



A short history of the long evolution of the multilateral trading system

The current multilateral trading system was formally established after the Second World War, but its legal, economic and political roots extend much further back. Many of its core principles – notably reciprocity, non-discrimination and rules-based cooperation – can be traced to the dense network of bilateral trade treaties that emerged in Europe during the second half of the 19th century. In this sense, the post-war trading system was an evolutionary development, building on earlier structures and practices while adapting them to new circumstances. Yet the immediate impetus for creating a multilateral trading system was not the success of 19th-century globalization, but its collapse. Between 1914 and 1945, war, depression, protectionism and economic fragmentation reversed decades of growing integration and cooperation, interrupting the first age of globalization with a prolonged period of deglobalization. The architects of the post-war order sought not only to restore an open world economy, but also to address the institutional weaknesses that had contributed to its breakdown, helping to usher in a new era of re-globalization. Understanding how the system emerged from this, and how it has adapted to successive periods of expansion, crisis and reform, is essential for understanding the challenges it faces today.

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KEY POINTS

- The core principles of the multilateral trading system – reciprocity, non-discrimination and rules-based cooperation – were developed over more than a century, beginning with a network of European treaties in the 19th century, which were progressively refined through successive generations of agreements.
- The post-Second World War multilateral trading system was designed in direct response to certain systemic failures in the period between the two world wars and during the Great Depression of 1929-39. The experiences of protectionism, discriminatory trade blocs, monetary instability, weak institutions and a leadership vacuum convinced policymakers that an open global economy required stronger rules and international institutions.
- The success of the General Agreement on Tariffs and Trade (GATT) and WTO transformed the challenges they were created to address. As trade has expanded, GATT and then WTO membership has broadened, economic integration has deepened, trade negotiations have become more complex and domestic policies have become more central to trade relations. However, managing cooperation among increasingly diverse economies has also become more demanding.
- Just as trade, investment and productivity growth once reinforced one another in a virtuous circle, weaker growth since the 2008-09 global financial crisis and the slowdown in trade integration risk creating a vicious circle in which slower growth, rising protectionism and stalled trade reform become mutually reinforcing. Breaking that cycle may require a renewed trade cooperation agenda and institutional reform capable of generating stronger, more inclusive and more resilient global growth.

1. From bilateral treaties to a multilateral system

(a) First age of globalization, underpinned by Europe's bilateral trade treaties (1860-1914)

The first age of globalization emerged during the 19th century, driven above all by the Industrial Revolution. As is the case today, technological innovation was a powerful force knitting the world economy together, reducing transport and communication costs and expanding opportunities for trade and investment. Governments were also beginning to develop new, if still rudimentary, forms of international economic cooperation, supported by bilateral commercial diplomacy, the spread of the gold standard (i.e., whereby economies set the value of their currencies at a specified quantity of gold), and Britain's role as the leading economic and financial power in sustaining an open international economy. The result was an increasingly interconnected world linked by trade, investment and communications – the first truly open global economy.

The first institutional pillar of this emerging global economy was the growing network of bilateral commercial treaties that linked Europe's major economies. A pivotal moment came with the 1860 Cobden–Chevalier Treaty between Britain and France, negotiated against a backdrop of British unilateral tariff reform, French industrial modernization, and a long history of geopolitical rivalry. In the preceding decade, Britain had embarked on a programme of unilateral tariff liberalization, culminating in the repeal of the Corn Laws, aimed in part at lowering food prices, raising real incomes, reducing production costs, and strengthening the country's international competitiveness.¹

The Treaty combined reciprocal tariff concessions with unconditional most-favoured-nation (MFN) treatment. Britain extended its already liberal tariff regime on an unconditional MFN basis, while France introduced a dual tariff structure consisting of a higher general tariff and lower treaty-negotiated (“conventional”) tariffs.² The Treaty demonstrated how reciprocity and MFN could work together: reciprocity created incentives for market opening, while MFN enabled bilateral bargains to widen rapidly into a network of liberalization. Because France's lower treaty rates were automatically

extended through unconditional MFN clauses, other European economies had strong incentives to join the expanding treaty network in order to secure the same treatment. A cascade of treaties followed – with Belgium (1861), the German Zollverein (1862), Italy (1863), Switzerland (1864) and others – rapidly linking most of Europe's major economies into an increasingly integrated commercial network. Because many of these states also governed extensive overseas empires, this European treaty network quickly acquired a global reach.

A second pillar of this liberal order was the international gold standard. Following Britain's lead, Germany fixed its currency to gold in 1872, and other European economies and the United States followed over the next decade.³ By the late 1880s, much of the world had converged on a common monetary framework, stabilizing exchange rates and sharply reducing the risks and transaction costs of international trade and investment. Together, the spread of reciprocal trade agreements and monetary integration created powerful conditions for expanding cross-border economic activity.

These developments were underpinned by Britain's pre-eminent position in the global economy. As the leading industrial, financial and naval power of the age, Britain helped shape an environment conducive to open trade and capital flows. Its repeal of the Corn Laws (1846) and Navigation Acts (1849), and its leadership in initiating the Cobden–Chevalier Treaty, set the tone for wider trade liberalization. The role of the pound sterling as the dominant international currency and the global reach of British financial institutions reinforced integration, while Britain's naval supremacy helped it to secure the then key physical infrastructure of the trading system – open sea lanes.

A defining feature of this 19th-century system was that it emerged through decentralized, bottom-up cooperation rather than formal, top-down design. Economies liberalized their trade through reciprocal bilateral agreements, which in turn spurred others to negotiate similar agreements to avoid trade diversion or competitive disadvantage – essentially a process of “competitive liberalization”. Through the most-favoured-nation (MFN) mechanism, concessions were automatically extended across the network, producing *de facto* multilateralization and tariff convergence without centralized coordination. What emerged was not

multilateralism in an institutional sense – there was no overarching organization or uniform body of trade rules – but a form of proto-multilateralism based on contractual interdependence.

