasion of Ukraine highlighted the risks of asymmetric dependence, as Europe's reliance on Russian energy translated rapidly into macroeconomic stress. More recently, trade policy itself has been used explicitly as an instrument of geopolitical pressure, with the United States deploying tariff threats and market access to pursue non-trade objectives, and China leveraging its dominance in strategic minerals and processing capacity.

This paper argues that the crisis narrative that has emerged from these developments is both too pessimistic and too imprecise. The multilateral trading system is under real strain, but it continues to structure most global trade and to deliver significant economic and political value. At the same time, its capacity to negotiate, implement, and adjudicate trade policy has weakened significantly. Assessing the future of the system therefore requires moving beyond broad claims of decline and focusing on three more specific questions: how far multilateral cooperation has actually receded in practice; where, precisely, the system has fallen short of its potential; and, if cooperation is under strain, who has both the incentive and the capacity to sustain it going forward?

The paper makes three main points. First, the multilateral trading system is more resilient than is often assumed. Despite rising geopolitical tensions and more unilateral trade policies, most global trade continues to take place under multilateral rules, with the bulk of merchandise trade still conducted on a most-favored-nation basis within the WTO framework. Second, this resilience masks growing weaknesses. Core functions – negotiation, implementation, and dispute settlement – have not kept pace with changes in the global economy or with tighter political constraints, leaving gaps in rule coverage, rising uncertainty, and a reduced capacity to discipline trade conflict. Third, the system can no longer rely primarily on great powers to underwrite cooperation. If multilateral trade rules are to be sustained and renewed, this will increasingly depend on collective action by middle powers with strong stakes in predictability, restraint, and rules-based cooperation.

This paper is written with a policy audience in mind. It draws on my reading of the academic literature on trade policy, as well as on my experience as Chief Economist of the World Trade Organization. To maintain focus on diagnosis and policy implications, it does not provide the detailed citations and qualifications that would be expected in an academic article. Two sources have been particularly influential in shaping the analysis: Robert W.

Staiger's recent book *A World Trading System for the Twenty-First Century,* which offers a unifying economic perspective on the logic and institutional design of the multilateral trading system; and the WTO's Tariff & Trade Data platform and related datasets available through data.wto.org, which inform the empirical assessments throughout the paper.

The paper proceeds as follows. It first introduces the current state of the multilateral trading system, focusing on recent shifts in trade policy and the extent to which multilateral rules continue to structure global trade. It then develops the economic logic of the system, explaining why trade agreements exist and why the institutional design of the GATT/WTO proved effective for an extended period. Next, it assesses what the system has delivered over the past three decades, highlighting its contributions to growth, convergence, structural change, and resilience. It then examines why the system is under strain today, identifying the main fault lines that have emerged as integration has deepened and policy objectives have broadened. Finally, the paper turns to reform, focusing first on how WTO rules could be adapted to new economic and political realities, and then on how WTO processes could be adjusted to sustain cooperation in a more contested environment.

The state of the multilateral trading system

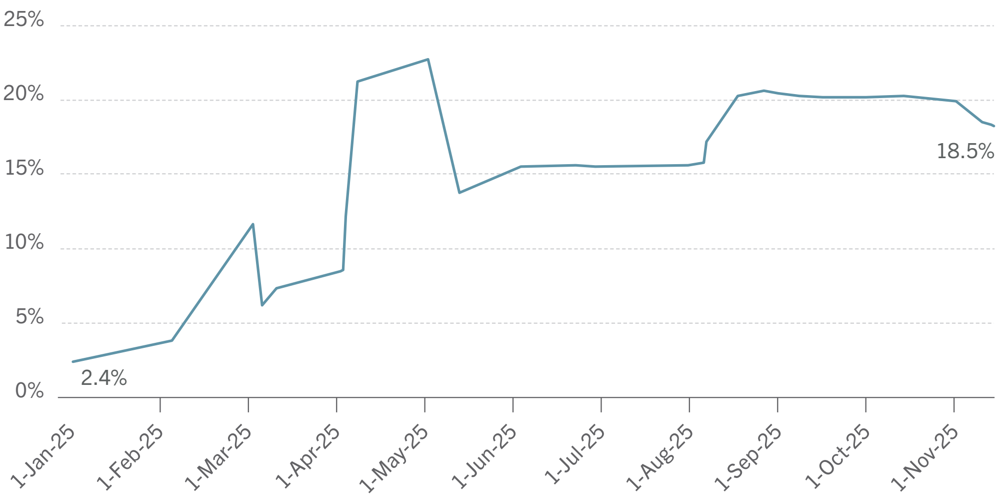
A major trade policy shift in the United States

The most consequential recent development for the multilateral trading system has been a sharp shift in U.S. trade policy. Over the course of 2025, the United States unilaterally increased its tariffs from a trade-weighted average of around 2.4 percent at the beginning of the year to roughly 18.2 percent by year-end (see Figure 1). Tariff levels of this scale have not been observed in the United States since the 1930s. More importantly, they mark a return toward unilateral protection by an economy that has long played a central role in shaping and sustaining the rules-based trading system, weakening confidence well beyond the immediate trade effects.

The economic consequences of this shift are already visible. The WTO estimates that the tariff increases introduced in 2025 – together with the associated rise in trade policy uncertainty – will roughly halve the growth of global merchandise trade volumes over 2025 and 2026 taken together. In its October 2025 forecast, the WTO projects merchandise trade growth of 2.4 percent in 2025 and just 0.5 percent in 2026 (see Figure 2). The stronger-than-expected outcome for 2025 reflects front-loading of U.S. imports ahead of tariff increases and robust demand for AI-related products, masking a much weaker underlying trajectory.

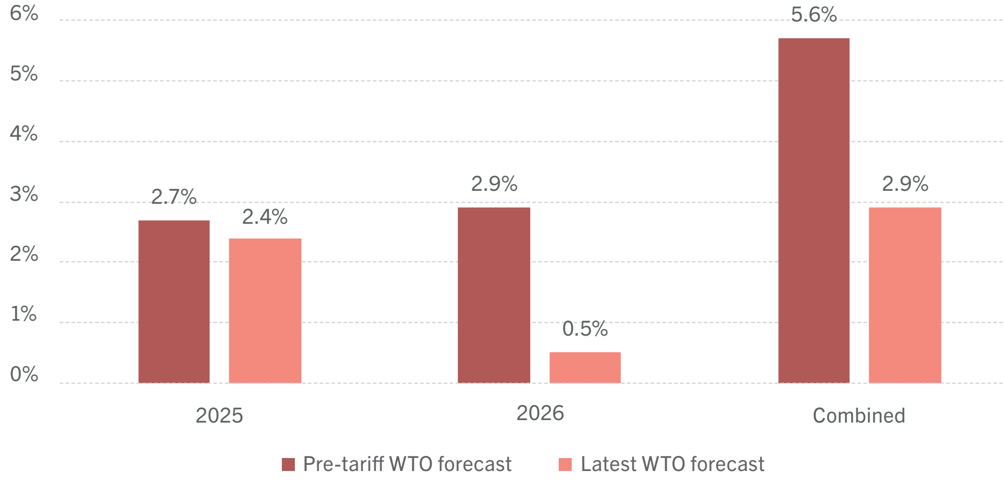
It is important to note that U.S. tariff levels were unusually low prior to the recent increases, particularly in terms of bound most-favored-nation (MFN) tariffs. By comparison, as shown in Figure 3, bound MFN tariffs remain substantially higher in major emerging economies, averaging 48.5 percent in India, 31.3 percent in Brazil, and 10.0 percent in China. Applied

Fig. 1 **U.S. tariffs in 2025 (trade-weighted average)**



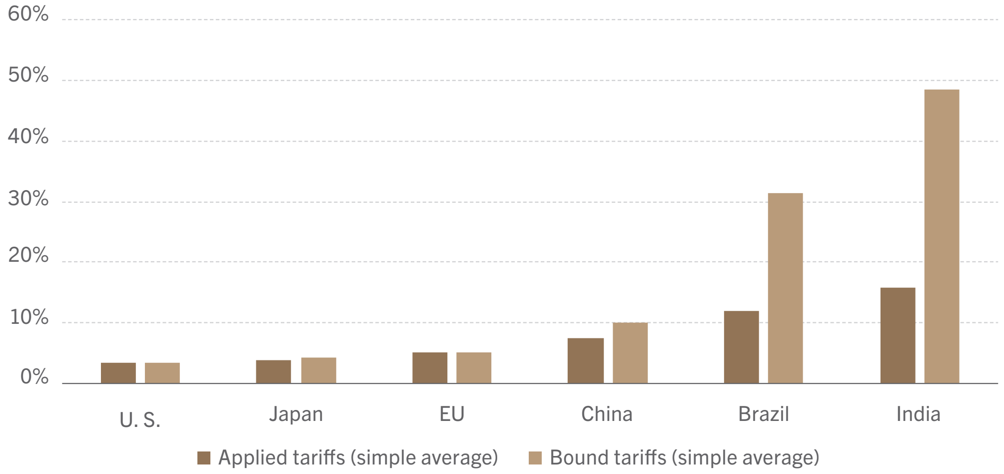
Source: WTO Tariff & Trade Data

Fig. 2 **Merchandise trade volume (growth rates)**



Source: WTO Global Trade Outlook and Statistic, October 2025

Fig. 3 **Most-favored nation (MFN) tariffs in 2025**



Source: WTO Tariff & Trade Data

tariffs are considerably lower, but still elevated by advanced-economy standards. These differences help explain why recent U. S. tariff increases, while historically large in a domestic context, do not by themselves imply a wholesale collapse of multilateral trade discipline.

