



The Implications of the U.S.-China Trade War for the Legitimacy of the World Trade Organization (WTO) as the Guardian of the International Trade Order

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ABSTRACT

The central issue motivating this study is the growing disconnect between the WTO's rules-based mandate and its declining effectiveness amid major-power trade conflicts. This study analyzes the implications of the trade war between the United States and China on the legitimacy of the World Trade Organization (WTO) as the guardian of international trade order. Using a qualitative approach with a case study of the 2018–2025 period, this research employs perspectives from Institutional Economics, International Trade Regime Theory, Institutional Legitimacy Theory, and Hegemonic Stability Theory. Data were analyzed using qualitative content analysis and critical discourse analysis. The findings indicate that unilateral actions, tariff retaliation, and the paralysis of the Appellate Body have weakened the function and legitimacy of the WTO as a rules-based system. Trade conflicts have tended to shift from legal mechanisms toward power-based settlement approaches. Nevertheless, developing countries, including Indonesia, continue to regard the WTO as an important forum and play a role in sustaining the international trading regime. This study concludes that the WTO is experiencing not only a policy crisis but also a crisis of legitimacy and global trust amid shifting dynamics of international economic power.

Keywords: Legitimacy Crisis, Trade War, US-China Conflict, WTO Appellate Body, WTO Reform

1. INTRODUCTION

In today's global economic system, international trade is not merely a tool for the exchange of goods and services across borders, but also a strategic instrument in interstate relations (Krugman et al., 2018). As the complexity of global economic relations increases, countries require an institutional framework capable of maintaining order, legal certainty, and fairness in international trade practices (Gilpin & Gilpin, 2001; North, 1990). The World Trade Organization (WTO) was established in 1995 as an institutionalization of the General Agreement on Tariffs and Trade (GATT) to reinforce the principles of free, non-discriminatory, and rules-based trade (Hoekman & Kostecki, 2001; WTO, 2020).

The WTO plays an important role in regulating the multilateral trading system through dispute settlement mechanisms, trade agreement negotiation forums, and monitoring of member states' implementation of commitments (Hoekman & Kostecki, 2001). However, over the past two decades, particularly since the outbreak of the trade war between the United States and the People's Republic of China (PRC) in 2018, the role and legitimacy of the WTO have come into question (Bown, 2020; Evenett & Baldwin, 2020). The dispute between the world's two largest economic powers has not only impacted global trade flows but has also tested the effectiveness and credibility of the WTO as the primary guardian of the international trade rules-based order (Hopewell, 2021).

The trade war between the US and China, which began in 2018, involved the reciprocal imposition of tariffs on hundreds of billions of dollars' worth of products. The US's unilateral action of imposing high tariffs on Chinese imports on grounds of national security (Section 232 and Section 301 of the Trade Act), without

first pursuing dispute settlement through the WTO, became a critical juncture illustrating the erosion of trust in multilateral mechanisms (Bown, 2020; Shaffer, 2006). WTO member states also began questioning the continuity of the WTO's dispute settlement system (Dispute Settlement Body/DSB), especially after the US blocked the appointment of Appellate Body judges, rendering the appeals mechanism non-functional since 2019 (Bown, 2020; Hoekman & Kostecki, 2001). The WTO's inability to effectively regulate and resolve the trade conflict between the two major economic powers has generated a crisis of confidence in the organization (Hopewell, 2019).

This situation reveals that in practice, the power of major states can undermine the effectiveness of multilateral institutions through unilateral action. The trade war has raised concerns about a return to a power-based international trading system, rather than one grounded in law and rules (Evenett & Baldwin, 2020; Gao et al., 2023). In 2025, escalation occurred again: the US announced it would impose 100% tariffs on Chinese imports if no negotiated agreement was reached, after China tightened export controls on strategic raw materials such as rare earths, which are critical to high-technology supply chains (Leahy et al., 2025; Shalal, 2025). China responded by raising retaliatory tariffs to 50% or more on US goods, for instance, announcing an additional 50% tariff on US imports in April 2025 (Shalal, 2025). Both parties subsequently agreed to a temporary 90-day truce to lower tariffs to interim levels (the US to approximately 30%, China to approximately 10%) as an initial de-escalation step, but many observers regarded this as merely a "suspension mode" without any deep structural solution (Shalal, 2025; Slawson, 2025). With strategic actions such as raw material export controls and new tariff threats by the US, doubts over the WTO's capacity to contain unilateral maneuvers and preserve the multilateral trading system have grown considerably (Shalal, 2025).

