



The State of the Region

2025 - 2026

ABOUT THE PACIFIC ECONOMIC COOPERATION COUNCIL

The Pacific Economic Cooperation Council (PECC) is a non-profit, policy-oriented, regional organization dedicated to the promotion of a stable and prosperous Asia-Pacific. Founded in 1980, PECC brings together thought-leaders from business, civil society, academic institutions, and government in a non-official capacity. Together, PECC members anticipate problems and challenges facing the region, and through objective and rigorous analysis, formulate practical solutions. The Council serves as an independent forum to discuss cooperation and policy coordination to promote economic growth and development in the Asia-Pacific. PECC is one of the three official observers of the APEC process.

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Message From The Co-Chairs of PECC

On behalf of the members of the Pacific Economic Cooperation Council (PECC), we are pleased to present our annual the State of the Region report. This report provides an assessment of the most pressing issues shaping the Asia-Pacific economy and the wider regional environment. We are indebted to the 504 respondents who contributed to our annual survey. This is not a survey of public opinion but a reflection of views from the regional policy community, including leaders and experts from business, government, academia, media, and civil society. Their diverse perspectives shed light on both the risks confronting the region and the opportunities to enhance cooperation.

Key takeaways from Chapter 1 are as follows. Respondents express great concern about the potential growth implications of rising protectionism and trade wars, along with more moderate concern expressed, as in previous years, about inflation, climate change, geopolitical tensions, and supply chain resilience. Also, survey participants anticipate that governments will respond in varied ways to newly imposed or threatened tariffs, ranging from retaliation and bilateral agreements to strengthening trading relationships with other economies.

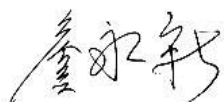
Despite a great deal of uncertainty in the international trading environment, respondents' growth expectations for their own economies and the Asia-Pacific region as whole are fairly balanced between anticipating improvement and expecting weakening. The outlook anticipated for the rest of the world economy, however, is bleaker, likely due to other structural reasons beyond trade. What is encouraging is that even amidst the current threats to the rule-based trading system, participants express continued hope for multilateral cooperation under the auspices of the WTO, APEC, and other regional arrangements. This optimism provides a foundation for continued dialogue and problem-solving. Respondents are very clear that the top priority for APEC Leaders, when they meet in the Republic of Korea this fall, should be to mitigate the potentially harmful effects of growing protectionism and trade wars.

Chapter 2 examines how global trade is facing ongoing changes driven by political and structural shifts, rather than temporary factors. Rising protectionism surfaces concerns over unequal trade benefits and tighter economic security. New challenges ranging from digital fragmentation and supply chain resilience, and new industrial policies are reshaping trade rules. Key priorities for policymakers should include strengthening the multilateral system, ensuring regional trade deals support global rules, and advancing the green transition as a unifying goal for collective action.

We express our appreciation to the Editorial Committee which provides guidance and identifies topics of common concern and the authors, Dr Kaewkamol Pitakdumrongkit, Prof Shiro Armstrong, and Ms Sharon Zhengyang Sun, as well as efforts of the staff and interns at the PECC International Secretariat.



Richard Cantor
Co-Chair



Zhan Yongxin
Co-Chair

Executive Summary

From June to August 2025, the Pacific Economic Cooperation Council (PECC) conducted its annual expert opinion survey, gathering responses from over 500 leaders from government, business, academia, civil society, and media across 24 economies. The results outline their views on different topics ranging from the future economic outlooks, top risks to growth, and top priorities that APEC leaders must urgently address.

Chapter 1 reveals that in the next few years, more than half of respondents expect subdued growth for the global economy. Despite uncertainty in the international trading environment, respondents hold a balanced outlook for growth for their economies and the Asia-Pacific region. “Increased protectionism and trade wars” emerges as the No. 1 risk to growth overall and as the most serious threat. Global economic slowdown, supply chain disruptions, inflationary pressures, and climate change are also identified among top 5 risks, with differing degrees of concern across subregions. Longitudinal comparisons show the higher share of survey subjects view increased protectionism and trade wars, inflation, and climate change as compared to previous years, indicating heightened concerns over these issues.

Governments’ responses to protectionism are expected to vary but reflect the importance of strengthening regional trade and economic cooperation as a key strategy for lessening the adverse effects of tariffs. About 85% of survey participants believe their governments will enhance Asia-Pacific economic cooperation and integration. The collaboration platforms that survey respondents deem useful include bilateral trade and investment agreements, the Asia-Pacific Economic Cooperation (APEC), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Association of Southeast Asian Nations (ASEAN) and ASEAN-Plus frameworks, the Regional Comprehensive Economic Partnership (RCEP), and the World Trade Organization (WTO).

As APEC Leaders prepare to gather in Korea for their annual meeting, respondents identify these top 5 priorities for their deliberations:

- Ameliorating risks posed by increased protectionism and trade wars
- Lowering geopolitical tensions to foster a stable economic environment
- Enhancing supply chain resilience and efficiency to mitigate disruptions
- Facilitating adoption and risk management of emerging technologies, including artificial intelligence
- Supporting and strengthening the multilateral trading system, especially the WTO

Chapter 2 further explores how global trade is entering a phase of profound and ongoing disruption shaped by structural and political shifts rather than temporary fluctuations. Recent protectionist trends reflect issues such as the uneven distribution of trade benefits and increased securitization of economic policy. Additionally, challenges such as digital fragmentation, supply chain resilience efforts, and new industrial policies are reshaping the trade landscape in ways that can test existing rules. From the analysis, three policy imperatives emerge: preserving and reforming the multilateral system, ensuring regional and plurilateral agreements reinforce rather than fragment global rules, and harnessing the green transition as a unifying focus for cooperation.

Both chapters highlight the critical importance of APEC and its principles of open regionalism and consensus-building in helping regional economies navigate the era of mounting uncertainty. Through voluntary, non-binding initiatives and multi-stakeholder dialogue, APEC continues to serve as an incubator of ideas and practical solutions that support and advance broader global trade goals. By playing this unique role, APEC and its members can make meaningful contributions in fostering an integrated, inclusive, and sustainable economic future for the Asia-Pacific.

03



Chapter 1: **ASIA PACIFIC ECONOMIC OUTLOOK¹**

¹ Contributed by Kaewkamol Pitakdumrongkit, Interim Secretary-General and Coordinator of the State of the Region Report
(With input from the Editorial Committee and assistance from Betty Ip, Nor Jibani, and interns Wong Shiu-chi and Jim Sze-wing)

The Asia-Pacific region is entering the period of heightened uncertainty, driven by rising protectionism, intensifying geopolitics, and increased use of security exceptions to impose tariffs and non-tariff barriers. Against this backdrop, key questions arise: “What are the economic growth implications?”, “How are governments likely to respond, and what policies will they pursue?”, and “Which regional frameworks or institutions will they simultaneously leverage to advance economic cooperation?”

To shed light on these questions, the Pacific Economic Cooperation Council (PECC) conducted an expert opinion survey of more than 500 individuals from government, business, academic/thinktank, civil society, and media across 24 economies from June to August 2025. The survey showcases their views on several topics, including growth prospects, top 5 risks to growth, governments’ responses to protectionist measures, and the top priorities for APEC Leaders (see Annex A for details). Findings in Chapter 1 are presented both in aggregate and with breakdowns by subregion, affiliation, and age group where appropriate, offering additional insights for policymakers as they shape future strategies.

The findings reveal widespread concern about the global economy, with many respondents expecting it to be weaker or much weaker in the next few years. “Increased protectionism and trade wars” emerges as the most serious risk to their economy’s growth. Survey trends over recent years show a growing number of participants view this issue as a risk to growth. Other risks such as global supply chain disruption, inflation, and climate change are also cited, but with a more moderate level of concern.

At the same time, respondents anticipate governments pursuing varied approaches to respond to protectionism, adding complexity to the future of the international economic order. Amidst rising protectionism, some respondents believe the Asia-Pacific region will emerge stronger or much stronger in the next few years. Increased protectionism may serve as an impetus for some groupings of regional economies within APEC to deepen their trade ties, despite such agreements being regarded by many as the “second best option” relative to broader regional agreements.

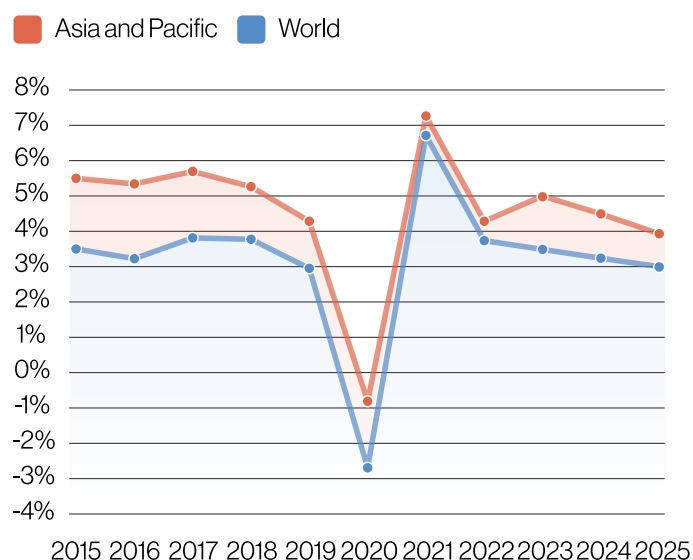
Amidst mounting pressures on the rules-based trading system, respondents express hope for multilateral cooperation under Asia-Pacific Economic Cooperation (APEC), the World Trade Organization (WTO), and other regional arrangements. Survey respondents broadly agree that the highest priority for APEC Leaders when they meet in the Republic of Korea this fall should be to take collective action to lessen the risks caused by rising protectionism and trade wars. Other priorities should include: lowering geopolitical tensions, boosting supply chain resilience and efficiency, facilitating the adoption of emerging technologies and AI and managing risks arising from these technologies, and supporting the multilateral trading system. Because its initiatives are voluntary and non-binding, APEC has been able to build a strong track record of generating ideas and initiatives that feed into broader global discussions on topics – ranging from supply chain connectivity and structural reform to regulatory practices and the digital economy. APEC has also been constructive in its support for the WTO: in their 2025 Joint Statement, the APEC Ministers Responsible for Trade reaffirmed the WTO's importance in advancing international trade cooperation, recognized its rules as an essential part of the global trading system, and pledged to contribute to the success of the 14th WTO Ministerial Conference (MC14) in 2026.

Looking ahead, the international economic landscape will remain challenging. This environment renders APEC's principles of open regionalism and consensus-building more important than ever. By championing these values, APEC can help prepare the region for turbulent times and foster a more cooperative and integrated economic future.

Regional Economic Outlook

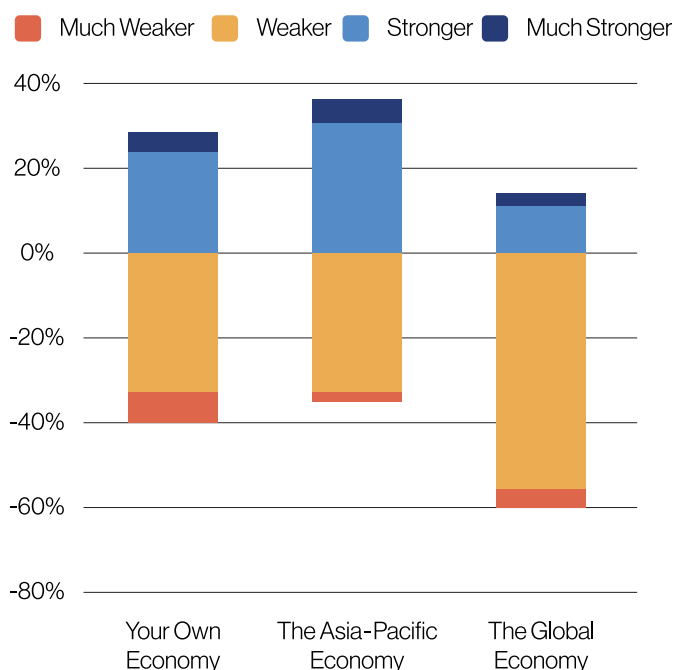
Global economic conditions are entering a period of heightened uncertainty. Governments around the world are reassessing their policy priorities against the backdrop of escalating trade tensions and volatile financial markets. Consequently, growth prospects have been adjusted down by various international organizations. Regarding the world economic outlook, the International Monetary Fund (IMF) in July lowered its projection to 3.0%, a decrease from its January estimate of 3.3%.² While the Asia-Pacific expected growth rate exceeds the global average, Asia-Pacific's expected real growth rate is still below the pre-covid-19 years (Figure 1.1). The downward reassessment of growth includes developing economies as well, since the Asian Development Bank has also lowered its 2025 growth assumptions for Developing Asia, from 4.9% to 4.7%.³

Figure 1.1: Real GDP Growth, 2015-2025



Source: IMF (2025)⁴

Figure 1.2: Growth Expectations in the Next 2-3 Years



Source: PECC Expert Opinion Survey 2025

These projections are echoed in the PECC expert opinion survey which shows that the majority of respondents believe that economic growth will slow over the next few years (Figure 1.2). Respondents generally believe, however, that their own economies and the Asia-Pacific as a whole will perform better than global economy. While 60% of them anticipate the global economy will be “much weaker” or “weaker” in the next few years, only 36% hold the same pessimistic view for the Asia-Pacific region and 40% for their own economies.

² International Monetary Fund (IMF) (2025). World Economic Outlook, July.

³ Asian Development Bank (ADB) (2025). Asian Development Outlook, April.

⁴ IMF (2025). World Economic Outlook Database.

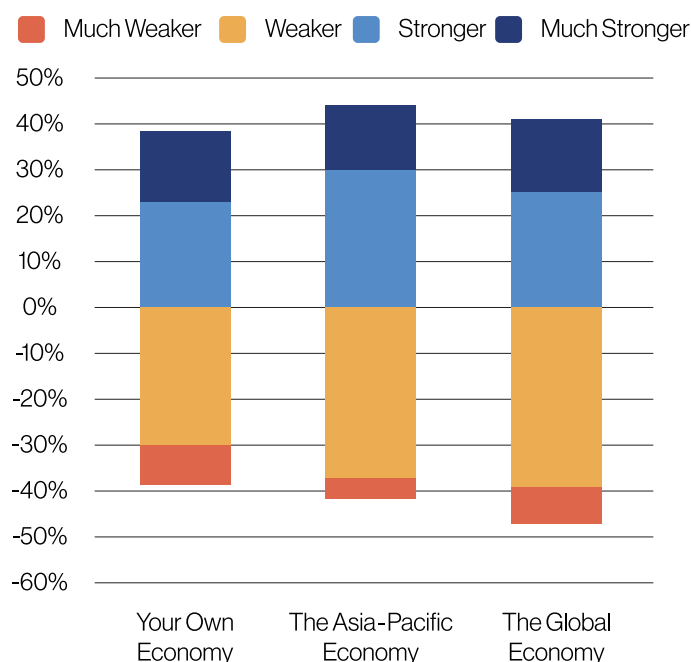
https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

Several factors may explain these findings. For one thing, respondents likely anticipate that the positive growth impact from the frontloading of exports in advance of the anticipated US tariffs during the first half of 2025 will likely be unwound during the second half and beyond. Geopolitical tensions and conflicts, increased use of national security to justify protectionism, and new industrial policies further exacerbate market uncertainty and weaken global demand. No one can predict how the interactions among economies will transpire. Some analysts foresee collaboration on specific areas while others anticipate a virtual collapse of international trading system or something in between, a more fragmented version characterized by smaller and exclusive trading blocs.

The effects of increased protectionism loom large on the prospects for future growth. According to the PECC survey, around 38% of participants believe increased protectionism will make their own economy grow “much weaker” or “weaker” in the next 2-3 years (Figure 1.3). About 42%, and 46% of them respectively see protectionism as a cause of the “much weaker” or “weaker” growth of the Asia-Pacific and global economy during the same period.

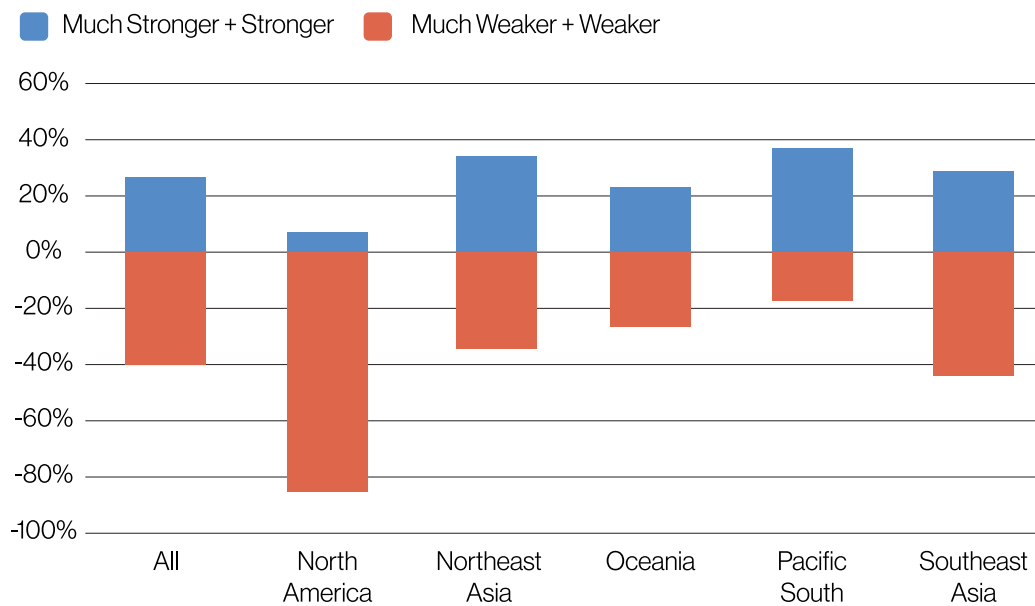
Even amidst rising protectionism, about 44% of respondents believe the Asia-Pacific’s GDP will expand in the next few years (Figure 1.3). Increased protectionism by some economies may act as the catalyst for regional economies to deepen their trade relations among themselves, even though regional trade deals are considered the “second best option”.

Figure 1.3: Growth Expectations from Increased Protectionist Measures



Source: PECC Expert Opinion Survey 2025

⁵ This policy may be driven by securitization of economic issues (i.e. the framing and management of economic matters through national security lens). In other cases, policymakers may use national security as a pretext for implementing protectionism.

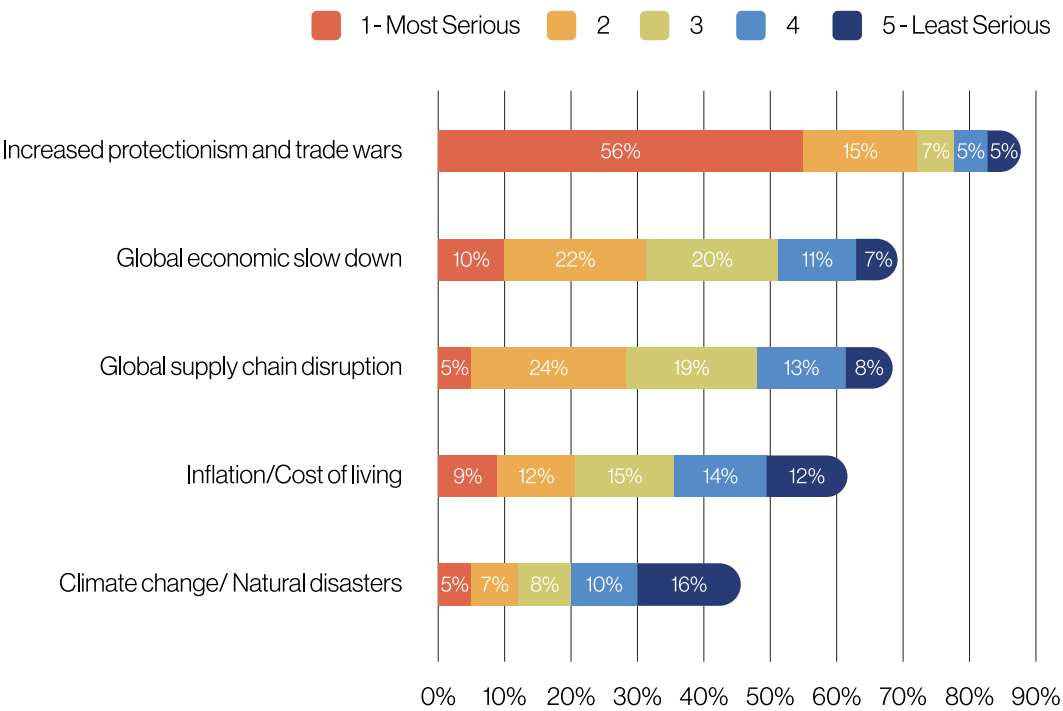
Figure 1.4: Growth Expectations for Own Economy by Subregion

Source: PECC Expert Opinion Survey 2025

Regarding subregional variations, the individuals from North America are the most pessimistic about their own economic growth, with 85% of them expecting growth to be “much weaker” or “weaker” in the next few years (Figure 1.4).

Top 5 Risks to Growth

Figure 1.5: Top 5 Risks to Growth

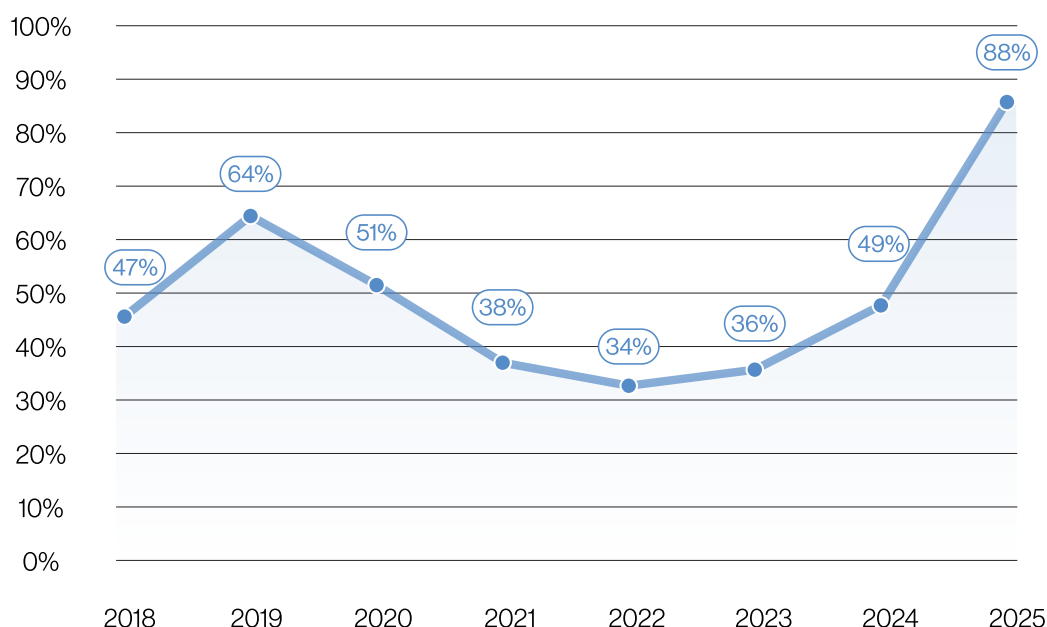


Source: PECC Expert Opinion Survey 2025

- 1 INCREASED PROTECTIONISM AND TRADE WARS
- 2 GLOBAL ECONOMIC SLOW DOWN
- 3 GLOBAL SUPPLY CHAIN DISRUPTION
- 4 INFLATION/ COST OF LIVING
- 5 CLIMATE CHANGE/ NATURAL DISASTER

INCREASED PROTECTIONISM AND TRADE WARS

Figure 1.6: Share of Respondents Citing “Increased Protectionism and Trade Wars” as Risk to Growth over Time



Source: PECC Expert Opinion Surveys 2018-2025

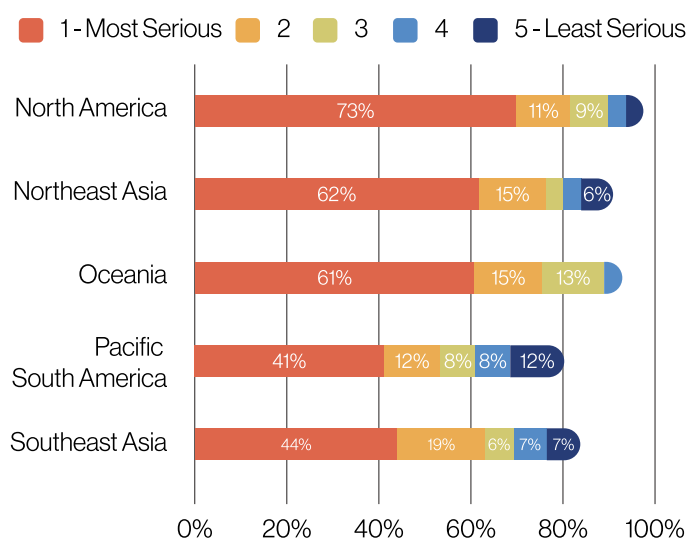
The PECC survey shows that “increased protectionism and trade wars” emerges as the biggest risk to growth (Figure 1.5). 56% of participants cite it as the “most serious” risk. The sentiment is mainly caused by the Trump Administration’s “America First Trade Policy” which is seen by many economies as exhibiting a strong protectionist stance. The initiative leverages tariffs to address the US merchandise trade imbalances, protect and stimulate its domestic industries, and bring out-sourced jobs home. The policy has become one of the defining features of the current trade landscape. In the end of August 2025, the US average effective tariffs on the imports from the rest of the world stood at 17.41%, the highest since 1935.⁶ Higher duties were applied to specific products such as aluminum, steel, and copper, generally, and applied to products from particular economies.

