

# Establishing the WTO 2.0

-Keidanren's Proposal  
towards WTO Reform/Reposition-

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Keidanren (Japan Business Federation)



## Index

Need for WTO Reform/Reposition.....	1
1. Pathway towards the WTO 2.0 .....	2
2. Directions for Reform towards the WTO 2.0 .....	4
(i) Reforming the system to achieve results .....	4
(ii) Reforming the system to keep up with current realities .....	5
(iii) Reforming the system to ensure compliance with agreed rules .....	7
3. Concrete Measures towards the WTO 2.0 .....	8
(i) Reforming the system to achieve results .....	8
(ii) Reforming the system to keep up with current realities .....	8
(a) Ensuring a level playing field .....	8
(b) Reviewing developing-country status.....	8
(c) Incorporating elements of economic security .....	9
(d) Ensuring sustainability .....	9
(e) Responding to digitalization .....	9
(f) Addressing foreign direct investment.....	10
(iii) Reforming the system to ensure compliance with commitments.....	10
(a) Monitoring .....	10
(b) Dispute Settlement .....	11



## Need for WTO Reform/Reposition

Amid the growing imbalances both among nations and within countries, which reinforce one another and aggravate confrontation and division, trade-restrictive measures and economic coercion are becoming widespread, jeopardizing the rules-based, free and open international economic order. Estimates suggest that if the world were to become divided into blocs, global real GDP could decline by around 7 percent by 2040<sup>1</sup>. If the current situation is left unaddressed, not only will the rule of law cease to be realized but also rule by force may become the norm in the international community. An effort to maintain and strengthen the international economic order is indispensable while appropriate redistribution policies are required within each economy.

In doing so, from the viewpoint of the business community operating globally, it is desirable that common rules are applied worldwide. In this respect, the role of the World Trade Organization (WTO) comprised of 166 Members remains vital. However, given that the WTO is not necessarily functioning adequately, a pragmatic approach towards WTO Reform/Reposition including its decision-making and dispute-settlement mechanisms is must.

Meanwhile, WTO Director-General Ngozi Okonjo-Iweala is repeatedly referring to the importance of WTO Reform/Reposition<sup>2</sup>. In June this year, a facilitator for discussions on WTO Reform/Reposition was appointed, and multiple rounds of consultations have already taken place<sup>3</sup>. 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, and

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<sup>1</sup> WTO, *World Trade Outlook* (April 2025).

[https://a.fanj.nl/english/res\\_e/publications\\_e/trade\\_outlook25\\_e.htm](https://a.fanj.nl/english/res_e/publications_e/trade_outlook25_e.htm)

<sup>2</sup> Dialogue with Michael Froman, President of the Council on Foreign Relations (April 2025).

[https://www.cfr.org/event/c-peter-mccolough-series-international-economics-ngozi-okonjo-iweala?utm\\_source=dailybrief&utm\\_content=20250424&utm\\_medium=email&utm\\_campaign=DailyNewsBrief2025Apr24&utm\\_term=DailyNewsBrief](https://www.cfr.org/event/c-peter-mccolough-series-international-economics-ngozi-okonjo-iweala?utm_source=dailybrief&utm_content=20250424&utm_medium=email&utm_campaign=DailyNewsBrief2025Apr24&utm_term=DailyNewsBrief)

Meeting with Keidanren Executives (May 2025).

[https://www.keidanren.or.jp/journal/times/2025/0529\\_01.html](https://www.keidanren.or.jp/journal/times/2025/0529_01.html)

<sup>3</sup> [https://www.wto.org/english/news\\_e/news25\\_e/gc\\_23jul25\\_e.htm](https://www.wto.org/english/news_e/news25_e/gc_23jul25_e.htm)

thereby achieve tangible results that address current challenges and build a just and equitable international economic order.

Against this background, Keidanren proposes the pathway towards WTO 2.0.

## **1. Pathway towards the WTO 2.0**

Keidanren's "Future Design 2040" (December 2024) envisions that even in the face of further aggravation of global fragmentation, efforts are continuing in 2040 to maintain and strengthen a rules-based, free and open international order. Within this context, Keidanren proposes the establishment of the WTO 2.0. As one of the pathways toward this goal<sup>4</sup>, Keidanren urges the formation of a "Free and Fair Trade and Investment Club<sup>5</sup>," among countries/regions which commit to meeting a set of high-level standards<sup>6</sup> on trade and investment within a specified timeframe. The Club Members will be granted non-discriminatory treatment reciprocally. Building upon this, the Club revises and updates the WTO Agreements based on the above standards and high-level rules introduced in existing EPAs. WTO 2.0 would be established by incorporating those revisions/updates into the current WTO (or WTO 1.0). Expansion of participating Members is deserved in due course.