Yet the very features that fuelled the system's expansion also revealed its fragility. Its reliance on decentralized agreements left no binding framework to monitor compliance, resolve disputes or update rules. The balance of power and diplomatic practice substituted for formal enforcement, leaving the system vulnerable to shifting political and economic conditions. As integration deepened, interdependence intensified – but without institutions to manage the resulting tensions. When geopolitical and economic rivalries sharpened in the late 19th and early 20th centuries, the system lacked the resilience to withstand them, exposing the limits of a system that was dynamic but not institutionally anchored.

(b) Deglobalization, fuelled by war, economic depression and fragmentation (1914–1945)

The outbreak of the First World War in 1914 abruptly ended the first age of globalization, ushering in three decades of economic fragmentation. War disrupted trade, undermined the international gold standard and redirected national economies toward military production. The collapse of empires and the emergence of new states further complicated the economic landscape, as fragile institutions, fiscal pressures and nation-building priorities reshaped trade policies.

Despite efforts to restore the pre-war order, the interwar years failed to rebuild a stable and open global trading system. Initiatives under the League of Nations aimed to revive cooperation, and the gold standard was partially restored in the 1920s, but these efforts lacked both political resolve and institutional support. The earlier model of decentralized integration proved ill-equipped to manage mounting economic and geopolitical strains, and the system gradually unravelled. Several structural weaknesses – many rooted in the design of the 19th-century order – became increasingly evident.

First, the absence of effective and enforceable disciplines made commitments fragile and allowed protectionism to spread unchecked. Facing economic distress, governments raised tariffs to protect domestic industries and employment. The trend intensified during the Great Depression: the US

Smoot–Hawley Tariff Act of 1930 triggered widespread retaliation. The reciprocal liberalization dynamic of the previous century gave way to escalating protectionism, as states acted defensively in the absence of credible constraints (Eichengreen and Irwin, 2010).

Second, the erosion of non-discrimination allowed the system to fragment into competing preferential blocs. The 1932 Ottawa Agreements institutionalized imperial preference by granting British Commonwealth economies preferential access to one another's markets, while various trade and currency blocs further divided the global economy. Instead of reinforcing openness, trade policy increasingly favoured intra-bloc exchange and excluded outsiders, reversing earlier moves toward broader integration.

Third, macroeconomic instability compounded the downturn in trade. The collapse of the gold standard, exchange-rate volatility, and persistent balance-of-payments crises pushed governments to impose exchange controls, quantitative restrictions, and bilateral clearing arrangements. Trade became increasingly entangled with monetary instability, reinforcing inward-looking policies and further undermining international economic cooperation and integration.

Fourth, the absence of effective global economic leadership was a major obstacle to restoring international economic cooperation. Britain, weakened by the First World War, could no longer play its traditional stabilizing role, while the United States, the emerging economic hegemon, was unwilling to assume it. The resulting leadership vacuum hindered efforts to restore a stable international economy. As Charles Kindleberger argued in his seminal study of the Great Depression, “the international economic system was rendered unstable by British inability and United States unwillingness to assume responsibility for stabilizing it” (Kindleberger, 1975).

Fifth, and most fundamentally, the interwar system lacked the rules and institutions needed to sustain cooperation under stress. Unlike the post-1945 architecture – which would include the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT) – there was no effective multilateral framework to enforce commitments, resolve disputes or encourage cooperation. The League of Nations provided a forum for dialogue, but lacked the authority,

binding rules and economic focus needed to stabilize the system against a backdrop of growing tensions. As a result, economic interdependence – which had once reinforced prosperity and cooperation – became a channel through which shocks, instability and conflict could spread.

The US Reciprocal Trade Agreements Act of 1934 represented a partial attempt to reverse this trajectory by reintroducing reciprocity as a mechanism for liberalization. By empowering the executive branch of the US government to negotiate bilateral tariff reductions and extend them to treaty partners through unconditional MFN treatment, the Act restored key elements of the earlier liberal trading order while providing practical experience with reciprocal tariff bargaining and the negotiation of trade rules (Dam, 2005). In doing so, it revived the 19th-century logic of reciprocity, while foreshadowing the multilateral negotiating framework later embedded in the GATT. By the end of the Second World War, the United States had concluded 32 reciprocal trade agreements covering 29 trading partners, helping to slow – and partially reverse – the protectionist drift of the interwar years and laying important foundations for the post-war multilateral trading system. Yet the initiative came too late to restore an international economy already weakened by economic fragility, nationalism and geopolitical rivalry, forces which, together, helped to create the conditions that ultimately culminated in the Second World War.

The interwar experience underscored a critical lesson: once confidence in international cooperation began to erode, self-preservation became individually rational. In the absence of effective leadership, strong institutions and mutual trust, each economy faced a stark choice – to keep its markets open while bearing the costs of other economies' protectionism, or to respond in kind. Tariff increases invited retaliation; currency depreciations triggered counter-depreciations; each act of economic nationalism made the next more likely. The result was a self-reinforcing downward spiral in which efforts to enhance national economic security ultimately left all countries worse off. As Kindleberger put it, "When every country turned to protect its national private interest, the world public interest went down the drain, and with it the private interests of all" (Kindleberger, 1975). Zero-sum economic rivalry, it turned out, was negative-sum. That lesson would profoundly shape the design of the post-war multilateral trading system.

(c) Re-globalization, starting with the limited-membership GATT (1947)

"The statesmen who planned the post-war economic order were haunted by the mistakes of the twenties and thirties," historian Richard Gardner has observed (Gardner, 1956). Having seen how protectionism, discriminatory trade blocs, and economic nationalism had helped turn economic crisis into geopolitical conflict, they sought to construct an open, non-discriminatory, and rules-based trading system instead (Wolff, 2023; Dam, 2005; Hudec, 1975). Their conviction was that prosperity and peace were mutually reinforcing: expanding trade would promote growth and development, while growing prosperity and economic interdependence would strengthen the foundations of international cooperation and peace. As President Roosevelt argued near the end of the Second World War, "We cannot succeed in building a peaceful world unless we build an economically healthy world" (Roosevelt, 1945).

