



The Role of the WTO in Maintaining Global Trade Stability: Between Protectionism and Liberalization Policies

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Abstract. *The World Trade Organization (WTO) acts as the main institution in regulating the global trading system based on the principles of fairness and openness. However, in practice, protectionist challenges arising from large countries, such as in the trade conflict between the United States and China, hamper economic liberalization efforts and create instability in the global market. This study aims to analyze the effectiveness of the WTO's role in facing these protectionism challenges. The method used is normative juridical with a qualitative approach, which includes analysis of WTO regulations and policies, as well as a comparative approach to examine the impact of protectionism in several countries. Data were obtained through literature study of academic sources and relevant international legal documents. The results show that policy harmonization between the WTO and its member countries is needed to maintain the stability of the multilateral trading system. In addition, reforms to the WTO dispute settlement mechanism are crucial to make it more adaptive to global geopolitical dynamics. Developing countries are advised to improve competitiveness through market diversification and strengthening economic diplomacy to remain relevant in the changing international trade architecture.*

Keywords: *Developing Countries, Dispute Settlement, Global Trade, Protectionism, WTO.*

1. INTRODUCTION

International Economic Law (HEI) is a branch of law that regulates economic relations between countries, including trade, investment, and global economic policy. There are two approaches to formulating the definition of international economic law. First, an approach based on the legal norms that govern it. Second, an approach that focuses on the object of international law as the main basis.

According to the German scholar Elder, a more appropriate approach is an object-based approach, which includes national law, civil law, and public law in regulating international economic relations. Meanwhile, John H. Jackson argued that "*international economic law can be defined as all subjects of law that have an international element and an economic element*". In other words, international economic law includes not only the rules of law between countries, but also various economic aspects that are cross-border¹.

¹ Utama, M. (2012). International economic law. Jakarta: PT. Aneska's Story.

In the context of international trade, the World Trade Organization (WTO) plays a role as the main institution that regulates the global trade system with the principles of economic liberalization and trade dispute resolution. However, in practice, the WTO often faces challenges from protectionist policies implemented by some major countries, such as the United States and China².

The trade war between the United States and China in 2025 is heating up with a drastic increase in import tariffs from both countries³. U.S. President Donald Trump announced new tariffs of 125% on various products from China, which is in addition to the previous tariffs. In response, China also raised tariffs on US products by 84%, creating greater economic tensions⁴. The trade conflict between China and the United States (US) is one of the most important economic disputes of the 21st century. This trade war began in 2018 and has had an impact not only on the two countries, but also on the global economy. The causes of these conflicts include trade imbalances, competition in technology, and broader geopolitical tensions, which have a long-term impact on international markets, companies, and consumers around the world (Tempo, 2025).

The root of the trade war between China and the United States (US) is mainly due to significant trade balance imbalances, with the US experiencing a trade deficit of more than \$375 billion in 2017. Under President Donald Trump's leadership, the U.S. imposed high tariffs on Chinese goods to address this problem and encourage the opening of the Chinese market to U.S. products. In addition, this tension is also triggered by the issue of intellectual property rights, where the US accuses China of stealing technology and forcing technology transfers from US companies. Amid this rivalry, geopolitical factors also come into play, with China strengthening global influence through initiatives such as *the Belt and Road Initiative*, while the US seeks to maintain economic and military dominance⁵.

These conflicts have far-reaching impacts on the global economy. One significant consequence is the decline in global trade volume, as the World Trade Organization (WTO) predicts that global trade in goods will contract by 0.2% in 2025, compared to a previous growth projection of 3.0%. Additionally, the financial market has experienced increased instability. Bank Indonesia (BI) has warned that the ongoing trade war contributes to

² Khaldun, R. I., Sari, R., & Ismira, A. (2023). China's retaliation against the United States in the context of the Trade War. *Hasanuddin Journal of International Affairs*, 3(2), 68-81.

