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CRISIS IN THE MULTILATERAL TRADING SYSTEM: INSTITUTIONAL PARALYSIS, GEOPOLITICAL CONFLICT, AND THE FUTURE OF GLOBAL TRADE GOVERNANCE

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Abstract

The contemporary global trading system is undergoing a profound structural crisis marked by institutional paralysis, geopolitical tensions, and supply chain disruptions. The weakening of the dispute settlement mechanism of the World Trade Organization particularly following the suspension of its Appellate Body since 2019 has raised serious concerns about the viability of a rules-based multilateral trading order. While existing scholarship has examined the evolution of the General Agreement on Tariffs and Trade and the institutional framework of the WTO, there remains a lack of integrated analysis connecting legal institutional breakdown with emerging geopolitical realities.

This paper adopts a doctrinal and analytical methodology, complemented by a case study of strategic trade chokepoints such as the Strait of Hormuz, to examine how geopolitical conflicts increasingly shape global trade flows and energy security. It argues that the current crisis reflects a transition from a rule-based to a power-oriented trade order, driven by state-centric strategic interests and the erosion of multilateral commitments.

The paper contributes to existing literature by bridging international trade law with geopolitical analysis, particularly in the context of energy disruptions affecting developing economies like India. It concludes by advocating for urgent institutional reforms within the WTO framework, alongside the exploration of flexible and hybrid governance models capable of addressing contemporary trade challenges.

Keywords

World Trade Organization (WTO)
Appellate Body Crisis
General Agreement on Tariffs and Trade (GATT)
Global Trade Governance
Geopolitics
Supply Chain Disruption
Energy Security

Literature Review

The crisis of the contemporary multilateral trading system, particularly the weakening of the World Trade Organization, has been widely examined in academic literature, though often through fragmented analytical lenses. Early scholarship focused on the evolution of the General Agreement on Tariffs and Trade and its transition into the WTO, emphasizing the shift from a diplomacy-driven framework to a legalized and rule-based system of global trade governance. Scholars such as John H. Jackson highlighted the WTO's dispute settlement mechanism as one of the most advanced systems of international adjudication, noting its capacity to ensure predictability, consistency, and compliance through binding rulings and the reverse consensus rule.¹ This body of literature largely portrayed the WTO as a successful institutional innovation that significantly constrained unilateralism in international trade.

Subsequent studies began to critically examine the limitations inherent in the WTO framework, particularly in relation to enforcement and power asymmetries. Scholars like Robert E. Hudec and Andrew T. Guzman argued that despite its legal sophistication, the WTO ultimately relies on state consent and reciprocal enforcement, making it vulnerable to non-compliance by powerful economies. This strand of literature emphasized that the effectiveness of the dispute settlement system is contingent upon the willingness of member states to adhere to rulings, thereby exposing structural weaknesses in the absence of coercive enforcement mechanisms.²

¹ John H Jackson, *The World Trading System: Law and Policy of International Economic Relations* (2nd edn, MIT Press 1997).

² Robert E Hudec, *Enforcing International Trade Law: The Evolution of the Modern GATT Legal System* (Butterworths 1993); Andrew T Guzman, 'The Design of International Agreements' (2005) 16 *European Journal of International Law* 579.

More recent scholarship has focused extensively on the Appellate Body crisis, particularly following the blocking of judicial appointments by the United States. Authors such as Chad P. Bown and Petros C. Mavroidis have analyzed the legal and political dimensions of this crisis, identifying concerns over judicial overreach, delays in decision-making, and interpretative expansion as key factors behind the U.S. stance.³ At the same time, these scholars underscore the systemic consequences of the Appellate Body's paralysis, particularly the emergence of the "appeal into the void" phenomenon, which undermines the finality and enforceability of dispute settlement outcomes.⁴ This body of work reflects a growing consensus that the WTO's adjudicatory mechanism is no longer functioning as originally intended.

Parallel to institutional critiques, an expanding body of interdisciplinary literature has explored the intersection of trade and geopolitics. Scholars influenced by realist approaches to international relations, such as Henry Farrell and Abraham Newman, argue that economic interdependence is increasingly being weaponized by states to achieve strategic objectives. Their work on "weaponized interdependence" demonstrates how global supply chains and financial networks can be leveraged for coercive purposes, thereby challenging the liberal assumption that economic integration inherently promotes cooperation. This perspective aligns with growing evidence of trade being used as an instrument of power, particularly in the context of tariff wars, sanctions, and export controls.