The PECC survey over the years has included “increased protectionism and trade wars” as one of the choices for respondents to select as a risk to growth. The longitudinal comparison reveals that the share of respondents that consider this risk to be among the top five risks to growth has risen sharply in recent years (Figure 1.6).

⁶ This percentage is a pre-substitution one which is before US consumers and businesses change their behaviors in response to the tariffs. For details, see The Budget Lab (2025). “State of U.S. Tariffs: September 4, 2025”, Yale University.

Different subregions possess divergent perspectives (Figure 1.7). For instance, 73% of respondents from North America choose “increased protectionism and trade wars” as their “most serious risk”. This may be because this subregion houses the economies most exposed to the US market. For example, Mexico’s and Canada’s goods exports to the US account for 28% and 19% of their GDP respectively. Also, 62% of survey subjects from Northeast Asia and 61% from Oceania consider the issue as their “most serious risk”, indicating serious concerns. This may be because the US remains one of their major trading partners.

Figure 1.7: Increased Protectionism and Trade Wars as Risk to Growth by Subregion



Source: PECC Expert Opinion Survey 2025⁷

In contrast, only 44% of respondents from Southeast Asia and 41% from Pacific South America pick the issue as “the most serious risk”. Some of them have the US among their biggest trading partners. For example, Vietnam’s goods exports to the US account for 30% of its GDP. Despite the exposure, these economies are advancing their own cooperation and integration under entities such as the Association of Southeast Asian Nations (ASEAN) and the Pacific Alliance. Such mechanisms may provide them with more opportunities to diversify or leverage subregional markets amidst rising protectionism.

APEC initiatives promote a free, open, and rules-based trading system. The Putrajaya Vision 2040 aims to build an “open, dynamic, resilient and peaceful Asia-Pacific community by 2040,” and the Aotearoa Plan of Action outlines specific policy measures and prioritizes strengthening the multilateral trading system with the WTO at its core. Moreover, APEC economies are advancing the Free Trade Area of the Asia-Pacific (FTAAP) agenda through the Ichma Statement and FTAAP Agenda Work Plan. PECC has also advanced regional thinking on inclusive growth and economic cooperation in the region through its Signature Project on FTAAP.⁸

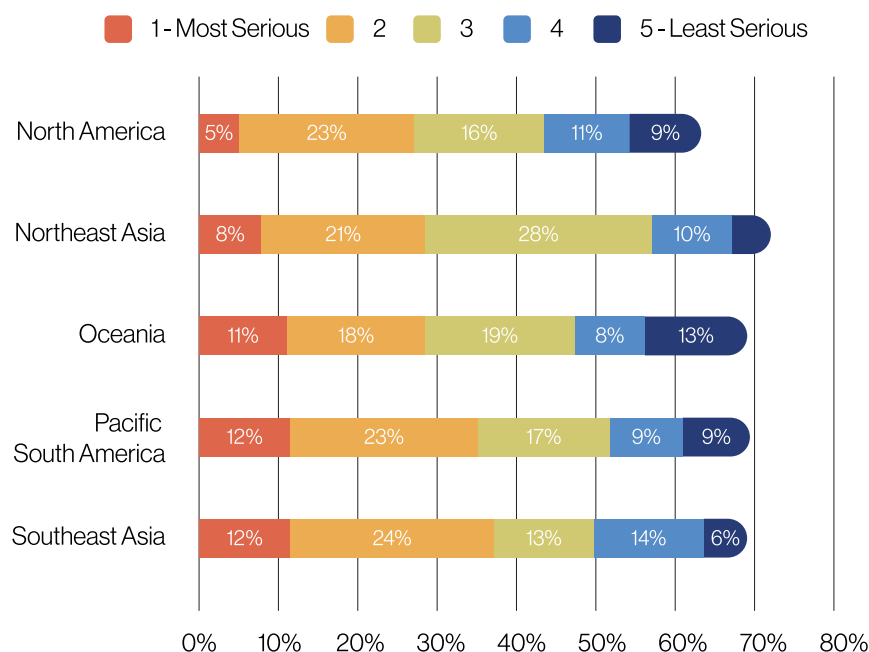
⁷ Percentages are shown if they are 5% or greater.

⁸ PECC Signature Project on “FTAAP: Pathways to Prosperity” focuses on Services and Good Regulatory Practice, Professional Services and Mutual Recognition, and Trade and Climate Change. For details, see <https://www.pecc.org/pecc/204-issues/957-ftaap-pathways-to-prosperity>

GLOBAL ECONOMIC SLOW DOWN

A “global economic slowdown” is cited the second biggest risk to the growth of individual economies, underscoring the transmission channels through which weaker global demand affects exports and investment (Figure 1.5). As mentioned in the Introduction, global output is expected to decelerate. Key drivers of this perception include increased number of trade barriers, economic policy unpredictability, and geopolitical dynamics. The World Bank’s report attributed its downgraded growth projections to a sharp rise in trade restrictions and policy-related unpredictability.⁹ The Organisation for Economic Co-operation and Development (OECD) links the economic slowdown to protectionism and economic policy uncertainty.¹⁰ In a similar vein, the IMF highlights that persistent uncertainty and geopolitical tensions are undercutting world’s economic growth.¹¹

Figure 1.8: Global Economic Slowdown as a Risk to Growth by Subregion



The global economic slowdown is transmitted to individual economies via a subdued investment climate, cautious consumer behavior, and pressures on employment, affecting both advanced and developing economies. In the PECC survey, more than 63% of respondents from all subregions identify the issue as a key risk to their economy’s growth (Figure 1.8).

⁹ World Bank Group (2025). “Global Economic Prospects”, <https://www.worldbank.org/en/publication/global-economic-prospects>

¹⁰ The Organisation for Economic Co-operation and Development (OECD) (2025). “OECD Economic Outlook: Tackling Uncertainty, Reviving Growth”, June 2025, Volume 2025/1, No. 117.

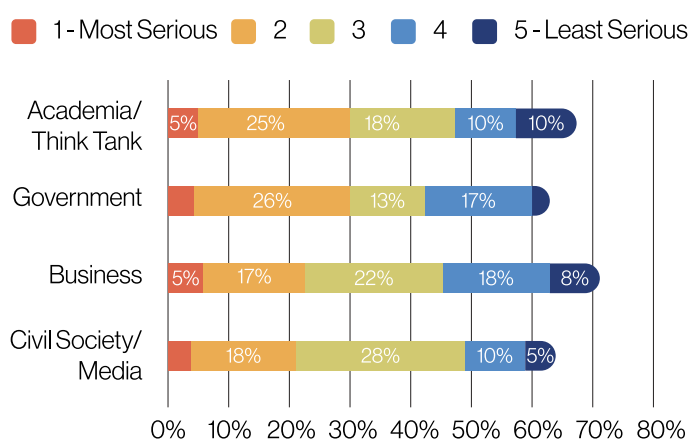
¹¹ IMF (2025), “Global growth expected to decelerate as trade-related distortions wane”, World Economic Outlook Update, July.

¹² Percentages are shown if they are 5% or greater.

GLOBAL SUPPLY CHAIN DISRUPTION

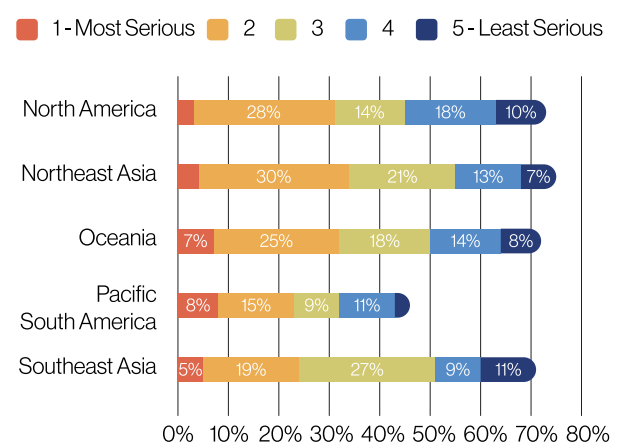
“Global supply chain disruption” is ranked as the No. 3 risk to growth (Figure 1.5). The concern may stem from multiple considerations such as situations in key flashpoints and natural disasters. Also, geopolitical tensions have prompted firms to pursue diversification. Companies are scrambling to move their production lines back home (i.e. onshoring) or closer to home (i.e. nearshoring) to mitigate risks.

Figure 1.9: Global Supply Chain Disruption as a Risk to Growth by Affiliation



Source: PECC Expert Opinion Survey 2025¹⁴

Figure 1.10: Global Supply Chain Disruption as a Risk to Growth by Subregion



Source: PECC Expert Opinion Survey 2025¹⁵

Business participants express more concern in the survey about supply chain disruption than their non-business counterparts, with more than 70% of the former picking it as their risk to growth (Figure 1.9). The former are facing mounting challenges to diversify. For example, unwinding from certain markets or suppliers can be infeasible and financially risky especially when done during a period of heightened market uncertainty.

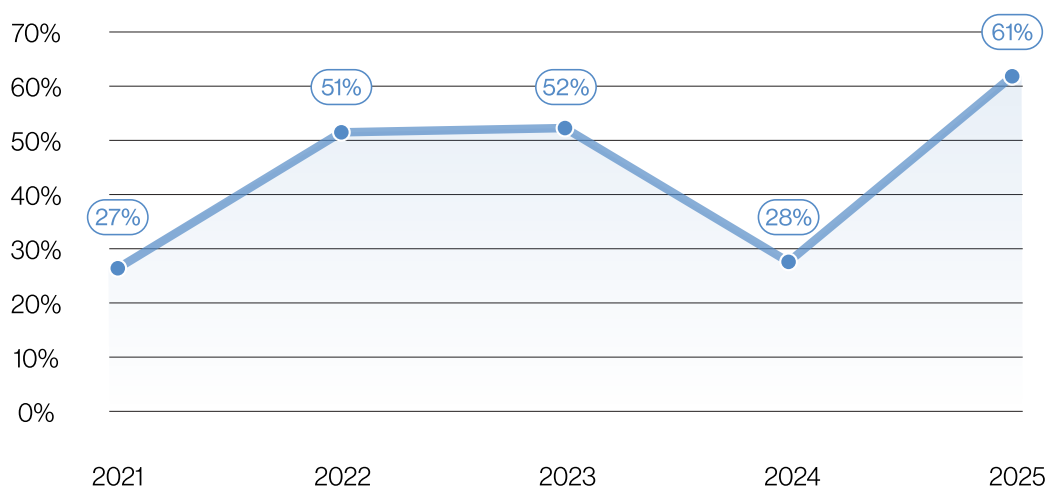
Global supply chain disruption is a shared concern across all subregions, but some variations exist (Figure 1.10). More than 70% of survey subjects from North America, Northeast Asia, Oceania, and Southeast Asia cite it as a risk to growth. However, less than half (46%) of participants from South Pacific America do so. This wide margin may be explained by the latter's export composition. As primary exporters of commodities and agricultural products, they are less vulnerable to supply chain shocks. In contrast, manufacturing-heavy economies rely on intermediate goods. They have longer value chains with parts and components sourced from various locations, making them susceptible to the disruptive effects of tariffs on their operations.

¹⁴ Percentages are shown if they are 5% or greater.

¹⁵ Percentages are shown if they are 5% or greater.

INFLATION/ COST OF LIVING

Figure 1.11: Share of Respondents Citing “Inflation” as Risk to Growth over Time

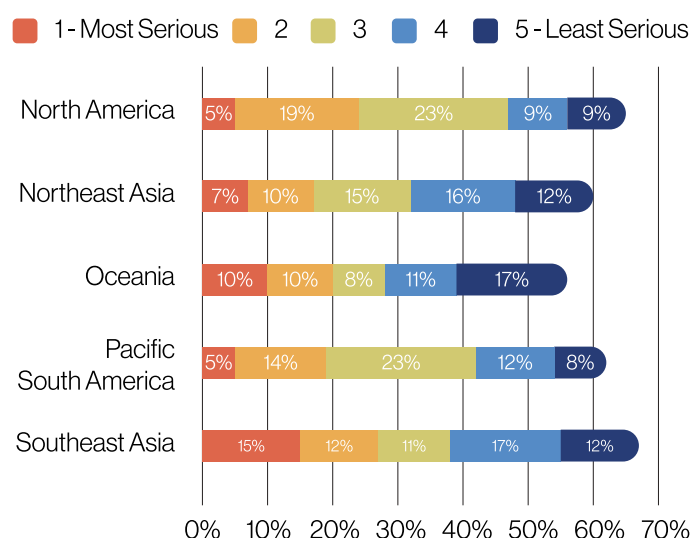


Source: PECC Expert Opinion Surveys 2021-2025

Survey respondents identify “inflation/cost of living” as the No.4 risk to growth (Figure 1.5). The result contrasts with the IMF’s estimation that global headline inflation will drop from 4.2% in 2025 to 3.6% in 2026.¹⁶ “Inflation” has been a choice for this question in the PECC survey over the years. The longitudinal comparison shows a higher percentage of participants this year choose inflation as a risk to growth, indicating a rising regional concern about the issue over the years (Figure 1.11).

A close look at the PECC survey reveals that perspectives on inflation differ across subregions (Figure 1.12). Southeast Asian and North American individuals are most concerned, with 67% of the former and 65% of the latter pick it as their risk to growth.

Figure 1.12: Inflation/ Cost of Living as a Risk to Growth by Subregion

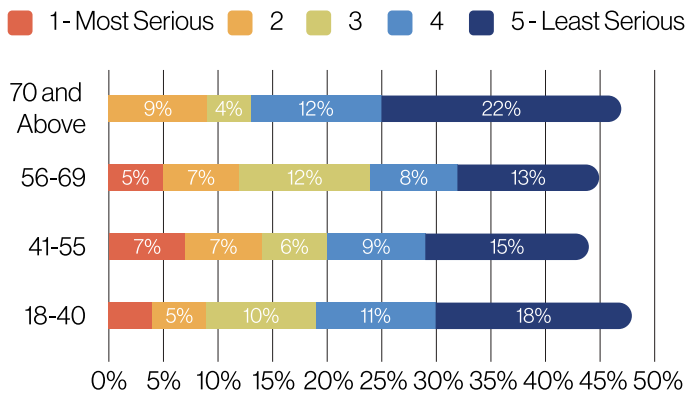


Source: PECC Expert Opinion Survey 2025

¹⁶ International Monetary Fund (IMF) (2025). World Economic Outlook, July.

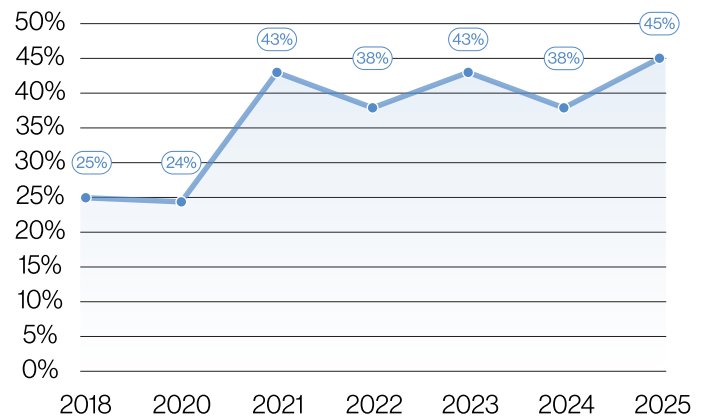
CLIMATE CHANGE/ NATURAL DISASTER

Figure 1.13: Climate Change/ Natural Disasters as a Risk to Growth by Age Group



Source: PECC Expert Opinion Survey 2025

Figure 1.14: Share of Respondents Citing “Climate Change” as Risk to Growth over Time



PECC Expert Opinion Surveys 2019-2025

“Climate change/natural disasters” emerges as No.5 risk to growth (Figure 1.5). Contrary to conventional belief, older generations (especially those over 70) are as likely as younger ones to regard it as a serious problem (Figure 1.13).

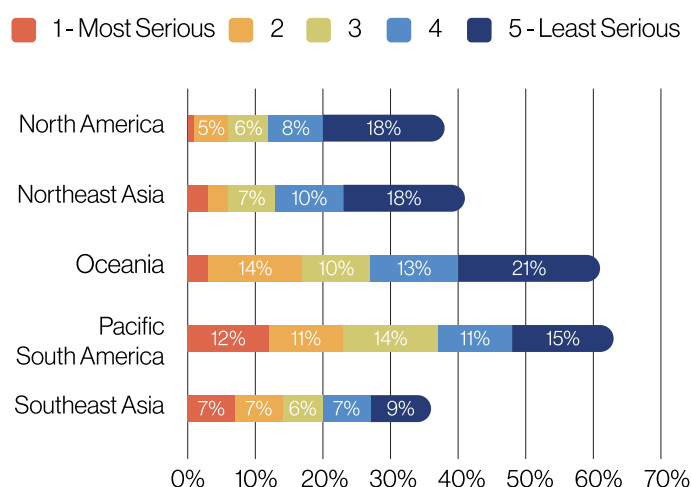
“Climate Change” has been a choice for this question in the PECC survey over the years. The longitudinal trend shows increased percentage of participants selecting it as risk to growth (Figure 1.14). This indicates that the effect of climate change has been more widespread and hence felt by more individuals over time.

The PECC survey uncovers cross-subregional variations (Figure 1.15). Respondents living in Pacific South America and Oceania are the most worried. About 60% of these individuals cite the issue as their risk to growth, as compared to about 36-42% of their counterparts elsewhere. This result may be attributed to the two subregions' unique geographical vulnerabilities. Illustratively, Oceania has several low-lying islands or communities. Rising sea levels cause coastal erosion and freshwater contamination, threatening their livelihood and existence.

Regarding Pacific South America, rising temperatures accelerate the melting of tropical glaciers, jeopardizing the freshwater supply for the populations and water-reliant agricultural sector. Furthermore, the subregion is prone to the negative impacts of El Nino and La Nina phenomena, making them suffer from severe floods, landslides, and droughts.

APEC tackles climate change and natural disasters through bolstering sustainability and resilience. For example, the Bangkok Goals on Bio-Circular-Green (BCG) Economy encourages trade and investment in environmental goods and services, as well as circular economy practices. The San Francisco Principles on Integrating Inclusivity and Sustainability into Trade and Investment Policy strengthens regional cooperation to supports sustainable growth. Moreover, PECC has explored the relationship between trade and climate change through its Signature Project on FTAAP.

Figure 1.15: Climate Change/ Natural Disasters as a Risk to Growth by Subregion



Source: PECC Expert Opinion Survey 2025¹⁷

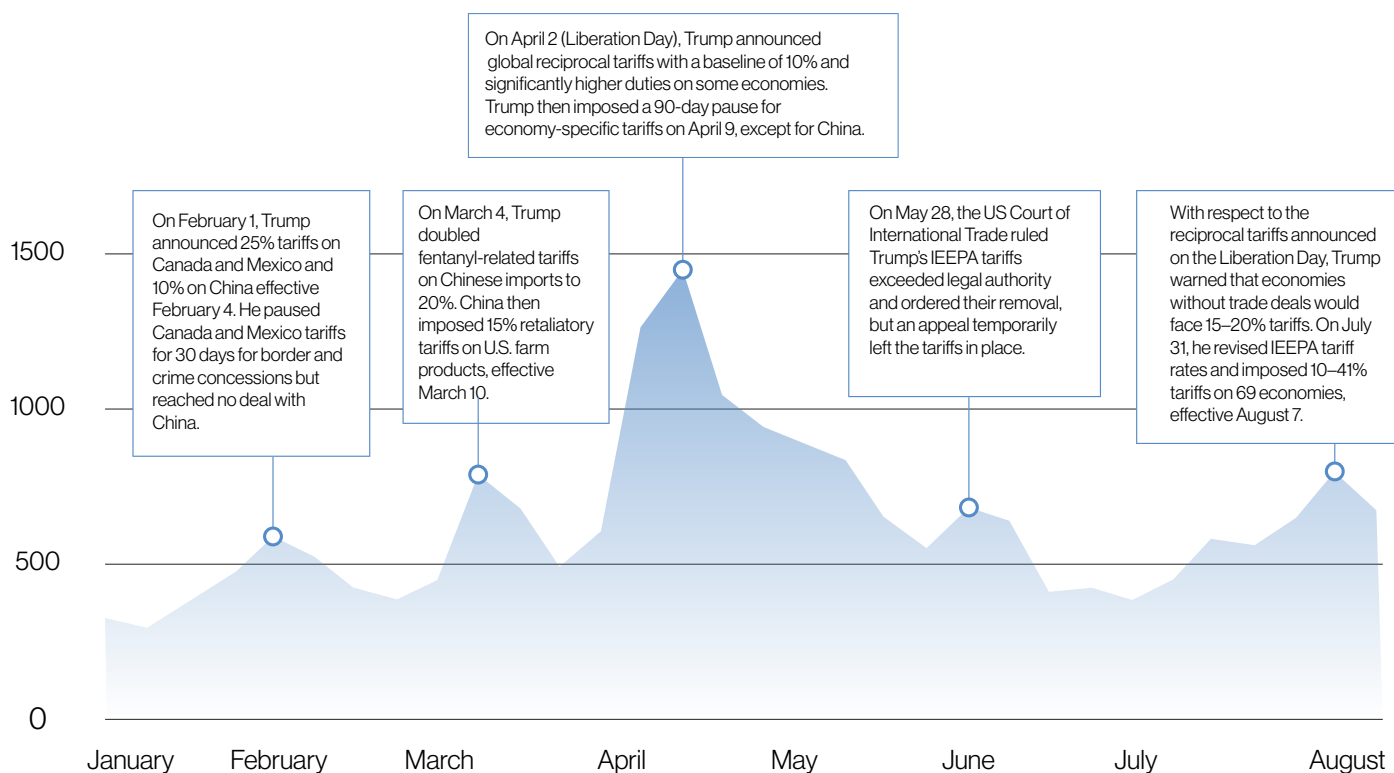
¹⁷ Percentages are shown if they are 5% or greater.

¹⁸ The PECC's Policy Brief argues that the current trading system worsens and cites two main reasons, which are environmentally harmful subsidies and tariffs and non-tariff measure escalation in developed economies. For details, see Rory McLeod (2024). "Trade and Climate Change", Policy Brief, PECC Signature Project: FTAAP Pathways to Prosperity, June.

