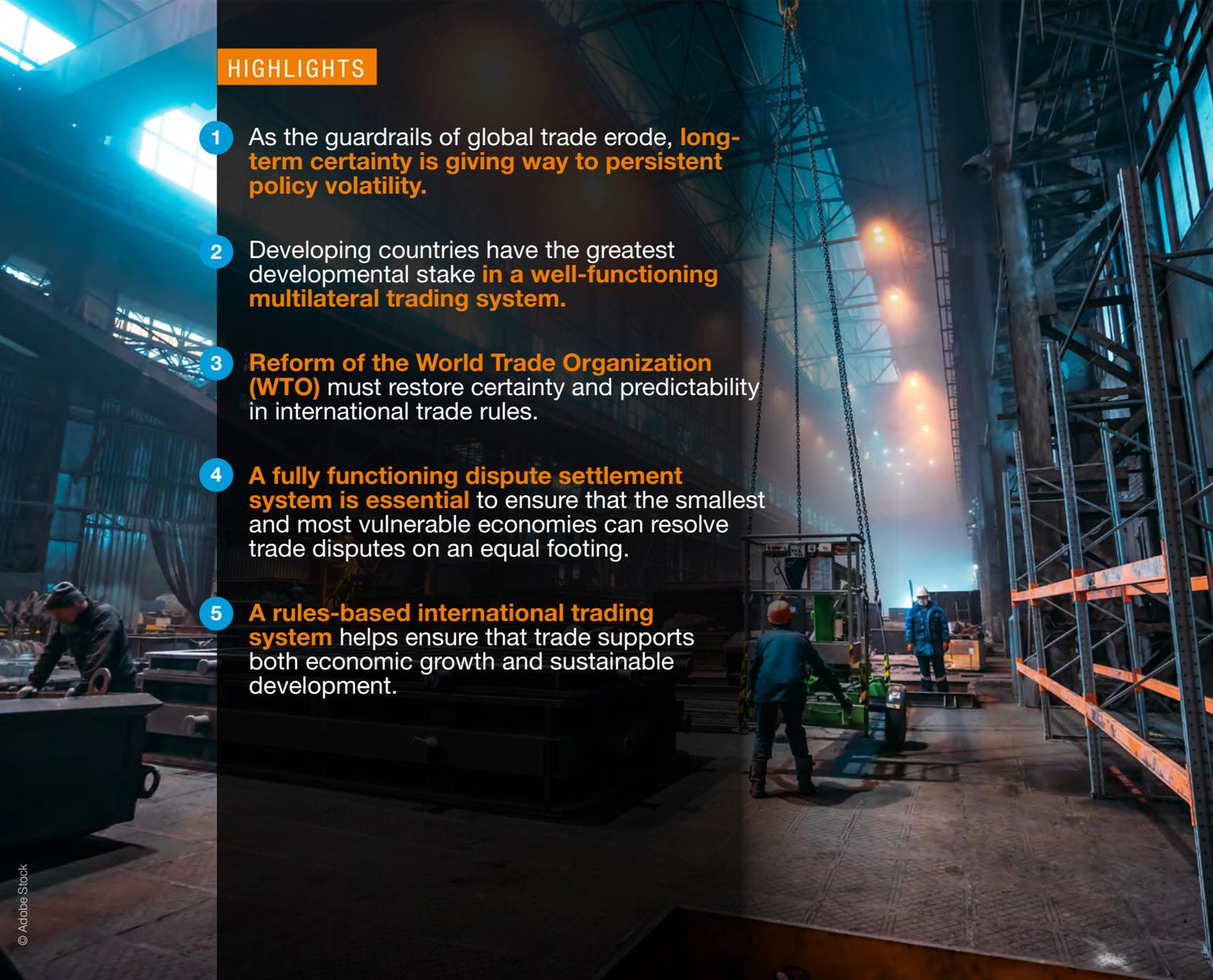




## Policy insights

# Reforming trade rules to drive development

### HIGHLIGHTS

- 1 As the guardrails of global trade erode, **long-term certainty is giving way to persistent policy volatility.**
  - 2 Developing countries have the greatest developmental stake **in a well-functioning multilateral trading system.**
  - 3 **Reform of the World Trade Organization (WTO)** must restore certainty and predictability in international trade rules.
  - 4 **A fully functioning dispute settlement system is essential** to ensure that the smallest and most vulnerable economies can resolve trade disputes on an equal footing.
  - 5 **A rules-based international trading system** helps ensure that trade supports both economic growth and sustainable development.
- 



The multilateral trading system has played a fundamental role in shaping the global economy over the past several decades. Through a framework of negotiated rules and commitments, it has reduced discrimination in international trade, supported the expansion of cross-border commerce, and contributed to economic growth across many regions of the world.