In addition, recent economic literature has examined the implications of supply chain disruptions and the reconfiguration of global production networks. Concepts such as "friendshoring" and the "China+1 strategy" have been widely discussed in policy-oriented research, reflecting a shift from efficiency-driven globalization to resilience-oriented and politically aligned supply chains.⁵ Scholars have noted that geopolitical tensions, particularly involving China and the United States, have accelerated this transformation, leading to the regionalization and fragmentation of global trade. However, much of this literature remains focused on economic outcomes rather than legal-institutional implications.

³ Chad P Bown, 'The WTO Appellate Body Crisis: How We Got Here and What Lies Ahead' (2020) *Peterson Institute for International Economics*; Petros C Mavroidis, 'WTO Dispute Settlement in Crisis' (2020) 23 *Journal of International Economic Law* 1

⁴ Joost Pauwelyn, 'WTO Dispute Settlement Post-2019: What to Expect?' (2019) 22 *Journal of International Economic Law* 297.

⁵ Henry Farrell and Abraham L Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion' (2019) 44 *International Security* 42.

Despite these significant contributions, there remains a notable gap in the existing scholarship. Much of the literature tends to analyze institutional weaknesses of the WTO, geopolitical developments, and supply chain transformations in isolation. There is limited integrated analysis that connects the doctrinal breakdown of the WTO dispute settlement system with the broader geopolitical restructuring of global trade. In particular, the impact of strategic chokepoints, energy security concerns, and their interaction with institutional paralysis has not been sufficiently explored, especially from the perspective of developing economies such as India.

This article seeks to address this gap by offering a comprehensive and interdisciplinary analysis that bridges international trade law with geopolitical realities. By situating the WTO crisis within the context of strategic conflicts, tariff wars, and supply chain disruptions, it contributes to a more holistic understanding of the transformation from a rules-based to a power-oriented global trade order.

Introduction

The global trading system today finds itself at a critical juncture. What was once envisioned in the aftermath of World War II as a stable and cooperative framework for international trade is now showing visible signs of strain. Increasing geopolitical tensions, shifting economic priorities, and growing fragmentation among states have collectively placed immense pressure on the multilateral order. At the heart of this evolving crisis lies the weakening of the World Trade Organization (WTO)⁶, an institution long regarded as the backbone of a rules-based global trading system. One of the most significant challenges confronting the WTO is the erosion of its dispute settlement mechanism.⁷ Since 2019, the continued blockage of appointments to the Appellate Body has effectively paralysed its functioning,⁸ raising serious concerns about the enforceability of international trade obligations. This institutional deadlock is not occurring in isolation. Rather, it reflects a broader transformation in global politics, where states are increasingly guided by strategic and security considerations, often at the expense of multilateral commitments.

⁶ Marrakesh Agreement Establishing the World Trade Organization (adopted 15 April 1994, entered into force 1 January 1995) 1867 UNTS 154.

⁷ Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) 1994, Annex 2 of the WTO Agreement.

⁸ Joost Pauwelyn, 'WTO Dispute Settlement Post-2019: What to Expect?' (2019) 22 *Journal of International Economic Law* 297.

In recent years, the resurgence of protectionist policies, trade conflicts, economic sanctions, and the strategic manipulation of supply chains has signaled a gradual shift from a rules-based to a power-driven trading order.⁹ This shift is further complicated by geopolitical flashpoints and vulnerabilities in global supply networks. Critical maritime routes, such as the Strait of Hormuz, have highlighted the fragility of international trade flows—particularly for energy-dependent economies like India, where even minor disruptions can have far-reaching consequences. Although a substantial body of scholarship has examined the evolution of the General Agreement on Tariffs and Trade (GATT) and the institutional architecture of the WTO, much of this work tends to treat the current crisis in isolation. There is relatively limited engagement with how legal, institutional, and geopolitical dimensions intersect in shaping contemporary trade realities. This paper attempts to address that gap by situating the crisis of the WTO within the broader context of geopolitical competition and economic fragmentation. Against this backdrop, the study seeks to explore three key questions: first, why has the WTO's dispute settlement system lost its effectiveness? Second, in what ways are geopolitical rivalries and strategic interests reshaping global trade governance? And third, can existing multilateral institutions adapt to these emerging challenges, or is there a need for deeper structural reform—or even alternative frameworks?