UNDERSTANDING UNCERTAINTY

The current environment is characterized by high level of uncertainty. Rising protectionism and abrupt policy changes have injected unpredictability into the world economy. The Trade Policy Uncertainty Index reveals that trade policies became more unpredictable since January 2025 (Figure 1.16). According to the Yeouido Declaration adopted at the PECC Standing Committee meeting in August 2025, the Asia-Pacific is facing “the most consequential challenges to the rules-based open and liberal trading system in the 21st century, marked by rising economic uncertainty and a resurgence of protectionism.”¹⁹

Figure 1.16: Trade Policy Uncertainty Index

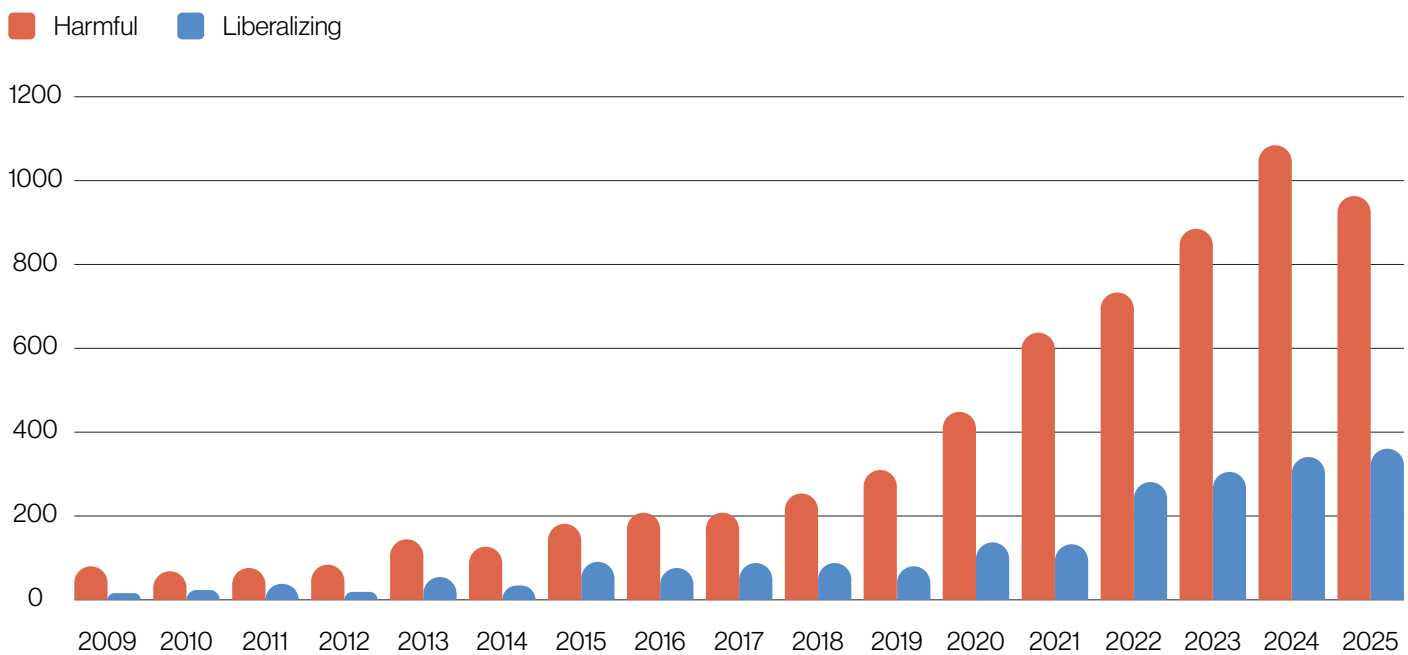


Source: Caldara et al. (2025)²⁰

¹⁹ Pacific Economic Cooperation Council (PECC) (2025). The Yeouido Declaration, August 13. https://www.kiep.go.kr/boardDownload.es?bid=0053&list_no=22507&seq=1

²⁰ The Index tracks the frequency of the discussion surrounding the policy unpredictability by major newspapers. For detail, see Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea

Figure 1.17: The Number of New Harmful and Liberalizing Trade Measures in the Asia-Pacific



Source: Global Trade Alerts²¹

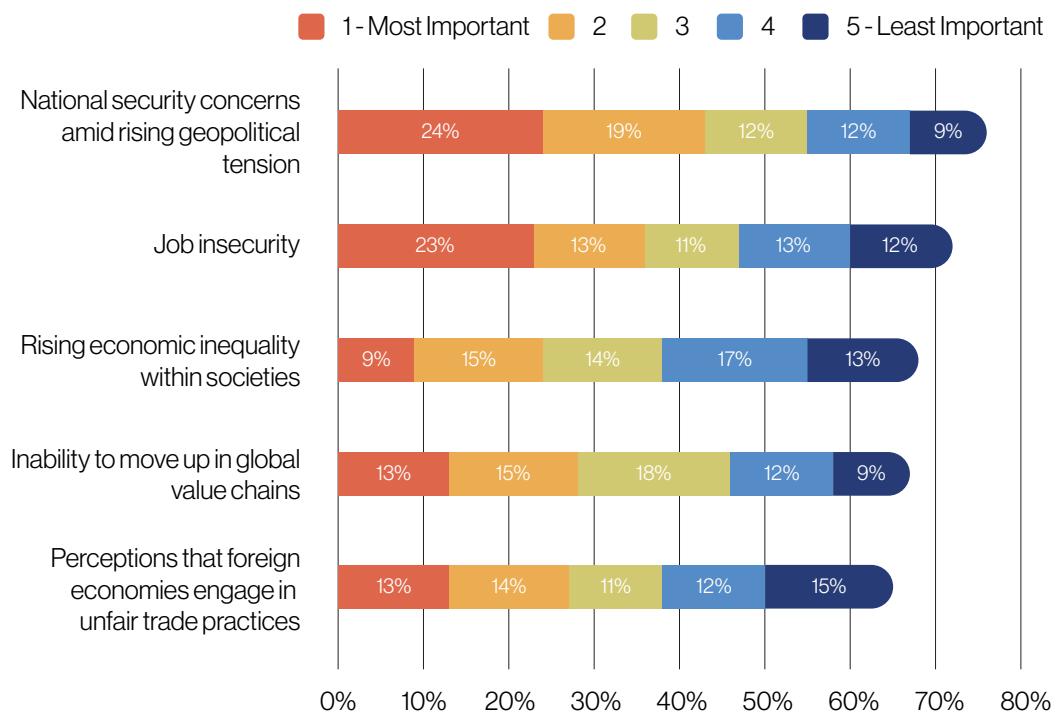
The Asia-Pacific has witnessed a consistent rise in new harmful trade measures since 2017, outnumbering new liberalizing ones and adding greater complexities for companies (Figure 1.17). This renders supply chains more prone to sudden interruptions. Consequently, firms are struggling with long-term planning due to the unpredictable nature of these new economic barriers.

To understand more about what has fueled this trend, the PECC survey probes the underlying causes behind the negative sentiments towards trade and globalization.

Raffo (2025), "Does Trade Policy Uncertainty Affect Global Economic Activity?" Data reporting cut-off date was 8 August 2025.

²¹ Global Trade Alert (2025). GTA Data Center. <https://globaltradealert.org/data-center>. Data reporting's cut-off date was 12 August 2025.

Figure 1.18: Top 5 Factors Driving Concerns on Trade and Globalization



Source: PECC Expert Opinion Survey 2025

The most important reason for the opposition to trade and globalization is “national security concerns amid rising geopolitical tensions”, with 76% of survey subjects citing it (Figure 1.18). As geopolitical tensions intensify, economic issues are increasingly viewed through a security lens. Subsequently, policymakers prioritize security over market efficiency. The advanced technology sector illustrates this point. Governments are using export controls and restrictions to achieve technological leadership and prowess and reduce dependency on their rivals and adversaries.

The second most important root cause of opposition to trade and globalization is the fear of unemployment. From the PECC survey, 72% of participants are concerned about “job insecurity” (Figure 1.18). One possible explanation may be that workers are concerned about losing the jobs they have, even if it is possible to obtain another job, albeit less attractive job, in otherwise robust economy. Workers may also fear that emerging technologies, such as artificial intelligence (AI), will cause their jobs to be replaced by machines. These advancements are re-shaping labor markets and may in the future contribute to recent layoffs. The World Economic Forum’s survey finds a significant skill-job mismatch, with 63% of the organizations identifying skills gaps in the labor market as the biggest factor hindering their transformation.²²

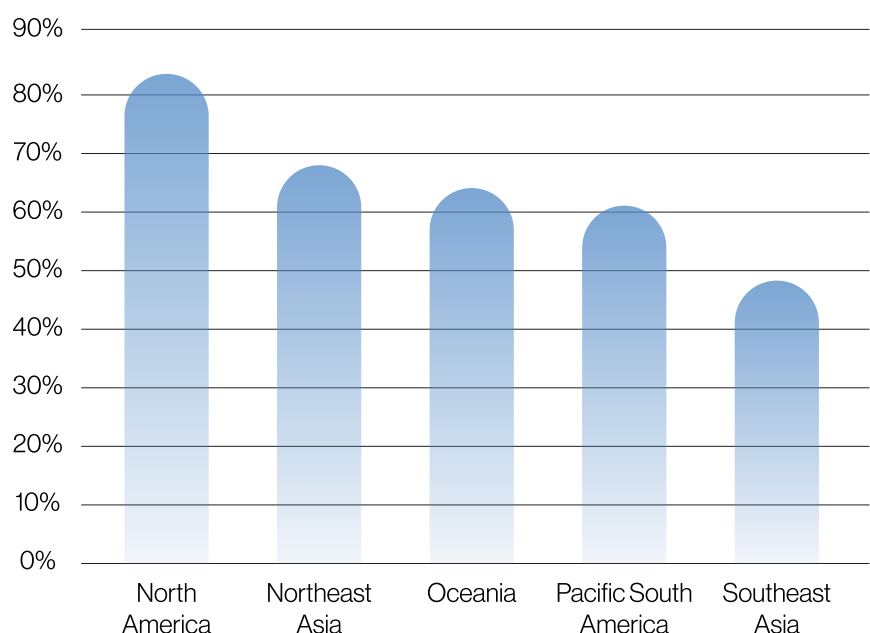
²² WEF (2025). The Future of Jobs Report 2025.

“Rising economic inequality within societies” emerges as the third most important concern about trade and globalization, with 68% of survey subjects choosing it (Figure 1.18). The issue has worsened in the past three decades. During this period, income inequalities in more than half of all economies and close to 90% of advanced ones were widened.²³ This phenomenon may be explained by various elements ranging from new technological innovations, unequal access to finance, to stringent labor markets.

Another reason fueling worries about trade and globalization is a decline in international competitiveness. The PECC survey show that 67% of respondents select “Inability to move up in global value chains” as the fourth most important factor (Figure 1.18). The finding may reflect the struggles faced by many economies in advancing their positions within global value chains. Climbing the value chains is vital for economic growth and development. Historically, an economy’s success hinged on its ability to produce and export the entire goods. However, today’s success is increasingly determined by its ability to perform specific tasks within complex cross-border value chains.

Concerns about trade and globalization also stem from “perceptions that foreign economies engage in unfair trade practices” which is ranked as the fifth most important factor by 65% of survey subjects (Figure 1.18). This view is most pronounced in North America as compared the other subregions (Figure 1.19).

Figure 1.19: Perceptions That Foreign Economies Engage in Unfair Trade Practices by Subregion



Source: PECC Expert Opinion Survey 2025

²³ IMF (2025). “Income Inequality”, <https://www.imf.org/en/Topics/Inequality/introduction-to-inequality>

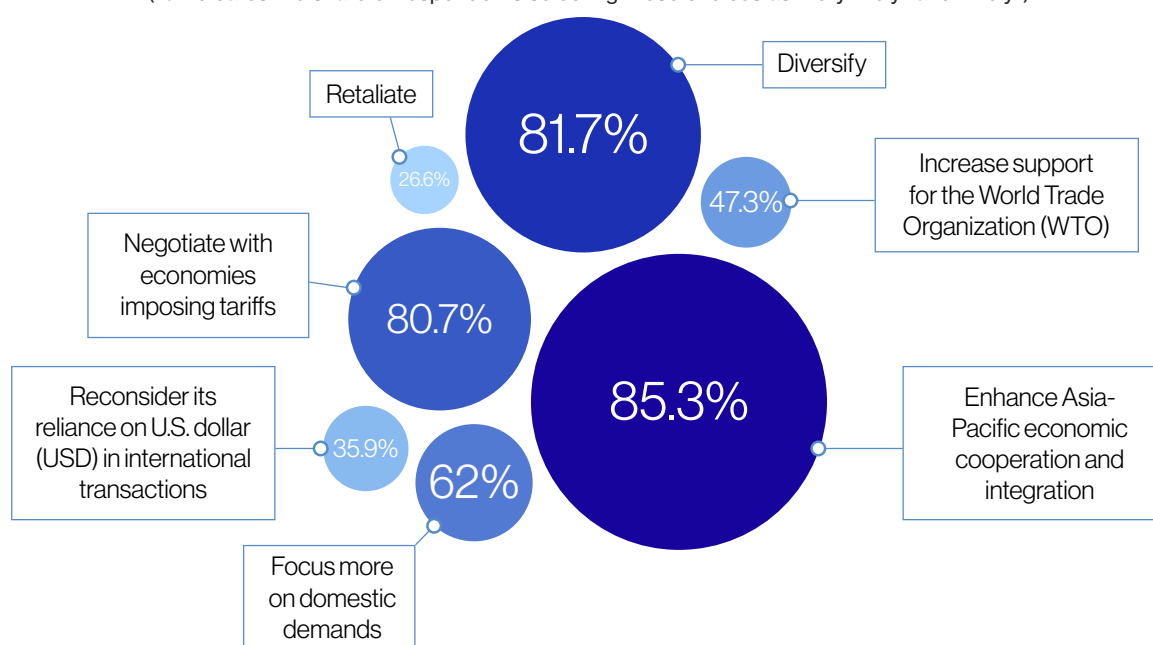
IMPACT OF UNCERTAINTY

Impact on Economic Outlooks

Uncertainty is clouding the economic outlook. The remaining part of 2025 will be driven by multiple headwinds. The effects of front-loading trade in advance of tariffs and other risk-mitigating strategies are set to fade, and the future interactions between economies are becoming increasingly unpredictable. For one thing, protectionism can trigger a new cycle of retaliation and formation of new trade and investment groupings, ultimately causing greater market fragmentation.

Figure 1.20: Government Responses to Tariffs

(% indicates the share of respondents selecting these choices as “very likely” and “likely”)



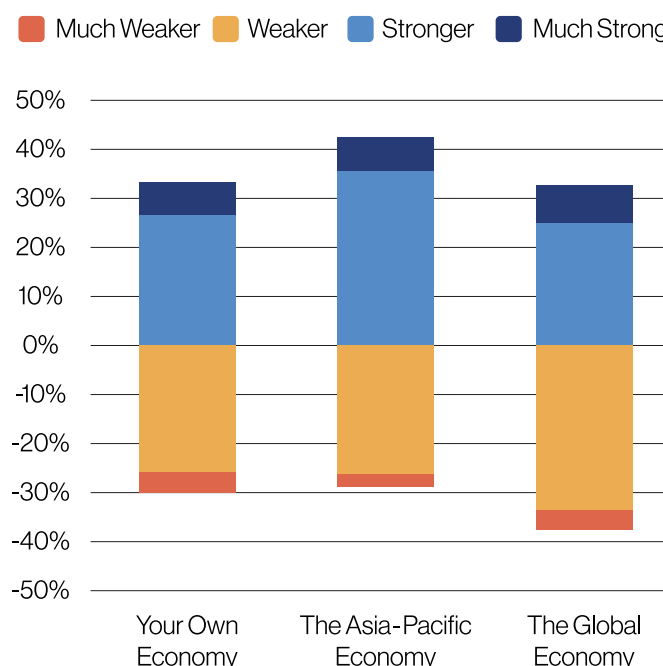
Source: PECC Expert Opinion Survey 2025

The imposition of tariffs by some economies may prompt other economies to respond in one way or another. As the PECC survey demonstrates, responses to tariffs on their exports vary (Figure 1.20). The most common policies are regional collaboration and integration, negotiation, and diversification. Over 85% of survey subjects believe their governments would “enhance Asia-Pacific economic cooperation and integration”. Furthermore, about 80% of them anticipate their authorities would “negotiate with economies imposing tariffs” or “diversify”. Despite being a less common response, “retaliate” is seen as a policy alternative. More than a quarter (27%) of participants suppose it to be their governments’ responses.

These findings concur with recent developments. Different economies have employed different approaches. Many governments have chosen negotiation to resolve their trade tensions. Other policies include more reliance on domestic demand, diversification, and regional economic cooperation and integration. In addition, some economies have retaliated. For example, China increased trade barriers on the US products. Also, Canada retaliated with 25% duties on several American goods ranging from agricultural products to cars in March 2025, but removed them in September 2025 following the US decision to grant a duty-free to most Canadian products under the United States-Mexico-Canada Agreement (USMCA).

A variety of responses not only adds complexity to the world economy but also lessens one's ability to predict the future, making it even more uncertain for businesses to navigate. This element may shape survey subjects' views on the economic outlooks. As mentioned above, the PECC survey reveals that the majority (60%) of respondents anticipate the world economy to be weaker or much weaker in the next few years (Figure 1.2).

Figure 1.21: Growth Expectations from Increased Market Competition among Economies for Own, the Asia-Pacific and the Global Economy



Source: PECC Expert Opinion Survey 2025

The increase in market competition among economies is also dimming to their outlooks. When economies become entangled in a zero-sum game, the potential for mutually beneficial cooperation diminishes. Supply chain fragmentations and the reduction in foreign direct investment result, impeding growth. Referring to the PECC survey, due to the competition, around 30%, 27%, and 36% of participants respectively expect the decreased GDP for their own economy, the Asia-Pacific, and the global economy within the next few years (Figure 1.21). This outlook is shared by WTO Director-General Ngozi Okonjo-Iweala. She contends that the WTO's analysis reveals the US-China trade escalation could lead to a reduction of as much as 80% of their bilateral goods trade and risk breaking the global economy into two separate blocs. If the latter happens, the WTO estimates that world's real GDP to be lower than it would be otherwise by nearly 7% by 2040 as a result.²⁴

²⁴ World Trade Organization (WTO) (2025). Statement by the Director-General on escalating trade tensions, April 9. https://www.wto.org/english/news_e/news25_e/dgno_09apr25_e.htm; and WTO (2025). Global Trade Outlook and Statistics, April.

Impact on Cross-Border Trade and Supply Chains

Protectionist measures diminish cross-border trade. For example, duties make imports more expensive, discouraging demand for them. Tariffs also tempt exporting economies to turn inward and focus more on propping up their internal markets instead of accessing external ones. The PECC survey shows that 62% of participants expect their policymakers to focus more on domestic demand if tariffs are applied to their exports (Figure 1.20). A similar percentage of respondents regard this strategy as a useful response (Figure 1.26).

As mentioned above, different responses to protectionism and the subsequent interactions among economies amplify market uncertainty, further suppressing global trade. The IMF's analysis unveils a strong relationship between the uncertainty in the global economy and international trade. When uncertainty rose by one standard deviation, bilateral trade was found to drop by 4.5%.²⁵ This resonates with the PECC survey finding that 54% and 35.3% of survey subjects anticipate their exports and imports respectively will decline in the next 2-3 years in the protectionist scenario (see survey question 4 in Annex A for details).

High tariffs can negatively affect employment in export-led economies. Exporters may find their products are less price-competitive. If they are unable to secure alternative markets, they may need to reduce their production and workforce to stay afloat. This can soften labor markets and worsen unemployment. The PECC survey supports this logic, with about 61% of participants anticipating that tariffs will increase unemployment in their economies (see survey question 4 in Annex A for details).

Fueled by geopolitical tensions and national security concerns, protectionism is reconfiguring global supply chains. This trend is already prominent in some sectors where governments are implementing new industrial policies to gain a competitive edge and bring certain production lines vital to their national interests back home (i.e. “reshoring”). For instance, US policies are geared towards galvanizing homegrown capacities in semiconductors and AI. Trade patterns and mining investments in critical mineral sector are increasingly influenced by security calculations. Launched in 2022, the Mineral Security Partnership is aimed at strengthening critical mineral supply chains among trusted partners.

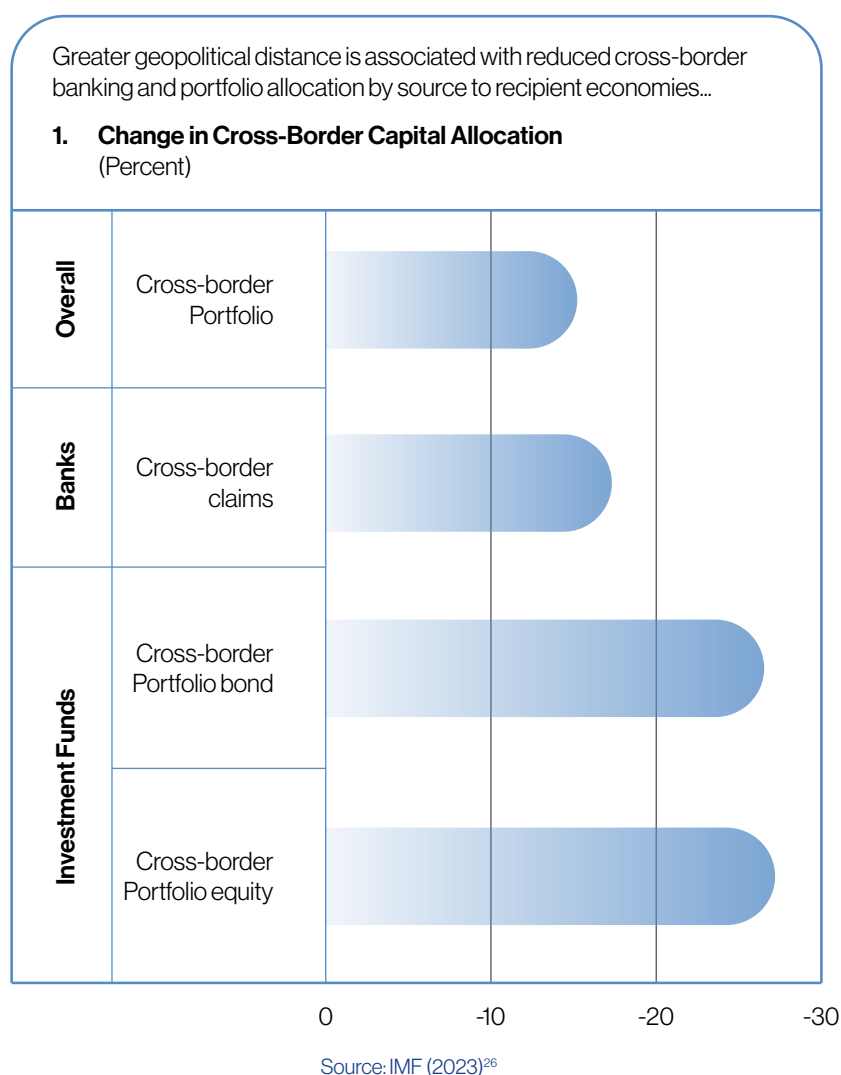
Formal agreements can alter trade and supply chain patterns. Illustratively, the recent US-Vietnam deal charges a 20% duty on most of the latter’s exports to the former. However, the higher 40% levy is applied on “transshipped” good passing through Vietnam to the US market. The deal could lead to trade pattern shifts and supply chain fragmentations between these two economies and beyond. In addition to binding deals, enterprises are changing supply chains to de-risk from the US and China. Because their bilateral talks to resolve their trade conflict have yet finalized, companies are scrambling for “backup” suppliers and markets to mitigate overexposure to the risks associated with any single economy. The PECC survey confirms this trend. About 80% of survey subjects expect their governments to very likely or likely diversify (Figure 1.20), and 86% of them consider it as a useful response (Figure 1.26).

Impact on Cross-Border Investment

Protectionism affects cross-border investment. Import duties can disrupt supply chains and press firms to relocate, altering their decisions on where they will place their investments. Also, protectionism can manifest in various forms of investment restrictions such as rigorous investment screening, suppressing cross-border investment. This logic is echoed by the PECC survey. About 41% and 30% of respondents expect that their economy will suffer from decreased inward and outward investments respectively in the next few years due to rising protectionism (see survey question 4 in Annex A for details).

Rising geopolitical tensions are causing economies to tighten restrictions on foreign investment, particularly in key sectors with national security implications. This climate of uncertainty leads entrepreneurs to pause or postpone new investments. Additionally, the risk of conflicts in global flashpoints is increasing insurance premiums and costs for investors, further discouraging them from investing. According to the IMF (2023), a one-standard-deviation increase in geopolitical tensions between investing and recipient economies dwindles the reduction of cross-border portfolio and bank allocation by about 15%, and cross-border portfolio bonds and equities by about 25% between the individual economies (Figure 1.22).

