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In Pursuit of Restoring a Rules-Based International Trading System Through CPTPP-EU Collaboration

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As usual, we highlight METI's White Paper on International Economy & Trade 2026 for our Sept./Oct. 2026 issue. We look forward to METI's analysis and recommendations for improving the chaotic international economic system. The next issue will be published on our website on September 10, 2026.

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CPTPP & EU: a Challenge by Middle Powers To Build a New Free Trade Framework

By Hideichi Okada

Starting with this issue, I will be responsible for the Publisher's Note. As with Masakazu Toyoda, I sincerely ask for your continued support.

Today, rules-based free trade, multilateral cooperation, and the WTO system are facing significant challenges. President Donald Trump's trade policy – sometimes referred to as the "Turnberry system" – is an attempt to maximize US interests through bilateral trade negotiations using reciprocal tariffs as leverage. Meanwhile, we find the trade practice of economic coercion by weaponizing international economic interdependence.

Looking back, the WTO system has been facing difficulties since the impasse of the Doha Round or Doha Development Agenda. One area that continued to function effectively was the dispute settlement mechanism. However, even this has been significantly weakened under President Trump, as the United States has, since 2017, refused to proceed with the appointment of new members to the Appellate Body, the final adjudicatory stage of the dispute settlement process.

Amid the deadlock in the Doha Round negotiations, free trade agreements (FTAs) played a major role in expanding the free trade order. Since around 2000, numerous bilateral and regional FTAs have been concluded. Among multilateral FTAs, the Trans-Pacific Partnership (TPP) drew attention for both the broad membership and the high level of ambition embodied in its commitments.

The TPP was built upon the P4 Agreement concluded in 2006 among Singapore, New Zealand, Chile, and Brunei. At the APEC Trade Ministers' Meeting in Lima, Peru, in 2008, trade ministers from Japan, the US, Australia, and Singapore gathered together. During that meeting, US Trade Representative Susan Schwab asked Japan's Minister of Economy, Trade and Industry Toshihiro Nikai, "We would like to expand the P4 and establish a framework called the TPP. The United States and Australia will participate. Would Japan also consider joining?"

TPP negotiations proved extremely difficult due to the large number of participating countries, the diversity of their levels of economic development and trade structures, and the highly ambitious nature of the proposed commitments. Although agreement was eventually reached, the US withdrew from the TPP under President Trump, along with its withdrawal from the Paris Agreement and other international arrangements. Subsequently, through the efforts of Japan and others, the agreement was reconstituted without the US as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), with 11 Pacific Rim countries participating.

Now, we are facing the growing prevalence of power-based policies, such as tariff negotiations that disregard international rules and economic coercion that weaponizes international interdependence. Rising geopolitical risks stemming from conflicts in Ukraine and the Middle East are increasing the uncertainty of international trade. Cross-border supply chains built within the free trade system are now being significantly disrupted.

As existing frameworks begin to waver and the international trade environment becomes increasingly unstable, efforts are underway among group of countries to create new frameworks that enable efficient economic activity. One such effort is the use of FTA frameworks.

Major regional FTAs involving numerous countries include the CPTPP, the Regional Comprehensive Economic Partnership (RCEP), the European Union, and Mercosur. The CPTPP is gradually evolving beyond the trans-Pacific region framework as the United Kingdom has joined, and interest from European and other countries continues to grow.

The EU has concluded FTAs with many countries, including Canada and Japan. More recently, it has reached agreements with India, the Mercosur nations, and Mexico.

Particularly noteworthy is the exploration of potential cooperation between the CPTPP and the EU. Following a ministerial-level dialogue in Melbourne in November last year, Track 1.5 meetings were subsequently held in Paris in December and in Tokyo in May this year. The participating countries would collectively cover a large portion of the world's major trading nations with a market of 1.5 billion people.

Could this not be viewed as a trade-focused version of the idea proposed by Canadian Prime Minister Mark Carney in his speech at the World Economic Forum in Davos this January – the cooperation among middle powers to create a third path with impact?

The removal of trade barriers and the establishment of a predictable, rules-based trade system are the foundation of cross-border economic activity. As the free trade system faces serious challenges, a coalition of middle powers may ultimately play a pivotal role in shaping a new international trade order. JS

Hideichi Okada became chairman & CEO of the Japan Economic Foundation (JEF) in July 2026. Previously, he was president & CEO of Japan Petroleum Exploration Co. Ltd., executive senior vice president of NEC, and vice minister for international affairs at the Ministry of Economy, Trade and Industry. He also served as executive assistant to Prime Minister Junichiro Koizumi.

Exclusive Interview

LEADERS IN JAPAN

No. 15

President, The Tokyo Foundation

Mieko Nakabayashi, Ph.D.

Aiming to Be a Think Tank That Cultivates Public Intellectuals – Working to Strengthen Democracy in Japan

By Naoyuki Haraoka

In an era when established values such as market fundamentalism and democracy are being called into question, we spoke with the newly appointed head of one of Japan's leading think tanks about where the world is headed and the role of think tanks in these turbulent times.

(May 19, 2026)

Current Domestic & International Political & Economic Situation

Haraoka: My main topic today is the role of think tanks in this era of growing uncertainty. Before we delve into that, I'd like to hear your views on the domestic and international political and economic conditions that form the backdrop to this discussion.

Domestically, we are facing concerns about inflation while low growth persists. With fiscal constraints continuing and an aging society, there are fears that the future may become unstable. In that sense, boosting economic growth is a key challenge, and the structural reforms – the third arrow of "Abenomics" – are crucial to achieving that. I believe that increasing labor market flexibility is particularly important. What are your thoughts on this?

Nakabayashi: Very recently in Japan, the term "triple dip" (a weakening yen, falling stock prices, and falling bond prices – i.e., rising interest rates) was being bandied about. This served as a stark reminder that Japan's economy is not in a position where currency intervention alone can solve its problems, and that it faces structural issues in many respects. I believe Japan has reached a point where superficial measures alone will not suffice. It is also a fact that the population is declining.

However, while one might think that spending a large portion of the budget on policies to increase the population is the answer, the reality is that despite various attempts made so far – and even in neighboring South Korea, where fiscal measures aimed at boosting the population have been implemented – there is no denying that these efforts have yet to translate into actual population growth.

Given these circumstances, I believe it is becoming increasingly important to communicate to the public a logical, evidence-based discussion of what Japan's policies should be, one that is not swayed by emotional arguments. Think tanks are expected to listen to differing opinions and seek out well-balanced policies that are best suited for Japan.

When it comes to increasing labor market flexibility, the private sector accounts for the vast majority of employment. It is the private sector that must change – including its employment practices and compensation systems – and the government should implement policies to encourage this. It is also crucial to consider how we can create a society where innovation flourishes through deregulation. Japan's weakness lies in the fact that the third arrow of former Prime Minister Shinzo Abe's "Three Arrows" – structural reform – has still not been implemented. As a nation, we have not been able to effectively address energy crises, such as the issue of the Strait of Hormuz, nor have we been able to turn this weakness into a strength.

I suspect this is the price we are now paying for having avoided structural reform by complacently clinging to outdated systems for so many years. In order for Japan to maintain the creativity and flexibility needed to navigate new eras and situations, such as the crisis in the Strait of Hormuz, I believe it is essential to continuously pursue structural reform and deregulation, rather than simply resting on past successes.

The current Japanese government seems to be so overwhelmed by the constant stream of issues arising that it has not yet reached the point of formulating a fundamental grand design for Japan – that is, embarking on structural reform. I believe it is the role of think tanks to provide the impetus needed to move forward in this regard.

Haraoka: Thank you very much. Next, turning our attention overseas, we hear that political populism remains deeply entrenched, and even now that the administration of Viktor Orbán in Hungary has fallen, we are still not be able to breathe a sigh of relief. Will populism continue to fuel protectionism and geopolitical risks, leading to ongoing instability abroad?

Given the current situation where the United States is unable to exercise leadership, there is also a view that we should achieve economic security by deepening relations with diverse nations, such as those in the Global South, and securing critical resources like rare earths. How can we sustain these efforts? I would like to hear your thoughts on this matter.

Nakabayashi: Given that it is difficult to control either the government or the market arbitrarily, I think it is inevitable that disparities will arise in various economic situations if we simply leave things as they are. That is precisely why we have a public sector, and it becomes crucial to consider what can be done to alleviate the significant public dissatisfaction caused by these disparities. However, even in a democracy, when dissatisfaction grows too great, the public tends to seek out authoritarian and outspoken leaders. While such leaders may attempt to bring about "creative destruction" in various areas, it often seems that their efforts ultimately end in mere destruction.

This is precisely what President Donald Trump is doing in the US. He has imposed tariffs on allies, made statements that undermine the foundation of security alliances, and, on the other hand, demonstrated the danger of holding summit talks with China while bypassing Taiwan. In fact, in Europe as well, far-right groups that advocate anti-immigration policies are speaking out candidly, and ordinary people are drawn to their blunt and simple approach, leading to a growing surge in support for them.

Given this, as elections continue, it seems far from certain that not only the Trump administration but also European nations—such as France and the United Kingdom—that are opposed to certain US policies will be able to maintain their current political foundations. In this context, I think that as the dissatisfaction and anger of the people within those countries intensify, forces arguing that the current political system is inadequate will naturally grow in strength. The adoption of extreme immigration policies is a prime example of this.

I believe Japan is no exception. What is happening overseas will eventually happen here as well. In the US, extreme rhetoric has gained traction on social media, and various forms of defamation and slander have spread through these platforms. In a climate where it is difficult to distinguish fact from fiction, this has influenced public opinion and led to the election of Trump; similar trends are now emerging in Europe as well.

While the democratic camp felt a sense of relief at the end of the Orbán administration in Hungary, I believe that moving forward, everything will depend on how the country's domestic affairs are managed and how the situation of those harboring grievances over the widening wealth gap can be improved. In democratic nations, in particular, such issues tend to be directly reflected in political leadership. While authoritarian regimes devote their energy to suppressing dissent, in democratic nations – and this is one of their strengths – I believe we will continue to see conflicts over the disconnect between diverse viewpoints and social disparities become particularly pronounced, partly due to the influence of social media.

Expected Role of Think Tanks in Times of Chaos

Haraoka: Given that, I believe the role of think tanks will become increasingly important. However, I've recently noticed that people's thinking has become more short-term, and I worry that they are no longer considering medium- to long-term strategies. I think it's important to broaden everyone's mindset so that they can think and act with a focus on medium- to long-term strategies. I would like think tanks to take on this role. What are your thoughts on this?

Nakabayashi: Actually, the Tokyo Foundation has already launched a research project called "National Vision 2050". We have invited political leaders to participate, as well as bureaucrats working on the front lines at key government agencies, and we are currently in the midst of discussions. We hope to compile the findings into a book by the end of this fiscal year.

I believe that an important role for a think tank is to engage with society in ways that encourage the public to adopt a long-term vision as much as possible. We are currently in the midst of discussions on "National Vision 2050", but if we merely stick to the facts – such as the pace of population decline, the state of technological progress, and the labor force situation – the discussion risks becoming nothing more than a textbook lecture, making it difficult to capture the public's attention.

However, I was surprised to find that, as a think tank, simply providing a forum for such discussions earned us gratitude from our very busy participants. I believe it is innovative to clearly articulate a grand vision for the nation's future and seriously consider what can be achieved under that vision – even if it is not certain that things will turn out exactly that way.

Furthermore, even if there are counterarguments, those very counterarguments can serve as a catalyst and potentially spark a national debate. Only a private think tank is capable of conducting such experiments. In that sense, while there aren't many of them in

Japan, I am reminded every day that think tanks certainly have a vital role to play here as well.

Moreover, with the current crisis in the Strait of Hormuz making headlines regarding energy security, I believe Japan needs to place greater emphasis on the circular economy. Precisely because we are a resource-poor nation, it is crucial that we reuse our existing resources. We have a researcher at the Tokyo Foundation who has been studying this topic for many years. He has published a book on the circular economy through Nikkei Publishing, and the Tokyo Foundation has also compiled policy recommendations based on his research to present to the Minister of Economy, Trade and Industry. I hope that these outputs can be put to good use.

Clear Communication: Expectations for Public Intellectuals

Haraoka: Thank you. You mentioned that evidence-based policy formulation and evaluation are key pillars of your work as a think tank. However, I imagine it's very difficult for a think tank to communicate these concepts in a way that's easy to understand. What are your thoughts on this?

Nakabayashi: That's exactly right. Researchers who are immersed in their work tend to start their explanations based on concepts and definitions that they are used to them. However, for the general public – people who work hard every day under demanding schedules – technical language and jargon can sometimes fail to resonate with them. That's why, when drafting press releases, we need to consider how to capture the interest of people who are busy with their daily lives – and how to phrase things to achieve that. For example, regarding the title of a proposal on the circular economy, we quickly changed it to "A Treasure Trove Worth 13 Trillion Yen" to help people see it as a relevant, everyday issue and take an interest in it.

I believe that the role expected of think tanks is to develop theories based on objective facts. While I imagine politicians are generally aware of this to some extent, it is meaningless unless this message reaches voters' hearts. Since politicians are not constantly engaged in research, it is difficult for them to devote the time required to delve deeply into issues and develop theories; therefore, I believe think tanks need to fill that gap.

Haraoka: I feel that it would be great if more academics in Japan, such as university researchers, began to recognize that unless they communicate their ideas clearly, they won't be able to bring them to fruition in the real world. What do you think?

Nakabayashi: That's right. Actually, I think it might be a good idea to assign a specific category to people who are capable of appealing to the public in that way. In places like the US, such scholars are called "public intellectuals". They play an indispensable role in society. Of course, teaching students earnestly in the classroom and nurturing the next generation is extremely important for scholars and educators, but in addition to that, we also need to recognize that the existence of public intellectuals helps support society.

While those academics' policy discussion is perfectly understandable among scholars, it can be quite difficult for the general public to grasp. If there are scholars who possess the talent to explain complex ideas in accessible terms, I hope they will step forward as public intellectuals and help transform Japanese society by setting an example for the younger generation and students. If there are topics that are difficult to discuss simply by being affiliated with a university, I believe one way to establish the category of "public intellectuals" would be to serve as a visiting scholar at a think tank, for example. By establishing connections not only with peer-reviewed academic journals but also with platforms like think tank websites – where accessible writing can be published – and disseminating information through those channels, we can help shape this category. Professors at American universities are already actively disseminating such accessible content through think tanks.

Respect for Minority Opinions

Haraoka: That's very insightful. In a democracy, it is essential to value minority opinions. I believe this is a major role that think tanks should play in the maturation of democracy. What are your thoughts on this?

Nakabayashi: I think that's a very good point. In Japan, there's a social climate where people tend to hold back because minority opinions are often met with harsh criticism. I believe think tanks shouldn't be constrained by that; instead, they should firmly voice opinions that are logically sound and backed by evidence.

Especially now, values around the world are in flux. Whether this is due to social division or the diverse range of opinions being shared on social media and other platforms, I think we are still in the process of discovering how this will shape society. Given that the number of think tanks in Japan is relatively small compared to countries like the US, each individual think tank plays a very significant role. I believe it is also a crucial role for them to clearly communicate well-reasoned arguments – even if they represent a minority opinion – to demonstrate to the world that there are diverse perspectives.

I think that precisely because Japan experienced bitter lessons from the war led only by the authorities, we are uniquely positioned to devote even greater effort to this cause. I hope that think tanks embodying this spirit will multiply – not just one, not two or three, but dozens.

From a Narrow-Minded Perspective to an Interdisciplinary Approach

Haraoka: Unfortunately, reality is becoming increasingly complex. As exemplified by the interaction between politics and the economy – or, to put it bluntly, by the rise of political populism – politics is increasingly dictating the economy.

Furthermore, with the emergence of technologies like AI, technology itself is now having a significant social and economic impact. Under these circumstances, we cannot find effective solutions by working in isolation within narrow, insular fields. I believe the key strength of think tanks lies in their ability to make policy recommendations. But if their recommendations are based on a narrow-minded approach, they will not be effective; we must adopt a broad perspective, which necessitates interdisciplinary discussion. I think it is important for people from various fields to gather in a space like a coffee shop within a think tank to discuss ideas and stimulate one another. What are your thoughts on this?

Nakabayashi: That's exactly right. People tend to get stuck in their own small worlds. What's more, even today many Japanese people are still relatively hesitant to assert themselves. And although I currently teach at a university, the thing that international students find most puzzling about Japanese students is why they never talk about politics or the economy. Japanese students who have studied abroad often say, "When I went overseas, it was really tough being asked about Japanese politics and the economy – topics outside my area of expertise."

However, the other day, I was talking to an American friend who had come to Japan from Columbia University, and she told me that in the US these days people are extremely cautious in talking about politics even when talking to people they know. She explained that if you bring up a political issue, the other person might have a completely different perspective. She said that in the past, Americans would have been happy to voice their opinions and engage in debate, but now everyone has stopped speaking out because they're afraid of the various reprisals the Trump administration might take.

I found myself reading too much into this and wondering if the reason Japanese people don't speak their minds is that they're trying to avoid such friction. At the same time, however, because thoughtful, reasonable people aren't speaking up, fake news and extreme views – such as the idea that "all immigrants are doing bad things" – spread on social media. This makes it seem as though such extreme views represent the majority, and everyone ends up conforming to them. I believe this has given rise to a frightening culture of conformity within social media.

That is precisely why I believe we should make the results of interdisciplinary research conducted by reasonable people with balanced knowledge accessible to the public. If only extreme opinions continue to dominate the discourse, the majority of the public – who sense that "something is wrong" – will likely fall into the trap of remaining silent. Instead, I believe that by first acknowledging differing opinions and allowing them to be openly debated, and furthermore, as researchers, by fostering innovative ideas for society that emerge from interdisciplinary casual conversations, we should deepen our interdisciplinary ties not only within Japan but also with experts overseas. Think tanks, in particular, unlike universities, are not structured to require researchers to work within fixed specializations; therefore, I believe they are organizations capable of flexibly shifting their focus to current social conditions, pending issues, and policy challenges as they arise.

Once you get to the university level, there are various constraints – such as enrollment quotas and departmental turf wars – that make it difficult to respond flexibly. However, I believe think tanks have the major advantage of being able to adapt flexibly to the times. If think tanks forget this, they'll end up just like universities, so I think it's crucial to highlight what sets them apart from universities.

The Direction of the Tokyo Foundation

Haraoka: Thank you. Finally, what direction does the Tokyo Foundation plan to take in the future?

Nakabayashi: First of all, I don't believe it makes much sense for a think tank to keep doing the same thing over and over again. So, regarding the "National Vision 2050" I mentioned earlier, I want to move quickly to publish it as a deliverable – ideally within this fiscal year or early next year – that speaks first and foremost to Japanese society, even though the ultimate goal is to reach the world. The core concept here is that this is not meant to be a finished product, but rather a resource for everyone to discuss. It is not a textbook. I hope we can produce something that serves as a catalyst for discussion.

We also aim to be able to quickly compile and publish various policy proposals. I mentioned earlier the circular economy. It is notable that the Tokyo Foundation includes experts who have been researching public finance for many years. For example, they are examining issues such as refundable tax credit from an expert's perspective – considering what interim measures would be appropriate if it takes time to implement such policies. We have brought together outstanding experts in public finance, and we need to figure out how the Foundation can communicate the results of their research in an accessible way. We'd like to explore options such as creating short videos or, much like a talent agency, pitching these experts to TV stations so they can be invited to appear on programs.

We currently have four "policy producers" on staff. Most of them are experts in their respective policy fields, but we've also brought on one person who previously served as a chief producer in a television network's news division. This individual is working on how to condense complex policies into easy-to-understand short videos, how to make them appealing to audiences accustomed to television or social media, and how to disseminate this content without spending too much money. Furthermore, with this person taking the lead, we plan to promote our efforts to television stations and actively produce and promote public intellectuals.

Haraoka: Thank you very much. Your words were very reassuring. JS

Written and translated by Naoyuki Haraoka, advisor of *Japan SPOTLIGHT*, with the cooperation of Tape Rewrite Co.

COVER LEAD

In Pursuit of Restoring a Rules-Based International Trading System Through CPTPP-EU Collaboration

By Naoyuki Haraoka

The international trading system today is expected to meet a variety of needs: not only economic efficiency by free trade but also economic security and issues related to the environment, digital economy, labor standards and human due diligence. At the same time, as technological innovation speeds up significantly, it will be necessary for the international trading system to become more resilient than ever to such rapid technological development.

So it needs to be different from the one in the 1980s and 1990s when WTO rules were dominant in global free trade. The cost of protectionism has been addressed frequently, and the benefits of free trade have been strongly advocated.

Today we see exactly the opposite to what we observed back then. Globalization is often considered the source of social problems such as economic inequality. Economic security is considered a high priority against the background of growing geopolitical risks rather than economic efficiency. However, as both the merits and demerits of protectionism were deliberated in the 1980s and 1990s, it will be necessary to think about both the costs and benefits of any diversion from free trade now. A diversion could bring us benefits in the fields of economic security or social policy needs, but at the same time it would be costly in terms of economic efficiency.

If economic theory is rigorously applied to present realities, diversions from free trade must be allowed only when the benefits exceed the costs. Such an economic calculation would be possible with an evidence-based approach which is now becoming common in policymaking.

The restoration of a rules-based international trading system must be pursued in general for the interests of businesses, as the uncertainty of a power-based system and arbitrary unpredictable policies will make business activity slow and stagnant. The question is whether a restored rules-based international trading system to mitigate such uncertainty should be based on free trade or other values such as security or social policy needs.

Once we have rules, whether they are based on free trade or not, it is good news for business. But it would be far better to achieve that system based on free trade in view of economic efficiency. If we have to pursue goals other than economic efficiency, we would need to prove that the benefits of such a diversion from free trade to realize them exceed the costs. Assuming that reality makes it inevitable to pursue not only the goal of economic efficiency but also other goals through trade policies, we will need to find an integrative approach to maximize their benefits.

The cover story in this issue highlights CPTPP-EU collaboration to restore a rules-based international order out of concern about a power-based approach initiated by superpowers. Middle powers need to build up a countervailing force against the superpowers by pressuring them to adopt a rules-oriented trading system. Their efforts will be very valuable for business and the economy; but they will need to reflect on the costs and benefits of each trade policy in order to be integrative and take account of all expectations for international trade.

Following policy recommendations on the issue made by the JEF study group and a roundtable discussion, we introduce a number of trade policy experts' articles. The CPTPP-EU FTA's economic impact is assessed by Dr. Kenichi Kawasaki, who has published a number of key trade policy assessments using the Global Trade Analysis Project econometric model. The new needs for trading systems such as the digital economy and environment are examined in the light of how to integrate them into the international trading system by Mr. Shota Watanabe and Ms. Miki Yanagi. Dr. Osamu Umejima's analysis of origin rules, the core of CPTPP-EU rulemaking collaboration, follows.

Beyond the CPTPP-EU collaboration issue, Dr. Priyanka Kishore highlights India's path towards rulemaking, and finally, our New Zealand friend Mr. Raf Manji gives us his suggestions on the important role Japan could play for the restoration of a rules-based world.

Naoyuki Haraoka is advisor of the Japan Economic Foundation (JEF).

Roundtable on "Can a CPTPP-EU Alliance Restore a Rules-Based International Trading Order?" (May 26, 2026)

By *Japan SPOTLIGHT*

Participants: Prof. Shujiro Urata, Professor Emeritus at Waseda University
Dr. Elvire Fabry, Head of Trade and Economic Security at the Jacques Delors Institute
Michitaka Nakatomi, Senior Research Fellow at JEF
Moderator: Masakazu Toyoda, Chairman & CEO at JEF (at the time of the Roundtable)

The Japan Economic Foundation (JEF) and the Jacques Delors Institute, a French think tank, co-sponsored an international conference "Rebuilding a Rules-Based International Trade Order: the Role of CPTPP-EU Cooperation and Beyond" in Tokyo on May 13, 2026. This issue's roundtable highlights and expands the discussion at this conference.

Participants

Prof. Shujiro Urata

Dr. Elvire Fabry

Michitaka Nakatomi

Masakazu Toyoda

Abstract of Discussion

- The active use of plurilateral trade agreements should be the crucial step towards rebuilding the WTO. In order to integrate plurilateral agreements into the WTO, reform of decision making at the WTO is essential.
- In light of the complexity of contemporary issues, such as digital trade and the environment, it is necessary to look at the interoperability and the connectivity and harmonization of standards and regulations.
- The CPTPP and EU need to work together on excessive subsidies, trade distortion created by scales of economy in the case of extremely large economies, and economic coercion practiced by superpowers to deal with differing economies.
- Close and strategic cooperation between the CPTPP and EU and also preparatory research and study on the path towards a CPTPP-EU FTA must be promoted, assuming that an FTA is an important ultimate goal for the CPTPP and EU. This collaboration towards a rules-based international order must be at the same time open to the rest of the world.
- Governments need to be deeply involved in the process of exploring collaboration between the two. A Track 1.5 approach should be highly recommended in future meetings.

Introduction

Toyoda: The rules-based international trading order that has been painstakingly built since the end of World War II is now on the verge of collapse, due to actions driven by superpowers. One major power has ignored the WTO's fundamental principle of most-favored-nation treatment, conducting tariff negotiations and effectively forcing its counterparts to accept them through sheer power. Domestically, however, its Supreme Court ruled that the measure violated its Constitution under relevant domestic law, creating confusion as the government searches for another legal basis. Another major power repeatedly engages in economic coercion backed by its enormous development and production capacity. Prime Minister Mark Carney of Canada, observing this description of the rules-based trading order, stated at the Davos meeting in January:

> "We are in the middle of a rupture and not a transition. The multilateral institutions on which the middle powers have relied – the WTO, the UN, COP – are under threat. Middle powers must act together because if we are not at the table we are on the menu."

This is exactly what he said. Having similar thoughts beforehand, a conference was held in Paris in December of last year co-hosted by the Jacques Delors Institute and Sciences Po together with our organization, the Japan Economic Foundation (JEF). After MC14 in March this year, a follow-up meeting – the so-called Tokyo Meeting – was held in May, this time in Tokyo, again co-hosted by the same three organizations, with JEF taking the lead. As a result, nearly 50 experts from around 20 CPTPP- and EU-related countries gathered to exchange views.

Today, we have invited three participants from that meeting to discuss how we should approach the rebuilding of a rules-based international trading order. First, Prof. Emeritus at Waseda University Shujiro Urata. Second, Dr. Elvire Fabry, head of Trade and Economic Security at the Jacques Delors Institute, who played a leading role in the Paris meeting and also participated in the Tokyo meeting. Third, Mr. Michitaka Nakatomi, senior research fellow at the Japan Economic Foundation, who was deeply involved in WTO and FTA negotiations during his time at METI. I would like to propose four issues for discussion today:

1) What urgent steps are needed to rebuild the WTO?
2) How should we address contemporary issues such as digital trade and environmental challenges?
3) How should we deal with differing economic systems?
4) Why is a CPTPP–EU FTA important?

Urgent Steps Needed to Rebuild the WTO

Toyoda: First, I would like to invite discussion on the urgent steps needed to rebuild the WTO. Possible topics include: (1) Revisiting the MFN principle; (2) Utilizing the MPIA; (3) Making use of plurilateral agreements; and (4) Reviewing the consensus-based decision-making system. Could each of you identify one or two points you consider most important and explain how they should be addressed? First, Prof. Urata.

Urata: Thank you very much for inviting me to participate in this roundtable discussion. I'd like to take up the issue related to plurilateral trade agreements. One of the most important challenges that the WTO is facing is how to restore its ability to develop new international trade rules in a rapidly changing global economy. The WTO was established in 1995 as a foundation of a rules-based multilateral trading system, and has contributed greatly to the expansion of global trade and economic growth. However, while the global economy has changed dramatically since then, the WTO rule-making function has become increasingly ineffective. A major reason for this problem is the WTO's consensus-based decision-making system. With 166 members at very different stages of development, and with diverse economic and political interests, achieving unanimous agreement on new rules has become extremely difficult. As a result, the WTO has struggled to respond effectively to emerging issues such as digital trade, data governance, investment facilitation, and so on.

Under these circumstances, the active use of plurilateral agreements represents one of the most realistic and effective ways to revitalize the WTO. Plurilateral agreements allow willing members to move forward in developing new rules without requiring agreements from all WTO members. In this sense, plurilateralism should not be viewed as a threat to multilateralism, but rather a practical means of preserving and strengthening the multilateral trading system. Plurilateral agreements offer several important advantages. First, they improve the efficiency and speed of negotiations. Negotiations among a smaller number of like-minded countries are naturally easier than negotiations involving all WTO members, enabling faster responses to technological and economic changes.

Second, plurilateral agreements make it possible to establish high-standard rules in new areas where a global consensus has not yet emerged. The Joint Statement Initiative (JSI) on e-commerce, investment facilitation, and services domestic regulations are important examples. These initiatives demonstrate that the WTO can still function as a platform for international rule-making.

Third, plurilateral agreements can remain open to other WTO members. This principle of open plurilateralism is critically important because countries that are initially unable or unwilling to participate may join later once they are prepared to accept the obligations. In this way, plurilateral agreements can gradually expand and contribute to broader multilateral rules.

Finally, plurilateral agreements can help prevent fragmentation of the global trading system. Without a WTO-based framework for new rule-making, countries may increasingly rely on bilateral or regional arrangements, potentially creating competing blocs and inconsistent rules. By contrast, plurilateral agreements within the WTO framework can maintain transparency, coherence, and compatibility with the multilateral trading system. In today's geopolitical and economic environment, insisting on full consensus for every new rule is no longer realistic. If the WTO is to remain relevant, it must become more flexible and adaptable. In this regard, plurilateral agreements are not a departure from multilateralism, but an essential means of preserving and modernizing the multilateral trading system.

Toyoda: Thank you very much, Prof. Urata. I think your view is very realistic and also constructive. Could I turn to Fabry-san for your views on this issue?

Fabry: Thank you for the opportunity to join such distinguished company to discuss these issues, which we began addressing in Tokyo a few days ago. First, I would like to underline that since we launched the Track 1.5 EU–CPTPP Dialogue in Paris last December, a growing sense of urgency has taken hold. This was very clear during the second round of discussions in Tokyo in mid-May. In Paris, we converged on the need to find a platform for coordinating support for open trade. The EU and the CPTPP share a common willingness to prevent further fragmentation of global trade. But the decline in the share of global manufacturing trade conducted under WTO rules – from 83% in 2022 to 72% in early 2026 – is genuinely alarming.

The two blocs are major supporters of the WTO order, and are well placed to build what might be called an insurance coalition to preserve WTO rules. The priority should be to identify measures that can quickly convey this message to the global trading community, and then to explore the numerous initiatives available in the short, medium, and long term.

I fully share Urata-san's assessment that plurilateral agreements are the main avenue we should pursue to compensate for the deadlock in multilateral negotiations. We have recently seen how this format enabled coordination on important issues such as the e-commerce moratorium.

In the short term, we should also focus on securing the participation of all CPTPP members in the MPIA – which means bringing Brunei on board – in order to present a united front from both blocs in support of an alternative to an Appellate Body that remains blocked. The scope for additional plurilateral initiatives will be discussed more extensively within the Track 1.5 Dialogue.

We should also explore the possibility of a dynamic standstill agreement, enabling member countries of the two blocs to act on three fronts. The first would be a legal commitment to respect WTO rules and FTA obligations. The second would be a political commitment to limit collateral damage when responding to external disruptions. And the third could be a dynamic forum for ongoing coordination in response to aggressive measures adopted by the US and China – to ensure coherence among the initiatives taken by EU and CPTPP countries, and to increase their joint leverage. This sequencing, with its complementary objectives, would provide solid ground for supporting rules-based trade.

Toyoda: Thank you very much. Now let me turn to Nakatomi-san. How about your view on this issue?

Nakatomi: Thank you very much for the invitation. I've worked on trade issues for quite a long time, and the four issues you raised – MFN, MPIA, plurilaterals, and decision-making – relate to WTO reform. In the WTO, decision-making, development, level playing fields, and foundational issues such as MFN will be the topics for deliberation.

Unfortunately, as everybody knows, the framework and way forward for WTO reform were not concluded at MC14 in Cameroon. The process was brought back to Geneva, and initial discussions have just taken place. But within a tight timeline, until MC15, which will probably take place in 2028, it's very difficult to come up with meaningful results without good coordination and tough efforts by the members. Especially, as everybody has already said, collaboration with CPTPP members and the EU needs to deepen, and we need to have a common position. Otherwise, there's a strong possibility that the discussions will not be very fruitful. Having said that, first, on substance, I would like to touch upon plurilateral agreements, as that relates to the decision-making issue as well.

I was deeply involved in the Information Technology Agreement (ITA) and the Anti-Counterfeiting Trade Agreement (ACTA) negotiation as a Japanese negotiator. I think those were successful because they were carried out very long ago. Unfortunately, ACTA did not take force because of the situation in the EU, but we had finished the negotiations. We need to look at those lessons and other examples to get meaningful results from plurilateral negotiations. Plurilateral agreements are effectively, at this moment, the only rule-making tools in the WTO. Plurilateral approaches have been widely utilized in the WTO as the basis for multilateral agreements as well.

The four elements Urata-san explained were very useful. Certainly, I think they can serve rule-making very much. But the problem at this moment is that the ideal shape of plurilaterals and the reality are very different. At MC13, a domestic regulations agreement in services was incorporated in the WTO. That was a successful case. But at MC14 the incorporation of investment facilitation for development agreements was again blocked by just one member. On e-commerce, an interim agreement was concluded by 66 members outside the WTO with a view to incorporating it into the WTO in the future. I looked at the development from the beginning of the negotiations. Japan was deeply involved in beginning the negotiation, but eight years had already passed until we came to MC14. That's the reality. It's a long process, and we needed to coordinate. At this moment we need to perhaps tackle three important issues.

The first element is that we need to incorporate the Investment

Facilitation for Development Agreement (IFDA) in Annex 4. Annex 4 means an agreement that applies just to the limited parties – the negotiating parties – as in the case of the government procurement agreement. But it's very difficult because we need a consensus even to incorporate an agreement in Annex 4. If one member says no, it cannot be realized. Regarding IFDA, not only the procedure, but also in substance, I think that was supported by many members, perhaps more than three-fourths of all WTO members. There's no reason that we cannot realize IFDA as an Annex 4 agreement. That's perhaps the first priority.

