WTO at a Critical Juncture: Preserving Cooperation in a Fragmented World

Value of the WTO

- *WTO membership boosted trade between members by ~140%.*
- *Global prosperity gains estimated at* **US$ 855 billion** *(≈4.5% GDP per member).*
- *Developing economies' trade share rose from 23% (1995) to 45% (2024).*
- *Extreme poverty in these economies fell from 40% to 10%.*
- *WTO commitments enabled global value chains (GVCs) to expand from 35% to 49% of trade.*
- *Predictability reduced protectionist surges during crises (2008, COVID-19, Ukraine war).*

Economic Logic of Cooperation

- *Reciprocal bargaining prevents excessive protectionism.*
- *MFN treatment generalizes gains across members.*
- *Tariff bindings make commitments durable.*
- *Transparency and dispute settlement sustain trust.*
- *WTO agreements (TBT, SPS) manage behind-the-border policies, promoting good regulatory practices.*

Costs of Erosion

- ***Enhanced cooperation scenario (2050):*** *GDP +2.9%, exports +17.9%.*
- ***Geo-fragmentation scenario:*** *GDP –5.1%, exports –18.6%.*
- ***FTA-world scenario:*** *GDP –6.9%, exports –26.9%.*
- *Smaller economies would suffer disproportionately under fragmentation.*

Structural Challenges

1. ***Shift in economic power*** *– Developing economies now major traders.*
2. ***Rise of state intervention*** *– Industrial policies and subsidies more frequent.*
3. ***Changing nature of trade*** *– GVCs, digital services, AI, and environmental policies complicate cooperation.*
4. ***Geopolitical rivalry*** *– Security concerns drive fragmentation and supply-chain restrictions.*

Path Forward

- *WTO's logic remains valid but mechanisms need updating.*
- *Rules must adapt to multipolar power, diverse economic systems, and complex regulatory spillovers.*
- *Flexibility for national security must coexist with predictability.*
- *The task:* ***repair what is broken, update what is outdated, preserve what works, and adapt cooperation to new realities.***

[ABS News Service/24.09.2026]

The multilateral trading system has underpinned a nearly 50-fold expansion of world merchandise trade volume and one of the most remarkable periods of economic growth and development in modern history, yet global trade policy and the WTO are experiencing the most serious and sustained disruptions since the system was created 80 years ago.

To help understand how we arrived at this moment, the World Trade Report 2026 asks some fundamental questions: What is the value of the multilateral trading system embodied by the WTO and the General Agreement on Tariffs and Trade (GATT)? What is the economic logic behind its rules? Why is a system that has delivered so much now under strain? And what is at stake as WTO members consider how the institution should adapt?

A few numbers provide a useful starting point.

Today, around 72 per cent of global merchandise trade still takes place under the WTO's most-favoured-nation (MFN) tariff terms, meaning any trade advantage granted by a WTO member to one trading partner must be extended to all other members. Empirical estimates suggest that GATT/WTO membership has increased trade between members by around 140 per cent. Low- and middle-income economies' share of global trade has almost doubled over the past three decades, from 23 per cent in 1995 to 45 per cent in 2024. Digitally delivered services have grown more than fivefold since 2005 and now represent around 55 per cent of global services exports. And simulations by WTO economists presented in the report suggest that the difference between a world of strengthened multilateral cooperation and one in which multilateral cooperation substantially erodes could ultimately amount to 5 to 10 per cent of global real GDP by 2050.

Together, these figures point to three main findings of the report related to the value of the WTO.