In recent years, however, the predictability of global trade rules has weakened. Some economies have moved away from multilateral trade principles toward the use of trade measures to advance industrial policy objectives, national security priorities, and geopolitical competition. This shift has increased uncertainty and volatility in market access and, together with the absence of a fully functioning dispute settlement system, has undermined the ability of international trade to support development.

Against this backdrop, discussion on reform of the World Trade Organization (WTO) has become increasingly important. On March 26–29, 2026, the WTO's 166 members will meet in Cameroon with a shared mandate to advance reforms aimed at improving the organization's functionality, strengthening its effectiveness, and facilitating the full participation of all members in its work. As the multilateral trading system faces growing scrutiny, meaningful reform requires updating global trade rules to reflect the realities of the twenty-first-century global economy.

A central challenge is ensuring that WTO reform adequately reflects the priorities and development needs of developing economies. The key question is therefore *what kind of WTO reform developing economies need to harness trade opportunities for development?* Answering this question and shaping a WTO that genuinely supports development is the collective responsibility of the international community today.

This issue of the Global Trade update examines several areas that are particularly relevant from a development perspective, including the role of the Most-Favoured Nation principle, the importance of predictable market access for goods and services, the need for an effective dispute settlement system, and the continued relevance of the multilateral trading system in supporting export diversification and broader development outcomes.





## Development must remain central to WTO reform efforts and the future trade agenda

**Developing countries have high stakes in a well-functioning WTO because the organization underpins the stable, predictable market access that these economies rely on for growth.** Over the past 20+ years, trade has been a central driver of economic expansion for many developing countries. Integration into global markets facilitates investment, technology diffusion, job creation, and opportunities to move into higher-value activities. Export earnings generate the foreign exchange needed to finance imports of capital goods, energy, and other essential inputs for development. Export revenues also support fiscal stability and help governments manage external financial obligations. The smaller the economy, the more crucial trade becomes, since domestic markets alone are often too limited to sustain robust growth. A WTO that ensures clear rules and predictable market access is therefore not a technical concern; it is central to the ability of developing countries to pursue sustainable development and long-term prosperity.

Yet despite decades of commitments within the multilateral trading system to support development, the ability of many developing economies to participate fully and benefit meaningfully from international trade remains constrained.

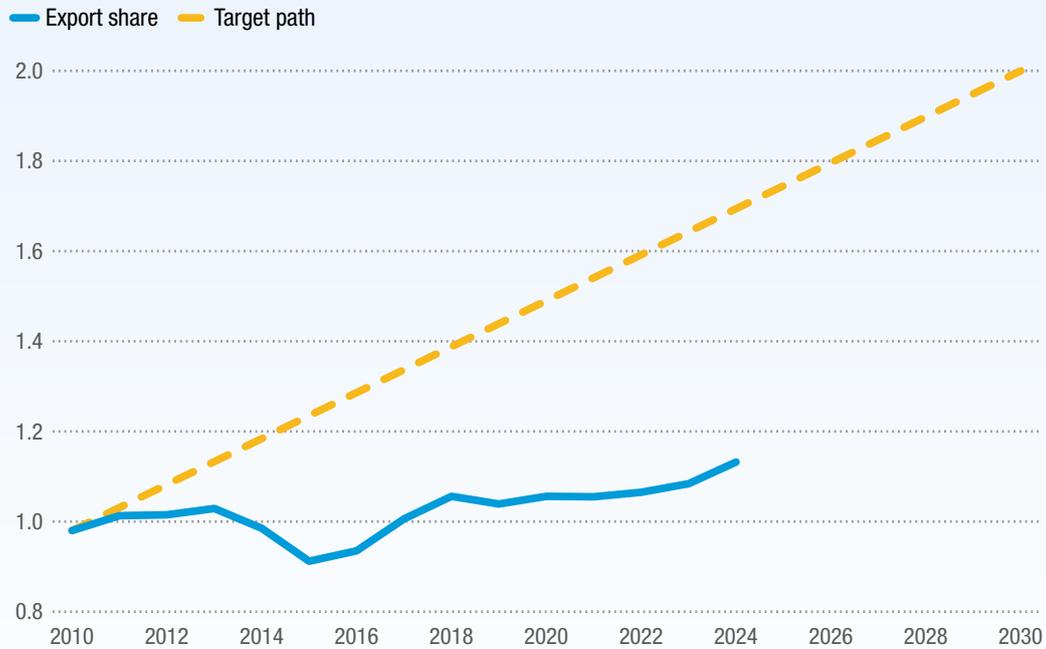
**For many developing countries, especially the small and vulnerable, development-oriented provisions have not generally resulted in actual market access or value addition,** raising fundamental questions about the effectiveness of existing rules and reinforcing calls for more operational, impactful mechanisms to support a favourable integration of least developed countries (LDCs) into global trade. In particular, the United Nations Doha Programme of Action for LDCs (2022–2031) envisioned these countries reaching a 2 per cent share of global exports by 2030, a target that remains far from being realized. LDCs' share of world exports has remained consistently low at around 1.1 per cent in 2024, compared with 1.0 per cent recorded in 2010 (Figure 1), in spite of duty-free, quota-free initiatives and preferential market access schemes.





