Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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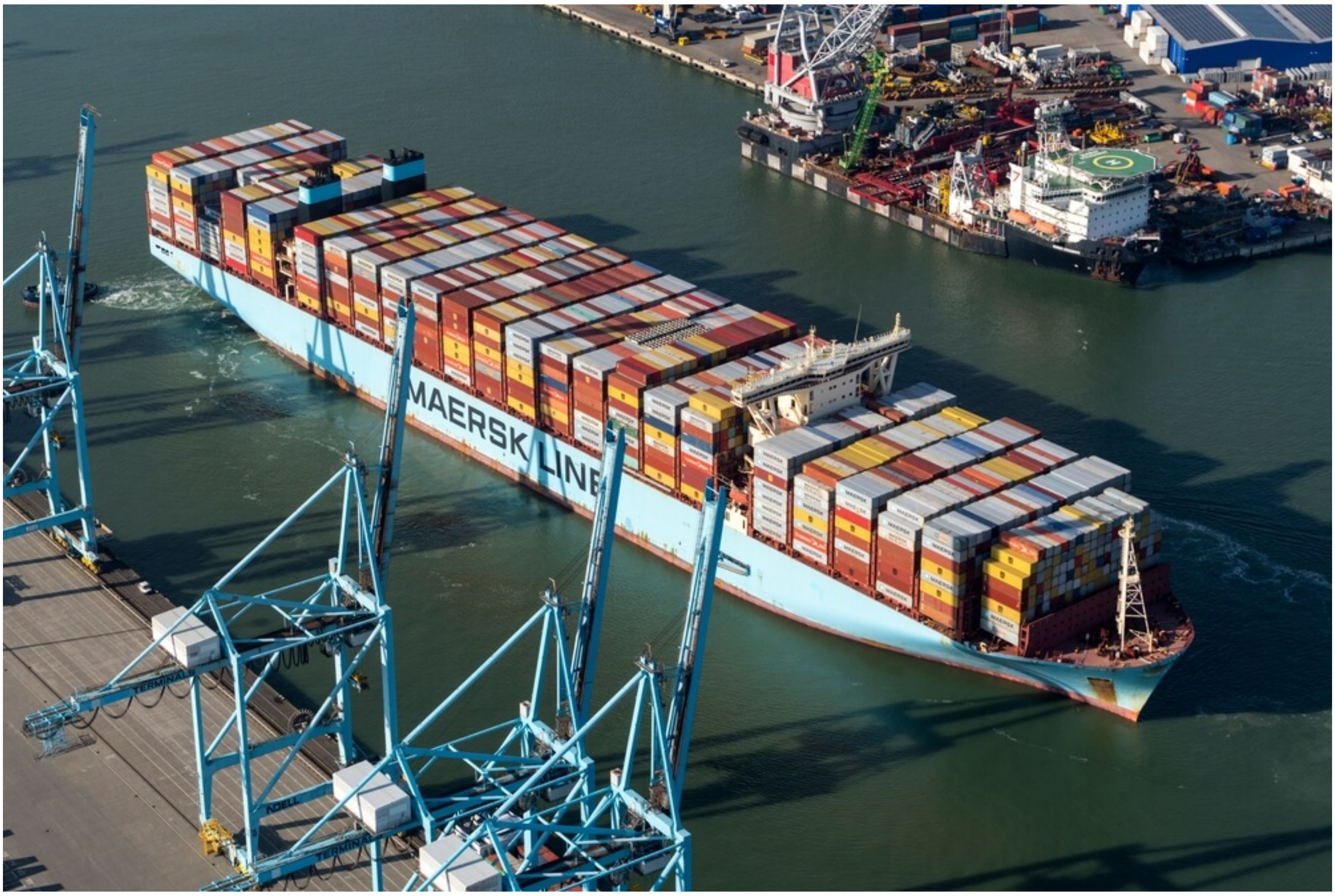
The trade world has an opportunity to reposition itself



Global trade is facing its biggest test since World War II. Far-reaching tariffs introduced by the United States in early April – many of which were soon paused – have roiled trade and spilled over into financial markets.

Investment and cross-border demand have already cooled as wary businesses and consumers sit on their hands.

At the World Trade Organization, we issued our annual trade forecast in mid-April, projecting a 0.2% contraction in global merchandise trade in 2025 – nearly three percentage points below what our economists would have expected without the new tariffs, retaliation, and uncertainty.

The contraction could deepen to 1.5% if the paused tariffs are reinstated and trade tensions and uncertainty spread among other countries.

We have urged governments to engage in dialogue to prevent further downside risks from materializing; and at the time of this writing, there are some positive signs of them doing so.

Following high-level talks in Geneva, China and the US announced that they would temporarily lower bilateral tariffs by 115 percentage points from prohibitive levels.

The truce, together with the easing of certain US auto tariffs, could mitigate some of the damage projected in mid-April, putting the global goods trade on track to grow by 0.3% in 2025.