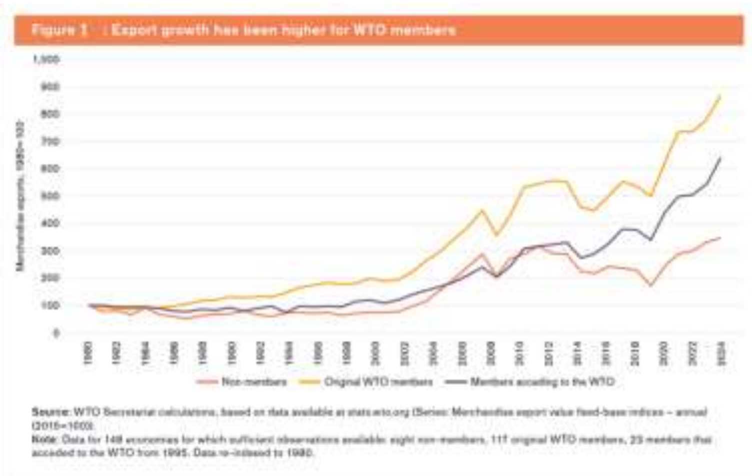
The value of the World Trade Organization

First, the WTO has been a powerful driver of trade, growth and prosperity.

The transformation of the world economy since the creation of the GATT in 1947 is extraordinary. The multilateral trading system has expanded from 23 original GATT signatories to 166 WTO members today, accounting for around 98 per cent of global trade. Over the same period, lower and more predictable trade costs have supported a dramatic expansion of international commerce.

This was not simply a matter of tariffs being lowered. Tariffs became more predictable because of members' commitments; non-tariff measures increasingly became subject to common disciplines and transparency requirements; and agreements covering trade in services, intellectual property, product standards and trade facilitation reduced other barriers to international exchange.

The empirical evidence suggests that these commitments mattered. Recent research estimates that GATT/WTO membership increased trade between members by around 140 per cent, with particularly strong gains where economies made substantial policy commitments (see Figure 1). WTO accession also supported broader domestic reform: economies undertaking deeper reforms and commitments as part of accession grew, on average, 1.5 percentage points faster than members that underwent no comparable accession process.



The economic gains extend beyond increased trade volumes. One study cited in the report (Felbermayr et al., 2019) estimates the increase in global prosperity associated with WTO membership at around US$ 855 billion, equivalent to an average gain of about 4.5 per cent of GDP per member. Evidence also indicates that around 85 per cent of WTO members experienced a decrease in relative consumer prices compared to the rest of the world because of WTO membership.

For developing economies, one of the most striking developments has been income convergence. Between 1995 and 2023, global real per capita income rose by about 65 per cent, but it almost tripled in low- and middle-income economies. The report estimates that between one-fifth and one-third of this convergence can be attributed to reductions in trade costs. Over roughly the same period, the share of people living in extreme poverty in these economies fell from around 40 per cent to 10 per cent.

WTO commitments have also helped provide the predictability needed for firms to construct global production networks. Global value chain (GVC) trade rose from around 35 per cent of global trade in 1995 to almost 49 per cent in 2022. One study cited in the report (Fernandes, Kee and Winkler, 2022) estimates that WTO accession raises participation in GVCs by nearly 8 per cent.

Integration into GVCs can sometimes make economies more fragile, but the opposite is often the case, as predictability and openness also make it easier to adjust when international crises occur. During the global financial crisis of 2008, protectionist measures rose far less than historical practices would have suggested. During COVID-19 and following the outbreak of war in Ukraine, firms and economies were able to redirect trade rapidly towards alternative markets and suppliers. According to research cited in the report (Jakubik and Piermartini, 2023), without WTO tariff ceilings - known as bindings - economies would be 4.3 times more likely to respond to higher import volumes by raising tariffs.

Gains from world trade, however, have not been universal. Least developed countries (LDCs) still account for less than 1 per cent of global trade, their trade costs in manufacturing and services remain about 50 per cent higher than those of high-income economies, and the gains from trade have been distributed unevenly across workers and regions within economies. A central lesson is that trade openness needs to operate alongside domestic policies that enable people and places to participate in, adjust to and benefit from world trade.

Second, there is a strong economic logic behind WTO cooperation - and behind the design of its rules.

The successes of the world trading system did not arise simply because economies happened to commit to trade opening at the same time, they are the outcome of international cooperation on trade.