The initial plan was to establish an International Trade Organization (ITO) alongside the IMF and the World Bank, created at the 1944 Bretton Woods Conference – to oversee tariff negotiations and strengthen trade rules. These institutions were conceived as three complementary pillars of an open global economy. The IMF's mandate to maintain fixed exchange-rate stability and provide balance-of-payments support was aimed at restoring financial stability, curbing competitive currency devaluations, and thereby minimizing trade uncertainty and disruption. The World Bank's focus on reconstruction and development sought to rebuild and expand productive capacity and thus increase participation in international commerce. It is not too much of an exaggeration to say that the Bretton Woods system was central to the new United Nations – and that a multilateral trading system was central to Bretton Woods (Gardner, 1956).

Before the ITO Charter could be finalized in 1948, a smaller "core" group of economies (initially 15, later 23) launched a parallel tariff-reduction initiative: the GATT. This reflected concerns that a comprehensive agreement would be difficult to achieve among the more than 50 states engaged in the broader ITO process (Irwin, Mavroidis, and Sykes, 2008).

Even within this smaller group, differences persisted. The first set of differences concerned how

tariff concessions should be negotiated and extended among participants. The United Kingdom and several others favoured across-the-board tariff cuts, while the United States – constrained by congressional authority to negotiate only bilaterally – promoted a hybrid approach. The outcome was a system of “multilateralized bilateralism”: economies conducted simultaneous bilateral request-and-offer negotiations, whose results were then extended to all participants under the unconditional MFN principle (Irwin, Mavroidis and Sykes, 2008). However, tariff commitments alone could not sustain a rules-based trading system. Without broader disciplines, their value could be circumvented or eroded through discriminatory treatment, quantitative restrictions, customs practices, subsidies or other non-tariff measures. Thus, to protect these commitments, the GATT incorporated the draft commercial policy provisions of the ITO Charter with only minor modifications. In other words, the tariff schedules created the bargain, while the GATT rules protected them.

A second set of differences concerned how far common rules should constrain discriminatory practices and how much flexibility they should allow. The United States generally sought to eliminate discriminatory trade arrangements and restrict the use of quantitative controls, while the United Kingdom and other European economies resisted abandoning imperial preference systems and balance-of-payments restrictions. The resulting compromises revealed an enduring tension at the heart of the trading system between the objective of non-discrimination and the need to accommodate political and economic realities. Existing colonial preferences were carried over or “grandfathered” into the GATT as a transitional concession to established arrangements. By contrast, GATT Article XXIV represented a deliberate departure from strict MFN treatment, permitting customs unions and free trade areas on the grounds that regional integration could complement, rather than undermine, multilateral liberalization.⁴ Similarly, the GATT allowed economies facing external financial difficulties to maintain temporary trade restrictions for balance-of-payments reasons, reflecting the view that trade-opening had to be compatible with macroeconomic stability and reinforcing the complementary roles of the GATT and the IMF within the broader Bretton Woods framework. From the outset, therefore, the GATT combined a commitment to universal rules with carefully circumscribed flexibility.

Despite these divisions – and several near-breakdowns in the talks – the first Geneva Round (1947) achieved an average reduction of about 26 per cent in industrial tariffs (WTO, 2007).⁵ More importantly, it demonstrated that multilateral negotiations, anchored in reciprocity, non-discrimination and binding commitments, could deliver substantive results (Hudec, 1975). Between 1947 and the conclusion of the Dillon Round in 1962, GATT membership almost doubled – from 23 to around 45 – while successive rounds delivered tens of thousands of tariff concessions, progressively lowered industrial tariffs, and established a pattern of continuous trade-opening and expansion that would characterize the system for the next three decades. Yet even at this early stage, tensions between multilateralism and bilateralism, between non-discrimination and preferences, and between early liberalizers’ commitments and latecomers’ expectations were already evident.⁶

(d) Towards more variable geometry: the Kennedy and Tokyo Rounds (1964-79)

By the time of the Kennedy Round (1964–67), the GATT’s success in cutting tariffs and attracting new members had generated new and more complex challenges. A system that had doubled in size in less than two decades now found it harder to negotiate further tariff reductions. Integrating developing economies – by expanding their export opportunities without requiring full reciprocity – became a central issue. At the same time, as tariffs declined, non-tariff barriers became more prominent, exposing gaps in existing GATT rules. The emergence of the European Economic Community (EEC) in the late 1950s added further complexity, creating for the first time a negotiating counterweight to the United States. In short, the very successes of earlier rounds – expanded membership, deeper integration and lower tariffs – had begun to make subsequent negotiations more demanding.

The Kennedy Round reflected these tensions. The outcomes from opening trade, helped by the adoption of a formula-based approach, were impressive, with industrial tariffs reduced by an average of 38 per cent (Preeg, 1970; WTO, 2007). But agriculture remained largely untouched because of persistent disagreements, and progress on trade rules was uneven. Although the round produced important innovations, including Part IV of the GATT (“Trade and Development”) – providing for preferential, non-

reciprocal treatment for developing economies – and the Anti-Dumping Code,⁷ broader efforts to update disciplines on non-tariff measures fell short. The round therefore showed both the continuing power of reciprocity and the growing difficulty of extending it across a more diverse membership and a wider policy agenda.

These unresolved issues, together with the growth of the EEC, the rising influence of developing economies, and instability in the world economy following the collapse of the Bretton Woods system and sharp increases in energy prices, provided the impetus for launching the Tokyo Round (1973–79). With 102 participants, it was the most ambitious and wide-ranging negotiation up until that point, but also one of the most complex. Transatlantic tensions, particularly over agriculture, remained a major obstacle, while differences between developed and developing members became increasingly pronounced. Once again, the system's growing scope and success made consensus harder to achieve. Although the round achieved further industrial tariff cuts – averaging about 33 per cent – progress on agriculture remained limited.

