

State of the Region Report 2025-2026

Trade Policies in a Disrupted World and the Risk of Disruption

**Shiro Armstrong,
The Australian National University**

**Sharon Zhengyang Sun,
University of Calgary**



School of
Public Policy



Pacific Economic Cooperation Council (PECC)

<https://www.pecc.org>

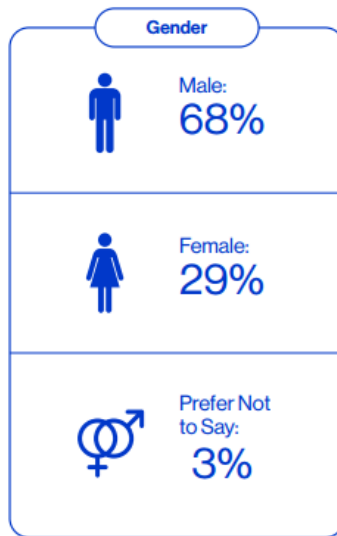
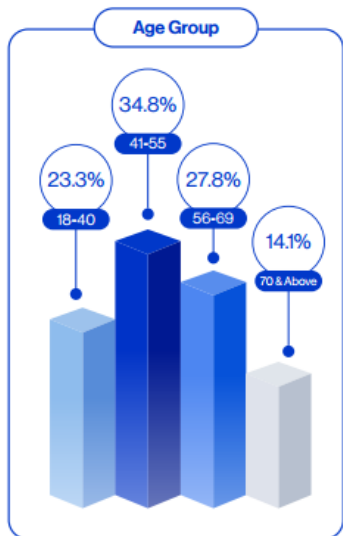
- Established in 1980 and International Secretariat based in Singapore
- PECC is a leading **non-governmental** organization dedicated to enhancing economic cooperation in the **Asia-Pacific region**.
- **Key Areas of Focus:** Trade liberalization, investment facilitation, sustainable development, technology, and regional economic integration, etc
- **What We Do:**
 - **Mission Statement:** “Actively support economic cooperation and sustainable growth for an open and stable Pacific Community by leveraging tripartite collaboration and expertise to deliver evidence-based research insights, fostering inclusive effective dialogues, and proactively providing forward-looking and actionable solutions”

State of the Region Report (SOTR) 2025-2026



- ❖ PECC's flagship publication
- ❖ Survey of 500+ Asia-Pacific experts/leaders from business, government, academia, media, and civil society across 24 Asia-Pacific economies
- ❖ Survey conducted from June to August 2025
- ❖ **Thematic Focus: Trade Policies in A Disrupted World and the Risk of Disruption**