The economic logic of international cooperation is easily understood. When a government sets trade policy unilaterally, it may not fully take into account the cost that its trade restrictions impose on foreign exporters. Other governments face the same issue. The result can be a familiar scenario: individually rational protectionist measures produce too much trade protection collectively.

Trade negotiations change this calculation. They enable governments to exchange market access reciprocally, offering something valued by trading partners in return for something valued by their own exporters. The result can be more open trade than governments would choose if they acted independently.

But reciprocal trade bargaining alone is not enough. Other elements of the architecture of the rules-based trading system also matter.

MFN treatment makes trade bargaining more manageable by extending negotiated tariff treatment across the membership rather than requiring a separate bargain with every partner on every tariff. It also helps preserve the value of negotiated concessions and limits the ability of economic power alone to determine who benefits from them. Tariff bindings turn negotiated outcomes into durable commitments.

Transparency allows governments and businesses to know the policies they face. Dispute settlement provides a rules-based means of addressing disagreements rather than leaving economies to rely primarily on unilateral retaliation.

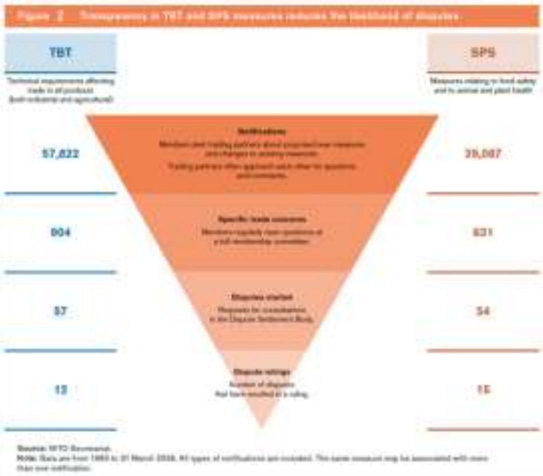
The report describes these elements as a mutually reinforcing architecture: reciprocity creates incentives to bargain; MFN generalizes the gains; tariff bindings make them durable; and transparency and dispute settlement sustain confidence in the trade bargain. In other posts, I also provide more detail on these elements and how they have helped members achieve meaningful international cooperation on trade.

This economic logic increasingly extends beyond tariffs.

As tariffs declined and global production became more integrated, market access depended increasingly on product standards, domestic regulation, subsidies and other behind-the-border policies. WTO agreements such as the Technical Barriers to Trade (TBT) Agreement and the Sanitary and Phytosanitary Measures (SPS) Agreement help governments pursue legitimate regulatory objectives while limiting unnecessary trade costs.

The evidence suggests that these agreements have promoted transparency and good regulatory practices, while their WTO committees have provided a venue for resolving problems before they become formal disputes. More than 1,500 specific trade concerns have been raised by members in the TBT and SPS committees, but only around 110 disputes in these areas have been initiated and only 27 have resulted in rulings, illustrating the value of the WTO as a discussion forum (see Figure 2).

This is an aspect of the WTO's value that is easily overlooked. The institution is not just a negotiating body for major rounds. It also provides infrastructure for day-to-day cooperation.



None of this implies that the WTO's architecture is perfect. There are many areas where members have not fulfilled the requirement to submit notifications of their trade measures. The Appellate Body of the WTO's dispute settlement system is currently unable to hear appeals. Negotiations have often struggled to achieve consensus. Flexibility in terms of fulfilling WTO commitments, indispensable in a diverse membership, requires trade-offs.

But flexibility is part of the economic logic of cooperation. Safeguards, trade remedies, regional trade agreements and special and differential treatment for developing economies allow members with different needs and capacities to participate in a common system. The question is how to design flexibilities in WTO agreements so that they support participation in global trade without progressively weakening the predictability of the trading system or fragmenting cooperation.