Fragile resilience beyond the United States

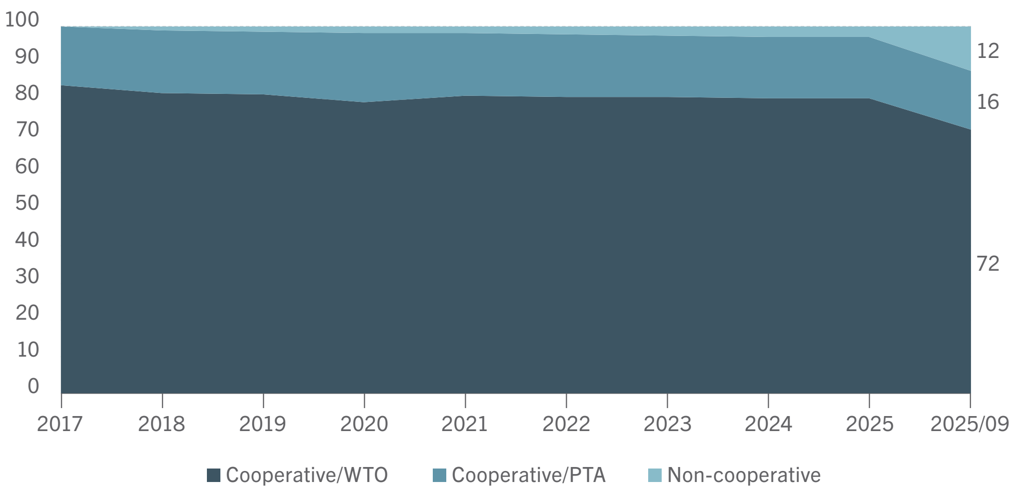
While the shift in U.S. trade policy is of major significance, its systemic reach is nonetheless limited. In 2024, the United States accounted for about 14 percent of global import demand, implying that the bulk of demand originates elsewhere. Consistent with this, around 72 percent of global merchandise trade continues to be conducted under most-favored-nation (MFN) tariffs within the WTO framework, with a further 16 percent taking place under preferential trade agreements (PTA) that build on WTO rules (see Figure 4). Only the remaining share – roughly 12 percent of global merchandise trade – falls outside these disciplines and can reasonably be described as power-based rather than rules-based.

This figure is of first-order importance. It directly contradicts the increasingly common claim that the multilateral trading system, and the WTO in particular, is no longer functioning. That claim matters because expectations shape behavior. If the system is widely perceived as broken, governments have less incentive to comply with its rules, to exercise restraint in the use of unilateral measures, or to invest political capital in sustaining cooperation. Over time, such expectations risk weakening the system itself, even where its formal rules continue to structure most global trade.

At the same time, resilience should not be mistaken for robustness. One source of fragility lies in the growing reliance on bilateral "deals" that sit uneasily with core WTO principles, most notably MFN treatment. All fourteen bilateral arrangements concluded with the United States in 2025 involve tariff concessions granted specifically to the United States and not extended to other trading partners. These arrangements fall short of comprehensive free trade agreements and leave U.S. tariffs largely in place. If replicated more broadly, such practices risk eroding MFN treatment at the margin and weakening a central pillar of the multilateral trading system.

A further source of fragility arises from the nature of these bilateral arrangements themselves. Recent "deals" have often extended well beyond trade, bundling market-access concessions with commitments related to security, energy, migration, or other non-trade objectives. In

Fig. 4 **Tariff regimes (% of world merchandise trade)**



Source: Gonciarz and Verbeet (2025) and own calculations such settings, bargaining power is highly uneven and reciprocity becomes harder to assess, particularly for smaller economies with limited leverage outside trade. This blurring of domains weakens the disciplining function of trade rules and increases the risk that cooperation rests on contingent political bargains rather than on predictable, rules-based commitments.

If the system is widely perceived as broken, governments have less incentive to comply with its rules, to exercise restraint in the use of unilateral measures, or to invest political capital in sustaining cooperation.

MFN itself has come under growing political pressure. The United States – and increasingly the European Union – have questioned whether non-discrimination can continue to underpin cooperation in a system marked by asymmetric tariff bindings, extensive state intervention, and limited scope for reciprocal bargaining. These concerns have contributed to a turn toward bilateral and selective arrangements. As argued in this paper, however, the resulting tensions arise not from MFN itself, but from gaps in rule coverage and in the system's capacity to generate new bargains – a distinction that is central to how reform should be approached.

It is important to emphasize that tensions in the multilateral trading system extend well beyond recent shifts in U.S. trade policy. Debates over the compatibility of China's state-led economic model with existing rules, concerns about the expanding regulatory reach of the European Union, and disagreements over rule-making – most visibly reflected in resistance from some members, including India, to plurilateral initiatives – have all contributed to strain. At the same time, many developing countries have grown increasingly frustrated that expectations of trade-led development have not been fulfilled, as reciprocal bargaining stalled and the development agenda remained unresolved. These sources of tension are taken up in subsequent sections of the paper.

The economics of the multilateral trading system

Many of today's tensions are interpreted as evidence that the multilateral trading system is no longer fit for purpose. Before accepting that conclusion, it is useful to step back and ask a more precise economic question: what problem the system was designed to solve, and to what extent today's trade challenges fall within the scope of that design?

Why trade agreements exist

The economic case for trade liberalization is well established. Openness allows firms and households to access cheaper and more diverse inputs and final goods, raises productivity through specialization and selection, and can support long-run growth by facilitating the diffusion of ideas and technologies. These gains help explain why trade has historically been a powerful engine of growth and convergence.

The existence of gains from trade does not, by itself, explain why trade agreements are needed. If liberalization were always attractive from a national perspective, governments could pursue it unilaterally. The problem is that trade policy choices can be used to shift costs onto trading partners. Acting alone, a government may be able to improve its own position through tariffs or related measures, even if doing so reduces global welfare. When many governments behave in this way, the result is higher trade barriers, reduced trade, and losses for all. Trade agreements exist to limit such unilateral behavior and to prevent these collectively inefficient outcomes.

Two channels are particularly important. Large economies can use tariffs to extract revenue from foreign exporters by worsening their terms of trade. Trade policy can also be deployed as an instrument of industrial policy, drawing production toward the domestic market at the expense of others. Although these motives differ, their effects are similar when pursued unilaterally: higher trade barriers, higher prices, and lower trade. By constraining these actions and linking policy choices across countries, trade agreements internalize the resulting spillovers and reduce the risk of damaging policy escalation.

Why the GATT worked

The core architecture of the General Agreement on Tariffs and Trade (GATT) was well aligned with the economic problem trade agreements were meant to address. It focused on a narrow set of border instruments – tariffs on goods – and relied on two simple but powerful principles: reciprocity and non-discrimination.

Reciprocity ensured that tariff reductions were exchanged rather than granted unilaterally. On the way down, it encouraged liberalization by linking improved market access at home to improved access abroad. On the way up, it disciplined protection by allowing proportionate retaliation, thereby neutralizing incentives to raise tariffs in the first place. Economically, reciprocity aligned national policy choices with mutually beneficial outcomes and limited the scope for unilateral escalation.

Non-discrimination, operationalized through the most-favored-nation (MFN) rule, ensured that tariff concessions negotiated among some members did not worsen access conditions for others. Its

The birth of rules-based trade

Born in the aftermath of World War II, the General Agreement on Tariffs and Trade (GATT) entered into force on January 1, 1948, in Geneva. As illustrated in the photo, representatives of 23 founding members convened at the Palais des Nations to establish a rules-based framework aimed at reducing trade barriers and preventing economic fragmentation. Switzerland played a central role as host, positioning Geneva as a lasting hub for multilateral cooperation.

Source: World Trade Organization (WTO)

economic function was to prevent trade diversion: when liberalization between a subset of countries lowers domestic prices, extending the same tariff treatment to all suppliers preserves outsiders' competitive position. MFN therefore protects non-participants from being disadvantaged by others' agreements, without granting them the gains from liberalization itself. Those gains remain tied to reciprocal commitments. This separation between preserving access and generating new market-opening benefits is a defining feature of MFN and a key reason why it supported both stability and cooperation in the GATT system.