Survey Respondents' Profile



Affiliation



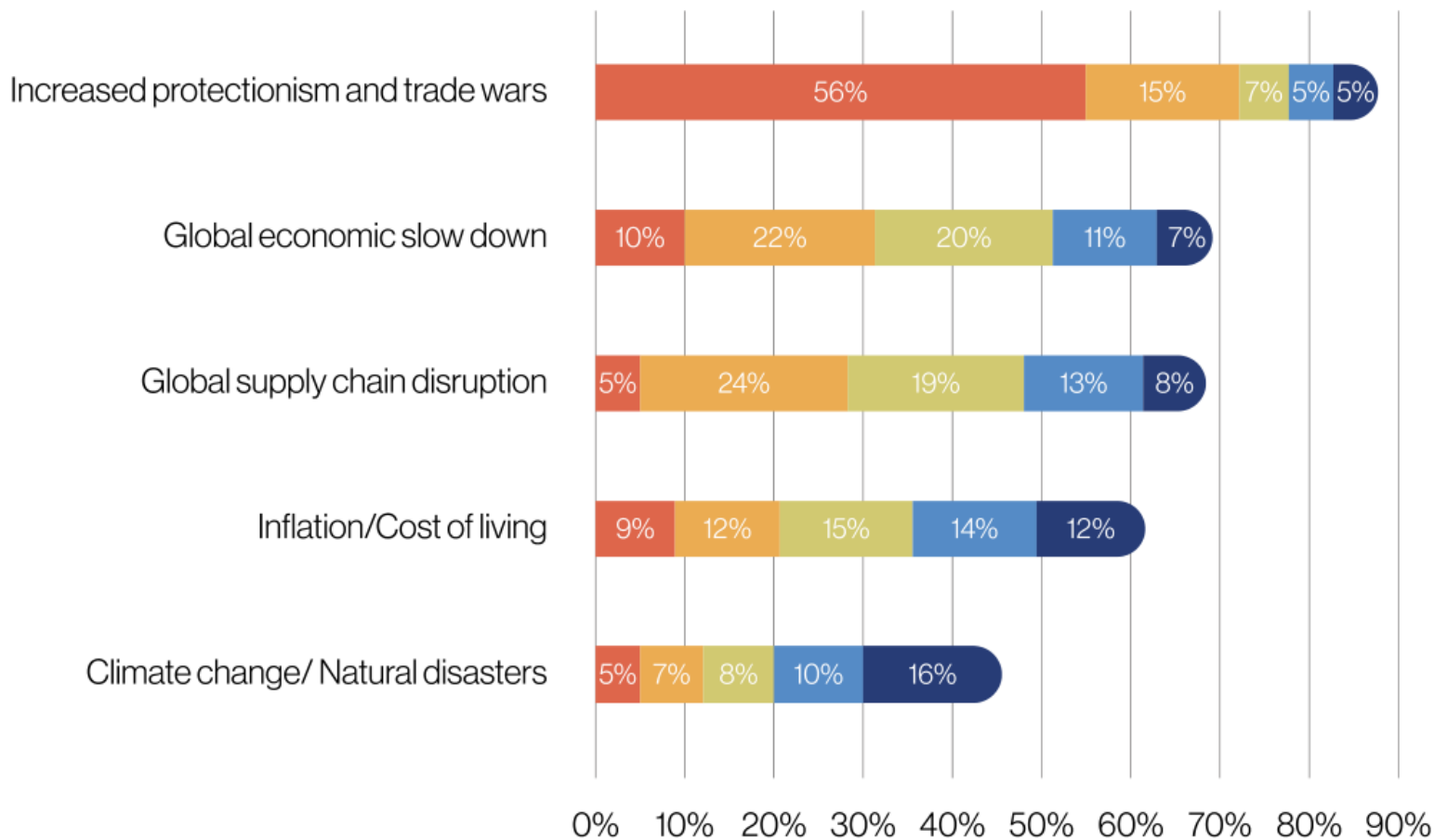
Respondent Breakdown

- 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

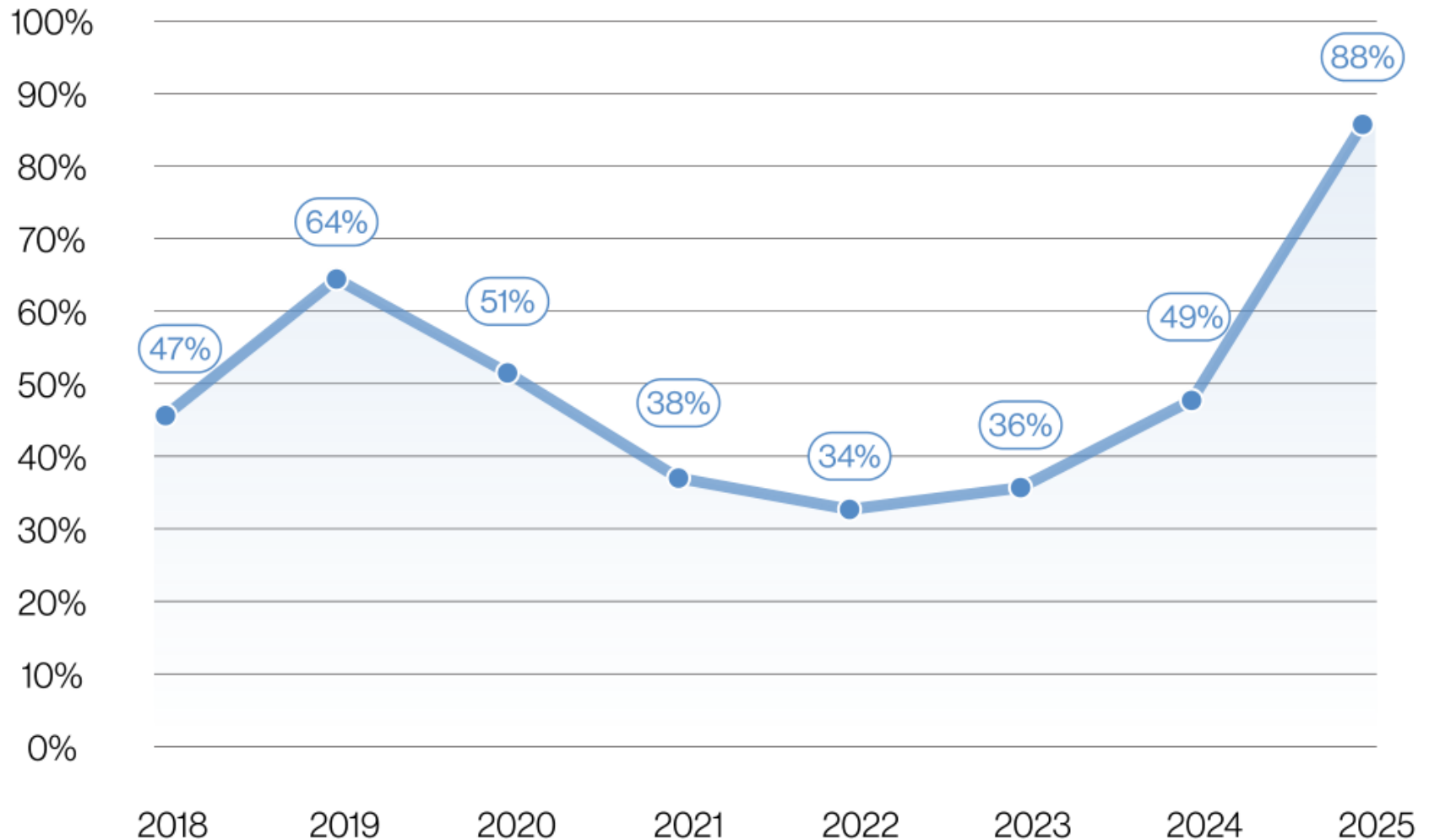


Top 5 Risks to Growth

■ 1- Most Serious
 ■ 2
 ■ 3
 ■ 4
 ■ 5- Least Serious



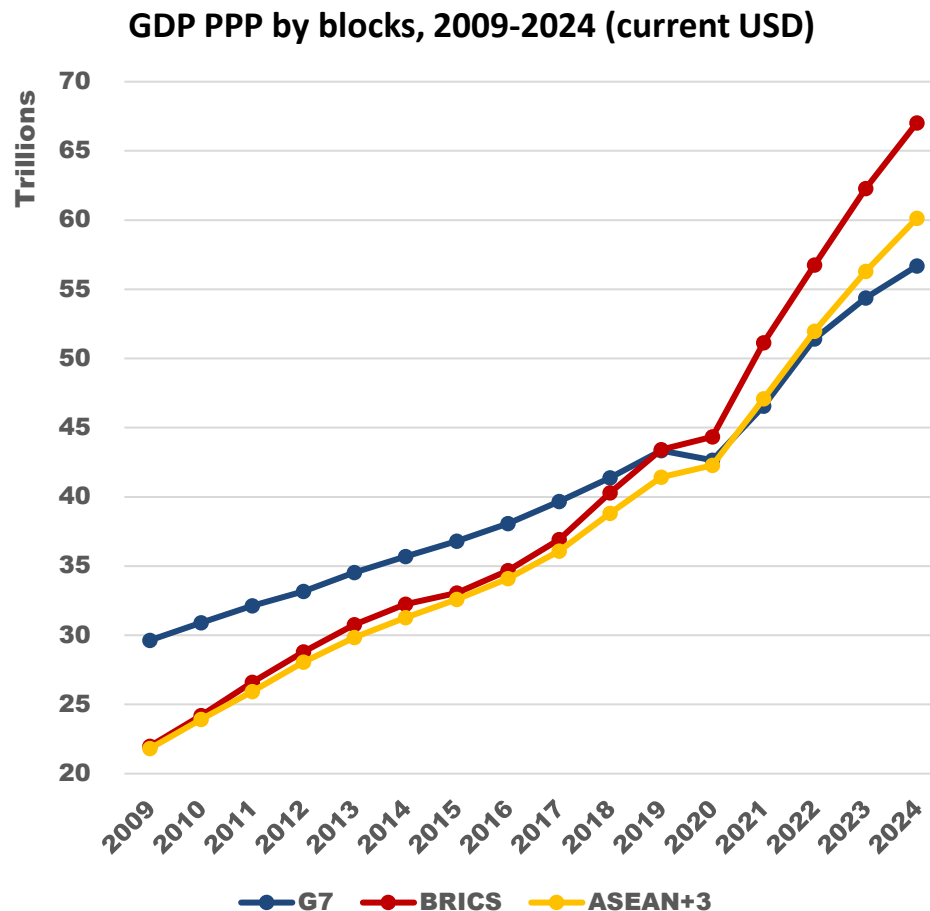
Share of Respondents Citing “Increased Protectionism and Trade Wars” as Risk to Growth over Time



1. Drivers of recent protectionism and the strain on the multilateral system
2. New trade issues: economic security, supply-chain resilience, digital fragmentation and industrial policy
3. Models for the trading system's future and priorities for policy makers in the region