³<https://kumparan.com/sebastian-brandon-h/perang-tarif-china-as-yang-mengubah-ekonomi-dunia-24vf10Wj6n4>

⁴<https://www.detik.com/bali/bisnis/d-7861946/trump-kerek-tarif-jadi-125-sebut-china-kurang-rasa-hormat>

⁵<https://kumparan.com/sebastian-brandon-h/perang-tarif-china-as-yang-mengubah-ekonomi-dunia-24vf10Wj6n4/2>

heightened global economic uncertainty, which has caused a decline in projected world economic growth from 3.2% to 2.9%. This instability is reflected in major stock market fluctuations, as investors shift toward safer assets such as gold and European bonds. Developing countries are also negatively affected, particularly those that rely heavily on exports to the U.S. and China, as they have seen a decline in trade volumes, which in turn hampers their economic growth. However, some nations, such as Indonesia, view this as an opportunity to attract foreign investment from companies seeking to avoid high tariffs. Furthermore, the global supply chain has been disrupted, with multinational companies facing rising raw material costs and declining production, especially in the technology and manufacturing sectors.

Many multinational companies are facing rising raw material prices and declining production, especially in the technology and manufacturing sectors. China has begun to shift its exports to Southeast Asian, European and African countries, but it has not been enough to make up for the losses caused by declining demand from the US.

The 2025 US-China trade war has created global economic uncertainty, with a major impact on trade, investment, and financial market stability. Developing countries need to adjust their economic strategies, both by diversifying export markets and attracting foreign investment to mitigate the negative impact of these conflicts.

Previous studies have shown that the trade conflict between the US and China has had a significant impact on global economic stability. Previous research summarized by Rahmi et al (2024) showed several findings related to the impact of the US-China trade war. Laksono et al. (2020) found an increase in foreign investment and trade in Vietnam in 2018-2019 due to the spillover of the trade war and Vietnam's internal economic reforms. Wambrauw & Menufandu (2022) identified the triggers of the US-China trade war as the US trade deficit, alleged Yuan manipulation, and intellectual property theft, with a significant impact on the trade balances of the two countries and a weakening global economy. Sari et al. (2021) found that the impact of trade wars varies on economic growth in ten countries. Utami (2021) states that trade wars do not cause significant abnormal differences or affect capital market efficiency⁶. Research conducted by Diva Safna Putri et al. (2023) in the *Indonesian Journal of Law and Justice* identified that the power imbalance between countries in international economic law is a major challenge for developing countries. In addition, research from

⁶ Rahmi, C., Zayanti, A. H., & Sari, A. E. (2024). The Impact of the United States Trade War with China on the Indonesian Economy Case Study: In the field of cocoa exports. *Scientific Journal of Student Research*, 1(3), 580-591.

Sriwijaya University highlights that the WTO's role in resolving trade disputes still faces obstacles in the implementation of policies that are fair to all countries.

International trade disputes require international institutions to oversee and resolve the issue. The WTO, as a world trade organization, has an important role in resolving international trade disputes. The dispute settlement procedure within the WTO framework includes several stages, namely: consultation, panel formation, panel procedure, adoption of panel reports, appeal review, and implementation. In conclusion, the WTO has a crucial role in resolving international trade disputes through structured procedures⁷.

The World Trade Organization (WTO) is an international organization that regulates trade between countries to create transparency and openness in global trade. Established on January 1, 1995 as a replacement for GATT, the WTO functions under the Uruguay agreement and has regulations that all members must follow, especially regarding the discipline of international trade. The WTO provides a structured dispute resolution mechanism, including consultation, panel establishment and appellate review, to resolve conflicts related to trade treaty violations⁸. An example is the case of violations of Indonesia's nickel ore exports and the European Union's anti-dumping policy.

The World Trade Organization (WTO) is often seen by developing countries as a tool for developed countries to exploit them through trade. Many obstacles and injustices are felt, where market access for products from developing countries such as Indonesia is treated more difficult than Vietnam in the European market. Despite the reduction in tariffs under the GATT and WTO, obstacles still arise in the form of environmental and health regulations that are more favorable to farmers in developed countries. Exports from developing countries are vital to the economy, creating jobs and generating foreign exchange, but are often threatened by unfair trade practices. The WTO, which is supposed to strengthen global trade cooperation for the welfare of all its members, has lost its essence⁹.

Thus, this study will examine the role of the WTO in maintaining global trade stability, as well as evaluate concrete cases that show the dynamics between protectionism and economic liberalization.

⁷ Rubiyanto, R. (2019). The role of the World Trade Organization (WTO) in resolving international trade disputes. *Scientific Journal of Law and Community Dynamics*, 17(1).

