

Establishing the WTO 2.0

-Keidanren's Proposal towards WTO Reform/Reposition-

14 October 2025

Keidanren (Japan Business Federation)

Outline of the Proposal

- ✓ Need for WTO Reform/Reposition
- ✓ Pathway towards the WTO 2.0
- ✓ Directions for Reform towards the WTO 2.0
- ✓ Concrete Measures towards the WTO 2.0

Need for WTO Reform/Reposition

Rules-based, Free and Open International Economic Order Under Strain

Confrontation and division
aggravated by imbalances

Opposition to globalisation and
free trade

Widespread of
trade-restrictive measures

If the current situation is left unaddressed...

Not only would the economy suffer severe repercussions but also rule by force may become the norm in the international community.

Efforts to maintain and strengthen the international economic order is indispensable.

The role of the WTO which provides common rules to 166 Members remains vital. However, considering the present situation, WTO Reform/Reposition is essential.

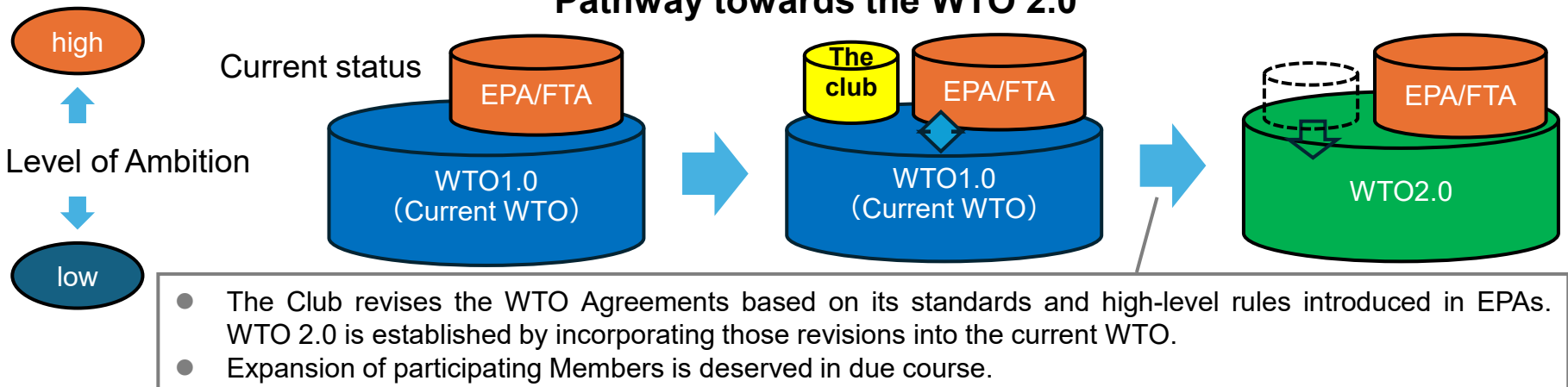
With momentum building for reform within the WTO, we must not lose this chance to embark on the full-fledged WTO Reform/Reposition, which aims at establishing the “WTO 2.0” as an ultimate goal.

Pathway towards the WTO 2.0 ①

-Formation of a “Free and Fair Trade and Investment Club”-

- ✓ In Keidanren’s FUTURE DESIGN 2040 (published December 2024), it proposes the establishment of “WTO 2.0” as part of efforts to strengthen international rule-making.
- ✓ As a pathway toward WTO 2.0, Keidanren urges the formation of a “Free and Fair Trade and Investment Club.” The Club is expected to be formed among countries/regions which commit to meeting a set of high-level standards on trade and investment. The standards may include but not limited to; elimination of tariffs on industrial goods, prohibition of market-distorting subsidies and local content requirements and open government procurement markets. The Club Members will be granted non-discriminatory treatment reciprocally.
- ✓ The Club revises and updates the WTO Agreements based on the above standards and high-level rules introduced in existing EPAs. WTO 2.0 is established by incorporating those revisions/updates into the current WTO. Expansion of participating Members is deserved.
- ✓ The Club does not intend to replace the WTO. Rather, it is envisioned as a catalyst to facilitate the transition from current WTO to WTO 2.0.

