EXECUTIVE SUMMARY

Global trade policy and the WTO are experiencing the most serious and sustained disruptions since the multilateral trading system was created 80 years ago. While some of these disruptions reflect long-standing tensions, and some reflect more recent developments related to macroeconomic policies and gaps in domestic social systems, an important part comes from perceptions that WTO rules have not kept pace with rapidly changing global economic realities, and that they need to adapt. This has placed the world trading system at a critical juncture.

The central argument of this report is that the WTO's present challenges are, in many important respects, a consequence of the system's own achievements: it helped to create a more open, integrated and rules-based world economy, but also one in which trade policy plays a more important role, trade frictions are more complex, WTO membership is more diverse and economic power is more widely distributed. The WTO's founding logic continues to deliver important economic benefits, and the system continues to offer value. But its future effectiveness will now depend on its ability to adapt to the more integrated, multipolar and diverse global economy that it helped to bring into being.

Members concur that the WTO needs reform, yet they have struggled to reach agreement on how to update WTO rules on issues ranging from agriculture, services and development to concerns around transparency, subsidies and national security. Opportunities in digital and green trade have not yet been matched by new multilateral rules. The last comprehensive reform of the multilateral trading system, the Uruguay Round (1986-94), led to the creation of the WTO but preceded the widespread use of the internet, the subsequent spread of global value chains (GVCs) and major shifts in the distribution of economic power across members which have reshaped world trade.

The challenges in responding to current global circumstances are striking because the multilateral trading system has been one of the most successful frameworks of international economic cooperation in modern history. What began in 1947 as a modest tariff agreement among fewer than two dozen economies evolved into a near-universal World Trade Organization, which now counts 166 members, providing comprehensive trade rules for goods, services and intellectual property (IP), a widely used dispute settlement system and a forum where large and small economies can address shared trade concerns. Over time, the system has helped to support a sustained decline in trade barriers, an almost 50-fold expansion in global trade, and an unprecedented period of growth, development and income convergence across economies.

Moreover, despite the challenges faced by the WTO, its rules remain the essential legal foundation for international commerce. Around 72 per cent of all global merchandise trade still takes place on the core most-favoured-nation (MFN) tariff terms negotiated and committed to by the WTO's 166 members. In terms of further trade negotiations, WTO members recently reached an important agreement on reducing harmful fisheries subsidies. Groups of WTO members have also made significant advances in plurilateral arrangements covering areas such as electronic commerce, investment facilitation for development and services domestic regulation, as well as a number of environmental initiatives. In its daily work, the WTO continues to provide a framework in which WTO members can address shared concerns, resolve potential disagreements and reduce uncertainty. Dispute settlement continues to be used at the WTO, often creatively and successfully, despite certain limitations due to the suspension of the Appellate Body.

The aim of this report is to offer an economic perspective on how and why the system works, how it evolved and adapted to earlier challenges, what it has delivered, and where new challenges lie. While the report stops short of recommending specific reforms, it examines how changes in the global economy are disrupting some of the mechanisms on which the trading system has long relied, and it indicates areas where changes in the system may be needed.

The report first examines how the multilateral trading system developed and what it has delivered. It then identifies the mechanisms that have supported its effectiveness and considers how shifts in economic power across members, the increasing prominence of government interventions, differences across economic systems, changes in the nature of trade and geopolitical tensions are placing those mechanisms under strain. In doing so, it identifies where adaptation may now be most necessary and valuable.

The economic lens of the World Trade Report

Governments cooperate on trade policy for several reasons. They may want to collectively limit the cross-border effects of their trade measures, capture gains from policy coordination, or strengthen the credibility of their own policy commitments in order to reassure investors and manage domestic political-economy pressures. This report touches on each of these rationales, but focuses mainly on the first: the problem that arises when trade policies adopted by one government impose costs on others.

This problem is often described as the "terms-of-trade" rationale for trade cooperation. When a government raises a tariff or restricts imports, it may benefit some domestic producers and shift part of the cost onto foreign exporters. But if other governments respond in the same way, the result can be mutually damaging: trade contracts, uncertainty rises, exporters lose markets, consumers face higher prices, and all economies may end up worse off. In this sense, unilateral trade restrictions can create a prisoner's dilemma:[1] each government may have an incentive to protect its own market, but all governments can be better off if they cooperate to keep markets more open.