In the realm of international trade and global governance, the legitimacy of international institutions is a crucial factor in ensuring state compliance with jointly agreed rules. According to Suchman (1995), legitimacy is the general perception that the actions of a particular entity conform to the values, norms, and beliefs shared within a social system. Buchanan and Keohane (2006) add that the legitimacy of global institutions depends on both inputs (procedurality, inclusiveness) and outputs (effectiveness in achieving objectives).

The WTO derives its legitimacy from its ability to guarantee equal access for member states to advance their trade interests through a transparent, fair, and predictable system. However, when the dispute settlement system cannot function optimally, when major states disregard WTO rulings, and when institutional reform stalls, the organization's legitimacy becomes threatened. The US-China trade war demonstrates that the WTO's mechanisms lack coercive power over major states that act unilaterally. This affects the perceptions of member states, particularly developing countries, toward the WTO as an institution no longer capable of protecting the interests of all parties in a balanced manner.

This is evident in the growing escalation of tensions in international trade, particularly between the United States and the People's Republic of China, which has underscored the strategic role of international organizations such as the WTO in maintaining the stability of the global trading system. As a multilateral institution based on the principles of a rules-based order, the WTO provides a normative and procedural framework designed to facilitate trade dispute settlement, enhance transparency, and ensure the consistent implementation of member states' obligations. In the context of increasingly fragmented bilateral trade dynamics, the multilateral approach pursued by the WTO becomes ever more important in preventing conflict escalation and creating legal certainty in cross-border trade (Maggi, 1999).

Throughout the trade war between the United States and the People's Republic of China, the WTO has functioned as an institutional actor providing formal dispute settlement mechanisms to contain the potential for mutual retaliatory actions that could disrupt the architecture of global trade. China, for instance, has actively utilized the WTO's dispute settlement forum to file complaints against US tariff policies deemed inconsistent with international trade law. Conversely, the United States has used the same forum to voice its objections to Chinese trade practices considered distortive, such as alleged violations of intellectual property rights, subsidies to strategic industries, and forced technology transfer policies. This interaction reflects the importance of the WTO as an institutional arena for mediating competing economic interests between two nations of immense global influence (Bown, 2020; WTO, 2020).

Nevertheless, the WTO's capacity to perform its functions of international mediation and law enforcement has encountered significant limitations. These stem partly from the weakened authority of the Appellate Body, the stagnation of institutional reform processes, and the growing tendency of major states to

take unilateral steps and bypass multilateral processes. The US government, both under the administration of Donald Trump and Joseph Biden, openly expressed dissatisfaction with the WTO's effectiveness, stating that the organization had failed to address systematic violations committed by China in the field of trade. On the other hand, China, while still acknowledging the significance of the WTO as an advocacy forum for its national interests has consistently displayed an ambivalent attitude toward rulings it considered inconsistent with its domestic strategies and industrial agenda.

These conditions collectively reflect the fundamental challenges faced by the WTO in maintaining its legitimacy and relevance as the primary guardian of a rules-based international trade order. Amid a crisis of confidence and intensifying geopolitical-economic rivalry, the WTO's role as a unifying institution has become increasingly questioned, particularly as dispute settlement mechanisms and the enforcement of international law are no longer able to keep pace with the power dynamics of major states in the global system.

