

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



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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 CO₂ 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 CO₂ 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.

Toyota: 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.