Foresight study 2040 in support of a regional integration strategy for Asia-Pacific Trade Agreement economies

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Preface

In light of the dramatic changes in the global trade environment since the start of 2025, there is a need to evaluate how the fast changing trade environment – from a multilateral rules-based system to a power-based system – may affect regional trade integration and derive potential implications for Asia-Pacific Trade Agreement (APTA) member countries and future capacity building and regional cooperation work of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). This foresight study, in presenting plausible 2040 scenarios, aims to "inform present-day decisions and facilitate joint actions"[1] to support a regional integration strategy for APTA economies. As highlighted by UN Labs, a foresight study is designed to deal with uncertainty.[2] The study relies on best practices from foresight studies to conduct data and insight gathering.

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The study was conducted between September 2025 and February 2026. Several new developments, from the Supreme Court Ruling on the interpretation of the International Emergency Economic Powers Act (IEEPA) in light of the use of retaliatory tariffs, to the Gulf war, may also have wide-ranging future implications for the Asia-Pacific Region. As such, this study may be revised in the future and opens up many avenues for future research.

Financial support from the Republic of Korea for the conduct of the study is gratefully acknowledged. All views and any errors remaining are the sole responsibility of the authors.

Disclaimer

The views expressed in this study are those of the authors and should not be attributed to the United Nations or ESCAP.

[1] Joint Research Centre (2023). Towards a fair and sustainable Europe 2050: Social and Economic Choices in sustainability transitions. Publications of the EU: Luxembourg

[2] UN Futures Lab (2023). UN Strategic Foresight Guide. December

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Acronyms

ADB	Asian Development Bank
AI	Artificial Intelligence
APEC	Asia-Pacific Economic Cooperation
APTA	Asia Pacific Trade Agreement
ARTNET	Asia-Pacific Research and Training Network on Trade
ASEAN	Association of Southeast Asian Nations
BAU	Business as Usual
CO2	Carbon dioxide
COP	Conference of the Parties
COVID-19	Coronavirus disease 2019
EGM	Expert Group Meeting
ESG	Environmental, Social, and Governance
EU	European Union
FDI	Foreign direct investment
FTA	Free Trade Agreement
G-20	Group of Twenty
GDP	Gross Domestic Product
GW	Gigawatt
ICT	Information & Communication Technologies
IMF	International Monetary Fund
IOT	Internet of Things
LDC	Least Developed Country
LLDC	Landlocked Developing Country
MIGA	Multilateral Investment Guarantee Agency
MRA	Mutual Recognition Arrangements
MRV	Measurement, Reporting, and Verification
$MtCO_2e$	Million metric tons of carbon dioxide equivalent
NDC	Nationally Determined Contributions
NGO	Non-governmental organization
NIPO	New Industrial Policy Observatory
OECD	Organisation for Economic Cooperation and Development
PDR	(Lao) People's Democratic Republic
ppm	parts per million
PTA	Preferential trade agreement
RTA	Regional trade agreements
SME	Small and Medium Enterprise
TOR	Terms of Reference
TVET	Technical and Vocational Education and Training

UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USD	United States Dollar
WEF	World Economic Forum
WTO	World Trade Organisation

Executive Summary

The Asia-Pacific Trade Agreement (APTA) is among the earliest regional preferential trade agreements (PTAs). It remains the only PTA to date that comprises both of the world's most populous countries—China and India. The objective of the Agreement, established in 1975, is to promote the economic development of its members by adopting mutually beneficial trade liberalisation measures that expand regional trade and foster economic cooperation. In 2024, the seven APTA countries were home to nearly 3.1 billion people, or 38 per cent of the world's population. The bloc's Gross Domestic Product (GDP) amounted to USD 25 trillion, or 22% of world GDP.

In recent times, global threats have marred the medium-term outlook for APTA countries and the broader Asia-Pacific region. Economic risks range from debt overhang to inflation, protectionist retrogression, and an unstable multilateral trade framework. The gradual paralysis of the Appellate Body at the core of the World Trade Organisation (WTO)'s Dispute Settlement Mechanism, coupled with progressive erosion of WTO principles in favour of a power-based system, has called into question the *raison d'être* of the WTO and provided an impetus to negotiate free trade agreements (FTAs).[3] Geopolitical and technological shifts are also posing challenges for economic stability, sustainability, and equitable growth. Finally, environmental risks have escalated to an alarming level, while environmental governance has witnessed critical inflexion points in the past decade.

Against this backdrop, a foresight study has been prepared to present plausible 2040 scenarios to inform the future direction of trade policies, regional collaboration, and opportunities for breakthroughs. The aim of the foresight study is to boldly explore options for future developments, their possible consequences, and potential responses to those changes[4].

Four scenarios are presented in the study:

- **Scenario I - Power-based route**: Trade integration inches forward through ad-hoc cooperation based on perceptions of interests and relative power, but fragmentation and volatile shocks keep costs high, rising compliance burdens for economic operators, thereby reducing overall welfare. Meanwhile, gains are uneven and prone to reversal in response to relative power and coercion.
- **Scenario II - Unilateral route**. States increase use of subsidies, controls, and data localisation, pushing friend-shoring and standards wars; cross-bloc trade contracts and supply chains are duplicated. Integration retreats as firms build captive regional or national networks to serve fragmented markets, leading to higher overall costs.

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[3] Dadush, U. & Dominguez Prost, E. (2023). Preferential Trade Agreements, Geopolitics, and the Fragmentation of World Trade. *World Trade*. Volume 22. Issue 2. Cambridge University Press: April

[4] The foresight study suggests recommendations over a long timeframe (15 years), which may be feasible even if economically ambitious or currently potentially politically fraught. Nevertheless, they remain potential levers to make APTA relevant (especially in light of its erosion of preferences in the face of other trade-in-goods agreements), and may enjoy more support than they would have received in the recent past, given the major threats to the multilateral trading system and global geopolitics.

- **Scenario III - Regional integration route**. Blocs deepen ties through mutual recognition, digital connectivity, and green corridors, thereby smoothing and promoting the growth of intra-regional trade. Yet inter-bloc frictions persist, limiting diversification and keeping cross-region compliance costly.
- **Scenario IV - Multilateral route**. Interoperable rules established, dispute settlement restored, and shared digital/ green standards cut global trade costs and improved SME participation. Cross-border networks scale efficiently, accelerating the integration of goods and services through 2040.

Across all scenarios, the digital economy is expected to transform economies' structures and influence their political, social, **and environmental dimensions by 2040.** Artificial Intelligence is viewed as especially transformative, to the extent that it could fundamentally challenge humanity's existence.

Each of these scenarios is explored in greater depth in the study and summarised in the table below.

Political Economy	Social	Environment
Power-based route		
Multitrack world: Fragmented rules; modest progress; rising compliance costs.	**Frayed commons, societal decline**: Strained safety nets; falling wages; trust erosion.	**Extreme events, slow adaptation**: Emissions plateau; extreme events escalate; adaptation lags.
Unilateral route		
Fortress autonomy, standards rivalry: Fortress policies; rival standards; cross-bloc trade shrinks.	**Walled gardens, uneven resilience**: Insider welfare; dual markets; regional inequalities deepen.	**Green islands, defensive adaptation**: Decarbonised islands; leakage rises; defensive adaptation dominates.
Regional integration route		
Convergence clubs, mesoregional solutions: Intra-bloc convergence; inter-bloc frictions persist.	**Regional safety nets, civic resilience**: Intra-regional portable social benefits; credential recognition; trust improves regionally.	**Green corridors, bio-regional stewardship**: Green corridors scale; shared MRV; nature compacts expand intra-regionally.
Multilateral route		
Resilient multilateralism, open standards: A restored multilateral trade system; interoperable standards lower friction globally.	**Inclusive resilience compact, mobility with dignity**: Shock-responsive systems; mobility with dignity; inequality narrows.	**Net-zero compact, nature-positive pivot**: Carbon governance alignment; rapid clean deployment; measurable biodiversity gains.