To answer these questions, the paper adopts a doctrinal and analytical approach, examining key trade agreements, institutional practices, and dispute settlement developments. This is complemented by a contextual analysis of recent geopolitical trends, along with a focused discussion on trade disruptions linked to strategic chokepoints such as the Strait of Hormuz. The analysis is further enriched by engaging with theoretical perspectives, particularly the contrasting insights of liberal institutionalism and realism, to better understand the changing nature of global trade governance. The paper proceeds in six parts. It begins by tracing the historical evolution of the multilateral trading system, from GATT to the WTO. It then evaluates the institutional strengths and limitations of the WTO framework. The third section examines the Appellate Body crisis and its implications for dispute settlement. This is followed by an exploration of the growing intersection between geopolitics and trade, with particular attention to supply chain vulnerabilities. The fifth section considers possible pathways for reform and alternative governance models. The paper concludes by reflecting on the future of multilateralism in an increasingly fragmented global order.

⁹ Henry Gao, 'The WTO in a Changing World: Crisis, Resilience and Reform' (2020) 23 *Journal of International Economic Law* 1.

The Normative Architecture of the WTO and Its Institutional Promise

Building upon the broader crisis of multilateralism outlined earlier, it is essential to revisit the normative foundations upon which the World Trade Organization (WTO) was constructed. Established in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT), the WTO represented a significant institutional advancement—transforming what had long functioned as a provisional and negotiation-driven arrangement into a structured, rule-based system of global trade governance.¹⁰

This institutional evolution is best understood in light of the post-war efforts to design a coherent international economic order. The Bretton Woods Conference laid the groundwork for such an order, envisioning a triad of institutions to govern finance, development, and trade. While the International Monetary Fund (IMF) and the World Bank materialized, the proposed International Trade Organization (ITO) never came into existence. The failure of the Havana Charter—largely due to the reluctance of the United States to accept binding multilateral trade commitments—meant that GATT persisted as an incomplete and institutionally weak substitute for nearly five decades.¹¹

Against this historical backdrop, the WTO can be seen as a delayed realization of the original Bretton Woods vision, albeit in a more limited and pragmatic form. Its design marked a shift toward legalization in international trade relations, emphasizing predictability, transparency, and the rule of law. At the core of this framework lies its dispute settlement mechanism, which introduced compulsory jurisdiction, appellate review, and structured timelines, thereby reducing the scope for unilateral action and enhancing the credibility of trade commitments.

In this sense, the WTO's normative architecture reflects an attempt to move beyond power-based interactions toward a system governed by legal principles. It seeks to ensure that compliance with trade obligations is achieved through adjudication rather than economic coercion. This institutional promise not only distinguished the WTO from GATT but also positioned it as a central pillar of the modern multilateral trading system—an aspiration that, as discussed earlier, is now under considerable strain.

¹⁰ Marrakesh Agreement Establishing the World Trade Organization (adopted 15 April 1994, entered into force 1 January 1995) 1867 UNTS 154.

¹¹ Richard N Gardner, *Sterling-Dollar Diplomacy: The Origins and the Prospects of Our International Economic Order* (McGraw-Hill 1969).

Foundational Principles Underpinning the Multilateral Trading System

Extending the discussion on the normative foundations of the WTO, its institutional strength is further anchored in a set of core principles that sustain both the legitimacy and operational coherence of the multilateral trading system. These principles function not merely as abstract ideals but as binding legal commitments that discipline state conduct and structure global trade relations. Among them, the principle of non-discrimination, the restraint on unilateral trade measures, and the progressive legalization of dispute settlement remain central to the WTO's institutional identity. At the heart of this framework lies the principle of non-discrimination, most prominently reflected in the Most Favored Nation (MFN) obligation under Article I of the General Agreement on Tariffs and Trade.¹² This principle requires that any trade advantage—whether in the form of tariff reductions, market access, or regulatory preferences—granted by a member to one trading partner must be extended immediately and unconditionally to all other members. By doing so, MFN eliminates preferential hierarchies and ensures formal equality among trading partners.

Beyond its formal articulation, the MFN principle plays a critical systemic role. By multilateralizing bilateral concessions, it prevents the fragmentation of trade into exclusive blocs and reinforces the coherence of the global trading system. It also reduces transaction costs by avoiding the need for multiple bilateral negotiations and enhances predictability by stabilizing tariff regimes. In effect, MFN transforms individual concessions into collective benefits, thereby strengthening the integrative character of multilateral trade governance. Complementing this principle is the obligation to refrain from unilateral trade measures, which operates as a structural limitation on the exercise of economic power by individual states. Within the WTO framework, members are required to justify trade restrictions within the scope of agreed exceptions—such as those relating to national security, public health, or environmental concerns—and to subject any disputes to multilateral adjudication. This represents a significant departure from earlier practices where states frequently resorted to self-help measures, including retaliatory tariffs and coercive economic strategies.