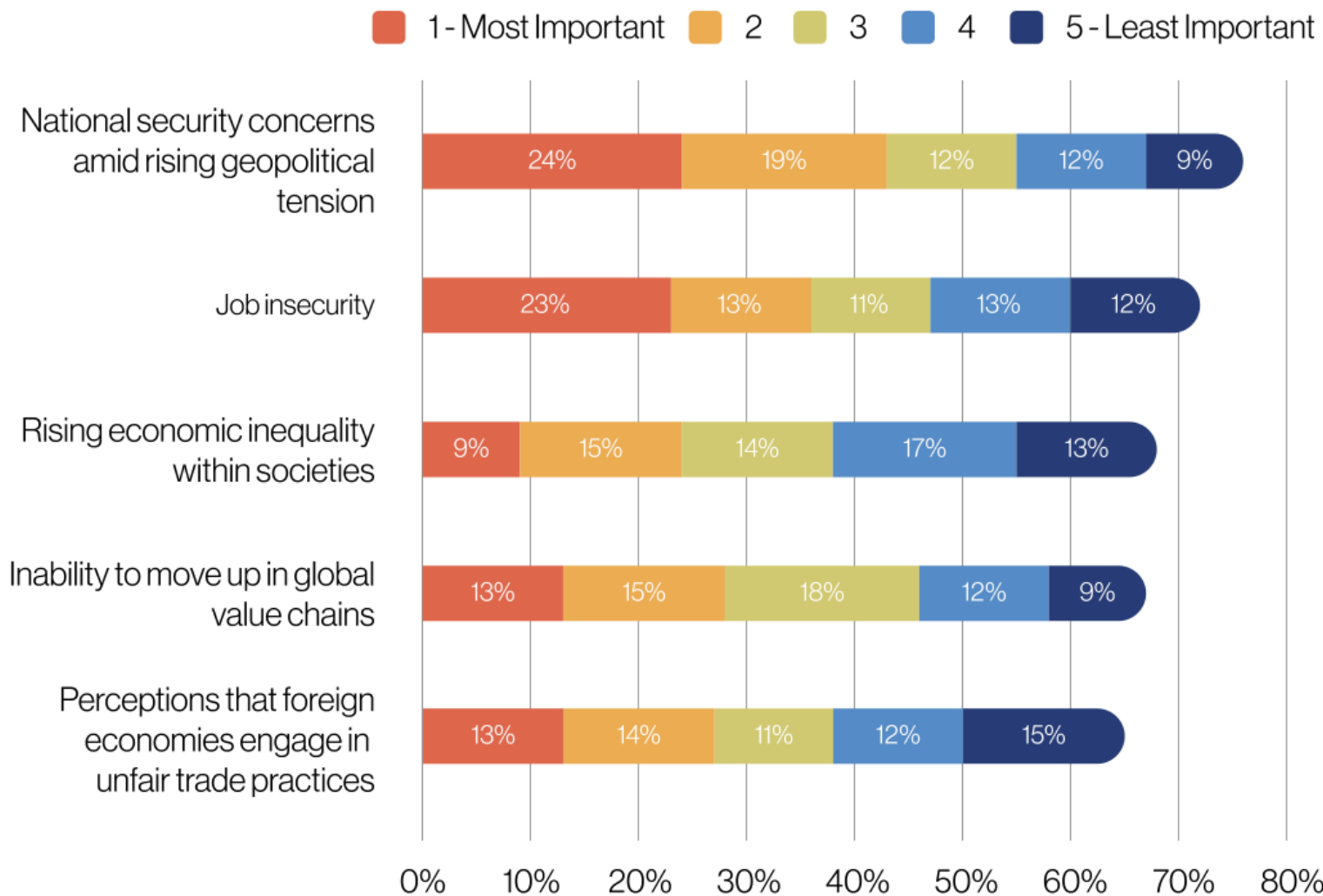
Trade Under Strain: Drivers of Protectionism

- Global centre of economic gravity has shifted
- Multilateral rules can no longer keep pace with the developments in trade (e.g. WTO Doha Round)
- Retreat of historic guarantor
- Inadequate domestic distribution and uneven gains from trade
- Short-to-medium term shocks (e.g. COVID-19 pandemic, Russia-Ukraine conflict etc.)