Several key factors can be identified as contributing to the decline in member states' confidence in the WTO during the period of the trade war. These include: **Inequality of Power in Decision-Making.** The WTO's decision-making process is based on consensus; however, major states often dominate the direction of policy, making it difficult to reach substantive agreements, particularly in negotiating rounds such as the Doha Round (Hoekman & Kostecki, 2001). **Ineffectiveness of the Dispute Settlement System.** The paralysis of the Appellate Body since late 2019 has meant that appeals cannot proceed, thereby reducing the credibility of the WTO's oversight and dispute settlement system (Shaffer, 2006). **Unilateral Actions by Major States.** The imposition of tariffs and trade sanctions unilaterally, without multilateral consultation, demonstrates that major states no longer defer to collective rules. This reinforces the perception that the WTO is only effective for small and medium-sized states that lack the economic power to act unilaterally. **Lack of Institutional Reform.** The WTO is seen as having failed to respond to new global challenges such as digital trade, sustainability, and unequal market access. Developing countries also feel that WTO reforms tend to benefit developed nations more.

In the context of developing countries, the WTO's legitimacy crisis creates a strategic dilemma. On one hand, developing countries need a fair international trading system capable of protecting their interests from the discriminatory practices of developed nations. On the other hand, the WTO's inability to effectively enforce its rules leaves them vulnerable to economic and political pressure from major powers. Some developing countries have attempted to respond by: **Advocating for WTO Reform.** Countries such as India, South Africa, and Indonesia have pushed for reform of the dispute settlement system and greater protection for domestic industrial policies. **Building South-South Alliances.** Developing countries are increasingly active in regional and bilateral cooperation, such as through BRICS, RCEP, and AfCFTA, as a form of diversification and protection against the uncertainty of the multilateral system. **Promoting Alternative Mechanisms.** In some cases, developing countries have proposed interim alternative appeal mechanisms (the Multi-Party Interim Appeal Arbitration Arrangement/MPIA) as a substitute for the paralyzed Appellate Body. However, all such efforts remain contingent on the political will of major states and the collective capacity of WTO members to restore the organization's legitimacy.

The study of WTO legitimacy in the context of the trade war is not only academically relevant within the framework of institutional theory and international trade, but also practically important in designing economic foreign policy strategies for developing countries. The strengthening of Indonesia's and ASEAN countries' bargaining positions in multilateral forums such as the WTO will depend greatly on an understanding of these dynamics. A holistic approach is required, one that not only highlights the WTO's weaknesses, but also evaluates how international institutional design can be improved to be more adaptive and inclusive. This research aims to contribute empirically and normatively to the discussion on the reform of global trade governance.

Many studies have examined the trade war from a macroeconomic perspective, but few have investigated its impact on the legitimacy of multilateral institutions. However, existing works such as Bown (2020) primarily focus on the economic consequences of tariff retaliation and the technical paralysis of the Appellate Body, while Hopewell (2021) analyzes the shifting power dynamics within the WTO from a political economy standpoint without systematically theorizing legitimacy as an analytical concept. What remains underexplored is a systematic application of institutional legitimacy theory which integrating input, output, and throughput dimensions to assess how the prolonged US-China trade war has eroded member state trust across both developed and developing country contexts. Furthermore, the escalation of tensions in 2025,

including new tariff threats and strategic raw material controls, has yet to be incorporated into legitimacy-focused analyses. The WTO has traditionally been viewed as an economic institution, but it has not been extensively studied from the perspective of institutional legitimacy theory in international economics. This research seeks to empirically analyze how the dynamics of the US–China trade war affect perceptions of WTO legitimacy and what implications this has for the rules-based global trading order, thereby offering a distinct theoretical contribution compared to prior macroeconomic or power-centric approaches.

This study seeks to answer four key research questions. First, how has the trade war between major states, such as the United States and China, affected the institutional functions of the WTO? Second, how is the legitimacy of the WTO perceived by member states amid the global trade conflict? Third, is the WTO still relevant as a multilateral trade dispute settlement institution in the context of rising unilateralism? Finally, what strategies can developing countries, including Indonesia, adopt to promote reform and strengthen the legitimacy of the WTO?

2. LITERATURE REVIEW

2.1. Institutional Economics

Institutional Economics theory was developed by North (1990), who emphasized that institutions are the “rules of the game” that govern economic and political interactions. International institutions such as the WTO function to create predictability, transparency, and a reduction of transaction costs in global trade. In this context, the WTO acts as an institution that guarantees legal certainty in international trade. However, when major states act unilaterally as the US did in the trade war with China these institutional functions are weakened, resulting in: declining compliance with shared rules, increased transaction costs and uncertainty, and disruption of mediation and dispute settlement functions.