By channeling disputes through an institutional mechanism, the WTO reduces the risk of power asymmetries shaping trade outcomes and offers a degree of protection to weaker economies. This constraint on unilateralism thus serves to depoliticize trade relations and reinforce a rules-

¹² General Agreement on Tariffs and Trade 1994, art I.

based order. The third foundational pillar lies in the progressive legalization of dispute settlement, which distinguishes the WTO from the earlier GATT system. The transition to a quasi-judicial framework introduced binding rulings, appellate review, and the reverse consensus rule, thereby limiting the scope for political interference.¹³ Under this mechanism, dispute settlement reports are adopted automatically unless there is unanimous opposition an outcome that is practically unattainable ensuring that decisions acquire legal force without being blocked by the losing party. Taken together, these principles collectively underpin the WTO's transformation of international trade from a system driven by power and negotiation into one governed by law, procedure, and institutional discipline—a transformation that, as the subsequent section will demonstrate, is increasingly under strain in the contemporary global order.

Institutional Design of the WTO Dispute Settlement Mechanism

The dispute settlement mechanism of the **World Trade Organization** was conceived as a structured and rule-oriented system aimed at ensuring consistency, predictability, and enforceability in international trade law. At its core lies a two-tier adjudicatory framework.¹⁴ Disputes are initially examined by panels, which assess both factual circumstances and the application of relevant WTO provisions. Their findings may then be subjected to review by the Appellate Body, a standing organ tasked with examining questions of law and legal interpretation. Through this appellate review, the system maintained doctrinal coherence and contributed to the development of a consistent body of trade jurisprudence, thereby enhancing legal certainty within the multilateral trading system. This doctrinal coherence is reflected in early Appellate Body jurisprudence, particularly in disputes such as *United States – Import Prohibition of Certain Shrimp and Shrimp Products*, where the Appellate Body clarified the scope of permissible trade restrictions under Article XX of GATT while emphasizing the need to balance environmental protection with non-discriminatory trade practices. Such decisions illustrate the role of the dispute settlement mechanism in not only resolving conflicts but also in shaping the normative development of international trade law.¹⁵

¹³ Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) 1994, arts 16–17.

¹⁴ World Trade Organization, *Dispute Settlement* <https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm> accessed 29 March 2026.

¹⁵ *United States – Import Prohibition of Certain Shrimp and Shrimp Products* (US–Shrimp) WTO Doc WT/DS58/AB/R (1998).

The effectiveness of this institutional design was closely tied to its binding enforcement structure. Reports issued by panels and, where applicable, the Appellate Body, acquire binding force upon adoption by the Dispute Settlement Body (DSB), subject to the reverse consensus rule. In cases of non-compliance, the system permits the aggrieved member to seek authorization for retaliatory measures, thereby introducing a calibrated enforcement mechanism. The Dispute Settlement Body further plays a supervisory role by monitoring the implementation of rulings and recommendations. This integrated framework ensured that compliance was not left to voluntary adherence but was embedded within a legally enforceable structure, distinguishing the WTO system from earlier, more diplomatic models of dispute resolution.

The Contemporary Crisis: Paralysis of the Appellate Mechanism

The dispute settlement mechanism of the **World Trade Organization**, once regarded as the cornerstone of a rules-based trading system, is presently confronted with a profound institutional crisis arising from the paralysis of its Appellate Body. Since 2017, the **United States** has persistently blocked the appointment and reappointment of Appellate Body members, raising concerns relating to judicial overreach, procedural delays, and interpretative expansion beyond negotiated commitments. This sustained obstruction led to the Appellate Body becoming non-functional in December 2019¹⁶ due to the absence of the required quorum, thereby disabling the final stage of dispute adjudication. The consequences of this breakdown are structurally significant. While dispute panels continue to issue reports, the absence of an appellate mechanism deprives these findings of legal finality and undermines consistency in the interpretation of WTO agreements. This has resulted in a fragmented and incomplete adjudicatory process, weakening the institutional credibility of the system.

A notable procedural distortion emerging from this crisis is the phenomenon of “appeal into the void,” wherein a losing party files an appeal that cannot be adjudicated due to the inoperative Appellate Body. Consequently, panel reports remain unadopted, creating a legal vacuum that allows states to delay or evade compliance without formally violating WTO rules. In effect, the paralysis of the Appellate Body has transformed the nature of WTO dispute settlement from a system of binding adjudication into one increasingly characterized by

¹⁶ World Trade Organization, *Appellate Body* <https://www.wto.org/english/tratop_e/dispu_e/appellate_body_e.htm> accessed 29 March 2026.

voluntary compliance. The erosion of enforceability has diminished the capacity of the WTO to discipline member states, rendering legal obligations more susceptible to political negotiation and strategic non-compliance, and thereby weakening the foundational premise of a rule-based multilateral trading order.