The success of the multilateral route depends on major economies recognising that global challenges require global solutions and accepting the sovereignty constraints and financial commitments that effective multilateralism demands. APTA members, by demonstrating that South-South cooperation can achieve remarkable results while actively championing inclusive multilateralism in global forums, can tip the balance toward renewed global collaboration.

Different scenarios will affect APTA members unevenly because their economic and geographic characteristics vary widely. Landlocked developing countries depend heavily on neighbouring states for transit and market access, making the removal of trade frictions (including tariffs and facilitation barriers) especially important. The LDCs will continue to rely on key APTA markets for exports, so that deeper integration would support their industries and the broader economy. Despite geopolitical differences, India and China stand to gain substantially from stronger trade linkages, and with an effective regional framework, the Republic of Korea could drive investment, technology transfer, and value-chain development, underscoring shared incentives to converge on trade rules.

Based on the scenarios and the EGM discussions, the study provides recommendations for Asia Pacific integration in four broad areas:

Trade ambitions: APTA as a bulwark against fragmentation - Regional cooperation can offset global fragmentation by evolving from a preferential tariff scheme into a broader integration framework that harmonizes regulations, streamlines customs, and creates predictable, shock-resistant business conditions, building on existing regional value chains as a foundation for cautious further harmonization[5]. This should include a shared approach to digital economy governance that balances privacy, cross-border data flows, and development needs, potentially starting with AI principles common to the State Parties and moving toward a binding agreement on AI safety standards that supports innovation and trust.

The agenda should also clarify how trade and industrial policy align, prioritizing cross-border value chains and "servicification" strategies under services trade, and ensuring sustainability and inclusion in the design of instruments. Keeping integration on track requires explicit political commitment—especially from China and India—paired with participatory, transparent rulemaking that consults businesses, unions, and consumer groups and adheres to procedural norms such as public drafts, impact assessments, and reasoned decisions.

Given rising investment screening and sanctions risks, APTA should coordinate investment incentives and minimum standards on labour, environment, and taxes, share information and align approaches to security-sensitive investment from outside the bloc, and consider a regional investment insurance facility (akin to MIGA) to de-risk intra-APTA investment.

Social: building regional resilience through shared prosperity

APTA's social policy responses should acknowledge that economic integration without fair distribution and social protection can trigger political backlash and weaken cooperation. A top priority is a Regional Labour Mobility Framework that creates legal pathways for workers to move to where jobs are, protects rights, and ensures portable benefits. APTA could start with sector-specific mobility schemes modelled on ASEAN/EU approaches—beginning with high-skill sectors (ICT, healthcare, engineering) and later expanding to construction, agriculture, and care work—supported by portable social insurance covering pensions, healthcare, and unemployment benefits.

[5] It should be noted that mega trade deals, such as RCEP and CPTPP, and other bilateral FTAs, potentially erode some of the benefits arising from APTA. As APTA becomes more ambitious and extends beyond tariffs, APTA is likely to become more significant and remain relevant to State Parties.

To close the skills gaps, APTA should build a Regional Skills Development Network to align vocational curricula and mutual recognition of certifications, emphasizing digital and adaptive skills, entrepreneurship, and targeted inclusion for women and rural populations. Health pressures from ageing, chronic disease, and pandemics justify a Regional Health Security Framework for surveillance, cooperation on vaccines and medical supplies, and emergency stockpiles.

A broader Social Security Coordination Agreement could aggregate contributions across countries. Finally, APTA should mainstream gender equality and social inclusion across all initiatives and coordinate common positions on global public goods (health, environment, food security).

Environment: collective climate action and resource management

APTA's environmental policy should recognize the challenges of being high emitters and highly climate-vulnerable, creating shared priorities but also potential tensions. With all members committed under the Paris Agreement, the core response should be stronger **regional cooperation** to accelerate coal phase-outs, scale renewables, expand clean technology transfer and climate finance, support adaptation and clean-energy leapfrogging, and develop a **regional carbon market** linking emissions trading systems and carbon credits that channel finance from richer to poorer members for verified reductions. Energy cooperation can deliver fast gains through a **Regional Energy Trade and Investment Cooperation Framework** connecting Mongolia's wind/solar, Lao PDR's hydropower, and India's solar via major grid, transmission, and storage investments—financed through an APTA grid fund backed by multilateral development banks. Cooperation should also cover cross-border rivers and marine ecosystems using "no significant harm" principles, a **Regional Biodiversity Fund** paying for verified conservation outcomes, and a **regional circular economy framework** harmonizing reuse/recycling standards and producer responsibility.

Institutional mechanisms: Making APTA cooperation effective

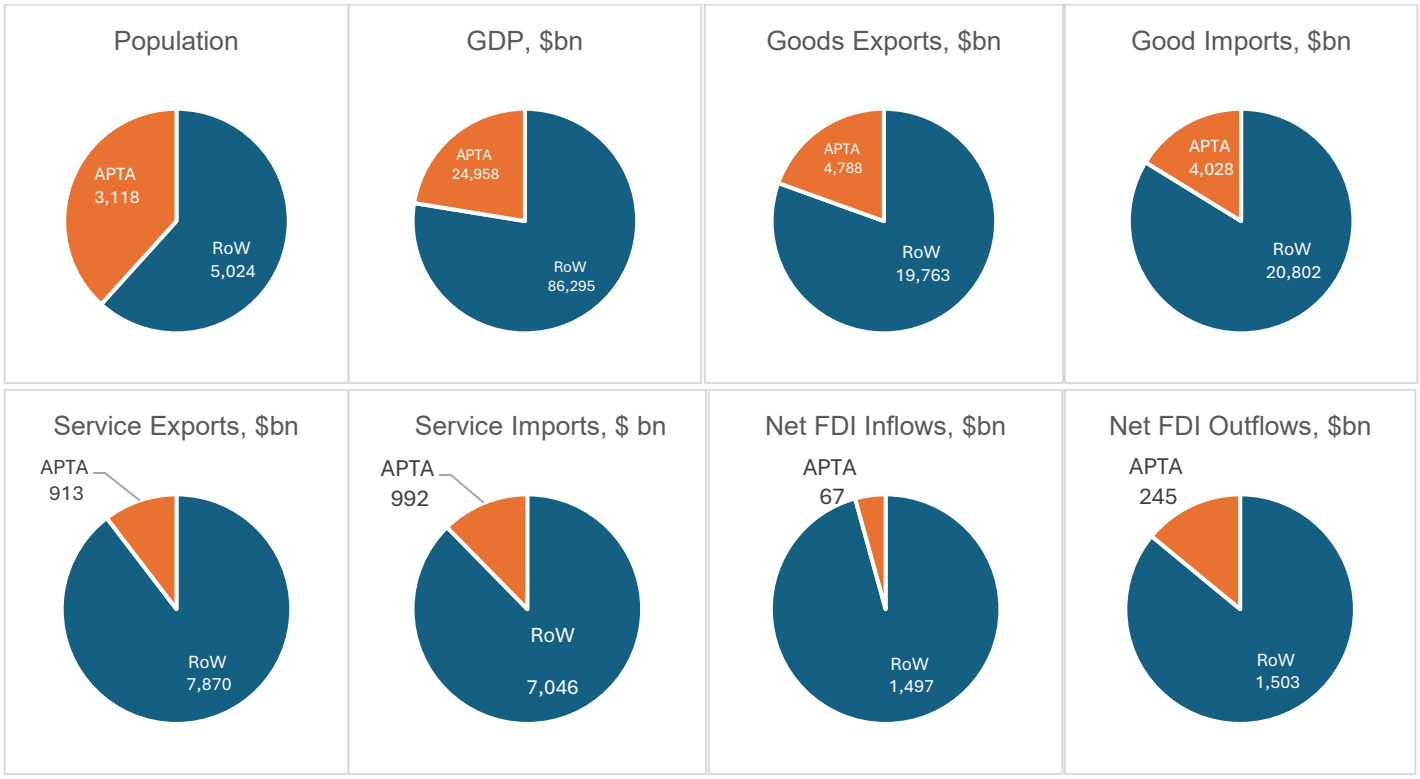
Transforming APTA from a narrow tariff-preference scheme into a broader regional integration platform requires significant investment in its institutional framework. APTA should create a **permanent Secretariat** (building on its current UNESCAP hosting) with technical staff, a stable budget, and the authority to monitor implementation, conduct research, and support negotiations through specialized expert units, while remaining accountable via regular **Ministerial Conferences**. The Secretariat should also coordinate **technical assistance and capacity building**—especially for less developed members—drawing on past ESCAP support (including Republic of Korea funding). To reliably finance cooperation, APTA should establish a **Regional Cooperation Fund** with mandatory GDP-scaled contributions to support trade facilitation, capacity building, health security, climate adaptation, and technical assistance, governed through majority voting with safeguards for smaller members. A **Regional Stakeholder Forum** could institutionalize civil society input (business, labor, consumers, NGOs, youth, women) and strengthen inclusive accountability.