This logic also helps clarify a tension that runs through current debates. In advanced economies, dissatisfaction with MFN often reflects the perception that non-participants benefit from liberalization without making reciprocal commitments. In many developing economies, by contrast, MFN liberalization elsewhere is sometimes seen as having fallen short of delivering meaningful market-access gains. Economically, both expectations rest on a misreading of what MFN is designed to do. MFN preserves existing access conditions when others liberalize, but it does not shift the gains from liberalization toward outsiders. Those gains remain tied to reciprocal bargaining. When MFN is asked to substitute for such bargaining, it will inevitably disappoint on both fronts.

Taken together, these features explain why the GATT proved effective for decades. It delivered deep liberalization, stabilized expectations, and constrained the most damaging forms of unilateralism – while avoiding intrusive constraints on domestic policy and preserving substantial national autonomy.

Where economics becomes less supportive

The creation of the World Trade Organization extended multilateral rules beyond tariffs on goods into services, intellectual property, agriculture, and domestic subsidies. These extensions were motivated by real economic concerns, but they also moved the system toward deeper forms of integration for which the original GATT logic is less well suited.

> The GATT proved effective for decades. It delivered deep liberalization, stabilized expectations, and constrained the most damaging forms of unilateralism.

A first indication of this shift appears in services, where market access is shaped primarily by domestic regulation rather than border measures. As a result, disciplining unilateral incentives requires negotiating over a wide range of behind-the-border policies. This makes cooperation more demanding, more politically contentious, and less amenable to the reciprocity-based bargaining that worked for tariffs. The result has been limited progress and persistent disagreement.

A different set of tensions arises in intellectual property. While cross-border spillovers create a rationale for international cooperation, harmonization of standards is neither necessary nor sufficient for efficiency. Differences in market size and innovative capacity imply divergent national incentives, making uniform rules distributionally contentious and politically fragile. These features help explain why intellectual property has remained one of the most contested elements of the WTO framework.

These limits are even more deeply embedded in agriculture. Market access in agriculture has long been shaped primarily by domestic support, administered prices, and food security policies rather than by border measures alone. As a result, reciprocity has been difficult to operationalize, and multilateral disciplines have relied heavily on historically anchored commitments, differentiation, and exceptions. This has allowed cooperation to persist, but largely by managing disagreement rather than by generating sustained reciprocal liberalization.

Subsidies push these tensions to their limit. From a conventional economic perspective, production subsidies are often a more efficient policy instrument than tariffs for pursuing domestic redistributive or industrial objectives. Moreover, their spillovers on trading partners are frequently positive in narrow economic terms, for example through lower import prices. As a result, standard externality-based arguments provide only a limited basis for disciplining subsidies beyond what is needed to preserve negotiated market access.

Yet conventional economic spillovers do not capture the main source of international concern about subsidies. Governments often object to foreign subsidies even when they generate positive price effects, because they are perceived as unfair and can undermine political support for open trade – especially in economies with limited fiscal space. These systemic externalities are political rather than economic, and help explain why subsidy disciplines are repeatedly demanded despite their limited grounding in conventional economic theory.

The common thread is that deeper integration pushes cooperation into policy areas where preferences diverge more sharply, reciprocity is harder to define, and binding multilateral rules are more difficult to sustain.

Beyond tariffs: predictability, regulation, and commitment

Trade agreements nevertheless perform functions that extend beyond disciplining tariffs. Three are particularly relevant today.

First, they enhance predictability. Trade policy uncertainty raises effective trade costs and discourages investment, while generating none of the revenue associated with tariffs. In this sense, uncertainty is a particularly wasteful form of protection. The elimination of uncertainty associated with China's accession to the WTO illustrates how powerful this channel can be, even in the absence of large changes in applied tariffs.

Second, trade agreements facilitate coordination over domestic regulation. Regulatory differences often reflect legitimate national choices, but uncoordinated regulation can fragment markets and raise trade costs. Transparency, dialogue, and procedural cooperation – rather than harmonization – have proven particularly valuable in this domain, as illustrated by WTO committee work on technical barriers and sanitary measures.

Third, trade agreements allow governments to commit vis-à-vis domestic interest groups. By binding future policy choices, they reduce incentives for rent-seeking and over-investment in protected sectors, strengthening governments' ability to resist protectionist pressure over time.

Implications

The economic analysis in this section points to a nuanced conclusion. The multilateral trading system was most effective where it addressed a well-defined problem – unilateral trade policies that shift costs onto trading partners – using simple and incentive-compatible rules. Tariffs on goods, disciplined through reciprocity and non-discrimination, fit this logic closely. In this domain, binding multilateral commitments reduced uncertainty, constrained escalation, and delivered durable integration.

> The implication is therefore not that the multilateral trading system has reached the limits of its economic rationale, but that effectiveness depends on matching instruments to problems.

As the scope of cooperation expanded, however, the nature of the policy problems also changed. In areas where market access is shaped less by border measures and more by domestic regulation, the logic that supported tariff cooperation carries over less directly. Reciprocity becomes harder to define, distributional stakes become more salient, and enforcement increasingly intrusive. This does not imply that cooperation in these areas is infeasible, but it does imply that sustaining binding multilateral rules requires greater convergence of preferences, stronger institutions, and more differentiated forms of commitment.

At the same time, the analysis highlights functions of trade agreements that remain valuable even where comprehensive rule-making is difficult. By enhancing predictability, facilitating transparency and dialogue over domestic regulation, and allowing governments to commit vis-à-vis domestic interests, trade agreements can support cooperation without requiring deep harmonization.

The implication is therefore not that the multilateral trading system has reached the limits of its economic rationale, but that effectiveness depends on matching instruments to problems. Where simple rules can internalize clear cross-border externalities, binding commitments remain powerful. Where policy objectives are heterogeneous and instruments primarily domestic, cooperation is more likely to succeed when it emphasizes predictability, transparency, and restraint rather than uniform, highly binding obligations

What the system delivered

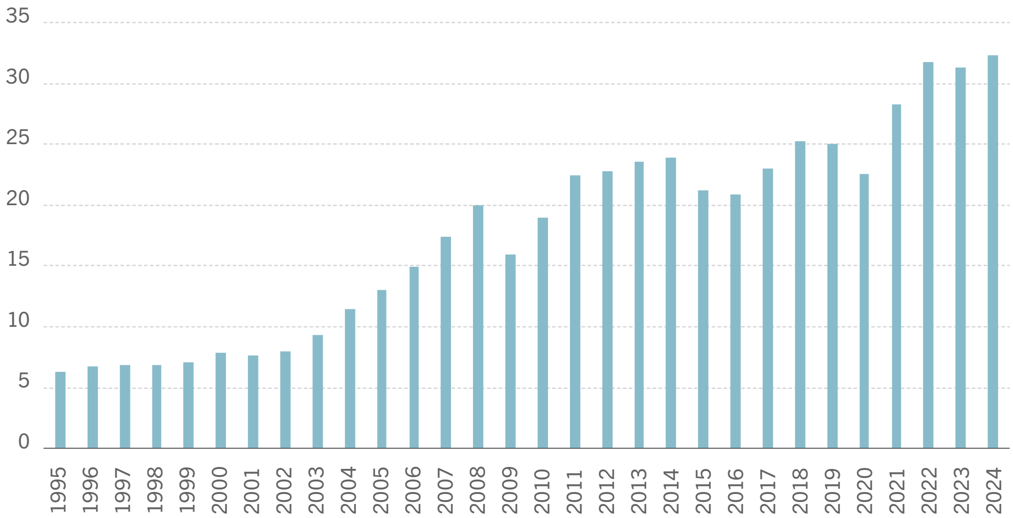
Judged against its core economic objectives, the multilateral trading system has delivered substantial value over the past three decades. This does not mean that the system is without flaws, nor that it is well suited to all of the challenges it faces today. But it does clarify an essential point for the current debate. The system proved most effective where it disciplined discrimination, stabilized expectations, and contained escalation, allowing economic outcomes to emerge through decentralized decisions within a predictable rules-based framework.

Growth

The most visible achievement of the multilateral trading system has been the sustained expansion of global trade since the establishment of the WTO in 1995. Figure 5 shows that over the subsequent three decades, trade in goods and services grew almost fivefold, significantly outpacing global output. This expansion was not confined to a brief liberalization episode. It persisted over an extended period, supporting the deepening of cross-border production networks and large-scale investment.