The second issue is creating new issues in the pipeline. We don't have stock at this moment. We finished e-commerce to some extent, but of course we also need to incorporate that into the WTO framework. We are now trying to finalize IFDA as an Annex 4 agreement. But I think we need to have new issues in the pipeline for future plurilateral agreements. Otherwise, I think we are just pursuing a vacant box. That's dangerous for the system. And in that regard, CPTPP countries and the EU need to work together.

The third issue relates to decision-making. Reform of the decision-making mechanism is essential for the WTO system. But perhaps we need to begin with a plurilateral agreement. Even for an Annex 4 agreement, we need consensus, as we are seeing in the case of IFDA. We need to change that. Of course, that's a very difficult negotiation, but I think we need to pursue that. I will stop there. We need to work together on these three points, and I think CPTPP countries and the EU need to be the core in moving these initiatives forward.

How to Address Contemporary Issues, Digital Trade & Environment

Toyoda: Thank you very much. It seems that the three of you agree on the importance of plurilateral arrangements. I think that's very realistic and constructive. Let me go to the second topic, contemporary issues. I think two issues are being discussed as sort of contemporary issues: digital trade and environmental issues. Please choose one of these and comment on the key points that require attention. Can we start with Fabry-san on this issue?

Fabry: The two issues you have mentioned should have been addressed at the WTO level, and it has been deeply frustrating, over these past years, to fail to raise them effectively at the multilateral level. We are talking about fast-moving issues that require substantial investment. A framework for balanced competition is needed to ensure the defense of public goods.

Let me focus on the digital dimension, which was addressed by the official EU–CPTPP track in Melbourne in November. Multilateral coordination on this issue has been difficult to envisage, and the EU–CPTPP dialogue offers a kind of laboratory for closer coordination and rule-making on digital trade.

Digital trade is, of course, an expanding sector that is also affecting manufacturing, and it will continue to be a major driver of global trade growth. A range of unilateral and bilateral initiatives have recently emerged in this field, with dedicated chapters in FTAs as well as additional initiatives within regional trade agreements – to which we can, of course, add the regional initiatives undertaken at EU level. It is now time to work on interoperability between these various initiatives. If we treat this collective discussion on digital trade as an experiment, we must remain attentive to how rapidly the digital trade landscape is being transformed, and ensure that we adapt to that fast-moving environment. We need innovative ways of coordinating regulation, and we may need flexibility in building the bridges that allow for swift interoperability.

Many issues could be addressed within this EU–CPTPP dialogue. We already have a clear list of topics for this bilateral agenda – from data flows to digital identity, cross-border portability of commercial data, and joint cooperation on AI governance. This last point is particularly pressing, as we saw following the recent meeting between US President Donald Trump and Xi Jinping, which concluded with the stated objective of sharing views on AI governance. It is important for the EU and the CPTPP to develop their own perspective on AI governance. We are still at a very early stage of AI's development, and we have an opportunity to leave our own mark on its governance. Let me underline once again that together, the two blocs represent close to a third of global GDP and global trade. They are also two blocs that are deeply engaged in digital trade, sharing a common goal of greater interoperability between markets while ensuring the protection of consumers' data.

So we have a full agenda on digital trade – with some low-hanging fruit that could rest on mutual recognition to facilitate interoperability, and more complex issues, particularly around AI governance, that will require deeper discussion on shared principles and values. What is at stake is not only the defense of common rules for the global economy, but the evolution of our societies themselves. There are many important principles on which we can find agreement.

Toyoda: Thank you. Yes, I think you're right. EU and CPTPP countries should have independent views on digital trade, AI, etc. Next, let me ask Nakatomi-san about new, contemporary issues.

Nakatomi: Both environmental and digital issues are important. Both issues are similar in that the approaches of CPTPP members are not necessarily in common with the European approach. I think this means, as Fabry-san explained, that we need to look at the interoperability and the connectivity and harmonization of standards and regulations. It's a big task, but it's a very productive and interesting task as well. In addition, in a connected supply chain, perhaps digital issues and environmental issues need to be discussed together. If we look, for example, at CO_2 reduction in supply chains, we need to pursue digital coordination and harmonization by all means.

Here, however, I would like to speak a bit about the environment. I think that diversity among the CPTPP members and the possibility of protectionism among the EU members may be key concerns at this moment. Overcoming this diversity and protectionism will be the key to finding common solutions to everything else. First, I think we need to have close dialogue. Japan, for example, is deeply committed to decarbonization by 2050, as is the EU, and we have a detailed roadmap for realizing this goal, but the situations in other CPTPP countries are diverse and perhaps different at this juncture.

The EU is introducing and promoting regulatory-based approaches, and for example, designing the introduction of a Cross-Border Adjustment Mechanism (CBAM) and Digital Product Passport (DPP) very quickly, which is creating some concerns among CPTPP members including Japan. At this moment, perhaps it's difficult to speak of a common strategy on all fronts. But I think that perhaps we need to concentrate on some areas where we can realize common goals. One possibility, for example, may be in developing a method for calculating CO_2 emissions throughout the supply chain. There may be other issues as well, but we need to begin with an easier item to have better discussions at later stages.

Developing dialogue and creating the basis for common architecture down the road is key to success. In that sense, I really believe that Japan and the EU actually have much in common on environmental issues.

Toyoda: Both important issues are in some ways related to each other. That is a very interesting point, thank you very much. Could I turn to Prof. Urata?

Urata: Yes, I'd like to talk about digital trade. As we have already heard, digital trade has recently become one of the most important components of the global economy, but the WTO does not have comprehensive or binding rules governing digital trade. If the WTO is to remain relevant in the 21st century, establishing international rules for digital trade will be a very important task. Digital trade includes a wide range of economic activities, including cross-border data flows, e-commerce, and digital services. The rapid expansion of digital trade has also created enormous opportunities for economic growth, innovation, and participation in the global economy, particularly for small and medium-sized enterprises. At the same time, it has raised important policy challenges involving privacy protection, cybersecurity, and competition policy, just to name a few.

I'd like to talk about several key issues related to digital trade being incorporated into the WTO rules. First, maintaining the free flow of data across borders is essential. Cross-border data flows have become indispensable for modern business activities, global supply chains, financial services, manufacturing, logistics, and so on. Excessive data localization requirements can increase business costs, reduce efficiency, and fragment the global digital economy. WTO rules should therefore support free data flows while recognizing legitimate public policy objectives.

Second, an appropriate balance between openness and regulatory autonomy is critically important. Governments must retain the right to pursue legitimate objectives such as the protection of personal information, cybersecurity, consumer protection, and national security. At the same time, such regulations should not become disguised restrictions on trade. WTO rules should therefore promote transparency, proportionality, and non-discrimination in digital regulations.

Third, the moratorium prohibiting customs duties on electronic transmissions should be maintained and ideally made permanent. Since 1998, WTO members have repeatedly renewed this moratorium, which has contributed significantly to the expansion of digital trade and innovation. Imposing tariffs on electronic transmission could disrupt digital commerce and create substantial administrative difficulties. It is very unfortunate that this moratorium ended, if I understand correctly, at the end of March this year because the members could not agree on an extension, let alone make it permanent.

The fourth is greater international cooperation on interoperability, as Fabry-san said earlier. These are very important. Different national approaches to data governance, AI regulation, cybersecurity, and digital standards risk creating regulatory fragmentation. WTO discussions should therefore encourage compatibility and mutual recognition among regulatory systems where possible, and we can certainly discuss this among CPTPP and EU members.

Fifth, developing countries must be fully integrated into the digital trading system. Many developing economies still face challenges related to digital infrastructure, skills, financing, and regulatory capacity. Capacity building and technical assistance should be incorporated into future WTO digital trade rules. Recent progress through initiatives such as the JSI on e-commerce demonstrates that international cooperation on digital trade remains possible despite geopolitical tensions. Indeed, the EU and most CPTPP members have joined the JSI, and the remaining CPTPP members including, if I understand correctly, Chile, Mexico, and Vietnam are being encouraged to participate in the agreement. Ultimately, incorporating digital trade rules into the WTO is essential for preserving an open, rules-based, inclusive global economy in the digital age.

Toyoda: Thank you very much. As you pointed out, digital trade holds enormous opportunities for all related countries. But you are right. I think capacity building is quite important for developing economies. I think this is one of the most important issues.

How Should We Deal with Differing Economies?

Toyoda: Now let me go to the third area, differing economic systems. This is another sensitive issue, concerning the treatment of state-driven economies. WTO rules are built on the assumption of a market economy. Some argue that additional disciplines are necessary for state economies. Possible areas include improving subsidy discipline and addressing market failures arising from economies of scale, and responding to economic coercion. I would like to start with Nakatomi-san on this issue.

Nakatomi: At this point, deliberation in the WTO is concentrating on WTO reforms to change the basic principles of the WTO. It's certainly understandable that members are discussing its core problems, but it's like discussing amending the constitution of an individual country. Actually, WTO reform, to me, is more like discussing amendment of the constitution of the organization. There is no easy way out for WTO reform. As I've already said, without collaboration between CPTPP members and the EU, there is a danger that the deliberation may drift and never land at a destination.

CPTPP and EU members also need to look at the existing economic realities of various big imbalances and supply chain problems caused by big members, and work together to find solutions. The WTO's tools and remedies are becoming obsolete and out of touch with the realities of the global economies.

The US doesn't like the WTO to some extent because remedies in the WTO are not functioning well. And in some sense we need to hear what the US is, I think, perceiving and speaking about. Regarding the state-owned economy type of issue, one typical example is, as already explained, subsidies and remedies. WTO rules cannot appropriately deal with subsidies to, for example, third countries, or subsidies to state-owned enterprises. WTO rules cannot deal with market failures caused by the economic scale of a certain country, either. That's clear if we look at the steel case, the rare metals case, and so on. In addition to WTO reform per se, the CPTPP and EU members need to analyze these imminent problems caused by big players, and discuss and promote solutions to the situation in the WTO and elsewhere. I think it's encouraging that some EU members are speaking about the necessity of dealing with these issues.

The other issue is economic coercion. Economic coercion inconsistent with WTO rules by big countries is affecting global supply chains and economies. Perhaps here as well, the CPTPP and EU members can coordinate and possibly come up with a common solution.

Toyoda: Thank you very much, those are very important issues. The WTO is expected to address those issues of subsidies, economic scale, and economic coercion, but first I think the CPTPP countries and EU need to address them. Prof. Urata, I would like to have your views on differing economic systems.

Urata: I'd like to talk about these first two issues, improving subsidy disciplines and addressing market failure arising from economic scale. I think they are related, and Nakatomi-san talked about this, too. Today, one of the major challenges facing the WTO is how to address "trade distortions" arising from state-run economies or economies characterized by extensive government intervention through state-owned enterprises or industrial subsidies, directed finance, and so on. In some cases, these interventions have contributed to overcapacity and excessive exports in industries like steel, solar panels, batteries, and electric vehicles. These exports can seriously injure industries in importing countries and generate significant trade tensions. In my view, the WTO already possesses several instruments to address this problem, but I certainly understand that they are not sufficient.

Let me just say a few words specifically about the Agreement on Subsidies and Countervailing Measures, the ASCM. Under this agreement, subsidies are disciplined when they are specific, meaning that they target particular firms, industries, or regions, and when they cause adverse effects on other WTO members. This agreement provides two main approaches. First, importing countries may impose countervailing duties when subsidized imports cause material injury to domestic industries. These measures are intended to offset the unfair competitive advantage created by subsidies. Second, WTO members may challenge harmful subsidies through the WTO dispute settlement mechanism if those subsidies cause adverse effects, such as serious prejudice to their interests. The ASCM also prohibits certain subsidies outright, particularly export subsidies and subsidies contingent on the use of domestic content, because they are considered especially trade-distorting.

In addition, WTO safeguard measures may provide temporary protection when sudden import surges seriously injure domestic industries, including cases related to overcapacity. I do understand that these are not sufficient for dealing with the problems that many countries have faced in recent years. These WTO rules have important limitations, particularly with modern forms of state capitalism and industrial policy. One major problem is transparency. Many subsidies are difficult to identify because support is often provided indirectly through state-owned banks, preferential financing, energy pricing, land use policies, or state-owned enterprises. In some cases, governments fail to provide adequate subsidy notifications to the WTO, making monitoring and enforcement difficult. On this, I recently learned that Global Trade Alert (GTA) collects lots of information on subsidies and puts that information on its website. That website gives very useful and important information on subsidies.

Another challenge is that current WTO rules were not designed to address large-scale systemic overcapacity arising from extensive state intervention. To respond effectively, WTO members need to strengthen and modernize subsidy disciplines. Transparency and subsidy notification requirements should be enhanced significantly while disciplines on state-owned enterprises and indirect forms of government support may need to be expanded.

I should say, it's relatively easy to mention this but it's difficult to realize. Stronger international cooperation among major economies, particularly CPTPP and EU members, is also necessary for reducing excessive production and avoiding destructive subsidy competition. At the same time, reforms must carefully balance the need to discipline trade-distorting subsidies with the legitimate role of industrial policy in areas such as innovation, green technology, supply chain resilience, and economic security. The challenge is to ensure that these policies remain transparent, proportionate, and minimally trade distorting. And finally, preserving an open and rules-based trading system requires adapting WTO rules to the realities of the modern global economy while maintaining fairness, predictability, and healthy competition.

Toyoda: Thank you very much. You are addressing quite a lot of issues. We hope the WTO will function in the future, but I fully agree with you that for the moment, collaboration between CPTPP countries and the EU is quite important. Let me turn to Fabry-san on this rather sensitive issue of differing economic systems. Can you elaborate on what is happening in the EU?

Fabry: European heads of state and government want to recalibrate the European response in order to react more quickly. Traditional tools such as investment screening, anti-dumping and safeguard measures, alongside newer instruments such as the Foreign Subsidies Regulation or the IPI (reciprocity in public procurement), continue to be used in silos. Anti-subsidy investigations have proved effective, and the European Commission is multiplying such investigations to shield various sectors from the price-cutting pressure exerted by Chinese exporters.

But these instruments allow for, and indeed require, a more horizontal approach to defense – moving beyond a sector-by-sector logic to ultimately address the structural problems we face with state-led capitalism. You have already mentioned the difficulties posed by overcapacity – the overcapacity exported from the Chinese market, which suffers from stagnating consumption and is increasingly reliant on its export strategy. We could spend hours debating how to define overcapacity, and the Chinese government has consistently pushed back against criticism of its overcapacity spreading across the world – but I think it is more useful to focus on the underlying factor of concentration, which is of course closely linked to the issue of Chinese overcapacity.

Two major factors are currently reshaping global trade. The first is that the concentration of production in a single country is not sustainable for the rest of the world. China already accounts for 35% of global manufacturing, and that share is expected to reach 45% by 2030. As the Chinese government continues to prioritize investment in innovation and manufacturing over support for domestic consumption, China needs ever greater access to export markets and a growing share of them. China's consumption-to-GDP ratio has continued to fall, from 65% in 1989 to 50% today, while Japan's stands at 75%. These macroeconomic imbalances are no longer sustainable for the global economy.

The second factor is the use of economic coercion – the use of economic interdependence for political ends, or for purposes unrelated to the matter directly at hand. The use of economic coercion by major trading powers is a significant source of disruption to supply chains, creating difficulties not only for the companies, sectors, or countries directly targeted, but also generating cascading effects throughout supply chains and, more broadly, across the global economy.

Addressing these two issues – the growing concentration of production and the risk that economic coercion becomes normalized – has led us to draft an agenda for closer coordination between the EU and the CPTPP across different dimensions of resilience. There is what Wolfgang Alschner, during our discussions in Paris in December, characterized as neutral resilience, built on diversification efforts. We are all engaged in diversifying our sources of supply and our export markets. Closer coordination between EU and CPTPP countries to lead this diversification, with greater integration of supply chains between the two blocs – starting with a sector such as critical minerals – could allow us to strengthen direct resilience capacity in the very short term.

There is a second dimension of resilience, which we might call the defensive dimension, related to the concentration of production driven by the growing use of industrial subsidies. This issue was already addressed back in 2020 by the Trilateral Initiative launched by Japan, the United States, and the EU, with the aim of agreeing stricter rules on the use of industrial subsidies in order to pressure China into limiting its state aid. That initiative was ultimately shelved. Six years have now passed, and we find ourselves facing an explosion of subsidies everywhere – required for the green and digital transitions, as much as for increased investment in AI and quantum computing development. There is a real risk of building major future dependencies if we fail to preserve a degree of technological sovereignty and end up relying on the countries that master these technologies.

An interesting debate is now emerging, one that considers not only the price-depressing effect of subsidies, but also the impact of the economies of scale they generate – and the major imbalances this creates in global trade flows. This is precisely the kind of issue the EU and the CPTPP could usefully work on together: putting forward, in a plurilateral format, a new way of thinking about subsidies, in order to put pressure on other major economic blocs that make extensive use of them. This, admittedly, is more of a medium-term objective.

In other words, diversification efforts – and coordinating them – can be complemented by other joint initiatives, notably greater transparency in the use of our trade defense tools, and coordination either in how existing tools are used or in the adoption of new ones.

What is currently being debated at EU level is the reinforcement of European defense tools against the concentration of Chinese production. A non-paper signed by four countries – France, Italy, the Netherlands, and Lithuania – has recently circulated, suggesting ways to develop new defense measures. There is already a coordinated effort calling on the European Commission to act more swiftly; the sense of urgency is unmistakable. The non-paper also addresses the siloed use of existing instruments and the need to adopt new ones. The four member states are calling for conditionality on access to the European market, including local content requirements – an idea already floated in the Industrial Accelerator Act. The shift toward a conditional MFN principle is also being discussed with increasing frequency in European debates. Should we address these macroeconomic imbalances by amending the MFN principle, or by introducing conditionality? Would doing so directly threaten this pillar of the WTO? These remain open questions, and ones that must be addressed very seriously, in order to avoid an uncontrolled erosion of the central pillar of the multilateral trading system.

Toyoda: Thank you very much. As you pointed out, there are at least two major problems, concentration of production and economic coercion. I think the CPTPP and EU need to work together, and recent developments with respect to the European Commission are quite encouraging. We look forward to seeing how things develop.

Is a CPTPP-EU FTA Possible?

Toyoda: Let me move to the fourth issue, a CPTPP-EU free trade agreement. The importance of a CPTPP-EU FTA is currently increasing. The US accounts for 25% of the world economy, and China is 15%. Combined, the CPTPP and EU would account for roughly 30%. France and Japan are among the leading economies in their respective regions. To accelerate the formation of a CPTPP-EU FTA, there is at least a proposal to launch joint working groups on specific themes such as rules of origin. I would like to hear your views on these ideas. First, Prof. Urata.

Urata: A CPTPP-EU FTA, if completed, would not simply be another regional trade agreement. It could become a cornerstone for rebuilding multilateral trade cooperation in an increasingly fragmented global economy. The question is how to accelerate the process toward such an agreement. I think the following steps need to be taken. The first step is a step that I've argued for in the Tokyo conference but hasn't received much support, but I think the first step should be to launch a formal feasibility study jointly conducted by government officials, business representatives, and academic experts from both sides, EU and CPTPP. This study should examine not only the economic benefits of a CPTPP-EU FTA, but also strategic issues such as supply chain resilience, digital trade, economic security, green transformation, and regulatory cooperation.

A second idea that was mentioned earlier is that both sides should establish tripartite joint working groups in areas where progress can be achieved relatively quickly. Rules of origin would be an excellent starting point. Both the CPTPP and EU already have sophisticated systems, including diagonal cumulation mechanisms in some agreements. Greater harmonization and mutual recognition could significantly reduce trade costs and strengthen supply chain integration. Working groups could also address regulatory cooperation, customs procedures, sustainability standards, and investment facilitation. Early progress in these technical areas would help build momentum and trust for broader negotiations.

The third, related to the second, concerns policymakers. Policymakers should pursue limited early-harvest initiatives before a comprehensive FTA is concluded. Closer cooperation on digital trade rules, supply chain resilience, and other practical areas through existing plurilateral or sectoral frameworks could generate immediate benefits and reinforce political support for a future agreement. These issues may be considered low-hanging fruit. Fourth, stronger business sector engagement is essential. Companies operating across Europe and the Indo-Pacific are increasingly seeking predictable and resilient trade and investment environments. Business communities can play a vital role in identifying barriers, proposing practical solutions, and building political support for negotiations.

Fifth, the CPTPP and EU should frame this initiative not as an exclusive bloc, but as an open and inclusive effort to strengthen the global trading system. The objective should not be decoupling or confrontation, but rather the promotion of openness, transparency, resilience, and high-standard international rules. As such, a CPTPP-EU FTA should remain open to the future participation of non-members, including the US, China, and Global South countries, provided they are willing and able to meet the agreement's high standards, rules, and obligations. Furthermore, the CPTPP and EU should promote broader cooperation with non-members in areas such as digital trade, supply chain resilience, sustainability, and investment facilitation.

In this way, this arrangement can contribute not only to regional integration, but also to the strengthening of an open and inclusive global trading system. Ultimately, the formation of a CPTPP-EU FTA would send a powerful message to the world that the countries committed to open market rules and rules-based trade and international cooperation are still capable of shaping the future of the global economy. At a time when the multilateral trading system is under severe pressure, bold initiatives are necessary. A CPTPP-EU FTA could become one of the most important pillars of a renewed and modernized international economic order.

Toyoda: Thank you very much. Those five steps for collaboration toward a CPTPP-EU FTA are very helpful and encouraging. Fabry-san, what do you think about this collaboration?

Fabry: First, the EU has been very active recently in negotiating new FTAs. It has modernized existing agreements, such as the one with Mexico, and concluded new ones in record time, as with India or Indonesia. The provisional implementation of the bilateral agreement with Mercosur has also been a very welcome development. The EU is currently negotiating with Malaysia, which means it will soon have FTAs with almost all CPTPP countries, with the exception of Brunei. In other words, we now have a dense network of agreements. Most of them are recent, with similar chapters, providing a solid basis for coordination. We can immediately begin working intensively to add further substance to this network of agreements.

I would be more cautious about the prospect of a bloc-to-bloc, region-to-region FTA – precisely because we already have this web of bilateral agreements in place, and the absence of a single overarching FTA does not in any way prevent strategic cooperation between the two regions. Negotiating an FTA between the two blocs as such would be considerably more complex. The fact that the CPTPP has its own internal, diversity and is not integrated as a single legal entity in the way the EU is, raises additional concerns about the feasibility of such negotiations. It would be a long process. We can keep it as a long-term objective, while in the meantime finding ways to act quickly – not only to send a signal to the rest of the world about the positive momentum we want to build in support of a rules-based system, but also in terms of coordination, transparency, and the trust we build together along the way.

This calls for very short-term measures, and for greater flexibility in the format of the measures we adopt. One of the questions discussed at length in Tokyo was the need for a modular approach to the initiatives envisaged, so that they can be implemented quickly rather than in two years' time. Some may require a legal basis, but in other cases, soft standards enabling interoperability between the two regions would suffice. A framework such as an MoU, which lacks the binding nature of an FTA, could allow for rapid coordination in the short term, while paving the way for more binding commitments over the medium term.

Toyoda: That's a very interesting point. You are talking about quick action rather than long-lasting negotiations, which is very understandable. Thank you very much. Now, Nakatomi-san, it's your turn.

Nakatomi: It's a very interesting and important idea. I think that if we look at the development of FTA networks, both Japan, and this may also apply to CPTPP countries, and the EU are pursuing expansion with FTAs in quality and also geographical coverage. Japanese FTA, RTA coverage is more than 80% at this moment, and Japan is negotiating with the GCC, and newspapers are now speaking about beginning negotiations with Mercosur. This is inevitable given the stagnant rule-making and liberalization in the WTO that we have already discussed. In addition, recent erratic and unpredictable US trade policies, as exemplified in Trump's tariffs, are another reason for us to think about further expansion of FTAs. And as Urata-san explained, I think that is consistent with the WTO rules, and I think the process will help the WTO. There's a need for trade diversification, for Japan and also the EU, and that's a common agenda for us.

The EU's FTA network, as I understand it, in Asia-Pacific is basically hub and spoke in its structure. In Japan's case, we first began negotiations with the individual members. I was deeply involved in the negotiations with the Philippines, Indonesia, and Brunei. But in addition, Japan crafted a Japan-ASEAN FTA. That's for cumulation. This is an interesting and useful trial for studying the possibility of developing cumulation based on existing FTAs without difficult, time-consuming, new FTA negotiations. But at the same time, to develop full cumulation and develop fully consolidated, strong supply chains, I think the best solution will be to create a CPTPP-EU FTA inside. At this moment, we cannot say how long it will take, but we need to look at the possibility of a CPTPP-EU FTA. The idea and collaboration between the CPTPP and the EU for creating an FTA will also send a very strong, consistent signal to the US and affect it in the direction of changing its protectionist, closed trade policies. At least so far as I understand, Japan is not allergic to developing a CPTPP-EU FTA.

On Government Involvement

Toyoda: Thank you. Yes, I think it's important for us to send a constructive message to the US and other countries. Finally, I would like to ask for your reflections on participating in these international conferences aimed at rebuilding a rules-based trading order. The Paris meeting included the participation of several government officials for what might be called Track 1.5. The Tokyo meeting was held at a time when an important government officials meeting was taking place in another place and thus was mainly attended by experts, making it closer to Track 2. Please share your impressions and one request that you would make to governments regarding what should be done next. I would now like to invite remarks from Fabry-san, followed by Nakatomi-san, and then Prof. Urata.

Fabry: We need very strong support from governments to make this agenda of EU–CPTPP coordination a genuine priority. On the EU side this naturally means strong support from the European Commission. As I mentioned earlier, the Commission has been actively pursuing an agenda of bilateral agreements, but this particular agenda between the EU and the CPTPP carries a further strategic dimension. It can have a much broader, more global impact. It signals the beginning of a rebalancing exercise.

The plurilateral initiatives that EU and CPTPP countries would undertake would remain open to other third countries. The aim is to generate a new dynamic – a form of cooperation built on trust, confidence, and stability. This agenda deserves to be taken very seriously by governments. It was particularly valuable in Tokyo to have representatives from the business sector present. Coordination between the EU and the CPTPP would benefit greatly from closer involvement of the business community – from the digital sector and well beyond, since all companies need to work on their own resilience strategies. They bring considerable added value to these discussions. The additional rules we will need going forward will require a great deal of creativity and flexibility, and the business sector clearly has a role to play in that effort. The Track 1.5 dialogue will provide a platform for closer coordination not only among officials and experts, but with the business sector as well.

Nakatomi: I couldn't attend the Paris meeting, but both the Paris meeting and the Tokyo meeting were useful and productive as Track 1.5 meetings. We need to continue and develop these meetings with the involvement of relevant parties, meaning industry, academia, and governments. Dialogue among industry, academia, and governments is essential if CPTPP-EU collaboration is to develop further and produce results. There are areas and issues where only governments can make a final decision. The standstill issue is example. Further involvement, participation, and also input from governments are encouraged. That's my feeling and message.

Urata: As I expected, the conference participants shared the view that the rules-based trading system needs to be rebuilt and strengthened to promote sustainable economic growth. Although there appeared to be a broad consensus that the formation of a CPTPP-EU FTA would be an important step toward rebuilding this trading system, participants also recognized that this is not a short-term project, but a rather a long-term objective. Given this understanding, participants discussed several practical steps that could be taken by making effective use of existing FTAs that could in turn facilitate the eventual formation of a CPTPP-EU FTA.

In the area of trading goods, the adoption of common rules of origin with diagonal cumulation was considered particularly beneficial for businesses, as it would enhance supply chain integration and reduce transaction costs. Participants also emphasized the importance of joint efforts to develop or strengthen international rules on subsidies and national security or economic security to address problems arising from differences in economic systems among WTO members. In addition, many participants pointed out that the development of plurilateral agreements, particularly in areas like digital trade, would constitute an important step toward revitalizing and rebuilding the WTO.

Against this backdrop, I'd like to make two requests. I would urge the governments concerned to maintain strong momentum for CPTPP-EU cooperation and partnership by continuing to organize joint meetings, both in person and online, to discuss issues relevant to the eventual formation of a CPTPP-EU FTA. Although the conference revealed only limited support for the idea at this stage, I would nevertheless also like to encourage the governments to establish a joint feasibility study on the formation of a CPTPP-EU FTA. Such a study would contribute not only to the eventual realization of a CPTPP-EU FTA itself, but also to sustaining momentum for deeper CPTPP-EU cooperation and partnership.

Toyoda: Thank you very much, everyone. I hope that these meaningful discussions will continue and lead to concrete government actions, and I really appreciate the initiative started by the Jacques Delors Institute and Elvire Fabry-san. JS

Written with the cooperation of David S. Spengler, who is a translator and consultant specializing in corporate communications.

Policy Recommendations: Rebuilding a Rules-Based International Trade System Through CPTPP-EU Cooperation & Other Initiatives (May 13, 2026)

By Study Group on Rebuilding a Rules-Based International Trade System Through CPTPP-EU Cooperation & Other Initiatives

A rules-based international order is being undermined by the growing prevalence of power-based policies, such as tariff negotiations by certain countries that disregard international rules and economic coercion that weaponizes international interdependence. Against this backdrop, rising geopolitical risks stemming from conflicts in Ukraine and the Middle East are further increasing uncertainty in the international trade environment.

As a result, the global economy is exposed to the risk of supply chain disruptions. To mitigate the risk of economic security being compromised by such disruptions, policy measures – such as reducing dependence on specific countries for critical goods – are necessary. Restoring predictability in supply chains through the reconstruction of a rules-based international trade system will also play a significant role in ensuring and achieving economic security.

Furthermore, since a power-based international trade system significantly increases the risk of growing uncertainty in business activities, it has become an urgent issue for the global economy. It is important to establish supply chains that do not rely excessively on any single superpower, and for like-minded nations to work together to reduce business uncertainty by striving to revive a rules-based international trade system. In particular, there are high expectations for the reconstruction of a rules-based international trade system through cooperation among CPTPP and EU member states.

For this reason, we propose a roadmap for achieving cooperation across the following four areas. It is important to remember that, according to the WTO, even today, under WTO rules, more than 70% of trade in goods is conducted on the basis of MFN (Most-Favored-Nation) treatment – a fundamental principle of the WTO – in dispute settlement and rule-making. It is dangerous to be misled by the argument that "the WTO is dead." *(Table)*

In doing so, it is also extremely important to maintain economic efficiency – the original economic significance of the WTO. For example, the following two economic impact analyses are of critical importance as a legal framework for the reconstruction of a rules-based international system – that is, the global trading system.

First, if we allow the current international economic system – where power-driven shifts in the global order are intensifying – to continue unchecked, uncertainty surrounding business activities will only increase; therefore, rebuilding a rules-based international system is the most critical economic policy for maintaining economic vitality and growth. Incidentally, the GTAP model estimates that the EU's participation in the CPTPP would increase the CPTPP economy's real GDP by 0.16% *(Chart 1)*. Second, while the economic impact of US tariff negotiations, which do not take international rules into account, is analyzed as having a significant negative effect on Canada and Mexico, the analysis indicates that the next-largest negative impact would be on the United States itself *(Chart 2)*.