Figure 1.22: Effects of Geopolitics on Cross-Border Finance



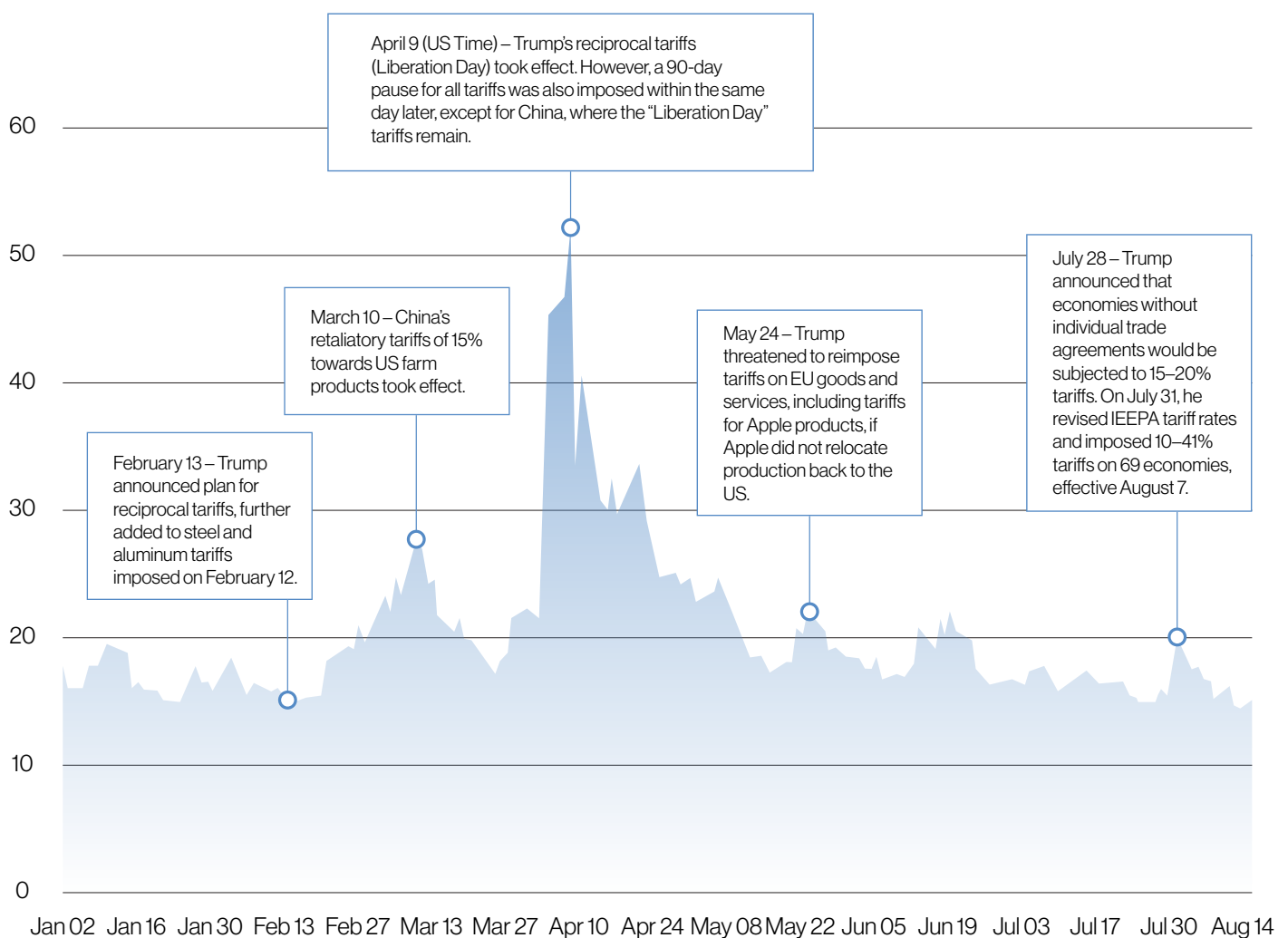
As the PECC survey reveals, about 87% of participant anticipate that their governments would “very likely” or “likely” resort to bilateral trade and investment arrangements (Figure 1.27). This suggests that the world may witness the burgeoning of new bilateral investment treaties to promote mutual investments, exacerbating cross-border investment fragmentation.

²⁶ IMF (2023). “Chapter 3: Geopolitics and Financial Fragmentation: Implications for Macro-Financial Stability” in Global Financial Stability Report: Safeguarding Financial Stability amid High Inflation and Geopolitical Risks (pp. 81-101), April.

Impact on Financial Markets

The era of uncertainty is bringing disruptions to the financial markets. While the compounding effect of factors ranging from geopolitical conflicts to shifts in investment regimes by major economies can cause market volatilities, one should not dismiss a direct link between trade policies and financial market turmoil. In early April, Trump unveiled the “Liberation Day” tariff imposing the 10-41% universal levy on all imports (except Canada and Mexico) and higher sector-specific duties. China immediately and equivalently retaliated with its 34% tariffs on the American goods. These incidents sent shockwaves through financial markets, making it plunge by 10.5% in the S&P 500 Index. This explains the biggest uptick in the VIX Index occurred in that month (Figure 1.23). Although the US-China truce brought some calm, there were other less dramatic new episodes of market nervousness.

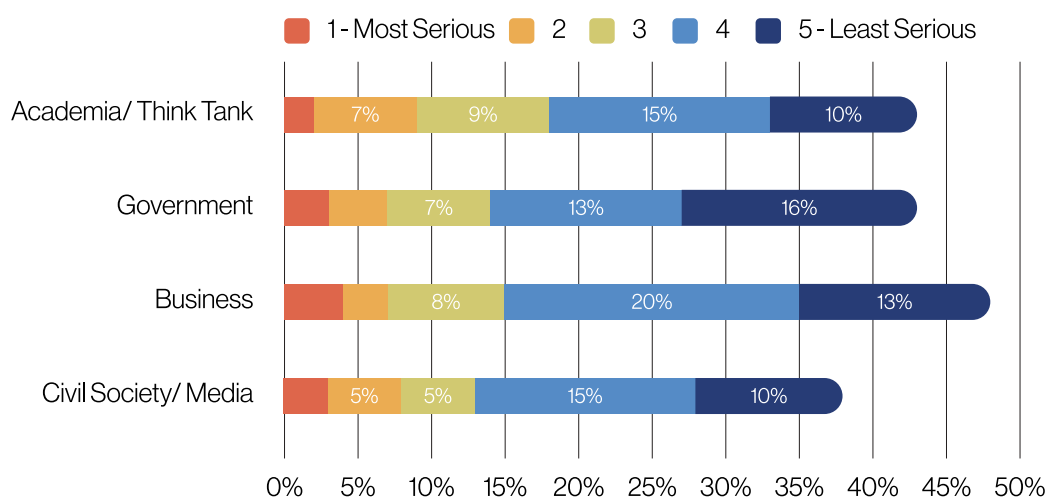
Figure 1.23: Financial Market Volatilities (January - August 2025)



²⁷ Data reporting's cut-off date was 16 August 2025.

Moreover, geopolitical dynamics are affecting cross-border financial flows. Pressured by a desire to prevent competitors or adversaries from accessing the sectors with national security implications, several governments alter rules governing inward and outward investments. Abrupt policy shifts will further complicate the investment climate and worsen financial market volatilities.

Figure 1.24: Financial Market Volatility as Risk to Growth by Affiliation



Source: PECC Expert Opinion Survey 2025²⁸

The PECC survey reveals that risk perceptions of financial market volatility differ across affiliates (Figure 1.24). While government, academic/thinktank, and civil society/media participants recognize this issue as risk to growth, a higher proportion (48%) of the private sector participants feel it. Being on the front lines, companies directly experience how financial market turmoil hinders their access to capital, investment plans, and day-to-day operations. Also, sudden market swings can significantly alter the valuation of a company's assets, complicating their merger and acquisition plans. Consequently, enterprises tend to adopt a "wait-and-see" approach by delaying or cancelling investments.

²⁸ Percentages are shown if they are 5% or greater.

The PECC survey shows that more than one-third (36%) of survey subjects believe their policymakers will “very likely” or “likely” to “reconsider its reliance on the U.S. dollar (USD) in international transactions” as a response to rising protectionism (Figure 1.20). Despite some efforts to de-emphasize the importance of the dollar, the greenback dominates the global reserves holdings, export invoicing, and cross-border transactions (Figure 1.25).

Figure 1.25: The U.S. Dollar as Share of Global Foreign Exchange Reserves, Export Invoicing, and Foreign Exchange Transactions



Source: The Atlantic Council (2025)²⁹

It is worth noting that financial markets have shown resilience as seen by the fact that recent instabilities were short-lived. The stock markets in the US, the European Union, and Japan quickly bounced back from the “April shock” following the announcement of the US Reciprocal Tariffs, and have remained steady since. This resilience may reflect a cautious reassessment by investors who have postponed large-scale sell-offs. Nevertheless, risks should not be underestimated. In the current climate of uncertainty, even a single event could rattle confidence and send markets tumbling again.

²⁹ The Atlantic Council (2025). “Dollar Dominance Monitor”, <https://www.atlanticcouncil.org/programs/geoeconomics-center/dollar-dominance-monitor/>

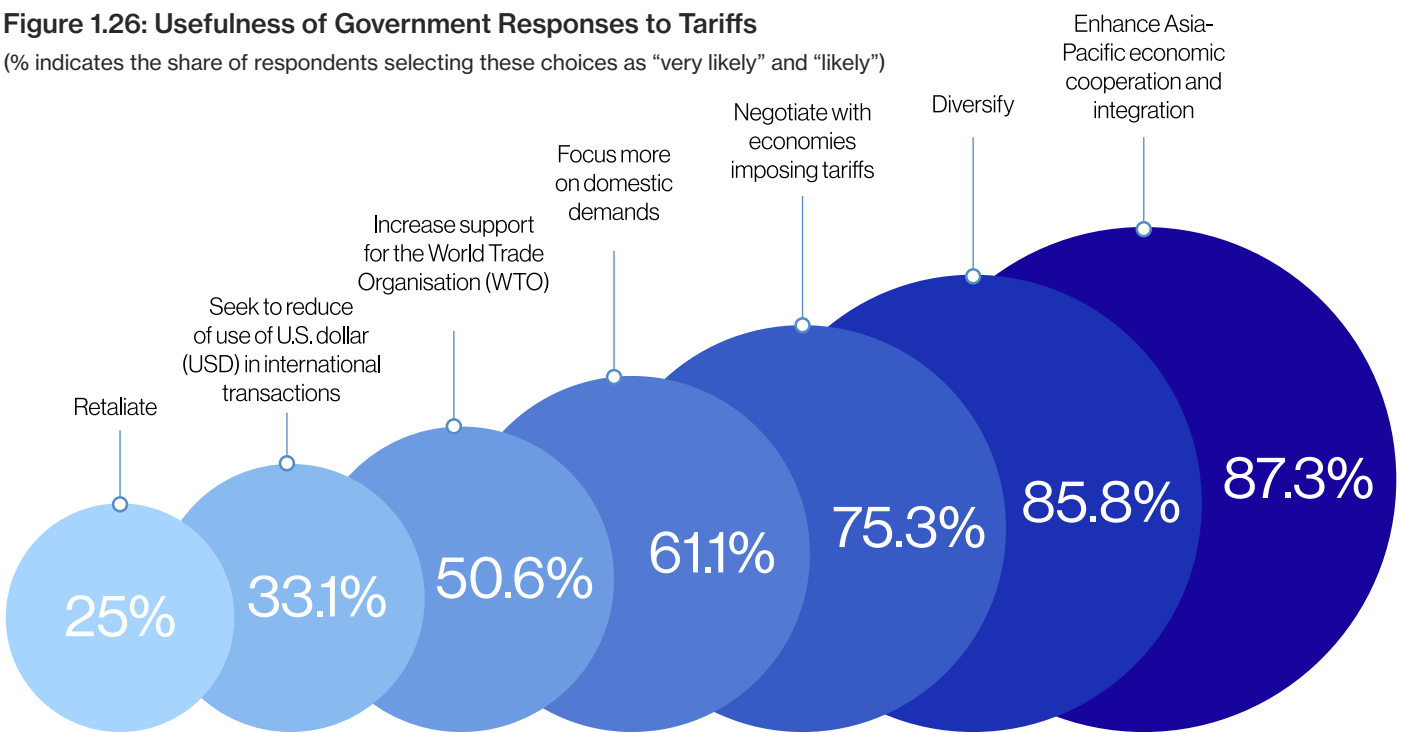
Importance of APEC & Priorities for APEC Leaders

IMPORTANCE OF APEC

There are no easy solutions to the problems generating by this era of uncertainty. Protectionism threatens the international rules-based trading system by undermining the non-discrimination principle enshrined by the WTO. Rapid shifts in economic or economic-related policies are adversely impacting market sentiment. Deepening geopolitics and market competition continue to cloud growth prospects. These developments work against collective efforts to foster a more stable and resilient global and regional economy. Against this backdrop, the PECC survey surfaces respondents' views on how to propel economic cooperation in this challenging time. Many participants consider regional collaboration as a buffer against protectionism. The overwhelming majority (85%) of them believe that their governments will “very likely” or “likely” to augment “Asia-Pacific economic cooperation and integration” as part of their responses to tariffs on their exports (Figure 1.20). 87% of them also consider this action a useful response in this situation (Figure 1.26).

Figure 1.26: Usefulness of Government Responses to Tariffs

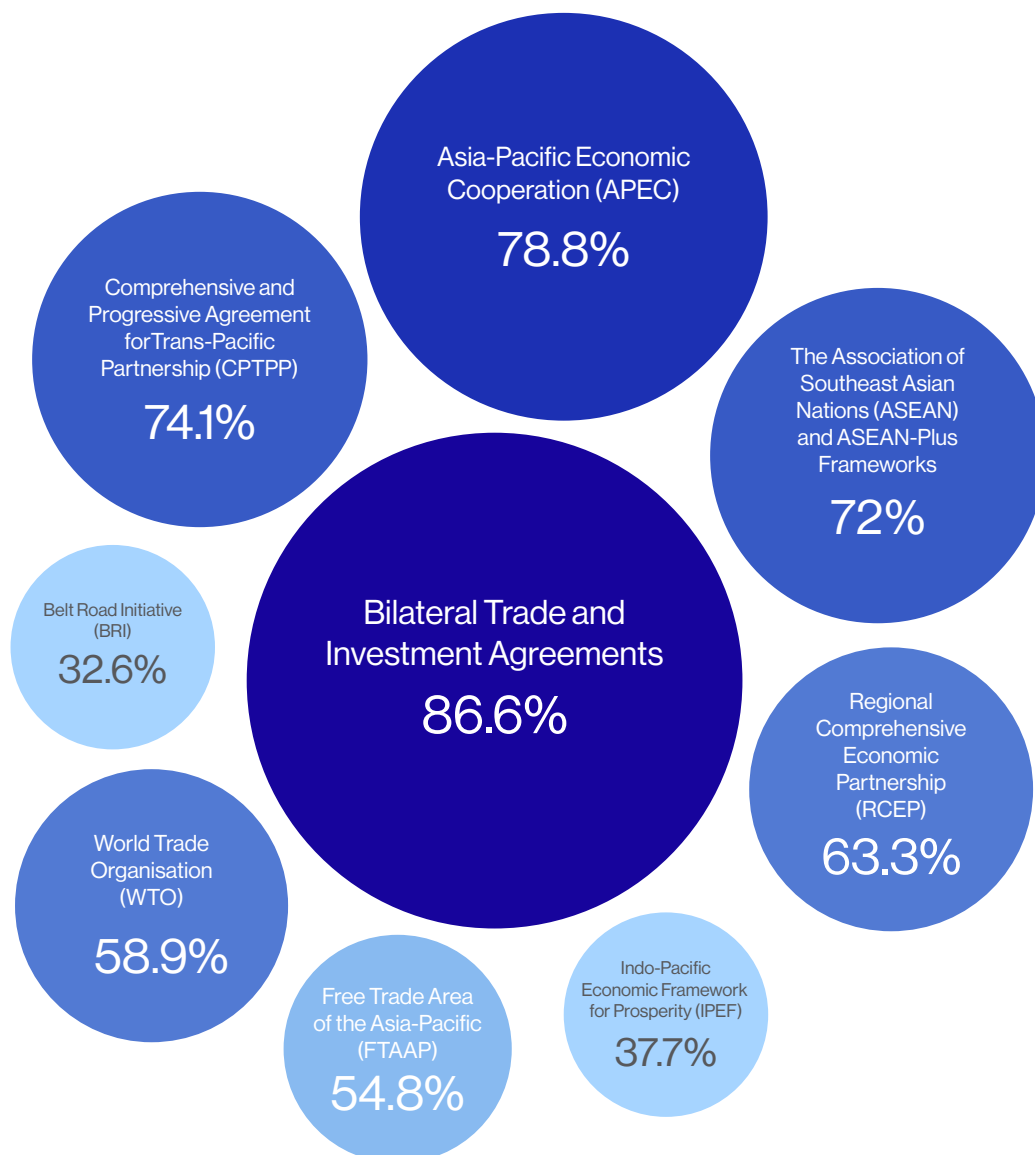
(% indicates the share of respondents selecting these choices as “very likely” and “likely”)



Source: PECC Expert Opinion Survey 2025

Figure 1.27: Institutions/ Frameworks To Be Promoted to Advance Economic Cooperation

(% indicates the share of respondents selecting these choices as “very likely” and “likely”)



Source: PECC Expert Opinion Survey 2025

In terms of specific institutions or frameworks to be simultaneously promoted to advance economic collaboration, the PECC survey suggests the need for bilateral trade and investment agreements, with 87% of respondents expecting their governments will resort to them (Figure 1.27). With respect to regional forums, APEC is seen as the most relevant regional framework, with about 79% of respondents believing their policymakers will lean on it. Despite its non-binding characteristic, APEC's values lie in its ability to convene multi-stakeholder dialogues allowing different players to exchange views on pressing regional economic matters and experiment with joint solutions to tackle them. As a result, APEC is dubbed as “an incubator of ideas” and has played a significant role in advancing discussions regarding regional economic cooperation.

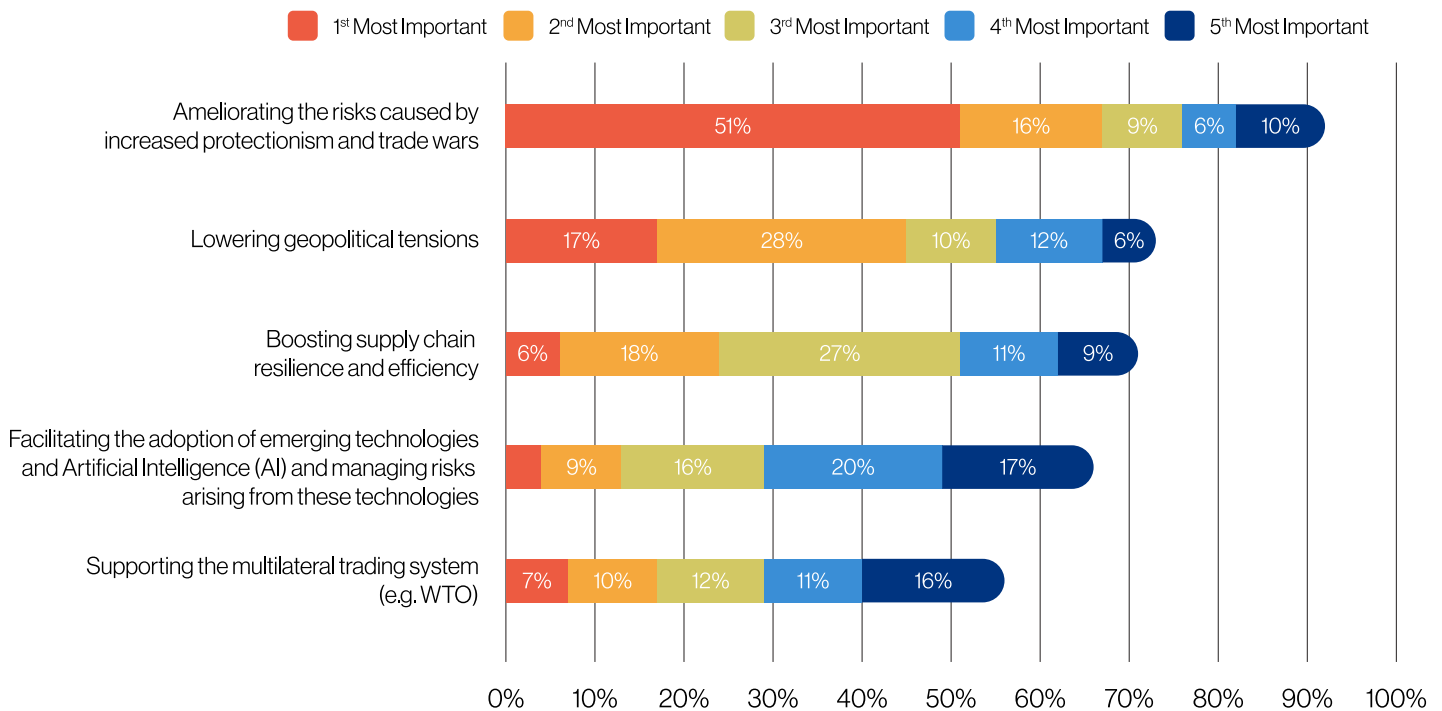
The PECC survey reveals the usefulness of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ASEAN and ASEAN-Plus frameworks, and the Regional Comprehensive Economic Partnership (RCEP). Overall, 74%, 72%, and 63% of respondents think their authorities will leverage CPTPP, ASEAN and ASEAN-Plus frameworks, and RCEP (Figure 1.27). These results align with developments in recent years. For instance, Indonesia formally applied for CPTPP membership in September 2024. Furthermore, RCEP parties are increasingly pursuing the implementation of the arrangement to cushion their economies against the effects of rising protectionism. In addition, the ASEAN Leaders' Statement on Responding to Global Economic and Trade Uncertainties issued in May 2025 unveils the Organization's plans to boost intra-ASEAN trade and investment.

It should be emphasized that participants' preference for regional frameworks is not an indication that the WTO is irrelevant. 47% of survey subjects anticipate their authorities will "very likely" or "likely" increase support for the Organization amidst substantive tariffs on their exports (Figure 1.20). 50% of them consider it a suitable government response (Figure 1.26). Moreover, 59% of respondents think their policymakers would leverage the WTO to advance economic collaboration (Figure 1.27). Regional forums are set up to support the WTO. For example, APEC's principle of "open regionalism" is deemed to complement the WTO system. By providing a platform for voluntary commitments and technical cooperation, APEC enhances its members' capacity and political will to implement and adhere to the WTO rules. Therefore, the findings should be interpreted as a reflection of APEC's success in its supportive role, rather than a sign of the WTO's declining usefulness.

Importance of APEC & Priorities for APEC Leaders

PRIORITIES FOR APEC LEADERS

Figure 1.28: Top 5 Priorities for APEC Leaders



Source: PECC Expert Opinion Survey 2025³⁰

To tease out participants' specific demands for APEC Leaders to push forward cooperation on certain issues, the PECC survey asked them to rank the priorities that APEC Leaders should address at their meeting (Figure 1.28). The top 5 priorities are:

- Ameliorating the risks caused by increased protectionism and trade wars;
- Lowering geopolitical tensions;
- Boosting supply chain resilience and efficiency;
- Facilitating the adoption of emerging technologies and AI and managing risks arising from these technologies; and
- Supporting the multilateral trading system (e.g. WTO).

³⁰ Percentages are shown if they are 5% or greater.

Priority No. 1: Ameliorating the Risks Caused by Increased Protectionism and Trade Wars

More than 90% of respondents pick “Ameliorating the risks caused by increased protectionism and trade wars” as the No.1 most important priority for APEC Leaders (Figure 1.28). All affiliations and subregions shared a similar perspective. In other words, this first priority is selected by more than 80% of participants from the government sector, as well as more than 90% of business, academic/thinktank, and civil society/media participants (Figure 1.29). About 90% of respondents from all subregions concur that this issue needs to be addressed immediately (Figure 1.30). These views resonate with the severity of a risk to growth earlier revealed by the PECC survey. 88% of respondents cite “increased protectionism and trade wars” as No. 1 most serious risk to growth (Figure 1.5).

**Figure 1.29: Priorities for APEC Leaders by Affiliation
(Percentages of Respondents in Parentheses)**

	Government	Business	Academic/ Thinktank	Civil Society/ Media
01	Ameliorating the risks caused by increased protectionism and trade wars (83%)	Ameliorating the risks caused by increased protectionism and trade wars (92%)	Ameliorating the risks caused by increased protectionism and trade wars (92%)	Ameliorating the risks caused by increased protectionism and trade wars (91%)
02	Lowering geopolitical tensions (75%)	Lowering geopolitical tensions (73%)	Boosting supply chain resilience and efficiency (75%)	Boosting supply chain resilience and efficiency (79%)
03	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (70%)	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (73%)	Lowering geopolitical tensions (71%)	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (76%)
04	Boosting supply chain resilience and efficiency (66%)	Boosting supply chain resilience and efficiency (62%)	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (64%)	Lowering geopolitical tensions (73%)
05	Addressing economic inequality within societies and increasing inclusion (64%)	Promoting environmentally sustainable trade and investment (60%)	Supporting the multilateral trading system (e.g. WTO) (60%)	Addressing economic inequality within societies and increasing inclusion (64%)

Source: PECC Expert Opinion Survey 2025

APEC possesses unique characteristics which can be leveraged to alleviate rising protectionism and trade wars. For one thing, its role as a convenor of diverse economies in the Asia-Pacific is notable. The platform brings together members to exchange perspectives on pressing global and economic challenges or reveal justifications underlining their actions in a non-binding way. Also, APEC's initiatives have advanced discussions on regional collaboration in several areas such as goods and services trade, regulatory coherence, trade facilitation and customs procedures as well as on policy approaches to micro, small, and medium enterprises (MSMEs), digital economy, and sustainability. Furthermore, APEC enhances policy transparency through the Individual Action Plans which are regularly submitted by the member economies. The documents detail specific policy measures taken to accomplish the goals for free and open trade and investment. The information revealed can be used as a basis for talks to reduce protectionist impulses or a full-blown trade war.