Systemic Consequences for the Multilateral Trading Order

The ongoing paralysis within the dispute settlement framework of the World Trade Organization has generated far-reaching systemic consequences, fundamentally altering the character of the multilateral trading order. In the absence of an effective and enforceable adjudicatory mechanism, the system is increasingly witnessing a reversion to power-based trade relations, wherein economically dominant states are better positioned to impose tariffs and deploy trade measures as instruments of strategic and geopolitical influence. This shift is particularly evident in the trade tensions between the United States and China, where unilateral tariff measures have frequently bypassed multilateral disciplines and weakened institutional authority.¹⁷

Concurrently, the weakening of institutional enforcement has contributed to the proliferation of unilateral and retaliatory trade measures. States are increasingly resorting to tariff escalation, countermeasures, and reciprocal restrictions outside the WTO framework, thereby undermining the predictability and stability that the multilateral system was designed to ensure. Such developments signal a gradual departure from rule-based governance toward a more fragmented, reactive, and politically driven trade environment. In response to this institutional deadlock, certain WTO members have sought to devise alternative mechanisms to preserve elements of adjudicatory review. The most notable among these is the Multi-Party Interim Appeal Arbitration Arrangement (MPIA)¹⁸, established under Article 25 of the Dispute Settlement Understanding. While the MPIA represents an innovative attempt to maintain appellate review in the absence of a functioning Appellate Body, it operates on a voluntary basis and lacks universal participation. Consequently, it contributes to the emergence of a parallel and fragmented dispute resolution landscape, thereby diluting the coherence and uniformity of global trade governance.

¹⁷ Chad P Bown, *The US–China Trade War and Phase One Agreement* (Peterson Institute for International Economics 2021).

¹⁸ World Trade Organization, *Multi-Party Interim Appeal Arbitration Arrangement (MPIA)* <https://www.wto.org/english/tratop_e/dispu_e/mpia_e.htm> accessed 29 March 2026.

The implications of this crisis are particularly severe for developing economies, which have historically relied on the WTO's dispute settlement mechanism as a means of challenging discriminatory trade practices and securing binding rulings against more powerful states. The erosion of this mechanism significantly constrains their ability to enforce rights under international trade law. Given their limited economic leverage and reduced capacity to engage in retaliatory measures, these countries face heightened vulnerability within an increasingly power-oriented system, thereby reinforcing structural asymmetries in the global trading order.¹⁹

U.S. Tariff Policy: A Shift from Free Trade to Economic Nationalism

In recent years, the trade policy of the United States has undergone a significant transformation, moving away from its long-standing commitment to free trade toward a more protectionist and nationalist approach. This shift is most prominently reflected in the revival and continuation of the "America First" trade doctrine, which prioritizes domestic economic interests over multilateral trade cooperation. Under this framework, tariffs have been increasingly deployed as a central policy instrument, with average tariff rates rising²⁰ sharply in comparison to earlier decades.²¹ The renewed emphasis on tariff-based protection reflects a broader recalibration of U.S. trade strategy, wherein economic openness is subordinated to domestic industrial and strategic considerations.

The justification for this policy shift has been grounded in multiple economic and strategic rationales. First, persistent trade deficits have been invoked as evidence of structural imbalances that disadvantage domestic industries. Second, tariffs are perceived as a tool for revitalizing domestic manufacturing by insulating local producers from foreign competition. Third, and perhaps most significantly, national security concerns have increasingly been relied upon to justify trade restrictions, thereby blurring the boundary between economic regulation and geopolitical strategy. This securitization of trade policy marks a notable departure from the traditional liberal economic framework that historically guided U.S. engagement with the global trading system.

¹⁹ Andrew T Guzman, *How International Law Works: A Rational Choice Theory* (Oxford University Press 2008).

²⁰ Peterson Institute for International Economics, *Trade and Investment Policy* <<https://www.piie.com/research/topics/trade-and-investment-policy>> accessed 29 March 2026.

²¹ Chad P Bown, *US Trade Policy in an Era of Protectionism* (Peterson Institute for International Economics 2022).