TABLE
The dispute settlement system is partly functioning

• Number of WTO dispute referrals (requests for consultations) following the suspension of the Appellate Body

95-19 average	2020	2021	2022	2023	2024	2025
23.7	5	9	8	6	10	12

• MPIA (Multi-Party Interim Appeal Arbitration Arrangement) Current situation
  • Contracting States : 61 countries • regions
    • Japan, Australia, Canada, China, Mexico, US, UK, EU and member states

• Cases

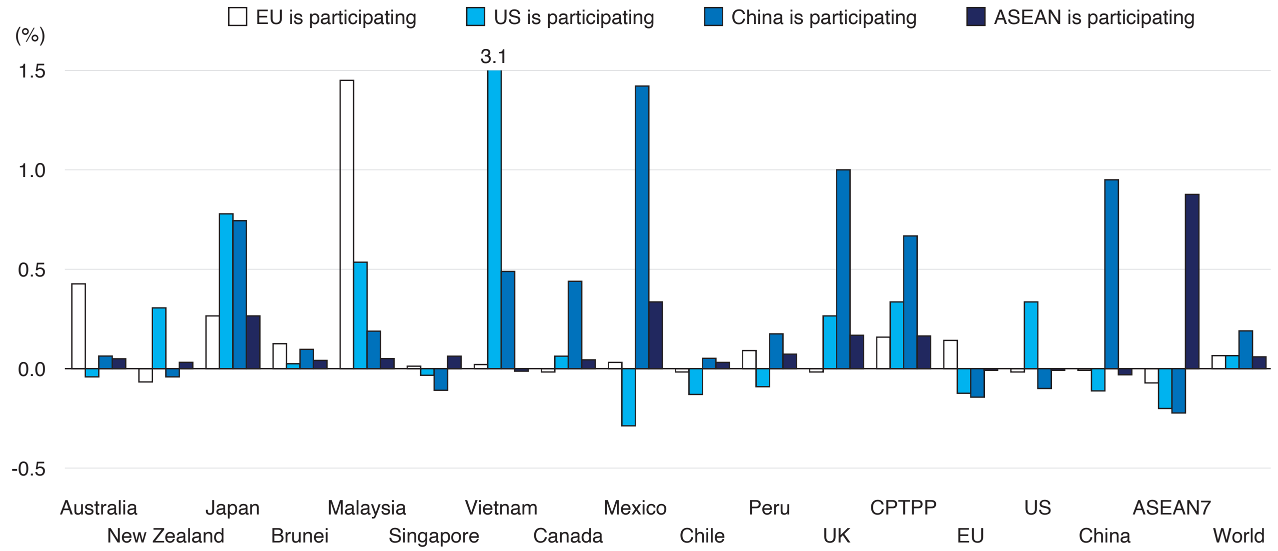
Referral Agreement	Report
15 (1) #	3 (1) #

= Items in parentheses are cases involving non-signatories to the MPIA

Source: Compiled by Prof. Tsuyoshi Kawase, Sophia University

CHART 1

Impact of CPTPP expansion on real GDP



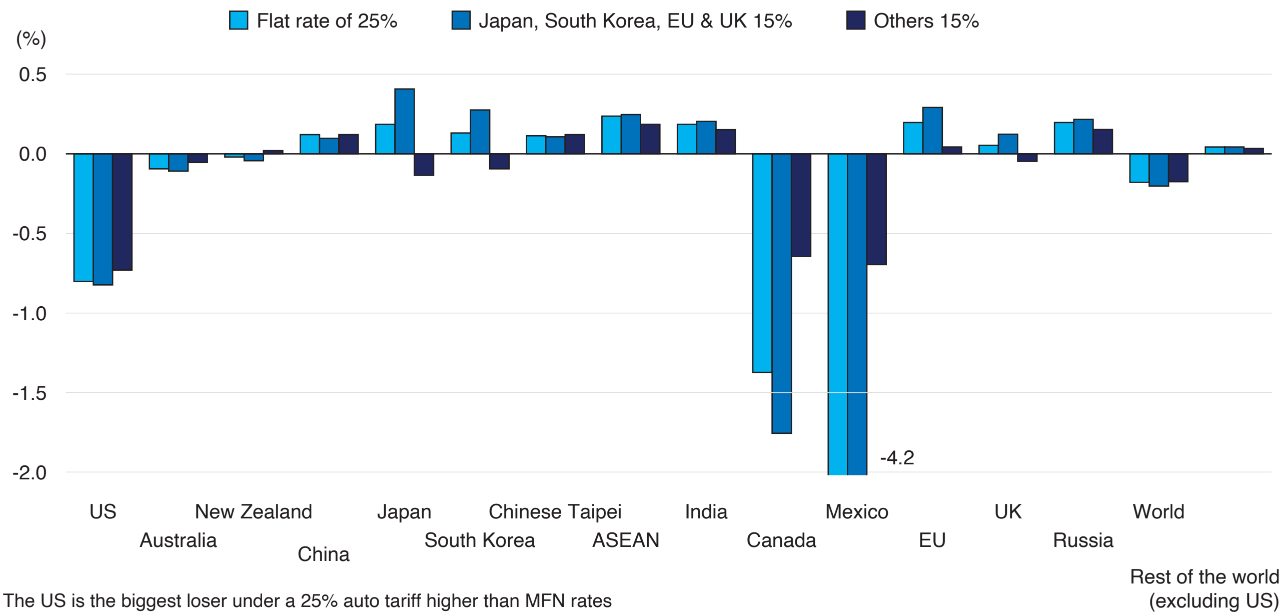
While the increase in real GDP for the CPTPP economy would be smaller if the EU were to join compared to the scenarios involving the US (0.33%) or China (0.67%), it would still rise by 0.16% if the EU were to join the CPTPP.

The EU's real GDP would offset the trade diversion effects resulting from the participation of the US and China if the EU were to join the CPTPP.

Source: Kenichi Kawasaki (2026), "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, National Graduate Institute for Policy Studies (GRIPS)

CHART 2

Impact of the US withdrawal from the MFN Agreement on real GDP



The US is the biggest loser under a 25% auto tariff higher than MFN rates

Under a flat 25% tariff, the economic gains and losses for economies other than the US differ depending on whether Japan, South Korea, the EU, and the UK face a 15% tariff and other countries face a 15% tariff.

Source: Kenichi Kawasaki (2026), "Economic Impact of Expansion of CPTPP," *Policy Analysis Focus* 25-11, National Graduate Institute for Policy Studies (GRIPS)

(Note) This study is based on discussions held by a research group organized by the Japan Economic Foundation, chaired by Shujiro Urata, professor emeritus at Waseda University (the list of members is provided at the end of this report). However, the opinions expressed in this report do not represent the views of the organizations to which the members belong or with which they are affiliated.

Rebuilding WTO Functions Through CPTPP-EU Cooperation

The WTO establishes a comprehensive set of basic rules governing free trade and supply chain operations; therefore, it is important for CPTPP and EU member states to reaffirm and uphold these fundamental WTO rules in order to strengthen supply chains.

(1) *The Importance of the MFN Principle*

In particular, maintaining the MFN principle is the most critical issue. The US-led Turnberry system is described as a new framework consisting of a network of bilateral "deals" involving trade and investment with the US. However, if such "deals" do not comply with WTO rules, they could potentially erode the MFN principle, which forms the foundation of the WTO system. Given that this is a power-based international order and that the arbitrariness of US policy could undermine the predictability of business activities, CPTPP and EU member states should agree that it is inappropriate to accept this.

That said, as times change, the traditional MFN principle is becoming increasingly out of step with the times; this point is noted not only by the US but also by the EU, which defends the traditional WTO system. Nevertheless, the MFN principle itself should continue to be maintained as a cornerstone of multilateralism. Discussions should be reframed to address the nature of exceptions (e.g., security exceptions, trade remedy measures) in light of current circumstances, and necessary revisions should be debated as part of WTO reform.

(2) *Utilizing MPIA*

With regard to the WTO's dispute settlement function, given that the WTO's Appellate Body is currently not operational, it is necessary to appeal to the MPIA. It is important to encourage CPTPP member countries that have not yet joined the MPIA to do so, while also promoting its use. In particular, it is noteworthy that the MPIA is effective in curbing the protectionism of certain countries. The China-Canada Strategic Partnership announced this past January resolved multiple WTO disputes simultaneously; this likely resulted from both countries sincerely addressing their bilateral disputes, as the MPIA had prevented an "appeal into the void". Furthermore, in the case (DS611) disputing the TRIPS Agreement compliance with the prohibition on counterclaims in essential patent litigation, it led to China's swift withdrawal of its measures.

(3) *The Importance of the Plurilateral Agreement*

To maintain and strengthen the WTO's rule-making function, the most effective approach is to utilize plurilateral agreements – issue-based agreements among multiple countries. While such plurilateral agreements are included among the agreements that do not require the participation of all member states listed in Annex IV of the WTO Agreement, the formal recognition of such agreements as WTO plurilateral agreements requires the consent of all WTO member states. This formal approval rule for plurilateral agreements acts as an obstacle to the flexible implementation of the WTO's rule-making function. Therefore, a review of the WTO's consensus-based decision-making process is necessary, and in particular, the introduction of "responsible consensus" should be seriously considered.

(4) *Review of the Consensus Method*

With regard to WTO reform, it is important to ensure flexibility by revising the consensus-based approach, while also discussing the scope of regulations on subsidies and the harmonization of trade and industrial policies from the perspective of fairness regarding different economic systems, as described below.

For example, the abuse of security exceptions to the principle of trade liberalization is a major cause for concern, as it expands the scope in which the principle of free trade can be circumvented under the pretext of protecting strategic industries. Instead, consideration should be given to withdrawing tariff concessions on an MFN basis through proper negotiations using Article 28 of the GATT. However, this requires cumbersome negotiations and procedures that do not allow for flexible tariff increases, making a review from the perspective of fairness necessary. Furthermore, since Article 28 lacks the objective criteria found in Article 21 that serve as a check on such actions, certain requirements should be established to replace the cumbersome procedures, ensuring that tariff increases do not become excessive, unilateral, or uncontrolled. While the application of such increases should adhere to the MFN principle, discussions regarding exceptions are also necessary as needed.

To resolve issues arising from specific countries' use of subsidy policies or other industrial policy measures that differ from those of other WTO members, as well as from acts of economic coercion that weaponize interdependence, it is necessary to consider reforms to trade remedy measures. (Discussed further in Section 3)

Contemporary Challenges: Addressing Digital Trade & Environmental Issues

(1) *Adapting to Digital Trade*

In today's digital economy, the importance of institutional connectivity in digital trade is growing. This is particularly significant from the perspectives of ensuring business predictability and cost reduction, managing risks as a countermeasure against digital protectionism in authoritarian countries, and maintaining an international order that enables the free and trustworthy flow of data. While a comprehensive multilateral framework for digital trade has not yet been established, at MC14 in 2026, 66 WTO members adopted provisional measures for an e-commerce agreement aimed at establishing a legal framework for cross-border e-commerce. These measures include the permanent exemption of e-commerce from tariffs and the assurance of the legal validity of electronic contracts, electronic invoices, and other electronic documents. To ensure the early entry into force of these provisional measures, the CPTPP and the EU must collaborate on capacity-building efforts, and once in force they must monitor compliance. In particular, it is important to encourage the participation of Vietnam, Mexico, and Chile – countries that are members of the CPTPP but have not yet joined these provisional measures.

Furthermore, while we will seek to deepen the content of this agreement and push for a decision to add it to Annex IV of the WTO Agreement, achieving this smoothly will require a review of the WTO's consensus-based decision-making process mentioned earlier.

Going forward, cooperation among CPTPP and EU member states is expected to realize the free and trustworthy flow of data, which was not included in the agreement. The CPTPP has introduced the "principle of liberalization of cross-border data transfers", the "principle of prohibition of data localization requirements", and the "principle of prohibition of mandatory disclosure of source code" (the so-called "three freedoms"). Similarly, agreements such as the RCEP and DEPA have established similar rules, although the scope, binding nature, wording of exceptions, and whether they are subject to dispute settlement vary from agreement to agreement.

Key areas that will become crucial for next-generation rules include not only the free flow of trustworthy data but also interoperability among AI governance frameworks and online safety that takes cybersecurity into account. Further discussion is needed regarding the extent to which the WTO should address rule-making in these areas.

When establishing rules to address these medium- to long-term challenges, it is essential to leave open the possibility of involving the US, which is poised to become a leading nation in the digital sector. For example, regarding cross-border data transfers, most FTAs currently in place between CPTPP member countries and the EU are based on the EU's model clauses. Further consideration is needed on whether the EU-style provisions should be adopted across the entire CPTPP-EU framework.

(2) *Addressing Environmental Issues*

Due to the worsening climate crisis in recent years and the need to achieve the long-term decarbonization goals set forth in the Paris Agreement, demand for clean energy remains strong even amid the current energy crisis. This is because solar panels and related components, wind turbines, and electric vehicles all contribute to energy self-sufficiency. According to the IEA, approximately $2.2 trillion was invested in 2025 across renewable energy, nuclear power, grid and storage, low-emission fuels, efficiency, and electrification. It is also a fact that the industrial supply chains for these clean energy industries – and their related materials, such as steel, aluminum, and ammonia – are concentrated in specific countries that produce them.

In this context, the environmental policies and measures to promote clean energy in various countries are linked to trade policy, industrial policy, and economic security policy. For example, the US "Inflation Reduction Act" (2022), which supports the US clean energy industry, has raised concerns that it violates the WTO's MFN or non-discrimination principles (the DS623 Panel Report found violations of national treatment, among other issues; the case is currently under appeal). Also, the fact that subsidy policies in these sectors by certain countries are deepening reliance on those countries in supply chains is a major concern for economic security. Consequently, when reviewing subsidy rules, as discussed later, it will be necessary to consider measures to mitigate security risks, including in this sector.

Furthermore, under the IPEF, the Clean Economy Agreement entered into force in October 2024. The agreement includes provisions such as "energy security and the transition to a clean economy", "promotion of technologies and solutions to reduce greenhouse gas emissions in the industrial and transportation sectors", "sustainable land, water, and ocean solutions", "incentives and cooperative work plans to enable the transition to a clean economy", and "efforts and cooperation to promote the interoperability of policies and standards related to the clean economy". It is conceivable that such provisions could also be considered in the context of the CPTPP–EU agreement.

In addition, as a longer-term issue, the transition to a "circular economy" – which maximizes the sustainable use of resources – has become one of the major global environmental challenges. Given that product value chains extend across national borders, international coordination of the policies and initiatives adopted by each country to promote the circular economy is a key factor in ensuring a smooth transition to this model. It is also important for CPTPP and EU member states to exchange information and views regarding policy transparency and trade facilitation measures that promote the circular economy.

Challenges in Cooperation Between CPTPP & EU Member States Related to Differing Economic Systems

(1) *Streamlining Subsidy Regulations*

Including the aforementioned environmental products, the use of subsidies by certain countries to secure excess capacity, production, and market share in many manufacturing sectors, particularly the steel industry, is causing significant concern in the global economy. Given the differences in economic systems, there is a strong need for multilateral rules to regulate excessive subsidies that are not covered by current WTO rules. Subsidy policies are becoming increasingly diverse, including indirect subsidies provided through state-owned enterprises, and there is a possibility that some methods are not currently regulated by existing rules.

It is important for the EU and the CPTPP to begin addressing, as a shared challenge, the lack of transparency regarding subsidies, the absence of regulations and remedies, and the need to strengthen discipline regarding subsidies provided by or through state-owned enterprises – without singling out any specific country.

Incidentally, regarding issues such as these subsidies, the following points should be considered in determining whether the scope of the Subsidy Agreement should be expanded.

a. Scope of public agencies (government)

In cases where materials supplied by government-invested enterprises or loans provided by government-owned commercial banks have been classified as subsidies, the question arises as to whether such enterprises or banks qualify as "public bodies" under the Subsidies Agreement. The WTO Appellate Body has defined a "public body" as an entity exercising governmental authority, and ruled that classifying an enterprise as a public body solely on the basis of the government holding a majority stake is inconsistent with the Subsidies Agreement; however, this ruling has been contested.

b. Cross-border subsidies

It has been raised as an issue that the governments of certain countries are providing "cross-border subsidies" – such as low-interest loans – to factories established by their state-owned enterprises in third countries.

Furthermore, at the 7th Trilateral Trade Ministers' Meeting in January 2020, the following items were cited as subsidies that should be added to the list of prohibited subsidies in the revised Subsidies Agreement, on the grounds that the current agreement is insufficient. These include unlimited guarantees; subsidies to companies that are bankrupt or at risk of bankruptcy without a credible restructuring plan; subsidies to companies in sectors or industries with excess capacity that are unable to secure long-term financing or investment from independent private capital; and the direct forgiveness of certain debts.

In addition, it is necessary to review WTO rules regarding trade remedy measures such as anti-dumping and countervailing duties.

(2) *Addressing Market Failures Caused by Economies of Scale*

When economies of scale are significant, the market failures they cause distort the level playing field that subsidies and MFN treatment are intended to ensure. As one measure to correct such market failures, it is important for the CPTPP and the EU to consider the following proposal regarding trade remedy measures against industrial subsidy policies.

The phenomenon whereby a single country comes to hold an overwhelming market share in a particular industry is causing significant distortions in the current international economic order. To address this issue, we need to consider: (1) its causes; (2) the harmful effects of coercive behavior resulting from such a dominant market share; and (3) mechanisms to prevent them.

Economic analysis shows that (1) due to economies of scale, countries with large populations can rapidly reduce costs in specific industries, gaining a competitive advantage that may lead to imbalances where they monopolize the market share of those industries. Furthermore, it has become clear that as this process progresses, it can result in exploitative outcomes for other countries. It has become clear that this phenomenon can give even extremely small subsidies or short-term policies excluding foreign investment enough power to monopolize a specific industry. For this reason, the harm caused by delays in addressing violations of existing subsidy agreements or MFN treatment – even as time passes – can be significant. In particular, regarding subsidies, discussions have been unproductive because, despite the significant disparity in reality between the amount of the subsidy and the damage it causes, the latter is often not recognized. Furthermore, (2) as political tensions rise, economic coercion based on such market share have become increasingly common. This not only runs counter to the spirit of the WTO, which holds that trade and security should be kept separate, but also likely constitutes a violation of the MFN treatment stipulated by the WTO; yet effective deterrence has not been achieved. (3) To improve this situation, discussions have thus far focused on subsidies that have not been adequately addressed. However, it is necessary not only to regulate subsidy violations at the appropriate time to address the harm they cause but also to establish economically rational calculation standards to correct that harm. Furthermore, it is desirable to create an appropriate international competition framework similar to domestic competition laws and to impose stricter regulations on countries holding a certain level of market share or higher.

Based on the above analysis, in the short term, we propose a new method for calculating duties to improve the current situation – where there are no rules for setting economically reasonable levels for anti-dumping and countervailing duties on, for example, flood exports caused by specific industries in specific countries, and where practices vary widely from country to country – and to make trade remedy measures more effective. In the long term, we aim to establish a fourth type of trade remedy measure that is effective in correcting such structural distortions.

(3) *Responding to Economic Coercion*

There has been an increase in instances of economic coercion by superpowers, such as the imposition of anti-dumping duties on Australian barley and wine following demands for an investigation into the origins of Covid-19, and the suggestion of raising tariffs on European countries that oppose US sovereignty over Greenland.

The reason why economic coercion works effectively is the excessive reliance of certain raw materials and products within supply chains on specific superpowers. Discriminatory measures against countries targeted by economic coercion violate the MFN principle and undermine the rules-based international economic order.

As a deterrent against this, it is important to foster an international consensus on the nature of such coercion and shape global public opinion; to promote private stockpiling and government reserves to reduce excessive reliance on specific countries for products or raw materials subject to coercion; for like-minded nations, such as CPTPP and EU member states, to coordinate efforts to support the diversification of supply sources and markets for critical products; and furthermore to establish mechanisms for response and cooperation among like-minded nations when facing economic coercion. This approach is effective in reducing the expected benefits and increasing the expected costs of coercion for potentially coercive states. It is also important to reach a consensus on the nature of such cooperation between the CPTPP and the EU.

As noted above, it is also worth remembering that such distortions caused by excessive subsidies and exclusionary policies are exacerbated by economies of scale. With regard to large economies such as those of superpowers, it is important for CPTPP and EU member states to discuss appropriate rules to prevent the abuse of such economies of scale – for example, by allowing trade remedy tariffs to be set at higher rates based on the economic size of a specific country.

Such cooperation among like-minded nations is crucial for strengthening supply chain resilience. To reduce supply chain risks and ensure economic security, "friendshoring" – economic cooperation among like-minded nations – is an effective strategy that contributes to deterring risks. "Friendshoring" refers to the relocation and expansion of supply chains and production bases by companies and governments to like-minded nations that are more politically and economically reliable, thereby mitigating geopolitical risks and supply uncertainties. In this sense, the IPEF's supply chain agreement – which centers on supply chain resilience and environmental cooperation within a loose framework among specific countries, including the sharing of experiences in addressing supply disruptions – serves as a useful reference given the current state of the global economy, which is exposed to the risk of fragmentation. It is important to analyze the content and implementation of the IPEF and to explore its feasibility as a foundation for future international rules and frameworks.

Synergies & Convergence Between Existing FTAs Among CPTPP & EU Member States

It is of the utmost importance for the CPTPP and the EU to conclude an FTA. While the US economy accounts for 25% of the global economy and China's economy for 15%, the combined GDP of the CPTPP and the EU represents approximately 30% of the global economy. Consequently, an FTA involving both parties would provide significant bargaining power against the superpowers. It would pave the way for reaching agreements on a rules-based international trade system that includes the superpowers.

Various approaches can be considered to achieve this goal. These include refining and implementing the analysis of the economic impacts of the CPTPP–EU FTA mentioned at the outset, as well as establishing joint study groups on a topic-by-topic basis to examine the issues identified in this proposal. Other potential measures are outlined below.

For example, while it is conceivable that both parties would need to adopt common rules of origin as a prerequisite for concluding a CPTPP–EU FTA, revising the CPTPP's rules of origin would require renegotiation and would be a long-term challenge; moreover, this could also make it difficult for the US to rejoin the CPTPP. The following measures are worth considering as ways to overcome this challenge.

When three or more countries conclude an FTA in which they adopt the same rules of origin among themselves, "diagonal cumulation" refers to the practice of treating materials originating in one contracting party – used in the production of a product in another contracting party – as materials originating in the country where the product was manufactured. It is feasible to identify the products and materials subject to this practice and apply existing FTAs accordingly; however, further discussion is needed regarding specific sectors and methods moving forward.

To make that discussion fruitful, it would be important to do a stocktaking exercise on the achievable merits of possible diagonal cumulation among the existing FTAs of CPTPP and EU nations. It was a big step towards such CPTPP-EU cooperation that in the CPTPP-EU experts meeting organized by JEF in Tokyo on May 13, 2026, the Swedish delegate announced theto hosting of a web conference of those experts on the issue of rules of origin on June 15.

Furthermore, the CPTPP and the EU could serve as incubators for reforms aimed at strengthening the rules-based international trade system centered on the WTO. A precedent for this is the informal WTO mini-group (commonly known as the "Ottawa Group") launched in October 2018 at Canada's initiative (comprising Australia, Brazil, Canada, Chile, the EU, Japan, Kenya, South Korea, Mexico, New Zealand, Norway, Singapore, Switzerland, and the UK). (Meetings have been held irregularly since then.) It is of the utmost importance for this coalition of middle powers to become a cohesive bloc that leads such reforms.

Study Group on Rebuilding a Rules-Based International Trade System Through CPTPP-EU Cooperation & Other Initiatives

Member List

As of May 13, 2026

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JEF initiated the Study Group on Rebuilding a Rules-Based International Trade System Through CPTPP-EU Cooperation & Other Initiatives with prominent Japanese experts in November 2025.

Economic Impact of the EU Joining the CPTPP

Author Kenichi Kawasaki

By Kenichi Kawasaki[1]

Abstract

If the European Union joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the real GDP of the 12 CPTPP economies would increase, though that magnitude would be smaller than that under the United States and China joining. Agriculture, forestry and fisheries production would increase in Australia but decrease in Japan. Textiles and apparel production would increase in CPTPP economies, but motor vehicles and parts production would decrease.

On the other hand, the magnitude of a real GDP increase would widely vary among EU member states and the income gaps among EU economies would expand. EU production would increase in agriculture, forestry and fisheries as well as in motor vehicles and parts, but increases and decreases would be mixed in textiles and apparel production among its member states.

The effects on CPTPP and EU exports to and imports from the US and China would be asymmetric and affect global supply chains.

Developments of the CPTPP

Regional trade agreements (RTAs) have contributed to trade and investment liberalization and facilitation under the multilateral free trade system of the World Trade Organization (WTO), which amounted to 381 agreements in 2025. That said, those agreements have largely been concluded intra-continents but not necessarily inter-continents.

The Trans-Pacific Partnership (TPP) Agreement was signed in 2016, including American (US, Canada, Mexico, Chile and Peru), Asian (Japan, Brunei, Malaysia, Singapore and Vietnam) and Oceanian (Australia and New Zealand) economies. The US withdrew from the TPP in 2017 under the first administration of President Donald Trump, but the CPTPP entered into force among the remaining 11 economies in 2018. The United Kingdom joined the CPTPP in December 2024 following its withdrawal from the EU.

China, Chinese Taipei, Cambodia, Indonesia, the Philippines, Ecuador, Ukraine and the United Arab Emirates (UAE) have all formally applied to join the CPTPP. Accession procedures to the CPTPP commenced for Costa Rica in November 2024 and for Uruguay in November 2025.[2]

Meanwhile, CPTPP parties held ministerial conferences on trade and investment dialogue with the Association of Southeast Asian Nations (ASEAN) and the EU in November 2025. Progress in further trade liberalization would be expected to be led by third economies, after protectionist movements have appeared in the two largest economies – the US and China.

Macroeconomic Impact

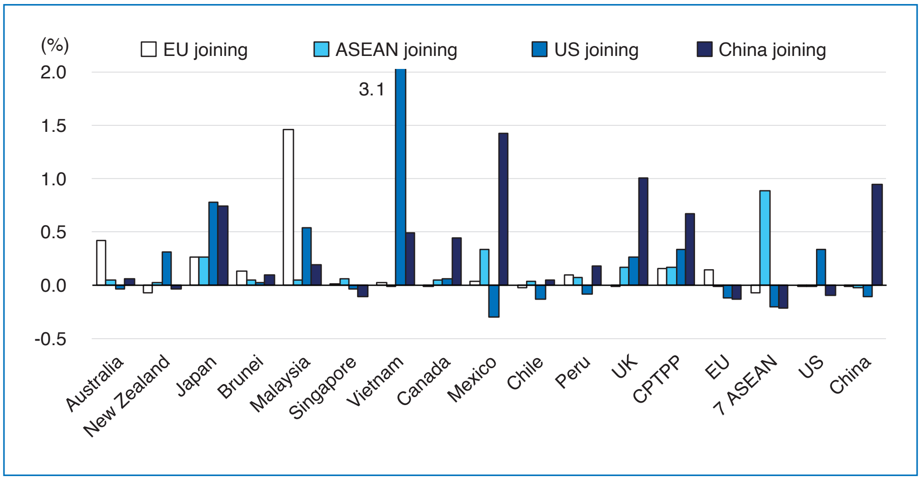
The real GDP impact of the EU and ASEAN joining the CPTPP is estimated in Kawasaki, Kenichi, "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, GRIPS, January 2026 using a computable general equilibrium (CGE) model of global trade based on the 11 Data Base[3] provided by the Global Trade Analysis Project (GTAP) as is shown in *Chart 1*. The dynamic impact of capital accumulation, endogenous labor supply and productivity improvement are incorporated into a standard static CGE model following the methodology employed by the Japanese Cabinet Secretariat.

Macroeconomic benefits will be generated by tariff reductions and trade liberalization making resource allocation more efficient in production markets at home and boosting exports and production of trade partners. The real GDP of the 12 CPTPP economies is estimated to increase by 0.16% if the EU joined the CPTPP, which is coincidentally equivalent to the magnitude of a real GDP increase from the remaining seven ASEAN economies[4] joining the CPTPP. That said, those real GDP gains would be much smaller than under the US joining, at 0.33%, and China joining, at 0.67%.

This would largely reflect a smaller share of the EU in CPTPP trade markets. CPTPP economies including the UK export to the US (around 34% of total exports to the world) and to China (around 13%) more than to the EU (around 11%) according to United Nations (UN) Comtrade Database.[5] Meanwhile, CPTPP economies import from the US (around 19% of total imports from the world) and China (around 19%) again more than from the EU (around 15%).

The relative significance of the EU joining the CPTPP would vary

CHART 1
Real GDP impact



Source: Kawasaki, Kenichi, "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, GRIPS, January 2026.

among CPTPP economies. Australia (0.42%), Brunei (0.13%) and Malaysia (1.45%) are indicated to gain more from the EU joining than the US and China joining. This would be attributed to the fact that the EU has already implemented bilateral free trade agreements (FTAs) and economic partnership agreements (EPAs) with Canada, Chile, Japan, Mexico, New Zealand, Singapore, the UK and Vietnam[6], according to RTAs Database by the WTO.

It may be noted here that the Japan-EU EPA alongside the CPTPP has been included in the above WTO database but the US-Japan Trade Agreement (USJTA) and the Regional Comprehensive Economic Partnership (RCEP) Agreement, whose members are Australia, New Zealand, China, Japan, South Korea and ASEAN without India, have not yet been included as trade agreements that have concluded tariff elimination on "substantially all the trade" among the parties satisfying the condition for a free trade area stated in the Article XXIV of the General Agreement on Tariffs and Trade (GATT). Much remains to be done in terms of tariff reductions among the US, China and Japan.

Impact by Industry

Winners and losers would be generated by industry resulting from trade liberalization according to the comparative advantage of each economy. That impact would be much larger at the sector levels than the macro level. Production would increase in agriculture, forestry and fisheries in those economies where land is physically large, in textiles and apparel in labor intensive developing economies, and in

TABLE 1
Impact on production by sector

(%)

	Agriculture, Forestry & Fisheries				Textiles & apparel				Motor vehicles & parts			
	EUM	SEA	USA	CHN	EUM	SEA	USA	CHN	EUM	SEA	USA	CHN
Australia	0.3	0.0	-0.1	-0.0	1.7	-0.1	-0.1	-0.8	-4.4	-0.4	-0.2	-0.3
New Zealand	-0.0	0.0	0.1	0.4	-0.1	-0.0	0.6	-1.1	-1.6	-0.6	-0.7	-0.1
Japan	-0.3	-0.0	-0.8	0.2	0.6	0.1	2.0	-0.6	-0.2	0.9	2.3	4.0
Brunei	0.1	0.0	-0.0	0.0	5.8	-0.1	12.2	-0.6	-0.6	-0.5	-0.0	-0.2
Malaysia	0.2	0.0	0.1	0.1	6.0	0.0	13.8	-1.0	0.6	-0.3	0.4	0.1
Singapore	0.0	0.1	-0.0	-0.0	-0.1	0.0	0.3	-1.5	-4.0	-2.0	-0.6	-1.0
Vietnam	-0.0	0.1	-0.4	0.1	0.1	-0.2	33.2	0.3	-0.2	-1.0	-3.1	-0.4
Canada	-0.0	0.4	0.1	1.3	-0.1	-0.3	-4.3	-3.6	-0.1	-0.3	-0.5	0.6
Mexico	0.0	0.1	0.1	0.3	-0.1	-0.3	-3.8	-1.9	-0.0	0.7	-0.7	2.3
Chile	-0.0	0.0	-0.0	0.1	-0.0	-0.1	-0.2	-0.9	0.0	-0.4	-0.2	-0.4
Peru	0.1	0.0	0.0	0.1	0.1	-0.2	-0.5	-1.8	-0.1	-0.1	-0.1	0.2
UK	0.0	0.0	0.1	0.3	-0.0	0.3	1.8	-1.4	-0.4	1.1	1.5	16.5
CPTPP	0.0	0.1	-0.2	0.3	0.3	-0.1	13.2	-0.8	-0.2	0.6	0.9	4.0
EU	-0.0	0.2	-0.1	-0.0	0.1	3.8	-1.8	-1.9	-2.2	4.6	-0.5	-0.6
7 ASEAN	0.1	-0.0	-0.1	0.0	0.0	-0.1	-0.4	-2.0	0.9	-0.2	-0.3	-0.7
US	-0.0	0.0	0.4	0.1	-0.1	-0.9	-1.3	-4.9	-0.2	-0.3	0.5	-0.7
China	-0.0	0.0	-0.0	0.3	0.0	-0.1	-0.6	2.5	-0.1	-0.1	-0.2	-0.5

Source: Kawasaki, Kenichi, "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, GRIPS, January 2026.

motor vehicles and parts in technology and capital intensive developed economies. The impact on production in the above three industries is shown in *Table 1* as presented in my article "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, GRIPS, January 2026.

Agriculture, forestry and fisheries production would increase in Australia but decrease in Japan if the EU joined the CPTPP (EUM), though to a smaller extent than under the US joining the CPTPP (USA). That said, it would not necessarily decrease in Japan if China joined the CPTPP (CHN). Meanwhile, it would increase in Canada if ASEAN joined the CPTPP (SEA) and much more if China joined.

Textiles and apparel production would increase in CPTPP economies including Brunei and Malaysia if the EU joined the CPTPP, though to a smaller extent than under the US joining. It would not increase much in Vietnam, despite its significant increase under the US joining. Meanwhile, it would decrease in Canada and Mexico under the US and China joining but not so much if the EU joined.

Motor vehicles and parts production would generally decrease in CPTPP member economies if the EU joined. But it would largely increase in Japan if the US and China joined. It would also increase in Mexico and the UK under ASEAN joining the CPTPP and significantly in the UK under China joining.

Impact on EU Economies

On the other hand, if the EU joined the CPTPP, the EU's real GDP is estimated to increase by 0.14%, which accounts for possible adverse trade diversion effects resulting from the US (-0.13%) and China (-0.14%) joining the CPTPP. The magnitude of a real GDP increase would widely vary among EU members, ranging from -0.03% in Lithuania to 0.54% in Denmark, around 0.14% on average as mentioned above.

The European Commission (EC) submitted an economic impact analysis to the European Parliament when proposing trade and other policy measures including the Japan-EU EPA and other trade agreements. Those studies presented the economic impact on the EU economy as a whole but not necessarily on each EU economy, which would be of much more interest from the perspective of individual EU member states.

As a matter of fact, the estimated real GDP impact would suggest a weak correlation with income and living levels among EU economies, as is shown in *Chart 2*.[7] This means seven to eight times income gaps ranging from $18,500 per capita in Bulgaria to $141,000 in Luxembourg[8] would expand as a result of the EU joining the CPTPP. The variation of macroeconomic impact on the diverse EU states would be a matter of concern for them.

This variation at the macro level may reflect the comparative advantage of economies at the sector levels. It is estimated that EU agriculture, forestry and fisheries production would generally increase in the EU by 0.1% in total, and most of all in Denmark. Motor vehicles and parts production would increase by 0.8% in total, with the largest in Belgium followed by Germany. On the other hand, impact on textiles and apparel production appears to be mixed, increasing in 10 economies and decreasing in 17 economies, which offset each other resulting in virtually no change (0.0%) in the EU overall.

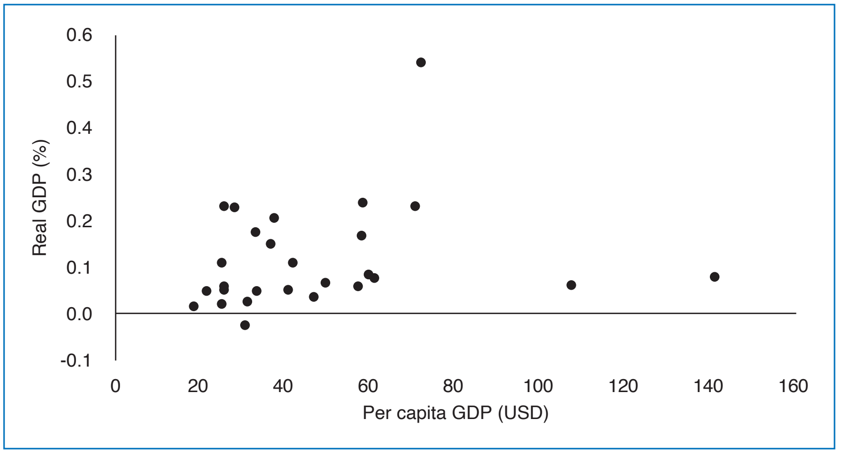
Effects on Global Supply Chains

Classical trade theory argues that comparative advantages of economies would induce vertical trade between developing and developed economies. New trade theory explains horizontal two-way trade introducing imperfect substitution of commodities among economies. This means products would be differentiated by location of products. Japan and the EU trade in autos and other products with each other to some extent regardless of relative prices.