This lens helps to explain why the General Agreement on Tariffs and Trade (GATT), and later the WTO, took the institutional form that they did. At its core, the multilateral trading system provides a forum in which members can bargain over reciprocal, mutually beneficial market access commitments, extend those commitments through non-discrimination, secure them through binding rules, make them more predictable through transparency, and enforce them through dispute settlement.[2] The purpose is not to require every member to adopt free trade, but to help members to avoid beggar-thy-neighbour policies and to replace unilateral retaliation with negotiated, rules-based cooperation.

The multilateral trading system has delivered substantial gains, but not for all

The multilateral trading system has overseen a historic reduction in trade barriers. From an estimated average tariff among four major economies of around 22 per cent in 1947 before the first round of the GATT, industrial tariffs have fallen to low single digits in many economies. The average tariffs of members that acceded to the WTO have fallen by almost 35 per cent since 2000. MFN treatment and commitments to tariff ceilings have helped to reduce trade policy uncertainty significantly. The Uruguay Round increased the share of bound tariff lines of non-agricultural products from 78 to 99 per cent for developed economies and from 21 to 73 per cent for developing economies. Today, non-tariff measures (NTMs) have a greater impact on trade costs for most economies than tariffs do, and WTO agreements such as the Agreement on Technical Barriers to Trade (TBT) or the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures have ensured that NTMs are subject to increased transparency and more stringent rules.

Lower trade barriers and broader reforms during the WTO accession process have contributed to rapid trade and income growth and have thereby raised living standards. Empirical estimates suggest that membership in the WTO has increased trade between members by around 140 per cent (Larch et al., 2025). One study of WTO accessions finds that economies that made deeper commitments and undertook domestic reforms under their WTO accessions packages grew on average 1.5 percentage points faster than economies that underwent no such process (Brotto et al., 2024; WTO, 2024b). Real incomes have also increased as a result of the inflation-moderating effect of WTO membership, with evidence suggesting that around 85 per cent of WTO members experienced a decrease in relative consumer prices as a result of their membership (Yalcin, Larch and Yotov, 2022).

Since the mid-1990s, integration into international markets has helped to drive faster growth in low-income and middle-income economies, sharply reduced global poverty, and narrowed the income gap of low-income and middle-income economies with high-income economies for the first time since the Industrial Revolution. Trade cost reductions are estimated to have accounted for between one-fifth and one-third of this convergence between 1995 and 2023.

WTO membership has supported resilience, and has contributed to a reduction in inter-state conflict. The rules-based trading system, designed to prevent a repeat of the protectionist breakdown of the early 1930s, was put to the test during the global financial crisis of 2007-09 and the COVID-19 pandemic, and protectionism did indeed remain constrained. MFN treatment and tariff bindings, key components of the system, have helped to reduce trade policy uncertainty. One study estimated that the economic downturn during the global financial crisis increased import protection coverage by only 1 to 2 per cent of trade, as opposed to the 15 per cent that historic data had suggested (Bown and Crowley, 2013). International cooperation has also acted as a multiplier of the pacifying effect of trade. Research using WTO membership as an instrument for trade finds that WTO-facilitated trade has a significant peace-promoting effect (Aaronson, Abouharb and Wang, 2015; Huang and Li, 2024).

The WTO remains the key enabler of a global rules-based trading system. Over the past eight decades, the number of members first of the GATT and then of the WTO has increased from 23 to 166 economies, accounting today for around 98 per cent of global trade. An additional 22 economies are currently negotiating their WTO accession. As mentioned above, despite recent disruptions, around 72 per cent of global merchandise trade continues to cross borders under non-discriminatory MFN tariff terms negotiated and committed to by WTO members. This is a powerful reminder of the market-opening benefits and predictability that the system continues to deliver every day.

However, not all economies have shared equally in these gains. Least-developed countries (LDCs) still account for less than 1 per cent of world trade, and some commodity-dependent economies and those with a low level of participation in global trade have experienced limited improvements or fallen further behind. According to the WTO Trade Cost Index,[3] the trade costs of LDCs in manufacturing and services exceed those of high-income economies by 50 per cent. While domestic factors can explain a significant part of this disparity, barriers within the trading system also play a role. For instance, the effectiveness of preference schemes for LDCs is limited by complex eligibility criteria and uncertainty around renewal. The proliferation of NTMs brings about compliance and certification costs that place a disproportionate burden on small exporters, which are prevalent within LDCs. A growing concentration of trade flows reduces pathways to export-led growth.