**Figure 1**  
**LDCs' share of world exports remains marginal**

Target and Actual Paths of LDC Export Share in World Merchandise Trade



Source: UNCTADStat.

Note: LDC stands for least developed countries.

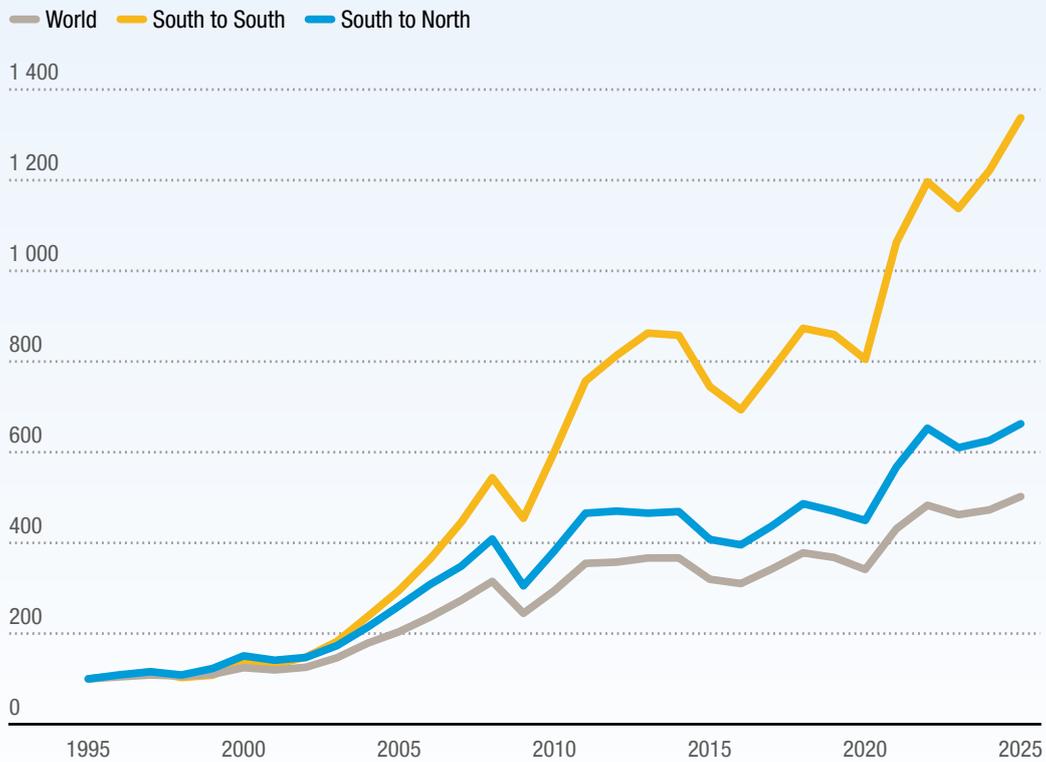
**Without the WTO, many developing countries have no reliable legal framework to trade with one another.** The multilateral trading system has been fundamental to the expansion of South–South trade by providing a global forum where all developing countries can trade under a shared, predictable, and non-discriminatory set of rules. Indeed, WTO rules have supported the rapid rise of South–South trade, which increased from about US\$500 billion in 1995 to US\$6.8 trillion in 2025 (Figure 2). This growth has been crucial for development strategies centred on export diversification. By 2025, South–South exchanges accounted for over a quarter of global trade.





Figure 2

South-South trade outpaced developing countries' exports to North and world trade growth



Source: UNCTAD calculations based on UNCTADstat and UNCTAD estimates.