There are income effects and two price effects caused by tariff reductions. One price effect is in positive trade creation between the economies where tariffs would be mutually reduced. The other is in negative trade diversion effects where trade with third economies by those tariff reducing economies would be replaced by newly created trade. On the other hand, tariff reduction would lower production costs and improve export competitiveness in the global market. Meanwhile, income effects would generally boost imports including those from third economies. The impact of the EU joining the CPTPP on global supply chains would be a matter of concern in light of these mixed positive and negative income and price effects.

CHART 2

Real GDP impact on EU member states



Source: Kawasaki, Kenichi, "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, GRIPS, January 2026 and WEO Database, IMF

CPTPP economies trade with the US and China more than with the EU, as mentioned. On the other hand, the EU primarily trades within its own member states. If the EU joined the CPTPP, the regional trade structure would be affected to some extent according to estimates in my article previously referenced. The CPTPP economies' export ratio to the EU over exports to the world would increase by 0.17% and the EU export ratio to CPTPP economies would increase by 0.41%. The trade ratio within the EU would not decrease (0.01%) but it may decrease within CPTPP economies (-0.07%).

The impact on CPTPP and EU trade with the US and China appears to be mixed. The CPTPP export ratio would increase to the US (0.04%) and China (0.07%) but the import ratio would decrease from the US (-0.09%) and China (-0.08%). In contrast, the EU export ratio would decrease to the US (-0.04%) and China (-0.03%) but the import ratio would increase from the US (0.02%) and China (0.03%). Asymmetric effects on CPTPP and EU exports to and imports from the US and China would affect global supply chains. That said, the details should be studied more at the sector levels.

Expected Non-Tariff Measures Reductions

The TPP and the CPTPP have been said to be "a landmark 21st-century agreement, setting a new standard for global trade while taking up next-generation issues."[9] The TPP Agreement is composed of 30 chapters covering various areas alongside market access, i.e. tariff reductions. The CPTPP Agreement has suspended several provisions including those on intellectual property rights, but such wide coverage remains unchanged.

But progress in reducing non-tariff measures (NTMs) appears to be limited in the TPP and the CPTPP. It has been pointed out that the effects of NTM reductions in goods trade would be limited and macroeconomic benefits for Canada could largely be generated by a reduction in tariffs and legally binding commitments in service trade (Ciuriak, Dan, Ali Dadkhah and Jingliang Xiao, "Better In than Out? Canada and the Trans-Pacific Partnership", *E-Brief*, C. D. Howe Institute, April 21, 2016).

On the other hand, the EC estimates that Japan's NTMs on motor vehicles and parts imports from the EU would be reduced by 6.1% in terms of *ad valorem* equivalents (AVEs) of tariffs resulting from the Japan-EU EPA (*The Economic Impact of the EU-Japan Economic Partnership Agreement (EPA), An analysis prepared by the European Commission's Directorate-General for Trade*, European Union, June 2018). This would account for more than half of the possible magnitude of Japan's AVEs of NTMs on imports of motor vehicles and parts (11.1%), which is much higher than the levels of Japan's estimated corresponding average NTMs (3.3%) and average world NTMs on motor vehicles and parts (3.2%).[10]

It is expected that the EU's joining the CPTPP would deepen the modality of NTM reductions and services and investment liberalization alongside expansion of CPTPP member economies, generating further economic benefits of trade and investment liberalization and facilitation. What is essential in terms of economic impact will be specific policy measures that would affect the volumes and prices of trade in a visible magnitude, rather than the predictability and stability of a rules-based trade system in general.

Annex: Impact of Withdrawal of MFN Under the WTO

The US has introduced additional tariffs under the second Trump administration starting in January 2025, alongside those under the first Trump administration on imports of steel by 25% and aluminum by 15% based on Section 232 of the Trade Expansion Act and on imports from China based on Section 301 of the Trade Act. Reciprocal tariffs announced in Executive Orders in July 2025 based on the International Emergency Economic Power Act (IEEPA) were struck down by the US Supreme Court in February 2026. That said, steel and aluminum (50%), motor vehicles and parts (25%), copper (50%), lumber and their derivative products (25%) and semi-conductors (25%) still have additional tariffs imposed based on Section 232 of the Trade Expansion Act and others.

Additional US tariffs have been higher than bound tariffs that are legally binding under the WTO (3.4% in 2024 according to WTO Stats)[11] and those have varied among US trade partners that have not been allowed by most favoured nation (MFN) treatment of the GATT Article I. In the meantime, motor vehicles and parts tariffs have been reduced to 10% on US imports from the UK (10%) as well as to 15% from Japan, South Korea and the EU, lower than the uniform 25% tariffs for other economies once resulting from tax negotiations with the US but still subject to changes.

The costs of the US withdrawing MFN treatment under the WTO are studied in Kawasaki, Kenichi, "Costs of Withdrawal of MFN under WTO", *Policy Analysis Focus* 25-14, GRIPS, January 2026. The relative significance of those costs was compared among three scenarios of additional US tariffs on imports of motor vehicles and parts: 1) a 25% tariff across economies in the world (uniform), 2) a 15% tariff on Japan, South Korea, the EU and the UK and a higher than 25% (31%) tariff on the rest of the world (four low), and 3) a higher than 25% (43%) tariff on the above four economies and a 15% tariff on the rest of the world (four high). It is assumed that average tariff rates among the three scenarios remain unchanged at 25%.

If the US imposed an additional 25% tariff on imports of motor vehicles and parts and trade partners reciprocally retaliated, the US would primarily be a loser rather than a winner as is shown in *Annex Table*. US real GDP is estimated to decrease by around 0.7% to 0.8% in all three scenarios. What is essential for the macroeconomic impact would be the levels of higher than bound tariff rates regardless of those varieties among the source of imports. But the adverse impact on US motor vehicles and parts production would be worse if additional tariffs were lower for the above four economies that are competitive in motor vehicles and parts production, and it would be better if additional tariffs were higher for the four

ANNEX TABLE

Impact on production

(%)

	Real GDP			Motor vehicles & parts		
	Uniform	Four low	Four high	Uniform	Four low	Four high
US	-0.80	-0.81	-0.74	-2.3	-4.4	0.7
Australia	-0.08	-0.10	-0.04	3.8	4.1	3.2
New Zealand	-0.01	-0.03	0.01	4.7	5.3	3.4
China	0.11	0.10	0.12	1.5	1.1	1.9
Japan	0.18	0.41	-0.13	0.1	7.7	-9.8
South Korea	0.12	0.27	-0.09	0.9	8.3	-8.5
Chinese Taipei	0.12	0.11	0.12	-0.7	-2.8	2.8
ASEAN	0.23	0.24	0.17	3.6	3.8	3.0
India	0.18	0.19	0.14	1.8	1.6	1.7
Canada	-1.36	-1.74	-0.63	-37.2	-49.7	-11.3
Mexico	-2.94	-4.16	-0.68	-20.4	-31.4	-0.5
EU	0.19	0.29	0.04	3.2	5.8	-0.4
UK	0.05	0.12	-0.05	1.7	7.7	-6.0
Russia	0.19	0.21	0.14	2.1	2.3	1.5
World	-0.18	-0.18	-0.17	-0.7	-0.4	-0.5
Rest of US	0.04	0.04	0.03	-0.3	0.4	-0.8

Source: Kawasaki, Kenichi, "Costs of Withdrawal of MFN under WTO", *Policy Analysis Focus* 25-14, GRIPS, January 2026.

economies.

On the other hand, the impact on other economies would vary among the three scenarios. Japan, South Korea, the EU and the UK would benefit from trade diversion effects if their imposed tariffs were lower than others but lose if their imposed tariffs were higher than others. Canada and Mexico would generally lose much more than the US across the three scenarios, but those adverse magnitudes would be correlated to their relative position in terms of imposed tariff rates among economies. In contrast, other economies including China, ASEAN, India and Russia would not necessarily be adversely affected across three scenarios studied.

The benefits of free trade should be supported by a rules-based trade system. Tariff hikes would generate an adverse economic impact primarily on the imposing nation's economy, and possibly differing among trade partners. MFN treatment should be maintained without allowing protectionism.

Notes

1. The author is grateful for useful comments by Masakazu Toyoda, Shujiro Uarta and others given at a "Study Group on Rebuilding a Rules-Based International Trade System: Through CPTPP-EU Cooperation & Other Initiatives" organized by the Japan Economic Foundation (JEF). Any possible errors are mine only.
2. Real GDP impact of Costa Rica (0.001%) and Uruguay (0.003%) joining the CPTPP would be limited, as discussed in Kawasaki, Kenichi, "Economic Impact of Expansion of CPTPP", *Policy Analysis Focus* 25-11, GRIPS, January 2026.
3. GTAP 12 Data Base was released in February 2026 incorporating world economic and trade data in 2023. The benchmark year for GTAP 11 Data Base is up to 2017. GDP data is updated to 2025 based on World Economic Outlook (WEO) by the International Monetary Fund (IMF).
4. Brunei, Malaysia, Singapore and Vietnam have already joined the CPTPP among 11 ASEAN economies. The remaining seven ASEAN economies to join are Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand and Timor-Leste, which became an ASEAN member state in October 2025.
5. https://comtradeplus.un.org/
6. EU-Australia FTA negotiation started in 2018 and concluded in March 2026.
7. Estimated results by EU member economies and those discussed later not shown in the reference are provided by the author.
8. Based on WEO Database by the IMF through the IMF Data portal. https://data.imf.org/en/datasets/IMF.RES:WEO
9. Summary of the Trans-Pacific Partnership Agreement, Nov. 12, 2011. https://www.mofa.go.jp/mofaj/gaiko/tpp/pdfs/tpp01_07e.pdf
10. Kawasaki, Kenichi (2024), "Spillover Effects of NTM Reductions," *Policy Analysis Focus* 23-5 National Graduate Institute for Policy Studies (GRIPS), January 2024.
11. https://stats.wto.org/ JS

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Possibility of CPTPP-EU Collaboration in Digital Trade: Analysis from the Stages of Development of Digital Trade Rules

Author Shota Watanabe

By Shota Watanabe

This article examines the possibility of collaboration between the CPTPP countries and the EU in the field of digital trade. In the author's view, digital trade rules are divided into three stages of development, and the possibility of such collaboration can be examined stage by stage.

Development Stages of Digital Trade Rules

1. Rules to facilitate electronic trade in goods and services

Digital trade rules can be broadly divided into three stages of development. The first stage involves rules to remove or reduce various barriers to goods or services transactions. In the case of cross-border transactions of goods and services, for example, the validity of electronic contracts under domestic law and the establishment of electronic signatures and authentication systems to prevent fraud are necessary. These are the first stages of the development of digital trade rules. For example, the text of the World Trade Organization (WTO) Agreement on Electronic Commerce, Interim Arrangements of which were agreed on in March 2026 at the 14th Ministerial Conference of the WTO, and the electronic commerce chapter of early Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) stipulate these rules. The provisions of this stage are the most fundamental of digital trade rules and have been stipulated in many later FTA/EPAs including the CPTPP.

2. Rules to facilitate free flow of data

The next step is to create rules that do not presuppose transactions of goods and services, and specifically to promote free flow of data. Companies that operate internationally can more efficiently expand overseas businesses by digitizing internal information flows, such as human resources, accounting, manufacturing, and logistics. For example, having a centralized database of human resources data at the headquarters enables the optimal distribution of such resources globally. Similarly, the optimal distribution of value chains such as research, development, and production globally requires the free flow of data related to these processes. In these cases, internal data flows, with which transactions do not occur with entities outside the company, shall be promoted. In other words, these regulations are separate from transactions of goods and services and are intended for the promotion of transfers of data themselves.

There are at least two types of such articles: CPTPP-type and EU-type. CPTPP-type articles are often included in FTAs/EPAs led by Japan and the United States. They consist of three articles: prohibition of data localization, prohibition of restrictions on cross-border data transfers, and prohibition of mandatory source code disclosure. However, restrictions on cross-border transfers or localization requirements may be imposed for purposes such as national security or the protection of personal data. Furthermore, requests for the disclosure of source code, for example, may be necessary in the context of AI safety assessments. To ensure the authority to implement such legitimate measures based on public policy objectives, these provisions contain general exceptions and national security exceptions. General exceptions are set out as exceptions applicable to individual articles and as general exceptions applicable to the CPTPP as a whole. As exceptions to the individual articles, Articles 14.11 and 14.13 set out exceptions with the same content, stipulating that parties can maintain restrictive measures otherwise contrary to the obligations "to achieve a legitimate public policy objective, provided that the measure: (a) is not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on trade; and (b) does not impose restrictions on the use or location of computing facilities greater than are required to achieve the objective." This exception is known as the Legitimate Public Policy Objective (LPPO) exception. In addition to the LPPO exception, there are exceptions for FTAs/EPAs as a whole. For example, GATT Articles 20 and 21 apply to the CPTPP *mutatis mutandis*.

EU-type articles have their origins in the model provisions formulated by the EU in 2017. In the EU, the protection of personal data is guaranteed as a fundamental right in the EU Charter of Fundamental Rights, and it would not be appropriate to restrict this by a trade agreement, which is basically aimed at economic interests. Therefore, in my view, the model provisions are considered to have been developed in order to facilitate the FTA negotiations avoiding discussions between DG Trade and Justice of the European Commission, and subsequent litigation in the Court of Justice of the European Union (CJEU) regarding possible conflicts with EU legal order.

This EU model consists of two articles. The first Article is devoted to ensuring the free transfer of data flows, and this is ensured by a qualified list of four acts that impede data transfer. An act that impedes data transfer is, for example, data localization. Article B recognizes that the protection of personal data and privacy is a fundamental right, and therefore high standards in this regard contribute to trust in the digital economy and to the development of trade. Article B then clarifies that each party may adopt and maintain the safeguards it deems appropriate to ensure the protection of personal data and privacy, including through the adoption and application of rules for the cross-border transfer of personal data. Nothing in this agreement shall affect the protection of personal data and privacy afforded by the Parties' respective safeguards. In this way, the agreement provides for virtually unlimited policy discretion over data protection as a fundamental right. However, some FTAs concluded by the EU have narrowed policy discretion. For example, in the Japan-EU EPA, the number of prohibited measures has been expanded from four to six. A particularly significant change is the removal of discretionary provisions; the phrase "each party may adopt and maintain the safeguards it deems appropriate to ensure the protection of personal data and privacy" has been amended to read "Each Party recognises the right of the other Party to determine the appropriate level of protection of personal data and privacy, to be provided for by their respective measures."

The Regional Comprehensive Economic Partnership Agreement (RCEP), perhaps in response to China's wishes, is based on the CPTPP model but with a significantly greater degree of policy discretion. More specifically, Article 12.15, which governs the cross-border transfer of data, provides for broader exceptions than those in the CPTPP; it includes wording allowing member states to exercise their own discretion regarding the LPPO exception, whilst excluding the application of dispute settlement procedures.

3. Rules to promote market integration of advanced technologies

The third step is to promote market integration in relation to advanced technologies. Advanced technologies include, for example, artificial intelligence (AI), fintech, and digital identity (ID), and stipulate requirements for ensuring the interoperability of domestic regulations on these technologies. Although many of these stipulate the obligation to make efforts, they are designed to promote market integration to facilitate regulatory coherence by maintaining the interoperability of the domestic regulations on such advanced technologies.

In sum, the three stages of the development are explained in the *Chart*.

Possibility of Cooperation Between CPTPP & EU at Each Stage of Development

1. Rules to facilitate electronic trade in goods and services

As most of these rules are already articulated in WTO Agreement on Electronic Commerce, Interim Arrangements of which were agreed on in March 2026 at MC14, let me explain it here briefly. Following the completion of the JSI Stabilization Text in June 2024, the General Council was requested on Feb. 18, 2025 and Dec. 16, 2025 to adopt a decision to add the Agreement on Electronic Commerce to Annex 4 of the WTO Agreement in accordance with Article 10, paragraph 9, of the Marrakech Agreement Establishing the World Trade Organization. However, the General Council was unable to reach a consensus on this request.

In response to the above, and in parallel with the inclusion in

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Development stages of digital trade rules

	Overview	Example
Rules to facilitate electronic trade in goods and services	• Rules for promoting cross-border exchange of goods and services. • There is a transaction of goods and services as a prerequisite, and rules for building an institutional foundation to support this.	• WTO Agreement on Electronic Commerce • E-Commerce chapters in early FTAs/EPAs (e.g., Japan-Switzerland EPA) • CPTPP
Rules to facilitate free flow of data	• Rules for promoting the flow of data per se, without presupposing the transaction of goods and services (e.g., building a global human resources database and using data for R&D)	• US type: CPTPP/USMCA • EU type: Japan-EU EPA/EU-UK TCA • China type: RCEP
Rules to promote market integration of advanced technologies	• Rules to promote market integration by promoting governance interoperability in cutting-edge technology fields such as AI and digital ID (many obligations to make efforts)	• Digital Economy Partnership Agreement (DEPA) • Australia-Singapore Digital Economy Agreement

Source: Compiled by the Author

TABLE 1

Comparison of JSI E-commerce text (WT/MIN (26)/W/26) & CPTPP

Section	Article	CPTPP
SECTION B ENABLING ELECTRONIC COMMERCE	Article 4: Electronic Transactions Framework	14.5
	Article 5: Electronic Authentication and Electronic Signatures	14.6
	Article 6: Electronic Contracts	-
	Article 7: Electronic Invoicing	-
	Article 8: Paperless Trading	14.9
	Article 9: Single Windows Data Exchange and System Interoperability	-
	Article 10: Electronic Payments	-
SECTION C OPENNESS & ELECTRONIC COMMERCE	Article 11: Customs Duties on Electronic Transmissions	14.3
	Article 12: Open Government Data	-
	Article 13: Access to and Use of the Internet for Electronic Commerce	14.10
SECTION D TRUST & ELECTRONIC COMMERCE	Article 14: Online Consumer Protection	14.7
	Article 15: Unsolicited Commercial Electronic Messages	14.14
	Article 16: Personal Data Protection	14.8
	Article 17: Cybersecurity	14.16 (Cooperation on Cybersecurity Matters)
SECTION E TRANSPARENCY, COOPERATION, & DEVELOPMENT	Article 18: Transparency	Chapter 26
	Article 19: Cooperation	14.15
	Article 20: Development	-
SECTION F TELECOMMUNICATIONS	Article 21: Telecommunications	Chapter 13
SECTION G EXCEPTIONS	Article 22: General Exceptions	Chapter 29
	Article 23: Security Exception	Chapter 29
	Article 24: Prudential Measures	Article 11.11 (Financial Chapter)
	Article 25: Personal Data Protection Exception	-
	Article 26: Indigenous Peoples	Article 29.6: Treaty of Waitangi

Source: Analysis by the author

Annex 4, on March 28, 2026, a Declaration on Provisional Measures for the Agreement on Electronic Commerce was issued. This agreement is intended to put into effect among the participating countries an agreement on electronic commerce, and for example it is intended to arrange provisions (establishment of committees and other bodies, dispute settlement, etc.) that are supposed to be incorporated into the WTO agreement as an agreement outside the WTO. Participating countries are: Argentina, Australia, Bahrain, Benin, Brunei Darussalam, Burkina Faso, Cape Verde, Canada, China, Costa Rica, the EU, Gambia, Georgia, Hong Kong, Iceland, Israel, Japan, Kazakhstan, South Korea, Kuwait, Kyrgyzstan, Laos, Liechtenstein, Malaysia, Mauritius, Moldova, Mongolia, Montenegro, New Zealand, North Macedonia, Norway, Oman, Peru, the Philippines, Qatar, Singapore, Switzerland, Ukraine, United Arab Emirates, and the United Kingdom.

Except for Vietnam, Mexico, and Chile, all CPTPP members and the EU have signed the Provisional Measures for the Agreement on Electronic Commerce. In other words, collaboration has already been established in the negotiations on the WTO JSI on e-commerce. The challenges ahead will be to encourage the three CPTPP member countries that have not yet signed on to this provisional measure agreement to participate in it, to expand the number of signatories jointly by the EU and CPTPP member countries, and to enter into Annex 4 of the WTO agreement, which has not yet been realized. Furthermore, as shown in *Table 1*, since the JSI was agreed upon more recently, there are certain provisions that are not included in the CPTPP. Whilst updating the CPTPP to incorporate these provisions during its review is one option, bringing the CPTPP member states that remain part of the JSI on board would likely be a more direct route to rule-making.

2. Rules to facilitate free flow of data

The difficult part is the second step. As I mentioned earlier, restrictions on data transfers limit domestic policy discretion, and each country has struggled to ensure a balance between policy discretion and the free flow of data. As shown in *Table 2*, seven

TABLE 2

List of data flow related provisions contained in FTA/EPA between CPTPP signatories & EU

CPTPP countries	Name of agreement with the EU	Presence of digital trade provisions	Articles to facilitate free flow of data	Status (■ : effective, ■ : not yet into force)
Japan	EU–Japan EPA	Yes (Electronic Commerce Chapter)	Yes (EU style) *	■ Entry into force (2019, some articles of EC Chapter 2023)
Canada	EU–Canada CETA	Yes (Electronic Commerce Chapter)	Yes (EU style)	■ Provisional entry into force (2017)
Australia	EU–Australia FTA	Yes (Digital Trade Chapter)	Yes (EU style)	■ Negotiation Concluded in March 2026 (Texts are subject to further minor modifications)
New Zealand	EU–NZ FTA	Yes (E-Commerce Chapter)	Yes (EU style)	■ Entry into force (2024)
Singapore	EU–Singapore Digital Trade Agreement	–	Yes (EU style)	■ Entry into force (2026)
Vietnam	EU–Vietnam FTA	Yes (E-commerce Chapter)	No	■ Entry into force (2020)
Malaysia	None	–	–	■ No agreement
Brunei	None	–	–	■ No agreement
Chile	EU-Chile Interim Trade Agreement	Yes (Digital Trade Chapter)	Yes (EU style)	■ Provisional entry into force (2023) *Effective until conclusion of the Advanced Framework Agreement
Peru	EU–Peru/Colombia/Ecuador FTA	Yes (E-commerce Chapter)	No	■ Entry into force (2013)
Mexico	Amended EU–Mexico Global Agreement	Yes (Digital Trade Chapter)	No (revised provisions)	■ Revised and signed (not yet into force)
United Kingdom	UK-EU Trade and Cooperation Agreement (TCA)	Yes	Yes (EU style) *	■ Entry into force (2021)

*Note: * The wording of exceptions and privacy provisions is eclectic with the CPTPP.*
Source: Analysis by the author

countries have concluded FTAs that include data flow provisions, most of which are EU-style.

In other words, in the short term it will be possible to form certain rules based on the EU-style. For example, while the basic policy in the JSI negotiations is to continue to seek high-level negotiations on data flow provisions, it is possible to use the EU-style rules as a model to gain cooperation from the EU and jointly lead negotiations.

However, if multilateral rules are formed based on EU-style rules, it may become an obstacle for the US to join the CPTPP in the future. The US originally supported the CPTPP-style free flow provisions. However, in 2023, during the administration of Joe Biden, the US announced a withdrawal on digital trade rule-making. One reason for this was to secure domestic policy space, and the US did not want to conclude an international treaty without domestic AI regulations in place, limiting the possibility of future legislation. It can be said that the US is also struggling with the balance between free flow of data and policy discretion. Although the US stance on digital trade has not been clear since the change of administration in January 2025, the Agreement Between the United States of America and the Republic of Indonesia on Reciprocal Trade signed with Indonesia in February 2026 reinstated provisions on digital trade (Article 3.2). Since these provisions also include provisions on data flows, it can be said that the US government supports the inclusion of such provisions.

3. Rules to promote market integration of advanced technologies

For countries such as Japan and Singapore, which have already advanced bilateral digital cooperation with the EU, the significance of these provisions is not significant. In particular, the OECD serves as a forum for policy coordination with the EU. However, the CPTPP includes many developing countries, and it is significant for further policy coordination between these countries and the EU. On the other hand, in the field of advanced technology, the domestic system that ensures interoperability itself is a moving target, such as the trend of the digital omnibus bill in the EU.

Recommendations for CPTPP-EU Cooperation on Digital Trade Rules

Regarding the three-stage rules, the rules in the first stage are most likely to be realized in the short term. Specifically, the early entry into force of the JSI provisional measures and ensuring implementation should be promoted.

As for the data flow provisions in the second stage, whether or not the involvement of the US is necessary is a turning point. In the latter case, it is effective to promote consideration for future rulemaking in the JSI on free flow of data provision based on EU-type articles such as articulated in the Japan-EU EPA. However, if we need to retain the US as a like-minded country, we should refrain from such articulation, keeping away from too early a harvest, and remain with CPTPP-type articles.

Finally, the advanced technology rules should be considered after the second stage because the domestic system for ensuring interoperability itself is a moving target, such as the trend of the digital omnibus bill in the EU. However, some fields, such as digital IDs, have already been solidified, so it is possible to consider these ahead of time.

Reference Articles on Free Flow of Data

CPTPP Article 14.11: Cross-border transfer of information by electronic means

1. The Parties recognize that each Party may have its own regulatory requirements concerning the transfer of information by electronic means.
2. Each Party shall allow the cross-border transfer of information by electronic means, including personal information, when this activity is for the conduct of the business of a covered person.
3. Nothing in this Article shall prevent a Party from adopting or maintaining measures inconsistent with paragraph 2 to achieve a legitimate public policy objective, provided that the measure: (a) is not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on trade; and (b) does not impose restrictions on transfers of information greater than are required to achieve the objective.

EU Model Article (horizontal provisions on cross-border data flows and personal data protection)

Article A: Cross-border data flows

1. The Parties are committed to ensuring cross-border data flows to facilitate trade in the digital economy. To that end, cross-border data flows shall not be restricted between the Parties by:
   (i) requiring the use of computing facilities or network elements in the Party's territory for processing, including by imposing the use of computing facilities or network elements that are certified or approved in the territory of a Party;
   (ii) requiring the localization of data in the Party's territory for storage or processing;
   (iii) prohibiting storage or processing in the territory of the other Party;
   (iv) making the cross-border transfer of data contingent upon use of computing facilities or network elements in the Parties' territory or upon localization requirements in the Parties' territory.
2. The Parties shall keep the implementation of this provision under review and assess its functioning in 3 years following the entry into force of this Agreement. A Party may at any time propose to the other Party to review the list of restrictions listed in the preceding paragraph. Such request shall be accorded sympathetic consideration.

Article B: Protection of personal data and privacy

1. Each Party recognizes that the protection of personal data and privacy is a fundamental right and that high standards in this regard contribute to trust in the digital economy and to the development of trade.
2. Each Party may adopt and maintain the safeguards it deems appropriate to ensure the protection of personal data and privacy, including through the adoption and application of rules for the cross-border transfer of personal data. Nothing in this agreement shall affect the protection of personal data and privacy afforded by the Parties' respective safeguards.
3. For the purposes of this agreement, "personal data" means any information relating to an identified or identifiable natural person.
4. For greater certainty, the Investment Court System does not apply to the provisions in Articles A and B.

RCEP Article 12.15: Cross-border transfer of information by electronic means

1. The Parties recognize that each Party may have its own regulatory requirements concerning the transfer of information by electronic means.
2. A Party shall not prevent cross-border transfer of information by electronic means where such activity is for the conduct of the business of a covered person.
3. Nothing in this Article shall prevent a Party from adopting or maintaining: (a) any measure inconsistent with paragraph 2 that it considers necessary to achieve a legitimate public policy objective, provided that the measure is not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on trade; or (b) any measure that it considers necessary for the protection of its essential security interests. Such measures shall not be disputed by other Parties. JS

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How Should the Environmental Pillar of the CPTPP Be Deepened? – Implications from the Carbon Border Adjustment Mechanism (CBAM) & Indo-Pacific Economic Framework for Prosperity (IPEF)

Author Miki Yanagi

By Miki Yanagi

Introduction

Environmental and climate policy, like the international trading order, is now at a critical juncture. Two recent developments stand out. First, in February 2026, the administration of US President Donald Trump formally notified the United Nations of the United States' withdrawal from the United Nations Framework Convention on Climate Change (UNFCCC), thereby heightening uncertainty surrounding global climate policy.[1] Second, the energy supply crisis triggered by the US-Israeli strikes on Iran and the severe disruptions to shipping in the Strait of Hormuz has brought energy security concerns to the forefront.[2] This shift is especially evident in Asia, where the imperative of securing energy supplies is gaining renewed prominence.

As these compounding uncertainties intensify, asymmetries in the implementation of Nationally Determined Contributions (NDCs) – that is, countries' emissions-reduction commitments under the Paris Agreement – are becoming increasingly evident. This suggests that the interaction between trade measures and environmental objectives will become significant and contested. At the same time, states have increasingly turned to trade measures, including the prioritization of domestically produced goods, as instruments for safeguarding their own security interests.

Meanwhile, the accelerating pace of global decarbonization has generated unprecedented capital flows: according to the International Energy Agency, annual investment in clean energy is estimated at US$2.2 trillion, twice the $1.1 trillion directed to oil, natural gas, and coal (IEA 2025).[i]

This financial surge is mirrored in rapid market growth. Newly installed renewable energy capacity worldwide reached approximately 507 GW in 2023, representing a 50% increase from the previous year. The primary driver of this rapid expansion has been the dramatic decline in costs, particularly in solar photovoltaic (PV) power generation. Notably, the significant scaling-up of China's manufacturing capacity has created a global supply glut, reportedly driving down solar module prices by approximately 50% year-on-year in 2023 alone (IEA 2024).[ii]

Paradoxically, however, this transition has coincided with a wave of trade-restrictive measures targeting clean energy products, critical minerals, and recycled materials across multiple jurisdictions, fragmenting the global supply chains on which low-carbon technologies depend.

Against this backdrop, this paper focuses on the EU Carbon Border Adjustment Mechanism (CBAM) and Indo-Pacific Economic Framework for Prosperity (IPEF) to explore the intersection of trade and climate policy. It further considers how an environmental chapter within the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) framework could contribute to addressing these challenges. The need for such an approach is already gaining recognition, as indicated by the environmental recommendation[3] in the 2024 Vancouver Statement, which reflects a growing shared understanding among CPTPP members.

EU Carbon Border Adjustment Mechanism & Its Impact

Carbon border adjustment mechanisms (CBAMs) are broadly defined as policy instruments whereby jurisdictions bearing the costs of stringent climate regulation impose taxes or levies on imports, or require importers to purchase credits for imports

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1 Legal scholars appear to be divided on the question of whether the "advice and consent of the Senate" – obtained by a two-thirds majority vote at the time of the US ratification of the UNFCCC in 1992 – would remain valid following a complete withdrawal from the treaty, or whether re-accession would require a renewed process of Senate approval. On this point, Galbraith (2020) has offered the following observation: "Does the original Senate resolution of advice and consent to a treaty remain effective even after a President has withdrawn the United States from a treaty? I argue that the answer to this question is yes, except in certain limited circumstances." The Paris Agreement is open for signature and subject to ratification, acceptance, or approval by States and regional economic integration organizations that are Parties to the Convention (Article 20(1), Paris Agreement). Therefore, it should be noted that eligibility to join the Paris Agreement itself is premised on being a Party to the UNFCCC. Galbraith, J. (2020). Rejoining Treaties. *Virginia Law Review*, 106, 73; University of Pennsylvania Law School, Public Law Research Paper No. 20-18. https://ssrn.com/abstract=3619175

2 Specifically, this includes contingency measures such as the recommissioning of coal-fired power plants to replace oil and gas. Measures utilizing other clean energy technologies, including renewable energy, may also constitute viable policy options.

3 Recommendation 4: Senior Officials to deepen discussions to identify meaningful ways to address collective environmental challenges such as climate change, biodiversity loss, and pollution, including considerations to potentially update the Environment Chapter. Vancouver Statement on the Occasion of the Eighth Commission Meeting of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Nov. 28, 2024. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/2024-11-28-vancouver-statement-declaration.aspx?lang=eng

originating from countries with comparatively less stringent climate policies. As of this writing, the EU remains the sole jurisdiction to have formally implemented such a mechanism, namely the EU CBAM, targeting so-called “hard-to-abate” sectors, including steel, aluminum, fertilizer, hydrogen, cement and electricity. The definitive period, during which the mechanism is fully implemented, began in 2026. Starting in February 2027, importers will be required to purchase and surrender CBAM certificates corresponding to the embedded carbon emissions of their imported goods, with the cost of certificates determined by the difference between the carbon price paid in the country of origin and the EU ETS carbon price.

Notably, the United Kingdom has put forward a proposal for its own CBAM scheme, scheduled to take effect in 2027, and continues to negotiate with the EU over reciprocal CBAM exemptions contingent on the linking of their respective emissions trading systems. Furthermore, in a development illustrative of the mechanism’s broadening scope, the European Commission recently proposed regulatory amendments that would extend coverage to approximately 180 downstream iron and aluminum products, including automotive components, appliances and medical devices. Broadening the scope to include assembled products embedded in extended supply chains could draw small and medium-sized enterprise exporters into the CBAM’s regulatory reach.

The EU’s pioneering CBAM has prompted similar policy discussions in several other jurisdictions. Among them, the UK, which is already engaged in active negotiations with the EU, appears to be the most likely to introduce a CBAM in the near term. Australia, Thailand, and Taiwan are also examining similar frameworks, pointing to a broader trend toward the adoption of carbon border adjustment measures. If these mechanisms are introduced on different timelines and under divergent regulatory frameworks, however, they may give rise to a “spaghetti bowl” effect (Bhagwati, 2003).[iii]

Fragmentation Rather Than Harmonization

This paper argues that, rather than converging toward a harmonized international regime, these mechanisms are more likely to develop in a fragmented, jurisdiction-by-jurisdiction manner, driven primarily by the need to ensure compatibility with WTO rules, specifically the national treatment principle. This tendency toward fragmentation is fundamentally attributable to the considerable heterogeneity of existing carbon pricing systems across countries. The divergence is evident along multiple dimensions: whether the underlying instrument takes the form of a carbon tax or an emissions trading scheme; the specific design features and trading modalities adopted within each scheme; and further variation arising from differences in enabling legislation. Taken together, these structural differences render a coherent and mutually consistent multilateral architecture for CBAMs markedly difficult to achieve.

