5. Global Trading System- International Relation

Recently, the head of the World Trade Organization agreed with U.S. calls for reforming the global trading system, noting it is resilient but not robust

Evolution of the Global Trading System

The modern global trading system emerged after the Second World War to prevent protectionism and economic nationalism that had contributed to global instability during the interwar period. The General Agreement on Tariffs and Trade (GATT), established in 1947, laid the foundation for reducing tariffs and promoting rule-based trade.

In 1995, the World Trade Organization (WTO) replaced GATT as the institutional framework governing global trade. The WTO expanded the scope of trade governance beyond goods to include services, intellectual property, and dispute settlement mechanisms.

Role and Functions of the WTO

The WTO is the only multilateral institution that establishes binding rules for international trade among its member countries. It seeks to ensure that trade flows smoothly, predictably, and with minimal distortions.

Its primary functions include-

1. Administering trade agreements negotiated by member states
2. Serving as a platform for trade negotiations
3. Settling trade disputes between members
4. Monitoring national trade policies
5. Providing technical assistance to developing countries

WTO decisions are taken collectively by member governments through ministerial conferences and permanent representatives in Geneva.

The organisation operates on principles such as-

1. Most Favoured Nation (MFN) treatment
2. National Treatment
3. Transparency
4. Non-discrimination

Emerging Challenges to the Global Trading System

Rising Protectionism

1. Increasing use of tariffs, quotas, export controls, and industrial subsidies has weakened the liberal trade order.
2. Major economies are adopting domestic industrial policies prioritising strategic sectors such as semiconductors, clean energy, and defence.
3. Protectionist measures disrupt global value chains and reduce market efficiency.

Geopolitical Rivalries

1. Strategic competition among major powers has intensified, leading to trade wars and economic decoupling.
2. Sanctions, technology restrictions, and supply chain realignments have introduced uncertainty into global markets.
3. Trade is increasingly being used as a geopolitical instrument rather than purely an economic exchange mechanism.

Agricultural Disputes

1. Developed countries provide substantial subsidies to their agricultural sectors.
2. These subsidies distort global agricultural markets by artificially lowering export prices.
3. Developing countries argue that such practices undermine their farmers and violate the spirit of fair competition.
4. Negotiations under the Agreement on Agriculture have faced prolonged deadlock.

Dispute Settlement Crisis

1. The WTO's Appellate Body, which is central to its dispute resolution mechanism, has remained non-functional since 2019 due to the absence of appointed members.
2. This has weakened rule enforcement and reduced predictability in global trade.
3. Without a binding dispute resolution system, unilateral trade actions are more likely to increase.

Digital Trade and Climate Issues

The rise of e-commerce and digital services has created regulatory challenges concerning-

1. Cross-border data flows
2. Data localisation requirements
3. Digital taxation
4. Cybersecurity standards

There is no comprehensive global consensus on digital trade governance. Climate-related trade measures, such as carbon border adjustment mechanisms, are generating new tensions. Developing countries express concerns that climate-linked trade measures may function as disguised protectionism.

Structural Shifts in Global Trade

1. The global trading system is gradually shifting from liberal multilateralism toward a more fragmented and regionally aligned structure.
2. Bilateral and regional trade agreements are gaining prominence over multilateral negotiations.
3. Trade is increasingly intertwined with national security, industrial policy, and strategic autonomy.
4. This shift reflects a movement toward mercantilist approaches where trade policy is used to advance national power.

Suggested Reforms for the WTO

Restore Dispute Settlement Mechanism- Reactivate the Appellate Body to restore confidence in rule-based enforcement. Reform procedural aspects to address concerns about judicial overreach.

Update Trade Rules

1. Develop comprehensive frameworks for digital trade, services, and data governance.
2. Incorporate sustainability and environmental standards within trade agreements.
3. Address emerging issues such as artificial intelligence and digital infrastructure.

Strengthen Developing Country Participation

1. Enhance the negotiating capacity of developing countries.
2. Ensure fair agricultural trade reforms that address subsidy distortions.
3. Provide flexibility for policy space in climate and development transitions.

Promote Supply Chain Resilience- Encourage diversification of sourcing to reduce excessive dependency on single countries. Strengthen regional trade cooperation while preserving multilateral principles.

Align Trade and Climate Policy

1. Promote trade in green technologies and renewable energy equipment.
2. Ensure climate-linked trade measures are transparent and non-discriminatory.
3. Support technology transfer and climate finance for developing countries.

India's Strategic Position

India must support WTO reforms to preserve a rules-based multilateral trading system.
At the same time, it must safeguard the interests of-

1. Farmers
2. Micro, Small and Medium Enterprises (MSMEs)
3. Domestic manufacturing sectors

India has emerging strengths in-

1. Digital infrastructure
2. Information technology services
3. Renewable energy manufacturing
4. Pharmaceutical exports

To remain competitive, India must-

1. Strengthen domestic institutions
2. Improve logistics and infrastructure
3. Enhance social cohesion
4. Increase public investment in human capital

Conclusion

The global trading system is undergoing a structural transition marked by rising protectionism, geopolitical rivalry, and institutional challenges within the WTO. The weakening of dispute settlement mechanisms and the absence of consensus on digital and climate trade issues risk fragmenting global commerce.

Urgent reforms are required to restore credibility, inclusiveness, and predictability to the multilateral trading order. A reformed WTO must adapt to new economic realities while preserving its foundational principles.

For India, active engagement in WTO reform, combined with domestic institutional strengthening and strategic economic positioning, is essential to navigate and shape the evolving global trade landscape.

Source- [https-//ddnews.gov.in/en/wto-chief-calls-for-reform-of-global-trading-system/](https://ddnews.gov.in/en/wto-chief-calls-for-reform-of-global-trading-system/)