1 Context: Where are we today?

1.1 The current state of regional integration in Asia and the Pacific

The Asia-Pacific Trade Agreement (APTA), established under the Bangkok Agreement (1975-2005), is among the earliest regional preferential trade agreements (PTAs). The objective of the Agreement is to promote the economic development of its members by adopting mutually beneficial trade liberalisation measures that expand regional trade and foster economic cooperation. Together, APTA positions itself as an essential regional economic grouping worldwide. In 2024, the seven APTA countries are home to nearly 3.12 billion people, or 38 per cent of the world's population. The bloc's Gross Domestic Product (GDP) amounted to USD 25 trillion, or 22% of world GDP. APTA participating states' combined trade constitutes one-fifth of the world's merchandise trade and 10% percent of world services trade, valued at USD 4.8 trillion and USD 913 billion, respectively. In 2024, APTA countries received USD 671 billion in foreign direct investment (FDI) inflows, while FDI outflows of the group reached USD 245 billion, representing 14% of the world's total FDI (Figure 1).

Figure 1. APTA Economies' Key Economic Indicators



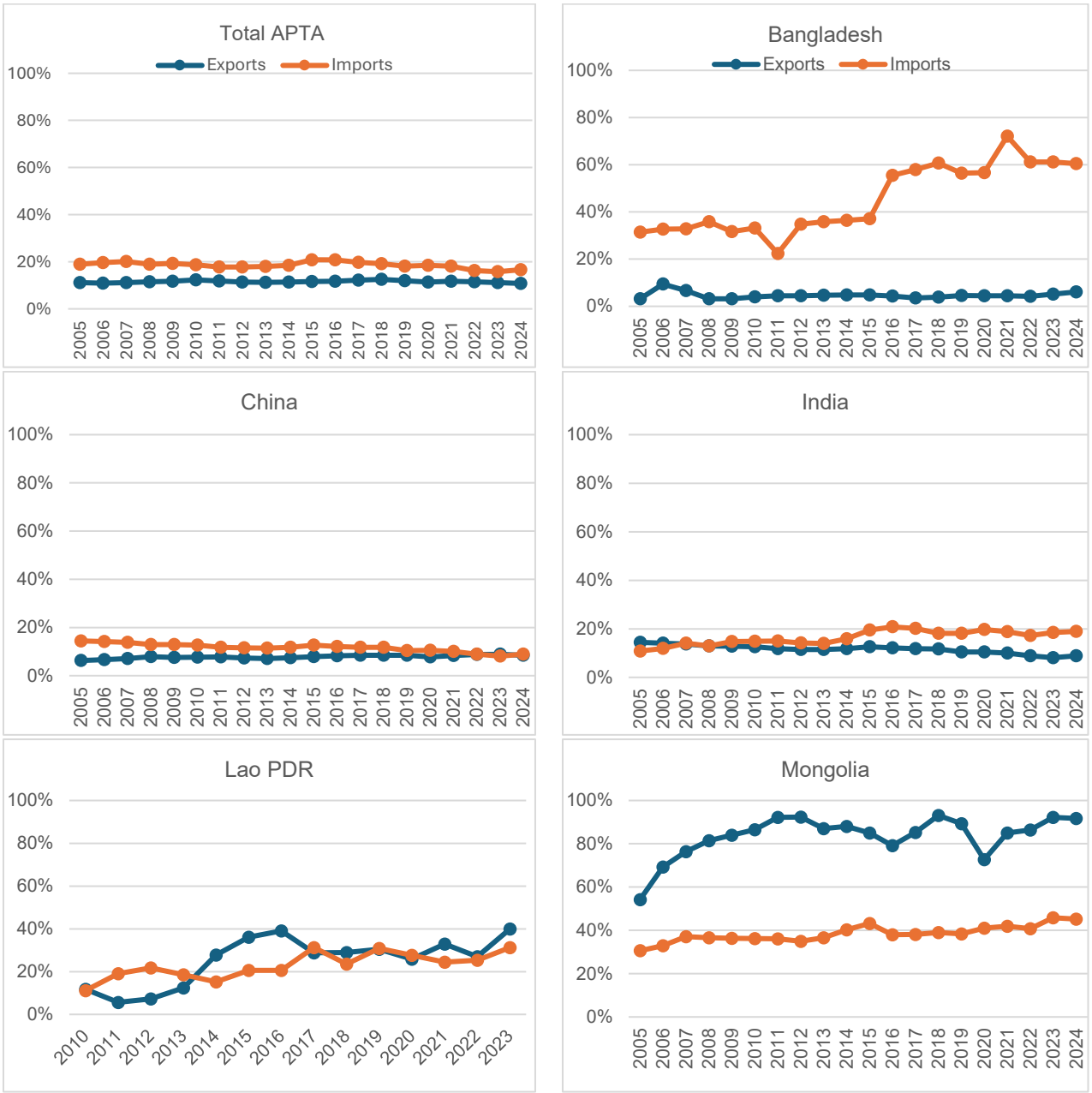
Source: Author based on World Bank WDI. Accessed on 10 September 2025.

In terms of regional economic integration, APTA members have achieved gradual tariff reduction over the years. So far, four Rounds of negotiations have been completed under APTA, and it is currently initiating the Fifth Round. The Fourth Round, concluded in 2017, significantly widens the coverage of preferences of total tariff lines for 10,294 items (compared to 4,270 items under the Third Round) and the deepening of tariff concessions by at least 31-34% for products covered under APTA, with some flexibilities granted to Bangladesh, Lao People's Democratic Republic (Lao PDR), and Sri Lanka. In addition to tariff concessions for trade in goods, offers for

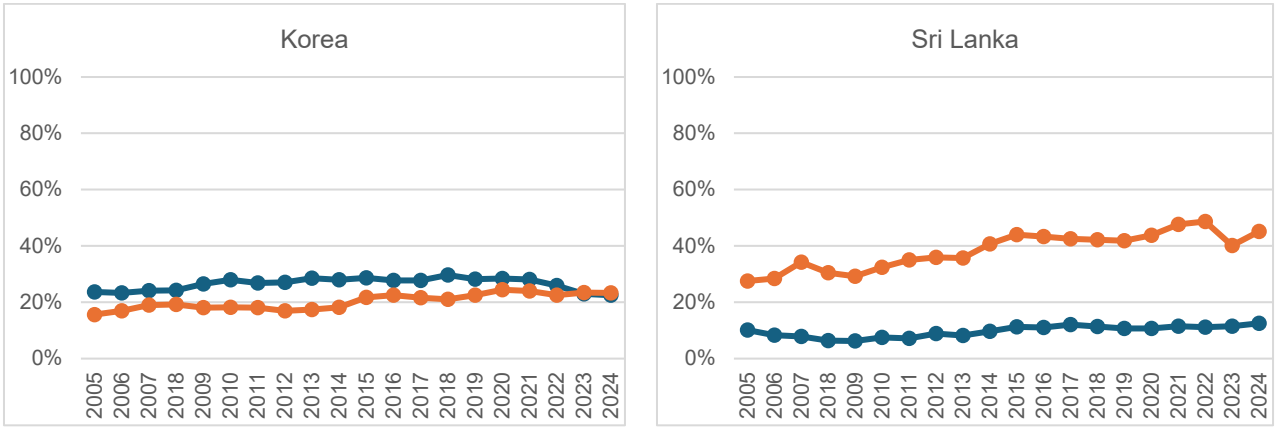
liberalisation in investment, services trade and trade facilitation have also been prepared and circulated.[6]

Intra-regional trade in goods has expanded at 7.6% annually for exports and 6.4% for imports. However, this has expanded more slowly than trade with the rest of the world, resulting in a contraction in relative terms: intra-APTA imports fell from 19% to 17% of total imports during the 2005-2024 period, while intra-regional exports generally stabilised at 11%. Most APTA states saw improvements in intra-bloc imports APTA for all countries, except China, and enhancements in intra-bloc exports, except for Bangladesh and India (Figure 2).