The following discussion examines two opposing views of the CBAM and explores how such measures might affect international environmental governance and global trade.

Trade law scholars Mehling *et al.* (2019)[iv] discuss how the Paris Agreement’s approach leads to climate efforts that remain heterogeneous and asymmetric, creating uneven carbon constraints across countries and increasing the risk of carbon leakage. They suggest that carbon border adjustment measures can play a useful role in leveling the playing field, arguably as the only unilateral policy option available. On this basis, they propose a framework for designing these measures in a way that remains consistent with the General Agreement on Tariffs and Trade (GATT).[iv]

According to Milner (2024),[v] “international regime uncertainty” reflects the instability of the fundamental components of the global order. She explains that heightened regime uncertainty can raise the risk of bargaining failures and, consequently, conflicts. Specifically, she notes that “regime uncertainty may also decrease the likelihood that major trading powers can reach a bargain that avoids escalating rival trade measures or even a trade war.” Against this background, Milner points out that new tariffs such as the CBAM, as well as industrial policies favoring the domestic production of electric vehicles, such as the US Inflation Reduction Act (IRA), can serve to bridge carbon price gaps, prevent carbon leakage, and build political support for the energy transition. However, she cautions that these measures simultaneously reinforce protectionism and generate discrimination among exporters.

Viewed through the lens of Mehling *et al.*, the CBAM serves as a driving force that strengthens global climate action and promotes uniformity by gradually leveling carbon constraints across countries. In fact, according to the World Bank, the adoption of carbon pricing accelerated significantly between 2019 and 2026, with the number of implementing jurisdictions expanding from 56 to 87.[4] This surge can be seen as evidence that measures such as the CBAM have effectively pushed other nations to introduce their own climate policies.

However, if we adopt Milner’s perspective, the picture reverses.

4 See World Bank Group (2019), State and trends of carbon pricing 2019. https://doi.org/10.1596/978-1-4648-1435-8; and World Bank (2026), State and trends of carbon pricing 2026. https://doi.org/10.1596/978-1-4648-2348-0

The CBAM is seen as fueling protectionism, undermining the most-favored-nation (MFN) principle – a cornerstone of free trade – and further exacerbating the "regime uncertainty" of the international system. Naturally, such broader instability in the global order would spill over into international climate governance. With international climate cooperation already fragile – illustrated by the first Trump administration's withdrawal from the Paris Agreement and the later US withdrawal process from the UNFCCC – the CBAM might further destabilize the very climate cooperation the EU aims to protect.

In reality, the EU's CBAM has advanced precisely as the free trade order has faltered. In December 2019, the first Trump administration blocked the appointment of new members to the WTO's Appellate Body – which serves essentially as the supreme court for trade disputes – rendering it dysfunctional. Coincidentally, in that same month, Ursula von der Leyen took office as president of the European Commission, positioning climate action as the top priority of her term and proposing the unprecedented CBAM. Ironically, the unraveling of the trade order and the rise of the CBAM coincided almost exactly.

Proposal for Deepening the Environmental Pillar of the CPTPP: Implications from the CBAM

Faced with the dual challenge of a fractured trade order and fluid climate governance, this paper explores the potential role of plurilateral free trade agreements in simultaneously restoring trade rules and enhancing environmental governance. Specifically, resolving the core dilemma of the CBAM – maximizing its positive climate impact while mitigating the risks of protectionism – requires a robust rule-making framework. In an era of US unpredictability, the CPTPP has the potential to serve uniquely positioned to serve as such a bulwark. To deepen the environmental pillar (Chapter 20) of the CPTPP, three specific elements are required:

(1) Incorporation of Climate Change Provisions

Multilateral and plurilateral free trade agreements should explicitly incorporate climate change provisions into their treaty texts. The CPTPP does not explicitly refer to climate change in its Environment Chapter, although Article 20.15 addresses the transition to a low-emissions and resilient economy. This leaves scope for more explicit and operational climate-related provisions in a future update of the agreement.

Schott (2025)[vi] argues that updated CPTPP rules could incorporate trade-and-climate disciplines, including common carbon accounting standards for carbon pricing, steelmaking emissions, renewable-energy R&D subsidies, and methane reduction commitments. The case for such an approach becomes even more compelling in light of growing instability in the UN climate regime: embedding climate considerations into trade agreement texts could provide a supplementary governance framework. In this regard, the UNFCCC's near-universal membership – encompassing 198 parties as of this writing – offers a broad institutional foundation for such efforts, without requiring the imposition of additional legally binding obligations on its parties.

The proposed EU-US Global Arrangement on Sustainable Steel and Aluminum, negotiated during the administration of President Joe Biden,[5] offers a useful point of reference. It was designed to address climate change and excess capacity[6] simultaneously, demonstrating that trade agreements can be designed to serve this dual purpose.

Although the IPEF is not a free trade agreement, its Clean Economy Agreement provides a useful reference point for how plurilateral trade-related frameworks can address greenhouse-gas measurement, product disclosure, interoperability, and non-tariff barriers affecting low- and zero-emission goods and services.

(2) Interoperability of Emissions Measurement Methodologies

Multilateral and plurilateral free trade agreements should promote the interoperability of methodologies for measuring greenhouse gas emissions, an issue also addressed in the Clean Economy Agreement under IPEF. As embodied emission measurement and disclosure requirements proliferate across many domains of economic activity, effective cooperation within multilateral and plurilateral trade frameworks could offer significant opportunities to streamline measurement and reporting processes. At present, companies face emissions-related obligations across multiple dimensions, including corporate-level emissions reporting, green public procurement criteria, and product-level carbon footprint labeling. This burden is compounded by the considerable variation across jurisdictions in the methodologies underpinning measurement, reporting, and verification (MRV), leaving companies mired in procedural compliance demands *(Chart)*.

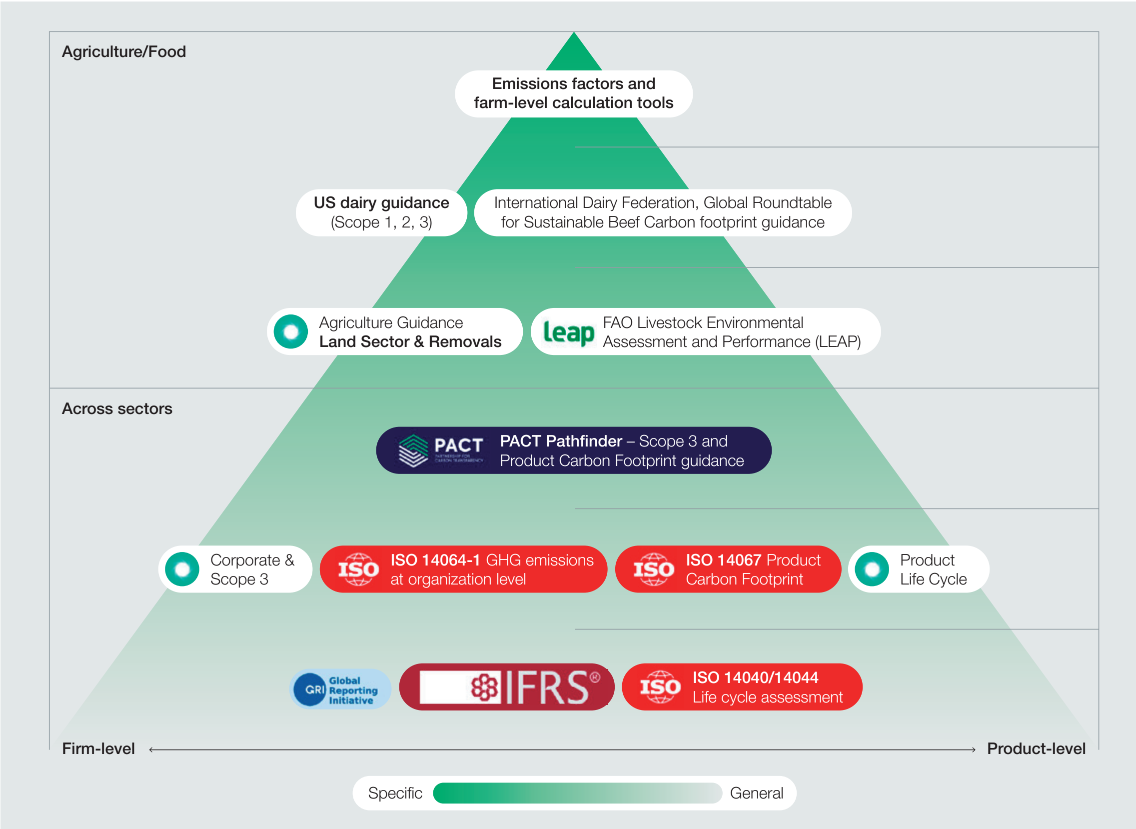
The International Organization for Standardization (ISO) and the

5 Office of the United States Trade Representative. (2021, November). *Fact Sheet: U.S.–EU Arrangements on Global Steel and Aluminum Excess Capacity and Carbon Intensity.* https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2021/october/fact-sheet-us-eu-arrangements-global-steel-and-aluminum-excess-capacity-and-carbon-intensity

6 According to the OECD Steel Outlook 2026, global steel excess capacity is projected to reach 745 million tonnes by 2028. At the same time, most new steelmaking capacity is being added outside the OECD, while Chinese steel exports reached a record 131 million tonnes in 2025 (OECD, 2026). OECD (2026), OECD Steel Outlook 2026, OECD Publishing, Paris, https://doi.org/10.1787/99ab9b0c-en.

CHART

Emissions measurement in food supply chains



Source: OECD, Business at OECD, and World Economic Forum (2023), "Emissions Measurement in Supply Chains: Business Realities and Challenges," White Paper, November 2023. https://www3.weforum.org/docs/WEF_Emissions_Measurement_in_Supply_Chains_2023.pdf

GHG Protocol have recently initiated efforts to align their methodologies – a promising development.[7] Nevertheless, if multilateral and plurilateral trade frameworks go further and formally ensure the interoperability of national MRV methodologies for carbon accounting, they would meaningfully reduce the procedural costs borne by companies and thereby stimulate trade in low-carbon goods and decarbonized materials.

The cases of green steel, which often involve complex supply chains, illustrate this point concretely. Achieving methodological interoperability in these sectors requires agreement on at least two fronts: the boundaries of emissions measurement and the distinction among blast furnace (BF), electric arc furnace (EAF) technologies, and those advanced technologies – points on which current approaches diverge. Analogous challenges arise in the field of the circular economy, where the absence of harmonized methodologies can complicate cross-border trade and investment in recycled materials.

Given that decarbonization of the goods and the decentralization of energy systems are increasingly recognized as long-term structural challenges, such cross-border initiatives[8] will become even more

7 Specifically, the ISO states the following: "One of the barriers to effective climate action is the fragmentation of standards and policies. This new partnership, which includes a common approach and portfolio of dual-logo standards covering corporate, product and project accounting, addresses that challenge by aligning the existing portfolio of GHG standards and providing a shared platform for future co-development." International Organization for Standardization (2025, September 9). *ISO and GHG Protocol announce strategic partnership to deliver unified global standards for greenhouse gas emissions accounting.* https://www.iso.org/news/2025/09/iso-and-ghgp-partnership

8 Shibata (2023) examines the upstream import dynamics of green hydrogen, drawing on the steel sector as an illustrative case study. The harmonization of methodologies constitutes a critical prerequisite not only for environmental governance but also for the promotion of trade more broadly. Shibata, Y. (2023). "Comparison of Hydrogen Imports vs. Product Imports". https://eneken.ieej.or.jp/en/report_detail.php?article_info__id=11479

necessary. In particular, mutual recognition agreements and the interoperability of MRV systems for greenhouse gas measurement can help alleviate the compliance burden arising from fragmented regulatory requirements.

(3) Transparent Default Values

The third point concerns the importance of setting transparent default values in the communication of environmental product information. Data on the environmental attributes of products is transmitted along supply chains, from upstream to downstream, and serves as the foundation for calculations such as product-level carbon footprint assessments.

However, where supply chains are extensive or a product is composed of many components, tracing actual emissions data throughout the entire supply chain quickly becomes impractical. In such cases, standardized default values are employed as a substitute, thereby avoiding the risks associated with inconsistent data inputs. Equally important is ensuring that the underlying databases from which these default values are drawn remain accessible to a broad range of actors – including companies, consumers, and public authorities – so that the default values are applied consistently and transparently.

Multilateral and plurilateral mechanisms that ensure transparent governance of product-specific default values and enable their mutual use across jurisdictions would generate meaningful gains in market efficiency. At the same time, if default values are set arbitrarily – for instance, in a manner that disadvantages a specific country – they would raise concerns of protectionism disguised as environmental protection. To prevent this, a mechanism to ensure the transparency of default values within multilateral and plurilateral frameworks is necessary. It is also worth noting that such data collection efforts could help reduce the risks of resource shuffling – that is, the practice whereby companies or jurisdictions manipulate the allocation of resources on paper to meet regulatory thresholds, without achieving genuine reductions in environmental impact.

Conclusion

The CPTPP's environmental pillar would be meaningfully strengthened by three elements: the explicit incorporation of climate change provisions into the framework; a staged commitment to MRV interoperability, beginning with mutual recognition of existing methodologies; and a CPTPP-based mechanism for the transparent governance of default values, without which product-level carbon footprint calculations risk functioning as instruments of disguised protectionism.

In this context, Mehling *et al.* (2019)[iv] observe that, while such climate-related, border adjustment measures entail legal uncertainty regarding their consistency with GATT Articles I and III – even if they may ultimately find a defense under Article XX – their legitimacy depends heavily on a "fair, inclusive, and transparent process". It is arguably the role of free trade agreements to facilitate and underwrite precisely such a process.

Taken together, these reforms would allow the CPTPP, supported by robust middle-power cooperation, to serve as a meaningful vehicle for governing the trade dimensions of global decarbonization in an era of geopolitical fragmentation.

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Towards Diagonal Cumulation Between the CPTPP & EU FTAs


Author Osamu Umejima

By Osamu Umejima

Introduction

The second presidency of Donald Trump, who took office in January 2025, has imposed unilateral tariffs, in addition to measures under Section 301 of the Trade Act of 1974 (of which consistency with WTO agreements has long been questioned), such as fentanyl and reciprocal tariffs under the International Emergency Economic Powers Act, additional tariffs on steel and aluminum, and new tariffs on automobiles under Section 232 of the Trade Expansion Act of 1962. These measures have been undermining foundations of the international economic order, such as the most-favored-nation treatment, and the tariff concessions and bindings. The Xi Jinping administration in China, too, has no qualms about using its economic power as a weapon to intimidate countries that do not align with its policies and intentions.

As Canadian Prime Minister Mark Carney urged at the Davos Forum in January 2026, now is the time for middle powers to unite and work together to maintain and develop the international economic order. As he said, "on plurilateral trade, we are championing efforts to build a bridge between the Trans-Pacific Partnership and the European Union", and "we should not allow the rise of hard power to blind us to the fact that the power of legitimacy, integrity, and rules will remain strong."

As a means for middle powers to unite and promote orderly trade liberalization, this article proposes the introduction of diagonal cumulation between the EU and CPTPP Members.

What Is Diagonal Cumulation?

1. Background & Current Status of the Diagonal Cumulation

In January 1997, the European Community unified the rules of origin in 14 free trade agreements (FTAs) concluded with neighboring countries into the pan-European cumulation system. This system introduced diagonal cumulation, which recognizes a material as originating the finished goods-producing country when the actual origin of the material was a third country, when the third country concluded an FTA applying the cumulation system with the country importing the finished good as well as with the finished goods-producing country. As a result, the scope of products eligible for tariff reduction/elimination under FTAs (hereinafter referred to as "FTA preferential tariffs") has expanded, allowing all countries participating in the pan-European cumulation system to enjoy benefits equivalent to those under a unified plurilateral FTA.

The current system of diagonal cumulation among the EU and its neighboring countries is based on the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (the PEM Convention). Under this Convention, diagonal cumulation applies to the EU and countries which have concluded an FTA with the EU and also have concluded the other FTA with the other country that has also concluded an FTA with the EU, upon conditions that all of these FTAs base their rules of origin on the PEM Convention, and that these countries obtain approval from the PEM Joint Committee to apply diagonal cumulation among them.

These neighboring countries include the EFTA countries (Iceland, Switzerland, Liechtenstein, Norway), the Barcelona Process countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the West Bank and the Gaza Strip), the Faroe Islands, Turkey, and the EU Stabilization and Association Process countries (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia, and Kosovo).

2. Full Cumulation

The EU has introduced full cumulation – which allows not only the above-mentioned diagonal cumulation but also cumulation of manufacturing processes – among the EEA countries (the EU, Iceland, Liechtenstein, and Norway), as well as among Tunisia, Morocco, Algeria, and the EU. The full cumulation is particularly effective for products, which criteria of country of origin, *i.e.*, the criteria for determining whether an imported product is of the exporting country's origin for the purpose of application of FTA preferential tariffs, is based on certain processing that the product experienced.

For example, the PEM Convention adopts two processes as the criteria of the country of origin of apparel – the weaving process to produce fabric from yarn and the sewing process to produce an article of apparel from that fabric, in addition to the 40% regional value content. The diagonal cumulation focuses on the origin of materials. Thus, where one FTA contracting party weaves fabric using yarn spun in a non-FTA country, and where another FTA contracting party imports that fabric and sews it into garments, neither the fabric nor the garments would qualify as the FTA origin because only one process was performed in each country. However, where the full cumulation is adopted, the garment is deemed to have undergone two processes in the country of sewing, because the weaving process in the country of fabric production is deemed to be performed in the sewing country (provided, again, the regional value content criterion is also met). In this manner, the full cumulation recognizes the garment as originating in the sewing country.

Diagonal Cumulation in FTAs Between the EU & CPTPP Member States

The EU also agreed the diagonal cumulation in the FTAs with CPTPP Members, albeit with restrictions on the covered products and countries which may supply materials.

Section 5 of Appendix 3-B-1 of the Japan-EU EPA set forth that both Japan and the EU may apply the diagonal cumulation to third-country materials classified in HS 8407 (engines), HS 8544 (wiring harnesses), and HS 8708 (automotive parts) for production of vehicles classified in HS 8703 (passenger vehicles), provided that:

(1) each of Japan and the EU has an effective FTA with the material-producing country;
(2) an arrangement is in force with the material-producing country to ensure the full implementation of the rules of origin under the Japan-EU EPA; and
(3) Japan and the EU agree on any other applicable conditions.

These conditions are consistent with provisions allowing the diagonal cumulation in FTAs concluded between other CPTPP Member states and the EU. For example, Article 3 of the EU-Singapore FTA Protocol 1 allows diagonal cumulation of materials originating in ASEAN member states. Article 3 of the EU-Vietnam FTA Protocol 1 recognizes diagonal cumulation of squid and octopus originating in ASEAN member states. Article 3.3 of the EU-Chile Interim Trade Agreement allows diagonal cumulation for canned tuna using materials of HS Chapter 3 (fish, crustaceans, etc.) originating in Colombia, Ecuador, or Peru. All of them set forth conditions similar to those in the Japan-EU EPA. Furthermore, materials, which is produced in a third country, must be deemed to be originated in the third country in accordance with the rules of origin under the FTA between the third country and the EU. It should be noted that these FTAs do not provide for the diagonal cumulation of materials for articles finished in the EU.

The Protocol on Rules of Origin under the EU-Canada CETA establishes general rules of diagonal cumulation without limitation of countries of origin of materials or without limitation of articles for which materials may be cumulated. Furthermore, Note 1 to the Rules of Origin stipulates that, should an FTA be concluded between the United States and the EU, diagonal cumulation applies to materials originating in the United States of HS Chapters 84, 85, 87, and 94 (machinery, electrical and electronic equipment, vehicles, and furniture and lighting, as well as parts thereof) for production of vehicles classified in HS8701 through 8705 except for HS 8703.10 (snow vehicles and golf cars). However, FTA negotiations between the US and the EU were at an impasse.

Conditions of Diagonal Cumulation Acceptable for the CPTPP & EU

Upon review of the conditions for diagonal cumulation under the PEM Convention and the conditions for diagonal cumulation agreed between the EU and certain CPTPP Members respectively, it appears that the EU would require the following conditions to accept diagonal cumulation with CPTPP Members:

(i) A material-producing country subject to diagonal cumulation concludes an FTA with the EU;
(ii) The country of origin of materials for which the EU accepts diagonal cumulation would be determined in accordance with the FTA between the material-producing country and the EU; and
(iii) The material-producing country agrees to comply with the rules of origin under the FTA between the EU and the CPTPP finished goods-producing member, which uses the material.

Of these, (i) is self-evident. The issue lies with condition (ii). CPTPP rules of origin apply to import customs clearance in a material-importing CPTPP Member. On the other hand, for the purposes of diagonal cumulation, condition (ii) dictates that the origin of the material in question is determined in accordance with the rules of origin under the FTA with the EU. If no measures are taken to address this situation, the same material transaction would be required to satisfy the rules of origin of both CPTPP and the EU FTA.

The same issue may arise in material imports into the EU, if condition (ii) is interpreted as a provision requiring the material satisfy the rules of origin between the finished-good importing country and the material-producing country. If so, when the EU produces a finished good using materials of a CPTPP Member and exports the finished good to another CPTPP Member, the EU would be required to ensure that the material satisfy the CPTPP rules of origin. The EU, then, would be required to ensure that its imports of materials from a CPTPP Member satisfy both the CPTPP rules of origin and the EU FTA rules of origin.

Such a situation would be unacceptable to both the EU and CPTPP Members. In order to introduce diagonal cumulation between the CPTPP and the EU, it would be necessary to establish uniform rules of origin between the two. Specifically, uniform rules should establish at least the following matters:

Criteria of Country of Origin: These consist of "Product-Specific Rules of Origin", which establish criteria for determining whether materials and products are considered to be originated in an FTA contracting party on a product-by-product basis, and "General Rules" which apply to all products and materials.

Certificate of Origin: The method and forms to certify to the customs authorities of the importing country that products are originating in an FTA contracting party.

Ex-Post Verification: Procedures whereby the customs authorities of the importing country verify, after importation, that the imported products and their materials satisfy the applicable rules of origin.

The following examines these matters.

1 . Criteria of Country of Origin

The country of origin of a specific product is determined on the basis of one or combination of the following criteria: the wholly obtained/produced entirely, the processing, the change of tariff classification, or the regional value content. Among these, the wholly obtained criterion is often applied to agricultural, forestry, and fishery products. For example, the place of harvest determines the country of origin of the fruit.

Processing criteria are often used to determine the country of origin of textile and apparel products and chemical products. The location of specific process(es) performed determines the country of origin. For example, the country of origin of apparel under the PEM Convention and the Japan-EU EPA is the location where two processes, such as weaving and sewing, are performed and the 40% regional value content is satisfied. In contrast, the CPTPP reflects the criteria of country of origin adopted by the US in its FTAs that require "yarn-forward" three processes, *i.e.*, the spinning, weaving and sewing processes.

The country of origin of industrial products is usually based on the change of tariff classification and/or the regional value content. EU FTAs generally define the regional value content based on the ratio of the maximum value of non-originating materials over the ex-works (EXW) price. In contrast, the CPTPP defines the regional value content based on the ratio of the value of originating materials plus conversion and sales costs over the EXW or FOB price or total costs. For example, PEM Convention, the Japan-EU EPA, and the EU-Canada CETA set forth the country of origin of passenger vehicles in accordance with the maximum ratio of the value of non-originating materials over the EXW price at 40%, 45%, and 45%, respectively. In contrast, the CPTPP stipulates that the total net cost (manufacturing cost plus certain sales, general and administrative expenses) less the value of non-originating materials must be 45% or more of the total net cost, or that the value of the EXW price less the value of non-originating materials must be 55% or more of the EXW price (i.e., the maximum value of non-originating materials over EXW price must be 45%).

Although there are many instances in which the product-specific rules of origin are similar between the EU FTA and the CPTPP, they differ, for example, in terms of the ratio of the regional value content and the calculation methods. Therefore, when applying diagonal cumulation between the EU and the CPTPP, it is necessary to align the product-specific rules of origin.

Furthermore, EU and CPTPP Members must reach agreement on the general rules, such as treatments of indirect materials, accessories, and packaging materials in applying the change of the tariff classification criteria and the regional value content criteria; the threshold for the *de minimis* rule of exceptions when non-originating materials that do not result in a change in tariff classification are of a negligible value; insufficient working or processing; the treatment of fungible materials where the same material of originating and non-originating are used for the production of finished goods; and record-keeping requirements.

2. Full Cumulation

Another critical consideration would be to include the full cumulation, which allows cumulation of production processes performed among EU and CPTPP Members. As mentioned above, the EU allows the full cumulation in its FTAs with certain neighboring countries. The Japan-EU EPA also allows the full cumulation. We should consider whether to introduce full cumulation in relation to the CPTPP as well.

3. Certificate of Origin

To qualify for FTA preferential tariffs, traders must show at the time of import custom clearance that the product is originated in the exporting country.

The PEM Convention adopts a third-party certification system, in which the origin is certified by a certificate of origin issued by a government authority in the exporting country. Recent EU EPAs adopt, however, a self-certification system, similar to the CPTPP. The Japan-EU EPA and the EU-Canada CETA adopt exporter self-certification, whereby exporters themselves declare the origin of the goods. The Japan-EU EPA also allows importers to self-certify using a prescribed declaration. On the other hand, the CPTPP permits self-certification by both exporters and importers.

In light of the development of the EU's certification method, it would be unlikely that the EU would object to the adoption of a self-certification system. However, the details must be agreed upon between the EU and the CPTPP Members.

4. Ex-Post Verification

To maintain qualification for FTA preferential tariffs, traders may be required to demonstrate after importation that both the imported products and the materials subject to diagonal cumulation were in fact originated in the FTA countries in accordance with the applicable rules of origin.

In EU FTAs, including the PEM Convention, ex-post verification is conducted through indirect verification method, in which the customs authorities of the importing country request that the custom authorities of exporting country collect documentation showing FTA origin from the exporter. The customs authorities of the importing country then verify the origin based on that documentation. In contrast, the CPTPP adopts a direct verification system, under which the customs authorities of the importing country may visit the facilities of the exporting producer to conduct on-site verification.

Since the CPTPP's ex-post verification process includes procedures similar to the indirect verification prior to the on-site visits to the exporter/producer, it would be practical to rely solely on indirect verification, including collection of documentation of materials subject to diagonal cumulation. In any event, CPTPP Members and the EU should reach agreements on specific procedures of the ex-post verification.

Conclusion: Methods of Diagonal Cumulation under the EU & CPTPP

Introducing diagonal cumulation between the EU and the CPTPP would have the same effect as if the two parties had concluded a unified plurilateral FTA, making it an extremely effective to further promote trade liberalization.

To that end, first and foremost, a CPTPP Member to be included in the diagonal cumulation must have concluded an FTA with the EU. There are no major issues regarding this point. With the exception of Brunei, all CPTPP Members have already concluded FTAs with the EU (though the EU-Australia FTA has not yet entered into force). Therefore, at this point, Brunei will likely to be excluded from the scope of diagonal cumulation. However, this could be viewed as a means to encourage Brunei to conclude an FTA with the EU to promote further trade liberalization.

Second, while the product-specific rules of origin under the EU's FTAs and the CPTPP share some commonalities, they are not identical. It, therefore, would be necessary to narrow down the scope of products subject to diagonal cumulation, and agree on uniform product-specific rules of origin for products and materials within the scope of the cumulation. Attempting to introduce uniform rules for all products would be tantamount to renegotiating the trade in goods entirely, and would make the goal much more difficult to achieve. We should select products that would offer economic benefits to both the EU and the CPTPP and identify the specific products and materials subject to diagonal cumulation.

As a candidate, I would like to recommend automobiles, and their electronic and mechanical parts, and automotive components (Chapters 84, 85, and 87). The EU has already agreed to include automobiles in the scope of diagonal cumulation under the Japan-EU EPA and the EU-Canada CETA. Furthermore, the criteria of country of origin for Class 87 under the Japan-EU EPA, the EU-Canada CETA, and the CPTPP all share on the ratio of the maximum value content of non-originating materials over the EXW price (45% or less), which is similar to the 40% threshold in the PEM Convention. Additionally, automobiles are a major export product for the EU.

Third, it is necessary to harmonize general rules, rules on the certification of origin, and the ex-post verification system. It is unlikely that harmonization of these rules would be a major obstacle to agreement on the diagonal cumulation between the EU and CPTPP Members.

Upon consideration of the above, we should promote diagonal cumulation between the EU and CPTPP Members. JS

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India Needs to Complement Its FTA Drive with Reforms Push

Author Priyanka Kishore

By Priyanka Kishore

The landmark 1991 reforms set India decisively on the path of economic liberalization. By easing highly restrictive import controls, dismantling broad-based industrial licensing and initiating the transition to a market-determined exchange rate system, the reforms opened up the Indian economy to foreign trade and investment and strengthened its external position. This raised the share of trade in India's GDP from around 14% in the 1980s to 38% in the 2000s. But India did not pivot to an export-led growth model. It continued to rely mainly on its large domestic market to drive growth. The trend GDP growth rate rose from 4% in the pre-reform period to 6.3% in the 2000s and has stayed around that level since.

Renewed Turn Towards Trade & New-Generation FTAs

In recent years, though, the quality of growth has turned suspect. A K-shaped recovery from the Covid-19 pandemic and lack of adequate employment opportunities have highlighted the limits of the inward-looking growth strategy. This has put renewed focus on the potential for trade to create more broad-based opportunities, raise the growth rate and support India's transition to a developed economy.

The signals from the government have been mixed. Trade policy has continued to lean protectionist, which has undercut export promotion efforts. At the same time, import duties have been lowered selectively to support production and exports in high priority industries, like mobile phones. The recent surge in trade deal activity, including the conclusion of the long-delayed free trade agreements (FTA) with the United Kingdom and European Union in 2025 and 2026, provides the clearest signs yet that New Delhi may be rethinking the role of trade in India's growth trajectory more broadly.

The timing of these deals couldn't be more opportune. The protectionist turn by the United States, growing competition from Chinese manufacturers and rising global trade and investment fragmentation, have made it more challenging for countries to increase international market shares for their products. Indeed, geopolitical considerations likely played a role in driving New Delhi to act faster on the deals. A larger portfolio of FTAs could not only open up new avenues for trade, investments and knowledge transfer for India, but also boost its position as a "China plus one" destination and limit the negative fallout of higher US tariffs.

Why Earlier FTAs Disappointed

Admittedly, India's historical experience with FTAs has been challenging. A faster increase in imports from the FTA countries than exports to them has given rise to the popular narrative that the trade deals have benefited the partner countries more. This, in turn, has soured public opinion on trade liberalization, pushing New Delhi to take nearly a decade-long break from trade agreements until 2021 and stay out of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP).

The challenge partly lies in the design of the older FTAs. The agreements signed with Asian partners in the late 1990s and early 2000s are shallow, led more by foreign policy than trade considerations. Not only do they narrowly focus on goods trade and tariffs, but they also exclude a substantial share of bilateral or intra-regional trade from tariff elimination – or subject them to long phase-out periods – to protect sensitive domestic sectors.

Still, the available tariff concessions have translated into market access gains for partner countries, especially Japan, South Korea and the Association of Southeast Asian nations (ASEAN), due to India's relatively higher most favored nation (MFN) tariffs. Indian exporters, on the other hand, have not benefitted much. This is because the preference margins are invariably too small for them to justify the compliance costs imposed by the complex rules of origin or the upgrading required to match partner country standards, resulting in low utilization rates of the FTAs. This has resulted in widening trade deficits with these countries, especially the ASEAN member states.

The recent FTAs present a significant upgrade on the first-generation agreements. They are both wider in breadth and greater in depth. The UK-India FTA, for instance, promises to drive supply chain linkages, technology diffusion and innovation by deeper commitments on services, digital trade and environmental standards, in addition to extensively liberalizing trade on both sides. The EU-India FTA is expected to be similarly ambitious. This raises the likelihood of economic benefits accruing to both India and the signatory countries.

Having said that, the design of the older FTAs alone doesn't explain why India's share in global manufacturing exports has stagnated around 2%. The trade deals have primarily led to an increase in raw and intermediate goods imports. Empirically, such input trade liberalization is generally found to be positive for domestic production and export competitiveness. That this did not transpire in India’s case points to other constraints on exports, including high duties on intermediate imports from non-FTA partners and weak domestic manufacturing capabilities.

A study commissioned by the Ministry of Finance in 2014 concluded as much. It found that India's deteriorating trade deficits with partner countries owed more to the weaknesses in the domestic manufacturing sector than to the trade agreements themselves.

Weak Domestic Manufacturing Hindering Export Gains

This is an enduring challenge for India’s export ambitions. Despite the improvements made in infrastructure in the last decade and the launch of the production-linked incentive (PLI) scheme in 2020 to actively support some industries, India’s manufacturing competitiveness gap with its regional peers remains notable.

This is effectively illustrated by the textile sector, where higher operational expenses and lower labor productivity have more than offset cheap labor costs according to the government think-tank NITI Aayog. NITI notes that India’s commercial electricity costs are 20-70% higher than China, Vietnam and Bangladesh, while its real output per worker is nearly half of China’s and 14% below Vietnam’s. Indian corporates also face a 30% tax rate in comparison to 25% in China, 20% in Vietnam and 27.5% in Bangladesh. Alongside elevated logistic costs, this undermines the Indian textile sector’s competitiveness and has steadily eroded its export share in global markets, despite India’s annual wages being 74% lower than China’s, 58% lower than Vietnam’s and 218% higher than Bangladesh’s.

On the other end of the spectrum is the electronics sector, where a concerted policy push through industrial policies, tariff concessions and regulatory streamlining has successfully created global value chain linkages and turbocharged exports. India’s share in global mobile phones and telecom equipment exports has increased from just 0.14% in 2015 to 3.5% in 2024. But further gains require India to review its high tariff structure, which leaves it at a disadvantage to China and Vietnam, the top two global exporters. India’s tariffs on intermediate imports from China, which is the top supplier for smartphone components, average 8.74%. In comparison, China applies an average tariff of 7% on intermediate goods and Vietnam 5.8%.

