

The WTO's Crisis

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The WTO's Crisis: From Rule-Based Trade to Political Power Struggles

Context:

The **World Trade Organization (WTO)** is currently facing significant challenges, with its **Appellate Body (AB)** being non-operational since 2019. This has sparked concern about the WTO's ability to effectively resolve trade disputes, impacting its credibility and relevance in global trade. The **U.S.-China tensions**, along with increasing political dynamics, have highlighted the WTO's declining influence and have raised questions about its future role in the global trading system.

Key Points of the WTO's Decline:

1. Origins of the Decline

- The **U.S.** started blocking appointments to the **Appellate Body (AB)** during **Obama's presidency**, and the situation worsened under **Trump** and continues under **Biden**.
- While **dispute panels** still operate, countries often **stall decisions** by appealing to the non-functional AB.
- The real issue is not just the Appellate Body's dysfunction but the **WTO's broader decline** in relevance.

2. Early Successes of the WTO

- The WTO, established in 1995, succeeded **GATT**, moving from **voluntary** to **legally binding** trade agreements.
- It extended its scope beyond goods to include **services (GATS)** and **intellectual property (TRIPS)**, aiming for a **harmonized global trade system**.
- The **two-tier dispute settlement system** was a significant innovation, ensuring **fair and impartial trade resolutions**.
- Early successes, such as resolving trade disputes and establishing agreements like the **Information Technology Agreement**, helped stabilize global trade.

3. Factors Leading to Decline

- **China's Rise:** China's entry into the WTO in 2001, expected to adopt free-market policies, instead maintained state-led industrial practices, leading to **disillusionment**.
- **U.S. Response:** The U.S. began imposing **tariffs** (e.g., 25% tariff on Chinese goods in 2018), bypassing WTO rules.

- **Blocking Appellate Body Appointments:** Since 2019, the U.S. has blocked the appointment of new members to the AB, rendering it **non-operational**.

4. Shift from Legalism to Politics

- The decline of the Appellate Body reflects a **shift from legal-based trade governance** to more **politically driven** actions.
- This trend, known as the “**GATTification**” of the WTO, suggests a return to **diplomacy-based trade** and **weakened international legal frameworks**.
- The U.S. and other nations seek to **reshape global trade relations** outside of the WTO’s legal processes.

5. Implications for Global Trade

- Without a functional dispute resolution system, **trade rules** will be enforced through **political power** rather than legal rulings.
- This could lead to **more trade wars** and **economic fragmentation**.
- The rise of **regional and bilateral trade agreements** may **exclude smaller nations**, creating **inequalities** in global trade.
- The shift back to a **GATT-like system** raises doubts about the **future of multilateral trade governance**.

Conclusion

The WTO’s failure to restore its dispute settlement system by 2024 signals an **existential crisis** for the organization. The primary cause is the **geopolitical tensions**, particularly the **U.S.-China rivalry**, which is shifting global trade away from a **rule-based system** to a more **politically driven** approach. The WTO’s decline could mark a significant **reversal of its founding principles**, leaving its future uncertain in an increasingly fragmented global trade environment.