We have also emphasized that some of the biggest sources of tension in global trade, such as surplus and deficit levels, are driven more by macroeconomic and structural factors – including high saving and weak domestic consumption in some economies, and high fiscal deficits in others – than by trade policy.

As economists at the International Monetary Fund have noted, the solutions to these other problems lie principally at home.

Thus, even if tariffs were used to eliminate trade deficits and surpluses in one sector or with one country, those imbalances would soon reappear elsewhere if the macroeconomic factors are not addressed.

The remarkable resilience of global trade

Although trade is now front and center in the news and in policy discussions, key aspects about its role in our economies and lives remain underappreciated.

Chief among them is the remarkable resilience of global trade in recent years.

For all the proclamations of the end of free trade, the value of global goods and services trade in 2024 reached $33 trillion, a historic high in a $105 trillion world economy.

In an age of crises, the resilience of trade has been a force for economic recovery

The global trade-to-GDP ratio is substantially higher than it was at the turn of the millennium. Trade has thrived in sectors like digitally delivered services, where the value of trade has more than quadrupled since 2005.

South-South trade has gone from under one-tenth of global trade in 1995 to closer to one-quarter today.

In an age of crises, the resilience of trade has been a force for economic recovery, helping to mitigate damage to people's livelihoods.

Five years ago, the COVID-19 pandemic triggered one of the most dramatic global supply shocks in history as it upended certain supply chains. But global trade volumes were still setting new records by early 2021, helping to meet skyrocketing demand for medical supplies in the process.

A strong trade rebound helped economies

recover from the 2008-09 financial crisis. Not only has open and predictable trade supported food security and access to green technology; it has been a source of disinflationary pressure and reduced macro volatility, making economy-wide prices and borrowing costs lower and more stable.

How we got here?

Open and predictable international markets, anchored in the multilateral trading system, have been a major factor in this resilience.

So far, WTO rules and norms have undergirded supply chains and helped countries avoid a 1930s-style protectionist spiral.

Although these rules and norms now look shakier than at any point since their creation 80 years ago, this year's tariff drama has reminded governments and businesses alike of the value of the stable and predictable trading conditions they had come to take for granted.

But there are valid concerns about how global trade is operating. We must ask ourselves how we got here.

Does the Trump administration have a point about some of the fundamental problems that must be fixed in the multilateral trading system and at the WTO? I think the answer is yes.

The US is not wrong when it argues that others depend too heavily on its market

The COVID-19 crisis revealed overlooked risks associated with the overconcentration of some supply chains – such as the one for vaccines, where just ten countries accounted for over 80% of the world's exports.

There is also overconcentration within supply chains for semiconductors, rare earths, and critical minerals, as well as on the demand side of the trade equation.

The US is not wrong when it argues that others depend too heavily on its market. Overconcentration and overdependence build vulnerabilities and foster resentment.

The trade world has an opportunity to reposition itself

The best response to such overconcentration, however, is not to retreat or increase trade barriers. It is to deal with the conditions that led to the overconcentration, be they unfair trade practices, level playing field issues, or other factors.

This can be done by reforming specific WTO rules that are no longer fit for purpose, as well as by diversifying trade by bringing marginalized countries and communities into supply chains, and by tapping into more export markets – what we at the WTO are calling "re-globalization."

The trade world may be facing a crisis, but it is also facing a unique opportunity to rebuild and reposition itself – Ngozi Okonjo-Iweala

The WTO provides a platform for international cooperation to minimize the contagion of trade-policy uncertainty and build resilience.

WTO members need to seize the opportunity of the present crisis to reposition the WTO pragmatically. That is how we will meet the challenges of the twenty-first century, and make the most of the emerging opportunities in services, digital, and green trade.

Fortunately, there is already a strong foundation to build on. About 74% of global goods trade continues to take place under core WTO Most-Favored Nation tariff terms.

Likewise, the WTO rulebook still underpins the global services trade, as well as the health and safety standards and technical regulations that foster greater trust in traded goods.

The TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement sets out a global baseline for intellectual-property protections and related flexibilities; and the 2022 agreement on curbing harmful fisheries subsidies showed that WTO members were still able to reach multilateral accords and deliver global public goods like healthier oceans.

While the WTO's dispute-settlement system is partially hobbled, member states are still using it to resolve disputes and find mutually agreed solutions.

In fact, the non-operation of the Appellate Body has made members less litigious (a criticism that the US has leveled at the system), leading them instead to pursue mutually agreed settlements as was originally envisioned in the agreements that set up the WTO Dispute Settlement Understanding.

So, the trade world may be facing a crisis, but it is also facing a unique opportunity to rebuild and reposition itself.

WTO members will need to determine specific substantive priorities ahead of the Ministerial Conference in Cameroon early next year. By laying the foundations for a renewed multilateral trading system, they can help build a more dynamic, interesting, and resilient future.

Ngozi Okonjo-Iweala is Director-General of the World Trade Organization.