Meanwhile, within developed economies, outcomes from trade-opening have been uneven across people and regions. Import competition, technological change and regional disparities have placed pressure on some workers and communities, leading to sustained income losses. Export opportunities have created new jobs, but often not for the same people or in the same places that were negatively affected.

An important lesson is that to sustain trade openness – and ensure that it delivers the desired outcomes – it needs to be accompanied by domestic policies that allow more people and places to participate in, adjust to and benefit from changing patterns of trade.

Avoiding a mutually destructive prisoner's dilemma

The market-opening achievements of the multilateral trading system and their durability are not accidental. Seen through the economic lens of this report, they are, in important part, the consequences of the institutional architecture of the GATT and the WTO, an architecture that was well-designed to address the basic problem described above: when a government restricts trade unilaterally, it often imposes costs that it does not fully take into account on trading partners. When this problem is left unaddressed, it results in too much trade protection from a global perspective.

A stylized example can help illustrate the point. If country A chooses its tariff on imports from country B to balance the benefits of the tariff with the costs imposed on its own economy but ignores the costs imposed on country B's exporters, A will naturally choose a higher tariff level than it would if it took into account the costs incurred by B's exporters. An analogous statement holds for country B and its tariff choice on imports from country A. When countries A and B make their tariff choices unilaterally, they have no reason to take the costs incurred by trading partners into account, so these higher tariffs will persist. Trade negotiations alter this status quo, because they provide an opportunity for each country to offer something of value to its trading partner in exchange for a tariff reduction from its trading partner, incentivizing its trading partner to reduce its tariff. Typically, what is offered by a country is a reciprocal tariff reduction of its own. Beginning from unilateral tariff choices, both countries can benefit from these reciprocal tariff reductions, which confirms that unilateral tariff choices result in "too much trade protection" from a global perspective.

This is not an assertion that any trade protection is necessarily too much, but rather that governments acting alone may not account for the full costs of their choices, and that this may lead them to adopt beggar-thy-neighbour policies that produce a mutually destructive prisoner's dilemma. The WTO helps to address this problem by providing a forum in which members can negotiate reciprocal trade-volume-expanding market access commitments, which they can then secure in law and enforce through common rules.

Seen in this light, the apparently mercantilist logic of trade negotiations, where imports are regarded as concessions and exports as gains, becomes easier to understand. Governments seek better access for their exporters not because they view imports as undesirable, but because exporters are often the domestic actors most directly harmed by foreign trade barriers. Exporters can therefore help to identify the foreign measures generating the most important claims of cross-border spillovers. The WTO's role is to channel these claims into mutually beneficial bargains that open up market access, instead of leaving them to be addressed through unilateral retaliation.

Notably, this role for the WTO does not rely on the economist's case for free trade. The logic implies that governments would be expected to negotiate a "reduction of tariffs and other barriers to trade" as stated in the Preamble of the Marrakesh Agreement Establishing the World Trade Organization. But the logic does not prescribe how open any particular economy should be; that depends on governments' circumstances and objectives.

The multilateral trading system's core principles created an effective bargaining forum for market access

From the initial GATT Round in 1947 through the Uruguay Round that led to the creation of the WTO in 1995, reciprocity has supplied the political and economic engine of this liberalizing process. By linking domestic market-opening to improved market access abroad, reciprocity made trade-opening more feasible at home and more balanced abroad.

Non-discrimination, especially through the most-favoured-nation (MFN) principle, has made this bargaining process manageable. Without MFN treatment, each tariff change could have different effects on each trading partner, multiplying the number of bargains needed by the number of products and of partners.[4] MFN treatment also preserves the value of bargains once they have been struck, as a concession obtained in one negotiation would be worth less if it could later be eroded by a more favourable discriminatory deal between other partners.

Binding commitments, transparency and dispute settlement supply the legal infrastructure for trade bargaining. Tariff bindings and schedules of commitments anchor market access outcomes and enhance predictability, while transparency regarding trade measures reduces information costs and uncertainty, and dispute settlement provides a rules-based means of restoring balance when members disagree.

MFN treatment also shapes the distribution of bargaining gains. By diffusing the benefits of tariff cuts across the membership, it limits the ability of the largest economies to capture disproportionate advantages through bargaining power alone and gives smaller economies stronger reasons to participate.