Institutional Economics theory is grounded in the idea that institutions (rules, norms, and organizations) play a key role in shaping economic behavior and market performance. The principal figure of this theory is North (1990), who emphasized that institutions are “the rules of the game in a society” both formal and informal rules that govern economic interaction. The core of his thinking is that institutions reduce transaction costs and uncertainty in economic activity; that economic change is driven not only by technology and markets but also by institutional change; and that long-term economic efficiency is determined by how institutions evolve adaptively in response to changes in the social, political, and technological environment. In the context of international trade, this theory explains how global institutions such as the WTO, the IMF, and the World Bank function as institutional arrangements that create stability, regulate interstate interactions, and reduce uncertainty in the flow of goods and services.

The US–China trade war demonstrates how changes in the behavior of major actors (state behavior) can disrupt the stability of multilateral institutions. Institutional theory thus helps explain that WTO legitimacy has declined not solely because of weak norms, but because the interests of major states have altered the incentive structure within the global trading system.

2.2. Hegemonic Stability Theory

Hegemonic Stability Theory was proposed by Kindleberger (1981) and further developed by Keohane (2005). This theory assumes that the stability of the international economic system is highly dependent on the existence of a hegemonic state with both the capacity and the willingness to enforce global rules. In the post-World War II international trading system, the United States played the role of hegemon, supporting the establishment of GATT and subsequently the WTO. However, since 2018, US protectionism and unilateralism have indicated a declining commitment by the hegemon to the multilateral system.

In the context of this research, Hegemonic Stability Theory is used to explain why the US–China trade war has caused a legitimacy crisis for the WTO. When the hegemon (the US) withdraws support from the dispute settlement mechanism and rejects WTO decisions, the rules-based order loses its coercive power. As a result, multilateral trade stability declines, WTO legitimacy erodes, and developing countries lose confidence in the international system. This theory originates from the thinking of Kindleberger (1981) and was subsequently developed by Keohane (2005). Its essence is that the stability of the international economic

system can only be guaranteed if there is a single hegemon sufficiently powerful to create and enforce the rules of the game.

The core ideas of this theory are that the hegemon acts as a provider of international public goods (such as security, open markets, and international liquidity); that when the hegemon's power weakens, the global economic system experiences instability and protectionism; and that historical examples include British dominance in the 19th century and US dominance in the post-World War II era. In the context of the WTO, this theory explains why the hegemon (the US) played a dominant role in shaping the post-1945 global trade architecture, and how the decline of US hegemony has generated tensions and weakened compliance with the multilateral trading regime (for example, through the US–China trade war).

2.3. International Trade Regime Theory

International regime theory was developed by Krasner (1983), who defined a regime as “a set of principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue area.” In the context of global trade, the WTO represents the institutionalization of the international trade regime, grounded in non-discrimination, liberalization, and dispute settlement through multilateral mechanisms.

The US–China trade war indicates a shift from the multilateral regime system toward a power-based regime. Major states no longer conform to the norms and rules of the regime, but instead act on the basis of narrow national interests. The WTO's weakness in maintaining compliance demonstrates that the international trade regime loses its legitimacy when its core principles are no longer observed by key members. Regime theory thus helps analyze changes in state compliance dynamics with global trade norms; the impact of power politics on regime effectiveness; and the conditions of a “crisis of confidence” toward global trade regulatory institutions.

International regimes (such as GATT/WTO) regulate and coordinate state behavior to be stable and predictable. Regimes help states overcome the problem of international anarchy by providing dispute settlement mechanisms and transparency. Compliance with regimes often arises from interdependence and mutual gains, rather than from hegemonic coercion. The WTO as a trade regime serves as a prime example of how multilateral rules maintain open markets, resolve trade disputes, and promote global economic liberalization. However, the emergence of unilateralist practices (such as trade wars) demonstrates the challenges facing the effectiveness of multilateral regimes.

