ASIA SOCIETY POLICY INSTITUTE

REPORT >>

THE EVOLUTION OF THE GLOBAL TRADING SYSTEM

How the Rise of Asia and Next Generation Challenges Will Shape the Future Economy

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A REPORT FROM THE ASIA SOCIETY POLICY INSTITUTE

With a solution-oriented mandate, the Asia Society Policy Institute (ASPI) tackles major policy challenges confronting the Asia-Pacific in security, prosperity, sustainability, and the development of common norms and values for the region. The Asia Society Policy Institute is a think- and do-tank designed to bring forth policy ideas that incorporate the best thinking from top experts in Asia and to work with policymakers to integrate these ideas and put them into practice.

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ACKNOWLEDGEMENTS

This report was made possible through the generous support of Citi.

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COVER IMAGE: MarsYu/Getty Images.

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1. *Future trade agreements will be more targeted than the complex, comprehensive deals of years past.*
2. *Future trade groupings will be smaller and more nimble, and will prominently include Asian countries.*
3. *Future trade negotiations will better keep up with the pace of technology.*
4. *Governments will restructure to be more agile in the new trade landscape*

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EXECUTIVE SUMMARY

Over the last seventy years, global trade flows have grown to an unprecedented level, reaching nearly $30 trillion in 2021. Multilateral trade negotiations have facilitated this boom by lowering tariffs and other barriers and creating a shared set of rules in areas such as trade facilitation, services, investment, and intellectual property protection.

The Asia Pacific region has been central to this remarkable growth. In the last twenty years, Asia's trade volumes have nearly quadrupled. Asian countries view trade as a critical tool to grow their economies, strengthen supply chain resiliency, create jobs, foster development, attract foreign direct investment, and promote innovation. This has led Asia Pacific nations to rapidly forge new, and often innovative, trade agreements. In 2000, only eight free trade agreements (FTA) had been signed in all of the Asia Pacific. Today, this number has skyrocketed to 147, with an additional seventy-eight under negotiation.

These include two "mega-regional" agreements, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), that aim to consolidate elements of a disparate system into a regional trade architecture. In addition, new models, such as the Indo-Pacific Economic Framework, are being tested as a different approach to regional economic cooperation.

Next Generation Challenges

The world is at a critical juncture in determining the future of the rules-based trading system. The World Trade Organization (WTO) traditionally had been the preferred route for countries to hammer out trade rules, but negotiating efforts have largely stalled. The WTO system has not sufficiently kept up with advances in technology, climate change, and supply chain disruptions. Nor have rules been developed to help address growing income inequality or challenges presented by non-market economies.

Additionally, geopolitical tensions and strategic competition between the world's largest economies—the U.S. and China—have impacted the multilateral trading system's ability to respond effectively to new challenges. The United States is prioritizing fair competition over trade liberalization while China continues to increase the role of the state in its economy. This leadership vacuum on global economic integration opens the door for "middle powers" and trade-dependent economies to fill the void. Indeed, they are leveraging bilateral, regional, and plurilateral agreements to address next-generation challenges.

Asia, a hub of trade activity, is leading in many of the efforts to revitalize the global trading system in the face of complex and mounting challenges:

- **The digital economy** has transformed what and how we trade, and new rules are needed.
- The world has failed to respond to **climate change** adequately, but trade agreements can help countries reduce emissions.
- A lack of **economic inclusion** has fueled public skepticism of trade, and governments must ensure the benefits of trade are widely shared.

- **Economic security** is essential for countries to protect their national security, but rules must prevent countries from using it as a guise for protectionism.
- **Non-market economic practices** need to be reined in to ensure a fairer, more transparent global trading system.

The Collaborative Future of Global Trade

Many approaches, institutions, and groupings that, to date, have supported a strong rules-based trading system need to be reexamined in the context of these emerging global challenges. New trends on the horizon include:

1. **Future trade agreements will be more targeted than the complex, comprehensive deals of years past.** Multilateral WTO rounds used to serve as the cornerstone of trade liberalization. But as the scope of trade agreements has expanded over time, coupled with different levels of development among participants, reaching a consensus on comprehensive agreements has become more difficult. Many of the more successful recent efforts to update trade rules have come via issue-specific or sectoral agreements. These narrower approaches are likely to become more mainstream.
2. **Future trade groupings will be smaller and more nimble, and will prominently include Asian countries.** Consensus-based groups with diverse memberships are facing difficulties finding common ground. With the U.S. and China taking a backseat in driving agreements on new trade rules and initiatives, smaller economies have an opportunity to group together with like-minded partners to develop responses to pressing trade matters. Asian countries have the most to lose if the system stops working and will be active members of these groupings.
3. **Future trade negotiations will need to better keep up with the pace of change.** Trade negotiations often take many years from inception to entry into force. As a result, some provisions become outdated by the time they are implemented. "Living agreements," cooperation mechanisms, political commitments, and public-private partnerships should be explored as supplemental approaches that can be more responsive to emerging issues.
4. **Governments will restructure to be more agile in the new trade landscape.** Many trade ministries are finding that their current organizational structures are ill-suited to deal with increasingly complex issues falling outside of their traditional scope of expertise. Governments that invest in greater internal coordination, new structures, and even new ministries, may be better positioned to address emerging trade-related challenges.

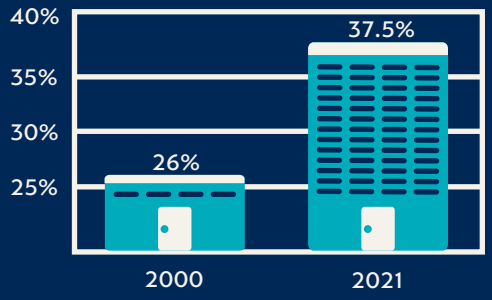
The major challenge to the global trading system will be to work within these flexible arrangements to develop rules while avoiding fragmentation. In the near term, the overlapping membership of major trading countries among these various groupings can help coordinate agendas and avoid serious divergences. In the longer term, the most successful groupings could serve as stepping stones toward more inclusive, broader, and sustainable multilateral outcomes.

Asia Is the World's Largest Regional Economy

35%
share of global GDP [1]

47%
share of global GDP

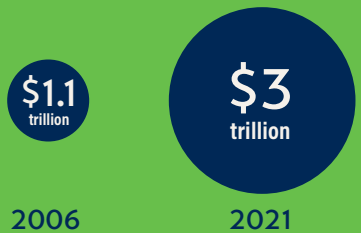
Asia's Share of World Trade [2]



Trade Volume 2000 to 2021 [3]

> Asia's merchandise trade (in billions)

Asia's Total Services Trade [4]

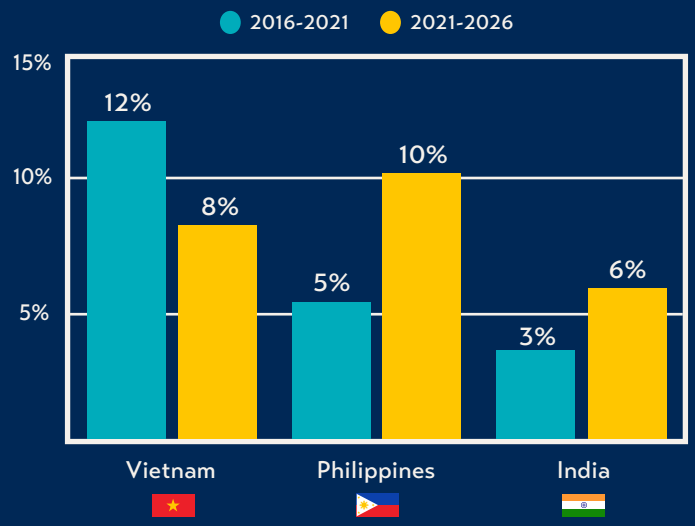


Digital Services Trade

Asia's Growing Role in Global Trade

Between 2021-2026,
37% of global trade growth will take place
IN EAST ASIA & THE PACIFIC [5]

Fastest Trade Volume Growth



Free Trade Agreements [6]

In 2000, only
8 FTAs
had been signed in Asia Pacific.