Figure 2. Share of intra-APTA trade in total Members' trade



[6] Mohammad Farhad (2022). Asia-Pacific Trade Agreement an evolving preferential regional trade agreement. Economic and Social Commission for Asia and the Pacific (ESCAP).

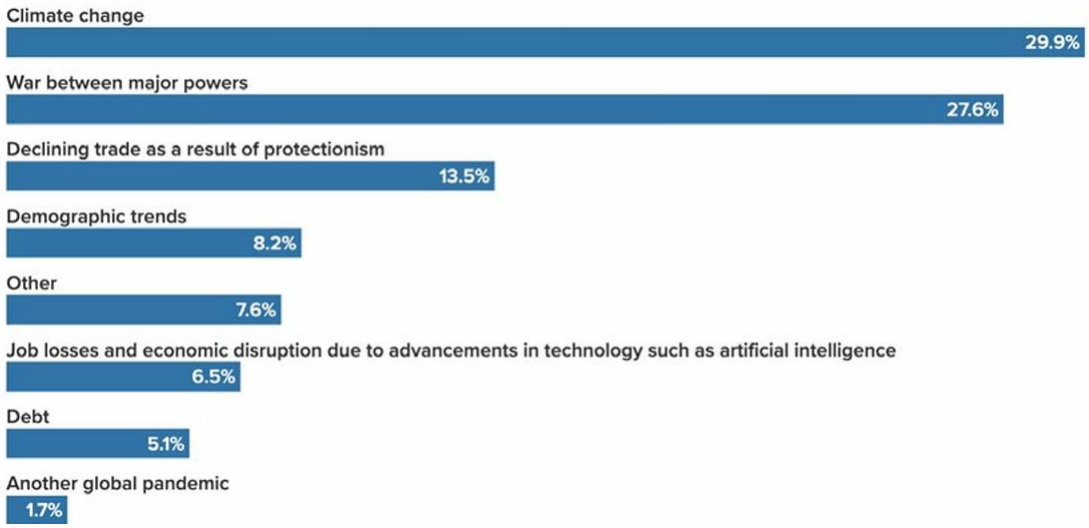


Source: Data from ITC TradeMap. Accessed September 2025.

1.2 Factors and events affecting global and regional integration

Global threats are leading to a pessimistic outlook for the next decade. According to the Atlantic Council's 2025 report, climate change, military conflicts, and retrenchment of globalisation were listed as the greatest threats over the next decade (2025-3025) (**Figure 3**). Around 62% of respondents felt the world would be worse off at the end of the next decade, while 38% believed it would be better.[7] As expressed in the Global Risk Report 2025 by the World Economic Forum (WEF), "*over the last year we have witnessed the expansion and escalation of conflicts, a multitude of extreme weather events amplified by climate change, widespread societal and political polarisation, and continued technological advancements accelerating the spread of false or misleading information.*"[8]

Figure 3. Most significant threat to global prosperity over the next ten years



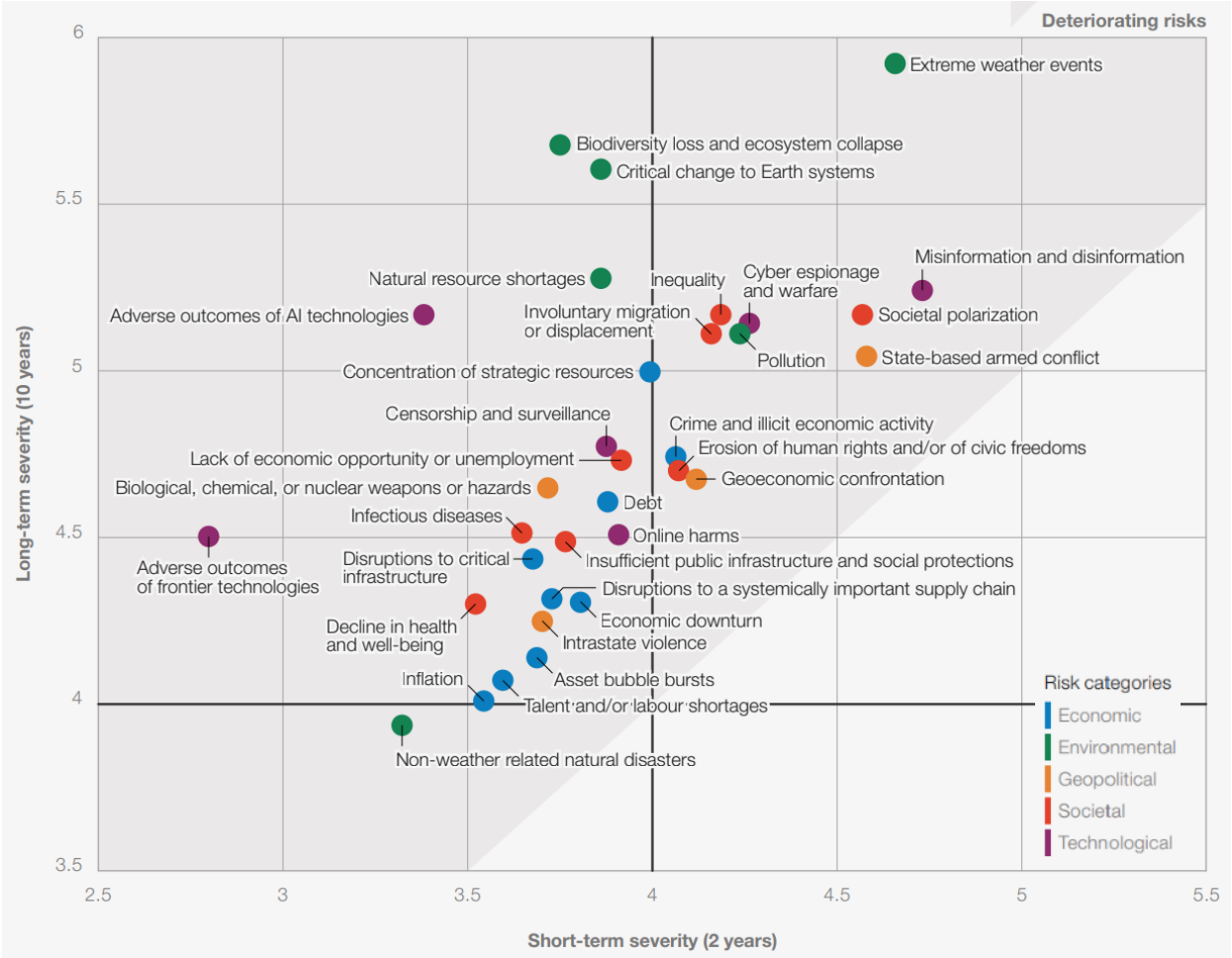
n= 355; Source: Atlantic Council (2025)

Not all shifts are equal, but nationalist trends, fragmentation, and decoupling from multilateral agreements and norms are likely to put pressure on regional integration

[7] Atlantic Council (2025). Global Foresight 2025. Atlantic Council Strategy Papers. June
[8] World Economic Forum (2025) Global Risks Report 2025. WEF: Davos. 15 January

efforts. The rising geopolitical and geoeconomic tensions are increasing the likelihood of a decline in global welfare over the next decade. Increasing disinformation makes it harder to gain clarity on the core issues facing humanity's future. The severity of impacts from recent conflicts, emerging technologies, or economic trends is difficult to predict, but, in general, environmental challenges rank highest in both the short and long term. Geopolitical and technological shifts are also considered to have significant consequences for stability, sustainability, and equitable growth. Finally, economic risks, ranging from debt overhang to inflation, protectionist retrogression, and an unstable multilateral framework, accentuate the destabilising nature of current trends for medium-term economic growth.