Note: Merchandise exports. Do not include services.

**The role of services in the global economy has expanded rapidly in recent decades; however, many areas still lack significant multilateral commitments.** Knowledge-intensive and digitally deliverable services are increasingly central to economic growth, technological innovation, and international competitiveness. For developing economies, participation in services trade offers critical opportunities for structural transformation. Expanding service exports can help diversify economies beyond traditional goods sectors, generate higher value-added activities, and create new employment opportunities in modern sectors such as IT, fintech, logistics, and business services. Moreover, services trade often supports productivity gains in the wider economy, enabling firms to upgrade operations, adopt new technologies, and integrate into global value chains. Without stronger multilateral disciplines and predictable access in rapidly growing service sectors, including digital trade, data flows, financial services, and professional services, developing countries risk being left on the periphery of global innovation networks, limiting their ability to capture the full benefits of the digital and knowledge-driven economy.



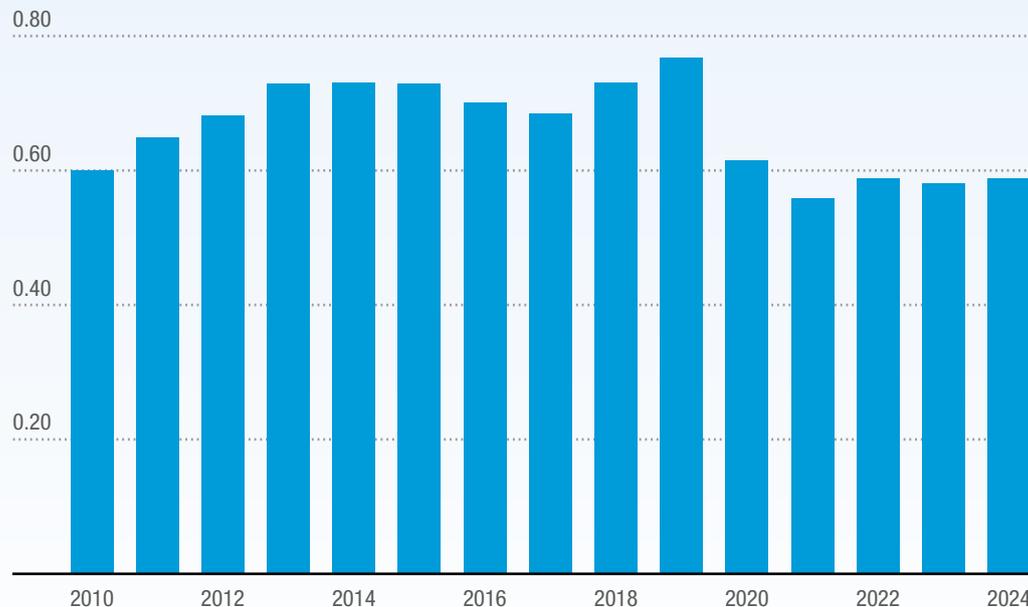
**Marginalization in services trade is particularly evident for LDCs.** These countries have largely remained outside of the opportunities offered by global services trade. Since 2010, LDCs have accounted for less than 1 per cent of global services exports (Figure 3), with their share declining further during the pandemic to just 0.59 per cent in 2024, slightly below the 0.60 per cent recorded in 2010. Between 2014 and 2024, LDC services exports grew at an average annual rate of only 3 per cent, compared with 5.3 per cent globally, despite the WTO services waiver designed to support preferential treatment for LDC service suppliers. This evidence underscores the persistent barriers and limited integration of LDCs into the expanding global services economy.



**Figure 3**

**Services exports from LDCs remain a small part of global services exports 2010-2024**

(Percentage)



Source: UNCTADstat, accessed February 2026. Available at <https://unctadstat.unctad.org/EN/Index.html>

**The limited participation of many developing countries in global services trade partly reflects the incomplete and fragmented nature of the international regulatory framework governing services markets.** Differences in regulatory frameworks, licensing procedures, and professional standards, among others, often create barriers that limit the ability of developing country firms to expand their services exports. Improved cooperation at the multilateral level could help address these challenges. Greater transparency in domestic regulations, mutual recognition of professional qualifications, and enhanced technical assistance could facilitate broader participation of developing countries in the rapidly expanding global services economy. A reformed WTO could help developing countries unlock the full development potential of services trade and ensure that they participate in the global economy on fair and equitable terms.