Closing these cost and productivity gaps is essential for India to enhance its forward and backward linkages in global value chains and lift its share in global manufacturing exports. So far India’s manufacturing push has been fragmented, lacking urgency and hesitant to expose domestic firms to foreign competition. This needs to change if the country is to fully reap the benefits of its growing portfolio of FTAs.

FTAs Must Be Matched by Domestic Reforms

This does not mean India should hold back on trade agreements. Rather it should simultaneously pursue domestic manufacturing reforms, and an export-oriented trade policy that includes further import liberalization and next-generation FTAs. This will create a virtuous cycle between manufacturing and exports, which will be reinforced over time. The productivity gains could be larger if India reconsiders joining comprehensive multilateral pacts, like the CPTPP and RCEP, that offer greater prospects of supply chain integration and a disciplined push for the structural transformation of the domestic sectors.

Ultimately, concluding deeper FTAs with major trading partners in the West and the East would create both imperatives for reforms and conditions for more competitive exports. But the anticipated gains will materialize only if domestic reforms keep pace. While it may be tempting for the government to lean more on industrial policy to advance manufacturing and drive exports, such measures should be used judiciously in both their scope and scale. India’s limited fiscal space constrains the extent to which it can offer costly concessions to investors. Hence, the trade-off between allocating scarce resources to one-off investment incentives and to structural reforms that could deliver a lasting transformation of the manufacturing sector needs to be weighed carefully.

To that extent, the implementation of the long-overdue labor codes in November 2025 marked another step forward in Indian manufacturing reforms, raising the threshold for retrenchments in industrial establishments and expanding social safety nets for employees. Much ground, however, remains to be covered if India is to unlock its full export potential. JS

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Japan's Place in a G2 World

By Raf Manji

Author Raf Manji

Japan Is Back, Again!

In 2013, Prime Minister Shinzo Abe stood before the United States Congress and delivered a message that was as much for his own people as it was for Washington. "Japan is back," he declared. It was a phrase carefully chosen – direct, confident, and a little defiant. After two decades of deflation, political churn, and a persistent sense of national diminishment, it was an assertion of intent as much as a statement of fact.

More than a decade later, the assertion is starting to look prescient. The Nikkei 225 broke through its 1989 bubble-era peak in early 2024 for the first time in 35 years, a milestone that was both financial and psychological. Fresh leadership has brought a more outward-facing posture – witness Japan's decision to deploy Japan Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA) financing to support energy transition across the Association of Southeast Asian Nations (ASEAN), a move that is as strategic as it is developmental. Corporate governance reforms have unlocked shareholder value long buried in cross-shareholding structures. Foreign direct investment (FDI) is at record levels. And over 40 million tourists visited Japan in 2024, a number that would have seemed fantastical even five years ago. Something has genuinely shifted. The question now is what Japan does with the moment.

There is, however, a curious paradox at the heart of this story. Many Japanese do not see themselves the way the rest of the world sees them. Speak to people in Tokyo, Osaka or Kyoto and you encounter a modesty – sometimes a diffidence – about Japan's place in the world that sits oddly alongside the evidence of the country's reach and influence. The shadow of World War II, and especially of Hiroshima and Nagasaki, runs long and deep. The postwar settlement instilled a particular disposition: pacifist, deferential in security matters to the US, cautious about projecting power or leadership beyond its shores. Generations of Japanese have grown up in that disposition.

But the outside world does not share that hesitation. Foreigners arriving in Japan for the first time are almost universally struck by the quality of its institutions, the depth of its culture, the competence of its everyday life. Its cultural exports are beloved globally in ways that few countries can match. Its diplomacy is widely respected. Its development finance is trusted. The gap between how Japan sees itself and how others see it is one of the most striking asymmetries in contemporary geopolitics.

This article is an attempt to close that gap – or at least to name it clearly. Japan is better placed than it knows to play a leadership role in the emerging world order. The case for that is not sentimental. It rests on economics, strategic architecture, cultural capital, and historical relationships that are both durable and underutilised.

The Long Road Back

To understand where Japan is now, it is worth tracing the arc of the past 80 years. The postwar economic miracle – fueled by American security guarantees, an undervalued yen, and the extraordinary productive capacity of a disciplined industrial workforce – turned a devastated country into the world's second-largest economy by 1968. The 1970s brought the oil shocks and external pressure, but Japan adapted, shifting from energy-intensive heavy industry toward electronics, precision manufacturing and automobiles. By the mid-1980s it was a global economic superpower, running large trade surpluses and accumulating capital at a pace that made it an object of both admiration and anxiety in Washington.

As I explored in my previous article in this journal, the Plaza Accord of 1985 was the first major attempt to address those imbalances. The engineered appreciation of the yen that followed – from 260 to 155 against the dollar in little more than a year – was dramatic in its scale. The Bank of Japan's response, loosening monetary policy to soften the blow, fuelled the great asset price bubble of the late 1980s. Land prices in Tokyo reached levels that defied comprehension. The Nikkei surged to nearly 39,000. The bubble burst at the end of the decade and what followed was a prolonged reckoning – two, arguably three, lost decades of stagnation, deflation, non-performing loans, and diminished national confidence.

"Abenomics", launched in 2012, was the most determined effort to break the spell. The three arrows of monetary easing, fiscal stimulus and structural reform produced mixed results – the first two deployed with force, the third rather more cautiously. But Abenomics did succeed in shifting the psychological climate. Deflation was not fully vanquished but it was no longer the settled expectation. The yen depreciated, corporate profits recovered, and the stock market rallied. More importantly, Japan began to reclaim a more active foreign policy voice, with Abe himself investing heavily in relationships across Southeast Asia, the Pacific, India, Europe and the Middle East.

Japan today is a country that has absorbed a very long and painful economic lesson. It understands financial bubbles from the inside. It has lived through deflation, fiscal pressures, demographic decline and the limits of monetary policy in ways that most other advanced economies have only recently begun to grapple with. This hard-won experience is itself a form of capital – analytical, institutional, and diplomatic. A country that has navigated what Japan has navigated, and come out the other side with its social cohesion intact and its institutions functioning, has earned a certain credibility.

There is also something important in the texture of contemporary Japan that resists easy categorisation. It is simultaneously one of the most technologically sophisticated societies on earth and one of the most committed to artisanal tradition. The tea ceremony and the bullet train. The ancient cedar forests of Yakushima and the neon geometry of Shibuya. This capacity to hold modernity and tradition in productive tension – rather than allowing one to obliterate the other – is not just aesthetically distinctive. It offers a model of development that is increasingly relevant to societies wrestling with the costs of rapid modernisation.

A G2 World & the Middle-Power Gap

The geopolitical context into which Japan is stepping is sharply different from the one that shaped its postwar trajectory. For 40 years after the Cold War, the global order was organised around a core of multilateral institutions – the Group of Seven (G7), the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank – with the United States as their ultimate guarantor. That order is now under serious strain.

The “Liberation Day” tariffs of US President Donald Trump’s administration in April 2025, which I analyzed in my previous article, represent something more than a trade policy disagreement. They mark a structural retreat from the multilateral operating system that has underpinned global economic governance since 1985. The G7 has been sidelined. The WTO is bypassed. “America First” has become a literal governing principle. Meanwhile, China’s growing economic and military reach – and its willingness to build alternative institutions, from the Asian Infrastructure Investment Bank (AIIB) to the Cross-Border Interbank Payment System (CIPS) to the Belt and Road Initiative (BRI) – has established a second pole of gravity in the global system.

The result is a world that is neither truly unipolar nor genuinely multipolar. It is, increasingly, a G2 world: one structured around the competition and negotiation between Washington and Beijing, with everyone else navigating the space between them. That space is uncomfortable, contested, and full of countries that have no interest in being forced to choose sides.

This is the middle-power gap. And it is where Japan’s opportunity lies.

The analogy with Germany is instructive. Germany, like Japan, bears a heavy postwar inheritance. Like Japan, it rebuilt itself as a responsible international actor committed to multilateral norms, development assistance and rules-based trade. Like Japan, it has faced pressure – from Washington and from within – to do more, to lead more, to spend more on defence. And like Japan, it has at times struggled to translate its economic weight into commensurate political and strategic influence. But Germany’s leadership within the European Union and its bridging role between the Atlantic world and its eastern neighborhood have given it a structural function in European geopolitics that no other country can replicate.

Japan can play an analogous role in the Indo-Pacific – and, crucially, beyond it.

The Architecture of Influence: Quad, FOIP, G7 & ASEAN

What makes Japan’s strategic position unusual, and unusually valuable, is the breadth of its institutional footprint. It is, simultaneously, a member of the G7, a core member of the Quadrilateral Security Dialogue (Quad), a founding voice of the Free and Open Indo-Pacific (FOIP) concept, and the most deeply embedded external partner of the ASEAN grouping. No other country sits across all four of these frameworks at once.

The Quad – Japan, the US, Australia and India – is the most significant new security architecture to emerge in the Indo-Pacific in decades. It brings together four democracies with large economies, significant military capacity and a shared interest in maintaining freedom of navigation, supply chain resilience and technological openness across the region. Japan is not merely a participant in this grouping; it was Japan’s Abe who revived the dormant Quad in 2017, after a decade of inactivity, and invested it with the strategic seriousness it now carries.

The FOIP concept is similarly a Japanese intellectual contribution to the regional order. First articulated by Abe in 2016, it provided a normative framework – rules-based maritime order, infrastructure connectivity, respect for sovereignty – that was subsequently adopted by the US, Australia, India, the EU and many others. This is not a small thing. The ability to generate the conceptual vocabulary that structures how others think about a region is a form of soft power that is easy to underestimate and very difficult to replicate.

Japan’s relationship with ASEAN is deeper and longer-standing than any other external partner’s. Japanese Official Development Assistance (ODA) has been building roads, ports, power stations and human capital across Southeast Asia for six decades. Japanese companies are embedded in the manufacturing ecosystems of Thailand, Vietnam, Indonesia and beyond. Japan-ASEAN trade exceeds $230 billion annually. This is not a relationship built on transactions alone – it is built on decades of patient engagement, people-to-people ties, and a record of showing up consistently, including during the Asian Financial Crisis of 1997 when Japan’s Miyazawa Initiative provided $30 billion in financial support to affected economies at a moment of acute need.

The G7 membership gives Japan something no other Asian country has: a seat at the table of the world’s leading liberal democracies. As the G7 becomes more relevant again – precisely because the US-China competition has elevated the value of coordinated positions among like-minded countries – Japan’s role as the sole Asian voice in that room becomes more, not less, significant.

Capital, Industry & Technology: the Creditor Nation Advantage

Japan has been the world's largest net foreign creditor for 34 consecutive years. This is a fact that tends to get lost in the noise of yen depreciation headlines and demographic anxiety, but it is one of the most consequential facts about Japan's place in the global economy. Japan owns more of the rest of the world than any other country. Its pension funds, life insurance companies, and sovereign wealth vehicles hold vast portfolios of foreign assets. Its banks are among the most active international lenders in the world, particularly across Asia and the Americas.

This accumulated capital is not just a balance sheet figure. It is a strategic resource. At a moment when the global development finance landscape is shifting – China's Belt and Road has generated significant debt distress across the developing world, while Western multilateral finance has struggled to match the speed and scale of China's offer – Japan's patient, concessional and technically credible capital is in genuine demand.

JBIC and JICA are the institutional vehicles for this deployment. JICA's ODA program remains one of the world's largest and most respected, with a track record of infrastructure delivery that is hard to match. JBIC's export finance and equity co-investment tools give Japan the capacity to structure complex transactions across energy, transport, digital infrastructure and industrial development. The recent extension of JBIC support for energy transition finance across ASEAN – including for liquefied natural gas (LNG) projects in the near term and renewables infrastructure over a longer horizon – is an example of this capacity being deployed with strategic intent, not just commercial logic.

But the capital dimension extends beyond official finance. Japanese corporations – in automotive, electronics, robotics, semiconductor equipment, advanced materials and life sciences – possess technology that is critical to the industrial ambitions of developing and emerging economies. The ability to pair capital with technology transfer, and to do so through long-term partnership structures rather than pure FDI extraction, is a model of economic engagement that a growing number of countries find more attractive than the alternatives on offer.

In a world where technology and industrial capacity are increasingly geopolitically contested, where the question of who controls semiconductor supply chains, battery chemistry and AI infrastructure is a matter of national security, Japan's technology depth is not just an economic asset. It is a diplomatic one.

The Historical Connections: Asia, Europe & South America

Middle-power leadership is rarely built on abstract principles alone. It requires relationships – the kind that have been cultivated over years, that survive changes in government, and that create genuine obligations and expectations on both sides. Japan has these relationships in abundance, and not only in the obvious directions.

In Southeast Asia, the Japanese footprint goes well beyond trade and investment. Japanese popular culture has shaped youth identities across the region for decades. Japanese cities have twinning relationships with ASEAN counterparts. Hundreds of thousands of Southeast Asian students and workers have lived and worked in Japan. The Mekong-Japan cooperation framework, the Japan-ASEAN integration fund, and Japan's consistent support for ASEAN centrality in regional architecture are not diplomatic gestures – they are the sediment of a long relationship.

In South America, Japan's connections run deeper than most observers recognise. The Japanese diaspora in Brazil is the largest outside Asia, numbering over 1.5 million people, concentrated in São Paulo but spread across the country. Peru, Bolivia and Argentina also have significant Japanese communities, with histories stretching back to the Meiji Era emigration programs of the late 19th and early 20th centuries. These diaspora communities are bridges – economic, cultural and political – that create genuine affinity and receptivity to Japanese engagement in ways that a country without this human geography simply cannot replicate.

In Europe, the relationship has historically been primarily economic – Japan and the EU concluded a major free trade agreement in 2019, the Economic Partnership Agreement, creating one of the world's largest open trade zones. But the strategic dimension has grown markedly in recent years. Japan's participation in North Atlantic Treaty Organization (NATO) partner activities, the deployment of a Japanese liaison officer to NATO headquarters, and the joint statements issued following Russia's invasion of Ukraine have all signalled a new willingness to engage in European security questions. This is not without domestic complexity – the pacifist constitutional tradition remains politically significant – but the direction of travel is clear.

These connections, taken together, give Japan a relational map that extends across multiple regions simultaneously. That is unusual for a middle power and is itself a form of structural advantage.

Soft Power: the World Already Loves Japan

There is a concept in international relations – sometimes called "structural power", sometimes simply "soft power" – that refers to the ability to shape the preferences and expectations of others without coercion. The US exercised this through Hollywood, Harvard and the dollar. Britain exercised it through the BBC and the common law. Japan exercises it through something that is harder to name but unmistakable in its effect.

Forty million tourists visited Japan in 2024. That is not just a tourism statistic. It is a measure of the global gravitational pull of a culture. People travel to Japan, often at considerable expense and effort, because it offers something they cannot find elsewhere: a density of beauty, craftsmanship, cuisine, landscape and human consideration that is genuinely singular. The experience of Japan tends to produce advocates. Visitors return home and talk about it. They become, in effect, ambassadors.

This cultural pull did not arrive from nowhere. It was built, over decades, through a set of creative industries and intellectual traditions that have achieved global reach on their own terms, without the assistance of military power or financial inducement. Studio Ghibli's films – *Spirited Away*, *My Neighbor Totoro*, *Princess Mononoke* – are among the most beloved works of animation ever made, watched by hundreds of millions of people on every continent. Osamu Tezuka, the godfather of manga and anime, created a visual language that has shaped global popular culture so thoroughly that most of its inheritors are unaware of its origins. Haruki Murakami is translated into more than 50 languages. Nintendo and Pokemon between them have reached essentially every country on earth. Sanrio's Hello Kitty, launched in 1974, remains one of the most recognised symbols in the world.

Japanese cuisine tells a similar story. Japan has more Michelin-starred restaurants per capita than any other country. Japanese food culture – sushi, ramen, *izakaya*, the philosophy of *omakase* – has not merely spread globally but has become, in many cities, the benchmark against which other cuisines are measured. This is soft power expressed through the stomach, and it is remarkably durable.

The significance of all this for Japan's diplomatic position is not trivial. Countries that feel warmly toward Japan are more receptive to Japanese-led initiatives. Leaders whose populations love Japanese culture are more likely to align with Japanese positions in international forums. Trust, built through culture, pays dividends in diplomacy. Japan has an extraordinary trust surplus with much of the world, and it has barely begun to spend it.

Japan as Balancing Power: the Argument

Bring all of this together and a clear argument emerges. In a G2 world – one structured around US-China competition, with the multilateral center under strain – there is a structural demand for trusted, well-resourced, culturally respected actors who can operate in the space between the two poles without being captured by either.

Japan meets this description more fully than any other country. It is a treaty ally of the US and shares its commitment to democratic norms and rules-based order. But it is also deeply embedded in Asian economies, including a trade relationship with China that neither country has any interest in severing. It is neither a threat to China's legitimate interests nor a tool of American containment. It is, in the truest sense, a balancing power – one that can maintain productive relationships across the G2 divide and use those relationships to advance stability, development and norms.

This is not a comfortable position. It requires diplomatic agility, domestic political management, and a willingness to be frank with both Washington and Beijing when their behaviour undermines regional stability. Japan's response to Trump's Liberation Day tariffs – measured, multilateral, and focused on defending the WTO framework – was an example of exactly this kind of principled independence. So too is Japan's careful management of its relationship with China, maintaining the dialogue channels and economic ties that make de-escalation possible, even as it builds the security partnerships that deter adventurism.

The residual tensions with China over historical grievances – the Nanjing Massacre, the "comfort women" issue, the Yasukuni Shrine visits – remain real and should not be minimised. These are not resolved. But they are managed. And the management itself is a form of statecraft: demonstrating that responsible engagement with a difficult past is possible without either denial or paralysis. Germany provides the most direct precedent. The postwar German model – genuine reckoning with historical crimes, institutional embedding in multilateral structures, patient rebuilding of trust through consistent behavior – enabled Germany to become one of the most influential countries in Europe despite, or perhaps because of, the weight of its 20th century history. Japan's trajectory has some differences – the domestic political culture around historical memory remains more contested – but the direction is the same.

Japan's Moment

History is rarely linear, and opportunities for middle powers to shape the international order are rarer still. They tend to arrive in windows – moments when structural change creates space that did not previously exist, and when a country with the right combination of resources, relationships and credibility can step into that space and make a difference.

Japan is in such a window now.

The G2 competition between the US and China is not going to resolve quickly. The fraying of multilateral institutions is not going to repair itself. The demand from developing and emerging economies for an alternative to a forced choice between Washington and Beijing is real and growing. Japan – as a creditor nation, as a technology power, as a trusted development partner, as a cultural phenomenon, as a member of the Quad and the G7 and the Indo-Pacific framework simultaneously – is positioned to answer that demand in ways that no other country can quite replicate.

What is required is less a change in Japan's capabilities than a change in Japan's self-perception. The modesty is understandable. The postwar settlement instilled it deliberately, and the trauma of the war years – the atomic bombings above all – created a national psychology that has been, for most of the past 80 years, deeply averse to anything that looks like the projection of power or leadership. That psychology served important purposes. It helped rebuild trust. It kept Japan out of dangerous adventures. It created the conditions for the economic miracle.

But the world has changed. The moment calls for something different. Abe saw it, and named it. The task now is to act on it – with the confidence that comes not from forgetting the past, but from having genuinely learned from it. The rest of the world is waiting. And it is already, more than most Japanese perhaps realize, on Japan's side. JS

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Fragmentation or Evolution? The Future of Global Sustainable Investor Alliances


Author Govinda Finn

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Introduction: Grand Designs

The historical precedent of the Pax Romana, an era of unprecedented stability under Roman hegemony, illustrates the virtues of centralized decision-making, shared rules, and harmonized infrastructure. In a similar vein, modern sustainable investing alliances have sought to establish a "financial pax", in which unified goals, harmonized disclosure standards, and collective capital commitments provide a framework for navigating today's global challenges.

However, as the Romans eventually learned, systemic pressures such as divergent regional interests and bureaucratic overreach can gradually undermine even the most unified system. This raises a critical question: is the ongoing fragmentation of sustainable investing architecture a precursor to a "Dark Age", or an adaptive evolution toward a more effective, multipolar system?

The Rise of Global Convergence

Let us first consider what motivated the efforts to mobilize a united front to tackle the various shortcomings of the existing economic and capital system. The starting point was undoubtedly the realization that climate change represented an existential threat. Consequently, a joint target to prevent catastrophic global warming by limiting temperature increases to well below 2.0°C (ideally 1.5°C) was enshrined in the 2015 Paris Agreement. The financial sector was keen to play its part in the transition, and further extended ambitions through the proliferation of the ESG investing approach.

The emergence of a global consensus on climate triggered an urgent period of standardized disclosure and unification efforts, as market participants recognized that fragmented data hindered the effective allocation of sustainable capital. This convergence found its theoretical bedrock in the work of Healy and Palepu (2001), who provided the economic rationale for why harmonized reporting was essential. By establishing a common language of disclosure, these frameworks sought to reduce information friction and agency costs, thereby lowering the cost of capital for firms successfully aligning with transition goals.

Key collaborative action organizations, such as the UN PRI and UNEP FI, provided the technical foundation for this convergence. This was bolstered by high-ambition alliances like the Glasgow Financial Alliance for Net Zero (GFANZ) and the Net-Zero Asset Manager initiative. Another important facilitator was the massive shift of capital toward sustainable opportunities and entities. This trend saw global flows to ESG funds peak in 2021 at approximately $649 billion, at one point representing a staggering 50% or more of all net new fund flows in Europe.

The Mechanics of Fragmentation

Despite the historical surge in capital and the proliferation of high-ambition coalitions, the financial sector has recently begun to dial down its sustainable investing ambitions. What explains this reversal? A shift in commercial incentives has undoubtedly played a role. In 2025, global ESG funds experienced approximately $84 billion in net outflows, according to Morningstar data, a stark contrast to the record-breaking inflows of previous years. This retreat was accompanied by widespread "green-hushing", as firms engaged in large-scale ESG label removals and rebranding to avoid both regulatory and political scrutiny.

Another important driver has been a US backlash, driven by political forces and legal challenges. Opponents sought to characterize collaborative climate action as potential anti-trust behavior, leading to high-profile departures from alliances like Climate Action 100+ and GFANZ. This legal weaponization has turned what was once a reputational asset into a perceived fiduciary liability.

A further source of tension has been regulatory fragmentation. The growing divergence between US state-level anti-ESG mandates, the EU Taxonomy and Disclosure Regulations (SFDR) and the distinct transition priorities of emerging markets has created a patchwork of inconsistent incentives. For global investors, the harmonized infrastructure of the past is being replaced by a complex compliance maze.

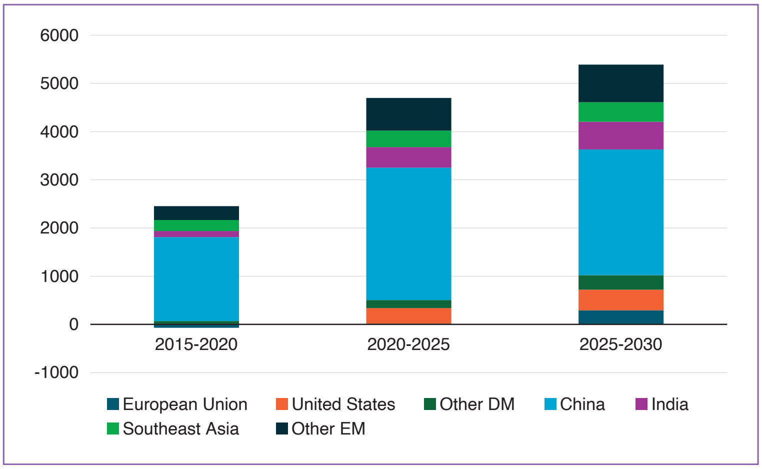
Finally, geopolitical conflicts have introduced a new layer of friction. Recent military actions have forced a re-evaluation of defense spending, with some arguing that armaments should be considered "socially responsible" for national security. Furthermore, these tensions have accelerated the search for alternatives to the dollar-based financial system, threatening the unified capital flow that global sustainable goals rely upon.

So is the world about to be plunged into a period of fragmentation akin to a sustainable investing "Dark Age"? In this article, I argue that the perceived harmonization of financial sector infrastructure and the collaboration of its actors was never as deeply entrenched as many believed. Rather than resisting the fragmentation of the global sustainable investing architecture, the sustainable investing community should shift its focus toward the interoperability of disparate financial systems. By making inherently fragmented systems work together, we can move beyond the one-size-fits-all model that has alienated many stakeholders.

This shift offers a vital opportunity to extend financial infrastructure more inclusively, particularly to the Global South. These nations are at a vastly different stage of economic development but remain essential to the global sustainability. Recent data from the International Energy Agency (IEA) highlights the urgency of this shift: while emerging economics already account for the lion's share of new electricity demand, this shift is expected to become even more pronounced in the next five years *(Chart 1)*. By moving from universal standards to interoperable frameworks, we can finally bridge this investment gap, allowing the Global South to play its critical role in the transition without being forced into a DM-centric regulatory mold.

CHART 1

Global growth in electricity demand total, by region, 2015-2030



Source: IEA's annual report, 2026

Fragmentation Is Not Accidental, It Is Structural

The recent fragility displayed by the sustainable investing alliance highlights the difficulty of addressing key market failures – discussed in my earlier Japan *SPOTLIGHT* articles https://www.jef.or.jp/journal/pdf/247th_Special_Article_03.pdf and https://www.jef.or.jp/journal/pdf/256th_Special_Article_03.pdf – through a singular, top-down framework.

However, the recent fragmentation is not accidental, it is structural. The theoretical underpinning of this fragmentation can be found in investors' heterogeneous preferences. Pastor et al. (2021) suggest that because investors do not have a single, unified set of values they will naturally gravitate toward different "green" objectives based on their specific social and financial priorities. This diversity of thought makes a single, global "Pax" nearly impossible to maintain, as the market is naturally inclined toward a multi-polar reality where different regions value different ESG outcomes.

Compounding this philosophical divide is the practical issue of data fragmentation and divergences in technological deployment. Since there is no standardized measurement for what constitutes "good" ESG, rating agencies often provide wildly different scores for the same company. This technical dissonance creates the very environment where interoperability, rather than harmonization, becomes the only logical path forward.

Finally, while sustainable investing remains an essential economic mechanism to address market failures, its "harmonized infrastructure" has proven vulnerable to political cycles, particularly when short-term competing priorities collide with long-term climate goals. In periods of geopolitical stress or high inflation, the incentive structure for both firms and governments shift rapidly toward immediate survival, prioritizing energy security, domestic price stability, and national defense. While the market has been conditioned to adapt to macroeconomic shifts like rising interest rates, it struggles to maintain a unified standard aimed at longer term drivers of sustainable returns.

Conflicting temporal incentives are particularly acute for the Global South, where the push for harmonized sustainable investing often pulls against a harsh economic reality defined by currency volatility and capital flight. When the US dollar strengthens and oil prices rise, the fiscal burden on EM governments intensifies, particularly in energy-importing nations where fuel subsidies create a direct link between exchange rate depreciation and budget deficits. This creates a powerful counter-incentive to harmonized approaches: when a country is fighting a "macro de-risking" battle to protect its credit rating and fund its fiscal deficit, it cannot prioritize a rigid, global ESG rulebook.

While the tendency to deprioritize sustainability during crises underscores the urgent need for a framework that holds actors accountable for systemic externalities, such mechanisms must be designed with the flexibility to engage, rather than alienate, the very stakeholders and heavy emitters whose participation is essential for a globally resilient transition.

From Hegemonic Harmonization to Multi-Polar Interoperability

With the benefit of hindsight, we now know the Pax Romana occurred concurrently with another great hegemonic civilization: the Han Dynasty in China. Had the Romans explored far beyond the fringes of their "walled garden", they would have discovered a civilization thriving under an entirely different language, set of customs, and legal rules.

With this in mind, we should build a sustainable investing infrastructure that allows for diverse systems to coexist in a multi-polar world. If we accept that a singular, harmonized approach is unviable, we can finally address the structural underrepresentation that has plagued global alliances. The apparent fracturing of global alliances should not be viewed solely as a retreat but rather, a reset which may provide a structural opportunity to create greater interoperability under a bigger tent.

Beyond the Walled Garden: Bridging the Participation Gap in the Global South

The underrepresentation of Emerging Markets (EMs) in sustainable investing alliances creates a participation gap which risks transforming global standards into a form of regulatory exclusion. This tension is examined by Katrin and Arjalies (2024) who find that universal mandates frequently ignore the unique institutional contexts and developmental priorities of the Global South, leading to a disconnect between international expectations and local realities.

In these developing regions, the logic of sustainability may also collide with the immediate demands of geopolitics and sovereignty. In the Middle East and Africa, the Green Transition is not a standalone objective; it is a subset of national security. When global alliances demand the phasing out of fossil fuels without offering a viable path to energy security or domestic industrial stability, they run into a wall of sovereign resistance. In these markets, ESG must align with capital formation and infrastructure needs, not just disclosure volumes. If a framework cannot help build a bridge or secure a power grid, it is viewed as a luxury of the developed world, a "compliance tax" that many EM nations are no longer willing to pay.

In this environment, there is a very real risk of a "two-speed ESG world", where the Global North continues to refine increasingly complex frameworks like SFDR or the CSRD, while the rest of the world develops its own, often incompatible, structures. This divergence is not just a matter of different rules; it is a structural disconnect. When frameworks are too complex for EM institutional capacity, and the incentives differ so fundamentally, the alliances lose their global coherence. Instead of a bridge, the "Financial Pax" becomes a barrier, preventing capital from flowing to where the marginal carbon reduction, and the marginal social impact, is the highest.

How Organization for Collaborative Action Can Adapt

Navigating this fractured landscape requires a fundamental pivot from the imposition of universal mandates to the design of flexible, regionally sensitive frameworks. For global alliances to regain relevance, they must evolve into platforms facilitating functional interoperability rather than absolute uniformity, a shift already redefining the strategies of major international bodies.

The UN PRI, long the primary architect of the global sustainable investing construct, exemplifies this struggle; its expansion into emerging markets has lagged as its reporting frameworks failed to find sufficient anchoring in Africa or Asia, which accounts for approximately 3% and 5% of members respectively *(Chart 2)*.

This is beginning to change. The PRI's recent move toward Progression Pathways represents an admission that global relevance depends on regional connectivity and shared outcomes rather than forced harmonization. Furthermore, the opening of educational resources such as the PRI Academy to entities in emerging economics is a critical step to deepening incentives to pursue long term sustainable goals, even in times of crises.

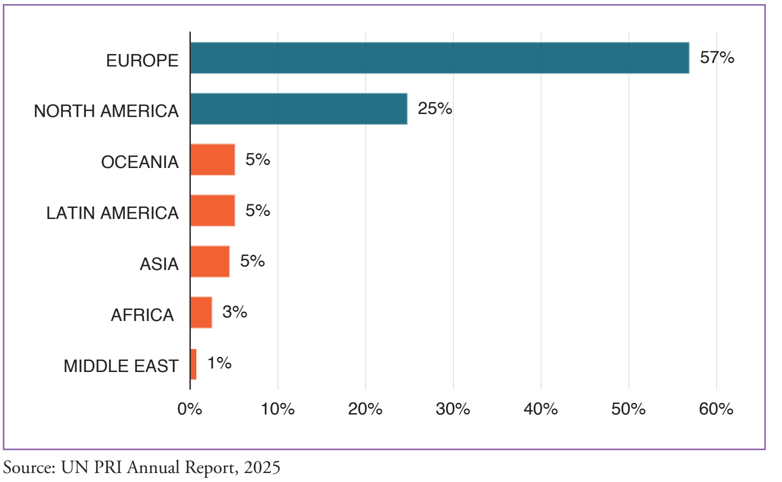
The shift toward localized anchoring had been epitomized by a planned PRI regional event in Abu Dhabi in May 2026, which was to serve as a rallying call to MEA to deepen expertise and extend connections with sustainable entities globally. While the postponement of the conference was clearly a setback, there are nations in the region already demonstrating a way forward. In particular, this has been illustrated by South Africa, which inaugurated its own Code for Responsible Investing in South Africa (CRISA) in 2023. By developing CRISA, South African institutions created a "translation layer" that allowed them to participate in global finance while remaining anchored in the domestic necessity. This model proves that sophistication in sustainable investing is achieved not through rigid adherence to a central script, but through the localized adaptation of global standards.

The International Sustainability Standards Board (ISSB) is another organization seeking to shift from rigid harmonization to functional interoperability. The ISSB standards have achieved a critical mass, with 40 jurisdictions representing 60% of global GDP adopting the framework as their foundational baseline. This illustrates that a global baseline does not require the erasure of sovereign priorities. For example, while the EU's revised 2026 standards continue to emphasize Double Materiality, the high degree of technical alignment between the ISSB and EFRAG ensures that these divergent philosophies remain communicative even if simultaneous compliance has proven elusive.

Of course, for some the interoperability may not be enough. The ISSB has received criticism from scientific and environmental

CHART 2

UN PRI membership, by region



Source: UN PRI Annual Report, 2025

advocates for its decision to delay a dedicated nature standard (S3). However, the Board must resist these pressures to protect its primary mandate as the global provider of a functional, interoperable baseline for financial materiality. Introducing an expansive nature standard now would impose an excessive reporting burden on a global financial ecosystem that is still seeking to operationalize S1 and S2, particularly in emerging markets where data infrastructure is less mature.