2.4. Institutional Legitimacy Theory

This theory explains that the survival and effectiveness of an institution depend on the degree of legitimacy it receives from relevant actors. Legitimacy is defined as the acceptance and belief that the institution acts in accordance with the values, norms, and expectations of society or its members (Suchman, 1995). Legitimacy can be normative (moral), pragmatic (useful), or cognitive (considered natural and taken for granted). When an institution loses legitimacy, trust declines and its effectiveness is threatened. The process of legitimation occurs through transparency, procedural fairness, and accountability. In the context of the WTO, this theory is highly relevant for explaining the declining trust in multilateral institutions resulting from failures to address protectionism, the inequality between developed and developing countries, and the deadlock in the Doha Round. The WTO's legitimacy crisis reflects the challenges facing the rules-based global trading system.

3. RESEARCH METHODS

This research employs a descriptive qualitative approach using the case study method as its primary methodology. The subject of study is focused on the period of the US–China trade war (2018–2024) and its implications for the WTO. Data collection techniques include the study of official WTO documents, member state reports, and think tank publications; elite/semi-structured interviews with trade diplomats or policy analysts (where feasible); and critical discourse analysis of narratives surrounding the delegitimization and reform of the WTO. Data analysis was conducted using qualitative content analysis and critical discourse analysis. These techniques were applied to identify major themes in the narratives of member states and international organizations regarding WTO legitimacy.

The data analysis is inductive, qualitative, and descriptive in nature. The analytical process was carried out through stages of data reduction, data presentation, and conclusion or verification. Data reduction was performed by sorting and selecting only the data genuinely needed and used as research information sources, while unused data was disregarded (Sugiyono, 2018). In this research, the data that had been sorted and classified became data with relevance and correlation to the issues under study. These data were arranged in a structure depicting the overall research problem. The next step was data presentation, in which the organized data became information that could serve as the basis for drawing conclusions. Data presentation in this study was carried out to view the overall research problem. At this stage, the researcher sought to present data that had been classified according to the main issues, making it possible to observe similarities, differences, and interrelationships among the data. The final step in data analysis was the drawing of conclusions or verification. At this stage, the researcher drew conclusions from the presented data, ultimately arriving at the determination of solutions to the research problem.

The researcher produced a research flowchart consisting of three stages: the initial research stage (preliminary survey, formulation of research questions, and determination of research methods and data collection); the data processing and analysis stage (data reduction, data display, and conclusion drawing); and the final stage (preparation of the final report and research output).

4. RESULTS AND DISCUSSION

4.1. Impact of the Major States' Trade War on the Institutional Functions of the WTO

The WTO is an international institution with a mandate to regulate international trade worldwide. As a form of multilateral cooperation, all of its activities are guided by international agreements among its member states, giving the WTO the legitimacy to uphold trade rules. With 166 member states (WTO, 2020), the WTO is entrusted to act in accordance with the values, norms, and expectations of its members. As long as multilateral rules are enforced, the institution's effectiveness is high. The effectiveness of the WTO as an institution in 2025 has shown very significant changes as a result of the trade war between the United States (US) and China. The trade war, which first broke out in 2018 and resumed for a second time in 2025, demonstrates the erosion of WTO's multilateralism principle. The US-China trade war has shown a shift from multilateral mechanisms toward unilateral and bilateral approaches, which has weakened the WTO's core norms (MFN and non-discrimination).

The WTO is understood as a set of norms and rules (MFN, non-discrimination). When norms are disregarded, the regime undergoes erosion. Legitimacy declines as well, because the rules are no longer considered appropriate. As an institution, the WTO has maintained stable legitimacy within the international economic system, partly due to the existence of a hegemonic state capable of enforcing WTO rules globally. The United States has played the role of hegemon in supporting the WTO, but in 2018 and 2025, US protectionism and unilateralism demonstrated a declining commitment by the hegemon to the multilateral system. With the US which is the pillar supporting the WTO displaying instability as its unilateralist principles took hold, the institution was placed under strain. The US consistently blocked the appointment of new members to the WTO Appellate Body since the Obama era, continuing under Trump and Biden, effectively paralyzing the world's highest trade dispute court.