Pathway towards the WTO 2.0

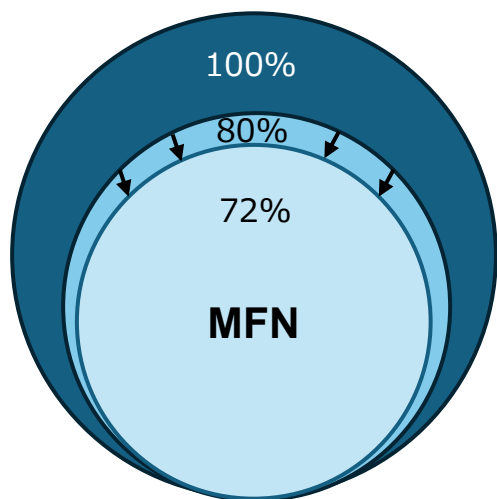


Pathway towards the WTO 2.0 ②

-Relations between Free and Fair Trade and Investment Club” and MFN-

- ✓ The Club is WTO compatible in terms of the MFN principle.
- ✓ Numerous EPAs have recently been concluded under the GATT Article 24.8.
- ✓ Since the Club aims to promote free and fair trade/investment, it shall be regarded as equivalent to EPAs rather than trade restrictive measures.
- ✓ It will be difficult to move reforms forward involving broad range of countries, regions, and their business sectors without addressing the current situation where the MFN principle is undermined due to trade restrictive exceptions.

MFN in World Trade



- ✓ Share of world trade under the MFN principle has been eroded from 80% in January this year to 72%.

Pathway towards the WTO 2.0 ③

-Strong leadership and firm political commitment-

- ✓ **Establishment of the WTO 2.0 requires not only the leadership of Director-General Okonjo-Iweala but also the sustained and robust political commitment of the WTO Members. It would be appropriate to elevate the current Ministerial Conference (MC), which is held every two years, to a Summit-level meeting and hold it annually.**

Recent WTO Ministerial Conferences (MC): Dates and Venues

MC9	December 2013	Bali, Indonesia
MC10	December 2015	Nairobi, Kenya
MC11	December 2017	Buenos Aires, Argentina
MC12	June 2022	Geneva, Switzerland
MC13	February 2024	Abu Dhabi, UAE
MC14 (scheduled)	March 2026	Yaoundé, Cameroon

Directions for Reform and Concrete Measures towards the WTO 2.0^①

-Overview-

- ✓ Among the following proposals, those requiring detailed design should be addressed by establishing a forum for discussion at MC14 scheduled in March 2026, with the aim of reaching a conclusion by MC15.

(1) Reforming the system to achieve results

- ✓ Under the consensus-based decision-making, rule-making has been hindered due to small number of opposition.
⇒ Review of the decision-making process

(2) Reforming the system to keep up with current realities

- ✓ Some Members are not living up to their obligations
- ✓ Members can self-designate themselves as a developing country
- ✓ Emerging issues such as security, sustainability, digital, investment are not addressed adequately
⇒ Improve the above situation through Reviewing Related Agreements.

(3) Reforming the system to ensure compliance with agreed rules

- ✓ Dispute settlement can be blocked by “appealing into the void”
⇒ Ensure the effectiveness of dispute settlement.

Directions

Concrete Measures

- ✓ WTO Agreement should be revised making clear that rulemaking would not be blocked by a small number of objectors, while reaffirming consensus as the basic principle.