CHART 3

Stewardship codes in Asia

Country	Date of adoption	Sponsor type	Signatories	Level	Last revision
Japan	2014	Government	Yes	Comply-or-explain	2025
China	2025	Industry body	Yes	Mandatory	
South Korea	2016	Industry body	Yes	Comply-or-explain	Expected 2026
India	2019	Government	No	Mandatory	
Taiwan	2016	Exchange	Yes	Comply-or-explain	2023
Hong Kong	2016	Government	No	Voluntary	
Thailand	2017	Government	Yes	Comply-or-explain	
Malaysia	2014	Industry body	Yes	Voluntary	2022
Singapore	2016	Industry body	No	Voluntary	2022
Australia	2017/18	Industry body	Yes	Comply-or-explain	2024

Source: Effective Stewardship – spillover benefits and capital allocation, oversight and management efficiency. Govinda Finn (2024), updated 2026

Governance as a Global Bridge

It is not just organizations that need to adapt, the legal architecture and industry norms must evolve. The proliferation of soft law across diverse jurisdictions provides an accelerated mechanism for resetting market norms and behaviors.

In particular, governance may serve as a vital translation layer that converts abstract global standards into concrete, locally relevant investment discipline. In a multi-polar financial world, governance frameworks act as the connective tissue between disparate regulatory layers, shifting the focus from rigid ESG narratives toward the measurable outcomes of capital allocation. Furthermore, governance functions as the primary enforcement mechanism for sustainability within the private sector. While disclosure frameworks provide the necessary data, it is the governance architecture, specifically stewardship and fiduciary duty, which ensures this information is integrated into core strategic decisions.

The Japanese experience provides a roadmap for how a sophisticated economy can combine global standards with local institutional realities. For example, Japanese firms have embedded financial materiality directly into integrated reporting, linking ESG factors to strategy, KPIs, and return metrics rather than treating them as standalone disclosures. With over 60% of large-cap firms producing integrated reports, the highest adoption rate globally, Japan has created a disclosure environment that enhances both internal capital discipline and external investor monitoring. While not unique to Japan, a distinctive feature is the use of back casting within investor-facing reports, articulating mid- to long-term sustainability goals and linking them to staged pathways that inform current capital allocation and operational decisions, giving disclosures a clearer strategic logic and time horizon.

How Stewardship Unifies Fragmented Jurisdictions

The interoperability of the governance layer may be further reinforced by stewardship activities. Across 10 Asia-Pacific jurisdictions, stewardship codes function not as rigid mandates, but as a common language of accountability *(Chart 3)*. By focusing on transparency and engagement, they allow global investors to navigate diverse "sovereign pathways", such as Malaysia's Islamic finance principles to Singapore's market-driven model. This ensures that while local rules vary, the fundamental expectations for shareholder dialogue remain communicative across borders.

Beyond technical alignment, stewardship also offers a culturally resonant framework for navigating complex power structures in emerging markets. In regions dominated by state-owned enterprises or family conglomerates, adversarial activism often fails. Stewardship codes provide a mechanism for minority shareholders to engage majority owners, filling regulatory gaps where formal law lags behind systemic risks like climate change. By shifting the burden of "good behavior" to capital providers, it preserves governance pillars without requiring a single centralized decree.

Capital Allocation as the True North

While interoperability allows different regulatory regimes to coexist, a "True North" centered on capital allocation is essential to ensure that technical alignment serves its ultimate purpose: directing financial flows toward sustainable outcomes.

While traditional ESG ratings have long been criticized for their low correlation and inconsistent signals, new evidence suggests that market-based sustainability metrics, grounded in actual investor behavior, provide more informative signals. Recent research on portfolio-based ESG measures, specifically market-implied sustainability, finds a significantly stronger association with financial performance than traditional ratings, as these metrics are derived from observed capital allocation decisions rather than static, model-based firm scores (Giacometti et al., 2025). Furthermore, technology, specifically AI, is acting as a structural equalizer. AI facilitates the instant analysis of disparate disclosures, allowing for the processing of vast amounts of unstructured data within fragmented regulatory regimes, Swiss Sustainable Finance (2026). This augurs for the acceleration of machine-reader disclosure reports, a key new requirement for disclosure regimes.

By streamlining the bridge between disclosure and the cost of capital, these technological advancements allow hidden costs to be more accurately priced by the market. When sustainability performance is financially integrated into asset prices with high precision, the necessity for top-down enforcement diminishes; the market itself effectively becomes the primary enforcement mechanism for corporate accountability.

The Final Frontier: Systemic Risk & the Limits of the Market

While interoperable governance and localized stewardship provide the "translation layers" for a multi-polar world, they encounter a formidable wall when facing systemic risk. This is the most difficult challenge to counter in a landscape of regionalized standards. Unlike idiosyncratic risks, which can be managed through diversification and better disclosure, systemic risks, such as climate-change and biodiversity collapse, are non-diversifiable. They ignore the artificial borders of fragmented governance, creating a critical tension: how can a decentralized system protect a centralized global commons?

The Necessity of Layer 3: Beyond Disclosure and Governance

The current transition proves that disclosure (Layer 1) and governance/stewardship (Layer 2) are necessary, but insufficient. The ISSB can tell us what is happening, and stewardship can tell us how firms are responding, but neither can force the collective action required to mitigate a system-level threat. This is why Layer 3 (Prudential and Transition Policy) is the essential insurance policy of the new financial architecture.

Systemic risk justifies a global minimum denominator of alignment: we do not need to share a global ESG value system, but we must share a global understanding of systemic risk. Mispriced systemic risk leads inevitably to misallocated capital, and misallocation leads to instability. Therefore, capital allocation efficiency depends on a shared information architecture regarding these unhedgeable threats.

Who Carries the Burden?

The fracturing of the “Financial Pax” has raised a fundamental question: should investors be required to carry the burden of systemic risk mitigation, or has the financial sector proved it can only go so far? Many argue that such heavy lifting should be handed over entirely to governments through carbon taxes and direct regulation.

However, the answer is not to surrender the financial sector’s role, but to redefine it. Handing systemic risk entirely to governments ignores the reality that political cycles are often shorter than climate cycles. Instead, we must find a way to incentivize and account for mitigation efforts within the market. We should not expect every investor to be a “steward of the planet”, but we must require every investor to be a “steward of their own solvency”. When systemic risk is properly priced through macro-prudential tools, such as capital requirements linked to transition risk, mitigation ceases to be an act of advocacy and becomes a requirement of fiduciary discipline.

Conclusion: a Resilient, Multi-Polar Stability

Ultimately, the future of global sustainable investing lies in a tiered architecture rather than a singular, top-down mandate. We must accept that a one-size-fits-all approach to global sustainable finance has reached its structural limits. In its place, a more resilient system is emerging, one that is globally aligned on core disclosure baselines through frameworks like the ISSB, yet remains functionally interoperable across regional governance and stewardship codes.

This evolution allows for the complexities of a multi-polar world while preventing a descent into a sustainable investing “Dark Age”. By shifting the focus toward capital allocation outcomes and the technical, AI-enabled cross-jurisdiction analysis, the industry can move beyond mere administrative compliance toward genuine, long-term value creation. While the alliances of the past have reset, the underlying economic logic remains clear: a stable global order depends on an architecture that is diverse enough to be inclusive, yet interoperable enough to be resilient.

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Special
Article 2

Myanmar & Japan: Building on Their Historic "Special Relationship"


Author Jillian Yorke

By Jillian Yorke

Introduction

With its complex history, multiple ethnic groups, and current military junta-based government, Myanmar (Burma) is in a state of continued high tension marked by widespread censorship and imprisonment, and massive internal displacement. There has been a huge exodus from the country in recent years, with reported numbers of young people having left ranging from 300,000 to 500,000. In February, I participated in the Month of Action for Myanmar organized by worldwide Quakers, which aimed to increase awareness and understanding of the issues the country faces, and explore ways to alleviate them. This experience inspired me to delve deeper and look at ways to stabilize the political situation so as to achieve beneficial, broad-ranging exchanges between Japan and Myanmar, which already have strong ties.

Historical Relationship

Japan and Myanmar have long had a close relationship. Their connections date back to at least the 16th century, with evidence of samurai playing active roles in Burmese armies in the early 17th century. Kyaw Din, a Burmese engineer and athlete, travelled around Japan teaching football after the Great Kanto Earthquake in 1923 and wrote football manuals. His student Shigemaru Takenokoshi played for the Japan national football team at the 1930 Far Eastern Championship Games. Kyaw Din was elected to the Japan Football Hall of Fame in 2007.

In 1905, during the Russo-Japanese War, Japan's victory in the Battle of Tsushima showed that an Asian power could overcome a Western one, inspiring the Burmese anti-colonial movement. U Ottama, a central figure in the struggle for Burmese independence, taught Pali and Sanskrit at the Academy of Buddhist Science in Tokyo in 1907. Galon U Saw, a future prime minister of British Burma, and Nyi Pu, the first film actor in Burmese cinema, also visited Japan, in 1935. They studied the factories, military, film industry and education systems, and came to believe that Myanmar could gain independence only with Japan's help.

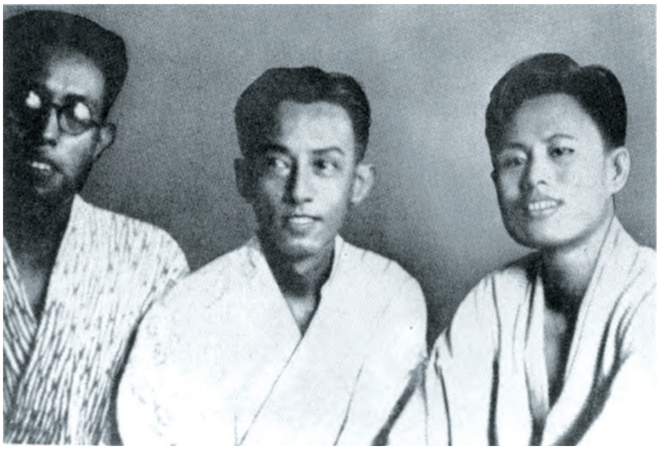
Japan occupied Burma during World War II, from 1942 to 1945. The infamous Burma Railway (Tai-Men Rensetsu Tetsudo 泰緬連接鉄道 in Japanese), completed the rail link between Bangkok and Rangoon. An estimated 12,000-16,000 Allied POWs and 75,000-100,000 Asian forced laborers working on the railway died. The well-known 1957 film, *The Bridge on the River Kwai*, while largely fictional, used the construction of this railway as its historical background. *The Burmese Harp* (ビルマの竪琴 , Biruma no Tategoto), a 1948 children's novel by Michio Takeyama, was the basis of two highly popular films by Kon Ichikawa. Although the original book had an anti-war focus, the films have been criticized for downplaying Japan's wartime responsibility. Approximately 150,000-190,000 Japanese soldiers died in Myanmar in World War II, including in campaigns, during retreat, and from disease and starvation. The Nippon Izokukai, a group for war-bereaved families, has just ended its 30 years of memorial services. On their final overseas trip in March, about 60 people visited Myanmar for memorial ceremonies and interaction with local children.

Aung San, known in Myanmar as the "Father of the Nation", was minister of war in the Japanese-backed State of Burma led by Dr. Ba Maw, though he later switched sides. He was one of the "Thirty Comrades" trained and supported by Japan's Fumimaro Konoe government who led the struggle against British rule. Aung San's daughter, the popular and respected Nobel Peace laureate Daw Aung San Suu Kyi, now 80, continues this activist tradition. She has a strong connection with Japan, including conducting research at

Photo: Author


Panorama shot of Bagan, site of about 2,200 ancient Buddhist structures

Photo: Public domain



Aung San (right) and his friends during military training in Japan

Kyoto University in 1986. She was the State Counsellor of Myanmar and the Minister of Foreign Affairs (and de facto leader of the country) from 2016 to 2021. When she met the late Prime Minister Shinzo Abe during her return visit to Japan in 2013, Abe said he supported reforms in Myanmar and would help the country to "build its future" (*BBC News*, April 18, 2013). She has been detained by the Myanmar junta for many years for her efforts to achieve greater democracy. *Letters from Burma*, a book of her essays published in English and Japanese in 1997, was featured serially in the *Mainichi Shimbun* and *Mainichi Daily News* newspapers for over a year.

Another famous Burmese politician was U Thant (1909-1974), who served as the third secretary-general of the United Nations from 1961 to 1971, the first non-Scandinavian to hold the post. During his tenure, he helped to defuse the Cuban missile crisis, ended an insurgency in Congo, and openly criticized US involvement in Vietnam. During World War II, U Thant took a moderate stance as neither passionate nationalist nor British loyalist.

The Postwar "Special Relationship"

According to *The Irrawaddy* (Oct. 5, 2018), one of Myanmar's few independent news media, "Japan is one of the countries that has assisted Myanmar most consistently in nearly every sector from development to health to education since it achieved independence in 1948, and the countries continue to maintain warm relations." In 1954, the Union of Burma and Japan signed a peace treaty, reached agreement on war reparations of US$250 million, and established diplomatic relations. This was followed by substantial trade and technical cooperation, and Japan's assistance with building urban infrastructure. In 1974, Burma joined the Asia Development Bank, in which Japan is a major shareholder. However, official Japanese ties with the government were weakened after the 8888 Uprising, a series of protests and riots throughout Myanmar in 1988, ending in a military coup. In 2007, Japanese photojournalist Kenji Nagai was shot dead in Yangon as soldiers opened fire on demonstrators in the Saffron Revolution, led by monks. Civilian rule returned in 2011, but Japan condemned the violations of the human rights of the Rohingya people in 2017.

Before the 2021 coup, Japan played a unique role in Myanmar's peace process, using economic influence and diplomacy to mediate among all stakeholders. On the website of *The Irawaddy*, the "Timeline: Eight Decades of Myanmar-Japan Relations at a Glance" lays out in comprehensive detail the numerous political, diplomatic, and economic exchanges, cooperation, and high-level visits in the bilateral relationship during the 1940-2018 period. (https://www.irrawaddy.com/specials/timeline-eight-decades-myanmar-japan-relations-glance.html). Another *Irawaddy* article on the relationship between Japan and Myanmar (https://www.irrawaddy.com/from-the-archive/japans-special-relationship-with-myanmar-has-abetted-decades-of-military-rule.html) ends rather scathingly, "That 'special relationship' – when it comes to aid, investment and involvement in the so-called peace process – has so far resulted in little more than making sure that the Myanmar military remains firmly entrenched in power."

Nevertheless, the longstanding efforts for greater peace and democracy in Myanmar by Japan (one of the few international actors still engaged in Myanmar's peace process) have earned widespread respect. However, it is under pressure to take a firmer stance. Japanese-financed railway projects remain contentious in case they help military logistics, create revenue that benefits the junta, or sustain its credibility. This is reflected in the thorny question of ODA. A statement by Mekong Watch (https://www.mekongwatch.org/PDF/rq_20231201_Eng.pdf) calls on the Japanese government to stop ODA and publicly financed projects benefitting the Myanmar military. It urges Japan to confront the Myanmar military's "escalating atrocities" instead of prioritizing the profits of Japanese companies, saying, "This is a particularly poor look for a country that currently sits as a non-permanent member of the UN Security Council, which adopted Resolution 2669 calling for an end to violence in Myanmar." Many Japanese companies have already withdrawn from projects in Myanmar, or are selling off, in response to pressure and because of human rights concerns and growing financial risks. However, Japan has a strong incentive to be more active in East and Southeast Asia, including by recovering a strong relationship with Myanmar, to curb any further drift to China and Russia.

To celebrate 60 years of bilateral diplomatic relations, in 2014 the Ministry of Culture in Myanmar designed a commemorative coin featuring the Bagan Archaeological Zone, a UNESCO World Heritage Site where Japan has assisted with preservation and restoration activities.

Political Shenanigans: Sham Elections & the 2021 Coup

The first multi-party general elections in Myanmar since the military dictatorship began in 1960 were held in 1990. Daw Aung

Photo: Author

Biography of Aung San Suu Kyi by Peter Popham

San Suu Kyi's National League for Democracy (NLD) won the election in a landslide, but the military junta refused to recognize the results. Another general election was held in 2020, to elect members to both houses of parliament, amid covid-related travel restrictions and other measures including a partial lockdown. Voting was not held in several constituencies, on the grounds that they could not meet the conditions for a free and fair election. The NLD again secured an overwhelming victory, winning a total of 396 seats across both houses, well above the 322 required for a parliamentary majority, but the military-backed Union Solidarity and Development Party (USDP) once more rejected the results. On Feb. 1, 2021, the day the new parliament was scheduled to convene to confirm the new government, the Tatmadaw (Myanmar's military) seized power. State Counsellor Aung San Suu Kyi, President Win Myint, and other senior political leaders were detained by the military and a year-long state of emergency was declared, to widespread international condemnation. Dozens of ethnic parties were also dissolved; according to election monitoring group Anfrel, 57% of the parties that ran in the 2020 general election no longer exist, even though they received more than 70% of votes and 90% of seats. Japan condemned the coup and killing of peaceful protesters, and urged the ending of airstrikes. It strongly upholds the ASEAN mediation efforts, including the implementation of the "Five-Point Consensus", which calls for an end to violence, inclusive political dialogue, and humanitarian assistance. A 2024 BBC investigation found that the military government controlled only about 21% of territory, while ethnic and rebel forces held about 42%, four years after the coup.

The most recent general election, in 2025-2026, though touted by the Myanmar government as a step towards greater democracy, is widely seen as a sham. Japan was one of only nine countries willing to send observers to oversee the election process. (The others were India, Cambodia, Vietnam, Russia, China, Belarus, Kazakhstan and Nicaragua.) A recent Australian parliamentary committee report on human rights and democracy in Myanmar includes a thoroughgoing study of the legitimacy of this election, and finds multiple issues of serious concern. The persecution of Muslim Rohingya in Myanmar began in 2016 under the leadership of the current president, Sr. Gen. Min Aung Hlaing, whom the International Criminal Court in The Hague sought to arrest for crimes against humanity, in 2024.

An Example of Innovative Cross-Cultural Entrepreneurship

NHK World (Feb. 17, 2025), in its "Shining Light on Myanmar Talents" feature, introduced Plus Impact, a Singapore-based recruiting company headed by Japanese entrepreneur Kenta Takada, who had previously worked for Marubeni in Myanmar. Plus Impact, which opened a Yangon office in 2024, matches talented Myanmar people, especially those with advanced IT skills, with Japanese firms in need of such expertise. Of Myanmar's population of approximately 55 million, about 45.5% are in the 20-49 age group. Because of current conditions, regardless of their talent, many students are unable to graduate from universities in Myanmar, making it an optimal market for Japanese companies seeking human resources. In an article on Bridge (https://thebridge.jp/en/2024/05/plus-talent-official-launch), Takada explains, "We hope to rectify this disparity in opportunities and ... support developing countries. Myanmar engineers are extremely talented. From the company's side, it is cost-effective, and from the engineer's side, the treatment is attractive. It is important to provide opportunities for talented people in Myanmar. To this end, we are looking to match not only IT engineers but also designers, office workers, and all other types of human resources. More people in Myanmar learn Japanese today, so there is not much of a language barrier. Rather, the diligent and mild-mannered nature of the people makes them a good match for Japanese companies." Peter Popham, in his first biography of Aung San Suu Kyi, also cites the commonalities between Japanese and Burmese people: "instinctive courtesy, self-effacement, diligence, and graceful attention to everyday tasks."

The Quaker Connection

The Month of Action for Myanmar in February, organized by the Society of Friends (Quakers), which has a long history of working for peace and justice, had over 125 participants from multiple countries, including several within Myanmar. Some chose not to share their name to avoid possible repercussions. The event aimed to facilitate learning and increase awareness of Myanmar's ongoing crisis, and suggested practical ways in which we could help, because "Myanmar's ongoing crisis touches global concerns: violent conflict, refugee rights, environmental degradation, and the erosion of democratic freedoms. We are called to respond and to support each other and our neighbors." Organizers explained: "The members of the small Yangon worship group meet every week online. Most of us lived inside the country at one time, but few of us remain there. Our Meetings for Worship serve as a link to each other. Another motivation for joining Meeting is the link it provides to the place, which has suffered military rule for decades. In solidarity with those who remain in Myanmar, and to mark five years since a military coup overturned the landslide election victory of a party led by a Nobel peace prize winner, we organized a Quaker Month of Action during February 2026." (https://www.myanmarmatters.info/). Below is a list of actions done by Osaka Friends. Their walk was along a riverside path, "to call attention to the plight of the 3.6 million people who are currently internally displaced in Myanmar, according to UNHCR. For them, water is life."

Friends of Osaka Monthly Meeting in Japan organized &/or participated in the following events during the Month of Action for Myanmar called for by AWPS, the Asia West Pacific Section of World Friends (Quakers).

2/1	Joined the online meeting with Yangon Worship Group.
2/18	Saw the documentary film, Myanmarese in Japan, directed by Toshikuni Doi.
2/19	Attended the Amnesty International webinar about the "ghost ships" that carry jet fuel to Myanmar for use in airstrikes.
2/21	Organized a 5K peace walk.
2/26	Attended a World BEYOND War webinar with a speaker from ALTSEAN Burma.
2/26	Led a discussion on Myanmar at the Amnesty Osaka office.
2/27	Visited a local Myanmarese establishment, Mandalay House.
3/1	Joined the online meeting with Yangon Worship Group.
3/3	Wrote letters of support to advocates in Timor-Leste, the UNHCR and others.
3/3	Sent a group photo expressing solidarity.

At the month's end, John Henderson, clerk of the Yangon Friends Meeting, Myanmar/Burma, told us: "The Month of Action on Myanmar ended just as the world's attention shifted toward Iran, yet your efforts on behalf of Myanmar people continue to echo. They told us they felt heard, and decision-makers responded to the dozens of email messages you sent. We're deeply grateful for the many ways you were led to act. Sadly, the junta continues its reign of terror. The need continues for international legal systems to hold the Myanmar military accountable. The Myanmar people continue to inspire the world with their creative calls for the military's removal."

Suggested actions include:

Join English-conversation sessions with Myanmar students
Donate money to Friends Peace Teams and Partners Asia
Support Burmese businesses in your area
Learn about and share stories of life in Myanmar
Amplify local voices through social media campaigns
Engage with the media and decision-makers to advocate for stronger action
Call for divestment from banks and companies complicit with Myanmar military
Give a talk about Myanmar
Sponsor Myanmar students to attend universities elsewhere
Join local Myanmar solidarity events
Donate to organizations doing good work in Myanmar, or based in your country
Host vigils or days of fasting for Myanmar

The Way Forward: How Can Japan Help?

When asked recently what Japan can do to improve the situation, Henderson said, "The first thing is support for independent media inside the country. News organizations such as *Frontier Myanmar* https://www.frontiermyanmar.net/en/ and *Irawaddy* https://www.irrawaddy.com/ have lost funding recently. They provide a crucial balance to the increasingly skewed coverage of events by the international press. In addition, the Japanese government and its businesses could begin aligning more with like-minded countries in order to step up pressure on the Myanmar military. Historically, Japan has acted quite independently in diplomatic and economic areas."

In December 2024, there were an estimated 134,574 Burmese in Japan, showing a big increase since the 2021 coup, and also since the conscription laws were introduced in 2024. "Myanmar People in Japan: Our Freedom" *(Zainichi Myanmajin: Watakushitachi no Jiyuu)* is a film recently produced by Toshikuni Doi, an award-winning

Photo: Toshikuni Doi

Poster of documentary "Myanmar People in Japan: Our Freedom" creator of numerous documentaries and books on controversial issues. He is producing an English version of the film, which will be completed shortly. Doi made an earlier film on the same subject, "Burmese People Inside Japan: Living in a Foreign Country" *(Ikoku ni Ikiru, Nihon no Naka no Birumajin)*. See http://doi-toshikuni.net/j/myanmar/. In an online message, Doi explained his motives in producing the new film (my translation from the Japanese), "Young Myanmar people living in Japan who had already experienced 'freedom' stood up in resistance to the February 2021 crushing of the democratization that had just begun in their country. Their courageous efforts to topple the military government makes us Japanese wonder about the true meanings of 'one's country', 'freedom', and 'how we human beings can live in a human being-like way.' Moreover, they also make us question if we can simply turn our backs, when Japan has such strong links with the military junta." Another film about Myanmar, focusing on Rohingya refugees, "Hara Watan" (Lost Land), was directed by Akio Fujimoto, who worked in Myanmar for 12 years, (see trailer at: https://share.google/pH835go8eG7SZ9EVC), and released in France in March this year.

Further potential strategies to support Myanmar: protect Myanmar people living in Japan by offering legal aid, visa assistance, and help for refugees, asylum seekers, and displaced youth, and establishing hotlines in Burmese and ethnic languages for those abused or threatened. Fund-raise and support Myanmar-led civil society, humanitarian organizations, and NGOs. Pressure Japanese companies to avoid supporting the junta and encourage ethical investment. Strengthen collaboration and cooperation between the two peoples. Advocate for stronger action by the Japanese government. Express solidarity with the numerous groups in Asia working on Myanmar issues. Support documentation, long-term justice efforts, training, and research.

ALTSEAN-Burma (Alternative ASEAN Network on Burma, http://www.altsean.org) is a network of human rights and social justice NGOs, political parties, think tanks, academics, journalists and student activists based in member states of ASEAN (which currently bans Myanmar leaders from its high-level summits) that support human rights and democracy in Myanmar. It was established at the Alternative ASEAN Meeting on Burma held at Chulalongkorn University, Bangkok in 1996.

Atutu (https://atutumyanmar.org/#english-home) was formed soon after the Feb. 1, 2021 coup as a grassroots exchange between people from Myanmar living in Japan, and people in Myanmar. It holds weekly online prayer meetings, provides face-to-face support, conducts fund-raising, accompanies Myanmar people to hospitals and public offices, and assists in emergencies. From their website: "Japan has invested in numerous development projects in Myanmar, which has been called the 'Last Frontier of Asia'. Japan and Myanmar are connected by a 'strong pipeline', and ... the Japanese government has taken a lax attitude towards the repression of its citizens, as it has been negotiating with the Myanmar Military Council since after the *coup d'état*."

Apart from those already mentioned, there are many other groups supporting human rights and democracy in Myanmar, such as Justice for Myanmar, Political Prisoners Network, Assistance Association for Political Prisoners, Bridge Asia Japan, Burmese Relief Center-Japan, Myanmar News, World Beyond War, and Amnesty International.

I have not yet visited Myanmar myself. I asked two friends who have for their impressions. One (who visited several decades ago) told me that, despite the tight control over her itinerary, she found the country beautiful. The other (who went there about 20 years ago) noted "how very thin most people were and how fat the generals were. They had their own TV channel and were shown going round to communities and schools 'doing the benevolent'. It was disgusting. I felt the intelligence and the courage of people in all kinds of places and had some deeply wonderful encounters and conversations."

Japan is in a unique position to combine political and economic pressure with people-to-people interaction – the kind of "omnidirectional balanced diplomacy" mentioned in the Cover Story on the Global South in the previous issue of *Japan SPOTLIGHT* – to achieve both greater freedom, justice, and stability in Myanmar, and a bilateral relationship that is truly "special".

My heartfelt thanks to Adrian Glamorgan, executive secretary of the Friends World Committee for Consultation, Asia West Pacific Section; to Naomi Backes Kamimura and Gerry Yokota of Osaka Friends; to John Henderson; and to Atutu, Toshikuni Doi, and Peter Popham.

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Photo: Atutu

Myanmar children supported by Atutu

Jillian Yorke is a translator, writer and editor who lived and worked in Japan for many years and is now based in New Zealand, where she is also the director of the Japan Library: Pukapuka.

The Impact of Cultural Appreciation on Conflict Resolution

Author Mohan Gopal

By Mohan Gopal

Deep inside every human is a yearning for peace. The yearning is sometimes so deep that it appears concealed and paradoxically expresses itself as conflict. We have often heard the statement "this is the war which will end all wars" at global macro levels, and the statement "this is the argument which will close all arguments" at micro inter-personal levels, even among the closest of human relationships – spouses, siblings, parents-children.

In the context of the global conflicts facing mankind today, I explore whether better cultural appreciation or even just acceptance could help in reducing conflicts.

Cultural Appreciation in the Snowy Hills of Niigata Prefecture

It was mid-winter. True to its distinction of holding the record for having Japan's heaviest snowfall, the municipality of Toukamachi in Niigata Prefecture was piled with snow gleaming bright in the mild winter sunlight. The town is at the end of the long tunnel made famous by Nobel-laureate Yasunari Kawabata (1899-1972) in his novel *Snow Country*. Ten kilometers up through the surrounding mountains from the nearest railhead is the Mithila Museum, named after the ancient region of Mithila, in present-day Bihar state in eastern India and the adjoining areas of Nepal. The founder and curator of the museum is Tokio Hasegawa.

From an early age, Hasegawa developed a keen interest in nature and culture. He became an art collector with a focus on the unique art of the Mithila region, but also has items from Southeast Asia, Africa and Latin America *(Photo 1)*. As a musician himself, he also explored world folk music traditions. Across the years he has hosted many traditional music groups at his home in Toukamachi and has organized their concerts across Japan to spread cultural awareness and appreciation. He is also a founder of the annual *Namaste India* festival held in Yoyogi Park in Tokyo. This popular event exhibits Indian culture and cuisine.

Keenly interested in nature, Hasegawa made the pristine hills with starry skies around Toukamachi his home. He believes that human bonding happens through mutual acceptance and with being in consonance with nature. His unique annual winter concert exemplifies this, performing as an ensemble out in the open with a small group of like-minded musicians and the snow as their stage *(Photo 2)*.

Beacons of Cross-Cultural Understanding

Father Cyril Veliath is a man of peace. A professor emeritus at Sophia University in Tokyo, he is a champion of inter-faith dialogue and emphasizes the necessity of cross-cultural acceptance to foster a loving and peaceful world. While Father Veliath is an ordained Jesuit priest, he is at equal ease and conviction with Hindu and Buddhist scriptures and Shinto thought as much as he is with the Holy Bible *(Photo 3)*.

Father Veliath takes a generous view of the world that while there are indeed frequent aberrations, it is developing positively. Bigotry by-and-large has reduced, and we see a human society where diversity is increasingly accepted. He says India has played a big role in this with its hallowed Vedic tradition of acceptance. He mentions

Photo 1: Kosei Sawada

Mithila Museum artefacts

Photo 2: Author

Toukamachi Snow Orchestra

Photo 3: Author

Father Cyril Veliath

that it was during the Second Vatican Council (1962-1965) convened by then Pope John XXIII that the Catholic Church took the revolutionary step of accepting that non-Christian traditions are also paths to the Divine. He recalled with reverence Father Raimon Panicker (1918-2010) who said, *"I left Europe [for India] as a Christian, I discovered I was a Hindu and returned as a Buddhist without ever having ceased to be Christian,"* and was a vocal supporter of the changes proposed by the Pope at the Council.

Nestling in one of the quaint residential areas in the hills of Zushi, Kanagawa Prefecture, is a simple building which one can mistake for a large traditional Japanese house. This is the headquarters of the Nippon Vedanta Kyokai (The Japan Vedanta Society). It represents The Ramakrishna Matt, a mega spiritual and philanthropic organization headquartered in Kolkata, India, which has had a profound impact in spreading human values in India and other countries. Swami Medhasananda *(Swamiji)* has led the organization in Japan for a couple of decades. A scholar, educationist and monk of the Ramakrishna Order, Swamiji's simplicity is only matched by his tireless work to promote cross-cultural understanding and foster a quest for the inner spirit in individuals *(Photo 4)*.

When I sought Swamiji's opinion on the topic of my article, he said that the basis of all conflicts whether small or big can be traced to the individual – that without purity of heart and intention, all statements of support for cultural appreciation as a tool for conflict resolution remain as nothing more than lip service. It is for this reason that whether it was the League of Nations post-World War I or the United Nations later, the ideals remain lofty only to be easily shattered. Having said this, Swamiji added that it does not mean that one should give up and do nothing; calling unequivocally for humanness and cultural acceptance is necessary and inculcating human values through education is required. The key phrase to be mandated across the globe is *"unity in diversity"* – that is accepting every culture, every tradition with respect, while at the same time recognizing and living by the human values that unite all. Swamiji emphasized that this was not about *tolerance* – which has a negative connotation – but about *acceptance*. Swamiji said that a mind free of hatred and anger and which distances itself from physical and material feverishness is something that can be realized through the practice of right living, service and raising the mental state by offering the fruits of any action to the Divine. He mentioned Swami Vivekananda (1863-1902), the founder of the Ramakrishna Order, who carried the message of universal acceptance to the West during his participation at the World Parliament of Religions in Chicago in 1893.

Photo 4: Nippon Vedanta Kyokai

Swami Medhasananda

Symphony of Peace Prayers

In the foothills of Mt. Fuji in Shizuoka Prefecture is a sacred space known as the Fuji Sanctuary. It was established by a Japanese peace organization, *Byakko Shinko Kai*, under the auspices of the Goi Peace Foundation and the chairmanship of Masami Saionji. She leads the world peace prayer movement which was initiated in 1955 by the Japanese mystic and humanitarian Masahisa Goi (fondly known as Goi Sensei) (1916-1980). Goi Sensei spread the simple prayer, *May Peace Prevail on Earth*. With thousands of "peace poles" erected by the movement inspired by Goi Sensei around the world in different languages, it is a plea from the human heart to the universe. Goi Sensei urged people to cultivate universal love and recognize the one-ness of humanity.

It was Masami Saionji's vision to further enhance the spread and power of the Peace Prayer, and she initiated the Symphony of Peace Prayers (SOPP) in May 2005 as an annual event at the Fuji Sanctuary. The three-hour ceremony has dignitaries from several religious denominations delivering prayers of peace, followed by all assembled chanting together the line "May Peace Prevail on Earth" and praying for peace in every country by name. With Mt. Fuji as a backdrop, the ceremony is indeed magical, with an intangible feeling of joy and one-ness in the gathering *(Photos 5 & 6)*.

The ancient Vedic scripture, the Rig Veda, expounds the Sanskrit verse, *Ā no bhadrāḥ kratavo yantu viśvataḥ*, which roughly translates as "Let noble thoughts come to us from every side." When the mind is at peace with itself, only noble thoughts abound. Masami Saionji echoes this sentiment in her book *The Golden Key to Happiness*.

> "Let us open the door to our hearts – the door that was hidden up till now. Fill the room behind the door with truth, radiance and happy ways of living. When your heart is filled with light, you will naturally be able to envision only good in your mind without force or effort."