This inward-looking policy orientation has not remained confined within U.S. borders but has triggered a broader pattern of global tariff expansion. Several countries have either been directly affected by U.S. tariff measures or have adopted similar protectionist strategies in response. For instance, India has faced heightened tariff barriers on certain exports, adversely affecting its access to the U.S. market. Likewise, trade relations with Canada and Mexico have experienced strain due to tariff impositions, prompting retaliatory measures that have intensified regional trade tensions. In another instance, Brazil's recourse to the World Trade Organization in response to tariff increases illustrates the growing pressure on the multilateral dispute settlement system.

These developments indicate that tariffs are no longer employed merely as economic instruments for revenue generation or market correction. Rather, they have evolved into tools of strategic statecraft, enabling states to exert economic pressure on trading partners in pursuit of broader geopolitical objectives.²² This transformation reflects a shift away from a rules-based trading order toward a more power-driven framework, where economic leverage is used to secure political concessions.

The consequences of such policies have been far-reaching. A cycle of retaliatory tariffs has emerged, as affected countries impose countermeasures to safeguard their domestic interests. This dynamic of reciprocal escalation has contributed to the intensification of trade conflicts and the fragmentation of global trade. In response, supply chains are increasingly being reorganized along regional and politically aligned lines, as states seek to reduce dependence on unstable or adversarial trade relationships.

The World Trade Organization has repeatedly cautioned that such tariff escalations pose a significant threat to the stability of the global trading system. Rising protectionism risks reducing the volume of international trade, increasing costs for businesses and consumers, and undermining global economic growth. Ultimately, the shift toward economic nationalism in U.S. tariff policy reflects a broader systemic crisis in the multilateral trading order, wherein the principles of cooperation, predictability, and rule-based governance are progressively being replaced by unilateralism and strategic competition.

²² Henry Farrell and Abraham L Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion' (2019) 44 *International Security* 42.

Impact on Global Trade System

The evolving use of tariffs as strategic tools, particularly by major economies such as the United States, has had profound implications for the global trading system. One of the most visible consequences is the growing fragmentation of international trade, which is gradually reshaping long-established patterns of economic interdependence.

(A) Fragmentation of Trade

Global trade is increasingly moving away from efficiency-driven globalization toward politically influenced economic alignment. Concepts such as “friend-shoring” have gained prominence, whereby states prioritize trade relations with politically aligned partners rather than those offering the greatest economic efficiency. Similarly, the “China+1 strategy” has emerged as a response to excessive dependence on China, encouraging firms to diversify manufacturing bases and supply chains to alternative jurisdictions. As a result, global supply chains are no longer governed solely by comparative advantage but are being restructured along geopolitical lines. This transition marks a significant departure from the traditional model of globalization toward a more segmented and regionalized trading order, where political considerations increasingly shape economic decision-making.²³

(B) Economic Consequences

The fragmentation of trade has begun to manifest in slowing global economic performance. Global trade growth, which remained relatively robust in previous years, is now projected to decline significantly, indicating a broader structural slowdown. This downturn is not attributable to a single factor but rather to the convergence of multiple systemic risks. Ongoing geopolitical conflicts, disruptions in energy markets, and the widespread imposition of tariffs have collectively contributed to this deceleration. Protectionist measures increase the cost of goods, disrupt supply chains, and reduce overall trade efficiency, while geopolitical instability generates uncertainty that discourages investment and cross-border economic activity. International institutions, including the World Trade Organization, have cautioned that sustained trade restrictions may further weaken global economic recovery and diminish long-term growth prospects.

²³ Organisation for Economic Co-operation and Development (OECD), *Global Value Chains: Efficiency and Risks in the Context of Global Trade Disruptions* (OECD 2021).

(C) Social Impact

Beyond macroeconomic indicators, the social consequences of trade fragmentation and tariff escalation are equally significant. In a worst-case scenario, it is estimated that such trade conflicts could result in the loss of millions of jobs globally, particularly in export-dependent sectors. These effects are likely to be disproportionately felt in developing economies, where employment structures are closely tied to international trade flows. Rising unemployment, coupled with increased consumer prices resulting from tariff impositions, risks exacerbating economic inequality and social instability. In this sense, the shift toward protectionism not only undermines the efficiency of the global trading system but also poses serious challenges to livelihoods, social welfare, and inclusive economic development.²⁴

Why the WTO is Ineffective

The contemporary crisis of the World Trade Organization reflects deep structural and functional limitations that have significantly undermined its effectiveness in regulating global trade. Although the WTO was envisioned as the foundation of a rules-based multilateral trading system, evolving geopolitical dynamics and economic transformations have exposed serious weaknesses in its institutional design and operation. A primary concern is the growing institutional paralysis within the WTO, particularly in its dispute settlement mechanism. The dysfunction of the Appellate Body has rendered the system incapable of delivering binding and final decisions in trade disputes. Member states are now able to appeal panel reports without resolution, effectively delaying or bypassing compliance. This development has eroded the credibility of the WTO as a neutral and authoritative adjudicatory body, weakening its capacity to ensure discipline and adherence to international trade rules.²⁵