Figure 4. Severity of perceived risks in the short and long term



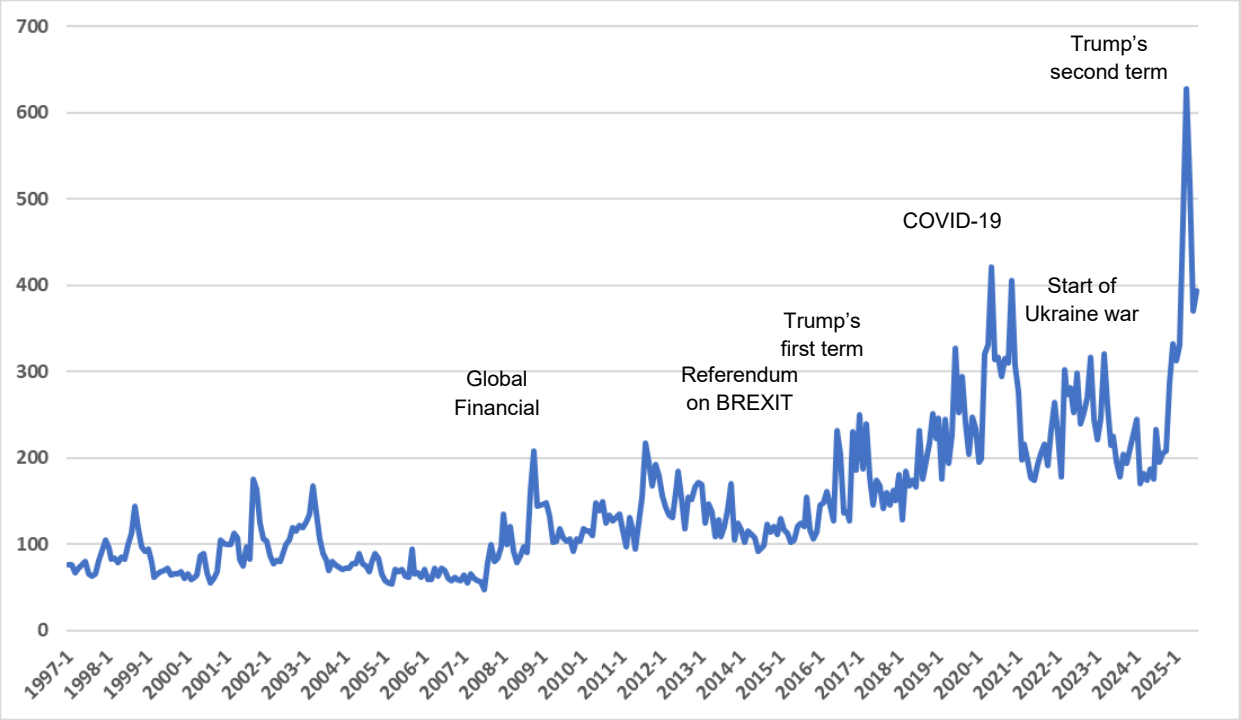
Note: The severity scored is based on the World Economic Forum Global Risks Perception Survey 2024-2025, which collected opinions from over 900 global leaders across academia, business, government, international organizations and civil society. Severity was assessed on a 1-7 Likert scale [1 = Low severity, 7 = High severity] for each risk factor in the short term (2-years) and long term (10 years). Source: WEF (2025) [9]

Global uncertainty has increased significantly in recent years. Notable turbulence emerged during and since the Brexit referendum and the first term of the Trump Administration, peaking again amid COVID-19. More recently, a new surge of uncertainty has been recorded during the second term of the Trump Administration. Other notable events associated with increased

[9] World Economic Forum (2025) Global Risks Report 2025. WEF: Davos. 15 January

uncertainty in the past decades include the global financial crisis (2008-09), the European debt crisis (2009-18), and the Russia-Ukraine war (2022-present). These policy uncertainties make predicting the future particularly difficult, as the noise can be mistaken for a permanent event, especially when the uncertainty reaches new heights. COVID-19 initially raised major concerns for global supply chain disruptions, but markets have since adjusted and overcome the short-term disruptions. The present threats to multilateralism have the potential to tip the geopolitical alliances away from traditional partnerships.

Figure 5. Global Economic Policy Uncertainty



Note: The GEPU Index is a GDP-weighted average of national EPU indices for 18 countries: Australia, Brazil, Canada, Chile, China, France, Germany, Greece, India, Ireland, Italy, Japan, Russia, Republic of Korea, Spain, Sweden, the United Kingdom, and the United States. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P), and uncertainty (U). In other words, each monthly national EPU index value is proportional to the share of own-country newspaper articles that discuss economic policy uncertainty in that month. 100 is the value from 1997

Source: Baker, Bloom, and Davies (2016)[10] Data retrieved August 2025

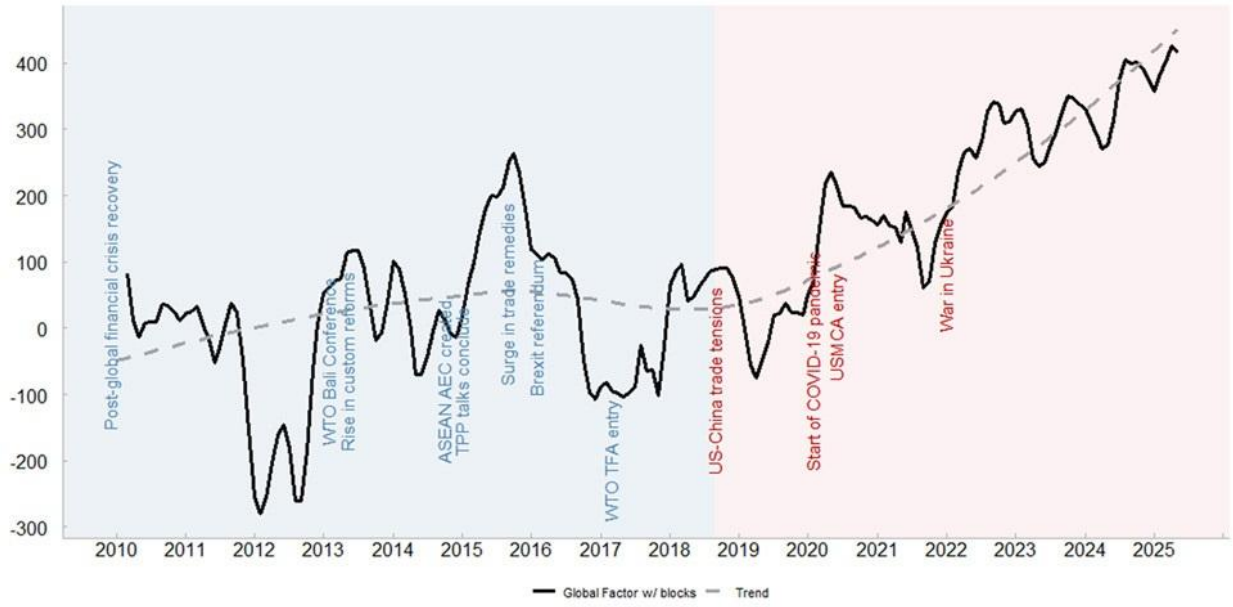
The world has seen intensified free trade or regional trade agreements in the face of limited progress in the multilateral framework. The gradual paralysis of the Appellate Body at the core of the World Trade Organisation (WTO)'s Dispute Settlement Mechanism, coupled with progressive erosion of WTO principles in favour of a power-based system, has called into question the *raison d'être* of the WTO and promoted an impetus for intensifying the route of free trade agreements (FTAs).[11] Even before the assault on some core principles of the world trading system, there was general frustration with the speed and ambition of multilateral initiatives, leading to the privileging of plurilateral and regional agreements as frameworks for cooperation