⁸ Manalu, A. E., Sembiring, A., Matanari, D., Sinaga, P., & Munthe, Y. (2024). THE ROLE OF THE WTO IN THE SETTLEMENT OF INTERNATIONAL TRADE DISPUTES. *HUMANITIS: Journal of Homaniora, Social and Business*, 2(11), 1695-1701.

⁹ Suhardi, G. (2007). The Role of the WTO in the Formation of International Trade Rules. *Journal of Pro Justitia Law*, 25(1).

2. RESEARCH METHODS

This research uses a normative juridical method, which focuses on the analysis of written legal norms as a basis for understanding the role and effectiveness of the World Trade Organization (WTO) in regulating global trade. This approach aims to examine the substance of WTO regulations and policies related to protectionism issues, as well as their implications for the stability of the international trading system.

In addition to the normative approach, this study also applies a comparative approach to analyze the impact of protectionist policies in several countries, especially the United States and China, which have a significant influence on global trade dynamics. This approach allows the identification of differences and commonalities in protectionism policies as well as individual countries' responses to WTO rules.

The data used in this study was obtained through library research, which includes academic literature in the form of scientific journals, international law books, as well as official WTO documents and other relevant international legal instruments. The data analysis technique is carried out qualitatively by emphasizing legal interpretation and critical understanding of normative texts and their applicable context in the practice of trade relations between countries.

3. RESULTS AND DISCUSSION

Theories in International Economic Law

The Theory of Comparative Advantage (David Ricardo), This theory of international trade was put forward by David Ricardo in his book entitled "*Principle of Political Economy and Taxation*" in 1871. In his book, Ricardo explained that if a country is inefficient in producing goods and services compared to other countries, it can produce goods that have smaller weaknesses by specializing in producing these goods and services. In addition, the country can also import goods that are difficult to produce at high costs. A country has a comparative advantage when they can produce goods or services at a lower cost compared to other countries. But even so, Ricardo's theory still has a weakness because in Ricardo's model of comparative superiority it does not explain other things that affect such as how many workers and money a country has¹⁰. → The results of the analysis using this theory due to the US-China trade war explain that countries must export goods that they can produce efficiently and import more expensive goods if produced domestically. so that it can maximize overall

¹⁰ Rahmawati, R., & Sobana, D. H. (2023). Analysis of the comparative advantages of halal products in international trade. *Liquid Journal of Halal Industrial Economics*, 3(2), 66-76.

economic benefits. With this strategy, countries can not only increase competitiveness in the global market, but also diversify resources and reduce the risk of dependence on one type of commodity. In addition, it also creates opportunities for innovation and industrial development in more economically profitable fields.

Protectionist Theory, which originated from the Neo-mercantilism Theory, views international trade as the key to a country's progress. This theory, which has developed since World War II, remains relevant in today's liberal international trade context. Robert Gilpin states that neo-mercantilism involves regulatory and protective policies to increase international competitiveness. Friedrich List, the pioneer of the Theory of Protectionism, in his book *"The National System of Political Economy,"* emphasized the importance of national interests and the role of government in understanding the global economic system. Thus, countries use their political power to fight for interests in international trade, as the United States has done in maintaining its position as a global technology leader¹¹. → Results The analysis using this theory is to emphasize policies aimed at protecting domestic industries through higher import tariffs to reduce competition from foreign products, the application of quotas that limit the number of goods certain regulations that are allowed to enter the domestic market, as well as trade regulations that prioritize local products, which are expected to encourage economic growth, create jobs, and increase the competitiveness of national industries in the global market.

Economic globalization is a process in which economic activity and trade connect countries around the world as one integrated market that removes territorial boundaries. This encourages the elimination of trade barriers and capital flows as well as goods and services. Economic globalization creates a closer link between national and international economies, blurring the boundaries between countries. The impact includes opening up opportunities for domestic products to compete in international markets and vice versa, allowing global products to enter the domestic market¹² → The results of the analysis using this theory refer to global market integration that allows for a freer flow of goods, services, and investments across borders, as well as creating opportunities for companies to expand their markets at the international level. improve production efficiency, and facilitate technology transfer, thereby encouraging economic growth and innovation in various sectors.

¹¹ Soberi, L. I., Wahyudin, Y. A., & Rizki, K. Z. UNITED STATES SEMICONDUCTOR EXPORT RESTRICTION POLICY IN THE ERA OF THE JOE BIDEN ADMINISTRATION IN RESPONSE TO CHINA'S USE OF ARTIFICIAL INTELLIGENCE.