Photo 5: Author

Author with Masami Saionji

Photo 6: Byakko Shinko Kai & Author

Symphony of Peace Prayers at Fuji Sanctuary

World Cultural Festivals

The founder of the International Art of Living Foundation, global humanitarian His Holiness Sri Sri Ravi Shankar, consistently espouses the importance of accepting cultural inheritances from all over the world for spreading peace and harmony. With this inspiration, the foundation regularly organizes culture festivals at both global and local levels. Four world culture festivals have been organized between 2006 and 2023 – in Bangalore (2006), Berlin (2011), New Delhi (2016) and Washington DC (2023) – attended by political, business and religious world leaders making clarion calls for peace and with hundreds of artists representing their countries' music and dance, performing to audiences of millions of people across the three to four days of events. In 2015, an International Happiness Festival was held at the Ryogoku Sumo Stadium in Tokyo with an evening of cultural programs. Music and dance are an integral part of almost all Art of Living events, whether they be small gatherings of a few people or catering to millions.

The primary goal of these festivals is to celebrate "unity in diversity" and promote the philosophy of *Vasudhaiva Kutumbakam* – the Vedic concept that the whole world is one family. As mentioned, these events are often staggering in scale, featuring thousands of performers, world leaders, and millions of attendees, and intended to be a bridge between different cultures, religions, and nationalities. The festivals are usually organized to mark significant milestones of the Art of Living Foundation. Key editions of the festival were:

- **2006 – Bangalore:** The first edition, celebrating the silver jubilee of the Art of Living. It drew an estimated 2.5 million people and featured over 3,800 musicians.
- **2011 – Berlin:** Held at the Olympic Stadium to mark the 30th anniversary. It focused on peace and intercultural dialogue, bringing together about 70,000 people from over 150 countries. It was a remarkable choice of location for it was here in 1936 that the summer Olympics were staged, with undiluted racism, followed by years of genocide and hate.
- **2016 – New Delhi:** Marking the 35th anniversary, this was held on a seven-acre stage constructed for the purpose on the banks of the Yamuna River. It featured over 37,000 artists and was attended by a staggering 3.5 million people.
- **2023 – Washington, DC:** The most recent major edition took place on the National Mall, attracting about 1 million attendees and 17,000 performers over three days.

The events are a vibrant mix of several different elements:

- **Cultural Performances:** Traditional dances and music from almost every corner of the globe (e.g., over 1,000 *Kathak* dancers, Bulgarian folk groups, Hip-Hop tributes, etc.).
- **Mass Meditations:** Large-scale guided meditations led by Sri Sri Ravi Shankar aimed at fostering global peace.
- **Leadership Forums:** Dignitaries, including heads of state and spiritual leaders, speak about peace, sustainability, and human values.
- **Global Cuisine:** "Food villages" that showcase vegetarian cuisines from around the world.

The Impact of Cultural Appreciation

For ease of understanding, *CHART* shows some terminology used in this section:

The World Culture Festivals (WCF) serve as a premier example of **Soft Power** and **Track Two Diplomacy**, impacting international relations. While traditional diplomacy (Track One) happens between governments, the WCF creates a parallel channel where the people and civil society influence the global political climate.

CHART

Some terminology used in this section:

S.No.	Term	Meaning
1.	Soft Power	The ability to influence internationally through attraction (culture, values), rather than coercion (military, money).
2.	Track Two Diplomacy	Unofficial, informal interaction between members of adversarial groups or nations.
3.	Cultural Pluralism	Active participation of diverse groups in a common society while maintaining their unique traditions.
4.	Cosmopolitanism	The concept that all of humanity belongs to a single community, based on a shared values.

Source: Soft Power: Harvard political scientist, **Joseph Nye** (1937-2025)
Track Two Diplomacy: **Joseph V. Montville** (1937-2022)
Cultural Pluralism: American philosopher, **Horace Kallen** (1882-1974)
Cosmopolitanism: Prussian Philosopher, **Immanuel Kant** (1724-1804)

There are several analytical approaches for studying the impact of cultural appreciation on conflict resolution.

Approach 1:

1. Humanizing the "Other"

At the core of conflict is often the "othering" of an opponent. By using performing arts – for example, 1,000 Russian and Ukrainian performers on the same stage – the narrative shifts from political tension to shared human expression. Indeed, it is harder to maintain prejudice when music and dance are celebrated together.

2. The "Neutral Ground" Effect

Large-scale cultural events act as a neutral space where leaders from conflicting regions can meet without the pressure of formal negotiations. For example, the 2016 festival in Delhi saw leaders from various South Asian nations sharing a platform during a period of high regional tension. Shared cultural experiences lower the "defense cortisol" in participants, making them more open to dialogue later.

3. Shared Values vs. Specific Dogmas

Conflict resolution often stalls when specific religious or political dogmas and perceived threats and injustices are held deep within. The Art of Living focuses on **universal human values** (peace, belongingness, kindness, compassion, respect and service). By emphasizing that "the world is one family", a broader identity is created that allows people to maintain their cultural roots while acknowledging global membership.

Approach 2:

1. **The "Sensory Diplomacy" Angle:** The sights and sounds of a festival bypass the intellectual barriers of conflict and touch people on an emotional level.
2. **Scaling Local to Global:** Showcasing local folk traditions on a global stage, providing a sense of dignity to marginalized groups, which is often a prerequisite for peace.
3. **The Power of Proximity:** The sheer physical proximity of millions of people from over 150 countries meditating or dancing together acts as "social proof" that co-existence is possible.

Approach 3:

1. Cultural Diplomacy as "Pre-Negotiation": In international relations, formal dialogue often fails because the atmosphere is too "hot" or polarized. Cultural festivals act as a coolant.

- **Case Study:** During the 2016 festival in New Delhi, leaders and representatives from the SAARC nations (South Asian Association for Regional Cooperation) were present. By centering the interaction on a shared cultural "Grand Musical Symphony" which featured 3,800 musicians on a single stage, the event created a non-threatening environment. This is a classic international relations strategy where cultural immersion serves as a precursor to formal peacebuilding.

2. Civil Society as a Non-State Diplomatic Actor

The Art of Living, through the cultural festivals, operates as a "Non-State Actor" that can go where governments cannot.

- **Case Study: FARC (Colombia):** The reputation and soft power generated by these global festivals can be said to have given Sri Sri Ravi Shankar the standing to mediate between the Colombian government and FARC rebels.

Indeed, massive festivals build social capital which has a global reach. When a humanitarian organization can mobilize 180 countries, it gains the "moral authority" to facilitate dialogue in conflict zones.

3. Countering "Clash of Civilizations" narratives

American philosopher Samuel P. Huntington's "Clash of Civilizations" theory suggests that future conflicts will be fought along cultural and religious lines. The World Culture Festivals are a direct counter-thesis. For example, the "Parade of Nations" and mass meditations involve participants from conflicting states performing in the same space. In terms of international relations, this is **Re-humanization**. By showcasing that cultural identity can be a point of celebration rather than a boundary, the festival undermines the "us vs. them" logic that fuels modern geo-political conflicts.

The World Culture Festivals are "proof of concept" for Non-State Pluralism. In a world often dominated by state-to-state friction, this festival represents a shift toward global civil society as a primary driver of peace. The festivals have the following outcomes:

1. Transition from "Hard" to "Soft" Power

The World Culture Festivals serve as a massive platform for Public Diplomacy. When 180 countries participate in a single event

Photo 7: Art of Living

Bird's-eye view of WCF 2016 in Delhi

characterized by united calls for peace, it creates a "global brand" for peace that transcends individual national interests.

2. People-to-People Diplomacy (Track Two)

Traditional diplomacy often gets stuck in the "zero-sum" game – where one country's gain is another's loss, whereas the festivals bypasses political bureaucracy by connecting citizens directly.

- **Case Example:** The 2023 festival on the National Mall in Washington DC featured Native American land acknowledgments and a 1,000-guitar ensemble. By celebrating indigenous cultures alongside modern global ones, the festival validates the identity of diverse groups. Mutual validation is the antidote to "Identity Politics", which is a root cause of many modern global conflicts.

3. Re-Defining "Security" (Human Security vs. State Security)

It is vital to move from "State Security" (protecting borders) to "Human Security" (protecting the well-being and mental health of individuals). The Art of Living integrates meditation and trauma relief into its cultural missions. A "culture of peace" starts with the individual. If the individuals within a nation are resilient and less prone to stress-induced aggression, the state itself becomes more stable. The festivals are essentially a global demonstration of this psychological stability on a mass scale *(Photo 7)*.

A Call to Action

I had an opportunity to call on Rika Saionji, deputy chair of *Byakko Shinko Kai*, in the Tokyo office of the Goi Peace Foundation. I was pleasantly surprised to be joined by her parents, Masami Saionji and Hiroo Saionji, and elder sister Yuka. Our discussions revolved around the necessity of realizing universality and of helping humankind realize peace and joy. Masami made a fervent call to joint action by all organizations which treasure human values over all else. She envisaged a pyramid formed by all such pillars of love and peace encompassing the whole of mankind.

Swami Medhasananda had reiterated that education in human values was paramount, not just in schools but across society, while Sri Sri Ravi Shankar consistently stresses the importance of overcoming negativity through meditation and making life a constant celebration.

Cultural appreciation is not just a nice-to-have sideline to hard-core diplomacy, but a functional necessity that builds the social trust required for any peace treaty to last.

Conclusion

Hoping for a permanent end to all conflicts – whether global, local or personal – is like hoping that no human being should ever want to watch a movie which depicts these. If that were possible, there would be no place at all in daily life for violence even on the screen. Indeed, what we perceive as real may perhaps be just a drama being staged in a bigger consciousness. Having said that, mankind does not want conflicts to be a part of life, not even as a nightmare while asleep. Irrespective of whether philosophical thought is inclined towards just one life, or a place after death or reincarnation, all streams advocate human values.

If conflicts are considered as battles, then the battlefields merely *appear* to be in physical geographies but are really in the mind, in the consciousness. By elevating consciousness, one goes beyond narrow-mindedness. Events like the Symphony of Peace Prayers and the World Culture Festivals do exactly this. They act at the level of consciousness and use cultural appreciation as an amazingly effective weapon for winning the battles by dissolving the desire for conflict before the first shot is even fired.

To quote Sri Sri Ravi Shankar:

> "The Creation loves diversity, manifesting in innumerable colours – be it in varieties of flowers, fruit, vegetables, people and places – yet it all comes together as one planet; in Sanskrit this is called Prakruti. Just as technology has made our planet into a global village, spirituality has made it into one global family. Culture cuts across all human boundaries, unifies and reflects the primordial ideals of Vasudhaiva Kutumbhakam – the 'One World Family'.

I shall conclude with the ancient Sanskrit peace mantra, *"Lokah samastah sukhino bhavantu, Om Shanti Shanti Shanti"* which translates as: *"May all beings everywhere be happy and free, Peace, Peace, Peace."* May Peace Prevail on Earth. **JS**

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Japan's Financial Literacy Reform & the Student-Led Parallel


Author Arihant Lodha

By Arihant Lodha

From inside a Tokyo high school classroom, the gap between policy and reality is easy to locate. Students can define compound interest, explain what a stock represents, and describe the function of a central bank. Most have studied these concepts since middle school. Almost none have opened a brokerage account, analyzed a company's financial statements, or made a reasoned judgment about how to allocate capital under uncertainty. Financial knowledge exists at the definitional level. The applied layer is almost entirely absent.

This is the environment into which Japan launched J-FLEC, the Japan Financial Literacy and Education Corporation, in August 2024. The launch, attended by then Prime Minister Fumio Kishida and backed by the Financial Services Agency, represented the most coordinated institutional commitment to financial literacy in Japanese history. The ambition behind it is genuine and the need is real. But institutional ambition and student-level reality are moving on different timelines. The distance between them is the subject of this article.

Reform Built for the Right Reasons

Japan's decision to establish J-FLEC did not emerge in a vacuum. The country holds approximately 2,200 trillion yen in household financial assets, one of the largest accumulations of household wealth in the world. Despite that scale, 54% of those assets sit in basic savings accounts or cash rather than productive investment. Stocks, bonds, and mutual funds account for just 16% of the total. The government's diagnosis is direct: Japanese citizens lack the financial confidence to move savings into markets, and without that confidence, expanded access to investment vehicles like the renewed NISA scheme will not produce the structural shift from saving to investing that policymakers are targeting.

J-FLEC is the institutional expression of that diagnosis. Established in April 2024 and fully operational from August of the same year, it was designed to consolidate what had previously been a fragmented landscape: financial education delivered inconsistently across government ministries, the Bank of Japan, and various industry associations, with no coordinating body and no common standard. J-FLEC certifies financial advisors to a neutrality standard, dispatches them free of charge to schools and workplaces nationwide, and runs public seminars and individual consultation programs across the country. By the standards of institutional reform, this is a serious and well-structured intervention.

The baseline it is working against is sobering. According to J-FLEC's own overview documents, only around 7% of Japanese people perceive that they have received any financial education, a figure confirmed by the Central Council for Financial Services Information's 2022 survey. A 2022 survey administered across Japan by the Global Financial Literacy Excellence Center found that only 36% of respondents could correctly answer the standard Big Three financial literacy questions covering compound interest, inflation, and risk diversification. On risk diversification alone, the concept most directly relevant to investment decision-making, only 51% of Japanese adults answered correctly, and 41% responded that they did not know.

What the Reform Has Not Yet Reached

Japan introduced mandatory financial education content into its national curriculum in April 2022, requiring schools from elementary through high school level to cover topics including asset management, insurance, and basic investment principles. This was a meaningful step, and it positions Japan ahead of many peer economies in terms of formal curriculum requirements. But curriculum inclusion and genuine financial literacy are not the same thing.

The evidence on what curriculum reform has produced in practice is instructive. In a 2022 poll of 2,536 teachers of junior high school social studies and home economics conducted by the Study Group on the Promotion of Financial and Economic Education, the majority reported that instruction "focuses on explaining terms and systems, making it difficult to feel how concepts are connected with real life." Approximately half of the responding teachers also identified their own lack of specialized knowledge as a barrier to effective delivery. The curriculum framework is present. The pedagogical infrastructure to translate it into applied competence is not consistently there.

This is a structural problem, not a failure of individual teachers. Financial literacy at the applied level requires practice environments: case competitions, simulations, real analytical decisions made under uncertainty. These sit outside what a standard classroom period can reliably deliver, particularly when the teachers responsible for delivery identify their own expertise as a constraint. J-FLEC's school dispatch program, which sends certified advisors into classrooms free of charge, addresses part of this gap. But the program's operational center of gravity, as reflected in its stated KPIs and outreach priorities, is adult citizens approaching consequential financial decisions: retirement planning, pension allocation, NISA enrollment. Secondary school students, particularly at the high school level, remain at the periphery of where the reform is currently concentrating its effort.

There is also a motivation gap that curriculum requirements cannot close on their own. Students engage with financial content when it feels directly relevant to their circumstances. For a 16-year-old in Tokyo, NISA is a product designed for working adults. A classroom module on asset allocation feels abstract when no assets are involved and no decision hangs on the outcome. The applied version of financial literacy, the version that produces genuine competence rather than exam performance, requires a different delivery model than the one currently predominating in Japanese schools.

Parallel Built from the Student Level

In early 2024, I designed and launched a different kind of financial education environment – without institutional backing, without a formal budget, and without any curriculum requirement attached to participation. The International Finance Challenge (IFC) is a free, online finance competition built specifically for high school students. Its premise was straightforward: if students were genuinely motivated to engage with applied financial content, they would do so voluntarily without a grade incentive, provided the material was substantive and peer-relevant.

The first cycle drew 55 participants from 40 schools across 12 countries: the United States, Japan, India, Indonesia, Kazakhstan, Malaysia, Myanmar, the Philippines, South Korea, the UAE, Germany, and Canada. None of those participants were required to be there. Most found the competition through peer networks, LinkedIn, or direct school outreach. What they encountered was not a textbook exercise. They analyzed real financial problems, constructed arguments about corporate strategy, and defended positions within a structured competition format. The skills they practiced – reading financial statements, identifying risk, building analytical frameworks – are precisely the skills that Japan's revised curriculum describes as objectives but rarely delivers at the secondary level.

The second cycle, launching in June 2026, extends the model further. Students will analyze real-world business challenges facing major Asian technology companies, working through cases that require integrating financial analysis with strategic judgment and regional market context. The deliberate emphasis on Asia-Pacific companies reflects a broader point: the Anglo-American frameworks that dominate most financial education content globally do not map cleanly onto the markets that students in this region will actually operate in.

What IFC demonstrates is not primarily a story about one competition. It is evidence about the nature of the demand that already exists. Students from 12 countries participated voluntarily in rigorous financial analysis without institutional incentive or academic credit. The constraint is on the supply side, not the demand side.

What the Gap Tells Us About the Reform's Next Phase

J-FLEC's center of gravity is rational. In the early phase of a complex structural reform, concentrating on adult citizens closest to consequential financial decisions – retirement planning, pension allocation, NISA enrollment – is the right sequencing. That prioritization explains most of what the reform has and has not yet done.

The limitation is generational. Closing Japan's financial literacy gap at scale requires reaching students before those decisions arise, at the point when financial identity and confidence are still being formed. The JFSA's own deputy commissioner has acknowledged that many Japanese citizens lack confidence in taking investment risks precisely because they were not adequately educated during school or in the workplace. That confidence deficit is not formed at retirement. It is established – or not – during secondary school and university.

A complete reform architecture will need a layer that reaches students in applied environments: peer-driven competitions, simulations built around real markets, cross-border case challenges that connect students across the Asia-Pacific rather than isolating financial education within national curricula. J-FLEC's school dispatch program is the necessary foundation. The applied layer builds on top of it, and requires a delivery model that is faster, more peer-driven, and more directly tied to the decisions and market contexts relevant to students in this region.

Conclusion

Japan has made the right institutional bet. The question is now about sequencing and reach. The generation that will determine whether Japan's 2,200 trillion yen in household assets shifts from savings into productive investment is currently sitting in classrooms where financial education is present in theory and largely absent in practice.

When students across 12 countries participate voluntarily in applied financial analysis without institutional incentive, they are demonstrating that the demand exists and the supply gap is real. Japan's reform will reach its generational potential when it extends to this cohort – not only through curriculum requirements and certified advisor dispatch, but through applied, competitive, cross-border environments that convert financial knowledge into financial competence. The motivation is already present. The infrastructure needs to follow. JS

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How Has the Wage Structure in Japan Changed?

Author Nobuo Iizuka

By Nobuo Iizuka

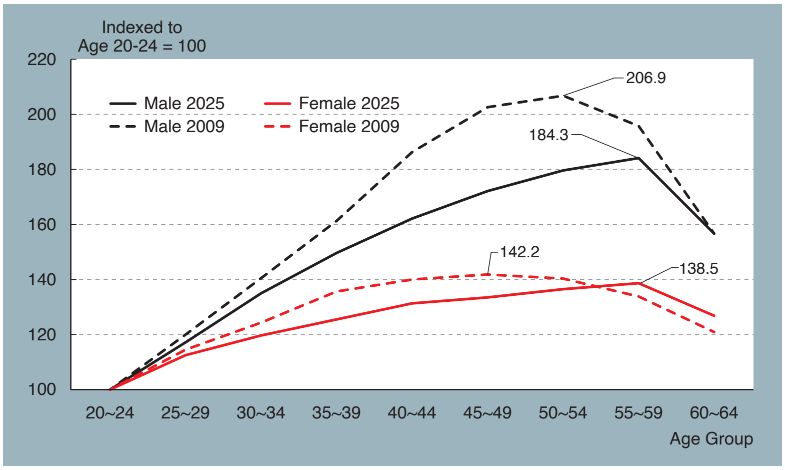
Over 3% Rise in Scheduled Wage for 2 Consecutive Years

According to the most recent "Basic Survey on Wage Structure" (Ministry of Health, Labour and Welfare), the average scheduled wage for ordinary workers in June 2025 was 340,600 yen, an increase of 3.1% compared to June 2024. Following a 3.8% increase in June 2024, it is the second consecutive year exceeding 3%. Although growth had been sluggish for over a decade since June 2009 when scheduled wages were the lowest in recent years, the trend has now turned upwards since June 2022.

While wage-related statistics include the "Monthly Labour Force Survey" (Ministry of Health, Labour and Welfare) published every month, the "Basic Survey on Wage Structure" examines figures such as scheduled wages paid in June of each year. As it covers a large number of establishments, it is a particularly useful source of data for understanding structural changes. In this month's article, this survey is used to examine how Japan's wage structure has changed since 2009.

CHART 1

Wage profiles of full-time employees by gender



Source: "Basic Survey on Wage Structure", Ministry of Health, Labour and Welfare

Increase Linked to Rise in Age Gradual Among Men

Looking at the highly watched average scheduled wages by age groups, while men peak at ages 55 to 59 (181.4 when ages 20 to 24 are set at 100), women peak at ages 45 to 49 and 55 to 59 (127.6 when ages 20 to 24 are set at 100). It has long been the trend that compared to men, increases in wages for women become more gradual as they age.

On the other hand, this data is average scheduled wages for both full-time workers and full-time staff and also others, and hence it is thought that the large number of those who are not full-time is a factor contributing to the gradual pace of wage increases for women. *Chart 1* thus compares wage curves for 2009 and 2025, focusing solely on full-time employees and full-time staff. For men, the extent of wage increases with a rise in age becomes considerably gradual, and the age at which wages peak has become gradual from ages 50 to 54 in 2009 to ages 55 to 59 in 2025. For women, although the age at which wages peak has become more gradual from ages 45 to 49 in 2009 to ages 55 to 59 in 2025, there has been little change in the extent of wage increases. Furthermore, when compared to figures that include those that are not full-time employees or full-time staff, the extent of wage increases with a rise in age is higher (if ages 20 to 24 years is set at 100, ages 55 to 59 years is 138.5).

Wage Increases Centered on Young People & Women

These changes are driven by wage increases centered on young people and women *(Chart 2)*. Comparing scheduled wages in 2025 to those in 2009, while they saw a 15% increase for men (all age groups), they were higher for women (all age groups) at 24%. By age groups, 20 to 24 and 25 to 29, both of which include new graduates, show high rates of increase in wages for both men and women. In particular, rates of increase in wages for these age groups in the last five years have been high at around 15% for both men and women. It is thought that this impact reflects the increasing number of companies raising their starting salaries, with recruitment of new graduates becoming a seller's market. On the other hand, it has been said that wage increases for mid-career employees have been suppressed as a result, and indeed, the rate of increase in wages for men in their 40s is lower than that of other age groups. However, the rate of increase in wages for women is higher compared to men. Forty years have passed since the Equal Employment Opportunity Law was enacted in the mid-1980s, and one reason behind the higher rate of increase in wages for women is the growing number of women continuing to work rather than leaving the workforce to give birth or for childcare.

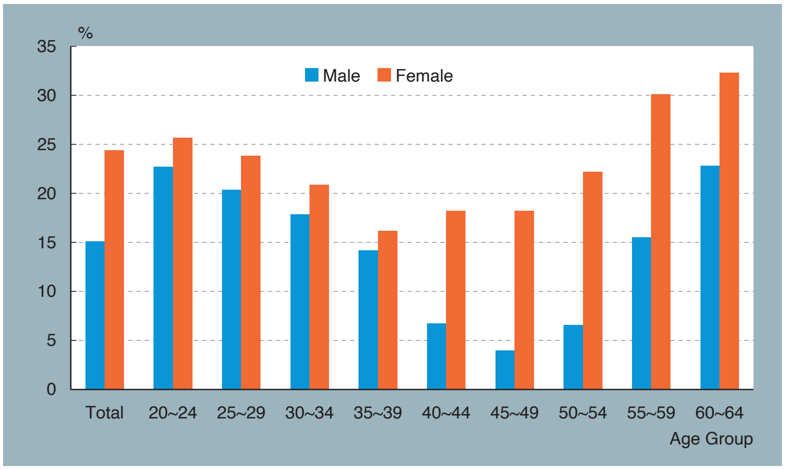
Gender Disparity in Educational Background

Gender disparity in wages is also gradually narrowing. Looking at all age groups for full-time employees and full-time staff, women's wages are 0.79 times those of men, with the disparity narrowing from 0.73 times in 2009. By age groups, wages for women and men were almost equal for 20 to 24 and 25 to 29 in both 2009 and 2025, but the narrowing of disparity is notable for the 40s and ages 50 to 54 *(Chart 3)*.

These changes are thought to be largely due to more working women with higher education. In 2025, there was no difference between the percentage of men and women in their 20s to early 40s amongst full-time employees and full-time staff who have graduated from universities and graduate schools. Furthermore, compared to 2009, the percentage of women who have graduated from universities and graduate schools has risen by more than 10 percentage points in almost all age groups, and for those in their 30s it has risen by 20 percentage points.

CHART 2

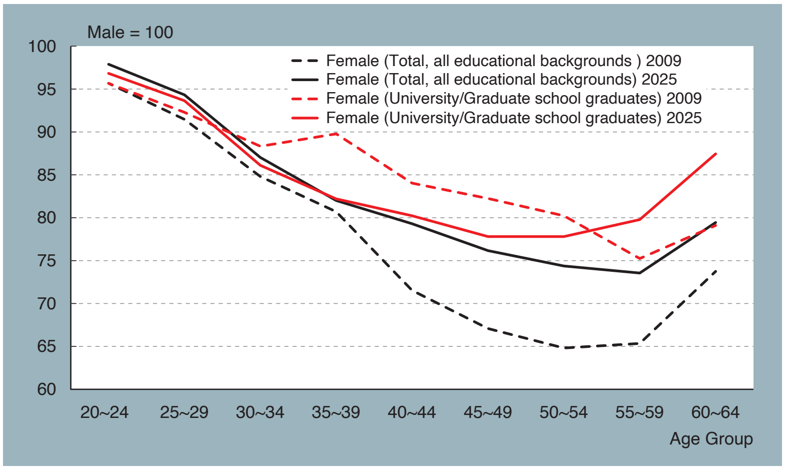
Growth rate of scheduled wages from 2009 to 2025



Source: "Basic Survey on Wage Structure", Ministry of Health, Labour and Welfare

CHART 3

Gender wage gap in scheduled wages



Source: "Basic Survey on Wage Structure", Ministry of Health, Labour and Welfare

On the other hand, when comparing individuals with similar educational backgrounds, gender disparity has not necessarily narrowed. Looking at those who have graduated from universities and graduate schools, while the disparity narrowed in 2025 from 2009 for those in their 20s, late 50s and early 60s, it widened for other age groups.* As women tend to have fewer average number of years of service compared to men, this suggests that their careers may be interrupted by giving birth and childcare, or that appointment to higher managerial positions is not progressing. It looks like there are still many challenges to be addressed in order to eliminate gender disparity.

* Data for 2025 is released separately for universities and graduate schools, but in order to make the comparison with the figures for 2009 easier, data has been processed by calculating the weighted average by the number of full-time employees and full-time staff.

NOTE: This article was based on information available as of May 9, 2026.

Article translated from the original Japanese by Mio Kawashima

JS

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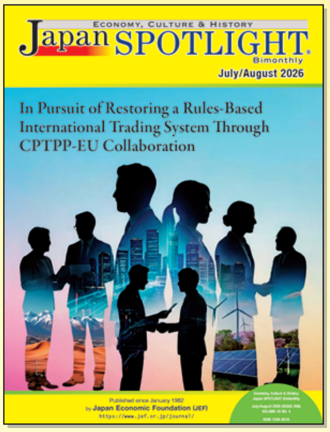
Calendar year, Quarter and Month	Real GDP Amount (trillion yen)	Real GDP Rate of increase over previous year/term (%)	Nominal GDP Amount (trillion yen)	Nominal GDP Rate of increase over previous year/term (%)	IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
2018	580.9	0.8	569.2	0.7	0.6	0.9
2019	579.1	-0.3	571.8	0.5	-2.6	0.6
2020	554.3	-4.3	554.1	-3.1	-10.4	-0.2
2021	574.0	3.6	573.6	3.5	5.4	-0.2
2022	581.7	1.3	584.9	2.0	-0.1	2.3
2023	585.9	0.7	616.0	5.3	-1.3	3.1
2024	584.9	-0.2	634.8	3.0	-2.6	2.5
2025	591.1	1.1	663.5	4.5	-0.3	3.1
2025/2nd Qtr.	592.9	0.3	664.6	1.9	-0.5	3.5
3rd Qtr.	589.5	-0.6	665.6	0.2	-1.1	2.9
4thQtr.	590.5	0.2	671.5	0.9	0.3	2.8
2026/1st Qtr.	593.2	0.5	675.6	0.6	2.5	1.8
Sept.	—	—	—	—	1.8	2.9
Oct.	—	—	—	—	0.6	3.0
Nov.	—	—	—	—	-2.0	3.0
Dec	—	—	—	—	0.6	2.4
2026/Jan.	—	—	—	—	4.3	2.0
Feb.	—	—	—	—	-2.0	1.6
March	—	—	—	—	-0.4	1.8
April	—	—	—	—	0.5	1.4
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics: Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.5	39.6	18.3	23.1	11.8	31.9	9.4	22.0
2023	100.9	2.7	110.4	-6.8	20.3	11.0	11.6	-1.7	10.4	10.9
2024	107.1	6.2	112.7	2.1	21.3	5.1	12.7	9.8	10.0	-3.9
2025	110.4	3.1	113.3	0.5	20.4	-4.3	12.9	1.8	10.1	1.3
2025/2nd Qtr.	26.4	-0.1	27.1	-3.1	5.0	-8.3	3.1	-9.1	2.4	0.7
3rd Qtr.	27.2	0.3	27.9	-3.1	4.7	-12.8	3.3	5.7	2.5	2.1
4thQtr.	29.9	4.9	29.7	2.6	5.4	-2.5	3.4	12.6	2.8	9.8
2026/1st Qtr.	29.7	10.5	30.2	5.8	5.2	-3.1	3.4	9.9	2.8	19.1
Sept.	9.4	4.1	9.7	3.3	1.6	-13.7	1.1	7.0	0.9	5.0
Oct.	9.8	3.6	10.0	0.8	1.8	-3.1	1.2	21.1	0.9	9.2
Nov.	9.7	6.1	9.4	1.4	1.8	8.8	1.1	7.3	0.9	19.5
Dec	10.4	5.1	10.3	5.4	1.8	-11.1	1.1	9.3	1.0	2.5
2026/Jan.	9.2	16.8	10.4	-2.6	1.5	-5.1	1.1	3.2	0.8	29.6
Feb.	9.6	4.0	9.5	10.3	1.8	-8.0	1.1	8.5	0.9	14.0
March	11.0	11.5	10.4	11.0	1.9	3.4	1.2	18.1	1.0	16.1
April	10.5	14.8	10.2	9.8	1.9	9.5	1.2	23.3	1.1	27.0
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.5	11.4	131.4
2023	1.2	1.31	2.6	2.5	-6.6	22.5	140.5
2024	2.8	1.25	2.5	1.7	-2.7	29.3	151.5
2025	2.3	1.22	2.5	1.2	-0.6	32.2	149.6
2025/2nd Qtr.	2.4	1.23	2.5	0.7	-0.0	7.0	144.5
3rd Qtr.	2.4	1.21	2.5	1.3	0.2	10.7	147.5
4thQtr.	2.2	1.19	2.6	1.7	0.7	7.3	154.1
2026/1st Qtr.	3.0	1.19	2.7	1.8	0.5	9.5	156.9
Sept.	2.1	1.20	2.6	1.5	0.2	4.4	147.9
Oct.	2.5	1.19	2.6	1.6	0.0	2.7	151.3
Nov.	1.7	1.19	2.6	1.7	0.6	3.7	155.1
Dec	2.4	1.20	2.6	1.7	0.1	0.9	155.9
2026/Jan.	2.5	1.18	2.7	1.6	-0.6	0.9	156.8
Feb.	3.4	1.19	2.6	1.7	0.3	3.9	155.2
March	3.1	1.18	2.7	2.0	0.8	4.7	158.6
April	3.5	1.18	2.5	2.3	0.4	3.9	159.3
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	21.1	36.4	20.6	28.6	37.8	19.0	5.7	24.8	21.9
2023	11.4	-0.2	34.7	-4.6	27.6	-3.4	17.8	-6.5	24.4	-1.7
2024	12.0	4.7	38.0	9.4	28.6	3.7	18.9	6.2	25.3	3.6
2025	12.8	6.6	41.1	8.2	29.1	1.6	18.8	-0.4	26.7	5.5
2025/2nd Qtr.	3.2	7.1	9.8	6.6	6.8	-2.7	4.6	-4.7	6.4	3.2
3rd Qtr.	3.2	-1.3	10.3	4.9	7.2	-3.3	4.7	0.5	6.5	2.5
4thQtr.	3.3	6.0	11.0	8.6	7.6	3.3	5.1	1.8	7.3	5.6
2026/1st Qtr.	3.3	6.1	11.5	15.4	8.0	7.6	4.9	11.5	7.3	12.6
Sept.	1.1	11.3	3.6	10.7	2.6	3.0	1.6	5.8	2.4	9.8
Oct.	1.0	-9.0	3.5	5.3	2.6	0.3	1.7	2.1	2.5	0.8
Nov.	1.0	6.6	3.6	7.9	2.4	4.3	1.6	-2.5	2.4	2.4
Dec	1.2	21.6	3.9	12.5	2.6	5.4	1.8	5.5	2.5	14.7
2026/Jan.	1.0	-1.1	3.7	23.3	2.7	-1.2	1.5	32.0	2.6	0.6
Feb.	1.1	3.1	3.7	8.9	2.4	7.0	1.4	-11.0	2.3	35.5
March	1.2	16.7	4.2	15.0	2.9	17.9	2.0	17.7	2.3	8.9
April	1.0	3.8	4.0	16.3	2.9	29.9	1.8	15.5	2.6	14.9
Sources	"Trade Statistics of Japan", Ministry of Finance									



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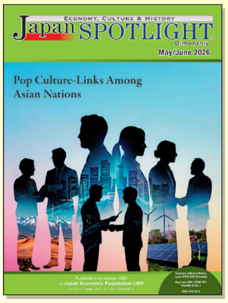

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Japan Economic Foundation (JEF)

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