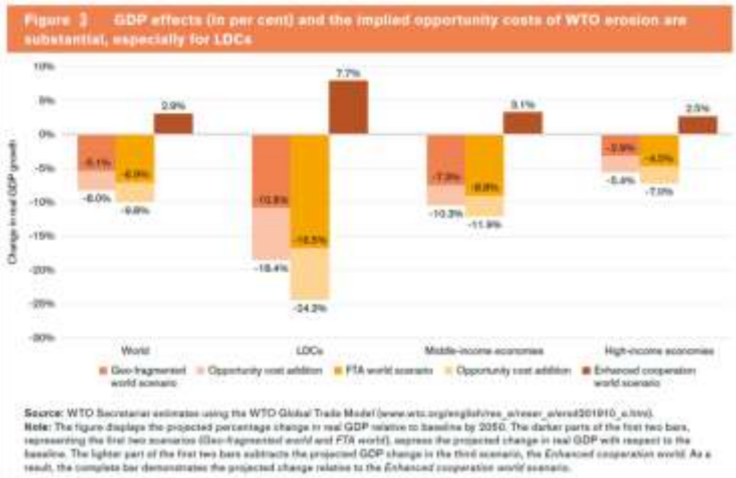
Even regional trade agreements (RTAs) illustrate this need for flexibility. More than 380 RTAs notified to the WTO are in force, but there is little evidence of trade diversion from the rest of the multilateral trading system. What is too often forgotten is that WTO rules themselves shape these agreements: GATT Article XXIV, for example, requires free-trade areas to eliminate restrictions on substantially all internal trade while not raising external barriers. Simulations in the report suggest that without these disciplines, discriminatory trade bargaining would reduce global welfare, with small economies losing disproportionately.

Third, erosion of the rules-based trading system would be costly.

The value of an institution can sometimes be most clearly seen by asking what the world would look like without it.

The report considers three different scenarios. These are simulations, not forecasts. Their purpose is to illustrate the economic consequences of different forms of international cooperation. Under an enhanced-cooperation scenario, global GDP is 2.9 per cent above the baseline and global exports 17.9 per cent higher by 2050. Under a geo-fragmentation scenario, in which trade increasingly splits along geopolitical lines, global GDP is 5.1 per cent lower and exports 18.6 per cent lower over the same timeframe. In a free trade agreement (FTA)-world scenario, where multilateral cooperation gives way to a network of preferential arrangements without the WTO, global GDP is 6.9 per cent lower and exports 26.9 per cent lower by 2050 (see Figure 3).

The difference between strengthened multilateral cooperation and erosion of the system is therefore potentially equivalent to 5 to 10 per cent of global real GDP. Also, the losses would not be distributed equally. Smaller and poorer economies have less bargaining power in a world dominated by discriminatory agreements and unilateral measures. The report's simulations suggest that they would bear particularly large costs from fragmentation.



This brings us to the central question of the 2026 World Trade Report: if the logic of cooperation remains valid, why is the system under strain? The report's conclusion is that the world around the WTO has changed, in large part due to the success of the system itself.

The developments that have challenged the trading system

The report identifies four structural changes.

First, economic power is more widely distributed. Low- and middle-income economies' share of global merchandise trade has risen from 23 per cent in 1995 to 45 per cent today. This is one of the major achievements of global economic integration. But it also means that today's market realities are increasingly different from those underlying trade bargains struck decades ago.

Some developing economies have become principal suppliers and major markets, while many developed economies already have relatively low tariff bindings and therefore less additional market access to offer in conventional tariff negotiations. This can make new reciprocal bargains harder to construct - even as shifting market power creates new possibilities for exchange, including among developing economies themselves, as illustrated in Table 1. This also makes the development dimension more complex as developing WTO members range from LDCs with very limited capacities to major global traders.