**Special and Differential Treatment (SDT) has long been central to enabling developing countries to harness trade opportunities and manage structural constraints.** By providing flexibilities, preferential market access, and policy space, SDT remains an essential tool for addressing persistent development gaps. Yet its impact has often been limited. Many developing countries, especially LDCs, which rely heavily on trade for revenue generation, macroeconomic stability, and structural transformation, continue to face significant barriers in global markets.

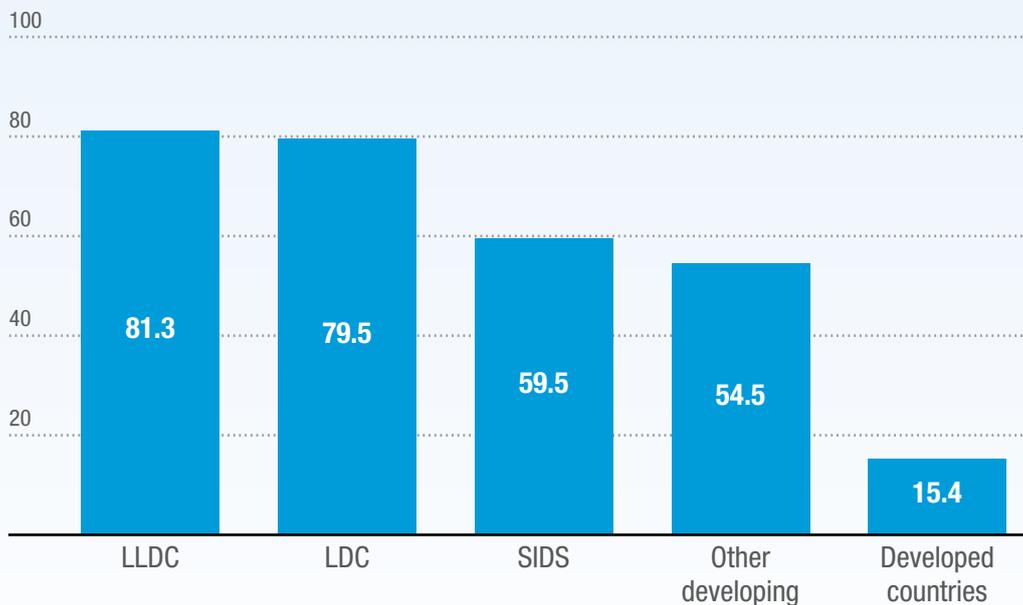
**SDT must be an important part of WTO reform, with development, economic and environmental vulnerabilities recognized as core operational principles rather than peripheral considerations.** A reformed SDT framework should provide developing countries with predictable, enforceable, and actionable flexibilities, enabling them to participate fully in trade, move up the value chain, reduce dependence on commodity exports, and meet their multilateral environmental agreements' commitments. When integrated into the multilateral system in this way, SDT can transform trade from a set of obligations into a strategic instrument for sustainable development, empowering vulnerable economies to attract investment, capture higher value, diversify their exports, and strengthen resilience in a rapidly evolving global economy. This has not happened for the vast majority of least developed countries and landlocked developing countries, which remain heavily dependent on primary goods exports (Figure 4).



**Figure 4**

**Most LDCs and landlocked economies still rely on primary exports**

Share of commodity-dependent countries, by development grouping



Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database, 2021–2023.





## The Most-Favoured Nation Principle: a pillar under strain

**One of the core pillars of the WTO, the Most-Favoured Nation (MFN) principle, has recently come under question.** MFN ensures non-discrimination by requiring that any trade concession granted to one partner be extended to all members, creating a predictable and uniform framework for trade. This framework has allowed tariff reductions and market-access improvements to benefit all countries, including smaller economies that might otherwise lack the bargaining power to secure comparable terms. By effectively “multilateralizing” concessions, MFN has helped mitigate power asymmetries, reduce the need for bilateral negotiations, and limit the risk of geopolitical rivalries spilling over into trade relations.

**The era of universal, MFN-based trade governance is giving way to a more fragmented and differentiated global trade landscape.** Countries are relying more on bilateral and regional agreements, plurilateral initiatives, and trust-based partnerships to address issues ranging from digital trade and supply-chain security to market access and tariffs. These deeper forms of cooperation often require regulatory alignment and political trust that extend beyond the traditional MFN framework. At the same time, the growing use of trade measures justified, for example, on national security grounds or environmental considerations, is accelerating this trend. As a result, global trade dynamics are gradually shifting from non-discrimination toward more differentiated forms of economic integration.