- ✓ Ensure a level playing field (Strengthening disciplines on subsidies)
- ✓ Establish objective criteria of a developing country
- ✓ Review the security exception under the GATT Article 21
- ✓ Promote discussions on the WTO compatibility of climate measures such as CBAMs
- ✓ Implement the Agreement on Electronic Commerce, develop additional rules
- ✓ Implement Agreement on Investment Facilitation for Development, develop additional rules

- ✓ Refunction the Appellate Body by defining its authority and preventing “overreach”. Adopting a single-tier system based solely on Panel rulings, with a review mechanism by the General Council could be an option as well.

Directions of the Reform and Concrete Measures towards the WTO 2.0②

(i) Reforming the system to achieve results

Direction of the Reform

- ✓ Under the current WTO practice, decisions are made by consensus, and no progress can be made if a single Member objects. This has been one of the major factors of the dysfunction of the WTO preventing the development of new rules.

(e.g.) measures such as the Joint Statement Initiative (JSIs), which enable Members to move forward with plurilateral negotiations, have led to some progress in rulemaking. Nevertheless, only a limited number of these rules have so far been incorporated into the WTO Agreements.

- ⇒ Review the current decision-making process and establish a system capable of delivering concrete outcomes.



Concrete Measure

- ✓ Article IX of the Marrakesh Agreement stipulates consensus as the basis for decision-making. This provision should be revised making clear that negotiations and rulemaking shall not be blocked by a small number of objectors, while reaffirming consensus as the basic principle.

- ⇒ As a result, rules supported by majority of Members will be incorporated into the WTO Agreements, and any actions which deem incompatible with those rules will be strictly addressed under the reformed dispute settlement procedures.

Directions of the Reform and Concrete Measures towards the WTO 2.0③

(ii) Reforming the system to keep up with current realities

(a) Ensuring a level playing field

Direction of the Reform

- ✓ While many countries and regions have joined the WTO, some have not fully met their obligations as Members, while enjoying the benefits of free trade.
- ⇒ Address the situation so as not to undermine Members' commitment to the WTO.

(b) Reviewing developing-country status

Direction of the Reform

- ✓ Some Members once considered developing have developed to an extent where they can no longer be treated as such.
- ⇒ Members should refrain from self-designating themselves as developing countries and gaining access to Special and Differential Treatment (S&DT).

Concrete Measure

- ✓ The current Agreement on Subsidies and Countervailing Measures (SCM Agreement) is insufficient to prevent industrial subsidies resulting in trade-distorting practices. Therefore in addition to export subsidies, subsidies to overproducing sectors, unlimited government guarantees, and outright debt forgiveness should be prohibited.

Concrete Measure

- ✓ Objective criteria should be introduced. For example, G20 Members (*) or “high-income countries” as classified by the World Bank should be excluded from S&DT eligibility.
- * This does not necessarily imply that African Union Members, which are part of the G20, should be excluded from S&DT.

Directions of the Reform and Concrete Measures towards the WTO 2.0④

(ii) Reforming the system to keep up with current realities

(c) Incorporating elements of economic security

Direction of the Reform

- ✓ Against the backdrop of technological innovation, national security has become closely linked to trade and investment. However, security is treated as an exception under the WTO.
- ⇒ Incorporate elements of disciplining economic security so as not to leave trade-restrictive measures justified on security grounds unaddressed.

(d) Ensuring sustainability

Direction of the Reform

- ✓ There are cases in which ensuring sustainability conflicts with free and fair trade/investment.
(e.g.) CBAM may raise questions regarding their compatibility with the WTO agreements, depending on how the system is designed and implemented.
- ✓ Negotiations on the Environmental Goods Agreement (EGA) have been stalled.
- ⇒ Establish rules that can secure sustainability while promoting free and fair trade/investment.

Concrete Measure

- ✓ Whether a measure falls under the security exception under the GATT Article 21 should be determined objectively based on WTO Dispute Settlement jurisprudence, rather than relying on Members' self-assessment. On this premise, rules should be established regarding the requirements for countermeasures against trade-restrictive measures, economic coercion and arbitrary export restrictions.