However, MFN treatment did introduce a potential problem: a "free-rider" incentive, under which potential bargaining partners might remain on the sidelines of negotiations in the hope of benefiting from the MFN tariff bargains of others. This problem was well understood long before the GATT was created, and various attempts to mitigate its effects on the success of tariff bargaining were employed across GATT rounds.

The economic logic described above extends beyond tariffs. By design, tariffs played the leading role in the early GATT rounds of market access negotiations, since members were expected to convert their trade protection into tariffs and offer market access concessions through tariff bindings. But over time, as tariff barriers declined, the value of negotiated market access increasingly depended on domestic regulations, standards, subsidies and other behind-the-border measures. This brought issues such as national treatment, technical regulations, SPS standards and subsidies closer to the centre of the trading system.

This evolution changed the trade governance challenge: it became not just about opening markets, but also about preserving negotiated trading opportunities while maintaining policy space for legitimate domestic objectives like consumer health and safety. The economic logic also extends to services trade commitments, where behind-the-border measures are the primary determinant of trading opportunities rather than tariffs.

The multilateral trading system is far from perfect. Nevertheless, its principles generated a self-reinforcing dynamic: reciprocity creates incentives to open markets; MFN simplifies bargaining, generalizes gains and constrains power-based discrimination; binding rules make concessions durable; and transparency and dispute settlement sustain confidence among trading partners. As trade-led growth increased, more economies had an incentive to join. As membership widened, the system became more valuable. As its value increased, members had stronger reasons to deepen cooperation.

This dynamic has produced the web of tariff bindings and market access commitments that support the global economy today.

Beyond market access, the multilateral trading system also fosters coordination gains, predictability and institutional credibility

The value of the WTO extends further still. WTO agreements address broader coordination problems in an integrated global economy, reduce uncertainty, support regulatory cooperation and help to avoid unnecessary regulatory divergence.

This broader role is particularly important in areas such as services and IP. In services trade, firms often incur large sunk costs when entering foreign markets, and depend heavily on stable and predictable regulatory conditions. The value of the WTO's General Agreement on Trade in Services (GATS) therefore lies not only in helping members to limit discrimination and take account of cross-border policy spillovers, but also in helping them to create credible expectations about future policy conditions. The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) establishes minimum standards of IP protection across WTO members, reducing uncertainty for firms engaged in innovation, technology licensing and cross-border investment. By strengthening predictability and trust, these agreements support trade, investment and participation in GVCs.

Flexibility has helped to sustain cooperation, but it has also created trade-offs

The multilateral trading system was never meant to be rigid. Its rules include flexibilities to preserve cooperation under stress and to accommodate different capacities, development needs and political constraints. Safeguards, trade remedies, waivers, renegotiation provisions, regional trade agreements (RTAs) and special and differential treatment (S&DT) all serve this purpose in different ways. They allow members to adjust without abandoning the system, and recognize that members differ in their capacities and development needs.

At the same time, the WTO provides a common foundation that helps to limit fragmentation as cooperation develops through different channels. This is exemplified in the more than 380 RTAs notified to the WTO, all of which are shaped by the WTO rules that define the conditions under which exceptions to MFN treatment are granted for the purpose of forming free trade areas and customs unions.

However, flexibility entails trade-offs. Trade remedies, such as anti-dumping measures, can raise prices and divert trade. RTAs and narrower "targeted trade deals" (sectoral or otherwise limited trade agreements that are often focused on addressing non-tariff barriers through soft law provisions) in areas such as digital trade and critical minerals can support deeper cooperation by serving as a laboratory for rules that go beyond the WTO, but risk contributing to fragmentation. S&DT remains essential, but exemptions disconnected from trade capacity or need can weaken predictability and reciprocal bargaining.

The central question is how to ensure that, rather than substituting for multilateral disciplines, flexibility enhances participation and helps members to engage more fully in bargaining, transparency and implementation of trade agreements.

The WTO's day-to-day work remains central to cooperation among its members

The value of the WTO is not limited to what is achieved in major negotiating rounds. Much of its work is less visible but just as essential: negotiating where convergence is possible, promoting dialogue, sharing information, monitoring policies and settling disputes.

Although the Doha Round was not concluded as a single undertaking, members have continued to use the WTO as a platform for negotiations and rule-making. The Trade Facilitation Agreement (TFA), which entered into force in 2017, and the Agreement on Fisheries Subsidies, as well as the Joint Initiative on Services Domestic Regulation and other plurilateral initiatives, show that members can use WTO structures creatively to negotiate and implement new disciplines.

