

Introduction

The World Trade Organization is at a critical juncture. More than ever, a rules-based multilateral trading system is indispensable to today's highly integrated global economy – a global economy that the WTO itself helped to create. But while the system continues to advance – as recent agreements on trade facilitation, fisheries subsidies and services regulation demonstrate – it is not evolving at the pace required by a rapidly changing world economy. Across core issues – from market access and state intervention to development and dispute settlement – WTO members are finding it increasingly difficult to find common ground and move forward, even as pressures on the trading system continue to grow. The system's last comprehensive reform, the Uruguay Round, concluded three decades ago, before the rise of new emerging economies, the spread of global value chains, and the transformative impact of the internet, digitalization, and now artificial intelligence (AI).

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The insufficient progress of the rules-based trading system is particularly striking when set against its extraordinary advances in the past.

What began in 1947 as a tariff agreement among fewer than two dozen economies – the General Agreement on Tariffs and Trade (GATT) – evolved into the most far-reaching framework for global economic cooperation in history – the modern World Trade Organization. It established comprehensive rules for global trade, a binding mechanism for dispute settlement and a unique forum where economies large and small, rich and poor, could address shared concerns. In doing so, it helped drive a 47-fold expansion in global merchandise trade volume and underpinned one of the most remarkable periods of economic growth and development in modern history.

Why is a system so central to the global economy finding it difficult to move forward?

This *World Trade Report* revisits the underlying logic of the multilateral trading system, the value it has generated, the trade-offs that have accompanied it and why it now faces mounting challenges. It argues that the system's foundational objectives – to progressively open up trade, limit damaging spillovers from national policies, and advance rules-based economic cooperation – remain as vital as ever. If the system is facing headwinds or difficulties, it is not because it has failed to achieve its original core purpose, but because it has largely succeeded. The market-opening, integration and interdependence that the system helped to foster have transformed the global economy in ways that now require the system itself to evolve: by updating trade commitments, broadening coverage, introducing more flexible forms of cooperation and evolving a more effective dispute settlement system, all anchored in a modernized framework of rules. The central challenge for the WTO is to adapt to the more integrated, complex and multipolar world economy it helped to create.

1. The logic of the multilateral trading system

To understand the current difficulties faced by the multilateral trading system, it is essential to understand the problems it was designed

to solve – and its success in solving them.

The logic of the system grew out of the illogic and “mistakes” of the 1920s and 1930s. Having seen how an increasingly closed and divided global economy, marked by escalating protectionism, rival trade blocs and beggar-thy-neighbour mercantilism, fuelled the economic depression, insecurity and tensions that helped to ignite the Second World War, post-war policymakers resolved to build a more open, cooperative and rules-based global economy instead. Freer trade would deliver shared growth and widening development; economic interdependence would give economies a stake in each other's successes; and international rules and institutions would promote stability, trust and collaboration. In place of zero-sum economic nationalism, the goal was positive-sum economic cooperation.

The multilateral trading system was central to that vision.

Its core purpose was to provide a framework in which economies could cooperate to reduce trade barriers progressively, limit damaging trade spillovers from national policies, and advance rules-based trade cooperation (VanGrasstek, 2013; Jackson, 1997; Bown and Irwin, 2017). The system was guided by four main principles – some inherited from the past, others new innovations – the interaction of which helps to explain its rapid expansion (Jackson, 1997; Bagwell and Staiger, 2002b).

The first principle was reciprocity. By linking domestic trade opening to equivalent trade-opening abroad – the idea that economies could expect to “get” something only if they “gave” something in return – reciprocity expanded market access on both sides, amplifying the gains from trade,¹ while mobilizing domestic support from exporters and other beneficiaries of open markets, helping to counterbalance protectionist pressures. This made liberalization not just economically beneficial, but politically sustainable.

The second principle was non-discrimination.

By requiring that any concession granted to one member be extended to all, the most-favoured-nation (MFN) rule transformed reciprocal bargains into system-wide liberalization. It encouraged major trading powers to negotiate with an expanding circle of partners, both to maximize reciprocal market-opening opportunities and, together with reciprocity,

to limit free-riding (i.e., when a member that does not make trade concessions nevertheless profits from tariff cuts and concessions made by other members in negotiations under the MFN principle) by significant trading economies. In this way, MFN treatment acted as a powerful “multilateralizer” of trade-opening.