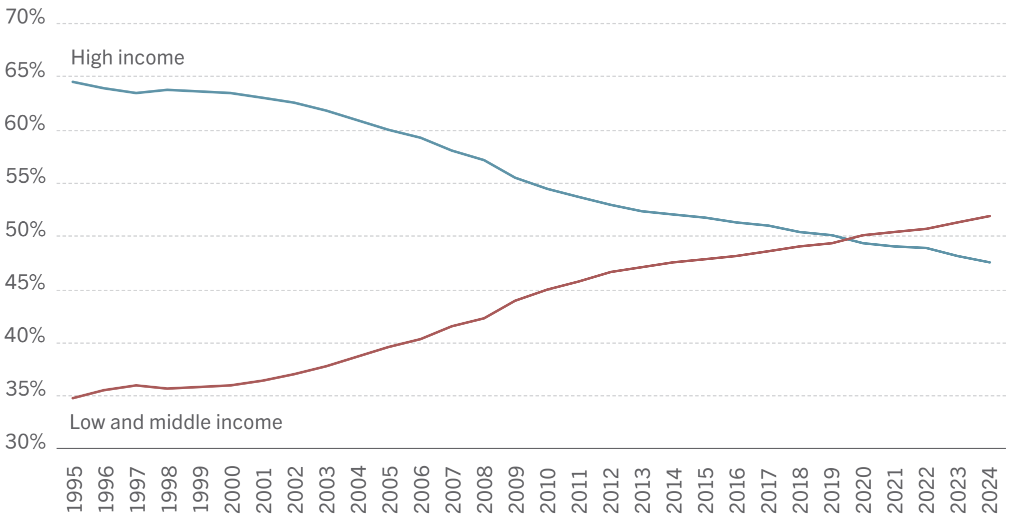
A key feature of this expansion was that it took place within a rules-based framework. Applied tariffs fell markedly under most-favored-nation treatment, with the average applied MFN tariff declining by more than 40 percent since the mid-1990s. Equally important, tariff bindings and non-discrimination constrained reversals and limited the scope for selective protection. By stabilizing expectations about market access, the system supported long-term investment and integration. Together with broader declines in trade costs, this combination helps explain why trade integration in the WTO era proved both deep and durable.

Fig. 5 **World goods and services exports (USD tn)**



Source: World Bank Development Indicators

Fig. 6 **Share in global GDP (PPP adjusted)**



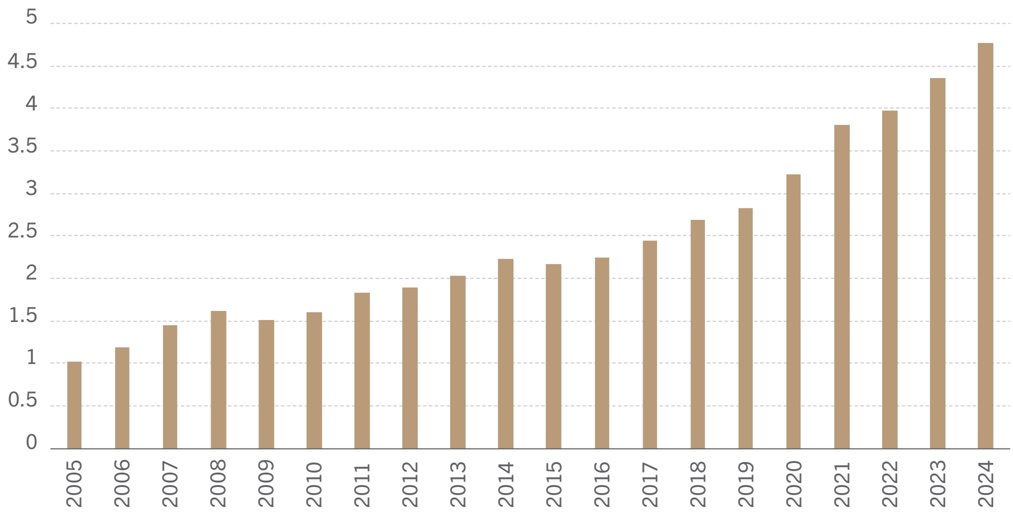
Source: World Development Indicators

Convergence

A second major outcome has been the integration of low- and middle income economies into the global trading system. Since the mid-1990s, these economies have increased their share of global trade substantially, including through rapid growth in trade among developing economies themselves (see Figure 6). This period coincided with unprecedented reductions in global poverty and with income convergence between poorer and richer economies, particularly in Asia.

Trade was not the sole driver of these developments. But the multilateral trading system played an enabling role by providing predictable access to foreign markets and constraining arbitrary policy reversals at home. For many developing economies, WTO membership functioned as a commitment device that reduced policy uncertainty and political risk, supporting outward-oriented growth strategies. In this sense, the system's contribution to convergence lay not only in market access, but in embedding domestic policy choices within a predictable and rules-based framework.

Fig. 7 **Total exports of digitally delivered services (in USD tn)**



Source: WTO Global Services Trade Data Hub

Structural change

The WTO era coincided with a profound transformation in the structure of global trade. As Figure 7 depicts, services grew steadily in importance, digitally delivered services emerged as a central mode of exchange, and production fragmented across borders as global value chains expanded across goods and services. These changes were driven primarily by technological progress rather than by deliberate trade policy design.

The multilateral trading system did not seek to direct this transformation. Instead, it provided a framework that limited discrimination, reduced border frictions, and stabilized access conditions, allowing firms to reorganize production in response to technological change. Crucially, this adjustment took place without comprehensive harmonization of domestic policies. By constraining the most disruptive forms of policy divergence while leaving substantial scope for national regulation, the system enabled structural change without requiring convergence. This capacity to accommodate far-reaching economic transformation within a flexible, rules-based framework was a key – if often underappreciated – strength of the WTO.

Resilience

Finally, the system has demonstrated a notable degree of resilience in the face of major shocks. Global trade contracted sharply during the global financial crisis and the COVID-19 pandemic, but rebounded relatively quickly in both cases. Even amid rising geopolitical tensions and an increase in unilateral trade measures, most global trade continues to take place under multilateral rules.

Even amid rising geopolitical tensions and an increase in unilateral trade measures, most global trade continues to take place under multilateral rules.

This persistence reflects the constraining role of tariff bindings, most-favored-nation treatment, and institutionalized cooperation, which together helped contain escalation and prevent a broader collapse of the trading system. Resilience has also been evident in the system's continued capacity to deliver negotiated outcomes under difficult political conditions. Agreements such as the Trade Facilitation Agreement and the Agreement on Fisheries Subsidies, as well as the continued application of the moratorium on customs duties on electronic transmissions, demonstrate that multilateral cooperation remains possible when objectives are targeted and political constraints are taken seriously.

Resilience also rested on a less formal but important element of strategic forbearance. In a number of episodes – most notably during major financial and economic crises – members chose not to fully litigate or retaliate against measures that could plausibly have been challenged under existing rules, prioritizing systemic stability over strict enforcement. This discretionary restraint complemented formal disciplines by reducing escalation at moments of stress.

Taken together, these outcomes suggest that the multilateral trading system has delivered substantial economic value by limiting discrimination, stabilizing expectations, and containing conflict. At the same time, the very forces that underpinned these successes – deeper integration, broader participation, and an expanding policy scope – also help explain why the system now faces growing strain. Understanding where and why the system worked is therefore a necessary starting point for assessing where it has fallen short and what may be required to sustain cooperation going forward.

Why the system is under strain today

The sources of strain in the multilateral trading system are structural rather than episodic. They do not arise from a single economy or dispute, but from a set of shifts that have progressively stretched a system designed to discipline border measures and contain escalation. As trade integration deepened and policy objectives broadened, the gap between the system's original logic and the problems it is now asked to manage has widened. Four fault lines are particularly important: unresolved development bargains and the legacy of the Doha Round; the rise of China and the return of power politics; the growing salience of sustainability and other cross-border regulatory objectives; and the rapid digitalization of the global economy, where economic change has outpaced multilateral rule-making.

As trade integration deepened and policy objectives broadened, the gap between the system's original logic and the problems it is now asked to manage has widened.

Unfinished business of development

A first and enduring source of strain lies in the multilateral trading system's unresolved development bargain. The Doha Development Agenda was launched with the explicit aim of rebalancing the system in favor of developing economies – a purpose that has become increasingly obscured as attention has shifted to perceptions of asymmetry elsewhere. Its failure left more than an unfinished negotiating round; it left a set of unresolved distributional and institutional tensions that continue to weigh on the system's legitimacy and internal cohesion.

Part of the problem lay in the ambition and scope of Doha itself. The agenda attempted to address agriculture, industrial tariffs, services, and development-related flexibilities simultaneously. Expectations among participants were misaligned from the outset, and disagreements over sequencing proved particularly difficult. Economies differed not only on the substance of reforms, but also on who should move first and how adjustment costs should be shared. As negotiations stalled, trust eroded and the round gradually lost its focal role as a platform for reciprocal bargaining.

More importantly, the issues Doha was meant to resolve did not disappear with the round's collapse. Agriculture remains a central point of contention, reflecting persistent asymmetries in protection and support. Special and differential treatment remains poorly defined, oscillating between demands for broad flexibility and calls for more differentiated commitments. More broadly, disagreements persist over the appropriate balance between policy space and binding commitments, especially for economies at different stages of development.

These tensions are rooted in a deeper structural problem. The multilateral trading system was built around reciprocal bargaining among a relatively small group of advanced economies. When these economies negotiated tariff reductions with one another and extended them on a most-

The Doha Round

The Doha Round is the latest round of trade negotiations among the WTO membership. Its aim is to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules. The work program covers about 20 areas of trade. The Round is also known semi-officially as the Doha Development Agenda as a fundamental objective is to improve the trading prospects of developing countries.