Members also use the WTO to discuss how to respond to global crises and to resolve trade frictions before they escalate. General Council deliberations among WTO members and specific trade concerns raised in WTO committees show the value of the WTO as a forum for clarification, practical problem-solving, and crisis management.

Transparency is central to this role. Notification requirements reduce uncertainty and help members to understand one another's policies, but despite progress in some areas, the rates, timeliness and quality of notifications remain uneven, which increases bargaining difficulties and reduces trust. For example, the lack of transparency surrounding subsidies continues to hamper efforts to assess the scale and effects of government support. Between 2015 and 2024, only 59 per cent of WTO members submitted the required subsidy notifications to the WTO's Subsidies and Countervailing Measures (SCM) Committee, and 77 per cent of those notifications were late, with delays averaging more than one year.

Dispute settlement is another core function of the WTO. As designed, the system offers multiple paths to dispute resolution, ranging from consultations among WTO members to negotiated solutions to panel adjudication and appellate review. Since 1995, members have initiated hundreds of consultation requests, and participation has been broad, with many members initiating disputes or appearing as third parties. However, since mid-2017, members have been unable to agree on new Appellate Body appointments, amid concerns by some about overreach of Appellate Body decisions and delays in issuing findings. As of December 2019, the Appellate Body no longer has the quorum to function, leaving panel reports open to appeals by members "into the void" that prevent adoption of the reports and therefore affect the certainty provided by the system.

Although the Appellate Body impasse has weakened enforcement, dispute settlement has not stopped functioning. Panel proceedings continue, many disputes are settled, and interim arrangements for resolving disputes have emerged among some members. Since December 2019, parties have resolved about half of the disputes, without appealing into the void. In particular, the rate of mutually agreed solutions has increased almost threefold when compared to the previous decade, showing that members are resolving their own disputes while continuing to seek a permanent solution to the impasse of the Appellate Body.

Allowing the system to erode would entail significant global economic costs

One of the WTO's greatest contributions has been preventing mutually damaging trade conflict. The system makes trade policy more predictable, constrains escalation in disputes and helps protect smaller economies from the full force of unilateral trade measures and power-based bargaining.

This report provides new evidence that a reversion to unilateral trade policy would impose large costs. According to recent simulations by WTO economists, published in this report, global GDP would fall by 5.1 per cent and global exports by 18.6 per cent in a "geo-fragmented world" scenario, in which the multilateral trading system splits into geopolitically aligned blocs. In an "FTA world" scenario, in which multilateral cooperation is replaced by a network of free trade agreements (FTAs) and the WTO no longer operates at all, global GDP would fall by 6.9 per cent and global exports by 26.9 per cent. Meanwhile, an "enhanced cooperation world" scenario, in which multilateral trade cooperation is reinforced, could raise global GDP by 2.9 per cent and global exports by 17.9 per cent. This implies that the gap between strengthened multilateral cooperation and erosion of the WTO is equivalent to roughly 5 to 10 per cent of global real GDP, depending on the scenario.

This report also describes simulations on the value of core WTO principles. MFN-based cooperation outperforms fragmented or discriminatory tariff bargaining, and the disciplines of GATT Article XXIV ("Territorial Application – Frontier Traffic – Customs Unions and Free-trade Areas") help to ensure that RTAs complement rather than undermine the multilateral system.

The costs of multilateral trade erosion would not be evenly distributed. Smaller and poorer economies would be especially vulnerable in a world of discriminatory deals and unilateral measures, losing more than three times as much as the high-income economies in a world with geopolitical frictions. Fragmentation would also make it harder to address inherently multilateral problems, including environmental issues, digital governance, supply-chain resilience and macroeconomic spillovers.

Preserving the WTO does not mean preserving the status quo. The choice for members is not between reform and continuity. It is between adapting rules-based cooperation to today's global economy or drifting toward less predictable, less inclusive and more power-based forms of trade governance that would likely leave most, if not all, worse off.

Developments that challenge the system

Four developments have rendered WTO cooperation among members more difficult. These are shifting economic power, the increasing prominence of government interventions and "interface" problems (i.e., challenges arising from economic and regulatory system differences within a single rules-based system), changes in the nature of trade, and geopolitical tensions. For each of these developments, the report asks why the challenge strains the system, how the system has tried to keep pace, and what is at stake if it falls short.