**Figure 1.30: Priorities for APEC Leaders by Subregion
(Percentages of Respondents in Parentheses)**

	North America	Northeast Asia	Oceania	Pacific South America	Southeast Asia
01	Ameliorating the risks caused by increased protectionism and trade wars (93%)	Ameliorating the risks caused by increased protectionism and trade wars (90%)	Ameliorating the risks caused by increased protectionism and trade wars (95%)	Ameliorating the risks caused by increased protectionism and trade wars (89%)	Ameliorating the risks caused by increased protectionism and trade wars (90%)
02	Lowering geopolitical tensions (81%)	Boosting supply chain resilience and efficiency (77%)	Lowering geopolitical tensions (75%)	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (64%)	Boosting supply chain resilience and efficiency (78%)
03	Boosting supply chain resilience and efficiency (74%)	Lowering geopolitical tensions (74%)	Supporting the multilateral trading system (e.g. WTO) (71%)	Lowering geopolitical tensions (68%)	Lowering geopolitical tensions (68%)
04	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (64%)	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (71%)	Boosting supply chain resilience and efficiency (64%)	Promoting environmentally sustainable trade and investment (68%)	Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies (65%)
05	Supporting the multilateral trading system (e.g. WTO) (60%)	Promoting environmentally sustainable trade and investment (56%)	Promoting environmentally sustainable trade and investment (60%)	Boosting supply chain resilience and efficiency (53%)	Addressing economic inequality within societies and increasing inclusion (62%)

Source: PECC Expert Opinion Survey 2025

Priority No. 2: Lowering Geopolitical Tensions

“Lowering geopolitical tensions” emerges as the No. 2 priority for APEC Leaders by the PECC survey participants, with 73% of them choosing it (Figure 1.28). Affiliation breakdowns show convergence on this view. More than 70% of survey subjects from all affiliations (i.e. government, business, academic/thinktank, and civil society/media) identify this issue as APEC Leader’s priority (Figure 1.29).

APEC can be used as a forum for diplomacy and negotiation to lessen geopolitical tensions. Each year, APEC hosts a meeting of foreign leaders and a meeting of Heads of State. Beyond the formal APEC meetings, bilateral talks on the sidelines of the official gatherings are also valuable. They not only unlock opportunities to reap mutual benefits from their bilateral collaboration but also resolve tensions, including geopolitical ones. Moreover, holding these bilateral talks concurrently with APEC meetings allows for issue linkage. In short, economies can trade concessions or gains across different platforms, using a less-important issue from one negotiation to secure a more-important one in another. This strategic flexibility enhances the likelihood of reaching more favorable outcomes than would have been possible in a single, isolated deal.

Priority No. 3: Boosting Supply Chain Resilience and Efficiency

“Boosting supply chain resilience and efficiency” is ranked as the No. 3 priority for APEC Leaders, with 72% of survey subjects choosing it (Figure 1.28). This matter is considered particularly important by individuals from North America, Northeast Asia, and Southeast Asia, where over 73% of them select it (Figure 1.30).

This prioritization appears to be driven more by respondents’ risk perception. The Global Supply Chain Pressure Index (GSCPI) has shown little pressure since the beginning of 2025.³¹ Nevertheless, “Supply chain disruptions” comes in as the No. 3 risk to growth (Figure 1.5) and this sentiment is shared across different subregions (Figure 1.10). In a climate of uncertainty, people may be less optimistic about the future of supply chains, resulting in their call for greater resilience to be a top priority for APEC Leaders.

³¹ Federal Reserve Bank of New York. “Global Supply Chain Pressure Index (GSCPI)”, <https://www.newyorkfed.org/research/policy/gscpi#/interactive>

Priority No. 4: Facilitating the Adoption of Emerging Technologies and AI and Managing Risks Arising from these Technologies

“Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies” comes in as the No. 4 priority for APEC Leaders. 66% of participants choose it (Figure 1.28). The issue is equally important for business, government, and civil society players, with more than 72% of each of the groups citing it as a priority, as compared to 64% of their academic/think tanks counterparts (Figure 1.29). This focus on technology shows up among Top 5 priorities in all subregions except Oceania (Figure 1.30).

The APEC Roadmap on Internet and Digital Economy (AIDER) promotes innovation, investment in digital infrastructure, and research. Also, PECC’s project on AI has advanced multi-stakeholder discussions on several topics, including AI ethics and responsible AI, SMEs’ AI adoption, inclusive sectoral transformation, socio-economic impact of AI, skill training and capacity building, and cooperation in AI governance.³²

Priority No. 5: Supporting the Multilateral Trading System (e.g. WTO)

57% of respondents select “Supporting the multilateral trading system (e.g. WTO)”, making it the No. 5 priority for APEC Leaders (Figure 1.28). But a deeper look at the survey data reveal that the academic/think tank respondents are the only group placing it among the Top 5 priorities (Figure 1.29). Regarding cross-subregional variations, only individuals from North America and Oceania include “Supporting the multilateral trading system (e.g. WTO)” in the Top 5 priorities (Figure 1.30).

In response to its critics, the WTO has made some recent headway. At the 13th Ministerial Conference (MC13), the members agreed to add new members and extend the moratorium on customs duties on electronic transmissions. They were also committed to restoring the full dispute settlement mechanism and enhancing the multilateral trading system. These outcomes demonstrate the Organization’s continued relevance.

³² PECC Statement to the APEC Digital and Artificial Intelligence Ministerial Meeting August 4-6, 2025, Incheon, Republic of Korea, <https://www.pecc.org/resources/statements/2799-pecc-statement-for-apec-dmm-2025/file>

APEC is supporting the WTO in various ways. In their 2025 Joint Statement, the APEC Ministers Responsible for Trade recognized “the importance of the WTO to advance trade issues and acknowledge the agreed upon rules in the WTO as an integral part of the global trading system.” The APEC members also pledged to “work collaboratively through APEC’s role as an incubator of ideas and support Members working together to deliver a successful Fourteenth WTO Ministerial Conference (MC14) in March 2026 in Cameroon”.³³ Moreover, the APEC members expressed collective support for the Investment Facilitation for Development (IFD) Agreement and called for its integration into the Organization’s legal framework.³⁴ Despite its voluntary and non-binding nature, APEC has a track record of being an idea incubator for advancing cooperative initiatives on many fronts ranging from supply chain connectivity and structural reform to good regulatory practices and the digital economy. This creates opportunities for cross-fertilization between APEC and the WTO.

The road ahead for the international economic system is fraught with challenges, making the principles enshrined by APEC more important than ever. Open regionalism provides a powerful antidote to protectionism and market fragmentations. The entity’s role as a platform for building consensus and discovering mutual benefits remains crucial. By upholding these values, APEC can help regional economies navigate this uncertain era and foster a more cooperative economic landscape. The longer-term effects of the complex interplay of multiple forces on the future economic system will be explored in greater detail in Chapter 2.

³³ The Asia-Pacific Economic Cooperation (APEC) (2025). The 2025 APEC Ministers Responsible for Trade Joint Statement, Jeju, Republic of Korea, May 16.

³² APEC (2025). “APEC Backs Global Push for WTO Investment Facilitation for Development Agreement”. News Release, May 13, <https://www.apec.org/press/news-releases/2025/apec-backs-global-push-for-wto-investment-facilitation-for-development-agreement>

04



Chapter 2

TRADE POLICIES IN A DISRUPTED WORLD AND THE RISK OF DISRUPTION¹

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¹ The authors are grateful to excellent research assistance from Rojan Joshi and comments from the PECC Co-Chairs and SOTR Editorial Committee.

This chapter examines how global trade has entered a period of profound disruption and what this means for the future of the international trading system. It argues that recent protectionist trends are not temporary but reflect deeper structural and political shifts, from the unequal distribution of trade gains to the securitization of economic policy. As identified in this chapter, the rise of four major new issues confronting the multilateral system – increased security concerns, supply-chain vulnerabilities, the urgency of climate change mitigation, and digital and AI competition – has heightened the appeal of industrial policies for many economies. Together with growing digital fragmentation and efforts to harden supply chain resilience, these shifts are reshaping the trade landscape in ways that challenge existing rules.

The chapter is structured in five parts. It begins by outlining the drivers of recent protectionism and the strain on the multilateral system. It then explores new trade issues – security, resilience, the digital economy and industrial policy – before presenting possible models for the trading system's future. The conclusion highlights three priorities for policymakers: preserve and reform the multilateral system, ensure regional and plurilateral agreements reinforce rather than fragment global rules, and use the green transition as a unifying goal for collective action.

Approaches to trade policy around the world have shifted dramatically over the past decade-and-a-half as short-term disruptions collided with deeper structural changes in the global economy. Trade liberalization delivered prosperity and stability to hundreds of millions of people over the last few decades, but there were two important distributional effects which have had significant implications. Between economies, the global centre of economic gravity shifted from the Western Atlantic to the Pacific with the rise of large emerging economies, especially in Asia – the original BRICS economies (Brazil, Russia, India, China and South Africa) are now larger than the G7 advanced economies in purchasing power – signalling a shift from a unipolar to a multipolar order.² Within economies, the gains of trade were not adequately distributed, leaving many workers and communities feeling left behind. Together, these two effects have fuelled the steady rise of nationalism, populism and protectionism across the political spectrum in many Western societies, particularly the United States. These forces associate globalization and trade to their stagnant middle-class wages and diminished economic security. In the United States public support for trade and international institutions

² As of 2023, BRICS combined GDP PPP was 62 trillion USD compared to 53.6 trillion USD for the G7, according to World Bank data. The example of comparing the economic size of BRICS vs. G7 is commonly used to illustrate the economic gravity shift from 'west' to 'east'. Alternatively, ASEAN plus three could also be used here to demonstrate the global centre of economic gravity shift from Western Atlantic to the Pacific. As of 2023, ASEAN plus three (Japan, Republic of Korea and China) combined GDP PPP was 55.9 trillion USD compared to 53.6 trillion USD for the G7.

has been eroding, driving a shift in sentiment inward towards protectionism.

These underlying trends were exacerbated by short-term disruptions, such as the COVID-19 pandemic, which reshaped thinking around supply chains and economic interdependence. Many economies have retreated from openness, emphasizing national resilience and framing economic security as a sovereign issue to be managed through strengthening domestic capacity and self-reliance rather than global integration.

The return of U.S. President Donald Trump added a new layer of uncertainty. In his first term, Trump's 'America First' policy drove a retreat from multilateralism. This was marked by the U.S. vetoing the appointment of judges to the WTO dispute settlement mechanism, essentially rendering it ineffective, and exploited this situation by appealing adverse WTO rulings into the void. Furthermore, the U.S. also withdrew from the then Trans-Pacific Partnership, now known as the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership). Under President Joe Biden, the United States cautiously re-engaged with multilateralism while simultaneously maintaining Trump's tariffs on China and challenging WTO rulings and rules, including through the introduction of substantial industrial subsidies for green and critical technologies. In Trump's second presidency, economic measures have moved beyond economic protectionism and are explicitly being wielded as instruments to extract economic and non-economic concessions. Tariffs have been imposed globally, with extra penalties imposed for large bilateral goods trade deficits and at times for non-economic frictions unrelated to trade. This transformation has created a fluid landscape of negotiations and heightened uncertainty over the future of the trading system.

This chapter analyzes lessons from the protectionist shift in trade policy, examines emerging issues like digital trade fragmentation and economic security, and outlines possible pathways for a future trade system. The Asia-Pacific has a critical role in averting global trade disorder through stronger regional integration such as CPTPP, RCEP, and APEC, to renew, reform and reinvigorate multilateral cooperation under the WTO and leverage trade cooperation to support innovative industries.

The drivers of recent protectionism can be traced to a series of economic and political shocks, which provided the pretext for economies to turn inward. According to the IMF, the number of new trade restrictions have more than tripled since 2019. The COVID-19 pandemic was one catalyst in this new wave of protectionism. Governments imposed export restrictions on medical supplies and personal protective equipment as they prioritised domestic needs, contributing to the narrative that global supply chains were vulnerable and encouraging calls for greater self-sufficiency. The pandemic also exposed the degree of reliance on Asian manufacturing, sharpening concerns over geopolitical risk and spurring a revival of competitive industrial. Russia-Ukraine conflict and its consequences added another layer of disruption, throwing global fertilizer, food and energy markets – particularly for wheat, grains and natural gas – into turmoil. The conflict in Ukraine also further entrenched the notion that economic interdependence was a cause of weakness, reversing the long-standing logic of integration as a stabilizing force. Collectively, these crises allowed measures such as blanket tariffs, export bans and industrial policies to return to the policy mainstream.

In earlier years, under the US-led multilateral order, the conduct of trade policy could to some extent be pursued separately from national security considerations. The GATT, and later WTO, frameworks allowed economies to trade under agreed multilateral rules that largely insulated commerce from geopolitics but also allowed economies to take measures for national security within the system (GATT XXI). Such measures, however, were exceptions rather than the norm. In this way, trade policy was largely insulated from – though not entirely separate from – economic security policy.

But that was while the rules could keep pace with developments in trade. In some ways, the postwar economic order has become a victim of its own success. China's accession to the WTO in 2001 was a watershed moment for the global trading system and helped it become the world's largest trading nation and second-largest economy within a decade. While China is committed to undertaking reforms to ensure its economy became WTO compatible, the pace of progress in some sensitive areas, notably in the role of state-owned enterprises and the relationship between the state and the market, has been a topic of discussion among other WTO members. China's growing weight in the global economy, together with its reliance on an investment-led rather than consumer-led growth model, has generated spillovers. These

³ Gita Gopinath 'Geopolitics and its Impact on Global Trade and the Dollar' (Speech, Stanford Institute for Economic Policy Research, 7 May 2024).

⁴ See Richard N Cooper, 'Trade Policy is Foreign Is Foreign Policy' [1972–73] (9) Foreign Policy 18; Richard N Cooper, 'Economic Interdependence and Foreign Policy in the Seventies' (1972) 24(2) World Politics 159.

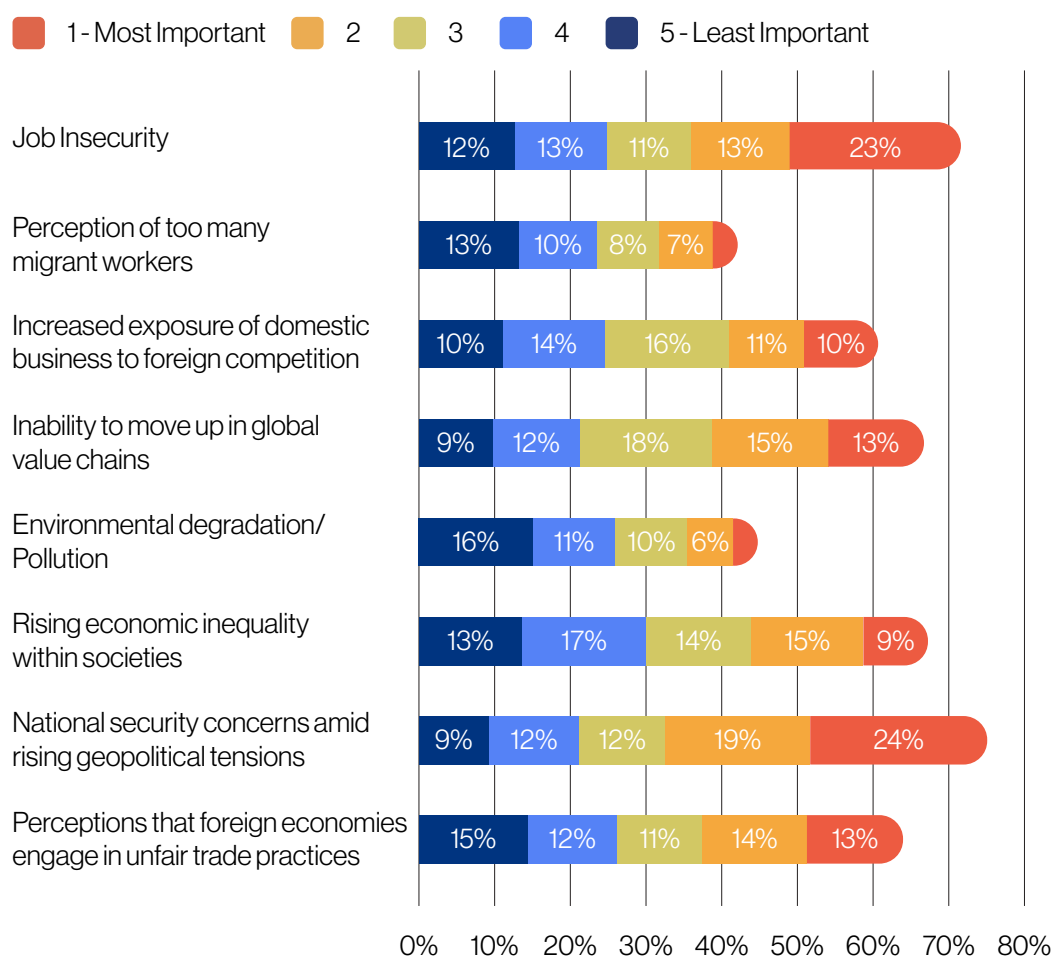
spillovers have led to discussions among some economies, particularly regarding issues such as industrial subsidies, potential overproduction and export prices.

The WTO's Doha Development Round, launched in 2001, failed to conclude, and rulemaking in areas such as e-commerce and digital trade, intellectual property protections, labor and environmental standards, investment protections, and broader trade liberalization advanced mainly through bilateral, regional and plurilateral agreements. The result is a patchwork of overlapping rules that leave significant gaps in trade governance and contribute to economic fragmentation.

Perhaps the greatest direct threat to the multilateral trading system has come from the new protectionism in the United States. Even before recent shocks, a domestic backlash against free trade had taken root, shaped in part by widening inequality and regional disparities, with disruptions from technological change often attributed to trade and amplified by perceptions of communities being left behind. Although trade generates aggregate gains, the adjustment costs were uneven, and many advanced economies struggled to provide effective support for displaced workers. These gaps in adjustment mechanisms contributed to political discontent, though other forces – notably immigration, technological disruptions and cultural anxieties – also played a critical role.

Figure 2.1 summarizes PECC's opinion survey results of 504 responses on the factors driving today's concerns on trade and globalization from academics, think tanks, businesses, government, media and civil society across APEC economies. The results show job insecurity and national security concerns amid rising geopolitical tensions are among the most important factors that cause concerns on trade and globalization in one's economy. This is followed by the perception that one's economy is unable to move up in the global value chain and that foreign economies engage in unfair trade practices.

Figure 2.1: Survey result: Factors driving concerns on trade and globalization

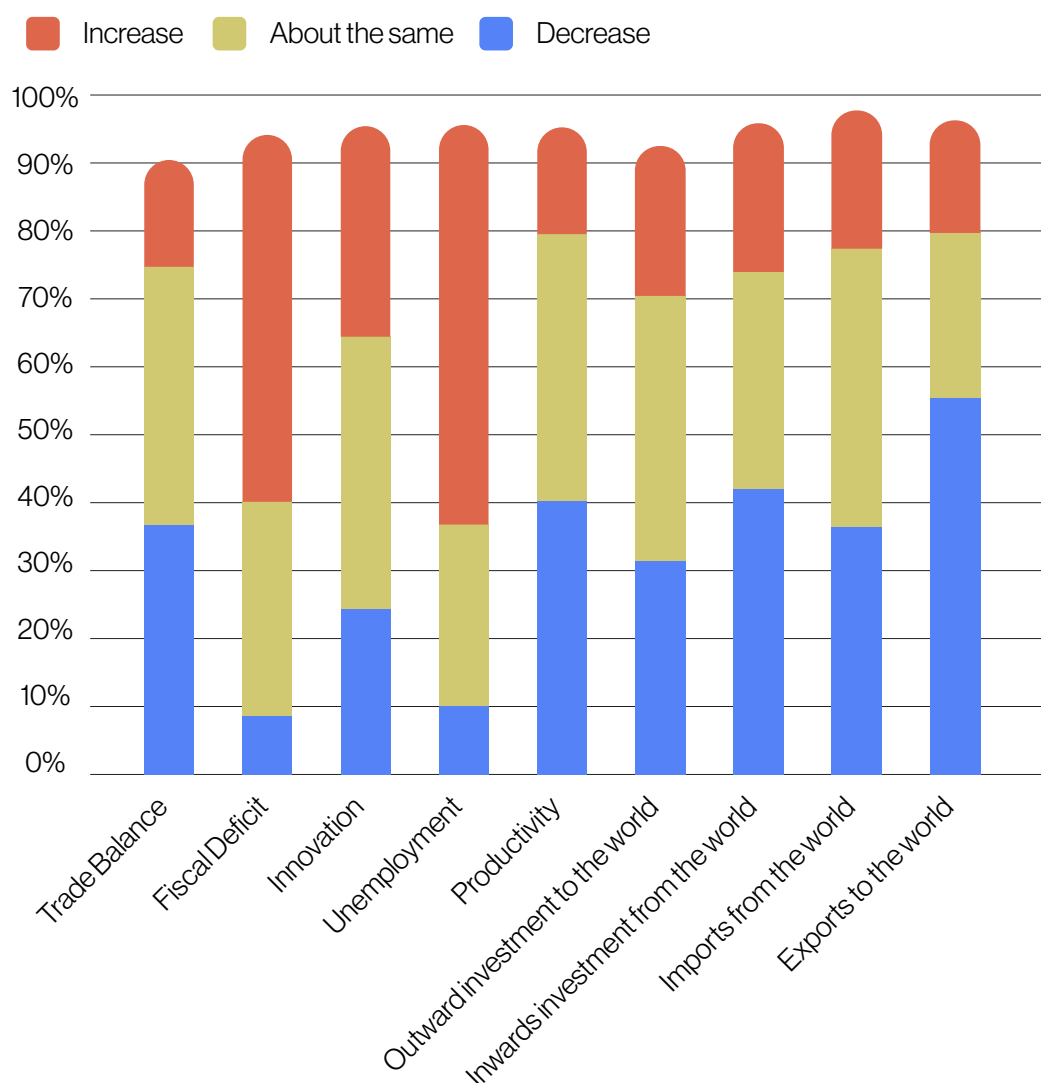


Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

Furthermore, the lack of cooperation in the multilateral system has magnified today's trade tensions. The erosion of stability means that predictable rules are being replaced by market access contingent on politics. This reallocates capital from efficient frontiers to politically robust but higher-cost locations.⁵ It can be tempting for economies to think that this might be advantageous because protection may make their products look relatively more attractive in domestic markets. But when decisions are no longer grounded in market fundamentals, outcomes become unpredictable. The erosion of norms also begets more unilateralism. Once major economies normalise derogations, others will inevitably follow. Coordination is always difficult, but today's multilateral system is especially vulnerable because existing rules do not adequately cover many of the issues now at the forefront of trade politics, such as industrial subsidies, digital trade, data governance, climate measures and security-driven controls. With the WTO's enforcement mechanism paralyzed, except for the plurilateral Multi-Party Interim Appeal Arbitration Arrangement (MPIA) workaround, these gaps invite unilateral fixes that cannot be arbitrated, further undermining the system.

⁵ Tatsushi Okuda and Tomohiro Tsuruga, 'Geeconomic Fragmentation and International Diversification Benefits' (Working Paper No 24/48, International Monetary Fund, March 2024).

Figure 2.2: Survey result: Specific effects anticipated from increased protectionist measure on one's economy in next 2-3 years



Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

Figure 2.2. shows PECC's survey results on the specific effects anticipated from the increased protectionist measures on one's economy in the next two to three years. Anticipated effects show that increased protectionist measures will likely increase unemployment, increase fiscal deficits, decrease global export, and decrease outward investment to the world.