To overcome the mounting difficulty of reaching agreement on trade rules, negotiators adopted a more flexible approach. A series of plurilateral agreements or “codes” was concluded on subsidies, anti-dumping, technical barriers to trade, import licensing, customs valuation and government procurement (Winham, 1987). These allowed members to opt in or out, introducing a degree of “variable geometry” into the system. While this flexibility enabled progress where unanimity was impossible, it also added complexity. Because several of the codes generated benefits that were effectively extended beyond their signatories – either through MFN application or through the general operation of national trade regimes – non-participants could in some cases benefit from concessions without assuming corresponding obligations. As a result, the Tokyo Round's most innovative response to growing diversity – flexibility – also raised concerns about fragmentation and uneven rule application, highlighting once more the trade-offs inherent in the system's evolution. It is not coincidental that the Tokyo Round was the longest multilateral negotiation up until that point, lasting five and a half years, two years longer than expected.

(e) A “single undertaking”: the Uruguay Round (1986–94)

By the time of the Uruguay Round, the GATT system had grown to 123 members. The constellation of major trading powers now included not only the United States and the EEC, but also a rapidly rising Japan, increasingly influential developing economies such as India and Brazil, and soon the new transition economies that were emerging after the fall of the Berlin Wall. This expansion – one of the system's great achievements – nevertheless also made consensus harder to reach.

The Uruguay Round took four years to launch and a further eight to conclude, twice its planned duration, reflecting in part the breadth and ambition of its agenda. This agenda extended far beyond tariffs to encompass non-tariff measures, agriculture, textiles, services and intellectual property, reflecting both the deepening of global trade, the growing importance of services and knowledge-based industries, and the increasing expectations placed on the system.

The round's defining innovation was the “single undertaking” – the principle that all members would accept the full package of negotiated outcomes, replacing the Tokyo Round's opt in, opt-out approach. This restored coherence, reduced fragmentation and eliminated ambiguity created by the limited participation in earlier plurilateral codes, including those on subsidies, technical barriers to trade, customs valuation, import licensing and anti-dumping.⁸ It also reflected the need to manage growing complexity through broader trade-offs across issues and members. Some exceptions persisted: negotiations on services proceeded on a separate track and produced a distinct agreement – the General Agreement on Trade in Services (GATS) – reflecting certain sensitivities, particularly among developing economies. Over time, the agenda itself evolved, culminating in the decision to establish a new institutional framework: the World Trade Organization.

The success of the Uruguay Round also benefitted from negotiating innovations from previous rounds. For example, as GATT membership expanded and negotiating rounds grew more complex, the system needed a way to track progress toward consensus. Even a basic

drafting challenge required innovation, and led to the introduction of bracketed text (see Box A.1).

The Uruguay Round delivered the most far-reaching trade reform package in the system's history.⁹ It cut non-agricultural tariffs by over 30 per cent, extended disciplines to agriculture and textiles, introduced rules on services and intellectual property, strengthened dispute settlement and created the WTO. For many, this achievement confirmed the value of the single undertaking approach, as it appeared that comprehensive negotiations allowed broader trade-offs and generated the political momentum needed to reach agreement.

Yet the experience also revealed new constraints. The Uruguay Round's length, complexity, and near-failures raised questions about whether continually larger and more ambitious negotiations were viable.¹⁰ Moreover, key issues – particularly in market access for agriculture and services – remained only partially resolved and were deferred to future talks under the so-called “built-in agenda”. In this sense, the very ambition that made the Uruguay Round so successful also exposed the limits of the traditional negotiating model in an increasingly complex trading system.

(f) End or beginning of the road? – the unfinished Doha Round

In hindsight, it is unsurprising that the Doha Development Agenda (DDA), launched in 2001, faced even greater difficulties. It sought to tackle the most politically sensitive and technically complex issues left unresolved by the Uruguay Round, such as agricultural subsidies, services liberalization, tariff peaks and escalation, preference erosion and non-tariff barriers. It also involved the largest and most diverse membership in the history of either the GATT or the WTO. With China (which became a WTO member in 2001), the Russian Federation (which became a WTO member in 2012) and many recently acceded economies at the negotiating table, the Doha Development Agenda became the first truly global trade negotiation. And it encompassed the broadest policy agenda of any negotiation round up until that point, including proposed work on “new issues”, such as trade facilitation, investment and competition policy.

At the same time, the DDA arguably applied an even stricter version of the single undertaking, further reducing flexibility in how talks could

proceed. In the Uruguay Round, the principle that “nothing is agreed until everything is agreed” mainly meant that members could not selectively accept the final results. But in the Doha Round, the same principle came to mean that almost no part of the negotiation could be definitively closed, implemented or harvested separately until the entire round was completed. This limited members' ability to advance selectively, differentiate commitments, or adjust the agenda as conditions evolved. The result was a growing mismatch between the system's rigid negotiating model and the realities of a more complex, interconnected and multipolar global economy.

Although the DDA produced some important incremental progress, it ultimately failed amid deep and persistent divergences among members. As a result, the DDA was never concluded as a comprehensive round. For the first time since 1947, a major multilateral negotiation stalled indefinitely without producing a full outcome. This inability to complete the DDA raised questions about the viability of ever-expanding negotiating rounds in a system nearing universal membership. It also exposed a core tension between universality and manageability: the more inclusive, diverse and ambitious the system had become, the harder consensus proved to achieve, and the more a one-size-fits-all approach became an obstacle to progress.

Yet the stagnation of the DDA also prompted a shift in negotiating practices. Members began decoupling specific issues from the comprehensive DDA and pursuing more targeted agreements, as was agreed at the 2011 Geneva Ministerial Conference. The first breakthrough came at the 2013 Bali Ministerial Conference with the conclusion and adoption of the Trade Facilitation Agreement (TFA), which had been unbundled from the DDA and focused narrowly on customs procedures, transparency and administrative simplification. The 2015 Nairobi Ministerial Conference produced further results, including the elimination of agricultural export subsidies – the first major multilateral reform in agriculture in two decades – and the expansion of the Information Technology Agreement (ITA). The 2022 Geneva Ministerial Conference produced the Fisheries Subsidies Agreement, the first multilateral WTO agreement to place an environmental objective – the conservation of global fish stocks – at the centre of its disciplines.