**Table 1**

**The shift in Trade Framework: From Non-Discriminatory to Differentiated Integration**

	<b>Non-Discriminatory Trade Policy</b>	<b>Differentiated Integration</b>
<b>Core Values</b>	Uniformity and neutrality	Alignment and resilience
<b>Primary Tool of Integration</b>	Multilateral concessions	Trade agreements and plurilateral “clubs”
<b>Role of Security in Trade</b>	Limited; minimizes interference	Central; trade as a tool of statecraft
<b>Deeper Forms of Cooperation</b>	Rare; MFN applies broadly	Prioritized through regulatory alignment, political trust, and shared objectives
<b>Integration of Developing/Small Countries</b>	Protected from aggressive reciprocity	Risk of marginalization through power politics

Source: UNCTAD compilations.

**The erosion of the Most-Favoured Nation principle reduces the baseline of guaranteed market access and predictability on which weaker members historically relied.** In a system increasingly shaped by differentiated integration, their participation in new trade initiatives is constrained by their limited bargaining power, small market size, and weak regulatory capacity. As a result, opportunities to join high-standard trade networks are restricted, and access to global markets increasingly depends on geopolitical alignment and technical capacity, leaving many low-income countries at risk of marginalization in both trade flows and rule-setting processes.

**The erosion of MFN risks fragmenting the multilateral trading system into insiders and outsiders in global trade dynamics.** To maintain non-discrimination alongside differentiated integration, plurilateral initiatives should be transparent, open-ended, and provide clear and realistic pathways for developing countries to join. In particular, as new rules emerge in digital trade, sustainability, and advanced technologies, ensuring broad participation will require predictable accession procedures, clear criteria, and early engagement mechanisms so that all members can contribute to and benefit from evolving standards. Preserving the balance between differentiated policies and inclusiveness will be a central challenge for MFN reforms.





## Ensuring predictable market access for developing countries

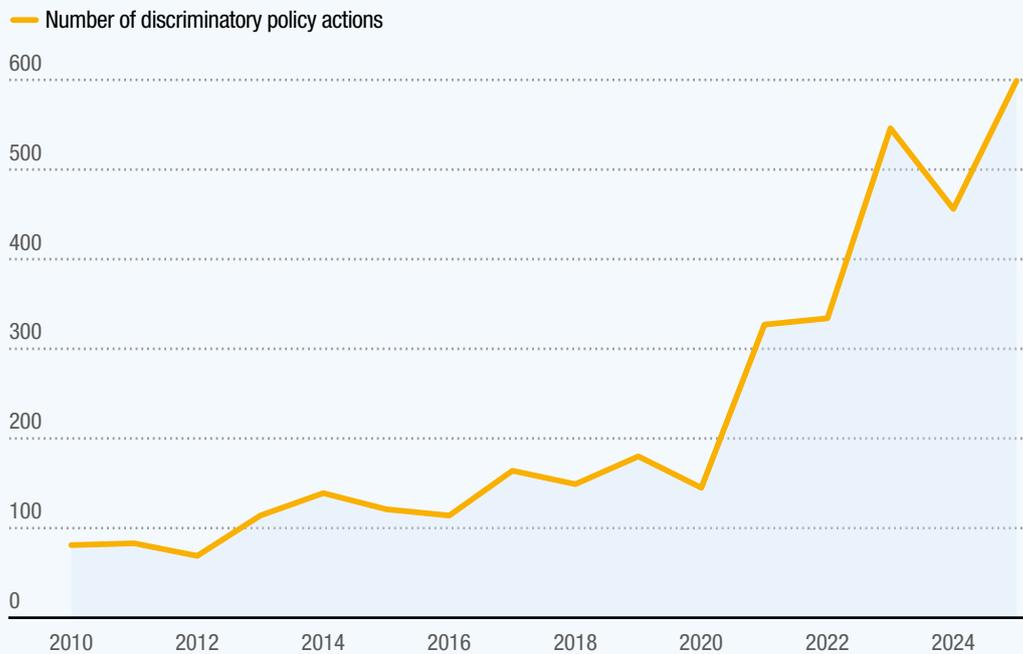
**Predictable market access has always been central to the multilateral trading system, and for developing countries, it remains indispensable.** The WTO was created to provide a stable, rules-based environment in which all members, regardless of economic size, could rely on agreed disciplines that limit the ability of trading partners to introduce sudden or discriminatory restrictions. For developing economies, this predictability is not a luxury; it is the foundation that enables integration into global value chains, export-led growth, and long-term industrialization.