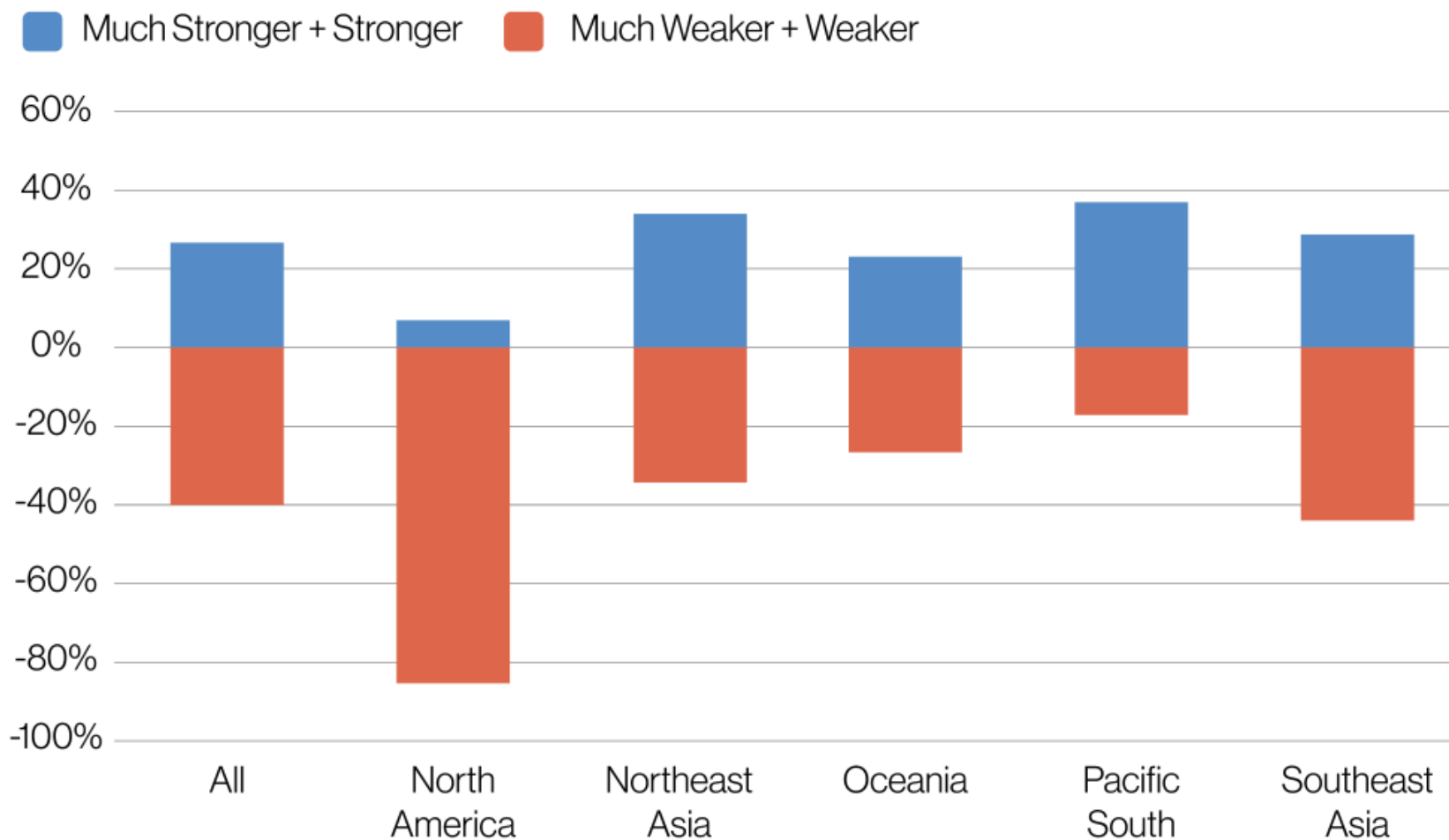


Data Source: World Bank, World Development Indicator (2026)

Top 5 Factors Driving Concerns on Trade and Globalization



Growth Expectations for Own Economy by Subregion



New Challenges in Global Trade

1. Return of security in economics

2. Supply Chain Resilience

3. Digital fragmentation

4. Return of industrial policies in a
protectionist world

1. Return of security in economics

- “Economic security” now means resilience, strategic autonomy and ability to withstand external shocks or coercion
- But economic security can easily become justification for protectionism
- Important to distinguish between **pragmatic resilience policies** and **protectionist policies** that reduce efficiency

2. Supply Chain Resilience

- Supply-chain resilience is often framed as reducing dependence on foreign suppliers.
- But self-reliance can be costly (inefficient) and may simply concentrate risk somewhere else.
- Not possible to be fully self reliant