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<sup>4</sup> In addition to the Club which Keidanren proposes, the following articles envisage new trade schemes.

Michael Froman, President of the Council on Foreign Relations, "After the Trade War," *Foreign Affairs*, September/October 2025.

<https://www.foreignaffairs.com/united-states/after-trade-war-michael-froman>

Wally Adeyemo, former U.S. Deputy Secretary of the Treasury, and Joshua Zoffer, former Special Assistant to the U.S. President for Economic Policy, "The World Economy Was Already Broken," *Foreign Affairs*, September/October 2025.

<https://www.foreignaffairs.com/united-states/world-economy-was-already-broken-adeyemo-zoffer>

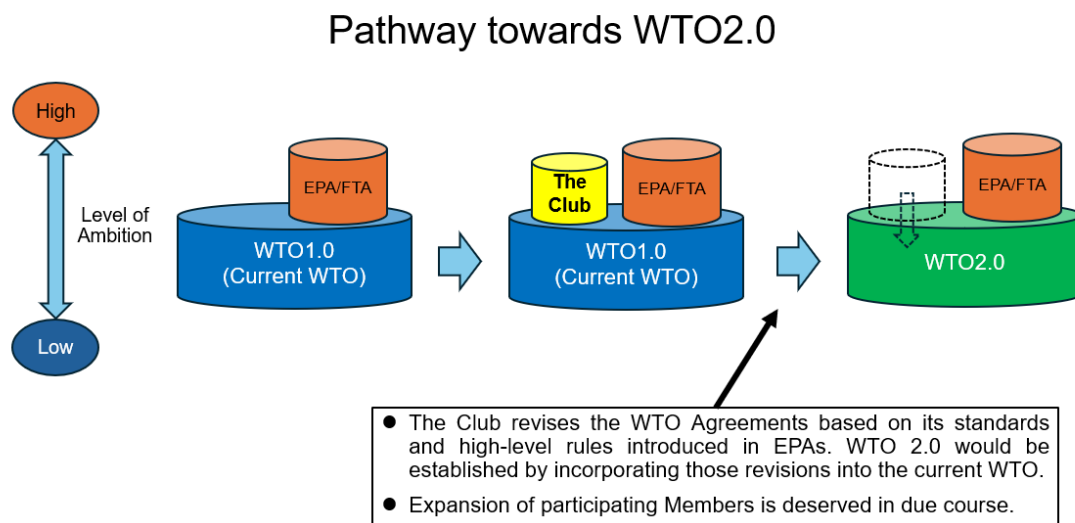
<sup>5</sup> Keidanren proposed the launch of a "Free and Fair Trade and Investment Club" together with the business federations of the G7 countries at the B7 Tokyo Summit it hosted in April 2023.

<https://www.keidanren.or.jp/en/policy/2023/028.html>

<sup>6</sup> These initiatives are envisaged to include:

- the pursuit of the elimination of tariffs on industrial goods;
- the avoidance of export restrictions on energy, natural resources, and food;
- refraining from market-distorting subsidies and local content requirements;
- restrictions on performance requirements in connection with foreign direct investment, as well as the free transfer of funds;
- respect for and enforcement of intellectual property rights;
- Data Free Flow with Trust (DFFT); and
- the opening of government procurement markets

As is clear from the above and as illustrated in the figures below, the Club is not intended to replace the WTO. Rather, it is envisioned as a catalyst to facilitate the reform and transition from WTO 1.0 to WTO 2.0. Furthermore, the Club is not meant to be exclusive; on the contrary, it seeks to expand its Members. Once its standards are incorporated in the WTO 2.0, the benefits will also be extended to its Members on MFN basis.



After the above-mentioned Club was proposed at the B7 Tokyo Summit, some expressed the view that it was not compatible with the MFN principle. However, in recent years, numerous EPAs have been concluded based on the GATT Article 24.8<sup>7</sup>, resulting in individual rules and tariff rates. Since the Club intends to promote free and fair trade/investment, it shall be regarded as equivalent to EPAs, and not as trade restrictive measures such as country-specific tariffs.

According to the WTO, 72% of world trade is still conducted under the MFN principle. However, the reality is that the realm where the MFN principle does not apply is expanding due to above trade restrictive measures, and this trend must be contained.

<sup>7</sup> EPAs/FTAs are recognized as exceptions to the WTO's MFN principle on the condition that they eliminate tariffs and quantitative restrictions on "substantially all the trade" within the region.