[10] Baker, S. R., Bloom, N. & Davis, S. J. (2016). Measuring Economic Policy Uncertainty. *The Quarterly Journal of Economics*, Volume 131. Issue 4. Oxford University Press: November

[11] Dadush, U. & Dominguez Prost, E. (2023). Preferential Trade Agreements, Geopolitics, and the Fragmentation of World Trade. *World Trade*. Volume 22. Issue 2. Cambridge University Press: April

and coordination in international trade. This is also reflected by the views felt by some policy makers that levels of intra-regional trade in some regions remain below their potential, which requires further deepening of regional trade regimes to boost anaemic levels of trade, or is a vindication of the success of regional integration efforts, which further calls for greater integration efforts. Data from the Trade Policy Activity (TPA) index, co-developed by the WTO and IMF, reveals a noticeable increase in trade policy activity since 2019-2020 with some ebbs and flows (Figure 6), reflecting heightened use of trade policy for broader objectives, such as environmental sustainability, industrial policy or security.[12] The New Industrial Policy Observatory (NIPO) dataset also shows the return of industrial policy, comprising subsidies from advanced economies and trade restrictions on imports and exports by emerging-market and developing-economy countries.[13] These trends indicate that, while deglobalisation is not imminent, an apparent political backlash against globalisation is evident.

Figure 6. Trade-Policy Activity Index



Note: The Trade-Policy Activity (TPA) Index (black line) refers to the global factor estimated using the block structure by type of measure (i.e. facilitating and other) and including a trend (dashed grey line) added after the estimation. The factor is normalized relative to the January 2010-December 2011 reference period (baseline = 0). The trend (shown in a grey dashed line) is a local quadratic trend whereby regression is weighted by the distance between points. The raw data is available until May 2025 in the baseline, and the indicator is smoothed using a moving average over the last three months. Source: WTO (2025). WTO and IMF economists develop a new indicator to measure global trade policy dynamics

The past years have also seen numerous technology disruptions that have ordered a remake of market business models and policy governance framework. ChatGPT's public release made its debut on 30 November 2022, followed by the launch of a whirlpool of strong AI-powered tools. This opens up opportunities to improve business operations' efficiency through task automation; however, risks of labour displacement and AI/data compliance concerns also increasingly hinge on it. The rapid advancement of microchips opens new horizons for computing power and processing speed.[14] As computer chips are the engine of the fast-expanding digital

[12] WTO (2025). WTO and IMF economists develop new indicator to measure global trade policy dynamics
[13] Evenett, Simon, Adam Jakubik, Fernando Martín & Michele Ruta (2024). The Return of Industrial Policy in Data. IMF Working Paper WP/24/1
[14] Masterson, V. and North, M. (2025). Microchips – their past, present and future. *World Economic Forum*, 3 January.

economy, control of chip production has fuelled a 'trade battle' among world economies.[15] Renewable energy technologies have become increasingly competitive, thereby driving down the average cost of electricity for all technologies.[16] However, as the pace of technological advancement has outpaced regulatory change, technological standards may become trade policy instruments. For example, AI governance, data protection rules, and restrictions on access to technology may increasingly serve as non-tariff measures, pushing economies toward capacity redundancy and friend-shoring while increasing compliance costs for firms operating across divergent regimes.

The energy transition is having an enormous impact on the demand for critical minerals. Mineral demand is expected to double by 2040 and could quadruple under a high-growth scenario for clean energy technologies, according to the IEA.[17] This surge is driven by the clean energy transition, including electric vehicles and batteries, as well as military technology upgrades and digitalization. Critical minerals, such as nickel, cobalt, rare earths and other industrial raw minerals, are at the core of many of the energy transition's value chains; they are essential to the manufacturing of key clean technologies, including solar and wind power, batteries, and electric vehicles. Mineral extraction and processing have traditionally been highly concentrated both in terms of geographic location and ownership[18] "mainly because the economic viability of the raw material industry requires extraction and processing to take place where these materials are the most naturally abundant, or where the geological and climatic conditions and available technology and resources make the extraction and processing the most economically viable".[19] The concentration in the critical minerals sector, in terms of asset ownership, is skewed in favour of US and European companies, which play a major role in copper and lithium supply, whereas Chinese companies have a greater role in nickel and cobalt production, despite these minerals being mined elsewhere.[20] Countries in APTA are at the core of this dynamic, with large mining operations in some (e.g., Mongolia) and large industrial consumers of minerals (India and China). While tensions are rising globally and some WTO members are applying trade instruments to restrict trade, there is an opportunity for greater cross-border collaboration to ensure greater sustainability and limit environmental damage.

Environmental risks have escalated to an alarming level, while environmental governance has achieved some inflexion points in the past decade. The Planetary Health Check 2025 shows that seven planetary boundaries[21] have been exceeded, threatening the Earth's life-supporting systems and leading to severe consequences for both ecosystems and societies.[22] In 2024, greenhouse gases (GHG) hit new heights, with carbon dioxide (CO_2) increasing by ~+3.5 parts per million (ppm), reaching its highest level since 1957, when observations began, pointing

[15] Bloomberg News (n.d.) Global chip wars—semiconductors: Explainer. New York: Bloomberg.
[16] International Renewable Energy Agency (IRENA) (2024). *Renewable power generation costs in 2023*. IRENA: Abu Dhabi
[17] International Energy Agency (2024).Global Critical Minerals Outlook 2024 May
[18] OECD (2025). Economic Security in a Changing World. OECD: Paris. September
[19] Kowalski, P. *et al.* (2015), Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies, OECD Trade Policy Papers, No. 179, OECD: Paris
[20] IEA (2025). Global Critical Minerals Outlook 2025. May
[21] According to the Stockholm Resilience Centre, the seven breached planetary boundaries are: Climate Change, Biosphere Integrity, Land System Change, Freshwater Use, Biogeochemical Flows, Novel Entities, and Ocean Acidification (new in 2025). All of these seven boundaries show worsening trends. Only Ozone Depletion and Aerosol Loading remain in the safe zone. See Stockholm Resilience Centre (2025). Planetary boundaries.
[22] Stockholm Resilience Centre (2025). Seven of nine planetary boundaries now breached.

to weakening natural sinks and reinforcing the risk of global warming.[23] Furthermore, global warming,[24] marine heatwaves, and rising sea levels[25] have increased the risk of coastal flooding, storm surges, coral stress, and disruptions to industries such as fisheries and tourism. Biodiversity is declining at an unprecedented rate globally: around a million species face extinction risk due to land/sea use change, overexploitation, climate change, pollution, and invasive alien species.[26] Biodiversity loss and climate change are interdependent and produce compounding impacts that threaten water availability, food security, human health and well-being, climate mitigation and adaptation pathways.[27] On governance, the Paris Agreement, signed in 2015 and entering into force in 2016, established the global temperature goals and five-year ratchet.[28] More recently, the 28th Conference of the Parties (COP28) delivered the United Arab Emirates (UAE) Consensus - the first COP decision calling to "transition away from fossil fuels", and operationalised the Loss & Damage Fund.[29] Negotiations for a Global Plastics Treaty began in 2022, and five rounds have been held, with no consensus reached so far.[30] Policy instruments have been geared toward the adoption of carbon pricing mechanisms,[31] governance of methane[32] and plastics.[33] On the other hand, a lack of political will and cooperation may undermine environmental commitments among broader stakeholders, as exemplified by the US withdrawal from the Paris Agreement and the subsequent withdrawal of major banks from the Net Zero Coalition.[34]