Box A.1: An early example of “reform by doing”: the history of bracketed text in the GATT

Bracketed text is one of the oldest procedural conventions in the GATT system, yet it was never formally codified in the GATT rules themselves. It evolved instead as a practical drafting device that let negotiators distinguish between language enjoying broad agreement and provisions still contested by members, and its use grew increasingly important as the multilateral trading system matured.

In the early GATT rounds – Geneva (1947), Annecy, Torquay, Geneva (1956) and the Dillon Round – bracketing was comparatively rare. Negotiations centred on tariff schedules rather than lengthy legal texts, legal drafting was handled by small groups of officials, and disagreements were more often managed through alternative papers or chairs’ notes than through heavily bracketed treaty language. The original 1947 GATT itself was negotiated largely through successive consolidated drafts rather than the heavily bracketed texts familiar today.

Brackets became common practice during the Kennedy and Tokyo Rounds, as negotiations shifted toward non-tariff barriers, anti-dumping rules, customs valuation, subsidies and technical regulations and drafting grew far more complex. Negotiators adopted the convention that unbracketed text represented language enjoying broad agreement, while bracketed text flagged provisions on which one or more delegations held reservations, allowing a single negotiating text to keep evolving without spawning multiple competing drafts.

The Uruguay Round (1986–94) made brackets central to the negotiating process. With the GATS, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, revised technical barriers to trade (TBT) rules, agriculture, the Dispute Settlement Understanding and the Marrakesh Agreement Establishing the World Trade Organization itself all being drafted simultaneously, many documents carried hundreds or even thousands of brackets. By this stage brackets carried an understood procedural meaning: a government could insist that language remain bracketed until it was ready to accept it, removing brackets signalled consensus, and deleting a bracketed alternative reflected a negotiated choice among competing options. As one history of the GATS negotiations put it, bracketed text signalled disagreement among participants by GATT custom.

The best-known response to this proliferation was Arthur Dunkel’s 1991 Draft Final Act, the “Dunkel Draft”. Rather than producing yet another text filled with competing brackets, Dunkel issued a “clean” chairman’s text that largely eliminated brackets by choosing a single formulation wherever negotiators had been unable to agree. This shifted the political dynamic: governments no longer negotiated among dozens of alternatives but instead negotiated deviations from one consolidated text, a change that many scholars regard as one of the key reasons the Uruguay Round was ultimately concluded.

Brackets served several practical purposes, and not all of them signalled the same thing. They kept negotiations moving while disagreements persisted, identified exactly which words remained controversial, preserved negotiating options without requiring wholesale redrafting, and let chairs gauge progress by literally counting how many brackets remained – negotiators often spoke of “reducing the brackets” as shorthand for progress. Experienced negotiators also recognised that brackets came in different forms, from alternative wording (“shall” versus “should”) and alternative conceptual approaches to political placeholders awaiting instructions from capitals and cross-issue brackets that could not be resolved until agreement was reached elsewhere, for example between agriculture and services. The mere presence of a bracket therefore did not necessarily indicate deep disagreement.

Bracketing was never prescribed in the GATT treaty or in any formal negotiating rules; it emerged as a diplomatic drafting convention that eventually became standard practice well beyond the GATT and the WTO, including in environmental treaties, arms control negotiations and UN conferences. Notably, early GATT practices relied on brackets far less than today’s WTO negotiations do – a shift that reflects the growing complexity of trade agreements, from the relatively straightforward tariff concessions of the 1950s to the highly detailed regulatory disciplines negotiated among a widening set of members from the Tokyo Round, and especially the Uruguay Round, onward.

At the same time, members have increasingly explored plurilateral initiatives, allowing subsets of participants to advance where universal agreement is unnecessary or unlikely. Early successes with the Government Procurement Agreement (GPA),¹¹ the Information Technology Agreement (ITA) (concluded by 29 participants at the First Ministerial Conference in 1996) and the expansion of the ITA (concluded by over 50 members at the Tenth Ministerial Conference in 2015) demonstrated that plurilateral agreements, both non-MFN and MFN, could deliver substantial market-opening. More recently, at the 11th Ministerial Conference in 2017, like-minded groups of WTO members issued joint statements launching discussions on e-commerce, investment facilitation and services domestic regulation, which have since produced new plurilateral outcomes. Other plurilateral initiatives pursuing environmental objectives – from plastics pollution and fossil fuel subsidy reform to the circular economy – have likewise gathered increasing momentum. In addition, informal working groups on micro, small and medium-sized enterprises (MSMEs) and on trade and gender have broadened the WTO's agenda and created new avenues for dialogue and cooperation. In 2020, the European Union, China and several other members established the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) in response to the Appellate Body impasse, creating a voluntary appeal mechanism under Article 25 of the DSU that has enabled participating members to preserve a functioning two-stage dispute settlement process.

More broadly, these developments reflect a wider pattern of institutional adaptation that has increasingly characterized the WTO in recent years. Rather than relying solely on comprehensive negotiating rounds or formal amendments to the WTO Agreements, members have often responded to new challenges through incremental, practical innovations in the WTO's day-to-day work – what has become known as “reform by doing”. This has included not only flexible negotiating formats such as joint initiatives and the MPIA, but also procedural improvements, including streamlining committee practices, expanding standardized electronic notification systems, and making greater use of committees such as TBT and SPS to identify and resolve specific trade concerns. Individually, these innovations have often been modest. Collectively, however, they demonstrate that

the WTO has continued to evolve – not only through major negotiating rounds, but also through the cumulative effect of practical adaptations developed by members in response to changing circumstances.