Without addressing the current situation, it will be difficult to move reforms forward involving broad range of countries, regions, and their business sectors.

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.

## **2. Directions for Reform towards the WTO 2.0**

To establish WTO 2.0 in line with the above pathway, it is necessary to advance WTO Reform/Reposition towards the following directions.

### **(i) Reforming the system to achieve results**

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. After Members recognized that a single undertaking of the Doha Round was not attainable for the time being, 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<sup>8</sup>, demonstrating the limits of this approach. To achieve such incorporation, it is essential to review the current decision-making process and establish a system capable of delivering concrete outcomes.

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<sup>8</sup> The significance of rulemaking under the JSI shall not be undervalued. In fact, during the GATT Tokyo Round (1973–1979), the WTO predecessor concluded arrangements such as the revision of the Anti-Dumping Agreement and the Agreement on Government Procurement. These agreements, at the time, did not gain the unanimous support of all the GATT Members and were not incorporated into GATT, but they entered into force as plurilateral agreements. This illustrates that even without achieving multilateral agreements, there are examples of rulemaking that contributed to the promotion of free trade. Through the Uruguay Round (1986–1994), some of these plurilateral agreements became multilateral agreements in Annex 1 of the WTO Agreement, while others were incorporated into the WTO as plurilateral agreements under Annex 4.



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

The WTO marks its 30th anniversary this year since its establishment in 1995. Over this period, the global trade environment has undergone significant changes, and adaptation to these changes is deserved.

First, 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. This undermines other Members' commitment to the WTO and should not be left unaddressed.

Second, some Members once considered developing have developed to an extent where they can no longer reasonably be treated as such. Yet, under WTO rules, Members may designate themselves as developing countries, thereby gaining access<sup>9</sup> to Special and Differential Treatment (S&DT)<sup>10</sup>. This mechanism has increasingly been questioned and requires correction and reform.

Third, against the backdrop of technological innovation, national security, which has until now been treated as an exception, has become closely linked to trade, investment, and other areas of the economy. Many Members, based on the notion “small yard, high fence”, draw lines to ensure that national security constraints do not unduly hinder economic activity<sup>11</sup>. While security is treated as an exception under the WTO, if it is

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<sup>9</sup> Some member countries designate themselves “developing countries,” while declaring that they will not have recourse to S&DT.

<sup>10</sup> Regarding agricultural subsidies, for example, certain types may be granted without limitation. With respect to imports, developing countries may impose higher tariffs than those of developed nations within the bound tariff rates, for the purpose of protecting domestic industries.

<sup>11</sup> In Japan, the Economic Security Promotion Act stipulates that control measures must be taken to the extent found to be “reasonably necessary to ensure national security.” The EU, in its Economic Security Strategy (June 2023), states that the fundamental principles for any measures on economic security flowing from this strategy will be: “proportionality” to ensure that our tools are in line with the level of the risk and limit any negative unintended spill-over effects on the European and global economy, and “precision” to define exactly which goods, sectors or core industries are targeted and ensure that measures respond to the risks themselves.

placed entirely outside the scope of disciplines, every trade restriction justified on security grounds would be left unaddressed. The WTO framework must therefore incorporate elements of disciplining economic security.

Fourth, there are cases where ensuring sustainability comes into tension with free and fair trade/investment. For example, Carbon Border Adjustment Measures (CBAM), aiming at prevention of carbon leakage, may raise questions regarding their compatibility with the WTO agreements, particularly with respect to principles such as national treatment and most favoured nation treatment, depending on how the system is designed and implemented. Meanwhile, negotiations on the Environmental Goods Agreement (EGA), which aims to liberalize trade in environmentally friendly goods, have been stalled since 2016. Establishing rules that can secure sustainability while promoting free and fair trade/investment is of urgent necessity.

Fifth, digital technologies become widely embedded in products, and the cross-border flow of data continues to expand. Regarding the former, the Information Technology Agreement (ITA) has been updated to revise the list of covered products. Since the most recent update in 2015, digital products are increasingly showing significance, for example, in addressing social challenges in the Global South<sup>12</sup>, therefore, further updates are deserved taking these circumstances into account. As for the latter, efforts to materialize Data Free Flow with Trust (DFFT) are ongoing. 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 addressing the free cross-border flow of data or the prohibition of data localization requirements. Therefore, developing rules which incorporate these elements is needed. Furthermore, social challenges and security

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<sup>12</sup> For example, use of portable diagnostic devices equipped with AI is enabling to diagnose diseases in regions with limited medical infrastructure.

risks arising from digitalization, such as personal data protection and cybersecurity must be addressed. Rapid development of generative AI, for instance, is heightening such concerns in many countries and regions, which cannot be overlooked.