Today, this number has increased to
147 FTAs.

There are an additional 78 under negotiation.

PART 1: ASIA AT THE CENTER OF THE CHANGING TRADE LANDSCAPE

The world is at a critical juncture in determining the future of the rules-based trading system. The international flow of goods and services remains strong, having surpassed pre-pandemic levels, but trade rules have not caught up with changes in technology, climate, economic inclusion, and supply chain matters. Traditionally, the World Trade Organization (WTO) was the preferred venue to hammer out trade rules. As negotiations have stalled, countries around the world have increasingly turned to plurilateral, regional, and bilateral agreements to expand market access and write new trade terms. Nowhere is this trend more apparent than in the Asia Pacific region. Trade in Asia hit its stride at the turn of the 21st century, and has accelerated and deepened in the years since as it became an integral part of global production networks. Economic transformations are happening first and fastest in Asia, including supply chain shifts and digital innovation. Today, the Asia Pacific is not only the center of global trade accounting for over 35 percent of imports and exports,[7] but the major hub of activity for trade negotiations.

TRADE AGREEMENTS IN ASIA

Asian countries view trade as a critical tool to grow their economies, strengthen supply chain resiliency, create jobs, foster development, attract foreign direct investment, and promote innovation. Regardless of their political systems or level of development, nearly all countries in the region see economic growth and innovation as important measures of societal success. In the span of one or two generations, these countries have witnessed first-hand the lifting out of poverty of millions of citizens made possible in large part by expanding trade and opening up to investment opportunities. In short, countries in Asia continue to view trade expansion as a path worth pursuing.

Asian countries view trade as a critical tool to grow their economies, strengthen supply chain resiliency, create jobs, foster development, attract foreign direct investment, and promote innovation.

Today, the Asia Pacific is home to some of the broadest, most forward-leaning trade agreements. These agreements have moved well beyond tariff reductions to include regulatory, services, technology, and sustainable development commitments. In some cases, these agreements also have served a strategic purpose as countries seek to advance foreign policy goals.

REGIONAL AGREEMENTS

The Association of Southeast Asian Nations (ASEAN) paved the way for regional trade agreements, with six ASEAN countries forming the ASEAN Free Trade Area in 1993. They agreed to widespread tariff reduction to create a single market and production base, attract foreign direct investment, and expand intra-ASEAN trade and investment flows. The four remaining ASEAN countries joined later, and all tariffs among ASEAN countries were eliminated by 2018. This success was followed by framework agreements to open up trade in services and investment. By 2010, ASEAN had also concluded free trade agreements (FTA) with China, Japan, Korea, India, Australia, and New Zealand. Since then, ASEAN has

negotiated an FTA with Hong Kong and launched negotiations with Canada while also upgrading existing agreements. This activity set the stage for negotiations of the Regional Comprehensive Economic Partnership (RCEP), launched in 2013 and signed in 2020.

However, this plethora of new agreements in the region created a less coherent trading system, with countries often operating under different rules. As early as 2004, leaders in the region envisioned the Free Trade Area of the Asia Pacific (FTAAP), a trade bloc that would mitigate these disparities by integrating all of the region's economies. Discussions on a potential FTAAP have continued, but it remains a distant goal amid geopolitical tensions and domestic constraints with the twenty-one member economies of the Asia Pacific Economic Cooperation (APEC) forum aiming to realize this vision by 2040.

The TPP was one of the broadest and most state-of-the-art trade agreements ever negotiated, establishing comprehensive market access commitments and high-standard rules.

In the meantime, countries in the Asia Pacific have negotiated "mega-regional" agreements. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the RCEP are comprehensive FTAs with multiple partners aiming to provide more coherence into a disparate system.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

The Trans-Pacific Partnership (TPP) emerged from efforts by four medium-sized economies—Brunei, Chile, New Zealand, and Singapore—to promote integration in the Asia Pacific region. The United States joined the initiative in the waning days of the Bush Administration, and President Obama committed to TPP negotiations in 2009. The U.S. entry led Australia, Vietnam, and Peru to enter the negotiations, with Malaysia, Canada, Mexico, and Japan joining later.

The TPP was one of the broadest and most state-of-the-art trade agreements ever negotiated, establishing comprehensive market access commitments and high-standard rules. In addition to eliminating tariffs on goods and liberalizing trade in services, the agreement set common rules in customs, services, investment, competition, intellectual property, government procurement, state-owned enterprises, environment, and labor, among others.

When negotiations were concluded in February 2016, the TPP's twelve members represented nearly 40 percent of global economic output. However, the Trump Administration subsequently withdrew the United States from the agreement in January 2017 following a Presidential campaign where both candidates attacked the TPP as disadvantageous to the United States.

Many expected the TPP to die a quiet death. Instead, the eleven remaining countries regrouped under the leadership of Japan, Australia, and Singapore and signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP, the following year. While some adjustments were made, the overwhelming majority of the TPP rules provisions and market access commitments remained intact.

Six countries—Australia, Canada, Japan, Mexico, New Zealand, and Singapore—quickly ratified the

CPTPP with the agreement entered into force between those members in December 2018. Vietnam soon joined, followed by Peru in July 2021 and Malaysia in September 2022. Two members—Brunei and Chile—have yet to ratify the deal.

The CPTTP has attracted the interest of other economies, with the United Kingdom, China, Taiwan, Ecuador, and Costa Rica submitting formal requests to join and others, including South Korea, expressing serious interest. The eleven members now face several important decisions on the future shape and direction of the agreement as they consider these accession requests.

The Regional Comprehensive Economic Partnership (RCEP)

In November 2020, all ten ASEAN nations and five of ASEAN's FTA partners—China, Japan, Korea, Australia, and New Zealand—signed the RCEP. Together, these nations comprise about 30 percent of global GDP and 30 percent of the world's population, making the agreement the world's largest regional FTA.

Proposed in 2011 by Indonesia as ASEAN chair, RCEP brought together distinct trade discussions among ASEAN and its FTA partners into a single framework. The RCEP negotiations faced a significant setback when India withdrew out of concern about the impact on its domestic economy, particularly with the prospect of providing greater market access for China. While India's exit—an echo of the U.S. TPP withdrawal—was disappointing, just like with CPTPP, the remaining fifteen participants were able to regroup and successfully conclude the negotiation.

Regardless of the strength of its commitments, the impact of the RCEP is likely to be more far-reaching than expected as it incentivizes supply chains across the region by setting common rules of origin and harmonizing paperwork for customs.

Overall, the RCEP is less ambitious than the CPTPP—both with respect to market access and its rules on trade and investment. It contains relatively weak provisions in a number of areas, such as e-commerce, and is silent on labor, the environment, and state-owned enterprises, all of which are key chapters in the CPTPP. Furthermore, the pact includes long transition periods, weak enforcement mechanisms, and product exclusions for tariff reductions, leading some to question its economic significance. Regardless of the strength of its commitments, the impact of the RCEP is likely to be more far-reaching than expected as it incentivizes supply chains across the region by setting common rules of origin and harmonizing paperwork for customs. Moreover, like many trade agreements and ASEAN-based agreements in particular, RCEP is expected to expand and improve over time.