The Round was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001. The Doha Ministerial Declaration provided the mandate for the negotiations, including on agriculture, services and an intellectual property topic, which began earlier.

Source: World Trade Organization (WTO)

favored-nation basis, developing economies were protected from trade diversion but did not themselves secure additional market access. In a system based on reciprocity, observing others bargain does not generate independent gains.

As a result, meaningful gains require participation in reciprocal commitments. But by the time many developing and emerging economies became central players in global trade, tariff bindings among advanced economies were already low and tightly constrained. This reduced the scope for new reciprocal bargains and made further exchanges of concessions politically and economically more difficult.

A broader tension follows from this logic. Developing economies have consistently emphasized flexibility and policy space within the multilateral system, while the core economic gains from trade agreements arise from binding commitments that reduce uncertainty and secure market access. The instruments designed to accommodate development – greater flexibility and special treatment – have therefore also limited the scope for new bargains capable of delivering substantial gains. This unresolved tension between flexibility and commitment remains a central source of strain in the multilateral trading system.

The rise of China and the return of power politics

A second source of strain arises from the rise of China. From an economic perspective, China's integration into the multilateral trading system stands as one of its greatest successes. WTO accession facilitated an unprecedented expansion of trade, lifted hundreds of millions of people out of poverty, and contributed to rapid convergence between developing and advanced economies. These outcomes are fully consistent with the system's core objectives and with the gains from trade emphasized earlier.

At the same time, China's scale and economic model have strained assumptions – often implicit – about how integration into the multilateral trading system would evolve over time. While WTO accession required substantial opening and reform, many members expected deeper integration to be accompanied by a gradual shift toward more market-oriented structures. Instead, China combined deep integration into global markets with extensive state involvement in production, finance, and technology development. As China's global footprint expanded, questions about the adequacy of existing rules in light of evolving economic realities became increasingly salient.

One dimension of this strain has been the growing entanglement of trade with geopolitics and security. Trade and technology have come to be viewed less as domains governed primarily by efficiency and mutual gain, and more as sources of strategic leverage. Export controls, investment screening, and efforts to reconfigure supply chains reflect a shift toward interpreting interdependence through a security lens. These developments have reintroduced power considerations into a system that was designed precisely to limit their role.

A second dimension concerns distributional conflict within advanced economies. China's rapid export growth and integration into global value chains generated large aggregate gains, but also imposed concentrated adjustment costs in specific regions and sectors. In some economies, these pressures translated into labor market disruption and political backlash, weakening domestic support for open trade – particularly where adjustment policies proved insufficient. While such challenges are not unique to China, its size and speed of integration amplified their economic and political consequences.

The described rise of China also involves perceptions of an uneven playing field. Persistent concerns have focused on the role of state support, state-owned enterprises, and industrial subsidies in shaping competitive outcomes. Here, the issue is not simply one of compliance, but of coverage. Existing multilateral rules – especially those governing subsidies – have proven ill-suited to an economy of China's scale and institutional structure. This gap between rules and economic reality helps explain both the limits of existing disciplines and the growing resort to unilateral trade measures, particularly by the United States.

> China's rise marks the point at which power re-entered a system that had been designed to keep it in check.

Taken together, these developments illustrate how China's rise has both validated and challenged the multilateral trading system. It demonstrated the system's capacity to support growth and convergence on an unprecedented scale. But it also exposed limits in the system's ability to manage power asymmetries, distributional conflict, and state-driven forms of competition. In this sense, China's rise marks the point at which power re-entered a system that had been designed to keep it in check.

Sustainability and regulatory spillovers

A third source of strain reflects the growing entanglement of trade with non-trade objectives, particularly in climate policy, environmental sustainability, and corporate conduct. These objectives are economically legitimate and politically salient. The strain arises not from their pursuit as such, but from the way they are increasingly implemented: through unilateral regulatory measures with significant cross-border effects, placing demands on a multilateral trading system that was not designed to arbitrate among competing regulatory goals.

> The central issue is no longer protectionism versus free trade, but unilateral regulation versus multilateral coordination.

Climate policy provides a prominent illustration. Measures aimed at reducing greenhouse gas emissions – such as carbon pricing and related border measures – have become central to domestic policy agendas. Instruments like the European Union's Carbon Border Adjustment Mechanism seek to address carbon leakage and competitiveness by extending domestic climate policies to imports. While the underlying objective is environmental rather than protectionist, such measures affect market access and relative prices, raising questions about their consistency with existing trade rules and their application across economies with different capacities and responsibilities.

Similar tensions arise in sustainability policies more broadly. Measures targeting deforestation, biodiversity loss, or resource depletion increasingly condition market access on production methods and supply-chain characteristics. These policies respond to genuine global externalities, but they also transmit domestic regulatory choices across borders. From the perspective of trading partners – particularly developing economies – such requirements can resemble new trade barriers, even when motivated by non-trade concerns.

A related set of issues concerns corporate conduct and due-diligence requirements. Rules linked to labor standards, environmental performance, or human rights increasingly apply not only to domestic firms but also to foreign suppliers and affiliates. While these measures pursue well-defined social objectives, they operate through complex regulatory obligations that fragment markets and raise compliance costs. As with climate and environmental measures, the challenge lies less in the legitimacy of the objectives than in the extraterritorial reach of domestic regulatory frameworks and the limited scope for adaptation to diverse regulatory contexts.

Taken together, these developments point to a fundamental tension. The central issue is no longer protectionism versus free trade, but unilateral regulation versus multilateral coordination. As trade becomes more deeply intertwined with domestic regulatory choices, the limits of a system designed primarily to discipline border measures become more apparent. Managing regulatory spillovers without fragmenting markets is therefore a central challenge for the multilateral trading system and a key test of its capacity to adapt to evolving policy priorities.

Digital trade and the scope of multilateral rules

A fourth source of strain arises where the pace of economic change has been fastest.

Digitalization has transformed how trade is conducted, what is traded, and which policies matter most. These changes have expanded the scope of cross-border economic interaction well beyond traditional border measures, placing new demands on a multilateral trading system whose core disciplines were designed for a different set of problems.

Digitalization highlights a core tension within the multilateral trading system.

As digital trade has grown, attention has shifted toward issues such as cross-border data flows, digitally delivered services, platform regulation, and the use of artificial intelligence. These activities are increasingly central to competitiveness and growth, yet they are shaped primarily by domestic regulatory choices rather than by tariffs or other conventional trade instruments. As a result, the gap between the economic reality of digital trade and the coverage of existing multilateral rules has widened.

The long-standing moratorium on customs duties on electronic transmissions illustrates this gap. By preventing the imposition of tariffs on digital transmissions, the moratorium has helped underpin the early and rapid growth of digital trade by preserving a baseline of predictability. At the same time, it addresses only a single margin of digital trade policy. Other critical challenges in digital trade – data governance, regulatory fragmentation, and access conditions for digital services – remain largely outside the scope of binding multilateral disciplines. Repeated extensions of the moratorium have therefore deferred, rather than resolved, deeper questions about how digital trade should be governed.

These substantive challenges are reflected in the difficulty of advancing cooperation in this area. Preferences over data, privacy, taxation, and industrial policy diverge widely, making it hard to translate shared interests into comprehensive multilateral rules. In response, groups of economies have increasingly pursued cooperation through plurilateral initiatives. Yet resistance from some members – including India – has limited the extent to which such initiatives can be integrated into the multilateral framework, reflecting persistent concerns about policy space, inclusiveness, and fragmentation.

Taken together, digitalization highlights a core tension within the multilateral trading system. The areas where coordination is most valuable are often those where policy instruments are domestic, preferences heterogeneous, and reciprocity hardest to define. As a result, existing multilateral disciplines have struggled to keep pace with rapid technological change. How this tension is managed – without fragmenting markets or undermining predictability – will be central to the system's ability to remain relevant as trade continues to evolve.

Reforming WTO rules: adapting substance to new realities

The analysis above suggests that sustaining cooperation does not require abandoning the multilateral trading system, but adapting its substantive rules to the problems they are now asked to address. The sources of strain identified – unresolved development bargains, state-driven competition, regulatory spillovers, and digitalization – do not point to a single grand solution. Instead, they highlight a set of areas where the gap between existing rules and economic reality has become most pronounced. This section therefore focuses on how WTO rules could be adapted in key policy domains, with the aim of preserving the system's core principles while restoring its capacity to support cooperation under new economic and political conditions.

Reframing the development bargain

The analysis above points to a clear implication: sustaining cooperation requires a rethinking of the development bargain, not its abandonment. The issue is no longer whether development concerns belong in the multilateral trading system – they do – but how they can be addressed in ways that restore bargaining space and prevent development-related flexibilities from becoming binding constraints on cooperation.

A first priority is to resolve development-related issues that have become systemic bottlenecks, with public stockholding for food security being the most prominent example. While such programs serve legitimate domestic objectives, their operation in economies that are also major participants in global agricultural markets raises concerns about spillovers beyond food security. In the absence of a durable multilateral solution, this narrowly defined issue has repeatedly stalled progress across otherwise unrelated areas of the agenda. From a systemic perspective, the problem is less public stockholding per se than the way unresolved development flexibilities paralyze cooperation. A pragmatic way out may therefore be to accept limited, well-defined departures from agricultural disciplines – anchored in transparency and credible limits on export use – rather than allowing a single unresolved issue to block progress in areas where cooperation can still deliver substantial gains.