**In recent years, however, this predictability has eroded. Major economies have shifted away from liberalization toward policies grounded in industrial strategy, national security concerns, and geopolitical competition.** As a result, market access conditions have become increasingly discriminatory and volatile (Figure 5). Trade policy uncertainty has reached record highs, reflecting an environment in which tariffs, export controls, investment screening, and technology restrictions, to name a few, are deployed with greater frequency and often without transparent multilateral disciplines. Unlike the negotiated adjustments that define the WTO system, these unilateral measures are inherently discretionary and unpredictable, undermining confidence in stable market conditions.





**Figure 5**  
**Unilateral discriminatory policy actions are on the rise**



Source: Global Trade Alert, <https://globaltradealert.org/>.

**As legal certainty declines and enforcement mechanisms falter, the risk premium associated with cross-border trade rises.** For developing countries, many of which operate with limited fiscal space and have narrow export baskets that leave them more exposed to external shocks, and reduce their shock-absorbing capacity, such volatility translates into higher operational costs, diminished competitiveness, and declining investor confidence. The erosion of predictable access threatens to reverse decades of development gains built on stable, rules-based trading conditions.

**The challenge for the WTO is not only to accommodate new policy areas, but to re-anchor commitments in a framework that restores certainty among all members.**

Reform must reinforce core disciplines, strengthen transparency, and revitalize a fully effective dispute settlement mechanism capable of delivering timely and binding outcomes. For small and vulnerable economies, these reforms are essential. Large economies may navigate unpredictability through market power; smaller ones cannot. Restoring predictability is thus fundamental to preserving the WTO's development promise and ensuring that all members can participate in global trade with confidence.





## Dispute settlement protects equity in multilateral trading system

**A functional dispute settlement mechanism (DSM) is the cornerstone of a rules-based multilateral trading system.** In recent years, however, its effectiveness has been undermined, most prominently by the paralysis of the Appellate Body due to blocked judicial appointments. Even prior to this paralysis, smaller members often faced difficulties accessing the system effectively because of capacity constraints and the complexity of WTO litigation. Any WTO reform must therefore strengthen the DSM in a way that is both operationally robust and genuinely accessible to all members. The mechanism is essential because it ensures that negotiated rights and obligations remain binding, regardless of a country's economic size or political influence. Without an operational adjudication system, commitments risk becoming unenforceable, weakening market access, encouraging unilateral measures, and heightening the risk of trade conflicts. For many smaller economies, the WTO remains the only forum where disputes can be addressed on equal legal terms, underscoring why revitalizing the DSM is critical for fairness and predictability in global trade.

Since a binding DSM was established after the Uruguay Round in 1995, members have brought 644 disputes to the Dispute Settlement Body and 378 panels have been established (Figure 6). Between 2010 and 2019, before the system entered paralysis, members initiated an average of 19 consultations per year; this dropped to 8.5 between 2020 and 2025.

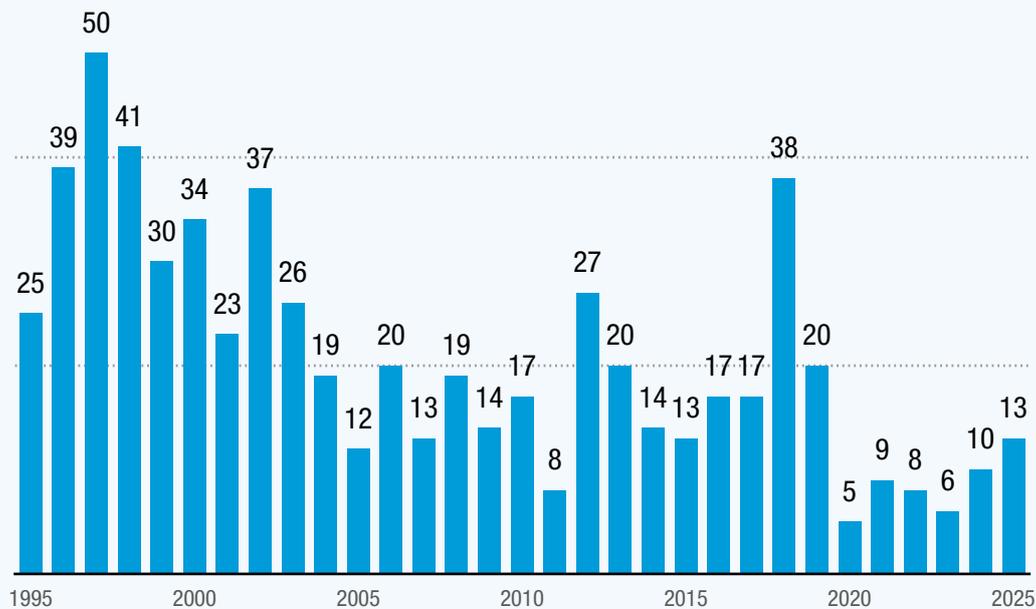




**Figure 6**

**WTO members keep filing disputes even as the WTO system stalls**

Requests for Consultations at the WTO Dispute Settlement Mechanism (1995 – 2025)