Salient social crises emerged, linked to disruptions across the domains of geopolitics, the economy, the environment, and technology. COVID-19 left long-tail impact, including chronic health burdens, care backlogs, and workforce impacts that depress productivity and strain budgets.[35] The pandemic pushed an additional 95 million people into extreme poverty, compared to before the pandemic.[36] While the pandemic has come and gone, climate-driven migration pressures are on the rise. They will continue to disrupt food and energy production and distribution, driving up costs for people around the world, eroding real incomes, and triggering a global cost-of-living crisis.[37] Forced displacement reached a record scale of approximately 123 million by the end of 2024, or nearly double what it was a decade ago, driven by conflicts.[38]

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[23] World Meteorological Organization (WMO) (2025). Carbon dioxide levels increase by record amount to new highs in 2024. UN Climate Press Release.
[24] National Oceanic and Atmospheric Administration (NOAA) (2025). Climate change: global temperature; NASA Earth Observatory (n.d.). World of Change: Global Temperatures.
[25] Intergovernmental Panel on Climate Change (IPCC) (2019). Special Report on the Ocean and Cryosphere in a Changing Climate (SROCC): Chapter 6 – Extremes, abrupt changes and managing risks. Geneva: IPCC.
[26] United Nations (2019). Nature's dangerous decline "unprecedented"; species extinction rates "accelerating". *UN Sustainable Development Blog*, 6 May.
[27] Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) (2024). Thematic Assessment Report on the Interlinkages among Biodiversity, Water, Food and Health (Nexus Assessment). Bonn: IPBES.
[28] United Nations Framework Convention on Climate Change (UNFCCC) (2015). *The Paris Agreement*. Bonn: UNFCCC.
[29] United Nations Framework Convention on Climate Change (UNFCCC) (2023). COP28 agreement signals "beginning of the end" of the fossil fuel era. 13 December.
[30] World Economic Forum (WEF) (2025). INC-5.2: The global plastics treaty talks - explainer. WEF Agenda, August.
[31] World Bank (2025). Carbon Pricing Dashboard.
[32] International Energy Agency (IEA) (2022). Global Methane Tracker 2022: The Global Methane Pledge. Paris: IEA.
[33] World Economic Forum (WEF) (2025). INC-5.2: The global plastics treaty talks - explainer. WEF Agenda, August.
[34] The Guardian (2025). Banking industry's net-zero alliance shuts down amid faltering climate commitments.
[35] World Health Organization (WHO) (2022). COVID-19 pandemic triggers 25% increase in prevalence of anxiety and depression worldwide. News release, 2 March.
[36] Mahler, D.G., Yonzan, N., Hill, R., Lakner, C., Wu, H. & Yoshida, N. (2022). Pandemic, prices, and poverty. World Bank Data Blog, 13 April.
[37] International Monetary Fund (IMF) (2023). Cost of Living Crisis. In: IMF Annual Report 2023 - In Focus. Washington, DC: IMF.
[38] United Nations High Commissioner for Refugees (UNHCR) (2025). Global Trends 2024. Geneva: UNHCR, 16 June.

Meanwhile, the social-media attention economy amplified mis/disinformation, coinciding with documented declines in democratic quality across many countries.[39]

It is noteworthy that these events have knock-on effects across different areas. For example, the Russia-Ukraine war (a political-economy event) sparked a global energy crisis (economic, short-run negative). This shift, in turn, forced countries to alter their energy-related trade while bolstering their renewable energy ambitions, which supports the implementation of climate ambition under Nationally Determined Contributions (NDCs) (environment, long-run positive).[40] Likewise, challenges related to climate change and biodiversity loss (environmental, short- to long-run negative) are deeply interconnected with food insecurity (social, short- to medium-run negative), which requires comprehensive responses.[41] This means that scenarios that prioritise objectives for a single pillar of the economy-social-environment nexus, without due regard for the other elements, will have knock-on effects across the various dimensions of the nexus.

1.3 Brief lessons from regional integration in the Asia Pacific Region

Regional integration schemes can be viewed as providers of "cross-border public goods" because of the disciplines that ensure transparency, promote trade, and ensure non-discrimination. FTAs encompass not only disciplines and the gradual removal of restrictions on goods and services trade, but also address behind-the-border policy and regulatory matters, including investment rules, competition policy, intellectual property rights, procurement, regulatory cooperation, trade facilitation procedures, and due process. Unlike preferential tariff cuts (which are, by design, applied selectively at the border), these behind-the-border provisions typically improve the overall business and investment facilitation environment. The result is that FTAs lead to more trade but also can create positive spillovers for non-members who benefit from the same clearer regulations, more efficient procedures, and more credible commitments[42].

For policymakers, the public-good element implies that trade agreements, including deep trade agreements, should be considered as part of durable reforms and institutional strengthening to improve governance outcomes and build on best practices. This suggests that the design of the FTA and implementation of the agreement matter as much as negotiated "concessions": the biggest gains come from provisions that improve regulatory quality, promote competition, and enhance transparency across the whole economy, thereby attracting investment and enabling participation in global value chains. The welfare effects of the FTA are generally positive, even if flanking and adjustment costs should be considered during implementation. There is a recognised approach to analysing the welfare and adjustment effects from FTAs that can be employed to gain a fuller understanding of the implementation challenges[43].

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[39] Costantino, A. (2024). The digital divide: social media's role in polarization and democratic backsliding. *Democratic Erosion* (Student Blog), 5 December.
[40] International Energy Agency (IEA) (n.d.) Russia's War on Ukraine. Paris: IEA; Hugo Rojas-Romagosa. (2024). Medium-term Macroeconomic Effects of Russia's War in Ukraine and How it Affects Energy Security and Global Emission Targets. *IMF Working Papers* 2024.
[41] Not For Sale (2025). Report highlights how climate, nature, and food crises are deeply interconnected. Not For Sale - Blog, 6 January.
[42] Mattoo, A., Mulabdic, A,. & Ruta, M. (2017). Trade Agreements as Public Goods. World Bank. October 16.
[43] Baker , P. & Le, L. (2022). Guidebook on Trade Impact Assessment. UNCTAD: Geneva; EU (2016) Handbook for Sustainable Impact Assessment. European Commission: Brussels; OECD (2020) Regulatory Impact Assessment. OECD: Paris

The expansion of regional integration efforts in the Asia Pacific region is reflected in the proliferation of FTAs, including 77 intra-Asian agreements and 105 agreements with non-Asian economies, representing 45% of all preferential trade agreements worldwide in 2023[44]. The overlapping FTAs with different rules of origin requirements often create confusion and limit the full benefits of regional integration[45]. Many economies in the Asia-Pacific are heavily reliant on regional value chains (RVC) for their backward integration into GVCs, with Bhutan, Cambodia, the Lao People's Democratic Republic (Lao PDR), Malaysia, Nepal, the Philippines, and Viet Nam all having RVC shares above 70%. In contrast, the People's Republic of China (PRC), India, and Kazakhstan have RVC shares below 40%. For forward GVC linkages, Bhutan, Brunei Darussalam, Indonesia, the Lao PDR, Malaysia, and Mongolia report RVC shares above 70%, while Bangladesh, India, Kazakhstan, the Kyrgyz Republic, the Maldives, Pakistan, and Sri Lanka report shares below 40%[46]. FTAs have been a key driver in creating an enabling trade environment, removing restrictions on cross-border trade and fostering more efficient production networks through global production hubs-and-spokes configurations across geographies.