More fundamentally, the experience of Doha highlights a persistent tension between flexibility and commitment. Developing economies have consistently emphasized the need for policy space and special and differential treatment, often supported by capacity-building assistance. At the same time, the core economic gains from trade agreements arise from binding commitments that reduce uncertainty and secure market access. Flexibility can limit exposure to adjustment costs, but on its own it does not generate new gains. A rebalanced development agenda therefore needs to place greater weight on commitments – differentiated according to economic weight, market power, and institutional capacity, and supported by capacity building – rather than on open-ended exemptions based on self-designated development status that limit the scope for reciprocal exchange.

Restoring momentum on development ultimately requires reopening space for reciprocal bargaining. As South–South trade has expanded, tariff barriers among developing economies remain one of the few areas where substantial liberalization potential still exists. In a system built on reciprocity and most-favored-nation treatment, durable market-access gains arise from negotiated commitments rather than from spillovers of others' liberalization. Reciprocal tariff reductions among developing economies, agreed within the multilateral framework and extended on an MFN basis, could therefore generate meaningful new gains while preserving the system's integrity. Such an approach would allow developing economies to participate not only as recipients of past liberalization, but as active contributors to rule-making and cooperation going forward.

Taken together, these elements point toward a development strategy rooted in the multilateral system's core principles. Reciprocity, MFN, and negotiated commitments remain central, but they must be applied in ways that reflect today's distribution of trade and development. Reframing the development bargain along these lines would not resolve all tensions overnight, but it would address one of the most persistent sources of strain and help reanchor development within a functioning, forward-looking multilateral trading system.

Adapting disciplines to state-driven competition and security concerns

The analysis above suggests that the strain associated with China's rise does not stem primarily from systematic non-compliance with multilateral rules. By most accounts, China has largely operated within the formal constraints of the World Trade Organization. The deeper problem is one of design. Existing rules have struggled to discipline the scale and scope of state involvement associated with China's role in the global economy, or to manage the re-emergence of security-driven trade policy among major powers. As a result, the limits of the rulebook have become increasingly salient. Reform therefore needs to focus less on stricter enforcement of existing disciplines and more on adapting those disciplines to new economic and geopolitical realities.

A first implication concerns subsidies and state support. In an environment characterized by pervasive and multifaceted state involvement, attempts to discipline industrial policy solely by targeting specific instruments – as under the current Agreement on Subsidies and Countervailing Measures – are unlikely to be fully effective. In a limited number of politically sensitive sectors, it may therefore be necessary to complement such rules with disciplines that focus on outcomes. Such managed trade arrangements could be embedded in reciprocal bargains that rebalance market access across policy domains – for example, by pairing constraints on subsidy-driven outcomes with improved access to service markets.

Reform needs to focus less on stricter enforcement of existing disciplines and more on adapting those disciplines to new economic and geopolitical realities.

More fundamentally, it is important to recognize the limits of trade policy as a tool for addressing aggregate imbalances. Persistent trade surpluses or deficits ultimately reflect underlying imbalances between saving and investment at the macroeconomic level. This points to a core design constraint: subsidy disciplines and trade remedies are ill-suited to correct economy-wide imbalances that originate outside the trade policy domain. Expecting the multilateral trading system to manage such imbalances risks overloading it with objectives it was not designed to deliver, underscoring the importance of coherence with macroeconomic policy-making, including through institutions such as the IMF.

A second implication concerns the treatment of security-related trade measures. As trade and technology have become increasingly intertwined with national security concerns, governments have made greater use of security exceptions to justify unilateral action. Left unchecked, this trend risks hollowing out the multilateral system from within. At the same time, it is neither realistic nor desirable to deny the legitimacy of security considerations altogether. The challenge is therefore to establish clearer guardrails around the invocation of security exceptions – clarifying their scope, strengthening transparency, and distinguishing measures motivated by genuine security concerns from those that primarily serve economic or industrial objectives. Such guardrails would not depoliticize trade policy, but they could help contain escalation and preserve a meaningful domain for rules-based cooperation.

Against this background, some have argued that effective responses to state-driven competition require greater flexibility in most-favored-nation treatment. This view reflects frustration with gaps in the current rulebook, but it points the response in the wrong direction. The challenge posed by China does not arise because MFN applies, but because existing multilateral disciplines do not adequately address the scale and forms of state intervention that now shape competitive outcomes. Weakening MFN would therefore not remedy these shortcomings. It would instead legitimize selective discrimination, lower the threshold for unilateral action, and accelerate fragmentation – ultimately weakening the system's ability to discipline state-driven distortions through rules rather than power.

Taken together, these directions reflect a broader shift in emphasis. In a world marked by the return of power politics, sustaining cooperation requires accepting that the multilateral trading system can no longer fully neutralize power, as it once aspired to do. Its role must increasingly be to channel power through rules – limiting its most destabilizing effects while preserving space for economic integration. For this to be credible, multilateral disciplines must better reflect the realities of state involvement and security concerns, rather than assuming them away.

Managing sustainability-related regulatory spillovers

Addressing sustainability-related strains requires adapting the multilateral trading system to a world in which domestic regulation increasingly shapes trade outcomes. The objective is not to constrain environmental or social ambition, but to ensure that such policies are implemented in ways that preserve market access and avoid unnecessary fragmentation of cross-border trade. This calls for forms of coordination that manage regulatory spillovers without encroaching on domestic regulatory autonomy.

In a world marked by the return of power politics, sustaining cooperation requires accepting that the multilateral trading system can no longer fully neutralize power, as it once aspired to do.

Border carbon adjustments provide a prominent illustration. When a carbon price raises the cost of domestic production, competitive neutrality can be restored by applying an MFN border charge that raises the domestic price of imports by the same amount. Such an approach offsets domestic cost increases, limits carbon leakage, and preserves relative market access between domestic and foreign suppliers – without attempting to export domestic carbon pricing regimes to other economies. By contrast, border measures that levy charges based on the measured emissions intensity of individual foreign producers go beyond neutralization. They systematically restrict market access for more carbon-intensive exporters and entail substantial administrative complexity. From an economic perspective, anchoring border measures in simple, cost-offsetting MFN mechanisms offers the cleanest way to reconcile carbon pricing with open trade.

> From an economic perspective, anchoring border measures in simple, cost-offsetting MFN mechanisms offers the cleanest way to reconcile carbon pricing with open trade.

A related challenge arises where climate objectives are pursued through instruments other than explicit carbon pricing, such as production subsidies or regulatory standards. In such cases, interoperability across policy regimes becomes critical. The relevant benchmark is not equivalence of instruments or environmental outcomes, but equivalence in market-access terms. Ensuring that different policy mixes impose comparable burdens on foreign suppliers' access to domestic markets allows diverse climate strategies to coexist within an open trading system, while limiting the scope for disguised protectionism. This logic is consistent with the architecture of the Paris Agreement, which deliberately accommodates heterogeneous national policy choices in pursuit of shared climate objectives.

Other sustainability-related measures, including those targeting deforestation or corporate sustainability due diligence, raise a different set of issues. While their objectives are legitimate, these measures often rely on detailed requirements related to production methods and supply-chain governance that are complex to implement and difficult to verify across borders. They have also encountered significant resistance from developing economies, where they are frequently perceived as unilateral extensions of domestic regulatory frameworks rather than as outcomes of jointly agreed approaches. In such areas, translating complex domestic regulation into binding multilateral disciplines is unlikely to be effective. A more proportionate response is to emphasize transparency, information-sharing, common principles, and targeted capacity-building.

Fisheries subsidies illustrate how sustainability concerns can nevertheless be addressed through focused multilateral disciplines. The Agreement on Fisheries Subsidies represents an important first step, but its limited scope reflects the political and institutional constraints under which it was negotiated. With the agreement now in force, extending and deepening its disciplines is a necessary next step to address the full range of trade-distorting subsidies that contribute to overcapacity and overfishing. Fisheries thus underscore that effective sustainability cooperation in the WTO is inherently iterative: progress is more likely through sequenced agreements that build over time than through comprehensive, one-off deals.

Taken together, these elements point toward a pragmatic approach to sustainability within the multilateral trading system. Rather than adjudicating regulatory objectives, the system should focus on managing their trade-related cross-border effects in ways that preserve market access and contain fragmentation. Emphasizing market-access equivalence, procedural coordination, and transparency allows ambitious sustainability policies to coexist with an open and cooperative trading system.

Preserving market access in digital trade

The diagnosis above suggests that digitalization is straining the multilateral trading system not because digital trade lacks economic importance, but because existing rules offer limited traction over the trade effects of data-related regulation. As digital services expand and modes of supply evolve, domestic regulatory choices have become the primary determinants of market access. In this environment, the central contribution of the multilateral trading system is not to resolve questions of data governance as such, but to ensure that regulatory responses to new technologies do not unnecessarily restrict access to digital markets or foreclose emerging forms of cross-border trade.