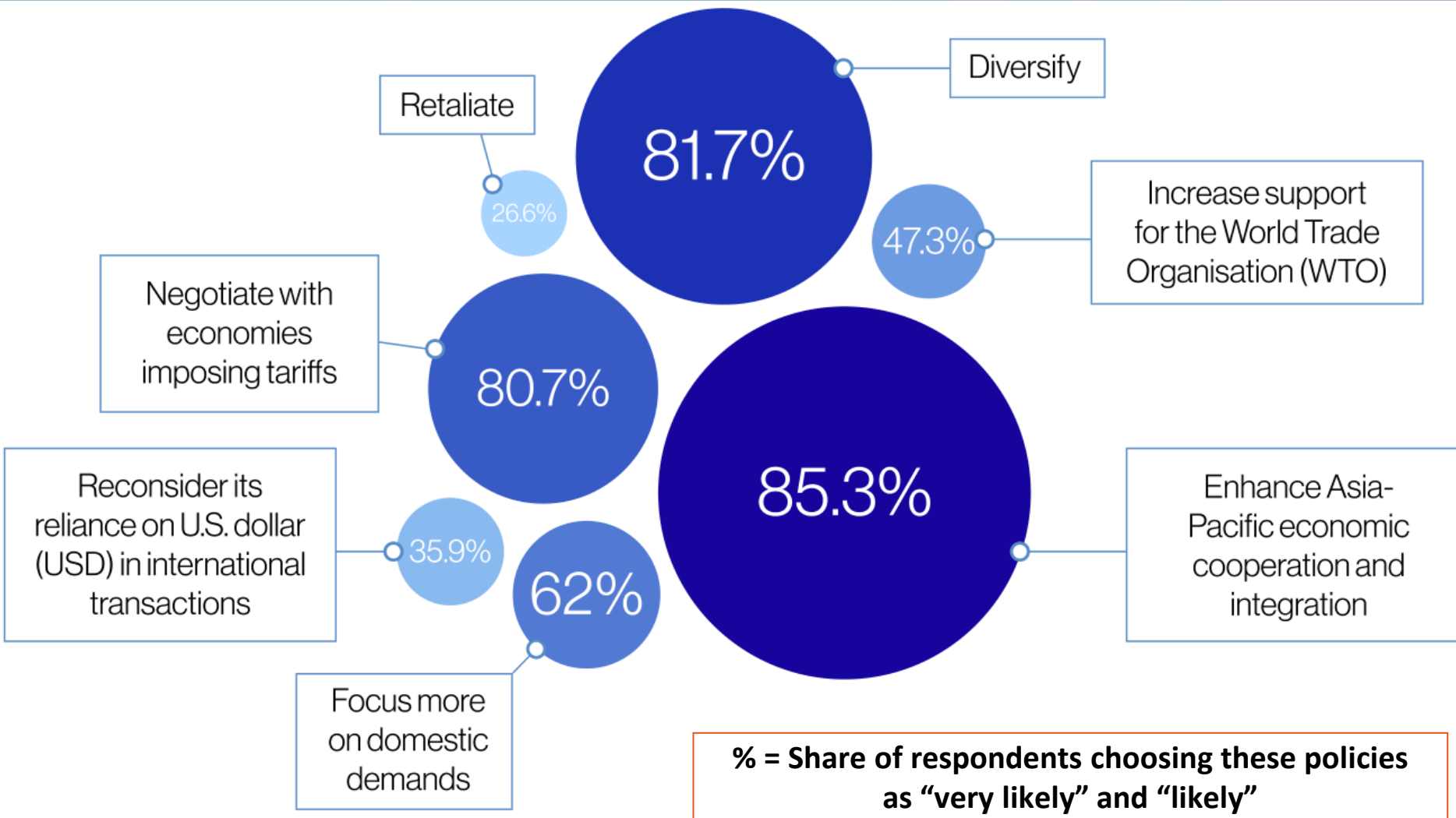
3. Digital fragmentation

- The digital economy is now central to growth and productivity.
- But also drives culture, values, (votes!)
- Data localization, restrictions on cross-border data flows, and competing digital rules could create a “digital noodle bowl.”
- Digital sovereignty an issue.
- AI adds new risks: cybersecurity, misinformation, deepfakes, cybertheft, market concentration, infrastructure vulnerability, and high energy demands.