2. The challenges facing the system today

(a) Victim of success

Against the backdrop of the system's long history of ever-increasing cooperation, the WTO's more limited progress in recent years has intensified debate about its future direction. Increasingly, the question is not whether reform is needed – that point is now widely accepted – but where reform should focus, how it should proceed, and at what pace. The challenges confronting members are diverse, but they share a common feature: many stem not from the failure of the system, but from its achievements.

The reason is that the system has transformed the environment in which it operates. As trade expanded, barriers fell and economic interdependence deepened, the gains from cooperation increased – but so too did the complexity of managing that cooperation. A larger, more integrated, diverse and multipolar global economy has created new sources of friction, raised the stakes of collective action and made agreement more difficult to achieve.

The first challenge has arisen from the very success of economic integration itself. Deeper integration has increased the scope for friction among economies with different structures and levels of development. As tariffs fell to historically low levels, the focus of trade policy shifted from border barriers to behind-the-border domestic regulatory regimes. Issues that received relatively little attention when the system was created – from food safety regulations to industrial strategies to national security measures – now sit at the centre of trade tensions and disputes (Cooper, 1968; Lawrence, Eichenbaum, and Evans, 1996; Jackson, 1997; Baldwin, 2011).

Many of the most salient trade tensions today have arisen not simply from ordinary trade disputes, but from deep structural differences between national political and economic systems operating within an increasingly interlinked global economy – what economist Sylvia Ostry has described as “system friction” (Ostry, 1992). These

tensions are often more difficult to manage because they arise not from traditional border restrictions, but from domestic policies and institutional arrangements that reflect broader national economic and social choices. The system's historic task of facilitating trade integration, on the one hand, and managing the interface among differing economic systems, on the other – what John Jackson described as the “interface mechanism” (Jackson, 1989) – has therefore become significantly more complex and multifaceted.

Likewise, the expanding scope of trade rules has increasingly blurred the boundary between trade and other policy domains. Macroeconomic policies, development strategies, environmental measures and technological regulation now shape trade flows and market access as much as traditional border barriers. These so-called “trade-plus” issues increasingly influence trade outcomes, yet many lie beyond the capacity of the trading system alone to address (Sutherland Report, 2007; Keohane and Victor, 2011; VanGrasstek, 2013). The architects of the Bretton Woods system recognized the importance of such linkages and designed the post-war system around complementary institutions responsible for trade, finance and development (Gardner, 1956). Today, however, these interconnections are broader, deeper and more complex than ever. Some have argued that many of the WTO's current difficulties stem from the fact that trade governance can no longer be neatly separated from broader questions of macroeconomic, environmental, technological, development and security governance (Keohane and Nye, 2012; Woods, 2010; Kocharekar, 2023).

The growing breadth, diversity and multipolarity of the membership – developments that the system itself helped foster – pose another major challenge. As the number of actors has expanded and their interests have become more diverse, against a backdrop of shifting trade patterns, changing market shares and rapid technological change, reaching consensus has become increasingly difficult. The informal decision-making practices that characterized the GATT era are rendered increasingly obsolete in a near-universal organization with far more heterogeneous members and interests.

At the same time, broad flexibilities originally designed to accommodate different levels of development are proving harder to sustain as economic realities diverge within traditional developed, developing and least-developed

country groupings. This has prompted growing debate over whether more individually tailored or variable-speed approaches are needed to advance cooperation while preserving inclusiveness (Hoekman, 2025). More fundamentally, the current balance of WTO rights and obligations reflects the cumulative outcomes of past negotiations and the economic relationships of earlier eras, not necessarily the distribution of economic weight and trade shares that exists today.

These challenges do not exist in isolation; they reinforce one another. Reciprocity and MFN are harder to balance when commitments are misaligned with new economic realities. Binding rules are harder to update when consensus requires the agreement of a near-universal and highly diverse membership. And the multilateral process itself is harder to sustain when the trade stakes and geopolitical differences appear greater than at any point in the system's history (Wolff, 2023). Together, these pressures help to explain why a system that proved remarkably effective at promoting integration now finds adaptation increasingly difficult.

(b) From virtuous to vicious circle

The slowdown in the evolution of the trading system has also coincided with a broader slowdown in global trade integration and economic growth. Between 1995 and 2008, the volume of world merchandise trade grew by an average of 5.9 per cent per year, while global GDP growth averaged 3.5 per cent, and the US dollar value of foreign direct investment (FDI) increased by around 12 per cent annually. Major trade-opening initiatives, such as the Uruguay Round, falling trade costs and the expansion of global value chains reinforced one another, creating a virtuous cycle in which trade, investment, productivity and growth advanced together. Other one-off developments, including the spread of the internet, the ongoing integration of China into the global economy and the opening up of Central, Eastern and Southeastern Europe after the end of the Cold War, also contributed to the exceptionally strong trade growth of this period (François and Wörz, 2011; Freund and Weinhold, 2000).

Since the global financial crisis of 2008-09, however, that momentum has weakened. Merchandise trade growth has fallen to roughly one-third of its pre-crisis pace, averaging around 2.0 per cent per year, while global GDP growth has

slowed to 2.8 per cent and growth in FDI has halved to around 6 per cent annually. While the difference may appear modest, compounded over more than a decade it translates into trillions of dollars in foregone global output. Had growth continued at its pre-2008 rate, the world economy would be nearly 8 per cent larger today. Many factors help explain this slowdown, including the legacy of the global financial crisis, weaker productivity growth, and more recently geopolitical tensions. Yet the weakening pace of trade-opening and economic integration appears to be an important part of the story.

