

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

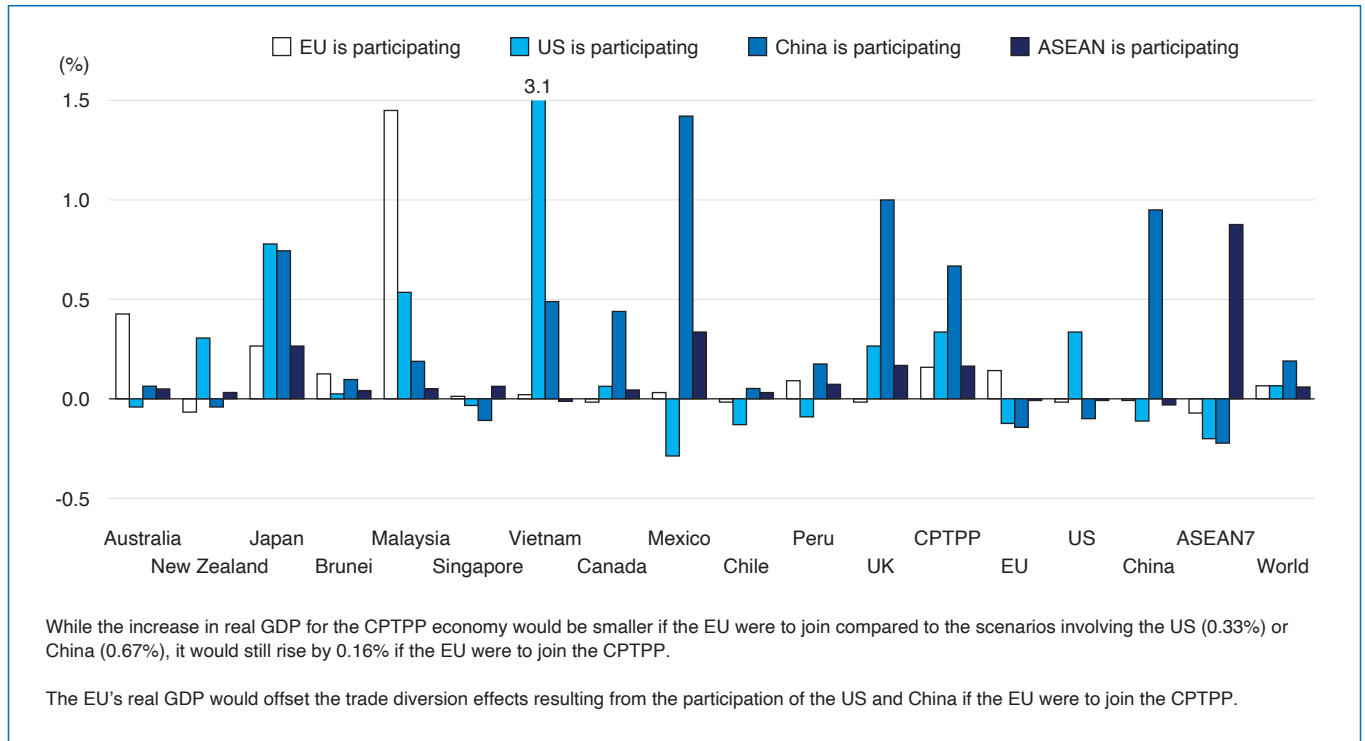
Referral Agreement	Report
15 (1) #	3 (1) #