4. Return of industrial policies in a protectionist world

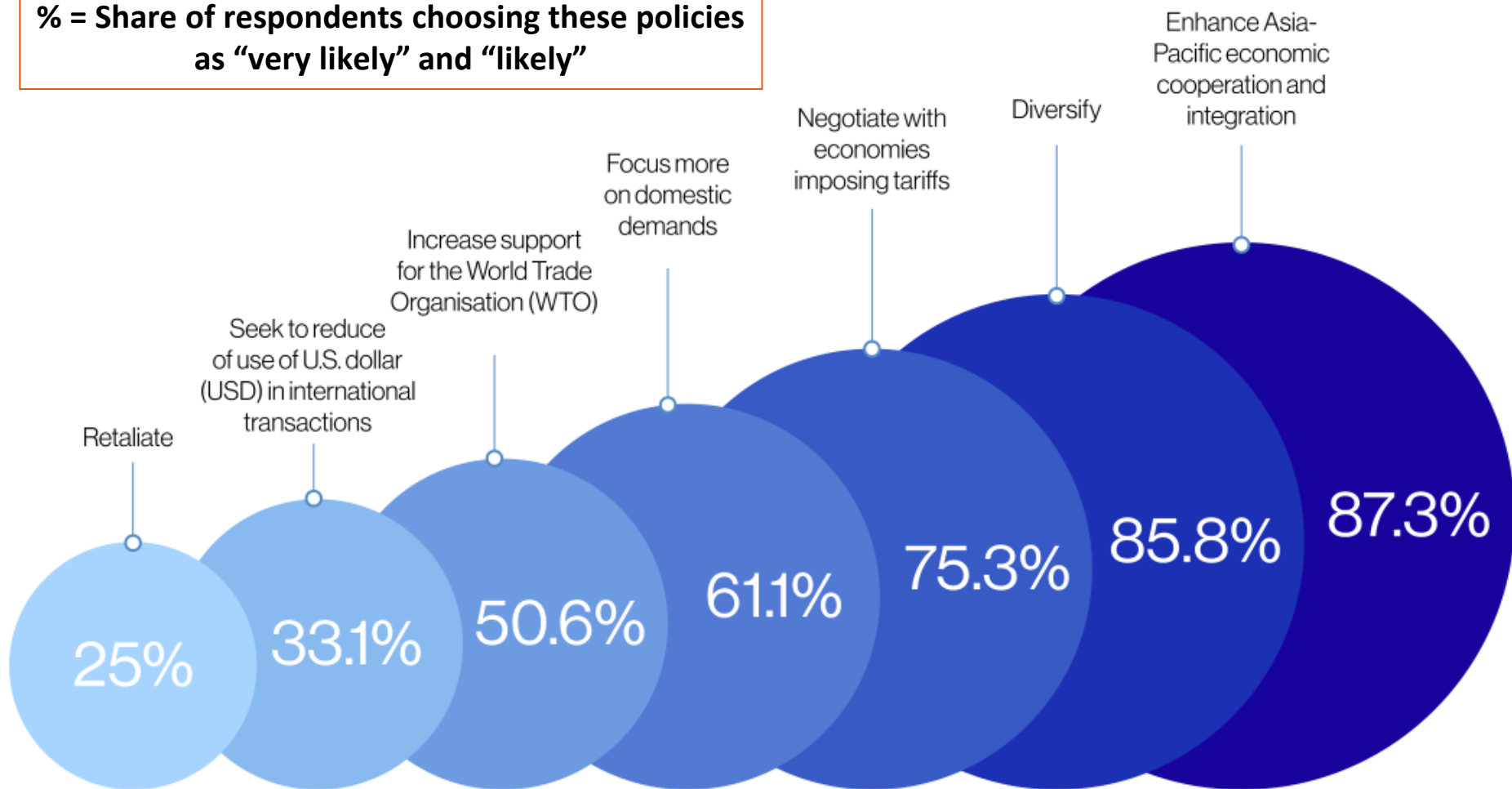
- Industrial policy is being justified by security, climate, technological competition, and the desire for high-value manufacturing jobs.
- Subsidy races distort competition, disadvantage smaller economies and fragment the trading system unless there are better international rules.