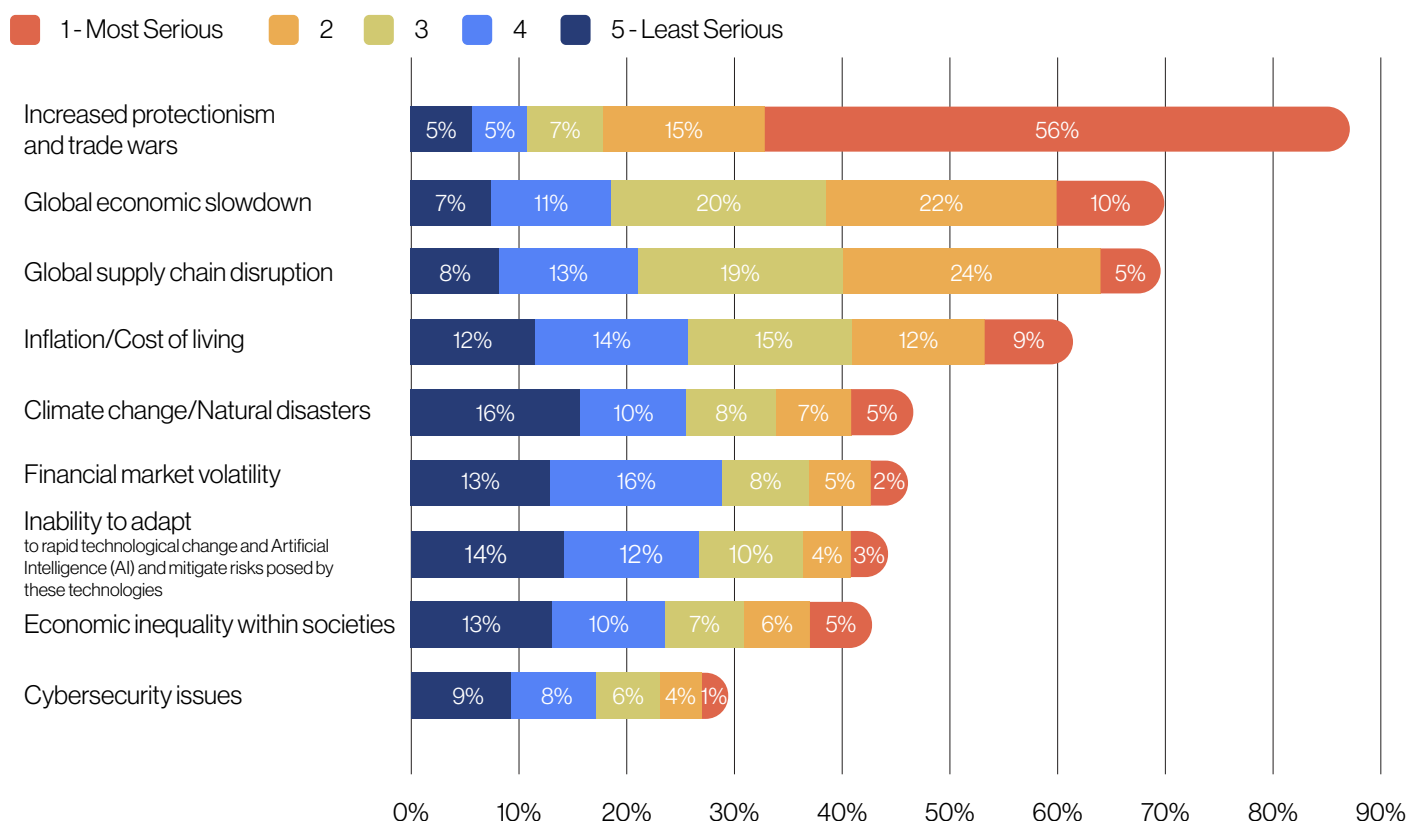
⁵ Tatsushi Okuda and Tomohiro Tsuruga, 'Geeconomic Fragmentation and International Diversification Benefits' (Working Paper No 24/48, International Monetary Fund, March 2024).

It now seems as though we're moving to a new world, but what that will look like is still unclear. The digital economy, economic security concerns and climate imperatives represent new technical and regulatory challenges, while older structural issues such as distribution of the gains from trade and the creation or strengthening of social safety nets remain unresolved. To prevent disorder from sliding into conflict and reversing eight decades of growing prosperity, a set of principles and frameworks is essential. The fundamental logic of productivity gains from trade and multilateral cooperation still hold, as does the role of economic interdependence in building peace and prosperity by intertwining national interests and constraining conflict. But the political reality is that the backlash against globalization and growing security concerns is driving a shift in policy inward. The challenge is to rebuild trust in open and predictable rules-based trade while adapting institutions to new realities. That requires constructing a renewed social license for open trade, acknowledging that while globalisation and trade had issues, a lurch to protectionism and economic nationalism would leave everyone worse off.

New issues in global trade

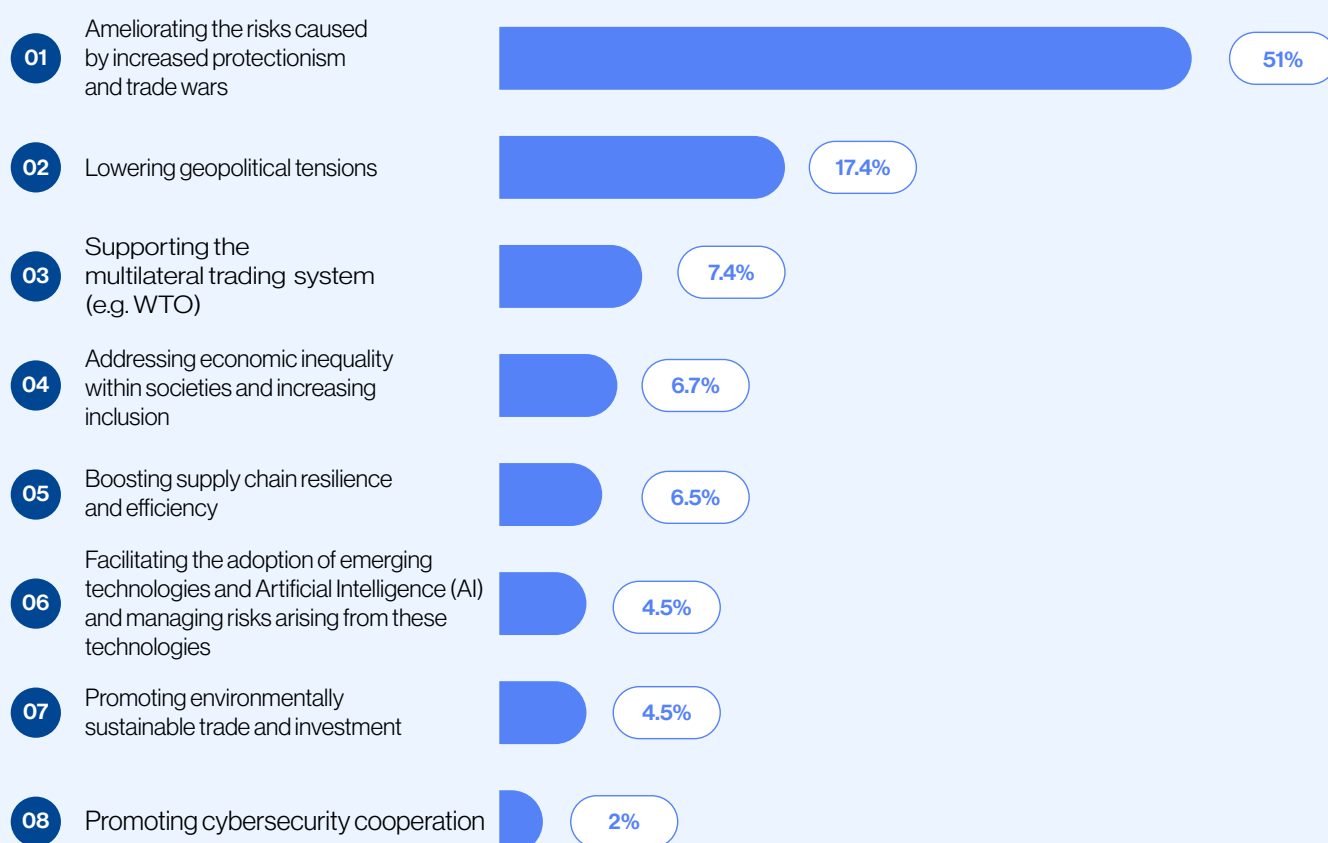
The top risk to economic growth in the next 2 to 3 years identified by PECC survey respondents was protectionism and trade wars (Figure 2.3). But even as the world grapples with the legacy of recent shocks, the global trade landscape is being reshaped by new issues.

**Figure 2.3: Survey result: APEC economies:
Top risks to economic growth in the next 2-3 years**



Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

Figure 2.4: The Share of respondents who chose these issues as the No. 1 priority for APEC Leaders
Ranked (highest to lowest)



Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

The top priorities for APEC leaders after managing the immediate protectionist risks, were identified as lowering geopolitical tensions, supporting the multilateral trading system, building supply chain resilience and addressing economic inequality (Figure 2.4). Managing the risks and capturing the benefits of new technologies, including artificial intelligence, and promoting environmentally sustainable trade and investment were also identified as priorities. The return of geopolitics, and the resultant securitization of economics, supply chain resilience, the digital economy, including AI and cybersecurity, are discussed below. The return of elements of industrial policy, if not comprehensive industrial policies, in many economies to help deal with these challenges is also discussed.

New models for a future trading system are considered further below, recognizing the identified priority as supporting an updated multilateral system from Figure 2.4.

The Return of Security in Economics

For decades, international economic risks were managed under the US-led, rules-based multilateral order established after World War II. The United States derived enormous benefits from this role, providing security, market stability, and safe assets in exchange for rule-setting privileges and dominant economic influence.⁶ Today, however, China's rise as an economic power – and the U.S. response to it – has heightened concerns about fragmentation of the current economic order. A perception grew in the U.S. that while it abided by the rules, others did not. Unlike earlier economic competitors, who were largely security allies, China is far larger and viewed as a strategic rival, intensifying doubts about the durability of the system.

In this context, recent U.S. leadership has expressed deep skepticism about the fairness of the multilateral trading system. Bilateral trade imbalances are often cited as evidence of systemic bias. This perspective has justified a shift away from rules-based engagement and a turn toward more transactional, bilateral bargaining approaches aimed at correcting perceived inequalities and reshoring investment and economic activity to the U.S. While these strategies reflect longstanding domestic concerns about competitiveness and adjustment, they have also disrupted established multilateral practices. The frequent use of tariffs – sometimes adjusted mid-negotiation and at times deployed for non-economic purposes – has introduced greater uncertainty into the global trade environment. While the U.S. can exercise significant leverage in bilateral bargaining, most other economies continue to rely on the WTO as the primary framework governing their trade relations.

These U.S. shifts have coincided with wider global disruptions that were not primarily economic in origin but have had profound economic consequences. The COVID-19 pandemic and the conflict in Ukraine, together with the resulting sanctions and countersanctions, have heightened uncertainty and underscored vulnerabilities in the multilateral trading system. At the same time, the growing use of economic instruments – including sanctions, trade and financial restrictions, tariffs, and cyber-enabled measures – for strategic or political purposes has blurred the boundary between economic policy and national security and led many economies to view economic interdependence as a vulnerability instead of a source of prosperity and security.

⁶ Posen, Adam S. 2025. "The New Economic Geography." *Foreign Affairs*, August 19. <https://www.foreignaffairs.com/united-states/new-economic-geography-posen>.

‘Economic security’, in broad terms, encompasses the protection of national economic interests, ensuring resilience to external shocks, and the maintenance of some level of strategic autonomy to react to circumstances as they evolve. At a fundamental level, national economic interests refers to living standards, income and necessities such as health, education and social protection.⁷ ‘Goeconomics’ is often used to describe the intersection between economics and geopolitics, with the most widely used definition today as ‘the systematic use of economic instruments to accomplish geopolitical objectives’.⁸ In practice, the key concepts are the ability to withstand shocks and defend against coercion by other states.⁹

Today, national security concerns have become resurgent, entangled with other developments that include climate change, innovative environmental technologies, threats of new pandemics, domestic political instability and fractured social cohesion, as well as negative spillovers from great power rivalry. The responses to these concerns can be classified in two ways. Protectionism lowers economic efficiency to protect domestic interests, including that of national security considerations. Otherwise, pragmatic policies can disrupt the allocation of resources coming from an acknowledgement of new priorities, such as resilience or national security, that may have previously been unrecognized or unacknowledged. Governments need to adopt a nuanced approach that balances the opportunities and risks of international engagement. In contemporary policymaking, the security imperative is increasingly dominating the economic imperative. While there may sometimes be a trade-off between the two, and it may be important to maintain a strong national security stance, the assumptions and methodologies behind the decisions need to be clear. As much as possible, policy solutions should make economies both more prosperous and more secure.

Economic competition is often framed as a contest with multiple winners, or positive-sum, while security competition generally adopts a zero-sum framing.¹⁰ Economic competition occurs when an economy attempts to increase its productivity, for example by investing in education, supporting research and development, improving infrastructure, strengthening human capital, or removing trade barriers that hinder efficient resource use. Such measures enhance an economy’s performance while also generating positive spillovers for the rest of the world. By contrast, security competition emphasizes relative position: an economy seek

⁷ Jacob S Hacker, ‘Economic security’ in Joseph E Stiglitz et al (eds), *For Good Measure: Advancing Research on Well-being Metrics Beyond GDP* (OECD Publishing, 2018) 203.

⁸ Robert D Blackwill and Jennifer M Harris, *War by Other Means: Goeconomics and Statecraft* (Harvard University Press, 2016) 1.

⁹ Miles Kahler, ‘Economic Security in an Era of Globalization: Definition and Provision’ (2004) 17(4) *Pacific Review* 485.

¹⁰ *Ibid.*

advantage by constraining rivals, limiting their access to critical technologies, and pursuing strategies that prevent competitors from gaining ground. In this view, relative gains matter more than absolute gains, and economic interaction is treated as zero-sum.

The strategic competition between the great powers, and weaponization of economic tools, is turning economics and security into substitutes where it increasingly seems that one has to be sacrificed to achieve the other, creating an unfortunate trade-off. Given that the risk of economic coercion from great powers will always exist, middle powers and smaller economies have an interest in building a system that constrains their baser instincts. There is no guarantee of security from retreating to closed markets, retaliating or seeking to make bilateral deals. The experience in the Asia Pacific has been that the best response to economic coercion is to ensure the existence of enforceable rules that disincentivise coercive measures and open contestable markets blunt their effectiveness.

What is the best strategy for the middle-sized and smaller economies in APEC? They should pursue policy agendas around the three goals: system preservation, system reform and collective action.¹¹ The objective of system preservation rejects the false dichotomy of picking sides and reiterates a commitment to a multilateral system binding and benefiting all. Many economies are perceiving that the United States and China are increasingly applying pressure to choose between them, imposing sticks such as sanctions and export restrictions and offering carrots such as preferred treatment for allies. It may seem economically and politically expedient for smaller economies to acquiesce to these terms, but that choice enables and validates the weakening of the existing international economic order. To avoid the binary of capitulating or retaliating, middle powers and smaller economies should adhere to the established rules in the WTO and other regional and bilateral agreements, regardless of what the great powers do – they may be blatantly disregarding the rules and norms of the established system, but they have not yet completely walked away from it. Economies need to also protect their core interest in the multilateral trading system that keeps markets open and ensures that engagement is based on rules. The international system has always had its flaws and is far from perfect, but for decades it has limited discrimination, promoted transparency, openness, fairness and predictability and constrained protectionism. Most of these principles have long been embedded in domestic practice in market economies and have been disseminated beyond through both the GATT/WTO as well as plurilateral and bilateral FTAs.

¹¹ Ibid.

The clearest manifestation of a constructive effort to protect the system is in the dispute settlement body of the WTO. Following the U.S. veto of all nominations to the the Appellate Body, the WTO has been unable to meaningfully conclude trade disputes between its members. Since 2019, many disputes were effectively appealed ‘into the void’. But six months after the Appellate Body ceased to have the required number of judges to operate, the European Union and Canada led the creation of the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), a plurilateral framework which duplicates the Appellate Body and enables willing parties to agree to resolve WTO disputes among themselves. Australia, New Zealand, Singapore and, importantly, China were among the original signatories.¹² Japan joined in early 2023, with the grouping almost comprising a third of the WTO membership. Malaysia joined in 2025 during its ASEAN Chair year. The MPIA has worked to resolve trade disputes and is a clear expression of the interest in a rules-based system. Further expansion of MPIA membership will help insure against a complete collapse of dispute settlement as the WTO membership works to reform and restore the system.

In a world where great power competition makes cooperation difficult, the established-rule-based system needs to be protected and reformed around shared interests – as was done with MPIA and other plurilateral and regional arrangements. Efforts to reform and update rules are taking place incrementally through these plurilateral arrangements among like-minded economies and regional agreements shaped by shared interests and geographic proximity. These are bottom-up processes that build on top of the existing system by developing new rules relevant for modern commerce. While they are often driven by both political and economic interests, they need not necessarily be inherently inconsistent with rulemaking that strengthens multilateralism.

Multilateralism is more likely to be sacrificed when security-based initiatives are deliberately designed to exclude certain economies. Proposals such as friendshoring or limiting trade to ‘trusted partners’ or like-minded economies risk shrinking the global economy and reinforcing a static view of the world built on permanent friends and permanent enemies. This dynamic is relevant amongst APEC economies, such as in East Asia, where diverse political systems coexist, but where most economies remain committed to international rules and open trade.

¹² Shiro Armstrong, ‘Australia, Japan, and a Middle Power Approach to Securing Prosperity in Global Disorder’ (2025) 32(1) Asia-Pacific Review 80.

Arrangements that remain open to new members can contribute positively to expanding the multilateral system. Their long-term significance will depend on how their membership expands and whether they can be integrated into broader rulemaking efforts. Although many bilateral and regional economic agreements often contain preferential clauses that deviate from the principle of equal-treatment embodied in the MFN clause in the WTO, they are usually designed as WTO-plus agreements that complement, rather than substitute for, the multilateral trading body.

Arrangements like APEC provide a model of open regionalism, advancing economic cooperation and integration among members. APEC has also been a useful forum for modes of flexible cooperation that are palatable among a diverse membership unable to agree to legally binding commitments among themselves, such as the pathfinder approaches and concerted unilateralism. Arrangements that remain open to new members can contribute positively to expanding the multilateral system. For example, a CPTPP that does not engage China in possible membership negotiations for political reasons will not incentivise Chinese reforms or commitment to new rules and standards. Any such negotiations should not sacrifice core principles of the agreement in order to expand its membership.

The post-war economic order relied on the United States as both an architect and an enforcer, but collective action is much more difficult now in a multipolar world. Today, the US increasingly acts as a spoiler rather than a stabilizer. A Stackelberg leadership model, where a dominant actor moves first and others follow sequentially, is no longer feasible.¹³ The GATT, and later the WTO, helped avoid prisoner's dilemma outcomes in trade while other global forums, such as the G20 in the aftermath of the global financial crisis, created frameworks for cooperative macroeconomic policy. These equilibria no longer seem feasible and zero-sum outcomes now appear more likely. In this environment, developing repeat games, such as annual leaders' meetings, defining punishment for deviating in the form of agreed-upon and enforceable rules, and creating the frameworks to incentivise collective action will be necessary.

¹³ Armstrong and Quah (n 10).

One possible option is plurilateralism or pathfinder multilateralism.¹⁴ A fractured global economy might rule out truly universal multilateral frameworks, but targeted arrangements can still preserve the ethos of collective problem-solving in targeted domains. These narrower initiatives, acting as pioneering models, can keep progress alive even when comprehensive multilateralism is out of reach. The MPIA is an illustrative example by allowing participating WTO members to resolve dispute among themselves, bypassing systemic gridlock while sustaining confidence in rules-based trade. By focusing on incremental, achievable collaboration among willing partners, such initiatives help preserve the spirit of multilateralism despite fragmentations.

Coordinating these types of plurilateral arrangements is not easy under a fragmented global system. The collective action problem, where individual interests diverge from group interests, risk paralysis. One possible solution to overcome this is through concerted unilateral action, where economies identify specific common objectives and take steps to pursue those goals unilaterally and voluntarily. This model was expounded in APEC through non-binding and voluntary cooperation which advanced trade and investment liberalization on the understanding that it was beneficial for individual economies and that the benefits would be increased as more economies adopted these policies - economies committed to a common cause and acted in their own-self-interests to the benefit of others.¹⁵ The 'Bogor Goals' agreed to at the APEC summit in 1994 – free and open trade and investment by 2010 for industrialised economies and by 2020 for developing economies – were not fully achieved, but they spurred unilateral liberalization in the Asia-Pacific and anchored a shared vision of openness that guided the region's economic integration. Leadership was exercised collectively through the APEC process, distributing responsibility for progress across the membership. APEC economies coming to an agreement on a public good or common interest can help organize and motivate concerted unilateral action towards shared objectives. In the contemporary environment, the energy transition imperative and the public good of open markets could play a similar coordinating role.

¹⁴ Danny Quah, 'Correlated Trade and Geopolitics Driving a Fractured World Order' in Lili Yan Ing and Dani Rodrik (eds), *The New Global Economic Order* (Routledge, 2025) 54.

¹⁵ Hadi Soesastro, 'Pacific Economic Cooperation: the History of an Idea' in Ross Garnaut and Peter Drysdale (eds), *Asia Pacific Regionalism: Readings in International Economic Relations* (HarperEducational, 1994) 77.

The actions of the great powers in introducing subsidies, adopting security-justified protectionism, exercising economic coercion and ignoring the rules-based system and even their own past commitments, risk contagion and a race to the bottom that would fracture the multilateral system and threaten economic and political security. Acting collectively, small and middle-sized economies, perhaps working through pathfinder or plurilateral approaches in regional groupings such as APEC, can help preserve and strengthen the multilateral system, constraining the excesses of the great powers.

In the aftermath of the COVID-19 pandemic and other disruptions, some companies have shifted, with support or encouragement from governments, from hyper-efficient 'just-in-time' production networks towards 'just-in-case' strategies that prioritized reliability and risk reduction. This has meant larger inventories, more diversified supplier bases, and in some cases the relocation of production either at home or to politically friendly economies. The logic of supply chain resilience rests on two main ideas: that producing goods domestically secures supply, and that foreign suppliers might exploit market power for leverage.

The current adverse external circumstances gave rise to the notion that economies can and should seek security from the world.¹⁶ Confronted with great power competition, supply chain shocks, and fears of economic coercion, many economies turned inwards by adopting policies of self-reliance, protectionism and economic insulation. For some smaller economies, the assumption that reducing interdependence can protect against external risks is unrealistic because for them, isolation is not a viable strategy. Rather, a more effective means of achieving national security may be to establish a more cooperative external environment in which the need for such protection is diminished.

For example, for many economies the belief that domestic production can protect against trade extortion is a fallacy because local manufacturing often depends upon imported inputs. Building resilience through 'just-in-case' strategies is costly and defining what scenarios should be considered and what counts as 'essential' is inherently political and often arbitrary. Leaning towards self-reliance might seem to reduce vulnerability, but in practice, shifts in investment and production can concentrate, rather than eliminate risk.

Greater international engagement can strengthen resilience in two ways. First, increasing the diversity of suppliers means that economies are less exposed to disruptions in any single economy including their own because adverse shocks in one region can be offset by substituting imports from elsewhere. In a free and open trading system, firms do not need to pre-empt where goods will come from and can source from whichever producer is most efficient and reliable at the time. Second, economic interactions between economies strengthen security by broadening the plurality of interests.

¹⁶ Armstrong, 'Australia, Japan, and a Middle Power Approach to Securing Prosperity in Global Disorder' (n 13).

Foreign investment creates stakeholders with a vested interest in a partner's prosperity. Russia's strategic use of gas supplies as political leverage against Europe is sometimes cited as a counterpoint to the argument that interdependence promotes political security, but Russia was never deeply integrated into European supply chains. Europe's energy dependence on Russia is qualitatively different from the complex webs of reciprocal economic interdependence in the European Union or East Asia, for example.¹⁷ In these regions, economic interdependence built on confidence in an open, rules-based multilateral system which has kept political rivalries and unresolved history in check.

Today, economic interdependence is often seen as a security vulnerability. Instances of economic leverage being used as a tool of coercion have given rise to fears about trade dependencies. But the abuse of economic leverage for political purposes can only succeed when there is extreme market power. In all but a handful of products, restricting imports or imposing an export embargo has little to no effect in a competitive market as alternative buyers or suppliers can easily be found. And even when an economy attempts to use its economic leverage for geopolitical purposes in commodities where it has market power, the results do not always materialise as intended.