The CPTPP and RCEP negotiations reflect two similar processes that led to very different outcomes. Both seized momentum among key members to drive toward completion, and both faced setbacks when a large economy withdrew. Yet, each agreement had a separate emphasis. The CPTPP achieved very high standards, making further expansion of its membership more difficult. The RCEP favored the size of its membership over the ambition of its commitments, setting a lower bar for entry but a more arduous path toward upgrading the pact to meet 21st century standards. While both agreements were successfully realized, their long-term impact may ultimately be judged on whether their respective challenges can be mitigated to provide long-term benefits among member states.

BILATERAL AGREEMENTS

Negotiations on mega-regional agreements have also been accompanied by a boom in bilateral FTAs. Bilateral agreements are typically easier and less time-consuming to negotiate than a larger agreement. In some cases, countries are willing to make more negotiating concessions bilaterally than to a larger group.

While some countries, such as the United States, have put the brakes on new FTAs, the Asia Pacific continues to pursue new, often innovative FTAs in pursuit of economic growth and integration. In 2000, only eight FTAs had been signed in all of the Asia Pacific. By 2022, this number had skyrocketed to 147.[8] Among the most active regional players in FTA negotiations are Korea and Singapore, with both having concluded over twenty FTAs. Currently, Asia Pacific countries are negotiating seventy-eight FTAs.[9]

The Asia Pacific has experienced not only an increase in the number of new FTAs but also in negotiations to update existing FTAs to expand and deepen the level of commitments. Recent examples include the ASEAN-Australia and ASEAN-New Zealand agreements, and the China-Singapore and China-New Zealand FTAs.

NARROWER AGREEMENTS: SECTORAL AND ISSUE-SPECIFIC

Comprehensive trade agreements are becoming more difficult to negotiate and secure the domestic support required due to the scope and complexity of the issues covered. For example, the CPTPP and RCEP took nineteen and thirty-one formal rounds of negotiation, respectively, along with inter-sessional meetings, with each taking approximately eight years to complete. Negotiations on issues like e-commerce, intellectual property protection, and tariff reductions on sensitive products created difficulties among members with diverse economies and priorities. As a result of this growing difficulty in bringing comprehensive agreements over the finish line, countries have also turned to narrower agreements with like-minded countries that share similar objectives.

While some countries, such as the United States, have put the brakes on new FTAs, the Asia Pacific continues to pursue new, often innovative FTAs in pursuit of economic growth and integration.

Negotiations in the digital space are a promising area of rapid progress. Singapore, New Zealand, and Chile concluded the Digital Economy Partnership Agreement (DEPA) in 2020. The agreement is envisioned as a platform for a broader regional deal, with South Korea's accession negotiations nearly concluded, China and Canada's ongoing, and more countries expected to join soon. DEPA sets forth rules on data, promotes interoperability between different regimes, and seeks to address emerging issues brought about by digitalization. It goes beyond what traditional trade agreements cover in their e-commerce chapters, addressing specific topics such as regulatory technology, cooperation on artificial intelligence (AI), and digital inclusivity. Bilateral digital economy agreements are also emerging, with some breaking new ground. For example, the Australia-Singapore Digital Economy Agreement ensures the financial services sector can transfer data across borders, reducing a significant regulatory burden.

The environment is another area subject to narrower trade agreements. For example, Singapore and Australia signed a Green Economy Agreement (GEA) in October 2022 focused on reducing trade barriers for environmental goods and services, fostering regulatory harmonization, and cooperating on policies

to accelerate and scale green finance. This first-of-its-kind agreement could serve as a pathfinder for other countries, similar to how the TPP and DEPA developed. Such provisions tie climate change to economic success, showing how trade agreements can be used to further green energy and green development goals.

U.S. TRADE POLICY

The United States trade policy, which had been focused on opening markets and breaking down trade barriers for over seven decades, underwent a dramatic shift during the Trump Administration. Past trade agreements were criticized as working to the sole advantage of U.S. trading partners while weakening the U.S. industrial base and offshoring manufacturing jobs. Supporters of the Trump Administration called for "striking trade deals that are truly mutual and truly beneficial for America and walking away when they are not."[10] This approach included the imposition of U.S. tariffs not only on China, but also against allies and partners, including Japan, and Korea.

The U.S. has both renegotiated a major trade agreement that needed to be updated (USMCA), and proposed an alternative to traditional trade agreements (IPEF) to further common strategic goals while skirting the domestically contentious issue of market access.

Although many had hoped the Biden Administration would return to a more traditional market-opening trade policy, this has not been the case. Instead, the Biden team is pursuing a worker-centered trade policy built on inclusiveness, resiliency, and sustainability. This approach seeks to better reflect the domestic political landscape, promoting an agenda grounded in fair competition rather than increased access to foreign markets. As President Biden outlined, trade rules should "level the playing field so that it's not artificially tipped in favor of any one country at the expense of others, and every nation has a right and the opportunity to compete fairly."[11]

Despite the shifting directions of the U.S. trade agenda, some progress has been achieved. The U.S. has both renegotiated a major trade agreement that needed to be updated (USMCA), and proposed an alternative to traditional trade agreements (IPEF) to further common strategic goals while skirting the domestically contentious issue of market access.

THE UNITED STATES-MEXICO-CANADA AGREEMENT (USMCA)

After withdrawing from the TPP, the Trump Administration turned its attention to renegotiating the 1994 North American Free Trade Agreement (NAFTA). NAFTA 2.0, rebranded as the United States-Mexico-Canada Agreement (USMCA), borrowed heavily from TPP provisions around digital trade, intellectual property protection, agricultural standards, and more. The USMCA also incorporated new features, including more robust enforcement tools for labor and the environment, stricter rules of origin to ensure that the agreement's economic benefits are directed to its members, enforceable currency provisions, a sunset provision, and restrictions on trade negotiations with non-market economies.

These updates laid the groundwork for the agreement to receive unprecedented bipartisan congressional support and have led many in the United States to view the USMCA as a model for future U.S. trade agreements.

New Regional Trade Groupings in the Asia Pacific

CPTPP

Comprehensive and Progressive Agreement for Trans-Pacific Partnership

- Trade agreement among 11 Asia-Pacific countries
- Includes ambitious market access commitments
- Sets high-standard rules across a broad range of issues
- Includes 30 chapters
- Signed in 2018

RCEP

Regional Comprehensive Economic Partnership

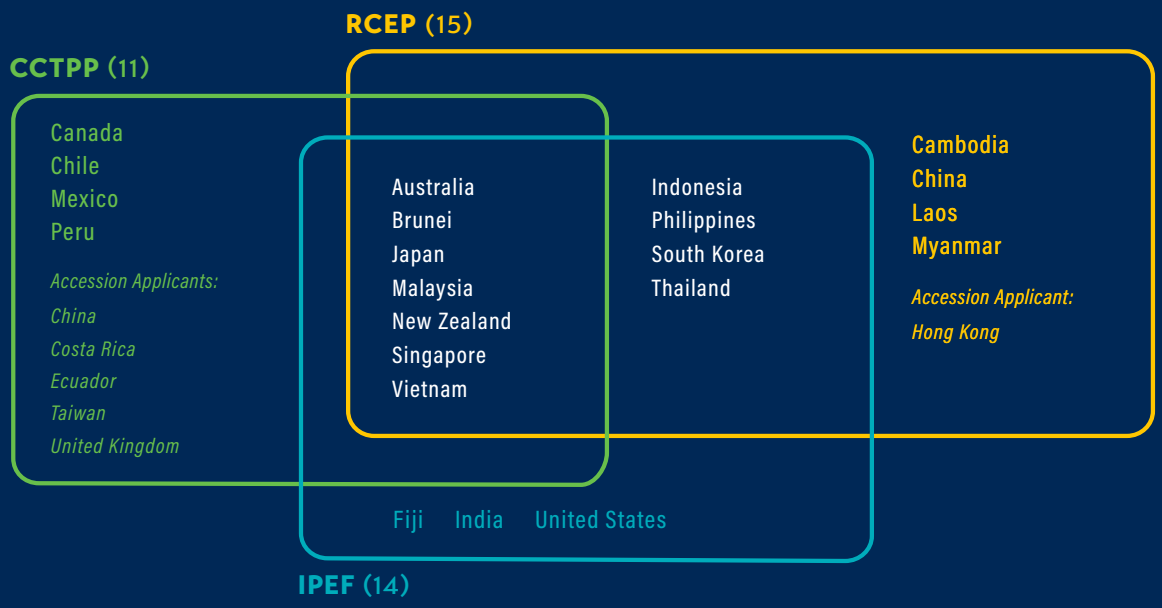
- An ASEAN-initiated trade agreement among 15 Asian countries
- Covers trade in goods and services, investment,and common rules of origin
- Includes 20 chapters
- Signed in 2020 and is the world's largest FTA