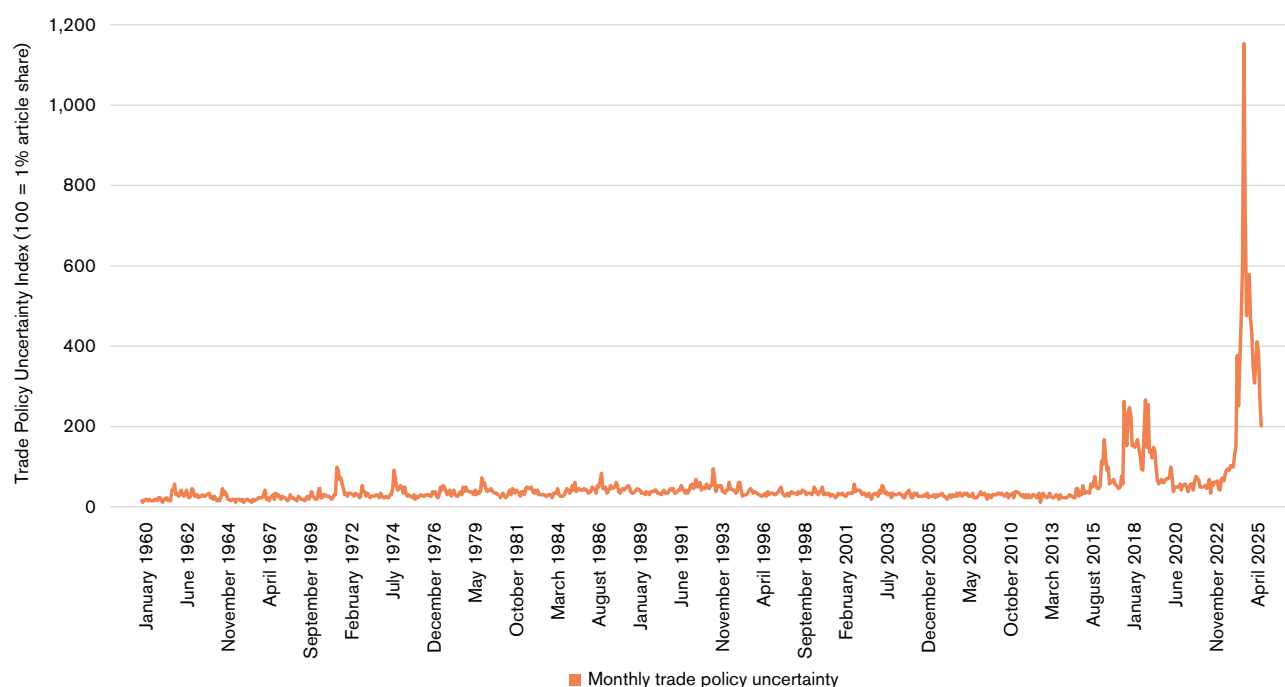
Since then, however, there has been no equivalent of the Uruguay Round to drive a new wave of global trade-opening and rule-making. Although the multilateral trading system has demonstrated remarkable resilience under unprecedented pressures – and members have continued to deliver important outcomes, including the TFA (which entered into force in 2017) and the WTO Agreement on Fisheries Subsidies (which entered into force in 2025) – the broader momentum toward trade integration has weakened. At the same time, protectionist measures and unilateral trade

actions have proliferated, particularly in recent years, contributing to the most significant strains on the trading system since its creation (see Figure A.1). Whereas roughly 80 per cent of world trade was conducted on an MFN basis in 2022, that share had fallen to about 72 per cent by early 2026. Since 2015, moreover, world trade has grown broadly in line with global output, suggesting that the decades-long trend toward ever-deeper economic integration has largely stalled (see Figure A.2).

This matters because the relationship between trade integration and economic growth runs in both directions. Just as trade liberalization, investment and productivity gains once reinforced one another in a virtuous circle, slower trade integration and weaker growth can also become mutually reinforcing. A less dynamic trading system reduces competition, slows technology diffusion, limits gains from specialization and weakens productivity and income growth – which in turn can erode support for economic openness and international cooperation.

Periods of robust growth tend to foster a positive-sum outlook, reinforcing the

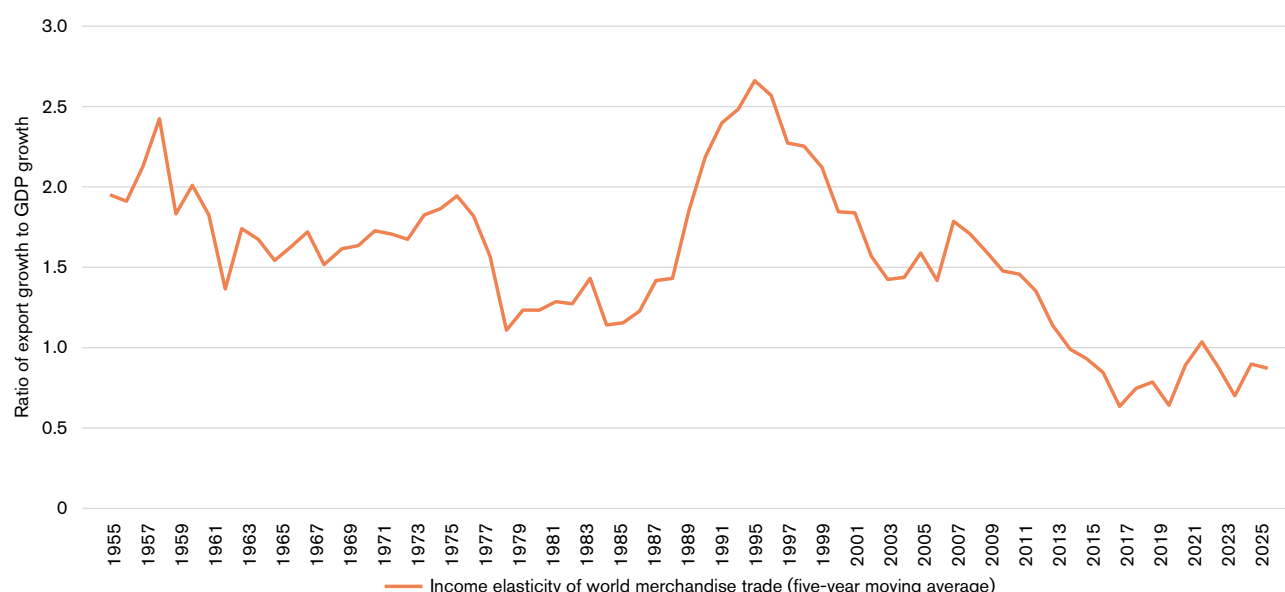
Figure A.1: Trade policy uncertainty has risen to unprecedented levels in recent years



Source: WTO Secretariat calculations based on Trade Policy Uncertainty Index (<https://www.policyuncertainty.com/>).