A first priority is therefore to anchor cooperation in the digital domain in the logic of market access rather than in abstract notions of openness. From a trade perspective, the relevant question is not whether data are free to flow, but whether data-related regulation unduly restricts access to digital markets and new modes of service delivery. This shifts attention away from harmonizing regulatory models and toward identifying measures that, in effect, limit how digitally delivered services can be supplied across borders. Within its existing mandate, the multilateral system can add value by promoting transparency, proportionality, and non-discrimination in the application of data-related regulation, without seeking to adjudicate underlying policy objectives such as privacy, security, or industrial policy.

A second priority is to differentiate more clearly between degrees of restrictiveness in data-localization measures. Economic evidence suggests that their trade effects vary widely depending on scope and design. Requirements that mandate local storage while continuing to allow cross-border data transfers tend to raise costs but leave market access largely intact. By contrast, measures that combine localization with restrictions on data flows or local processing mandates can fundamentally alter competitive conditions. This distinction points to a pragmatic role for multilateral disciplines: not to prohibit data localization per se, but to focus on its most trade-restrictive forms, particularly where they operate in practice as barriers to cross-border digital services.

A third priority concerns predictability in a rapidly evolving domain. In this context, the long-standing moratorium on customs duties on electronic transmissions plays a stabilizing role. Even if reasonable questions can be raised about its economic justification, allowing the moratorium to lapse would introduce new uncertainty and raise trade costs in the most dynamic segment of global trade. Maintaining the moratorium should therefore be understood as an exercise in restraint by the multilateral system, preserving baseline predictability while deeper regulatory challenges remain unresolved.

Beyond the moratorium, sustaining cooperation in the digital domain also requires reinvigorating the WTO's long-standing Work Programme on Electronic Commerce. Regardless of differences over specific instruments, it would be difficult to justify allowing multilateral engagement on digital trade to lapse at a time when digitalization is reshaping trade more rapidly than any other area. A more active work program can provide a forum for transparency, evidence-building, and deliberation on the trade effects of data-related regulation, even where consensus on binding rules remains out of reach. In this sense, reinvigorating the work program is not an alternative to plurilateral initiatives, but a necessary complement that preserves a multilateral anchor for ongoing dialogue and learning.

Taken together, these elements point toward a restrained but economically coherent role for the multilateral trading system in the digital domain. Rather than attempting to govern data or harmonize regulation, the system should focus on preserving and expanding market access as technologies evolve, addressing the most trade-restrictive regulatory responses, and sustaining predictability under regulatory diversity. In an area characterized by rapid change and limited scope for consensus, such an adaptive and procedural role is likely to be both the most feasible and the most valuable contribution the system can make.

Reforming WTO processes: how cooperation can still happen

What now constrains cooperation at the WTO is not a lack of shared interests, but the difficulty of translating areas of partial convergence into collective outcomes. As the membership has expanded and the agenda has shifted toward issues that are more regulatory, distributional, and politically salient, negotiating procedures that once facilitated compromise have increasingly become points of blockage. In this setting, multilateralism has not lost its legitimacy or appeal. Rather, existing processes make it hard to move from agreement in principle to agreement in practice. Sustaining cooperation therefore requires adapting how it is organized, so that inclusiveness and legitimacy are preserved without rendering the system unable to act.

Variable geometry as necessity, not threat

A first implication of the process diagnosis is that the WTO can no longer rely on a single negotiating mode to deliver cooperation across all issues. As membership has expanded and the agenda has shifted toward regulatory and distributional questions, the gap between shared interests and unanimous agreement has widened. What once functioned as a workable decision rule has increasingly become a binding constraint. The problem is not disagreement over objectives, but the absence of procedures that allow areas of partial convergence to be translated into outcomes in a larger and more heterogeneous system.

Consensus-based decision-making remains central to the WTO's legitimacy, particularly for smaller and less powerful members, and that role should be preserved. But legitimacy does not require that members who choose not to participate in a given initiative can prevent others from moving ahead. When consensus is interpreted as granting non-participants a veto over cooperation among willing members, it risks turning a safe-guard against exclusion into a mechanism of paralysis. Preserving the legitimacy of consensus therefore requires distinguishing clearly between the right not to participate and the ability to block participation by others.

Seen in this light, variable geometry is not a departure from multilateralism but a practical means of sustaining it. Plurilateral agreements, critical-mass arrangements, and open-accession frameworks allow cooperation to advance where interests align, while preserving transparency and keeping the door open to later participation. The experience of the Doha Round illustrates the limits of a single, comprehensive negotiating track in a large and heterogeneous system – not the limits of ambition itself, but of treating ambition and universality as inseparable.

Recent experience shows that such approaches can work within the WTO framework. The agreement on services domestic regulation demonstrates how plurilateral negotiations can be translated into multilateral commitments through existing scheduling procedures, improving transparency and predictability in the application of domestic regulatory requirements without imposing obligations on non-participants. It provides a concrete example of how cooperation among willing members can be anchored in WTO architecture rather than pursued outside it.

Negotiations on investment facilitation for development and on electronic commerce build directly on this logic. In both cases, participating members have agreed on substantive texts among large and diverse subsets of the membership, addressing policy areas where fragmentation imposes high economic costs. Precisely because these initiatives are open to accession, facilitative in nature, and grounded in core WTO principles, their incorporation into the WTO framework represents one of the most credible near-term opportunities to restore momentum in multilateral cooperation. Whether and how these agreements are integrated will therefore be more than a procedural question: it will be a test of the system's capacity to translate partial convergence into collective outcomes while preserving its multilateral character.

At the same time, these experiences expose a remaining institutional gap. Uncertainty about how plurilateral outcomes can be incorporated – on what terms, with what legal status, and with what accession conditions – has itself become a source of friction. The central procedural challenge is therefore not to resolve individual legal disputes, but to establish clear, predictable pathways for integrating plurilateral agreements that do not impose obligations on non-participants. Without such pathways, variable geometry will remain episodic, and the system will continue to struggle to convert convergence into durable collective results.

Strengthening implementation and deliberation

A second implication of the process diagnosis is that cooperation can no longer rely primarily on rule-making alone. As the agenda has shifted toward regulatory, distributive, and technically complex issues, the ability to implement, monitor, and discuss existing commitments has become as important as the negotiation of new ones. In this environment, the WTO's comparative advantage increasingly lies in its capacity to generate information, compare policy approaches, and facilitate structured deliberation among members – even where binding rules are incomplete or contested.

This shifts the role of transparency and implementation from peripheral functions to core elements of cooperation. Improved notification practices, more systematic transparency, and stronger peer review reduce uncertainty about how policies are applied in practice and lower the risk that regulatory differences escalate into conflict. A more analytical and forward-looking use of Trade Policy Review reports can support this role by identifying emerging frictions and highlighting areas where policy divergence may warrant dialogue before disputes arise.

Uncertainty about how plurilateral outcomes can be incorporated – on what terms, with what legal status, and with what accession conditions – has itself become a source of friction.

From this perspective, WTO committees should be understood less as technical sidelines and more as central governance forums. In areas such as technical barriers to trade, sanitary and phytosanitary measures, subsidies, and trade and environment, committees provide spaces for clarification, learning, and peer pressure. Yet in practice, transparency has often functioned primarily as a prelude to litigation rather than as a cooperative instrument. When notification increases legal exposure without offering avenues for problem-solving, under-notification becomes a rational response.

Rebalancing committee work toward deliberation and problem-solving – rather than enforcement alone – would not substitute for rule-making. But it would help manage regulatory divergence, contain disputes before they escalate, and create conditions under which future agreements become more feasible. In a system where cooperation increasingly proceeds through partial commitments and variable geometry, effective implementation and deliberation are not ancillary functions; they are essential to sustaining trust and keeping the multilateral framework operational.

Properly calibrated, dispute settlement strengthens the multilateral trading system by supporting negotiated outcomes rather than substituting for them.

Dispute settlement as backstop, not centerpiece

A third implication of the process diagnosis concerns the role of dispute settlement. A functioning dispute settlement system remains essential for the credibility of agreed rules. But experience has also shown the limits of treating adjudication as a substitute for negotiation. When negotiations stall and rule-making lags behind economic change, dispute settlement risks being asked to resolve disagreements that are fundamentally political or distributive in nature. In such circumstances, adjudication is pushed beyond its intended role, placing adjudicators under pressure to fill gaps that can only be addressed through agreement among members.

Sustaining cooperation therefore requires re-anchoring dispute settlement as a backstop rather than the centerpiece of the system. Its core functions are to enforce existing commitments, provide legal certainty, and contain conflict – not to drive integration in the absence of negotiated consensus. When dispute settlement is expected to perform roles beyond these limits, it risks undermining both its own legitimacy and the willingness of members to accept its outcomes.