Governments' Responses to Tariffs

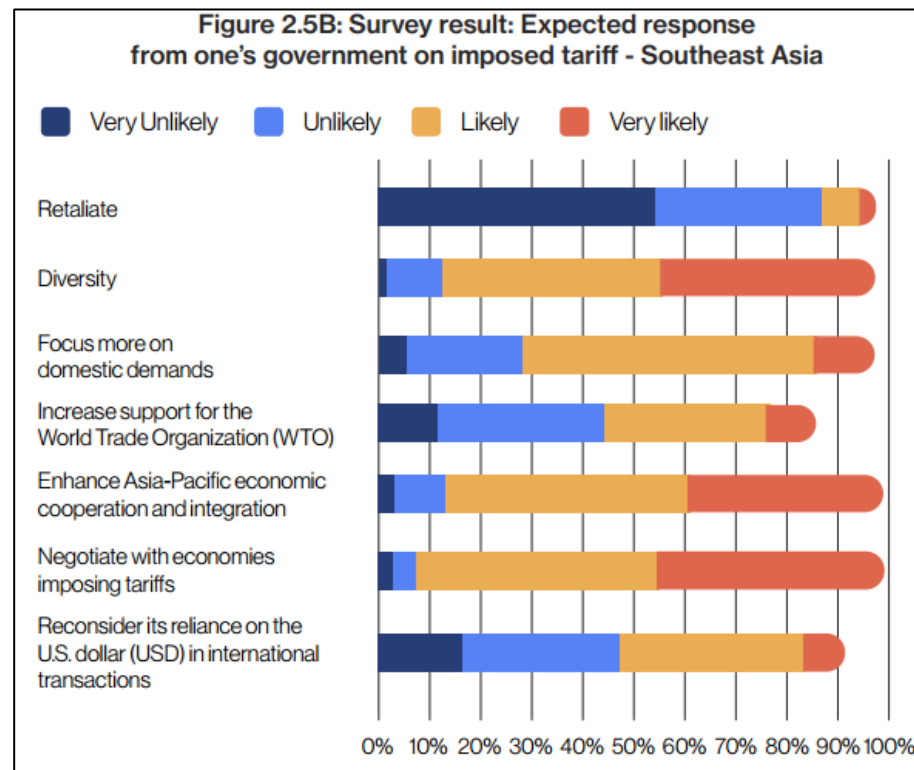
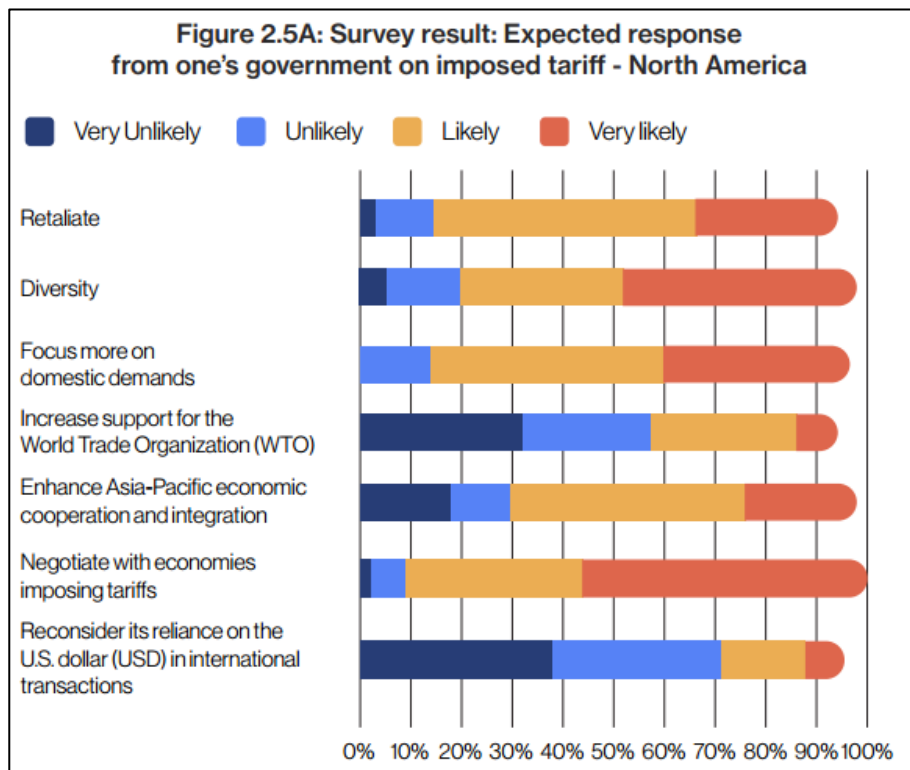


Usefulness of Governments' Responses to Tariffs

% = Share of respondents choosing these policies as "very likely" and "likely"



Expected Response from One's Government on Tariffs



Models for a Future Trading System

Strategy for middle-sized and smaller economies in APEC:

Strategy	What it means	Why it matters	Challenges
1. System preservation	Continue support of WTO and rules-based agreements	Prevent a shift to power-based bargaining	Cannot pretend nothing has changed
2. System reform	Update rules through MPIA, plurilateral and regional arrangements	Keeps the system functional despite WTO gridlock	Real reform required
3. Collective action	Use APEC, pathfinder approaches and concerted unilateralism	Gives smaller economies influence by acting together	How to signal commitment to trading partners
4. Diversification, not Isolation	Open markets give firms more alternative buyers and suppliers.	The rules-based trading system itself acts as a buffer against coercion because it keeps markets contestable and gives economies exit options.	How to deal with reliance and security questions
5. Interoperability - Coordination	Interoperable digital rules and multilateral cooperation	Transparency, coordination, and updated subsidy rules	Coordination without sacrificing sovereignty

Three Priorities for the Asia Pacific Region to Consider:

PRIORITY 1

- **Preserve and reform rules-based multilateral system**

PRIORITY 2

- **Ensure regional and plurilateral agreements are integrated into the global system**

PRIORITY 3

- **Underlying principles and goals as a unifying for coordinated domestic action**

Thank you very much

<https://www.pecc.org/>

Sharon Zhengyang Sun, University of Calgary
sharon.sun@ucalgary.ca



**School of
Public Policy**



**UNIVERSITY OF
CALGARY**