IPEF

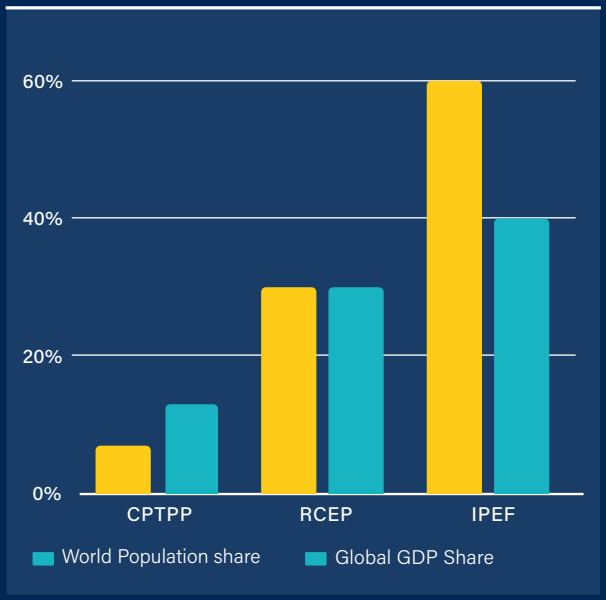
Indo-Pacific Economic Framework for Prosperity

- A U.S.-led economic initiative among 14 Indo-Pacific countries
- Covers trade, supply chains, clean energy, and anti-corruption
- Does not include tariff cuts
- Initiative launched in 2022

Members of Regional Trade Groupings



Share of World GDP and Population



Comparing Key Provisions

	CPTPP	RCEP	IPEF
Tariff cuts	✓	✓	✗
Trade facilitation	✓	✓	✓
Services	✓ [a]	✓ [b]	TBD
Investment	✓ [c]	✓ [d]	TBD
E-commerce	✓	✓	✓
Government Procurement	✓	✓	✗
State owned enterprises	✓	✗	✗
Labor	✓	✗	✓
Environment	✓	✗	✓

a) Negative List b) Negative/Positive List c) ISDS d) No ISDS

THE INDO-PACIFIC ECONOMIC FRAMEWORK (IPEF)

In May 2022, during his first trip to Asia since taking office, President Joe Biden launched the Indo-Pacific Economic Framework for Prosperity (IPEF), defining his Administration's economic strategy in the region. It has attracted broad participation from the region, with thirteen countries joining the United States and the prospect that others may join in the future.

IPEF seeks to address the most pressing economic issues facing the region. While not a traditional trade agreement with tariff cuts, it includes important trade components. Furthermore, incentives and benefits for members are being developed, including capacity building, green energy funding, and public/private partnerships. It is structured around four pillars:

- **Fair and resilient trade:** New rules and commitments in nine areas, including digital, labor, agriculture, the environment, and good regulatory practices. This pillar is also expected to promote "trusted and secure cross-border data flows."
- **Supply chain resiliency:** The primary focus is reducing supply chain vulnerabilities by increasing resiliency and investment in critical sectors. Participating countries will also establish an early warning system to share information on critical sectors' inventory and production capacity.
- **Decarbonization and infrastructure:** Cooperation will focus on reducing emissions by boosting the adoption of clean energy and climate-friendly technologies. Proposed measures include mobilizing investment, incentives, and other support measures for low-and zero-emissions goods and services.
- **Taxation and anti-corruption:** This pillar will center on combating corruption through sharing of tax information as well as enhanced enforcement of anti-money laundering and anti-bribery regimes.

In September 2022, the IPEF Ministers announced negotiating objectives for the four pillars. Except for India not joining the trade pillar, the fourteen participating countries joined all four pillars. While no formal deadline has been set, participants are working hard to move these talks forward. Some participants have indicated that instead of one agreement including outcomes in all four pillars, more limited "early harvest" agreements should be pursued earlier for certain topics.

WHERE TO GO FROM HERE?

The challenges the WTO has faced in addressing next generation issues has led to a greater focus on regional, mega-regional, and bilateral agreements. In recognition of these developments, WTO members are focused on forging a reform agenda to make the organization more effective and responsive. In 2022, the WTO Ministerial Conference outcome document committed, among other priority areas, to establishing a "fully and well-functioning" dispute settlement mechanism no later than May 2024.[12]

The emergence of sectoral and issue-specific agreements like those for digital and the green economy may offer a preview of what's to come. More work is needed to address areas where the current rules are no longer working given the growing complexity of the global trading system.

PART 2: NEXT GENERATION CHALLENGES

Trade agreements are no longer just about reducing barriers at the border. Next generation challenges that will shape the future are on the trade agenda. These include digital trade, climate change, economic inclusion, economic security, and non-market economic practices.

The lack of forward momentum at the WTO is not the only roadblock. Geopolitical tensions and strategic competition between the world's largest economies—the U.S. and China—have impacted the multilateral trading system's ability to respond effectively to new challenges. The U.S. is prioritizing fair competition over trade liberalization while China continues to increase the role of the state in its economy. These developments open the door for "middle powers" and trade-dependent economies to fill the void by leveraging bilateral, regional, and plurilateral agreements to address next-generation challenges. Asia, a hub of trade activity, is leading in many of these efforts.

Next Generation Challenges

DIGITAL TRADE AND ADVANCED TECHNOLOGIES

> The digital economy has transformed what and how we trade, and new rules are needed.

CLIMATE CHANGE AND THE ENVIRONMENT

> The world has failed to adequately respond to climate change, but trade agreements can help countries reduce emissions.

ECONOMIC INCLUSION THROUGH TRADE

> A lack of economic inclusion has fueled public skepticism of trade,and governments must ensure the benefits of trade are widely shared.

ECONOMIC SECURITY

> Economic security is essential for countries to protect their national security, but rules must prevent countries from using it as a guise for protectionism.

NON-MARKET ECONOMIC PRACTICES

> Non-market economic practices need to be reined in to ensure a fairer, more transparent global trading system.

DIGITAL TRADE AND ADVANCED TECHNOLOGIES

The digital economy and advanced technologies, like artificial intelligence and 3D printing, will transform what and how we trade. The growth of the digital domain has also accelerated the shift in trade from goods to services. In Asia, total services trade almost tripled between 2005–2019 to nearly $3.3 trillion, with digital services trade growing especially quickly.[13]

The challenges presented by these technologies often include areas beyond trade policy, such as data governance, consumer privacy, and cybersecurity. Trade negotiations, however, offer one avenue for countries to collectively address some of the disruptions and opportunities that advanced technologies present while building confidence in the digital economy.