This action was taken because the US considered the Appellate Body to have exceeded its mandate and to be acting against US national interests, resulting in trade cases including Indonesia's nickel dispute being left pending without a final resolution. The paralysis of the Appellate Body: by blocking judicial appointments, the US caused the Appellate Body to lose its quorum, making appeals in trade cases impossible to process. This occurred because the US accused the WTO Appellate Body of exceeding the limits of its mandate, violating procedures, and acting unfairly. As a result, major cases such as Indonesia's nickel dispute with the European Union, the Boeing-Airbus subsidies dispute, and anti-dumping measures against China have been left in limbo because disputes cannot be resolved definitively.

In addition to blocking the appointment of new Appellate Body members, the US also pursued unilateral approaches such as the imposition of unilateral tariffs which are considered to violate WTO rules because they conflict with the principle of non-discrimination and the bound tariff levels that had been agreed upon. These actions violate GATT Articles I and II, generate uncertainty in global trade, and weaken multilateral dispute

settlement mechanisms. Unilateral US tariff policies (for example, those directed at China) are explicitly stated to violate WTO rules because they exceed bound tariff commitments and violate the Most-Favoured-Nation (MFN) principle. Unilateral actions bypass the WTO's Dispute Settlement Body (DSB), which is supposed to serve as the legitimate forum for dispute resolution. These policies have increased trade tensions, disrupted global supply chains, and raised trade costs, also potentially disrupting the economic growth of other countries, including Indonesia. The WTO had previously declared that certain tariff policies adopted by the US violated the provisions of the world trade organization. US unilateral actions have placed the rules-based trading system under immense pressure, forcing many countries to accommodate unilateral interests rather than multilateral mechanisms. It is clear that the US, as a hegemonic power, is no longer upholding the WTO regime, owing to its protectionism and unilateralism.

There is also an abuse of defensively oriented trade policy, given that Trump imposed a new global tariff of 15% by invoking a rarely used provision which is Article XXI of the GATT 1974 (BBC, 2026). The application of tariffs on the basis of national security grounds (GATT Article XXI) creates a dangerous precedent and expands the space for unilateral interpretation by major states. When the United States invokes this provision, it demonstrates protectionism that cannot be addressed through the WTO's multilateral channels. The US also demonstrates itself as a hegemonic state violating global WTO rules, thereby generating instability in the international economic system of world trade. Article XXI is part of the rules framework of the regime. Its unilateral interpretation by the United States shows a violation of the spirit of the rules. This damages perceptions of legitimacy because the rules are being interpreted by the United States on its own terms.

Another WTO institutional mechanism that has been weakened is the Dispute Settlement Body (DSB). The US's blocking of the appointment of Appellate Body judges has caused the WTO to lose an effective law enforcement instrument. The DSB is the dispute settlement mechanism among member states. When it is paralyzed, the institution's economic function fails. When the hegemonic state here the US, blocks WTO rules, it weakens the enforcement of the regime. This reveals a power asymmetry within the WTO: major states are better positioned to ignore WTO rulings without significant consequences, while developing countries remain bound by the rules. The conclusion can therefore be drawn as follows: the WTO regime is effective when the hegemonic state complies. When the hegemon ignores the regime, power asymmetry occurs. From the perspective of institutional economics, the institution fails to create a level playing field. This fragmentation of global trade governance which manifested in the emergence of bilateral, regional, and plurilateral agreements as substitutes for the WTO reflects declining confidence in multilateral institutions. When the WTO's multilateral regime weakens, states seek alternatives, which is a sign that the WTO has lost normative authority because it is no longer supported by the hegemon (the US).