The third principle was enforceable rules coupled with built-in flexibilities. Tariffication,² bindings,³ transparency requirements and other obligations, backed by enforceable dispute settlement, ensured that market access commitments could not be easily withdrawn or undermined, giving governments and firms the confidence to invest in deeper integration. At the same time, safeguards, waivers and special and differential treatment provided flexibility to accommodate political and economic realities.⁴ The result was a system designed to make trade opening both predictable and sustainable.

The fourth principle, multilateralism, suffused the others. By allowing members to negotiate across multiple partners and sectors simultaneously, it broadened the scope for reciprocal bargains and translated them into common rules and commitments. In doing so, it reduced the fragmentation and power asymmetries likely under more traditional forms of bilateral bargaining and reinforced the shift from power-based to rules-based trade relations.

These principles have been mutually reinforcing. Reciprocity increases the incentive to open markets; MFN multiplies the reciprocal gains; binding rules makes those gains durable; and multilateralism simplifies and expands trade cooperation. While these principles have generated substantial benefits, they have also involved trade-offs and have not always achieved their full potential in practice. Nevertheless, together they have generated a cumulative, self-reinforcing dynamic: as trade-led growth expanded, more economies had an incentive to join the system; as membership widened, the system's value increased; and as its value increased, so did the incentive to deepen cooperation.

Yet the system's very success has also generated new challenges. Deeper integration has increased both the gains from cooperation and the scope for friction among economies with different structures and levels of development.

Expanded rules have enhanced stability but added complexity as trade increasingly intersects with non-trade policies. More binding dispute settlement has increased confidence that negotiated commitments will be respected, but it has also heightened the legal and political significance of those commitments, raising concerns about unintended restrictions on sovereignty and making members more cautious about undertaking new commitments, rendering negotiations more difficult. Meanwhile, the rise and integration into the system of new economic powers have broadened trade opportunities but introduced greater multipolarity, complicating leadership and collective decision-making while creating growing tensions between existing commitments and current economic realities. In short, many of today's central challenges – increasing tensions, more complex negotiations and a wider range of actors with higher stakes – are a direct consequence of the system's past accomplishments.

These challenges are not entirely new. Throughout their evolution, the GATT and then the WTO have grappled with how to balance international commitments with domestic policy space, manage the interface among diverse economic systems, accommodate regional arrangements within a multilateral framework, deal with latecomers to liberalization, address developmental, social and environmental concerns, discipline state intervention, ensure coherence between trade, finance and other policies, and help manage the rise of new economic sectors and powers (Hudec, 1975; Jackson, 1997). In attempting to resolve these challenges, the system has faced recurring crises, periodic doubts about its relevance and repeated calls for reform.

What has changed is the scale, complexity and systemic importance of these challenges. The GATT began as a relatively small group of more like-minded economies focused primarily on reducing tariffs in goods trade and establishing basic disciplines on discriminatory and restrictive trade measures. The WTO is now a near-universal organization operating in a deeply integrated, highly diverse and increasingly multipolar global economy. Global value chains have come to span continents, while services, data, technology and intellectual assets have become as central to international commerce as trade in goods. As traditional border

barriers have fallen, significant trade spillovers increasingly arise from domestic policies – from climate and industrial strategies to subsidies, state-owned enterprises, technology regulation and national security measures.

The multilateral trading system was built on a simple but powerful premise: that reciprocal and non-discriminatory market-opening, embedded in a framework of agreed rules, would generate prosperity, development and ever-deeper economic integration, which would, in turn, help to foster peaceful and mutually beneficial relations among economies. To a large extent, this premise was successful. Trade expanded, barriers fell, new economies were integrated into the global market and economic interdependence deepened.

Yet those very achievements transformed the environment in which the system operates. A larger, more diverse, more integrated and more multipolar world economy has created new sources of friction, raised the stakes of cooperation and made collective decision-making more demanding. The paradox confronting the WTO is that the world economy it was designed to create is, in many important ways, the source of the challenges it must now confront.