FAST TECHNOLOGIES, SLOW REGULATIONS

The pace of technological advancement can quickly outstrip progress on trade negotiations. The General Agreement on Tariffs and Trade (GATT) rules were first created to deal with trade in goods, and the WTO expanded coverage to include services, intellectual property protection, and other areas. These rules touched on digital matters, but the WTO has yet to agree on comprehensive rules for digital trade. WTO plurilateral negotiations on e-commerce were initiated in 2019, but they have faced significant challenges, including navigating divergent views on the treatment of data, localization policies, and other issues.

> Now is the best opportunity to establish frameworks for the next generation of technologies, including AI, quantum computing, and biotechnology, in a way that will promote interoperability while ensuring that businesses of all sizes, workers, and consumers benefit.

Governments are increasingly active in regulating the digital economy but are doing so in uncoordinated ways. As a result, a patchwork of domestic laws, regulations, and international agreements is leading to fragmentation around issues such as cross-border data flows, source code disclosure requirements, personal data protection, and consumer privacy. Regulations that undermine digital transformation, such as data localization requirements and discriminatory practices affecting trade in digital products, are of particular concern.

Experience has shown that it is always harder to reverse course in trade agreements after policies are enshrined in domestic legal and regulatory frameworks. Now is the best opportunity to establish frameworks for the next generation of technologies, including AI, quantum computing, and biotechnology, in a way that will promote interoperability while ensuring that businesses of all sizes, workers, and consumers benefit.

BILATERAL AND REGIONAL EFFORTS ABOUND, WITH ASIA PACIFIC LEADING THE WAY

Bilateral and regional initiatives can set the stage for more coherence and less fragmentation of digital rules and standards. These efforts can hopefully contribute to further progress in the WTO's plurilateral e-commerce negotiations and lay the groundwork for more ambitious multilateral efforts. Nowhere in

the world is the digital economy more important than in the Asia Pacific, home to half of the world's internet users. Asia will account for 40 percent of the increase in global GDP due to digitization between 2021 and 2025.[14] Digital growth will shape Asia's future economy.

The economies of the Asia Pacific region have been among the most active in tackling digital trade issues. In addition to the e-commerce chapters of the CPTPP and RCEP, APEC has established the Cross-Border Privacy Rules (CBPR) System. The purpose of the system is to bridge differing national privacy laws and reduce barriers to the movement of data across borders by requiring participating businesses to harmonize data privacy policies. Launched in April 2022, the Global Cross Border Privacy Rules (GCBPR) Forum builds on the APEC CBPR but is open to non-APEC participation and is separately administered. APEC could also serve as a forum for new frameworks that enable digital trade, like digital signatures and digital identity systems.[15]

The region has also been at the forefront of negotiating new digital agreements. In 2020, Singapore signed its first digital agreement with Australia. The country has now concluded similar agreements with the United Kingdom and Korea, in addition to the Digital Economy Partnership Agreement (DEPA) with New Zealand and Chile. These digital agreements go beyond the CPTPP provisions. They include consumer protections, rules for the non-discriminatory treatment of electronic transactions, and the easing of restrictions on cross-border data flows. DEPA, for example, adds trade facilitation provisions in e-payments and e-invoicing, and cooperation clauses for new and emerging technologies.

Trade agreements can remove barriers to participation in the digital economy so that people from all segments of society and businesses of various sizes can take advantage of its promise.

Digital work is also a key feature of the IPEF. Japan has also been active by introducing a new framework for data governance centered on fostering "Data Free Flow with Trust" in the 2019 G-20 Osaka Leader's Declaration. In October 2021, the G-7 took this concept further by adopting a set of "Digital Trade Principles" which affirmed the importance of an open, free and secure internet; the need for digital markets to be competitive, transparent, fair and accessible; the role of digital trade as a tool to raise living standards; and a rejection of digital protectionism.

It remains to be seen how all of these initiatives will play out and whether they can lead to more harmonized approaches instead of a plethora of separate agreements with similar but not identical provisions and approaches.

ADDRESSING THE DIGITAL DIVIDE

Policymakers are also focusing on digital inclusiveness. Trade agreements can remove barriers to participation in the digital economy so that people from all segments of society and businesses of various sizes can take advantage of its promise. Strengthening consumer confidence and trust, protecting personal information, and promoting skills for the digital world would help advance inclusiveness. Empowering micro, small and medium-sized enterprises (MSMEs) to participate in the digital economy can also help them access markets beyond their borders. One encouraging example is the OECD's "Digital for SMEs" Global Initiative to promote knowledge sharing on how MSMEs can make the digital transition. MSMEs also benefit from easier access to digital tools, something the WTO mor-

atorium on customs duties for electronic transmissions, albeit temporary, has helped to facilitate.

CLIMATE CHANGE AND THE ENVIRONMENT

Economic growth driven by trade liberalization can have a direct influence on the environment by increasing pollution or depleting natural resources. As a result, environmental provisions, including those to help mitigate potential adverse impacts, have been included in FTAs for some time. Many of these agreements underscore adherence to domestic environmental laws, but some go further by such approaches as applying dispute settlement procedures to obligations contained in multilateral environmental agreements.

The Paris Climate Agreement in 2015 was a landmark accord in global efforts to address climate change. Since then, however, most countries have fallen behind their commitments to reduce emissions and finance large-scale mitigation investments. Trade agreements can serve as a mechanism for advancing those goals by enhancing access to new climate technologies and lower-emissions goods and services and transition by businesses and governments that can help with mitigation and adaptation. They can also accelerate the catalytic impact of private sector initiatives like the Glasgow Financial Alliance for Net Zero and the First Movers Coalition by facilitating investments and creating markets for low-carbon goods.

REGIONAL AND BILATERAL APPROACHES BYPASS THE WTO

Over the past decade, and particularly following the Paris Climate Agreement, there has been a significant increase in efforts to address climate issues within bilateral, regional, and plurilateral trade agreements. WTO plurilateral talks to develop an Environmental Goods Agreement (EGA) that would enhance access to environmental goods began in 2014. This agreement would include a broad range of products supporting environmental and climate protection goals, including for renewable energy production, energy efficiency, controlling air pollution, water treatment, and waste management. However, these negotiations have been sidelined since 2016 due to definitional disagreements on product coverage and shifting politics among member states.

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With the growing urgency to mitigate emissions, regional and bilateral approaches to the green economy have gained momentum. The USMCA's environment chapter builds on NAFTA by expanding the scope of environmental issues and making them subject to dispute resolution. The 2022 EU-New Zealand Trade Agreement included a first-of-its-kind system that would permit sanctions for violations of the Paris Agreement. The EU is also moving to introduce the world's first Carbon Border Adjustment Mechanism (CBAM), which puts a price on carbon-intensive imports like cement, aluminum, fertilizers, electric energy, iron, and steel.[16] The goal is to prevent leakage when production is moved from a country that abides by strict climate policies to one that does not. Pricing "embedded emissions" is complex and very much still in development, but this is a good example of how the EU is pushing further on climate policy within the global trading system.

In contrast to the EU-led effort to strengthen enforcement, the level of ambition in the Asia Pacific varies significantly between the CPTPP, which contains a robust environmental chapter, and the RCEP, which has none.