¹² Ansar, M. A. P., Fajry, M., Fadhlillah, M. N., & Fathurrahman, M. R. (2023). The Role of Islamic Banking in Facing Economic Globalization. *Islamic Education*, 1(4).

The Role of the WTO in the International Trade System

The WTO serves as an institution that regulates international trade rules to create an open, free, and rule-based system of law. The main role of the WTO includes, first, establishing international trade regulations through multilateral agreements. The WTO develops and manages a series of agreements that govern various aspects of trade, such as tariffs, subsidies, and intellectual property rights, which aim to create globally recognized standards and reduce uncertainty in trade transactions between countries.

Resolving trade disputes between countries through an arbitration system. The WTO provides a dispute resolution mechanism that allows member states to resolve conflicts arising from violations of trade agreements, thereby preventing trade wars that are detrimental to all parties and ensuring that rules are followed.

Encourage trade liberalization so that the country can increase exports and economic growth. By reducing trade barriers and creating more access to international markets, the WTO seeks to encourage countries to engage in free trade, which can help improve the competitiveness of domestic products and provide greater economic benefits.

However, the WTO has also faced criticism over its ability to overcome protectionist policies implemented by several major countries. Many critics argue that while the WTO has rules in place to prevent protectionism, the implementation and enforcement of such rules is often weak, especially when dealing with countries with large economic powers capable of violating agreements without significant consequences. In addition, there are concerns that protection policies implemented by these countries could harm developing countries, which rely on fair market access to be able to compete in the global economy. Thus, the challenges facing the WTO include the need for better reforms in addressing contemporary trade issues and increasing effectiveness in enforcing international trade rules.

Case Study: U.S.-China Trade Conflict

The trade conflict between the United States and China is one of the concrete cases in the dynamics of global trade. Some of the policies taken by the US, such as increasing import tariffs on Chinese goods, are considered a form of protectionism that is contrary to WTO principles. The impact of this trade war includes, first, a decline in global trade volumes, especially for developing countries that depend on exports to the US and China, resulting in a slowdown in economic growth in the region.

The instability of the international financial market, with increasing economic uncertainty that makes investors hesitant and causes exchange rate fluctuations and a decline in stock market indices in various countries.

The emergence of countermeasures policies from China, such as increased domestic investment and diversification of export markets, aimed at reducing dependence on the US market and strengthening the resilience of the national economy.

In addition, the conflict has also created broader political tensions, affected diplomatic relations between the two countries, and triggered shifts in trade alliances at the global level. This shows how complex the interaction between trade, economic and political policies is in the context of today's globalization.

The U.S. implements high tariffs to protect domestic industries from global competition, with the aim of preserving jobs and strengthening sectors considered strategic. China is adapting to trade conflicts through increased economic diversification and trade expansion into other markets, including establishing cooperation with countries in Asia and Africa to reduce dependence on the U.S. market. Although the U.S. and China have their own flagship industries, the protectionist policies taken by the U.S. hinder the efficiency of the global economy by reducing the exchange of goods and services that should benefit both countries and improve global prosperity.

4. CONCLUSIONS AND SUGGESTIONS

The World Trade Organization (WTO) plays a strategic role in building and maintaining a fair, open, and global trade order based on the rules of international law. Through the functions of supervision, drafting regulations, and resolving trade disputes between countries, the WTO is expected to be able to create global economic stability and support sustainable growth. However, in its implementation, the WTO faces serious challenges due to protectionist policies taken by major countries, as seen in the trade conflict between the United States and China which has a systemic impact on international markets.

The phenomenon of protectionism reflects the tension between domestic interests and the free trade principles upheld by the WTO. While protection policies can provide short-term protection for domestic industries, they have the potential to undermine confidence in the multilateral trading system and disrupt global economic integration. Therefore, internal reforms within the WTO body are urgent, especially in terms of policy harmonization with member countries and improvements in dispute resolution mechanisms to be more adaptive, responsive, and efficient.

On the other hand, developing countries need to adopt a more progressive strategy in dealing with international trade dynamics. These efforts can be carried out through increasing product competitiveness, diversifying export markets, and strengthening multilateral economic diplomacy. With a holistic and responsive approach, developing countries have the opportunity

to play an active role in the global trading system and reduce dependence on the policies of major countries.

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