4.2. Perceptions of Member States toward WTO Legitimacy amid the Global Conflict

The trade conflict between the United States and China since 2018 has not only involved increases in tariffs and trade retaliation, but has also triggered a shift in the way member states perceive the multilateral trading system. Unilateral actions taken by both countries including the imposition of tariffs outside the WTO's dispute settlement mechanisms and the weakening of the Appellate Body's function have raised doubts about the WTO's effectiveness in enforcing international trade rules. As a result, the central issue of the conflict is no longer merely about tariffs, but rather the declining trust in the WTO as a rules-based trading system, where major states increasingly rely on economic power and domestic policy rather than multilateral mechanisms, thereby triggering a legitimacy crisis against the WTO as the institution regulating global trade (Bown, 2020; Hopewell, 2019).

The World Trade Organization (WTO) is an international trading regime built upon the core norms of Most-Favoured-Nation (MFN) treatment and the principle of non-discrimination, emphasizing equal treatment among member states in trade relations. As a rules-based system, the WTO not only regulates tariffs and trade barriers but also shapes state behavioral expectations through jointly agreed norms, principles, and procedures. From the perspective of International Trade Regime Theory, as explained by Stephen D. Krasner, international regimes are understood as sets of principles, norms, rules, and decision-making procedures that govern actor expectations within a particular issue area. Accordingly, the WTO functions as an institution that stabilizes global trade interactions, reduces uncertainty, and promotes compliance through dispute settlement mechanisms. The norms of MFN and non-discrimination serve as the foundational principles ensuring a fairer, more transparent, and more predictable trading system (Krasner, 1983).

The United States' policy of unilateralism through Section 232, Section 301, and the imposition of unilateral tariffs demonstrates a tendency to disregard the procedures established by the World Trade Organization. These actions are often undertaken without going through the WTO's dispute settlement mechanisms, thereby weakening the principles of the rules-based system. From the perspective of International Trade Regime Theory, such behavior reflects an erosion of compliance with shared norms that previously governed state expectations. Furthermore, from the perspective of Institutional Legitimacy Theory, these actions also erode the WTO's legitimacy as a global authority, since the primary actor no longer fully adheres to the jointly agreed rules (Bown, 2019).

China's response to the United States' unilateral tariff policies was demonstrated through retaliatory tariffs that were also imposed outside the formal mechanisms of the World Trade Organization. Rather than relying on dispute panels, both countries preferred direct retaliation, signaling that the WTO was beginning to be bypassed in practice. Meanwhile, responses from other countries such as the European Union, Canada, and Australia showed fragmentation: some continued to support the WTO as a dispute settlement forum, while developing countries began to grow skeptical of its effectiveness. The crisis of the WTO's Appellate Body reinforced this condition, it was not merely a technical problem, but a symbol of declining legitimacy because the hegemon was no longer complying with the rules. From the perspectives of Hegemonic Stability Theory and Institutional Legitimacy Theory, this situation reflects the erosion of the WTO's institutional legitimacy. Thus, the WTO is not only facing a policy crisis, but also a crisis of perception and global trust (Bown, 2020).

4.3. Relevance of the WTO as a Dispute Settlement Institution in the Era of Unilateralism

The World Trade Organization (WTO) was designed as a law-based institution providing dispute settlement mechanisms to maintain the stability of global trade. Through binding rules, the WTO aims to ensure that trade conflicts are resolved legally, rather than through economic or political power. However, in practice, this function has begun to experience a crisis as violations of agreed procedures have increased (WTO, 2025). The Dispute Settlement Body plays an important role in reducing trade uncertainty by providing a structured dispute settlement forum. From the perspective of Institutional Economics, this mechanism helps to reduce transaction costs and increase predictability, thereby encouraging state compliance with international trade rules (North, 1990).

Since 2019, the WTO's Appellate Body has been paralyzed due to the US's blocking of judicial appointments. This situation has hampered the appeals process in disputes, meaning that rulings cannot be finalized. As a result, the effectiveness of the WTO's dispute settlement system has declined drastically. Trade conflicts between the United States and China have been resolved more often through tariff retaliation than through WTO mechanisms. This reflects a shift from legal settlement toward power-based settlement, in which economic power is more dominant than the rule of law (Bown, 2020).