LOOKING AHEAD

The Asia-Pacific region is the world's greatest emitter of greenhouse gases because it has a large population, is a major exporter of resources and agriculture, as well as a production hub for international firms. However, there are many possibilities to enhance environmental and climate-friendly trade practices. The Green Economy Agreement (GEA) between Singapore and Australia aims to promote green growth and enhance cooperation on climate change. In addition to provisions that facilitate trade in environmental goods and services, the GEA includes cooperative efforts to align standards, develop rules and policies for green and transition finance, and collaborate on clean energy technologies and workforce development. The GEA could serve as a building block for future sectoral agreements for environmental and climate issues.

There is growing concern that more needs to be done to raise labor standards, help displaced workers, and create a level playing field for trade and investment.

The WTO is also bolstering its contribution to environmental trade work. The 12th WTO Ministerial Conference (MC12) in June 2022 was a turning point for the role of the WTO in addressing environmental concerns. A multilateral agreement on curbing fishery subsidies was agreed upon after more than twenty years of negotiations. Furthermore, three new WTO plurilateral environmental initiatives on environmental sustainability, fossil fuel subsidies, and plastics pollution are currently underway.

The IPEF has prioritized efforts to build a clean economy in the Indo-Pacific region. Climate-related issues are featured in IPEF's third pillar, "Clean Energy, Decarbonization, and Infrastructure," including renewable energy, energy efficiency standards, as well as carbon and methane emission reduction.

ECONOMIC INCLUSION THROUGH TRADE

Skepticism has grown around the benefits of trade, particularly in developed countries where important questions surrounding the value of trade agreements have emerged. This has led negotiators to focus on economic inclusion in trade negotiations and addressing these concerns in trade agreements.

WORKER RIGHTS AS A PART OF TRADE NEGOTIATIONS

Countries around the world are increasingly concerned with ensuring that their workers aren't forced to compete against trading partners with weak labor protections and rights. There is growing concern that more needs to be done to raise labor standards, help displaced workers, and create a level playing field for trade and investment.

While the WTO does not address workers' rights, the International Labor Organization (ILO) features core labor standards set out in the 1998 ILO Declaration on Fundamental Principles and Rights at Work. Labor standards were first addressed in the NAFTA in 1994 and, over the years, have become a common feature in FTAs enacted by the U.S., Canada, the European Union, Japan, and others.

Labor provisions aim to establish baseline obligations for protecting workers' rights and offer mechanisms for resolving disputes. Today, these provisions typically include commitments to adopt laws incorporating ILO principles; providing mechanisms for implementation, dispute resolution, and stakeholder consultation; as well as frameworks for cooperation. Forced labor and human trafficking are also serious problems that have been raised as part of trade discussions. The USMCA, for example, prohibits imports produced by forced labor and encourages cooperation in identifying these products.

There is growing concern in developed countries that these agreements don't go far enough. The U.S. and the EU are calling for workers to be more directly involved in trade negotiations. This includes regular consultation with labor groups and a stronger focus on implementing and enforcing labor provisions against stakeholders who violate labor laws or ILO principles.

Incorporating labor commitments into trade agreements has proved challenging. Many countries in the Asia Pacific view their labor practices as a matter of sovereignty that should not be disciplined by trade agreements. The RCEP is silent on labor, and the India-EU FTA negotiations have run into difficulties on this matter.

Effective job retraining and skill development programs are also important to support workers affected by trade and, more broadly, technological advancements and productivity increases. Many Asia Pacific countries have established adjustment programs, some more effective than others. Policymakers should consider how to re-tool these programs for the 21st century, placing greater emphasis on comprehensive skills training and education for the jobs of the future. The private sector, NGOs, and educational institutions are valuable partners contributing expertise and resources.

ENHANCING MICRO, SMALL AND MEDIUM-SIZED ENTERPRISE (MSME) PARTICIPATION

Micro, small and medium-sized enterprises (MSMEs) make up over 90 percent of businesses and more than 60 percent of employment worldwide, yet their participation in international trade is limited.[17] Challenges include a lack of knowledge about foreign markets, lack of access to affordable financing, and the inability to navigate complex regulations and customs procedures.

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The WTO has launched various initiatives to help MSMEs, including establishing an Informal Working Group. This group aims to identify solutions that would help MSMEs increase their participation in world trade, including by developing a portal to provide trade-related information, facilitate new partnerships, and make recommendations to help MSMEs trade internationally. APEC and ASEAN also have launched initiatives to address the growth of SMEs and microenterprises.

The CPTPP was the first trade agreement to include a standalone chapter on enhancing access for SMEs, and the USMCA also has a designated SME chapter. Both the CPTPP and USMCA feature commitments to establish SME committees and provide information-sharing tools to help SMEs take advantage of the

commercial opportunities provided by the agreements. RCEP also includes an SME chapter that focuses on establishing information-sharing platforms.

While these chapters offer largely "soft" commitments, provisions in other chapters of trade agreements that cut red tape and eliminate tariff and non-tariff barriers also provide tangible benefits for MSMEs.

TRADE AND GENDER

Trade can also play an important role in advancing women's economic empowerment and gender equality. Empowering women to access international markets can open up opportunities for increasing women's wages, creating better jobs, and driving entrepreneurial growth. Challenges remain in bridging the gender gap, with women being paid an average of 18.8 percent less than men for the same work[18] and making up only 27.1 percent of managers and leaders globally.[19] Women also face higher barriers to economic participation, such as knowledge and digital gaps, as well as discriminatory laws in many countries.

Many women work in the informal sector, creating economic value while not being formally recognized in the global economy. These workers were among those hit hardest by the COVID-19 pandemic because they are often in contact-intense environments where remote work is not possible and in insecure jobs without benefits such as paid leave.[20]

Empowering women to access international markets can open up opportunities for increasing women's wages, creating better jobs, and driving entrepreneurial growth.

In an effort to increase women's participation in trade, the WTO adopted a Joint Declaration on Trade and Women's Economic Empowerment in 2017. WTO members established an Informal Group on Trade and Gender and adopted a subsequent Joint Declaration in 2021. The focus of this work is to improve data collection and research on barriers to women's economic empowerment, enhance the role of gender equality in the WTO's work, and strengthen trade assistance for women.

In August 2020, a Global Trade and Gender Arrangement was signed by Canada, Chile, and New Zealand to promote mutually supportive trade and gender policies. Mexico, Colombia, and Peru later joined the agreement. In addition, an increasing number of regional and bilateral trade agreements, including the CPTPP, contain gender-specific provisions and, in some cases, standalone chapters such as the Trade and Gender Chapter in the Canada-Chile FTA.

MINORITY AND INDIGENOUS RIGHTS INITIATIVES STARTING TO APPEAR IN TRADE AGREEMENTS

Trade can also help to support other marginalized groups that have not benefitted from globalization and trade agreements. For example, the CPTPP and USMCA include language on trade and the rights of Indigenous peoples. Since February 2021, New Zealand and other APEC economies have worked to establish an Indigenous Peoples Economic and Trade Cooperation Arrangement (IPETCA) to boost Indigenous peoples' participation in trade. As part of its worker-centered trade policy, the Biden Administration is committed to advancing racial equity through trade.

ECONOMIC SECURITY

In recent years, geopolitical tensions have spilled over into the trade arena, leading governments to rely more heavily on economic tools to advance their strategic and national security objectives. In light of the disruptions caused by the COVID-19 pandemic, many governments are also far more attentive to the potential vulnerabilities arising from overreliance on a single source for critical and essential goods.

This linkage between trade and national security is particularly evident in the Asia Pacific region because of formal and informal economic restrictions imposed over escalating territorial disputes and geopolitical tensions. This emerging economic pressure trend has led countries to reduce their dependence on competitors and adversaries by forging partnerships with others and bringing more production home.