From this perspective, the most immediate priority is not agreement on a comprehensive redesign of the dispute settlement system, but the restoration of basic legal certainty. In particular, the possibility that disputes can be appealed into the void creates uncertainty that weakens compliance incentives even where rules remain clear. A political commitment not to appeal into the void would therefore represent a pragmatic step toward restoring confidence, without prejudging the longer-term shape of appellate review. In parallel, the Multi-Party Interim Appeal Arbitration Arrangement demonstrates that, where members choose to do so, appellate review can be preserved through interim solutions under existing legal frameworks. Broader participation in such arrangements can help sustain confidence in rules-based dispute settlement while more fundamental reforms remain contested.

Taken together, these considerations reinforce a broader process logic. Variable geometry allows cooperation to proceed where interests align; stronger implementation and deliberation help manage regulatory divergence; and dispute settlement provides enforcement and containment when those mechanisms fall short. Properly calibrated, dispute settlement strengthens the multilateral trading system by supporting negotiated outcomes rather than substituting for them. In a more complex and politically constrained environment, restoring this balance is essential for translating partial convergence into durable collective results.

The role of middle powers

These process reforms raise a final and unavoidable question: who will drive them? For much of the post-war period, the multilateral trading system relied – explicitly or implicitly – on a small number of large economies to underwrite its core disciplines. That political economy no longer holds. Cooperation today is more selective, interests diverge more sharply, and no single actor can be expected to supply restraint as a global public good.

This shift does not imply disengagement from multilateralism. Rather, it points to a more fragmented and issue-specific pattern of participation, in which major economies cooperate where it aligns closely with their interests and act unilaterally elsewhere. In such an environment, the stability of the system cannot rest on any single power. It must instead depend on a broader set of economies with strong incentives to preserve predictable rules and to prevent escalation.

This places middle powers at the center of the system's future. These economies are deeply integrated into global trade and therefore highly exposed to fragmentation. They lack the market size or coercive leverage to impose outcomes unilaterally, but they derive disproportionate benefits from rules that limit discrimination, reduce uncertainty, and stabilize expectations. For middle powers, a functioning multilateral trading system is not an abstract ideal, but a core component of economic security.

The collective-action problem they face is familiar. Acting alone, middle powers have limited influence and are often compelled to adapt to the choices of larger players. Acting together, they can shape the institutional environment in which those choices are made. The relevant question is therefore not whether middle powers can replace great powers as leaders of the system – they cannot – but whether they can exercise stewardship that preserves cooperation where it remains mutually beneficial.

In practice, this stewardship takes several forms. First, middle powers can anchor variable geometry within the multilateral framework. As unanimity among the full membership becomes harder to achieve, plurilateral and critical-mass initiatives offer a way to sustain rule-making without abandoning inclusiveness. When such initiatives are open to accession, transparent in design, and embedded in WTO processes, they strengthen rather than fragment the system. Normalizing this approach is essential to restoring bargaining space.

Second, middle powers can act as guardians of core principles. Most-favored-nation treatment, reciprocity, and binding commitments remain the system's primary tools for limiting escalation and preventing discriminatory spirals. Defending these principles does not require rigidity, but it does require resisting the temptation to treat exceptions as precedents and ensuring that flexibility remains anchored in multilateral disciplines rather than bilateral accommodation.

For middle powers, a functioning multilateral trading system is not an abstract ideal, but a core component of economic security.

Third, middle powers can invest in the system's deliberative and implementation functions. As cooperation increasingly turns on regulatory issues – such as subsidies, sustainability, and digital trade – the WTO's committees, transparency mechanisms, and peer-review processes become more, not less, important. Strengthening these forums reduces uncertainty, facilitates problem-solving, and helps contain disputes before they escalate. This is a domain where collective action by middle powers can deliver tangible results even in the absence of new binding rules.

Finally, middle powers can promote restraint. In a more contested environment, the boundary between legitimate policy autonomy and destabilizing unilateralism has become harder to police. While no group of economies can eliminate power asymmetries, coordinated signals in favor of predictability, proportionality, and dialogue can raise the political cost of escalation and preserve space for cooperation.

Taken together, these roles point to a conception of leadership based less on dominance than on stewardship. For middle powers, the alternative is costly self-insurance: duplicating supply chains, fragmenting markets, and accepting higher levels of uncertainty as the price of autonomy. Collective stewardship offers a different path – one that preserves sovereignty through shared rules rather than through isolation.

Whether the multilateral trading system remains resilient rather than merely persistent will increasingly depend on whether middle powers choose to act on these incentives. Acting individually, their influence is limited. Acting together, they retain the capacity to stabilize a system that, while no longer anchored by a single underwriter, continues to deliver far more than the available alternatives.

Conclusion

The multilateral trading system is under real strain, and the forces behind that strain are structural rather than episodic. Unfinished development bargains, the return of power politics, the growing importance of regulatory spillovers, and the rapid digitalization of the global economy have widened the gap between today's policy challenges and a rulebook originally designed to discipline border measures and contain escalation. The result is not the collapse of multilateralism, but a gradual erosion of bargaining space, predictability, and restraint.

At the same time, this paper has argued that the system works better than is often assumed. Most global trade still takes place under multilateral rules, and the WTO framework continues to constrain discrimination and policy reversals in ways that matter economically and politically. Over the past three decades, it helped support trade-led growth and convergence, enabled major structural change without requiring broad policy convergence, and contained escalation in the face of large shocks. This resilience matters because it implies that abandonment is not a neutral option. It would accelerate fragmentation and shift more trade policy toward power-based outcomes.

Sustaining cooperation therefore requires adaptation, not reinvention. On the substance, reforms should focus where the gap between rules and reality is largest: restoring bargaining space in development; improving disciplines on state-driven competition while preserving MFN; managing sustainability-related spillovers through market-access equivalence and procedural coordination; and safeguarding market access and predictability in digital trade without attempting to resolve contested questions of data governance. On process, success depends less on reaffirming principles than on making cooperation operational: enabling variable geometry within the multilateral framework, strengthening implementation and deliberation, and re-anchoring dispute settlement as a backstop that enforces negotiated commitments rather than a substitute for negotiation.

The binding constraint is no longer diagnosis. It is execution – translating areas of partial convergence into collective outcomes. This is where the political economy becomes decisive. Great powers can no longer be assumed to underwrite restraint as a global public good, and cooperation will remain selective where it aligns tightly with their interests. In this environment, the stability of the system will increasingly depend on middle powers: economies with strong stakes in predictability and non-discrimination, limited capacity to impose outcomes unilaterally, and clear incentives to prevent escalation and fragmentation.

For these economies, the choice is not between idealized multilateralism and strategic autonomy. It is between costly self-insurance – through duplication, fragmentation, and uncertainty – and collective stewardship of a system that, while imperfect, continues to deliver far more than the available alternatives. The multilateral trading system has always been a political achievement as much as an economic one. Its future will depend on whether governments treat it as expendable – or as a shared asset worth defending, adapting, and renewing.

Further reading

1 *Robert W. Staiger. 2022. A World Trading System for the Twenty-First Century. The MIT Press. Open Access: https://direct.mit.edu/books/oa-monograph/5518/A-World-Trading-System-for-the-Twenty-First*

Notes

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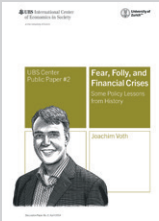

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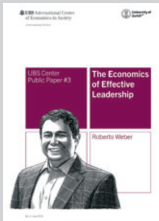

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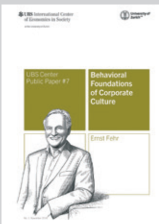
Die Verteilung von Einkommen und Vermögen in der Schweiz



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Issue 8
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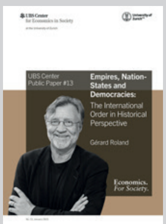

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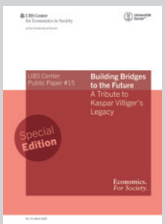

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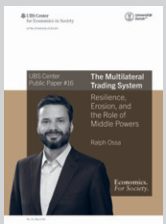
Building Bridges to the Future



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The Multilateral Trading System

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It was established in 2012, enabled by a founding donation by UBS, which the bank made on the occasion of its 150th anniversary. In view of the generous donation, the university named the UBS Center after its benefactor.

The UBS Center serves two main aims. First, it enables world-class research in economics on all levels, to be conducted at the University's Department of Economics. It thereby supports the department's ambition to become one of the top economics departments in Europe and to make Zurich one of the best places for research in economics. The UBS Center's other aim is to serve as a platform for dialogue between academia, business, politics, and the broader public, fostering continuous knowledge transfer. Delivering on these aims will also strengthen the position of Zurich, and Switzerland more generally, as a leading location for education and business.

The UBS Center is part of UBS's strategic partnerships with leading universities and reflects the bank's commitment to fostering exchange between research, the economy, and society. The goal is to strengthen innovation and entrepreneurship in Switzerland and thereby reinforce Switzerland's success model in economic, political, and cultural terms. Learn more about UBS's academic partnerships: www.ubs.com/academia

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