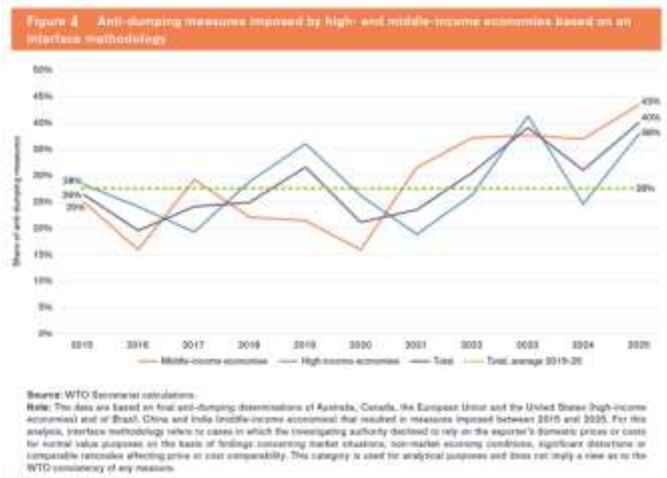
Table 1: Principal supplier relationships have changed between 1995 and 2024

	Importer	
Exporter	North	South
North	116,961 → 101,167 *(71% → 58%)*	341,321 → 228,687 *(74% → 41%)*
South	48,234 → 73,054 *(29% → 42%)*	122,391 → 330,781 *(26% → 59%)*

Source: WTO Secretariat calculations.
Note: Figures are the sum of the number of distinct six-digit Harmonized System (HS) product and destination pairs in which an economy is the top exporting partner of the importing economy among all exporting partners facing the MFN tariff from the importing economy. Percentages represent the share of principle suppliers from the "North"/"South". Green (orange) shading reflects a positive (negative) percentage change in principal supplier relationship between 1995 and 2024. "North" comprises economies classified by the World Bank as high-income on the basis of 1995 gross national income per capita; "South" comprises all other economies.

Second, differences in economic systems and government intervention have become more prominent. Industrial policies, subsidies and state involvement in markets are not new. What has changed is their scale, breadth and importance across economies. Discussions in the WTO's General Council, consisting of the entire WTO membership, concerning different economic systems and industrial policy were roughly ten times more frequent in 2020-25 than in 1995-2000. Over the past decade, investigating authorities have relied on an interface methodology - allowing the government to reject the use of an exporter's domestic sales prices in the determination of dumping on the grounds that a fair comparison with the export price cannot be established due to differences across economic systems - in more than one-quarter of anti-dumping investigations (see Figure 4).

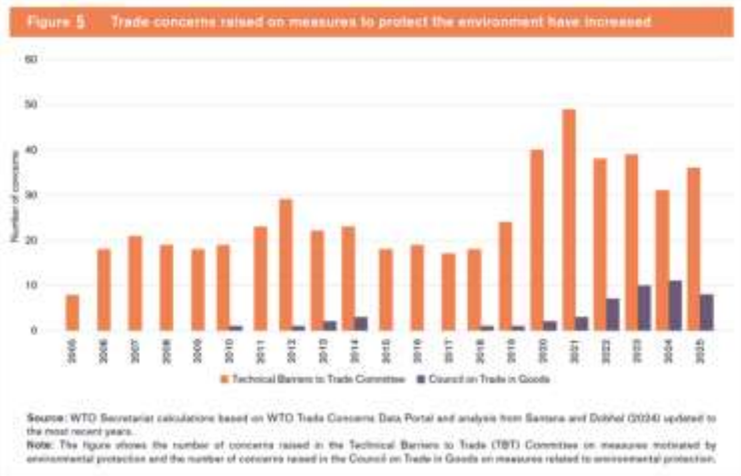
This raises what the report calls an "interface" problem. The WTO was never designed to require members to adopt the same economic model. Its task is instead to establish rules that allow different systems to coexist without one member's policies undermining the market-access commitments negotiated with another. Subsidy disciplines, state-trading rules, WTO accession commitments and trade remedies, such as anti-dumping, have long performed aspects of this function. But as government intervention becomes more economically significant, questions about transparency, cross-border spillovers and the adequacy of existing trade disciplines become correspondingly more important.