Blurred distinctions between commercial and military applications of goods and technologies have led the U.S., Japan, the EU, and others to strengthen export control regimes. Countries have also updated and expanded regulations on screening of inbound foreign investments, with the U.S. now considering restrictions on some outbound investments.

In light of the disruptions caused by the COVID-19 pandemic, many governments are also far more attentive to the potential vulnerabilities arising from overreliance on a single source for critical and essential goods.

SUPPLY CHAINS

The COVID-19 pandemic revealed the fragility of the global supply chain system: a factory shut down in India stopped production of ventilators in Indiana; chip shortages backed up car sales for months; export restrictions limited access to medicines and other essential products; and port congestion drove up transportation costs and fueled inflation.

Beyond the pandemic, U.S.-China tensions, the war in Ukraine, and the effects of climate change are impacting global supply chains. As a result, companies and governments are restructuring these supply chains to become more resilient and agile in order to mitigate risk and reduce reliance on inputs, materials, and products from unreliable partners and single sources.

Diversification and Transparency are the Focus

Companies and governments in all corners of the world are exploring ways to diversify their production and sourcing. Although China continues to be the world's foremost destination for high-quality and low-cost manufacturing, more and more companies are adopting a "China+1" strategy which involves maintaining a manufacturing base in China while developing smaller-scale operations elsewhere. Companies are nearshoring their supply chains by setting up manufacturing in nearby markets. Governments have also been encouraging reshoring or bringing production back home by offering a range of incentives. Friend-shoring is being pursued as well as a way to establish secure supply chains with trusted trading partners.

It is difficult and costly to uproot supply chains in a short period of time. Production ecosystems specializing in specific technologies or processes are well entrenched. But as companies look to the future, they are weighing cost and efficiency against a heightened awareness of the need to mitigate supply chain risks.

Transparency can also lessen risk in supply chains. Companies are starting to track not only direct suppliers but the upstream and downstream elements of their supply chains. Governments are especially focused on the supply of critical goods and technologies such as semiconductors, rare metals and minerals, batteries, and medical products. The U.S. Department of Commerce established a Microelectronics Early Alert System last year, which collects information to head off semiconductor disruptions. Singapore has launched a centralized platform that facilitates data exchange across the supply chain ecosystem.

Governments are working with one another to strengthen supply chain cooperation to reduce vulnerabilities and promote diversification. Examples include the IPEF's supply chain pillar, a new Minerals Security Partnership agreed upon by ten countries and the European Commission, and the Supply Chain Resilience Initiative established by Japan, Australia, and India. These initiatives focus on sharing information on threats that might disrupt supply chains, mapping supply chain networks for critical sectors, and in some cases, catalyzing investment.

ECONOMIC COERCION

The use of coercive economic practices, where diplomatic disputes spill into the trade arena, has increased in recent years. Coercive practices include levying unjustified anti-dumping duties, delaying customs processing, imposing quotas, phytosanitary barriers, and government-organized boycotts. Trade coercion undermines confidence in rules-based approaches and, if left unchecked, could further damage the fragile global trading system. Addressing these practices will help create a level playing field.

Trade coercion undermines confidence in rules-based approaches and, if left unchecked, could further damage the fragile global trading system.

The gray-zone nature of trade coercion makes such practices difficult to identify, let alone quantify. Few governments admit to breaching trade rules for political pressure campaigns, and coercion often goes unreported. Governments subject to trade coercion find themselves in a bind. If they retaliate in-kind, they risk escalation, typically from a larger power. If they capitulate, they risk sacrificing their foreign policy autonomy and inviting more coercion.

That said, countries faced with trade coercion have employed a number of responses, including diversifying trade partners and financially assisting companies targeted by coercion. In addition, groups of like-minded countries are also beginning to act by filing joint WTO dispute settlement cases, calling out such practices in international settings, and finding other ways to assist the targeted country by, for example, relaxing import restrictions.

Greater policy coordination is needed to address supply chain vulnerabilities, counter economic coercion, enhance export controls, and screen investments of potential concern. Like-minded countries can address these issues far more effectively through joint efforts.

NON-MARKET ECONOMIC PRACTICES

The use of industrial subsidies, including direct and indirect government payments, is on the rise.

Although many countries are engaged in some level of subsidization, a recent analysis found that China's heavy use of industrial subsidies and other preferential treatment for domestic firms has been highlighted as particularly disruptive because of its scale and trade-distortive nature.[21] China also engages in new types of subsidies and financial assistance which are more challenging to identify, such as cross-border financial support, equity infusions, and other types of below-market financing.

Excess capacity is one of the disruptive outcomes of industrial subsidies. Even as global prices have fallen and profit margins have narrowed, aluminum and steel companies—frequently state-owned or state invested—have increased production. This practice, commonly referred to as excess capacity or overcapacity, has negative consequences for the global economy, including price and market distortions.

The 1995 WTO Agreement on Subsidies and Countervailing Measures has not been updated to reflect these realities. As a result, current subsidy rules do not adequately regulate these types of market distortions. Certain WTO members have also expressed renewed interest in addressing non-market economic practices. WTO Director-General Dr. Ngozi Okonjo-Iweala said in April 2022: "[Subsidies] constitute the most frequent type of intervention since the financial crisis—more than tariffs and other non-tariff measures. They can distort trade and investment, undermine other trade policy commitments and erode public support for open trade." A WTO report released jointly with the IMF, OECD, and World Bank affirmed growing concern with distortive subsidies.[22]

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>
> *—Dr. Ngozi Okonjo-Iweala, WTO Director-General*

FTA AND MULTILATERAL EFFORTS PICKING UP

Many countries have concluded that this problem is a global issue that requires a coordinated response. Work is underway at multilateral fora such as the G7, G20, and OECD to examine the policies contributing to overcapacity and unfair competition. In addition, the OECD provides a valuable policy platform—the Global Forum on Steel Excess Capacity (GFSEC)—to work on the steel sector specifically.

The U.S., Japan, and the European Union formed a trilateral group that developed suggestions to reform rules on industrial subsidies, excess capacity, and forced technology transfer. The group reaffirmed their partnership in November 2021 with a commitment to continue cooperation on this challenge.

Some free trade agreements—such as the CPTPP and USMCA—have also included provisions that go beyond WTO rules to address the behavior of state-owned enterprises (SOEs), discourage excess capacity, and cover a broader array of subsidies and other anti-competitive measures. The USMCA features a more expansive definition of SOEs that includes situations where a government controls an enterprise not through majority ownership but through any ownership interest, including indirect interests and minority shares.

WHAT'S NEXT?

Over the last seven decades, trade negotiations succeeded in lowering tariffs and other barriers and creating a shared set of rules in such areas as services and intellectual property protection. A set of next generation issues are now challenging the global trading system:

- **The digital economy** has transformed what and how we trade, and new rules are needed.
- The world has failed to adequately respond to **climate change**, but trade agreements can help countries reduce emissions.
- A lack of **economic inclusion** has fueled public skepticism of trade, and governments must ensure the benefits of trade are widely shared.
- **Economic security** is essential for countries to protect their national security, but rules must prevent countries from using it as a guise for protectionism.
- **Non-market economic practices** need to be reined in to ensure a fairer, more transparent global trading system.

The WTO alone cannot resolve these challenges. Instead, countries need a multifaceted approach that supplements WTO efforts with bilateral and plurilateral arrangements and regional coalitions. Although common ground will be difficult to achieve, collaboration and creativity can still win the day.

Meanwhile, more challenges will likely be added to this list over time, making it all the more important to find ways to deal effectively with the current ones.

