

WTO AND THE FUTURE OF MULTILATERAL TRADE – ECONOMY

The escalation of unilateral tariff measures by the US has renewed global discussions on the efficacy and future of the World Trade Organization (WTO), raising concerns over the diminishing role of the multilateral trading system in addressing trade disputes and ensuring fair competition.

WTO

Establishment and Origin

The World Trade Organization (WTO) was formally established in 1995 under the Marrakesh Agreement (1994), marking the culmination of the Uruguay Round of negotiations (1986–1994). It succeeded the General Agreement on Tariffs and Trade (GATT), which had regulated world trade since 1947.

Headquarters and Membership

Headquartered in Geneva, Switzerland, the WTO has 166 members accounting for nearly 98% of global trade, making it the most comprehensive multilateral trade body in existence.

Scope of Coverage

Unlike GATT which dealt only with goods, the WTO regulates trade in goods, services, and intellectual property rights, thereby covering a much wider spectrum of global commerce.

India's Participation

India has been a WTO member since January 1995, while it was a founding member of GATT in July 1948, giving it a long history of involvement in the multilateral trading system.

Key Agreements– Major agreements under the WTO framework include

1. TRIMS (Trade-Related Investment Measures) – regulates investment-linked trade practices.
2. TRIPS (Trade-Related Aspects of Intellectual Property Rights) – sets minimum standards for IP protection.
3. AoA (Agreement on Agriculture) – addresses farm subsidies, tariffs, and food security measures.

Role of WTO in Shaping Global Trade Dynamics

Rule-Making & Negotiation Platform

Provides a global multilateral forum where members negotiate and update trade rules (e.g., the Trade Facilitation Agreement, 2013, aimed at reducing customs delays and enhancing efficiency).

Trade Liberalization & Predictability

Encourages tariff reduction and non-tariff barrier removal, upholds the Most-Favored-Nation (MFN) principle, and promotes a stable, rules-based trading environment, ensuring predictability for businesses and investors.

Transparency & Monitoring

Ensures accountability through Trade Policy Reviews (TPR) and mandatory notifications of subsidies, tariffs, and regulations, thereby discouraging hidden protectionism and unfair practices.

Capacity Building & Technical Assistance

Helps developing and least-developed countries (LDCs) integrate into the global trade system through programs like Aid-for-Trade and technical assistance for trade policy and regulatory compliance.

Balancing Trade & Development Goals

Seeks to reconcile free trade with global development priorities, such as sustainable development, food security, and climate goals (e.g., fisheries subsidies reform aligned with SDG 14: Life Below Water).

Preventing Protectionism & Promoting Cooperation

Acts as a referee in global trade disputes and helps prevent unilateral escalation of trade wars. For instance, during the Covid-19 pandemic, it monitored export restrictions on vaccines and medical supplies to promote cooperation.

Factors Limiting WTO's Effectiveness

Dispute Settlement Paralysis

The WTO's Appellate Body has been dysfunctional since 2019, as the US blocked appointment of judges (accusing judicial activism). This crisis has led to "appeals into the void," undermining the credibility of the system.

Negotiation Deadlock

The Doha Development Round (2001), intended to make trade fairer for developing nations, collapsed due to irreconcilable differences over agriculture subsidies and market access, exposing a deep North-South divide.

Rise of Regional Trade Agreements

The proliferation of FTAs, bilateral pacts, and regional blocs like the EU, ASEAN, and RCEP has fragmented the global trading system, sidelining the WTO's multilateral vision.

Rise of Protectionism

Increasing reliance on Article XXI (security exception) of GATT to justify unilateral tariffs (e.g., US-China trade war) weakens respect for WTO rules and encourages tit-for-tat protectionism.

Geopolitical Tensions

Major conflicts like US-China tensions and the Russia-Ukraine war have further eroded trust in WTO as a neutral arbitrator of trade disputes.

Gaps in Addressing Emerging Trade Issues

The WTO is struggling to keep pace with new-age trade dimensions such as digital trade, cross-border data flows, e-commerce, and green technologies. For instance, the 1998 moratorium on e-commerce duties remains temporary, with no permanent framework in sight.

Development Disparities & Self-Designation Issues

The Special and Differential Treatment (S&DT) principle allows developing nations policy space. However, the absence of a clear definition of "developing country" has allowed advanced economies like China to self-designate, creating friction.

Crucial Reforms for Strengthening the WTO

Revitalize Dispute Settlement

Restore the credibility of the Appellate Body by addressing US concerns, ensuring strict timelines for decisions, and respecting domestic policy sovereignty.

Rebuilding Trust through Transparency

Strengthen the Trade Policy Review Mechanism (TPRM) to assess not just national policies but also their cross-border spillover effects, ensuring better trust among members.

Partnership with Other Institutions

Forge deeper cooperation with IMF, World Bank, UNCTAD, and climate bodies to align trade policies with financial stability, development, and environmental sustainability.

Institutionalizing Reform Mechanisms

Establish a WTO Reform Council with rotating leadership to ensure reform continuity, rather than relying only on Ministerial Conferences.

Towards Equitable Globalization

Update rules to address digital trade, industrial policy, cross-border data flows, and climate-linked subsidies, ensuring WTO remains relevant in the 21st-century economy.

India's Role in Strengthening Multilateral Trade Governance

Champion of the Global South

India can represent the interests of developing and LDCs, particularly on issues like food security, farm subsidies, and equitable market access, ensuring the Doha Development Agenda's spirit is preserved.

Balancing Protectionism and Liberalization

India can advocate for calibrated liberalization that considers domestic developmental needs while resisting unilateral tariff hikes and protectionist pressures from major economies.

Promoter of Sustainable and Inclusive Trade

India can link trade with the Sustainable Development Goals (SDGs) by resisting green protectionism (e.g., EU's Carbon Border Adjustment Mechanism) and promoting initiatives like Mission LiFE and its leadership in renewable energy.

Showcasing as a Model Economy

With its Production Linked Incentive (PLI) schemes, digital innovation (UPI, Aadhaar stack), and services sector dominance, India can position itself as an example of balancing domestic development with global integration.

Multilateralism

Multilateralism refers to a system of cooperation involving three or more states working together to manage common issues, guided by shared rules and institutions.

Key Features

Rule-Based Order

Agreements like WTO rules create predictability and fairness.

Inclusivity

Brings together developed, developing, and least-developed nations in a single framework.

Shared Responsibility

Encourages collective burden-sharing for global challenges such as climate change, pandemics, and terrorism.

Provision of Global Public Goods

Facilitates cooperation on oceans, cyberspace, financial stability, and environmental sustainability.

Examples

1. Political & Security: United Nations (UN).
2. Economic: WTO, IMF, World Bank.

3. Climate & Environment: Paris Agreement on climate change.
4. Importance: Provides stability, predictability, and fairness in global systems like trade, shipping, air travel, and digital communication, preventing disorder and unilateralism.

Conclusion

Multilateral trade frameworks continue to be the cornerstone of global economic stability, ensuring cooperation, predictability, and inclusive growth. Despite challenges, the WTO remains irreplaceable as the most comprehensive rules-based trade body. With timely reforms, stronger cooperation, and renewed trust-building, the WTO can adapt to new-age trade realities such as digitalization and climate-linked trade and reassert itself as the anchor of multilateralism in global trade governance.

Source: <https://www.financialexpress.com/policy/economy-why-the-world-still-needs-a-multilateral-trade-regime-3944790/>