In addition to this paralysis, the WTO suffers from a fundamental lack of enforcement power. The organization does not possess any independent authority to penalize non-compliant states and instead relies on member-driven retaliation mechanisms. While such mechanisms may function in disputes between relatively equal economies, they become ineffective when dealing with major powers. Economically dominant states can absorb retaliatory measures or counter

²⁴ World Trade Organization, *World Trade Report 2023: Re-globalization for a Secure, Inclusive and Sustainable Future* (WTO 2023).

²⁵ Petros C Mavroidis, *The Regulation of International Trade: The WTO Agreements on Trade in Goods* (MIT Press 2016).

them with greater force, thereby escaping meaningful consequences. This imbalance undermines the principle of fairness and equality that underpins the multilateral trading system. Another significant limitation lies in the increasingly outdated nature of the WTO's legal framework. Designed in the context of 1990s globalization, its rules primarily address traditional trade issues such as tariffs and goods. However, contemporary global trade has expanded into complex domains such as digital commerce, data governance, and technologically integrated supply chains, which remain inadequately regulated within the existing framework. Moreover, the growing intersection between trade and geopolitical concerns particularly in areas such as national security, economic sanctions, and strategic competition poses challenges that the WTO is not institutionally equipped to address. This disconnect between its foundational framework and present-day realities has significantly reduced its relevance in shaping modern trade practices.

The issue of power asymmetry further exacerbates the WTO's ineffectiveness. While the organization formally operates on the principle of sovereign equality, in practice, larger economies exercise disproportionate influence and frequently act unilaterally in pursuit of their national interests. Smaller and developing countries, by contrast, rely heavily on the WTO for protection and dispute resolution but lack the economic capacity to enforce rulings or impose effective countermeasures. This results in an uneven application of rules, reinforcing structural inequalities rather than mitigating them.

Taken together, these structural deficiencies illustrate a broader transformation in global trade governance. Although the WTO continues to embody a rules-based system in principle, actual state behaviour increasingly reflects power-based dynamics. Consequently, the gap between legal norms and geopolitical realities continues to widen, raising fundamental questions about the future effectiveness and legitimacy of the multilateral trading system.²⁶

Future of Global Trade

The future of global trade is marked by increasing uncertainty and is likely to evolve along multiple, and at times competing, trajectories shaped by geopolitical tensions, economic nationalism, and institutional challenges. One plausible scenario is the emergence of a fragmented trade order, wherein the integrated global trading system gives way to regionally

²⁶ Andrew T Guzman, *How International Law Works: A Rational Choice Theory* (Oxford University Press 2008).

concentrated economic blocs. In such a configuration, trade flows would be influenced less by global efficiency and more by political alignment and strategic interests. Regional groupings such as the European Union, BRICS, and the Indo-Pacific Economic Framework are likely to assume a more prominent role in shaping trade norms, regulatory standards, and supply chain structures. This would result in a reorientation of global commerce toward regionalization, potentially reducing interdependence while enhancing resilience within politically aligned blocs.²⁷

Another possible, though considerably more challenging, trajectory is the reform and revival of the World Trade Organization. For the WTO to reclaim its central role in global trade governance, substantial institutional reforms would be required. These include restoring the functionality of the Appellate Body to ensure the availability of binding dispute resolution, as well as rebuilding trust among member states. Furthermore, the WTO would need to expand and modernize its regulatory framework to address emerging domains such as digital trade, data governance, and technologically driven supply chains. However, the realization of such reforms depends on achieving consensus among major economies—a prospect that remains uncertain in the context of intensifying strategic rivalry and divergent national priorities.

A more immediate and increasingly observable trajectory is the transition toward a geo-economic world order, in which trade policy is deeply intertwined with geopolitical strategy. In this model, trade is no longer perceived solely as a mechanism for economic growth but as an instrument of state power. States are increasingly deploying tariffs, export controls, and investment restrictions as tools of coercion, negotiation, and strategic influence. Trade measures are utilized to exert pressure on rival states, to secure geopolitical alignments, and to enforce compliance through economic sanctions. This transformation reflects a broader shift in international relations, where economic interdependence is no longer universally promoted but is instead selectively managed in accordance with national security and strategic considerations.²⁸

²⁷ Richard Baldwin, *The Great Convergence: Information Technology and the New Globalization* (Harvard University Press 2016).