An increasingly dispersed distribution of economic power is straining old bargains and creating opportunities for new ones

The first challenge is an increasingly dispersed distribution of economic power. Since 1995, low and middle-income economies' share of global merchandise trade has nearly doubled and now accounts for 45 per cent of trade. A broader and more diverse membership is therefore extending the potential for cross-border spillovers created by trade policy. This shift has opened a gap between current market realities and the tariff commitments established during the Uruguay Round. At the same time, it has created new opportunities for reciprocal tariff bargaining, both between developed and developing economies and among developing economies.

However, capturing these potential bargaining gains, especially those related to bargaining between developed and developing economies, poses challenges. Developed economies made substantial tariff reductions in earlier GATT rounds and therefore often have relatively little additional market access to offer, while some large developing economies retained higher tariff bindings and greater policy space even as their share of global trade and market power grew. This does not mean that further reciprocal MFN market-opening between these economies is impossible, but some potential new bargains could be hampered unless existing commitments could be recalibrated, so that rights, obligations and the distribution of market power are better aligned with current realities.

The issue of development has also become more complex than it was when the WTO was created. Developing-economy members now range from LDCs with limited capacity to globally competitive economies with substantial market power. S&DT remains essential, but flexibilities disconnected from capacity or market power can complicate balanced agreements.

The growing prominence of government interventions raises "interface" problems and concerns about ensuring a level playing field

A second challenge facing the WTO is the growing diversity in the degree and form of government involvement in markets. The WTO does not require members to adopt the same economic model; its pragmatic approach is to seek "interface" rules necessary for different economic systems to coexist without allowing subsidies, state trading or other public intervention to undermine negotiated market access commitments.

The interface issue is not new. The GATT and the WTO have long used accession commitments, subsidy disciplines, state-trading rules and transparency obligations to manage differences among economies.[5] What has changed is the scale and importance of the issue. In practice, industrial policies, such as subsidies and public intervention, now occur across a much wider range of economies. Reflecting this change, discussions over interface-related issues have increased significantly in recent years.

Anti-dumping measures illustrate this trend. Among a sample of economies accounting for almost two-thirds of anti-dumping measures imposed over the past decade, the share of measures using an "interface methodology" to determine dumping and level the playing field in their own economies (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) rose from around one-quarter in 2015 to more than one-third a decade later.

There are, however, fewer instruments to address the interface problem when it arises in export markets, and when subsidies by other members distort competition in export markets, the options for levelling the playing field are confined largely to the WTO's dispute settlement procedure. Moreover, transparency on subsidies remains a challenge, as notification gaps exist for both domestic support in agriculture and industrial subsidies.

The cost of unresolved level-playing-field concerns is systemic,[6] as such concerns may affect confidence that the rules maintain the balance of negotiated commitments while preserving legitimate policy space. Where members consider that existing disciplines or remedies do not adequately address perceived spillovers, there is a risk that responses will shift towards unilateral measures or fragmented approaches. Greater transparency, clearer analytical distinctions and continued pragmatic rules-based cooperation can help to manage that risk.

The changing nature of trade is creating new cross-border spillovers

A third challenge facing the WTO is that trade itself is changing. GVCs, digitalization, artificial intelligence (AI) and environmental policies are altering what is traded, how it is traded and how policy spillovers move across borders. These changes make WTO cooperation both more complex and more necessary.

While fostering technology transfer and growth, GVCs have deepened production interdependence. Goods, services, and intangible inputs move through complex networks, so tariffs or export restrictions can affect firms and inputs far beyond immediate trading partners. Relationship-specific investments can also create vulnerabilities for investors that traditional market-access rules may not fully address.

Digital technologies and AI have the potential to raise productivity, stimulate innovation and reduce trade barriers. WTO simulations project that AI could increase global trade by 40 per cent by 2040, with the largest gains concentrated in digitally deliverable services, and that it could add more than 13 per cent to global GDP over the next 15 years. By reducing the cost of trading services across the board, digital trade has opened new opportunities for trade-led growth. In 2025, trade in commercial services reached an estimated 27.6 per cent share of total global trade, reflecting in particular the rapid expansion of digitally delivered services, which grew by 10 per cent in 2025 alone.

