

WTO Most-Favored-Nation Reform May Hold Promise

By **Alan Yanovich** (March 2, 2026)

A rethink of the most-favored-nation principle at the World Trade Organization is underway, with potentially significant implications for economic operators worldwide. Initially proposed by the U.S., the debate has since been endorsed by the European Union and more recently by WTO Director-General Ngozi Okonjo-Iweala. MFN reform has therefore moved to the center of current WTO reform discussions and is expected to feature prominently at the 14th WTO Ministerial Conference, being held March 26 to March 29.



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While some may see this as a cause of concern, the implications of revisiting MFN are more nuanced. A calibrated loosening of the principle could help reinvigorate the WTO, provided it does not serve as a pretext for rolling back existing liberalization.

Background of the MFN Principle and Article I:1 of the GATT 1994

The MFN principle is a cornerstone of the multilateral trading system. It predates the WTO and was widely used in bilateral commercial treaties, where MFN treatment was often conditional.

In response to the discriminatory trade blocs of the 1930s, the postwar architects of the 1947 General Agreement on Tariffs and Trade, or GATT, embedded an unconditional, multilateral MFN obligation designed to prevent beggar-thy-neighbor policies and promote nondiscrimination.

The first paragraph of GATT 1994 gives effect to the MFN principle in the trade in goods by requiring that any advantage accorded by a WTO member to another WTO member — whether relating to tariffs, charges or regulatory measures affecting importation or exportation — be extended immediately and unconditionally to like products of all other members.

WTO dispute settlement panels have interpreted this obligation broadly. The MFN principle also appears across other WTO agreements, including the Agreement on Technical Barriers to Trade, the General Agreement on Trade in Services and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

In practice, MFN means that a tariff exemption granted to one member must be extended to all others, irrespective of reciprocity. Although exceptions exist — most notably for free trade agreements, customs unions and preferential schemes for developing countries — the MFN rule remains the basis of a large share of global trade. As of 2025, roughly three-quarters of global merchandise trade continued to take place on MFN terms.

Economic Pros and Cons of MFN

Economists identify several benefits associated with the MFN rule. By ensuring that imports originate from the most efficient suppliers, MFN reduces trade diversion and improves global welfare. It also constrains larger economies from exploiting their market power and contributes to a more predictable trading environment.

From an institutional perspective, MFN lowers transaction costs by extending the results of bilateral negotiations to all members and by reducing the need for firms to navigate complex origin requirements.

At the same time, MFN creates a well-known free-rider problem. Concessions granted to one negotiating partner automatically benefit all members, including those that do not offer reciprocal commitments.

This dynamic can discourage deep liberalization and contributes to negotiation paralysis, particularly in a system with 166 members. The proliferation of free trade agreements has further eroded the MFN principle's practical scope, weakening its role as the primary vehicle for liberalization.

U.S., EU and Chinese Positions on MFN

In December 2025, the U.S. circulated a comprehensive paper on WTO reform arguing that MFN reflects an era of economic convergence that no longer exists. According to the U.S., growing divergence among members — driven by nonmarket practices, global imbalances and production concentration — requires greater policy space to differentiate among partners.

The paper contends that the MFN rule can impede welfare-enhancing liberalization by forcing uniform outcomes and by obliging countries that strike reciprocal deals to extend concessions to all members.

The U.S. proposes reorienting WTO negotiations toward plurilateral agreements, the benefits and obligations of which apply only to participants. This proposal forms part of a broader reform agenda that includes narrowing eligibility for special and differential treatment, preserving the self-judging nature of the security exception and limiting the secretariat's role.

The EU has taken a more cautious approach. While reaffirming the importance of the MFN principle, the EU has called for a fundamental discussion of its role in today's trading system, including its relationship to reciprocity and differing levels of openness among members. The EU supports variable-geometry arrangements and has proposed launching a work program at the ministerial conference that would include reflections on MFN and reciprocity.

Some members have expressed reservations. India has been among the most vocal opponents of weakening MFN.

Many smaller economies view it as existential, as their limited market power could otherwise leave them vulnerable to discriminatory treatment.

China, in a February submission, reaffirmed the MFN principle as the bedrock of the system, while acknowledging scope for flexible plurilateral initiatives subject to inclusive guardrails.

Potential Implications

Frustration with the WTO's negotiating paralysis and broader geopolitical considerations underpin the renewed scrutiny of MFN. Achieving consensus among 166 members has become increasingly difficult, particularly where some members block negotiations

strategically while benefiting from MFN-extended concessions.

By contrast, recent plurilateral initiatives on domestic services regulation, investment facilitation and e-commerce demonstrate that meaningful outcomes remain possible among smaller groups of willing members. These are not insignificant achievements. The domestic services joint initiative has 72 participating members, the investment facilitation agreement has the backing of 126 members, and the e-commerce agreement is supported by 71 members.

A nonautomatic application of MFN status could reduce incentives for strategic obstruction and encourage more meaningful reciprocal commitments.

From a geopolitical perspective, the MFN debate is closely linked to economic rivalry between the U.S. and China. A more flexible MFN framework could allow members to cooperate where interests align while pursuing separate initiatives where they do not. While this risks fragmentation, the alternative — continued paralysis — is unlikely to be more attractive.

For economic operators, a loosening of the MFN rule could present both opportunities and challenges. Deeper liberalization among participating members could reduce tariffs and regulatory barriers, benefiting firms able to navigate an increasingly complex landscape. At the same time, greater divergence would increase compliance costs related to origin rules and regulatory fragmentation. These challenges, however, already exist in the context of free trade agreements.

More concerning would be any attempt to use MFN reform to justify higher tariffs or new barriers. In principle, greater MFN flexibility need not affect existing tariff bindings or core WTO disciplines. Any reform should therefore be designed to facilitate further liberalization, not retrenchment.

Concluding Observations

Revisiting MFN would mark a significant departure from one of the WTO's foundational principles. Nonetheless, a carefully calibrated loosening may be justified if it enables deeper liberalization and regulatory cooperation. Any such approach should remain open to all members willing to participate, rely on objective eligibility criteria, and ensure transparency in both negotiations and outcomes. Subject to these safeguards, greater flexibility around MFN could help unlock new WTO initiatives while containing friction among members.

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