In response to this crisis, the European Union and Canada initiated the Multi-Party Interim Appeal Arbitration (MPIA) as an alternative dispute resolution mechanism. This initiative demonstrates countries' efforts to preserve a rules-based system amid the weakening of the WTO. Although experiencing a crisis, many developing countries continue to utilize the WTO as a dispute settlement forum. This shows that the WTO remains relevant for countries with limited power, even if less effective for major states (Shaffer, 2006). From the perspective of Institutional Economics, the WTO's failure to perform its dispute settlement functions reflects the institution's inability to reduce uncertainty and transaction costs. This diminishes states' incentives to comply with existing rules.

Through Hegemonic Stability Theory and International Trade Regime Theory, this crisis demonstrates that without the support of a hegemon, rule enforcement mechanisms become weak. As a result, compliance with the international trading regime declines (Keohane, 2005; Krasner, 1983). Overall, the WTO is not only facing a political crisis, but also a functional crisis in carrying out its role as a global dispute settlement mechanism. This decline in effectiveness reflects the weakening of trust in the rules-based trading system.

4.4. Strategies of Developing Countries (Indonesia) in Strengthening WTO Legitimacy and Reform

Unlike major states, developing countries still greatly need the World Trade Organization (WTO) as the primary forum for regulating international trade relations. Limited economic and political power makes them dependent on a rules-based system to ensure fairness and protection from discriminatory practices in global

trade. The WTO functions as a protector of developing countries from the dominance of power politics exercised by major states. From the perspective of Institutional Economics, this institution reduces uncertainty and transaction costs through clear rules, enabling countries with limited capacity to participate fairly in the global trading system (North, 1990). Indonesia is active in various coalitions such as the G33, G20, and ASEAN within the WTO. This engagement demonstrates Indonesia's commitment to upholding the norms of the rules-based international trade regime and the collective interests of developing countries (Narlikar, 2005).

Indonesia consistently supports the reform of the WTO's Appellate Body to restore the dispute settlement function. This stance reflects efforts to maintain the legitimacy of the WTO institution so that it remains effective and credible in regulating global trade. Indonesia is also an active user of the WTO's dispute settlement mechanism, as seen in cases DS477/DS478 concerning restrictions on imports of horticultural products and animals. This demonstrates Indonesia's confidence in the WTO's dispute settlement system as a legal means of addressing trade conflicts. From the perspective of International Trade Regime Theory, developing countries serve as guardians of regime norms by continuing to comply with WTO rules and procedures. They uphold core principles such as non-discrimination and transparency amid weakening compliance by major states (Krasner, 1983).

According to Institutional Legitimacy Theory, the WTO's legitimacy is increasingly sustained by developing countries that continue to comply with its rules. When key actors begin to deviate, the support of developing countries becomes an important factor in maintaining the institution's continuity. From the perspective of Hegemonic Stability Theory, this situation illustrates a phenomenon of "reversed HST," in which when the hegemon weakens or withdraws, middle powers and developing countries instead prop up the continuation of the international regime (Hurd, 2024). Accordingly, Indonesia's strategy of supporting the WTO reflects an active effort to preserve the legitimacy and continuity of the global trading system. The WTO is maintained not only as a legal forum, but also as a symbol of justice for developing countries (Keohane, 1984).

5. CONCLUSIONS

The trade war between the United States and China has exposed fundamental weaknesses in the World Trade Organization (WTO) as a multilateral trade institution. Unilateralism, the disregard for dispute settlement mechanisms, and the paralysis of the Appellate Body since 2019 demonstrate the erosion of compliance with the norms of the international trading regime. From the perspective of Regime Theory and Hegemonic Stability Theory, this crisis reflects the weakening of the hegemon's role in upholding the rules-based system. Furthermore, from the perspective of Institutional Legitimacy Theory, the WTO has experienced a decline in legitimacy due to its inability to guarantee compliance and rule effectiveness. Nevertheless, developing countries, including Indonesia, continue to view the WTO as an important institution and strive to maintain its relevance through support for reform and adherence to its norms. The WTO thus currently faces a dual crisis in this case are functional crisis and legitimacy crisis which requires structural reform and global political commitment to restore confidence in the multilateral trading system.

6. REFERENCES

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