Source: WTO, [https://www.wto.org/english/tratop\\_e/dispu\\_e/dispustats\\_e.htm#more\\_numbers](https://www.wto.org/english/tratop_e/dispu_e/dispustats_e.htm#more_numbers).

**For developing countries, the DSM is indispensable. Lacking the market power or retaliatory capacity of larger economies, they depend on a binding legal process to defend their rights and interests.** A fully functioning DSM provides legal protection against discrimination, predictability for producers and investors, and safeguards against power asymmetries. However, the paralysis of the Appellate Body has created legal uncertainty and allowed appeals “into the void,” undermining effective enforcement. Although the Multiparty Interim Appeal Arbitration Arrangement offers a temporary alternative, its voluntary nature only reinforces the urgent need to restore a universally operational DSM.





## WTO reforms priorities of developing countries

As members head toward MC14, developing countries have repeatedly emphasized that the WTO must finally deliver on longstanding development mandates that have remained unresolved for years.

### Trade in agriculture

Agriculture remains a key area where developing countries want concrete outcomes, yet negotiations have largely stalled since the Nairobi Ministerial in 2015. Despite this stagnation, agriculture continues to be foundational for food security, livelihoods, export earnings and development across the Global South. Core negotiating issues, such as domestic support, market access, and others, remain unresolved, with countries maintaining widely different positions on the negotiating issues. Without progress in agriculture reforms, agricultural exporters will not be able to fully benefit from their natural resource endowments for development, while net food-importing countries will not be able to fully profit from world trade for food security, in a context of periodic and persistent shocks that lead to high food price volatility.



## Trade in Services

Services trade has emerged as a key area in which developing countries are pushing for meaningful results. Despite its growing importance for economic growth, technological upgrading, and integration into global value chains, services negotiations have often lagged those for goods. Key issues such as market access commitments, recognition of professional qualifications, digital trade rules, and regulatory transparency remain unresolved, leaving developing countries at a disadvantage in expanding their services exports. Without clearer commitments and enforceable rules, many developing economies and least developed countries struggle to participate effectively in global services markets, missing opportunities to diversify their economies, create higher-value jobs, and capture the benefits of knowledge-intensive and digitally deliverable services.

## The issues of the 21<sup>st</sup> century

The 21st-century trade agenda must ensure that emerging trade opportunities are inclusive and accessible to developing countries. Digitalization, for example, offers pathways for participation in e-commerce, digitally deliverable services, and global data flows, but only if multilateral rules ensure interoperability, market access, and non-discriminatory treatment. Similarly, decarbonization presents both risks and opportunities: developing countries can benefit from integrating into low-carbon resilient supply chains, exporting green products and technologies, and attracting NDC- and DSG-aligned climate-related investment, but only if trade rules prevent protective measures in advanced economies from locking them out.





## Why inclusive development should anchor the multilateral trading system?

The multilateral trading system needs to remain a fundamental pillar of the global trade architecture. Despite significant challenges, it should continue to provide an essential framework for managing trade relations among countries with diverse economic structures and policy priorities.

Current discussions on WTO reform provide a crucial opportunity to strengthen this framework and ensure it remains relevant in a rapidly changing global economy. Key priorities include restoring a fully operational dispute settlement system, strengthening predictability in market access, preserving core principles such as non-discrimination, and ensuring that developing countries can participate meaningfully in emerging areas of international trade. Importantly, development must remain a core guiding principle of these reforms, not a peripheral consideration. This means designing rules, flexibilities, and commitments in ways that enable developing economies to leverage trade for structural transformation, resilient economic diversification, and poverty reduction.

By embedding development at the heart of WTO reform, members can ensure that global trade continues to be a driver of inclusive growth, equitable opportunity, and sustainable prosperity for all countries in the decades ahead.



Through this publication,  
UNCTAD provides valuable insights  
into current and emerging trade policy  
issues and their impact  
on economic development in a fast  
changing global trade context.

[unctad.org](https://unctad.org)