Concrete Measure

- ✓ Discussions should be promoted on the WTO compatibility of climate measures such as CBAMs.
(e.g.) It is important to achieve early results on the non-binding guidance on embedded emissions measurement methodologies jointly proposed to the WTO Committee on Trade and Environment by Japan and other Members.
- ✓ The EGA negotiations should be resumed, and the scope of products should be expanded with a view to reaching an early conclusion.

Directions of the Reform and Concrete Measures towards the WTO 2.0⑤

(ii) Reforming the system to keep up with current realities

(e) Responding to digitalization

Direction of the Reform

- ✓ Since the most recent update of the Information Technology Agreement (ITA) in 2015, digital products are increasingly showing significance.
 - ✓ Within the WTO, a group of Members has concluded the stabilised text on the Agreement on Electronic Commerce under the JSI. However, the text is yet to be incorporated into the WTO Agreement. Moreover, the text does not include provisions such as those addressing the free cross-border flow of data
- ⇒ Establish rules to address the above.

(f) Addressing foreign direct investment

Direction of the Reform

- ✓ Many countries are encouraging investment through EPAs that include investment chapters. Under the WTO, negotiations on an “Agreement on Investment Facilitation for Development,” have concluded under the JSI. However, the Agreement is yet to be incorporated into the WTO Agreement. Moreover, the Agreement does not cover areas such as market access.
- ⇒ Establish rules to address the above.

Concrete Measure

- ✓ The membership and product coverage of the ITA should be expanded.
- ✓ Members should agree to make permanent the moratorium on customs duties on electronic transmissions.
- ✓ The Agreement on Electronic Commerce under the JSI should be implemented at an early stage. Building on this, the Agreement should also incorporate provisions such as those on the free cross-border flow of data. Furthermore, considering the rapid development of generative AI, Members should collaborate with relevant organizations to develop rules that address related social challenges and risks, thereby ensuring safety and reliability.

Concrete Measure

- ✓ The JSI Agreement on Investment Facilitation for Development should be implemented without delay. Building on this, rules should also be established on core elements of investment agreements, including liberalization such as the removal or relaxation of foreign ownership restrictions, and provisions concerning Investor–State Dispute Settlement (ISDS).

Directions of the Reform and Concrete Measures towards the WTO 2.0⑥

(iii) Reforming the system to ensure compliance with agreed rules

Direction of the Reform

- ✓ To ensure compliance with rules, it is essential to enhance transparency by making the implementation of commitments visible on a Member-by-Member basis.
- ⇒ Strengthen the WTO's monitoring functions, including reinforcing the notification obligations stipulated in WTO Agreements.
- ✓ The Appellate Body is not functioning. Some Members are maintaining a two-tier system under the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) as a temporary substitute for the Appellate Body. Yet in disputes against non-Members to the MPIA, a party dissatisfied with the panel ruling can “appeal into the void”.
- ⇒ Ensure the effectiveness of dispute settlement.



Concrete Measure

(a) Monitoring

- ✓ To improve transparency of subsidies, incentives should be introduced to ensure compliance with the notification requirements set forth in the SCM Agreement.
- (e.g.) As agreed among the trade ministers of Japan, the United States, and the EU in 2020, if a subsidizing member fails to provide the necessary information in writing within the prescribed period, the unnotified subsidy could be deemed prohibited upon counter-notification by other members.

(b) Dispute Settlement

- ✓ The Understanding on Rules and Procedures Governing the Settlement of Disputes should be revised to define the authority of the Appellate Body, for example by stipulating that it shall only address those issues that are necessary for the resolution of the dispute, so that the “overreach” could be prevented. Alternatively, a single-tier system based solely on panel rulings could be adopted, with a framework for regular consultations with the General Council established to provide a certain degree of oversight through the involvement of Members.
- ✓ Meanwhile, until the dispute settlement function is restored through such reforms, expansion of the MPIA Members and best use of the scheme are deserved.