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

Source: Compiled by Prof. Tsuyoshi Kawase, Sophia University

CHART 1

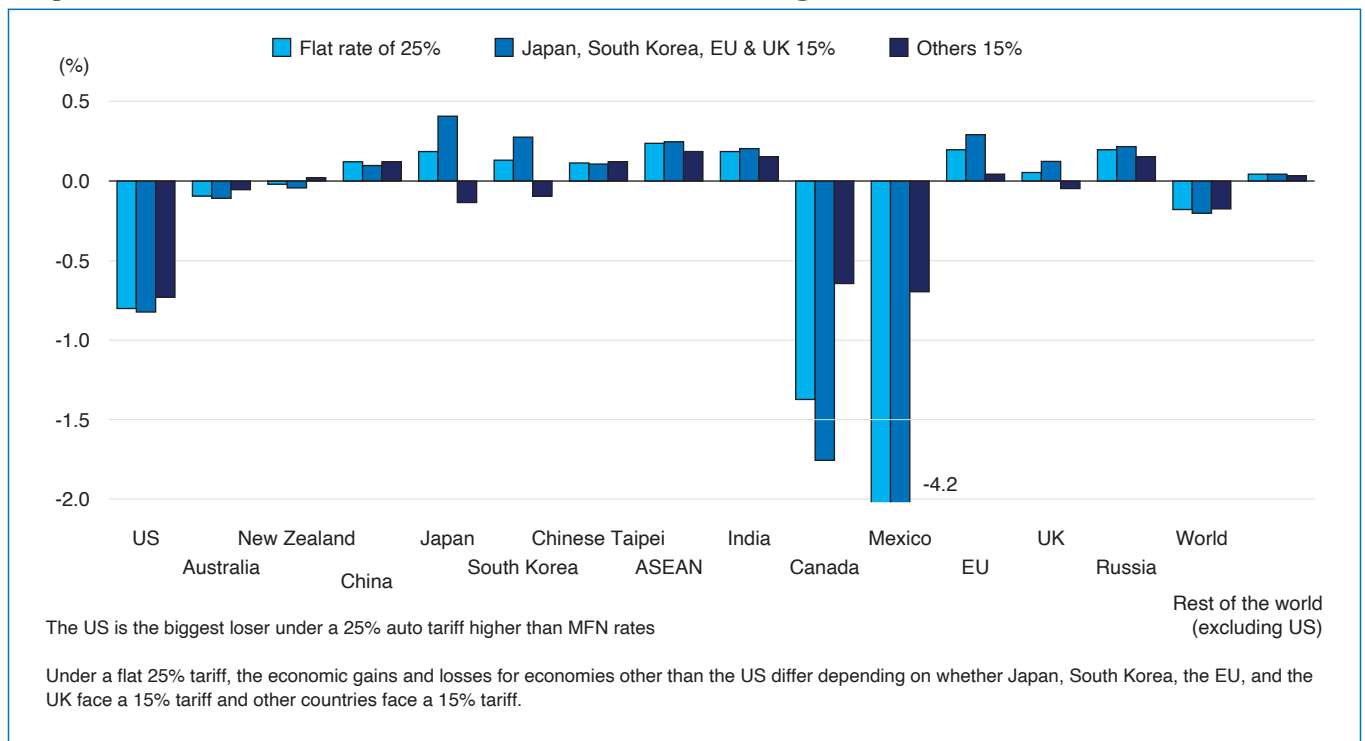
Impact of CPTPP expansion on real GDP



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



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 the 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

Chair	Shujiro Urata	Professor Emeritus, Waseda University
	Satoshi Inomata	Senior Research Fellow, Development Studies Center, Institute of Developing Economies Japan External Trade Organization (JETRO)
	Osamu Umejima	Professor Emeritus, Takasaki City University
	Kenichi Kawasaki	Adjunct Fellow, Japan Institute of International Affairs (JIIA) Consulting Fellow, Research Institute of Economy, Trade and Industry (RIETI)
	Fujio Kawajima	Professor, Graduate School of Law Division of Professional Legal Education, Kobe University
	Tsuyoshi Kawase	Professor, Faculty of Law, Department of Legal Studies of the Global Environment, Sophia University
	Arata Kuno	Professor of International Economics, Department of International Relations, Faculty of International Relations, Asia University
	Junichi Sugawara	Senior Fellow, OWLS Consulting Group
	Michitaka Nakatomi	Japan Economic Foundation
	Kenta Hiram	Associate Professor, Faculty of Social Sciences, University of Nagasaki
	Hideyuki Miura	Professor, Faculty of Social Sciences, Kyorin University
	Kiyotaka Morita	Director of international affairs at Keidanren (Japan Business Federation)
	Miki Yanagi	Executive Economist, Climate Change Group, Climate Change and Energy Efficiency Unit, The Institute of Energy Economics, Japan
	Shota Watanabe	Expert Researcher, Nomura Research Institute, Ltd.
	Mariko Watanabe	Professor, Faculty of Economics, Gakushuin University
	Masakazu Toyoda	Chairman and CEO, Japan Economic Foundation (JEF)
	Hidekazu Okada	Advisor, Japan Economic Foundation (JEF)
	Naoyuki Haraoka	Executive Managing Director, Japan Economic Foundation (JEF)

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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.