The rising importance of services trade, with non-tariff measures and behind-the-border measures currently the primary determinant of trading opportunities, introduces challenges in negotiating market access under the GATS that were not present with the GATT. Divergent approaches to privacy, cybersecurity, competition and AI governance can increase trade costs and generate interoperability, accountability and strategic issues, creating new kinds of cross-border policy spillovers.

Environmental policies can also generate new spillovers. Carbon pricing, regulations, standards, subsidies and border adjustment measures can interact with WTO non-discrimination principles, alter the balance of market access commitments and affect the diffusion of clean technologies. The challenge is to support the environmental transition while preserving openness, predictability and cooperation by combining trade with environmental and complementary domestic policies.

Across these areas, the common challenge is that the policy measures shaping trade increasingly lie behind borders. Cooperation over regulation, standards, data, subsidies, security and environmental measures that generate cross-border spillovers is inherently more complex than tariff bargaining, particularly within a diverse membership. Yet the growing reach of these cross-border spillovers also makes multilateral cooperation more, rather than less, necessary.

Geopolitical tensions are increasing pressure on rules-based cooperation

A fourth challenge facing the WTO is rising geopolitical tension, which has altered the perceived balance between the benefits and risks of interdependence. Concerns about supply-chain concentration, technological rivalry and national and economic security have led governments to reduce import dependence, limit technology flows and restrict investment.

WTO rules provide flexibility for national security measures. But when security rationales expand across sectors and instruments, clarifying the boundary between legitimate policy space and unilateral decision-making becomes more challenging and more consequential. As with other trade policy spillovers, measures taken by one government to reduce vulnerability can increase the perceived vulnerability of others, creating risks of mutually reinforcing restrictions.

A more multipolar global economy makes this challenge more acute. A system designed to facilitate integration must now also manage sharper rivalry among incumbent and emerging powers. Geopolitical rivalry does not negate the basic rationale for multilateral cooperation. Indeed, if major economies turn away from rules-based cooperation, smaller economies will face a less predictable environment, cooperation on global challenges will become harder, and all economies may ultimately suffer.

The WTO must adapt to the world economy it helped create

The WTO's current challenges are not a reason for members to abandon its founding principles. They are a reason to renew the manner in which those principles are applied. The multilateral trading system has helped members manage cross-border spillovers, move trade relations from power toward rules, and make openness more reciprocal, predictable and enforceable.

These purposes are more relevant today, not less. Recent experience shows that the WTO continues to provide important value to its members. But the adaptation of its rules, commitments and practices has not matched the scale and speed of change in the world economy.

The future of the trading system will depend on members' ability to repair what is broken, update what is outdated, preserve what works, and adapt cooperation to new policy spillovers. The WTO has faced moments of strain before, and its history shows that the system has endured not by standing still, but by renewing the rules, commitments and practices through which its core principles are applied.

This report aims to support that task by explaining how the multilateral trading system works, what it has delivered, where its operation has become harder to sustain, and where adaptation may now be most needed and most valuable.

The world economy that the WTO helped to create does not weaken the case for rules-based cooperation; it makes renewal of that cooperation more urgent.

Endnotes

1 The prisoner's dilemma is a concept from game theory: two parties, each acting in their own self-interest, produce a worse outcome for both than if they had cooperated. In trade, "beggar-thy-neighbour" policies refer to policies (such as tariffs or currency devaluation) that benefit one economy at the direct expense of others, prompting retaliation and leaving all economies worse off.

2 This report's primary focus on the role of the GATT and WTO as a forum for negotiating and enforcing market access commitments does not extend to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which is not a market access agreement, and the value of which therefore requires a different economic interpretation.

3 See http://tradecosts.wto.org/.

4 Beyond the difficulties for tariff bargaining that arise in the absence of MFN treatment, there are the additional considerations – also discussed in this report – of complexity that discriminatory tariffs introduce for the governments that must administer these tariffs and the firms that must navigate them – complexity that can create additional costs in terms of lost income and diminished consumer choice.

5 For example, when Poland joined the GATT in 1967, its non-market economy status was not in question. Accordingly, rather than committing to bind its tariffs, the heart of Poland's market access commitments in its protocol of accession came in the form of a commitment to grow the total value of its imports from GATT members at a pre-specified annual rate.

6 The term level playing field is used in the Report without prejudice to the scope and content of members' discussions on level-playing field issues in the context of WTO reform. Members vary in their definitions of what is included in the scope of the term.