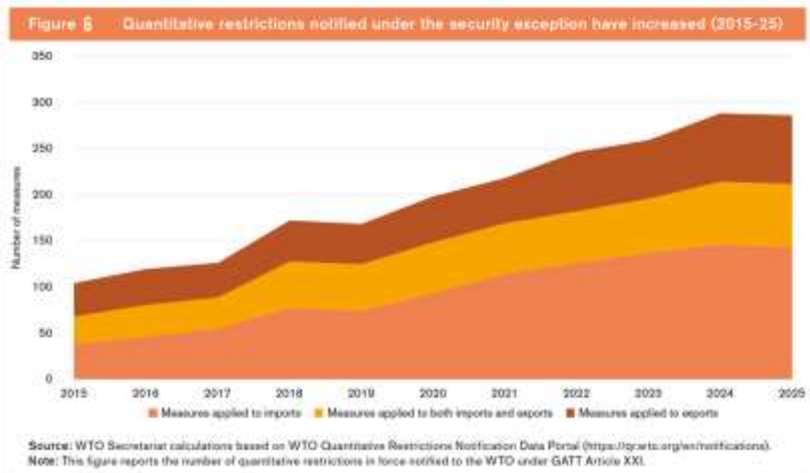
Third, the nature of trade itself has changed. GVCs mean that an import tariff or export restriction can propagate across production networks far beyond the immediate bilateral relationship. The effective protection received by an industry can therefore differ substantially from its statutory tariff. Firms and multinational production networks, rather than national economies considered in isolation, have become increasingly important organizing units of world trade.

Meanwhile, services, digital trade, artificial intelligence (AI) and environmental considerations are increasing the importance of policies operating behind the border. Privacy, cybersecurity, competition, AI governance, carbon pricing, environmental standards and subsidies can all serve legitimate policy objectives, but they may also impact trading partners. Cooperation therefore increasingly concerns the interaction between different regulatory regimes rather than simply the exchange of tariff concessions, as the growing number of trade concerns raised by members at the WTO on environment-related measures shows (see Figure 5).

The changing nature of trade makes international cooperation on trade matters intrinsically harder. Domestic regulation is closely connected to social preferences and non-trade policy objectives, and the cross-border effects are often more difficult to measure. Yet, deeper economic integration makes cooperation on these policies more necessary at precisely the point when it becomes more complicated.



Fourth, geopolitical rivalry and economic-security concerns are changing how governments view interdependence. Supply-chain concentration, the growing importance of critical technologies and inputs, national security and strategic dependence have become more prominent in trade policy (see Figure 6). WTO rules recognize governments' need for policy space in relation to national security but a measure taken by one government to reduce its own vulnerability can increase another government's perception of its vulnerability, prompting additional trade restrictions. The danger is a self-reinforcing movement from managed interdependence towards fragmentation.



The rules-based trading system needs to adapt

These challenges lead to what I see as the most important message of the report.

The challenges facing the WTO do not demonstrate that its underlying economic logic has ceased to apply. In many respects, the opposite is true. Greater interdependence between trading partners and larger cross-border policy spillovers increase the potential gains from cooperation.

But the mechanisms through which that cooperation has traditionally operated are under pressure. Trade bargains struck when the distribution of economic power was different need to function in a more multipolar economy. Rules need to manage the more significant consequences of interactions among different economic systems. Cooperation increasingly needs to deal with complex behind-the-border measures. Also, legitimate flexibility on national security needs to coexist with a credible rules-based framework.

The report deliberately does not prescribe how WTO members should answer these challenges. Those are choices for members. What economics can do is clarify the possible trade-offs and identify what is at stake.

The history of the multilateral trading system provides some reason for confidence. The system has repeatedly adjusted to changes in membership, economic power, technology and the nature of trade. Its endurance has never depended on keeping its rules and practices frozen in time.

The task now is therefore not simply to defend the system that existed in 1995. It is, as the report puts it, to repair what is broken, update what is outdated, preserve what works, and adapt cooperation to new realities.

The world trading system is at a critical juncture not because international cooperation matters less than it did before, but because today's much more integrated, diverse and multipolar global economy is asking more of it.

References

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