The multilateral trading system provides a buffer against the risk of coercion. Open markets and global trade rules raise the costs of coercion, dilute economic leverage, blunt the exercise of raw economic power and provide exit ramps. A free and open international trading system, underpinned by a multilateral rules-based order, is the best form of supply chain resilience. The global economy is large and has many alternative buyers and suppliers, so long as markets remain open. Flexible markets allow firms to react and respond to shocks. Had markets been closed, with fewer alternative buyers and sellers, the economic damage would have been far more severe. This outcome was one of the key motivations for the development of the post-war economic order, with multilateral rules introduced to protect economies from the raw exercise of economic leverage.

¹⁷ Armstrong and Quah (n 10).

If coercive leverage is exercised, affected economies can diversify their markets and seek substitutes, with some adjustment cost. Were it not for the confidence afforded by these multilateral rules, economies may retreat from specializing in their comparative advantage and purchasing from efficient producers through costly re-shoring and de-risking. High trade dependencies are now seen as a vulnerability to many governments because they have been weaponized by some governments. But without confidence in high trade shares and deep economic interdependence, specialization will not be realized consistent with comparative advantage, and efficiency and productivity will suffer.

The Digital Economy and Artificial Intelligence

A crucial aspect of modern commerce that lacks multilateral rules for the digital economy. That risks a fragmented digital economy system that can affect trade in goods and services, as well as investment while preventing productivity gains globally. Rules and norms for the digital economy and AI in regional and plurilateral arrangements will need to follow multilateral principles to avoid a fragmented system.

The digital economy has become a central driver of growth and productivity. Today, it accounts for more than 15 per cent of global GDP and has expanded at more than twice the pace of the broader global economy over the past decade.¹⁸ The S&P 500's exposure to digital technology almost doubled from 23 per cent in 2010 to nearly 40 per cent in 2024,¹⁹ with the World Economic Forum estimating that 70 per cent of new value created over the coming decade will be driven by digitally-enabled platform business models.²⁰

The digital economy has several unique features compared to traditional sectors. Information can be shared and transmitted across borders at virtually no cost and data is a non-rivalrous resource which can be used simultaneously by many actors, often with increasing returns.²¹ Data and software therefore carry features of 'public' goods, with their value multiplying through economies of scale and network effects. Digital platforms, such as search engines and messaging apps, are highly scalable and also derive value from the size of their networks. Because of these characteristics, restrictions on the flow of data, software and digital talent can significantly undermine productivity and innovation.

The rapid growth of the digital economy and frontier AI has exacerbated longstanding risks around privacy, cybersecurity, monopolies, and intellectual property, while also creating entirely new risks such as deepfakes, cybertheft, and misinformation. More systemic issues include vulnerabilities in computational infrastructure and the energy/environmental burdens of large-scale AI systems. Given the porous nature of digital borders and associated spillover effects, slowing the adoption of digital technologies in one jurisdiction cannot prevent risks arising elsewhere. This makes adopting a multilateral approach to digital governance essential for safety and productivity.

¹⁸ Zia Hayat, 'Digital trust: How to unleash the trillion-dollar opportunity for our global economy', World Economic Forum (online, 17 August 2022) <<https://www.weforum.org/stories/2022/08/digital-trust-how-to-unleash-the-trillion-dollar-opportunity-for-our-global-economy/>>.

¹⁹ Lewis Krauskopf, 'The S&P 500's wild ride to an all-time high', Reuters (online, 20 January 2024) <<https://www.reuters.com/markets/us/sp-500s-wild-ride-an-all-time-high-2024-01-19/>>.

²⁰ Hayat (n 23).

²¹ Shiro Armstrong and Jacob Taylor, 'Multilateral Governance for the Digital Economy and Artificial Intelligence' (Discussion Paper No 24-E-052, RIETI, April 2024).

But the digital economy is increasingly divided, and protectionism is on the rise. Governments are imposing restrictions on cross-border data flows, promoting national champions and mandating localization. In the absence of comprehensive multilateral rules, the governance of the digital economy remains highly fragmented through initiatives such as the WTO's Joint Statement Initiative and the Japan-led Data Free Flow with Trust. The resulting 'digital noodle bowl' of bilateral and regional agreements risks fueling geopolitical rivalry and undermine economic dynamism and interdependence.

The economic costs of fragmentation are substantial. The sources of innovation and technological progress are increasingly diffuse: in 1960, the United States accounted for nearly 70 per cent of global R&D but by 2018 this had fallen to 28.8 per cent, with China accounting for 23.1 per cent, Japan in third place with 8.5 per cent and Germany in fourth with 7 per cent.²² China overtook the US in 2020 as the largest source of international patent applications, with Japan third and Asia accounting for 52.4 per cent.²³ The WTO and OECD recently examined the economic impact and found that in a worst-case scenario of 'full fragmentation' where each economy shuts off data flows across borders, global GDP could be 4.5 per cent lower and global exports 8.5 per cent lower than if data flowed freely.²⁴

Fragmentation is reinforced by three interrelated challenges: concentration, protection and exclusion. The concentration of digital power has left a small number of US and Chinese firms in control of the highest value inputs to digital systems, including data, software and talent. For instance, in 2023, the 'Magnificent Seven' spent nearly twice as much on R&D as all US universities combined.²⁵ Market power is particularly acute in the development of large-scale AI systems, which require resources that only a handful of firms can provide.

With the digital economy operating under a 'winner takes all' systems, governments are seeking to protect and localize their digital assets. The number of localization policies doubled worldwide between 2017 and 2021, raising costs for foreign firms and indirectly subsidising domestic players. Smaller economies risk exclusion from frontier innovation, forced instead into dependency on technology firms from major powers.

²² 'Gross domestic spending on R&D', OECD (Web Page, accessed 5 August 2025) <<https://www.oecd.org/en/data/indicators/gross-domestic-spending-on-r-d.html>>.

²³ Stephanie Nebehay, 'In a first, China knocks U.S. from top spot in global patent race', Reuters (online, 7 April 2020) <<https://www.reuters.com/article/us-usa-china-patents-idUSKBN21P1P9/>>.

²⁴ OECD and WTO, Economic Implications of Data Regulation: Balancing Openness and Trust (Report, 2025) 7.

²⁵ Michael T Gibbons, 'R&D Expenditures at U.S. Universities Increased by \$8 Billion in FY 2022', National Center for Science and Engineering Statistics (online, 30 November 2023) <<https://ncses.nsf.gov/pubs/nsf24307>>.

Exclusion also persists across economies. Only 36 per cent of people in LDCs use the internet, compared to a global average of 66 per cent.²⁶ Poor connectivity, high costs and low digital literacy keep billions outside the digital economy, worsening inequalities in education, employment, governance and health outcomes.

These challenges underline the need to develop a multilateral framework that more evenly distributes the benefits of digital and AI systems while collectively managing their risks. Globally inclusive arrangements can align incentives, establish shared norms and constrain unilateral policies that fragment markets. Such a regime would recognize that there are differences between economies in the style of government, economic structure, digital maturity and attitudes to data privacy and trade and grant them sovereignty over domestic policies, but under an agreed set of rules that limit discrimination, promote transparency and predictability, and constrain protectionism.

Building this kind of framework requires cooperation across a wide spectrum of actors, from governments, technology firms, SMEs, investors, consumers and workers. Any regional initiatives in the Asia-Pacific should be founded on the principles of open regionalism and interoperability with global regimes. Existing plurilateral and regional agreements have sought to create rules and understandings between smaller groupings of economies. By their nature they are limited in membership and the coverage of issues, but they provide a foundation for future agreements in setting agreed standards and developing potential language for the regional and global architecture of digital agreements. An agenda built around technical cooperation, capacity building and experience sharing can help build confidence and trust, particularly through collaborative work in areas such as digital trade facilitation that offer real and demonstrable gains.

²⁶ Robert Opp, 'Committing to bridging the digital divide in least developed countries', UNDP (online, 8 March 2023) <<https://www.undp.org/blog/committing-bridging-digital-divide-least-developed-countries>>.

The world is witnessing a renaissance of industrial policy²⁷, driven by a range of objectives such as geopolitical competition, perceived high value-added manufacturing sector employment, and the imperative to transition to a green economy. Large-scale subsidies for high-tech and green industries, once frowned upon under the Washington consensus where governments were expected to ‘get out of the way of markets’, are now back in fashion, posing new challenges for the trading system.

For example, the United States’ Inflation Reduction Act (IRA) of 2022 committed roughly US\$369 billion to clean energy, electric vehicles and related manufacturing.²⁸ While its purported central aim was climate action, many provisions, such as tax credits for EVs using North American-assembled batteries, explicitly favour domestic or regional content. Many of the provisions under the IRA have been rolled back by President Trump but his administration has certainly not eschewed the use of industrial policy, making big investments in critical technologies and artificial intelligence.²⁹ The United States’ leadership in returning to industrial policy has prompted complaints from trade partners, as well as similar policies. The European Union responded with its own Green Industrial Plan, relaxing state aid rules to channel funds into renewables, hydrogen and battery technologies. Former President of the European Central Bank Mario Draghi also called for a European industrial plan to boost growth and competitiveness.³⁰ In East Asia, Japan and South Korea have expanded support for semiconductors and batteries, partly in response to US and EU initiatives.

Proponents of this new wave of industrial policy argue that it is mission-oriented, targeting goals such as climate and the green transition, defensive in nature (for example, to respond to China’s industrial policy) and are therefore not explicitly protectionist in nature. But the line between mission-driven aims and protectionist outcomes are thin, especially where subsidies are tied to domestic content. Furthermore, outlining a new objective does not eliminate the well-understood risks of industrial policy in encouraging rent-seeking, the misallocation of resources and the likelihood of political capture.

²⁷ Industrial policy refers to both generic industrial policy and climate-mitigation-driven industrial policy. Generic industrial policy can include domestic subsidies, import prohibitions, and tariffs, and is designed to support domestic industries and constituencies that the government believes are particularly important for economic growth or, simply, internal political advantage. Climate-mitigation-driven industrial policy is designed to support climate mitigation while at the same ensuring that certain domestic industries and constituencies benefit, where those benefits may (or may not) be needed to generate political support for the mitigation investments. While the goals of the two industrial policies may differ, they are both industrial policy.

²⁸ ‘\$369 billion in investment incentives to address energy security and climate change’, UN Trade and Development (Web Page, 16 August 2022) <<https://investment-policy.unctad.org/investment-policy-monitor/measures/4004/-369-billion-in-investment-incentives-to-address-energy-security-and-climate-change->>.

²⁹ ‘ICYMI: President Trump Announces \$92+ Billion in AI, Energy Powerhouse Investments’, White House (Web Page, 16 July 2025) <<https://www.whitehouse.gov/articles/2025/07/icymi-president-trump-announces-92-billion-in-ai-energy-powerhouse-investments/>>.

³⁰ ‘The future of European competitiveness: Report by Mario Draghi’, European Commission (Web Page, accessed 5 August 2025) <https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en>.

This surge of subsidies highlights a coordination problem. A global subsidy race risks distorting competition, penalising smaller economies and eroding the level playing field. WTO rules on subsidies were not designed for a scenario in which major economies simultaneously subsidise strategic sectors. If every economy attempts to out-subsidise the others, the result will be spiralling distortions and inefficiencies. Some frictions are already evident, with European officials fretting that the US IRA would lure green-tech investments away from Europe while developing economies worry that they cannot compete with the scale of rich-economy subsidies.

This dynamic underscores the need for new or updated international rules, such as a framework for green subsidies that balances climate imperatives with fair competition, or greater transparency and agreed limits on technology subsidies. IMF First Deputy Managing Director Gita Gopinath has called for international norms on industrial policies, warning that without discipline they risk escalating retaliation and fragmentation.³¹ If it is properly coordinated, industrial policy could be harnessed in a cooperative way where economies pool resources to scale up clean technologies while sharing the gains more broadly.

For economies in the Asia-Pacific, the lesson is to not copy wholesale the policies of larger economies without considering their own interests. For example, Australia has a distinct policy challenge. Unlike the United States or the European Union, it does not compete directly with China in the manufacturing sector. The United States and Europe may view China's technological ascent as a threat, but for Australia the benefits lie in access to cheaper, higher-quality goods – while tariffs on cars are a central issue for the EU and US, Australia, which no longer has a car manufacturing industry, benefits more from consumption than protection. Instead, Australia's prosperity depends on its resource exports, particularly iron ore, which underpins China's industrial capacity and Australia's fiscal base. Australia is indispensable to China's economic security because its iron ore has no substitute in quality or quantity and will continue to more than half of China's steel industry for the next decade. In turn, Australia is heavily reliant on resource trade with China which was worth A\$317 billion in 2021 – 30 per cent of two-way trade while all G7 industrial economies combined account for 26 per cent.³²

³² Shiro Armstrong et al, *Economic Tools for Statecraft and National Security* (Report, 2022).

Australia's interests lie in managing interdependence strategically. Given that Australia provides crucial inputs for Chinese industrial production, rather than competing directly with its outputs, distancing itself from China would be economically counterproductive especially as China is likely to be a leader across many future technologies, including those that help with the green transition. Instead, building interdependence with China in critical minerals and in the transformation that will need to happen in steelmaking to achieve decarbonization goals will contribute to Australia's prosperity and security. History shows that denying rising powers access to resources can fuel insecurity and conflict, as it did for Japan in the lead up to World War II.

This has implications for Australia's industrial strategy, which is manifest under the Future Made in Australia (FMIA) agenda. FMIA is reflective of the global turn towards industrial policy, committing public resources to secure investment in critical minerals, renewable energy, green hydrogen, low-carbon steel and advanced manufacturing. But for a medium-sized open economy like Australia, the greatest benefits will come from positioning its industrial policy so that it complements rather than substitutes for openness, leveraging its comparative advantage in resources and clean energy to further deepen its integration in global value chains.

Models for a Future Trading System

Given the turbulent state of global trade, it is useful to envision possible models for the future trading system. Broadly, we can imagine three archetypes: a return to rules-based multilateralism, a relapse into a fragmented ‘might is right’ regime of mainly bilateral power-based deals, or a hybrid disorder that mixes elements of both. Each has very different implications for economic outcomes and global stability.

How the new issues in global trade of security in economics, supply chain resilience, the digital economy and AI, and the return of industrial policy are managed and navigated globally will be important to determining the characteristics and nature of the future trading system.

A revitalized rules-based multilateral system, preserving the core principles of non-discrimination, transparent and neutral but less bureaucratic dispute settlement is the most desirable model. Historically, the multilateral system has underpinned stable growth by internalizing political and security risks. The rules-based order, developed from the Bretton Woods institutions, helped to curtail protectionism and separated trade policy considerations from national security and geopolitics.³³ Over the next eight decades, the multilateral trading system – built on the principle of equal treatment and a level playing field – progressively help make the global economy more open and insured against economic shocks and aggression. The large global economy, with its alternative buyers and suppliers, protects economies against trade stoppages, whether politically motivated or from other shocks. The rule of law in the international economic system, as opposed to the rule by power, is the fundamental principle guiding international cooperation, requiring a WTO-centred system where disputes are adjudicated and externalities are managed collectively. To effectuate this vision, the WTO must be able to update its rules and finalize new agreements on digital trade, services, investment facilitation and environmental goods so that economies operate under a common set of modern rules. What is necessary to build is confidence in the system and that requires participants to act within the rules and norms of that system.

³³ Cooper, ‘Trade Policy is Foreign Is Foreign Policy’ (n 5); Cooper, ‘Economic Interdependence and Foreign Policy in the Seventies’ (n 5).

The second model is a relapse into ‘might is right’ transactionalism, where power politics dominates trade. In this scenario, large economies or blocs set the terms of trade deals to favour themselves, and smaller economies have little recourse but to acquiesce or form their own spheres. This model is reminiscent of trade in the Cold War, where there was little trade between the Western and Soviet bloc.³⁴ Even within the USSR-dominated bloc, trade was limited and conducted through politically managed arrangements – often resembling barter or clearing mechanisms – rather than through transparent, rules-based systems reflecting market forces. The economic risks of such a world are enormous – production would be diverted from the most efficient locations to merely the politically ‘safe’ locations, raising costs and reducing innovation. IMF research has compared current fragmentation trends to Cold War patterns, finding that while fragmentation so far is modest relative to the Cold War, if it escalated it could impose huge costs because today’s global economy is far more interdependent than it was in 1950. Trade now accounts for 45 per cent of GDP, compared to 16 per cent at the start of the Cold War.³⁵ If conditions deteriorate to extreme levels, it could lead to elements of the 1930s when nations erected high tariffs and discriminatory trade blocs fuelled economic rivalry and mistrust. In that decade, zero-sum economic competition exacerbated nationalism on the road to World War II. Indeed, it was the lessons from that experience that led to the creation of the GATT, which separated trade and international economic policies from the ‘high politics’ or ‘high foreign policy’ matters of national security and survival.³⁶ Today, these hard-won gains should not be taken for granted. Proposals to replace open trade with preferential and discriminatory trade and investment policies for allies, democracies, or trusted partners will reduce economic options and concentrate markets, ultimately making economies more vulnerable to the very risks they seek to avoid.

³⁴ Gita Gopinath et al, ‘Changing global linkages: A new Cold War?’ [2025] (153) *Journal of International Economics* 104042.

³⁵ Gopinath (n 4).

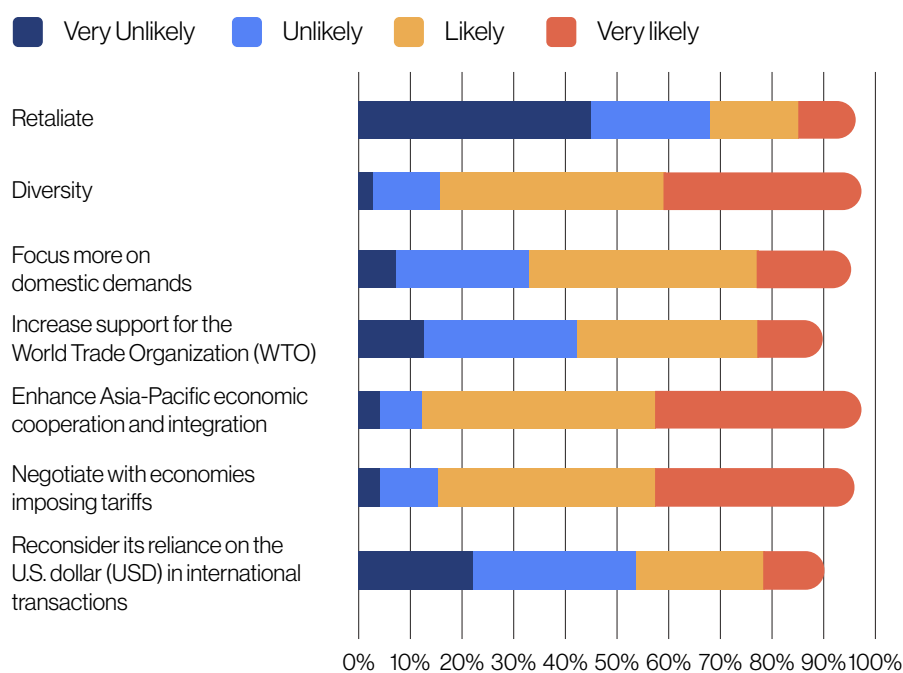
³⁶ Cooper, ‘Trade Policy is Foreign Is Foreign Policy’ (n 5).

Between these two poles is a hybrid disorder, characterised by zero-sum politics and unmanaged risks but without a full bifurcation into closed blocs either, which is not far from where we seem to be heading today. Trade based largely on market forces might continue globally in non-sensitive sectors such as consumer goods and commodities but tend to become more restricted in strategic sectors such as technology and defence-related goods or sectors with domestic political clout dominated by perceived “national champions.” Maintaining small yards and high fences around those sectors is not easy as mission creep has already occurred in many economies with the yards growing. The result is a kind of unstable equilibrium which avoids an outright comprehensive economic war but is not a reliable rules-governed system either since sectoral disputes will continue to expand. In such an environment, the political rhetoric will be characterized by zero-sum thinking as leaders will perceive economic gains for rivals as a loss for themselves. The defining feature of zero-sum thinking is that one side wins only when the other loses. This zero-sum perspective can be seen in the contemporary US-China rivalry over technological primacy in the 21st century. Unless this narrative can be flipped, it will progressively edge out possible areas for compromise that could lead to a healthier and more stable global economy for all. But that engagement seems to have moved to something even worse than zero-sum. From the perspective of the global economy, at least in zero-sum competition whatever one side loses, someone else gains. The tragedy is when economies undertake actions that produce losses for everyone – an epic-fail situation, where everyone can in principle be made better off but each economy seeking to advance their self-interest leads to an equilibrium where everyone is worse off. It is for this reason that this ‘in-between’ outcome is also a bad equilibrium.³⁷ In this environment, zero-sum games lead to negative sum outcomes, and the lack of rules mean that security and political interests overwhelm economic imperatives.

³⁷ Armstrong and Quah (n 10).

In a time of uncertainty, governments and firms tend to self-insure against risk with costly measures like hedging, diversification, stockpiling and other restrictions. But in the past, it was the rules-based system which managed these risks. Fortifying the economy against shocks in the name of economic security and resilience through subsidies and stockpiling comes at a significant cost to the government budget and is paid for by the taxpayer. The key question is whether pursuing insurance measures is a better approach than working to protect and reinforce the existing, cost-minimizing system. Instead of each economy expending resources on trade wars or resilience or industrial policy or duplicative systems, all economies can benefit from the efficiencies of a single integrated global market where risks are managed through the multilateral rules-based system.

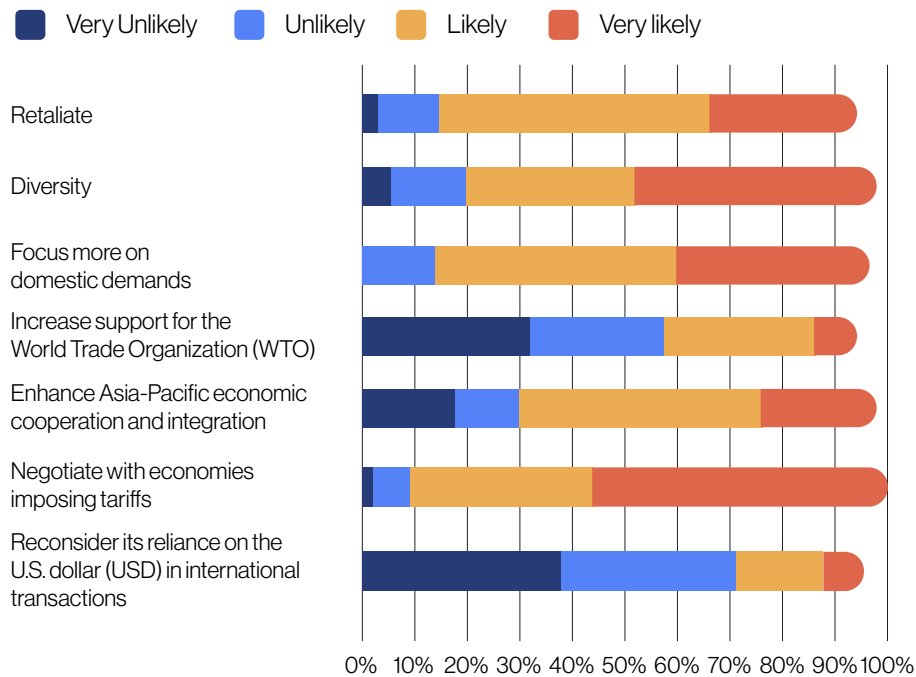
Figure 2.5: Survey result: Expected response from one's government on imposed tariff - World



Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

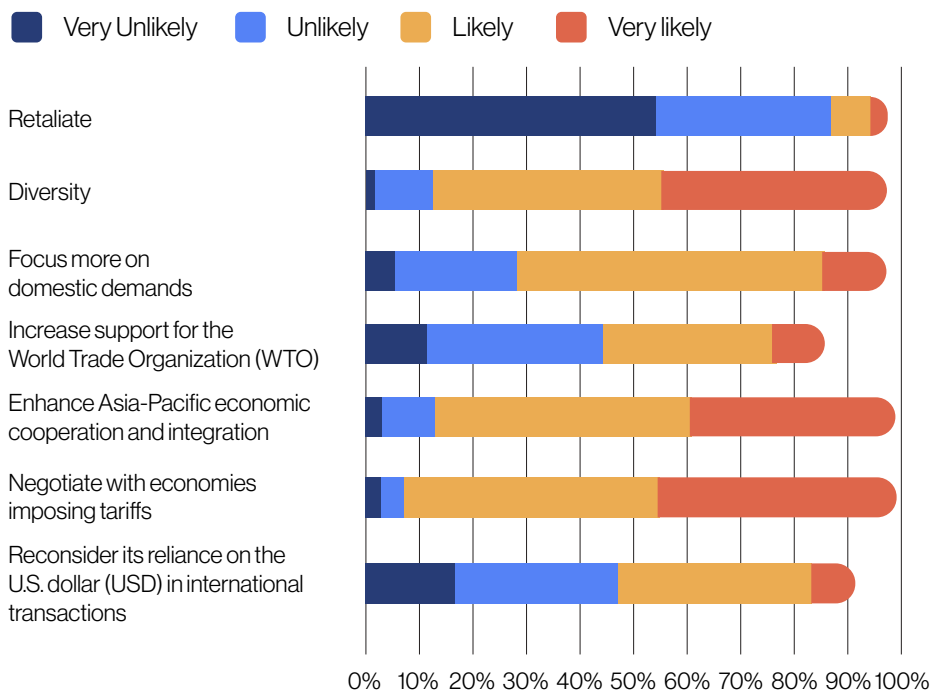
Figure 2.5 shows the expected response of governments on tariffs and other protectionist measures that hinders one's trade. Many governments – such as Southeast Asian economies (Figure 2.5B) lean towards diversification, increase domestic demand and consumption (self-sufficiency), enhance APEC cooperation and integration as well as the need for continuous engagement and negotiation with economies imposing tariffs and protectionist measures. Breaking the results down further to show regional examples, North American economies are the only economies that expect their governments to retaliate (Figure 2.5A).