²⁸ Henry Farrell and Abraham L Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion' (2019) 44 *International Security* 42.

Taken together, these trajectories suggest that the future of global trade will be characterized by reduced predictability, increased politicization, and a growing dominance of power-based dynamics over purely economic considerations. The challenge for global governance lies in navigating this transition while preserving, to the extent possible, the principles of stability, cooperation, and fairness that have historically underpinned the multilateral trading system.

Conclusion

The World Trade Organization is not entirely irrelevant in the contemporary global trading system; it continues to provide a foundational framework for trade rules, negotiations, and, to a limited extent, dispute resolution. Its legal architecture, built upon principles such as non-discrimination, transparency, and predictability, still serves as an important reference point for international trade relations. However, its authority is undeniably eroding in the face of shifting geopolitical realities and the growing tendency of states to prioritize national interests over multilateral commitments. The widening gap between the WTO's normative framework and actual state practice raises fundamental concerns regarding its long-term effectiveness, legitimacy, and institutional resilience. A central factor contributing to this erosion has been the transformation of U.S. trade policy, which has played a decisive role in reshaping global trade behaviour. By increasingly relying on unilateral tariff measures and invoking national security justifications, the United States has effectively normalized deviations from multilateral disciplines. Measures that were once regarded as exceptional departures from WTO rules are now increasingly treated as acceptable instruments of economic policy. This shift has had a cascading effect, encouraging other states to adopt similar strategies and thereby weakening collective adherence to core WTO principles, including most-favoured-nation treatment, predictability, and rule-based dispute settlement.²⁹

The cumulative effect of these developments is the gradual normalization of unilateralism within the global trading system. States are increasingly willing to bypass institutional mechanisms and rely on economic leverage, strategic alliances, and retaliatory measures to pursue their interests. This trend not only undermines the authority of the WTO but also accelerates the transition toward a power-driven global trade order, where outcomes are determined less by legal norms and more by relative economic and political strength.

²⁹ Chad P Bown, *The US–China Trade War and Phase One Agreement* (Peterson Institute for International Economics 2021).

In such a system, smaller and developing economies are particularly disadvantaged, as their ability to influence outcomes or enforce rights remains limited. For India, these developments present a complex mix of risks and opportunities. On the one hand, increased protectionism and geopolitical fragmentation expose India to external trade volatility and market access constraints. On the other hand, the reconfiguration of global supply chains particularly through strategies such as “China+1” positions India as a potential alternative manufacturing hub, capable of attracting investment and strengthening its role in global trade networks. However, the extent to which India can capitalize on these opportunities will depend on its domestic policy readiness, infrastructure development, and ability to integrate into emerging regional trade frameworks. At the same time, it would be premature to conclude that the multilateral trading system is beyond repair. The WTO still possesses significant institutional capital, including an established legal framework, a near-universal membership, and decades of accumulated jurisprudence. These elements provide a foundation upon which reform can be built. Meaningful revival, however, will require a renewed political commitment from major economies to restore trust in multilateral cooperation. This includes reactivating the Appellate Body, updating trade rules to reflect contemporary economic realities such as digital trade and supply chain integration, and addressing the growing interface between trade and national security concerns.

Looking ahead, the future of global trade governance is likely to be shaped by a hybrid model that combines elements of multilateralism, regionalism, and strategic economic policy. While complete restoration of the pre-existing rules-based order may be unlikely, a reformed and more flexible WTO could still play a central coordinating role within this evolving system. The key challenge lies in reconciling the competing imperatives of sovereignty, security, and cooperation in a manner that preserves stability and fairness in international trade. It may be argued that the crisis confronting the WTO is not merely institutional in nature but reflects a deeper structural tension between the ideals of legal multilateralism and the realities of contemporary geopolitical competition. As states increasingly prioritize strategic autonomy and security concerns, the foundational assumption that economic interdependence promotes cooperation appears increasingly contested. In this sense, the weakening of the WTO is symptomatic of a broader transformation in international order, where legal frameworks are progressively subordinated to power-based considerations. Ultimately, the trajectory of the global trading system will depend on whether states choose to reaffirm their commitment to collective rules or continue along the path of unilateralism and strategic competition. If the

current trend persists unchecked, the risk is not merely institutional decline but the erosion of the very idea of a rule-based international economic order.³⁰ The future of global trade will ultimately depend not only on institutional reform but on whether states are willing to realign power with principle in an increasingly contested international order.



³⁰ Andrew T Guzman, *How International Law Works: A Rational Choice Theory* (Oxford University Press 2008).