Sixth, foreign direct investment (FDI) has been expanding, serving as a source of industrial development and innovation through job creation in host countries, increased exports to third countries, and technology transfer. Against this backdrop, many countries are encouraging investment through bilateral investment treaties or EPAs that include investment chapters. Under the WTO, negotiations on an “Agreement on Investment Facilitation for Development,” one of the JSIs, have concluded. However, the Agreement is yet to be incorporated into the WTO Agreement, and the Agreement neither covers areas such as market access nor investment protection. Rules including these elements should be developed.

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

To ensure compliance with rules, it is essential to enhance transparency by making the implementation of commitments visible on a member-by-member basis. This requires strengthening the WTO’s monitoring functions, including reinforcing the notification obligations stipulated in WTO Agreements.

Moreover, as noted above, there are Members that have not fully fulfilled their obligations. Also, reflecting growing fragmentation and confrontation, actions that may deem incompatible with the WTO Agreements are increasing. However, the Appellate Body, which serves as the second tier of the Dispute Settlement, 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” and block its adoption. Necessity of ensuring the effectiveness of dispute settlement, which serves as the last resort for rule enforcement, is anticipated.

### **3. Concrete Measures towards the WTO 2.0**

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.

#### **(i) Reforming the system to achieve results**

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.

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

##### **(a) Ensuring a level playing field**

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

##### **(b) Reviewing developing-country status**

Rather than allowing members to self-declare as developing countries, objective criteria should be introduced. For example, G20 Members<sup>13</sup> or “high-income countries” as classified by the World Bank should be excluded from eligibility for S&DT.

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<sup>13</sup> This does not necessarily imply that African Union Members, which are part of the G20, should be excluded from S&DT.

### **(c) Incorporating elements of economic security**

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. Additionally, a mechanism should be established enabling Members other than the parties involved to take countermeasures when economic coercion is determined by the Dispute Settlement Body. Furthermore, establishing a monitoring system for economic coercion within the WTO would support the mechanism.

### **(d) Ensuring sustainability**

Discussions should be intensified on the WTO compatibility of climate measures such as CBAMs. In this regard, it is important to achieve early results, looking ahead to MC14, on the non-binding guidance on embedded emissions measurement methodologies jointly proposed to the WTO Committee on Trade and Environment (CTE) by Japan, Korea, Australia, and the United Kingdom<sup>14</sup>.

As for the EGA, negotiations should be resumed, and the scope of products should be expanded to include technologies that contribute to decarbonization and the circular economy, with a view to reaching an early conclusion.

### **(e) Responding to digitalization**

To ensure the free flow of IT products and to improve digital infrastructure, the membership and product coverage of the ITA should be expanded.

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<sup>14</sup> NON-BINDING GUIDANCE ON METHODOLOGIES FOR MEASURING EMBEDDED EMISSIONS, Communication from Australia, Japan, the Republic of Korea and The United Kingdom, WT/CTE/W/269/Rev.1, 27 June 2025

To avoid impeding cross-border electronic commerce, Members should agree to make permanent the moratorium on customs duties on electronic transmissions. In addition, to further promote the free flow of data, the Agreement on Electronic Commerce under the JSI should be implemented at an early stage. Building on this, the Agreement should also incorporate provisions, drawing on disciplines under existing frameworks such as EPAs, on the free cross-border flow of data, the prohibition of data localization requirements, the prohibition of requirements to disclose source code, and the non-discriminatory treatment of digital products. Furthermore, considering the rapid development of generative AI, Members should collaborate with relevant organizations to develop rules that address related social challenges and risks<sup>15</sup>, thereby ensuring safety and reliability.

#### **(f) Addressing foreign direct investment**

To further promote investment, 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 improved market access, prohibitions on performance requirements, and provisions concerning Investor–State Dispute Settlement (ISDS).

#### **(iii) Reforming the system to ensure compliance with commitments**

##### **(a) Monitoring**

To improve transparency of subsidies, incentives should be introduced to ensure compliance with the notification requirements set forth in the SCM Agreement. For example, as agreed among the trade ministers of Japan, the United States, and the EU in

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<sup>15</sup> For example, the Digital Economy Partnership Agreement (DEPA), which came into force in 2021 among Chile, New Zealand, and Singapore, and which South Korea joined in 2024, includes provisions on cooperation in AI governance.

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. Furthermore, consideration should be given to enabling the WTO to compare and assess the subsidy practices of members in a clear and transparent manner.

#### **(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<sup>16</sup>, 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.

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<sup>16</sup> See Annex 1.10 of the MPIA