Figure 2.5A: Survey result: Expected response from one's government on imposed tariff - North America



Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

Figure 2.5B: Survey result: Expected response from one's government on imposed tariff - Southeast Asia



Source: Pacific Economic Cooperation Council 2025 survey data. See Annex A for survey methodology

As Figure 2.5 shows the results on the expectation for governments to “increase support for the World Trade organization (WTO)”, the value, relevance, and importance of the rules-based multilateral trading system to the global community have not changed. It continues to be a counterweight to protectionism, while an open trading system, with substitute markets and alternative suppliers, remains a critical buffer against economic shocks. It is the loss of confidence in the system – not any flaw in the system itself – that is driving economies and companies to self-insure through diversification, stockpiling, friendshoring, and other policy measures in the name of economic security. This is not a safer or more desirable world: it is a set of third-best policy responses in a second-best world that reduces our chances of reaching a first-best solution. Working to restore and defend the system is a better, cheaper and more reliable way to manage risks. The rules-based system, for all its current troubles, remains the proven architecture that can manage interdependence with minimal friction.

Conclusion

In this era of disruption and disorder, the rules-based international economic order is at risk of devolving into a bilateral 'might-is-right' world that leaves economies constantly appeasing the latest developments and the whims of the great powers. To avoid that trajectory, economies must clearly define the interests they will defend and adopt strategies that safeguard national priorities while keeping international policy choices open in an increasingly power-driven world.

If great powers practice coercion, smaller economies and even middle powers must decide whether to look for bilateral deals, hit back with counter-tariffs, or stay the course. US tariffs and trade restrictions have seen economies seek out bilateral deals. The great temptation will be to negotiate managed trade deals, voluntary export restraints, or some form of exemptions. But while such outcomes may seem the least bad option from a business perspective, they erode systemic multilateral trade rules. If this becomes normalized as an accepted precedent, the choices that the great powers may force on other economies will only get sharper, further accelerating the breakdown of the global economic order. A coordinated multilateral approach, including concessions where necessary, can reduce the risk of trade diversion, while institutions such as APEC offer platforms to manage and coordinate both positive and negative spillovers.

The Asia-Pacific, with high trade to GDP ratios, has benefitted more than any other region from the open trading system and is especially vulnerable to disruptions. But it also has the institutional innovations (CPTPP, RCEP, APEC) necessary to lead a proactive regional strategy in response to the new global economic landscape. CPTPP brings together economies across Asia and the Americas in a high-standard agreement that covers issues from intellectual property to digital trade and is open to new members, exemplifying open regionalism in practice. RCEP, led by ASEAN and including large regional economies like China and Japan, is the world's largest regional trade agreement, includes an in-built agenda for economic cooperation and was concluded during a period of rising protectionism, demonstrating a commitment in Asia to keep markets open. APEC also continues to be valuable as a non-binding forum where major economies of the Pacific Rim, including the US and China discuss trade and economic issues on equal footing. It has a consensus-based approach and important initiatives, such as mutual recognition arrangements, which build practical cooperation and trust and incubate ideas.

By strengthening regional partnerships with economies that face similar challenges, clearly articulating their economic security interests and engaging in sustained diplomacy, the Asia-Pacific can foster a collective response to economic uncertainty. The region should pursue three big priorities.

PRIORITY ONE

First, the region needs to provide leadership to preserve and reform the international rules-based system. The WTO remains the lynchpin of a rules-based trading system and expanding MPIA, which includes China and other major Asian economies, will bring more members under a system of enforceable rules and increase certainty in trade. There is also an urgent need to update the WTO rulebook to address areas currently at the root of trade frictions, crafting disciplines or transparency agreements on industrial subsidies, clarifying the scope of national security exceptions, and making progress on digital trade rules. Article XXI of the GATT permitted nations to enforce limiting measures for legitimate national security interests, but the allowance was never meant to be universal and there existed a norm to avoid undermining of GATT's rules through excessive use under the guise of national security. The rules-based trading system is at risk if WTO members can deploy discriminatory tariffs, quotas or other trade restrictions with their own interpretation of national security without a functioning dispute settlement system, and there is a need for groups of economies to codify what legitimate national security interests are and under what conditions Article XXI in the GATT can be invoked. Restoring norms around the Article's use and credibly committing to those bounds through agreements can help preserve the rules-based trading system. WTO reform should also improve regular functions such as the monitoring of trade policies and strengthening technical assistance for developing members. The key aim of preserving the WTO is in preserving good habits – the inclination towards cooperation and the expectation of reciprocity – which leads even large economies to find themselves constrained by multilateral rules.

³⁸ Bernard M Hoekman, Petros C Mavroidis and Douglas R Nelson, 'Geopolitical competition, globalisation and WTO reform' (2023) 46(5) *World Economy* 1163.

PRIORITY TWO

Second, economies in the Asia-Pacific need to ensure that regional and plurilateral agreements are integrated into the global system. As regional trade agreements and plurilateral initiatives proliferate, they must align with multilateral principles with a view to ultimately spread their gains. RTAs should be designed in a way such that they complement multilateral institutions, rather than substitute for them. Major agreements such as RCEP and CPTPP should be open platforms, encouraging accession by any economies that are willing to meet the rules of the agreement, and plurilateral deals should ideally be designed in a way that they can be brought into the WTO framework when ready. This applies to the development of rules and norms for the digital economy and AI.

PRIORITY THREE

Third, the green transition should be pushed as a unifying goal for concerted unilateral action. In the absence of formal multilateral agreements, economies need to be encouraged to undertake domestic reforms voluntarily. The concerted unilateralism approach sees economies converge towards a common goal according to their domestic circumstances. But it needs an organizing goal and climate change – an existential challenge that necessitates cooperation, open trade and investment in green goods and services, harmonized regulations and the cooperative management of spillovers – can be that mission. Trade is a necessary part of the green transition and climate agenda, allowing the diffusion of green innovation and creating new markets and jobs. Trade policies should be part of the solution, not the problem, and agreements should be pursued to liberalize environmental goods and services, coordinate on climate-related trade policies such as CBAM to prevent fragmentation and constrain economies from introducing green policies that restrict investment or foreign content.

The rules-based multilateral trading system is under threat. The future of the global economic order is not predetermined but shaped by choices and it is not exogenous to policy influence. The current trajectory on which we find ourselves is a result of deliberate decisions, and purposeful actors can influence this trajectory through proactive and coordinated policy efforts. For economies in the Asia-Pacific, copying the policies of great powers – who have much greater resources, geopolitical leverage, and ability to absorb economic costs – without careful consideration of their implications risks leading the world toward an outcome in which all are worse off due to narrowly self-interested national choices, despite the potential for better outcomes through international cooperation. In a disrupted world, the best trade policy is to defend and strengthen the institutions that had provided prosperity, certainty and stability for so many decades.

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05



Annex A

RESULTS OF ASIA-PACIFIC POLICY COMMUNITY SURVEY

Annex A: Result of Asia-Pacific Policy Community Survey

This annex presents the findings of a survey of the Asia-Pacific policy community conducted by the Pacific Economic Cooperation Council from 25 June to 8 August 2025. The survey was disseminated through: PECC member committees, the APEC Business Advisory Council, APEC Policy Support Unit, Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI), Papua New Guinea APEC Team, UNescap-ARTNeT.

This is not a survey of public opinion but rather, a survey of those whose views influence policymaking, especially at the regional level as some of the questions require a knowledge of ongoing regional initiatives. However, we believe that those surveyed include those who are responsible for influencing and often making decisions on various aspects of their economy's positions within different regional groups.

The guidance for identifying panelists is as follows:

Government

Panelists should be either decision-makers or senior advisors to decision-makers. As a guide, the government respondents in previous years included a number of former and current Ministers, Deputy and Vice-Ministers, Central Bank Governors and their advisors for Asia-Pacific issues, current APEC Senior Officials, and a number of former APEC Senior Officials.

Business

Panelists should be from companies who have operations in a number of Asia-Pacific economies or conduct business with a number of partners from the region. This might include each economy's current ABAC members as well as past ABAC members. In last year's survey, these included CEOs, vice presidents for Asia-Pacific operations, and directors of chambers of commerce.

Non-government: Research Community/Civil Society/Media

Panelists should be well-versed in Asia-Pacific affairs, being the type of people governments, businesses, and the media would tap into to provide input on issues related to Asia-Pacific cooperation. These included presidents of institutes concerned with Asia-Pacific issues, heads of departments, professors, and correspondents covering international affairs.

Respondent Profile



Total Number
of Respondents:

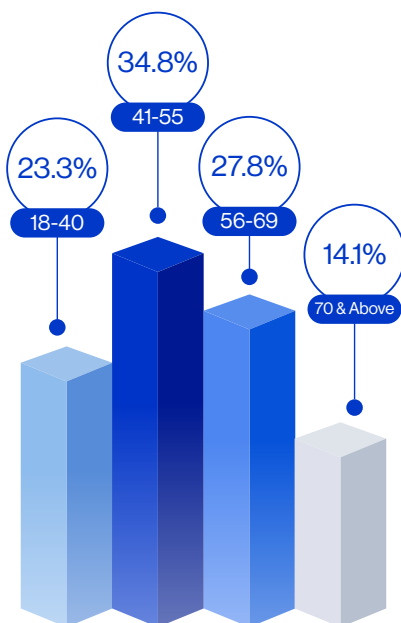
504



Total Number
of Economies:

24

Age Group



Gender



Male:
68%



Female:
29%



Prefer Not
to Say:
3%

Affiliation



Academia
46%



Civil Society
5%



Media
2%



Business
25%



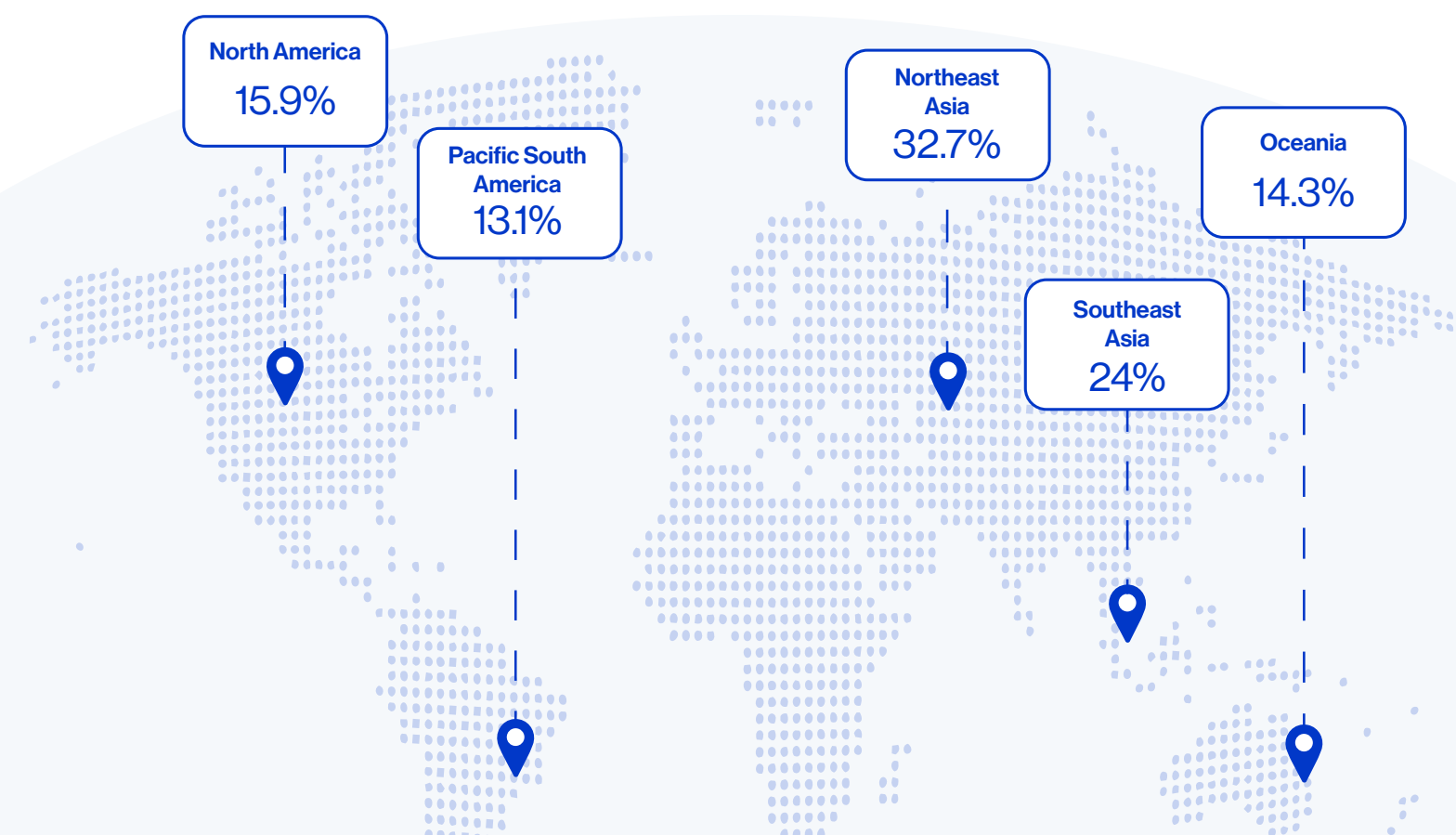
Government
14%



Others
8%

Respondent Breakdown: We do not disaggregate results for each economy but rather by sub-regions – Northeast Asia, North America, Oceania, Pacific South America, and Southeast Asia.

- North America: Canada, Mexico, and the United States
- Northeast Asia: China, Hong Kong (China), Japan, Korea, Russia, and Chinese Taipei
- Oceania: Australia, New Zealand, Papua New Guinea, and French Pacific Territories
- Pacific South America: Chile, Colombia, Costa Rica, Ecuador, and Peru
- Southeast Asia: Brunei Darussalam, Cambodia, India, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam



1. What are your expectations for economic growth over the next 2-3 years compared to the last year for the following economies? Please select/tick the appropriate box.

	Much Weaker	Weaker	About the Same	Stronger	Much Stronger	Don't Know / Unsure	Total
Your Own Economy	6.7%	33.1%	32.5%	23.4%	3.2%	1.0%	100%
The Asia-Pacific Economy	1.4%	34.5%	28.6%	28.6%	5.8%	1.2%	100%
The Global Economy	3.2%	56.5%	25.4%	11.7%	1.2%	2.0%	100%

2. Please select the top five risks to growth for your economy over the next 2-3 years. Please select ONLY five (5) risks, using a scale of 1-5. Please write 1 for the most serious risk, 2 for the next most serious risk, 3 for the next third highest risk, 4 for the fourth highest risk and 5 for the least serious risk.

	5 - least serious	4	3	2	1 - most serious
Increased protectionism and trade wars	5.4%	4.8%	6.5%	15.1%	56.3%
Global supply chain disruption	7.9%	12.7%	19.2%	24.2%	4.8%
Global economic slowdown	6.7%	10.9%	20.0%	21.6%	9.7%
Inflation/Cost of living	11.5%	14.1%	15.1%	12.1%	8.5%
Financial market volatility	12.9%	15.9%	7.7%	5.4%	2.4%
Economic inequality within societies	13.1%	10.3%	6.9%	5.8%	5.0%
Inability to adapt to rapid technological change and Artificial Intelligence (AI) and mitigate risks posed by these technologies	14.3%	12.3%	9.5%	4.4%	2.6%
Cybersecurity issues	9.1%	7.5%	5.6%	3.8%	1.4%
Climate change/ Natural disasters	15.9%	9.5%	7.9%	6.7%	5.0%

3. How much impact will the increased protectionist measures (e.g. the US Reciprocal Tariffs and other economies' tariffs) have on the economic growth of the following economies in the next 2 - 3 years?

	Much Weaker	Weaker	About the Same	Stronger	Much Stronger	Don't Know / Unsure	Total
Your Own Economy	9.0%	29.2%	22.6%	23.4%	15.0%	0.8%	100%
The Asia-Pacific Economy	3.6%	37.6%	12.8%	29.4%	14.6%	2.0%	100%
The Global Economy	7.8%	38.6%	10.0%	25.4%	16.0%	2.2%	100%

4. What will be the specific effects do you anticipate the increased protectionist measures (e.g. the US Reciprocal Tariffs and other economies' tariffs) on your economy in the next 2 -3 years?

	Decrease	About the same	Increase	Don't know /Unsure	Total
Exports to the world	54.0%	24.5%	17.7%	3.7%	100.0%
Imports from the world	35.3%	40.9%	21.5%	2.3%	100.0%
Inward investment from the world	40.8%	32.0%	23.0%	4.2%	100.0%
Outward investment to the world	30.3%	39.0%	16.9%	4.8%	100.0%
Productivity	39.2%	39.2%	6.7%	6.7%	100.0%
Unemployment	8.6%	26.2%	60.8%	4.4%	100.0%
Innovation	23.3%	40.1%	32.0%	4.6%	100.0%
Fiscal deficits	7.7%	30.3%	56.1%	5.9%	100.0%
Trade balance	35.4%	38.2%	16.9%	9.5%	100.0%
Sectoral impact	22.5%	21.9%	23.8%	31.8%	100.0%

5. What will your government do to respond to the substantive tariffs imposed on your exports?

	Very Unlikely	Not Likely	Likely	Very Likely	Don't know /Unsure	Total
Retaliate	45.6%	23.5%	17.4%	10.2%	3.4%	100.0%
Diversify	2.7%	13.3%	44.0%	37.7%	2.3%	100.0%
Focus more on domestic demands	7.2%	26.6%	44.3%	17.7%	4.2%	100.0%
Increase support for the World Trade Organization (WTO)	12.9%	30.1%	35.0%	12.3%	9.7%	100.0%
Enhance Asia-Pacific economic cooperation and integration	4.8%	7.6%	45.6%	39.7%	2.3%	100.0%
Negotiate with economies imposing tariffs	4.2%	11.8%	41.4%	39.3%	3.2%	100.0%
Reconsider its reliance on the U.S. dollar (USD) in international transactions	22.6%	31.8%	25.2%	10.7%	9.6%	100.0%

6. How likely do you consider the following actions as useful responses by your government to substantive tariffs on exports?

	Very Unlikely	Not Likely	Likely	Very Likely	Don't know /Unsure	Total
Retaliate	41.3%	30.7%	15.4%	9.6%	3.0%	100.0%
Diversify	1.3%	10.3%	39.0%	46.8%	2.6%	100.0%
Focus more on domestic demands	8.1%	25.7%	41.0%	21.1%	4.1%	100.0%
Increase support for the World Trade Organization (WTO)	13.7%	28.5%	35.1%	15.5%	7.2%	100.0%
Enhance Asia-Pacific economic cooperation and integration	2.8%	7.3%	41.4%	45.9%	2.6%	100.0%
Negotiate with economies imposing tariffs	6.5%	14.8%	43.0%	32.3%	3.5%	100.0%
Seek to reduce of use of U.S. dollar (USD) in international transactions	24.3%	33.6%	23.7%	9.4%	9.0%	100.0%

7. How much impact will the rising market competition including major economies' competition have on the economic growth of the following economies in the next 2-3 years as compared to the last year?

	Much Weaker	Weaker	About the Same	Stronger	Much Stronger	Don't Know / Unsure	Total
Your Own Economy	3.4%	26.9%	33.5%	26.5%	7.1%	2.6%	100%
The Asia-Pacific Economy	1.9%	25.2%	27.3%	34.6%	7.5%	3.4%	100%
The Global Economy	3.7%	32.9%	26.9%	24.5%	8.2%	3.9%	100%

8. What are the following institutions/frameworks that your government will promote or leverage to advance economic cooperation in this challenging time?

	Very Unlikely	Not Likely	Likely	Very Likely	Don't know / Unsure	Total
World Trade Organization (WTO)	9.3%	24.3%	39.5%	19.4%	7.5%	100.0%
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	7.1%	12.4%	43.9%	30.2%	6.4%	100.0%
Regional Comprehensive Economic Partnership (RCEP)	13.4%	15.8%	37.1%	26.2%	7.5%	100.0%
Belt Road Initiative (BRI)	29.3%	28.8%	19.5%	13.1%	9.3%	100.0%
Indo-Pacific Economic Framework for Prosperity (IPEF)	21.5%	26.8%	30.6%	7.1%	14.0%	100.0%
Asia-Pacific Economic Cooperation (APEC)	3.5%	14.0%	45.5%	33.3%	3.7%	100.0%
The Association of Southeast Asian Nations (ASEAN) and ASEAN-Plus frameworks	7.0%	14.0%	40.1%	32.0%	6.8%	100.0%
Free Trade Area of the Asia-Pacific (FTAAP)	10.5%	21.5%	38.4%	16.4%	13.2%	100.0%
Bilateral trade and investment agreements	1.8%	7.7%	39.0%	47.6%	3.9%	100.0%

9. What factors cause the concerns on trade and globalization in your economy?

Please select ONLY top five (5) causes, using a scale of 1-5. Please select 1 for the most important factor, and 5 for the least important cause.

	5 - least serious	4	3	2	1 - most serious
Job insecurity	12.1%	12.8%	10.6%	13.4%	22.9%
Perception of too many migrant workers	13.2%	10.1%	7.9%	7.3%	3.7%
Increased exposure of domestic business to foreign competition	10.1%	13.9%	16.1%	10.8%	10.1%
Inability to move up in global value chains	9.5%	11.9%	17.8%	15.2%	12.8%
Environmental degradation/ Pollution	15.6%	10.6%	9.9%	5.5%	3.3%
Rising economic inequality within societies	13.4%	16.5%	13.9%	15.0%	8.8%
National security concerns amid rising geopolitical tensions	9.0%	11.9%	11.7%	18.9%	24.0%
Perceptions that foreign economies engage in unfair trade practices	14.5%	12.1%	11.2%	13.7%	12.6%

10. What do you think should be the top 5 priorities for Asia-Pacific Economic Cooperation (APEC) Leaders to address? Please select ONLY five (5) issues, using a scale of 1-5, please select 1 for the issue you think is most important, 2 for the next most important issue, 3 for the third most important, 4 for the fourth most important and 5 for the fifth most important.

	1st Most Important	2nd Most Important	3rd Most Important	4th Most Important	5th Most Important
Ameliorating the risks caused by increased protectionism and trade wars	51.0%	15.6%	8.7%	6.0%	9.8%
Lowering geopolitical tensions	17.4%	27.6%	9.8%	11.8%	6.5%
Boosting supply chain resilience and efficiency	6.5%	18.5%	27.4%	10.7%	9.1%
Addressing economic inequality within societies and increasing inclusion	6.7%	8.9%	10.9%	14.5%	10.2%
Facilitating the adoption of emerging technologies and Artificial Intelligence (AI) and managing risks arising from these technologies	4.5%	9.1%	16.0%	20.0%	16.7%
Promoting environmentally sustainable trade and investment	4.5%	6.2%	10.0%	17.8%	17.1%
Promoting cybersecurity cooperation	2.0%	2.7%	5.1%	8.0%	12.0%
Supporting the multilateral trading system (e.g. WTO)	7.3%	10.2%	11.6%	10.9%	16.5%

06

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