Note: The Trade Policy Uncertainty Index tracks trade policy uncertainty back as far as 1900 using archives from a number of major newspapers in several economies. It measures the frequency of articles discussing trade policy uncertainty as a share of total news articles with the index normalized so that a 1 per cent article share equals 100. Displayed coverage is monthly, beginning in January 1960 and running through May 2026.

Figure A.2: Income elasticity of world merchandise trade has largely stalled



Source: WTO Secretariat calculations.

Note: Exports refers to world merchandise export in volume terms. GDP refers to real GDP at market exchange rates. Analysis excludes negative periods and rebounds.

perception that all economies can benefit from expanding trade and investment. By contrast, periods of stagnation encourage a zero-sum mindset, in which one economy's gain is increasingly viewed as another's loss. The result is rising pressure for protectionism, beggar-thy-neighbour economic nationalism and geopolitical rivalry, which can further weaken trade and growth. The virtuous circle that helped drive decades of globalization can thus give way to a vicious circle in which slower growth, rising protectionism and economic fragmentation reinforce one another.

Yet despite these challenges, the logic that gave rise to the multilateral trading system remains as compelling as ever. If anything, the unprecedented integration and interdependence of the modern global economy have made the system more necessary, not less. Globalization has amplified the cross-border spillovers generated by domestic policies, increasing rather than diminishing the need for international cooperation (Cooper, 1968;

WTO, 2023c). No bilateral, regional or plurilateral arrangement, however ambitious, can adequately address the growing range of inherently global challenges – including digitalization, environmental sustainability, industrial policy, macroeconomic imbalances and economic security – that shape trade relations today.

There is ultimately no effective substitute for a rules-based multilateral system. Despite its shortcomings, its foundational purpose – to expand opportunities for trade, restrain beggar-thy-neighbour unilateralism, manage the interface among diverse economies and advance rules-based cooperation – remains essential to global prosperity and stability. The central question is not whether these objectives are still worth pursuing, but whether institutions, commitments and modes of cooperation designed for an earlier era can continue to deliver them in a world that has become far more integrated, complex and multipolar. That is the challenge the remainder of this report addresses.

Endnotes

- 1 Richard Cobden, like others in the Anti-Corn Law League, frequently argued that British manufacturing needed “cheap food” in order to compete abroad (Richard Cobden, 1908).
- 2 France’s tariff system distinguished between a higher general tariff (*tarif général*) and lower treaty-negotiated tariff rates (*tarif conventionnel*) agreed with particular trading partners. Because these agreements typically included unconditional MFN clauses, the lower treaty rates granted to one partner were automatically extended to other treaty partners, encouraging additional economies to join the expanding treaty network.
- 3 The 19th-century gold standard originated in an action by the Bank of England in 1821 to make all its notes convertible to gold (although Britain had operated a *de facto* gold standard from as early as 1717).
- 4 The grandfathering of imperial preferences was done under Article I:2, together with annexes A through F. The addition of Article XXIV appears to have been advocated by the United States to allow for the possibility of free trade agreements in the future (Chase, 2006).
- 5 “In this first round of multilateral trade negotiations, members concluded 123 agreements, covering around 15,000 tariff items, and affecting about 40 per cent of world trade” (WTO, 2007).
- 6 E. Wyndham White, the GATT’s first Director-General, highlighted the bargaining power issue faced in the 1950-51 Torquay Round: “A number of European countries with a comparatively low level of tariff rates considered that they had entered the Torquay negotiations at a disadvantage. Having bound many of their rates of duty in 1947 and 1949, what could these low-tariff countries offer at Torquay in order to obtain further concessions from the countries with higher levels of tariffs?” (Interim Commission for the International Trade Organization, 1952).
- 7 Formally titled the Agreement on Implementation of Article VI of the GATT, the Kennedy Round’s Anti-Dumping Code was the first separate multilateral agreement to elaborate common rules governing anti-dumping investigations and measures.
- 8 These agreements applied only to their limited number of signatories, creating uncertainty about the relationship between the codes and the general GATT rules. Addressing the status of the codes was important to many developing as well as developed members, but for opposite reasons. While code members were concerned about non-members “free riding” on their commitments, non-members were concerned about ambiguity surrounding the code’s non-discriminatory application.
- 9 The largest trade agreement of its time was embodied in more than 26,000 pages.
- 10 As an alternative to cumbersome, slow-moving, “all or nothing” rounds, some members argued that the new WTO – with its stronger institutional structures and increased opportunities for policy dialogue and information-sharing – should provide a forum for more focused, efficient and continuous sector-by-sector negotiations.
- 11 The GPA originated as the plurilateral Tokyo Round Government Procurement Code, concluded in 1979 by a small group of six parties in developed economies (see GATT official document MTN/NTM/W/174). The agreement was substantially renegotiated during the Uruguay Round and re-established as the GPA 1994. The revised agreement expanded coverage beyond goods to include services and construction procurement, strengthened transparency and procedural disciplines, and introduced more comprehensive market access schedules. A further major revision, GPA 2012, modernized the agreement, updated procurement practices to reflect digital and electronic procurement, expanded coverage commitments, and sought to facilitate broader participation by developing economies. Over time, membership has expanded significantly, and at time of writing the GPA counted 49 members, including a growing number of economies that acceded recently to the WTO (i.e., to become WTO members) or that are in the process of acceding.