PART 3 – THE COLLABORATIVE FUTURE OF GLOBAL TRADE

Global trade has contributed to expanding worldwide economic prosperity and opportunity, helping lift millions out of poverty and bolstering global stability. However, many of the approaches, institutions, and groupings that, to date, have supported a strong rules-based trading system have evolved too slowly while the world experienced major transformations.

Countries are now playing catch-up, pursuing innovative ways to update trade rules and address conflicts and inconsistencies between different agreements. These efforts are reshaping trade policy, and while they are far from perfect, they can help chart a path forward in an increasingly complex world.

THE FOLLOWING TRENDS ARE LIKELY TO SHAPE THE FUTURE OF TRADE

1. Future trade agreements will be more targeted than the complex, comprehensive deals of years past.

While trade negotiations have always included a diverse set of issues, the list and the complexity of these matters have greatly increased over time. Until the stalled Doha Development Round, multilateral WTO negotiations served as the cornerstone of trade liberalization and rule-making. But as the scope of trade agreements has expanded over time, coupled with different levels of development among participants, reaching a consensus on comprehensive agreements has become more difficult. WTO members shifted attention to negotiations with a more limited scope, such as the 2014 agreement on trade facilitation and, most recently, the agreement to curb harmful fisheries subsidies. A similar issue-specific approach has taken place with plurilateral negotiations among a subset of WTO members, such as tariff reductions on information technology products, commitments on services regulation, and ongoing negotiations on e-commerce.

> More targeted agreements will increasingly become the mainstream. As they do, it is important to ensure these various tracks are working to promote and not to undermine the existing global trading system.

Sector-specific trade agreements are also becoming more common. For example, as the digital economy develops, digital economy agreements are being forged. More targeted agreements will increasingly become the mainstream. As they do, it is important to ensure these various tracks are working to promote and not to undermine the existing global trading system.

2. Future trade groupings will be smaller and more nimble, and will prominently include Asian countries.

Consensus-based fora with diverse memberships have difficulty finding common ground. The WTO is a case in point. While it will continue to serve as a valuable and needed forum, it also requires serious reforms. Likewise, the G-20, which played an important role in coordinating the global responses to the 2008 financial and food security crises, is being tested. These two organizations, among others, are

victims of heightened geopolitical tensions between key members, undermining their ability to operate effectively. Divisions have emerged even on issues where global cooperation is critical, such as climate change and food security. This presents an opportunity for "middle powers" and smaller players to play a more important role.

Looking ahead, smaller groups of like-minded countries are more likely to gain traction in developing responses to pressing trade matters. Members of such groups will vary depending on the issue, but new members can always be invited to sign on later. These smaller groupings may arise from existing fora such as APEC, BRICS (Brazil, Russia, India, China, and South Africa), the G7, the OECD, the Shanghai Cooperation Organization, and WTO plutilaterals. Entirely new groupings are also being established, like the Coalition of Trade Ministers on Climate launched by the EU, Ecuador, Kenya, and New Zealand in June 2022, and the U.S.-hosted Supply Chain Ministerial Forum held the following month among nineteen partner economies.

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Asian countries have the most to lose if the trading system stops working and will continue to be active members of these different groups. To date, groupings of Asian countries have been partnering on some of the most forward-leaning trade deals, like the CPTPP and DEPA. Further, they are at the forefront of new models for trade groupings like the IPEF—a flexible framework taking on a diverse number of issues.

The major challenge to accommodating smaller groupings into the global trading system will be to avoid fragmentation. In the near term, the often overlapping membership can help coordinate agendas and avoid serious divergences. In the longer term, these groupings could create a new foundation of rules that can serve as stepping stones toward more inclusive, broader, and sustainable multilateral outcomes.

3. Future trade negotiations will better keep up with the pace of technology.

Traditional trade agreements have difficulties keeping up with the pace of technological advancements. The negotiation, domestic ratification, and entry into force of trade agreements often take many years, with agreements such as the RCEP and CPTPP taking close to ten years. As a result, technology-related provisions are often outdated by the time trade agreements are enacted. Moreover, modernizing trade agreements is often cumbersome, with each member having different domestic procedures to follow before they can bring revisions into force.

While binding and enforceable agreements help guarantee predictability and certainty within the trading system, this model risks becoming less useful if the agreed-upon rules become obsolete by the time they enter into force. New approaches may be needed to augment traditional ones. This could include mechanisms to make trade deals "living agreements" that are more responsive to emerging issues. Other avenues to explore include cooperation mechanisms, political commitments, and even non-enforceable agreements, such as those pursued by APEC. Public-private partnerships are also an opportunity for capacity building and establishing joint projects. For example, the Australia-Singapore Digital Economy Agreement features Memorandum of Understandings for cooperation involving the private sector on data innovation and AI.

4. Governments will restructure to be more agile in the new trade landscape.

While trade ministries have always had to coordinate work among other entities within their government, this task is becoming more difficult. As new global and regional challenges emerge and complexity heightens, governments may find that their current organizational structures are not well suited to finding solutions. Non-trade aspects of many issues are also rising in importance on topics from cybersecurity to carbon pricing.

As new global and regional challenges emerge and complexity heightens, governments may find that their current organizational structures are not well suited to finding solutions.

Governments may need to develop new structures and processes to adjust to the pace of change. Trade ministries might be directed to step up internal coordination with other ministries and co-chair negotiations with others in the government. New ministries for emerging areas like digital and climate change may be useful. Governments that invest in new capabilities will be best positioned to use trade as an effective policy tool. This includes developing sector-specific technical expertise and also gathering more information in areas such as economic security and non-market practices. It also entails promoting inclusion by ensuring that diverse voices are represented in decision-making processes.

Many governments have taken steps to adapt to these changes, and more adjustments are likely in the future. For example, Thailand and Taiwan have established digital ministries to coordinate digital policies across the government. The United States appointed a special presidential envoy for climate while New Zealand has a climate minister, and Japan has created a cabinet position dedicated to economic security.

The negotiations, agreements, governmental structures, and international groupings that determine the future of the global trading system will evolve. Throughout this period of change, collaboration and partnership are essential to realize growth opportunities through trade. More targeted agreements may be more effective in addressing pressing issues. Smaller groupings can break new ground, especially among like-minded partners. Innovative new models and approaches provide space to find new paths to solve intractable challenges. Countries can use this flexibility to the advantage of their own economies and the global trading system so that trade continues to contribute to global prosperity long into the future.

CONCLUSION

Global trade flows have grown to an unprecedented level since the GATT first established the foundations of the international trading system. The economies of Asia have significantly benefitted from this system, representing an ever-growing share of world trade and participating more actively in plurilateral, regional, and bilateral agreements in recent years.

However, forging new trade deals has become more challenging. Where negotiations used to focus on reducing tariffs and eliminating trade barriers, countries are now faced with negotiating the complex rules of the digital economy and other next-generation issues. Additionally, the number and different development levels among the countries engaging in global trade and the multitude of types of goods and services in today's economy make it more difficult to reach consensus. Negotiators will be under pressure to find ways to accelerate the pace of negotiations, lest they become outdated before ever entering into force. Moreover, the world's largest economies are no longer playing a leadership role at the WTO and, thus, are less active in developing multilateral rules and initiatives.

In light of these challenges, governments that are nimble in adapting to this new landscape will be the most successful. Agreements will look inherently different going forward and likely will be more targeted on specific issues and sectors rather than comprehensive. Smaller groupings of countries will become more effective in writing new rules and forging collaborative partnerships, with others joining over time. These groupings could create a new foundation of rules that ultimately could serve as stepping stones toward more inclusive, broader, and sustainable multilateral outcomes. The current landscape creates an opportunity for "middle powers," including many Asian economies that are trade-dependent, to play an important role in addressing next-generation challenges. This is their moment to shine.

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