If the system is to continue delivering the benefits that have underpinned decades of growth and development, it will need to adapt to these new realities. This may require updating commitments to reflect changing economic circumstances, extending cooperation into new areas of economic activity, developing more flexible negotiating approaches better suited to a larger, more diverse and more multipolar membership, and strengthening mechanisms for transparency, dialogue and compliance with agreed rules. The challenge is not to abandon the principles that have guided the system's success, but to adapt the institutions, commitments and forms of cooperation through which those principles are pursued.

2. Structure of the *World Trade Report 2026*

Chapter A examines the history of the multilateral trading system. The chapter

shows that this history has been characterized by evolutionary adaptation rather than revolutionary change, with successive generations building on inherited principles and institutions to create a more multilateral, inclusive and far-reaching global trade architecture. It also demonstrates that the system did not evolve in a straight line, but has passed through periods of expansion and retrenchment, success and crisis, optimism and pessimism. Many of the challenges it currently faces are not entirely new – but what is new is their scale, complexity and systemic significance. Understanding how the system emerged and how it managed similar pressures in the past is important for charting its current condition.

Chapter B assesses what the multilateral trading system has delivered and describes how its rules can be given an economic interpretation. It begins by examining the system's contribution to economic growth, trade expansion and the creation of a more open, predictable and stable trading environment. It also considers why the gains from global integration have not always been shared evenly across economies and groups. The chapter then explores the economic logic of rules-based cooperation, including how trade policy cooperation reduces uncertainty and cross-border spillovers, how GATT and WTO principles facilitate bargaining and compromise, how flexibilities and exceptions help to accommodate differing needs, and how the WTO's institutional functions support day-to-day cooperation. Finally, it uses economic modelling to assesses the economic costs of a world without the WTO.

Chapter C examines the challenges now confronting the multilateral trading system. It begins with the implications of a more diverse distribution of economic power, which is straining existing bargains, reshaping market relationships and complicating collective decision-making. It considers the continuing debate about special and differential treatment and the growing relevance of differences in economic systems and government interventions, which heightens the challenge of managing trade relations among economies with different institutional and policy frameworks. The chapter also explores how changes in the nature of trade itself – including the rise of global value chains, the growing

importance of services, the digital economy and AI, and the aim to transition to net-zero emissions – are creating new sources of cross-border spillovers and policy complexity. Finally, it examines how broader geopolitical tensions, together with concerns about

interdependence, economic security and production concentration, are increasing the pressures causing trade fragmentation. Together, these developments help to explain why a system that has delivered so much is now increasingly being tested.

Endnotes

- 1 It should be noted that negotiations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) operate in a manner different from traditional GATT/WTO negotiations. While reciprocity remains relevant at a broad systemic level – indeed, the TRIPS Agreement was a key pillar of the “grand bargain” that concluded the Uruguay Round – TRIPS is not fundamentally based on reciprocal market access exchanges in the same way as goods or even services negotiations. Instead, it establishes minimum standards of protection applicable across all WTO members. The same might be said of the Trade Facilitation Agreement (TFA), which was shaped not by market access trade-offs, but by the search for cooperative solutions to shared challenges, such as standardizing customs procedures, harmonizing documentation requirements and improving information exchanges.
- 2 E.g., procedures relating to the agricultural market-access provision by which non-tariff measures are converted into equivalent tariffs.
- 3 E.g., the maximum duty level on a product listed in a member's schedule of commitments that may not be exceeded without compensating the affected parties.
- 4 Obligations vary widely across WTO members, with various types of differential treatment across WTO agreements. For example, under the GATT, members schedule country-specific commitments for tariffs on goods and in quantifiable areas such as agricultural subsidies. In the General Agreement on Trade in Services (GATS), there are even more detailed means of scheduling country-specific commitments. Several categories of provisions in the WTO's rules differentiate among members' rights and obligations. There are special and differential treatment provisions for developing economies and least-developed countries (LDCs) across the GATT, the GATS, the TRIPS Agreement, the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) and the Agreement on Technical Barriers to Trade (TBT Agreement). Plurilateral agreements (e.g., the Agreement on Government Procurement and the Agreement on Trade in Civil Aircraft) create rights and obligations only for those WTO members that have accepted them.