The case for regional integration in the Asia-Pacific is strong, not only creating close economic ties that allow countries to specialise in what they do best but also creating (semi) seamless markets with economies of scale and scope, promoting technology transfer and boosting investment across several regional economic communities. ASEAN is often regarded as a successful example of regional integration in the Asia-Pacific. Its trade agenda focused primarily on removing trade frictions, starting with tariffs and moving toward non-tariff measures. It has become increasingly ambitious in its trade in services agenda, and in tackling other regulatory barriers, and, most recently, in aiming to create a regional framework for digital trade through the Digital Economy Framework Agreement. Its ten-year Economic Blueprints have accompanied the implementation of the agreements reached between its members and have also tried to leave no one behind. ASEAN has also embraced the ASEAN+1 negotiations with non-ASEAN members to widen the benefits of the regional bloc to non-members and leverage concessions from external partners. A limitation of the progress made to date lies with its enforcement mechanisms[47]. In moving forward with APTA, it will be important to take stock of the progress made to date on tariffs, for example, consider what has worked well and what has not, and use the experience of more successful and dynamic arrangements to infuse into the APTA negotiation process.

[44] ADB (2025). Asian Economic Integration Report 2025: Harnessing the Benefits of Regional Cooperation and Integration. ADB: Manilla

[45] Panezi, M. (2016). The WTO and the Spaghetti Bowl of Free Trade Agreements. CIGI Policy Brief. September; Baghwati, J. (1995). US Trade Policy: The Infatuation with Free Trade Agreements. *J Bhagwati and A Krueger, The Dangerous Drift to Preferential Trade Agreements.* AEI Press: Washington, DC

46 ADB (2025). ibid

[47] International Economics Consulting (2025). ASEAN Economic Blueprint 2025 End-Term Review. IEC: Vietnam; UNCTAD (2017). ASEAN at 50: Achievements and challenges in regional integration. UNCTAD: Geneva

2 Foresight Scenarios: Where might the world be in 2040?

2.1 Setting the scenarios

A foresight analysis aims to boldly explore options for future developments, their possible consequences, and potential responses to those changes. As highlighted by the Organisation for Economic Cooperation and Development (OECD), the approach "*entails scanning the horizon for new developments and emerging trends, constructing alternative scenarios about what future changes could occur, and designing forward-looking strategies for advancing values and objectives under a wide range of possible circumstances.*"[48] The OECD recently explored the factors that may drive global policy coordination and the likely scenarios facing the world economy through 2035. Pushed to their plausible extreme, these disruptions are expected to alter the policy landscape over 2030-50 in a radical way, for better or for worse, influencing the ability to meet long-term policy goals.[49] Regional integration might become simultaneously deeper (within compatible technological and regulatory frameworks) and more exclusive (excluding incompatible systems). The tensions identified between the growing need for global collaboration and forces driving fragmentation create a remarkably complex prediction challenge.

Against this backdrop, there is a need to present realistic, plausible scenarios for the future direction of trade policies, regional collaboration, and opportunities for breakthroughs. The scenarios are set according to the potential trajectories by which the world and each individual economy respond to initial conditions and the momentum of events (called "signals").

Four scenarios, presented in **Figure 7**, are labelled as follows[50]:

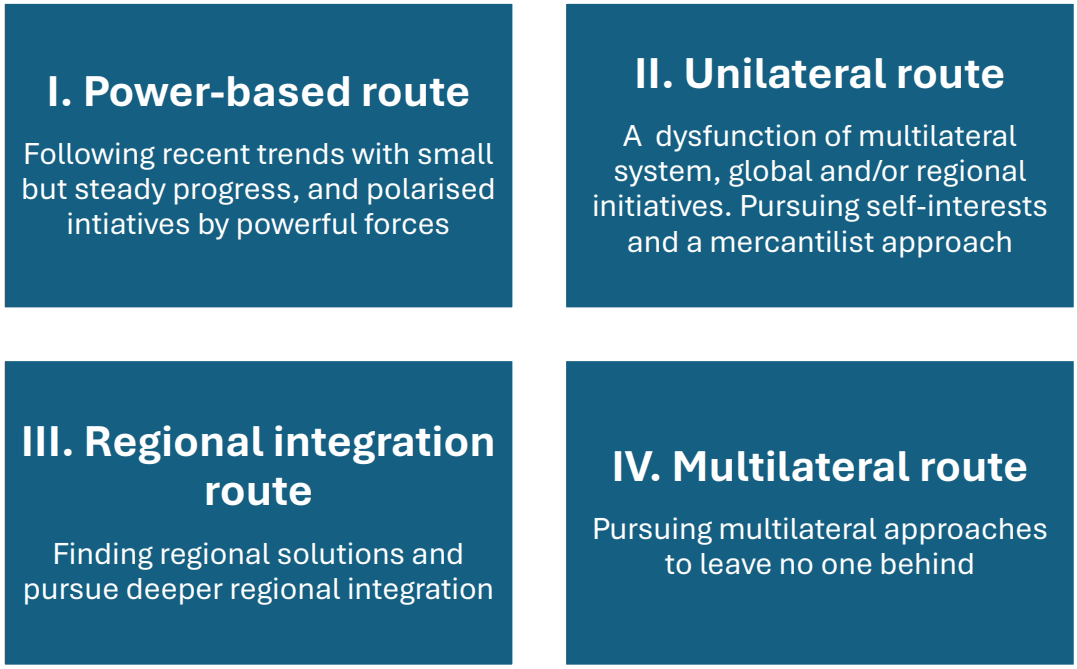
- Following the recent trends with small but steady progress in global initiatives punctuated by uncertainty and volatility, and dominated by one or two polarised forces, labelled as "**Power-based route"**;
- Pursuing self-interests and a mercantilist approach, labelled **the Unilateral route**;
- Finding regional solutions and pursuing deeper regional integration, labelled **the Regional integration route;** and
- Pursuing multilateral approaches with a view to leaving no one behind, labelled **the Multilateral route**.

The scenarios are analysed through three pillars of focus: Social, Environment, and the Political Economy (both Geopolitics and Economics considerations). Technology is viewed as a cross-cutting dimension. As noted in the United Nations (2018),[51] "*Technology is not the future – how we use existing (and new) technologies will determine their future implications*". This overview does not aim to be exhaustive or comprehensive, but rather to examine the perceived trends with potentially major impacts on trade and investment in the Asia Pacific more generally, and the

[48] OECD (2021). Global Scenarios 2035: Exploring Implications for the Future of Global Collaboration and the OECD. OECD Publishing: Paris.
[49] OECD (2025). Strategic Foresight Toolkit for Resilient Public Policy: A Comprehensive Foresight Methodology to Support Sustainable and Future-Ready Public Policy, OECD Publishing: Paris.
[50] As mentioned later in the text, these scenarios may overlap, and are likely to blur across some dimensions.
[51] United Nations (2018). Foresight Manual: Empowered Futures for the 2030 Agenda. UNDP Global Centre for Public Service Excellence

course of regional economic integration in the prism of APTA (as will be further discussed in conclusions - Section 3).

Figure 7. Four scenarios 2025-2040



The likelihood that each scenario will materialise varies, with regionalism being the most likely, as evidenced over the last decades by the increasing number of regional trade agreements (RTAs) notified to the WTO. The bottom-up approach of regional integration has long been recognized as successful, especially in Asia,[52] though the geopolitical world of today may pose more challenges for this aspiration, it remains that the flexible cooperation approach is generally recognized to have been more successful than the deep integration attempts in other parts of the developing world. Examples include the Association of Southeast Asian Nations (ASEAN) and APTA. While depth and scope can be fundamentally different across RTAs, the general trend is that they are increasingly ambitious,[53]and can lead to greater integration for both intra-bloc and extra-bloc countries.[54] Regional cooperation in a range of environmental sustainability, labour protection and human development areas can contribute to increasing welfare for countries engaging in the process,[55] though the total welfare may not be comparable to that under the multilateral track,

The scenario of a power-based route is also quite likely, given the already entrenched positions, geopolitical tensions, and the tendency to delay adjustments toward reaching net-zero targets. At

[52] de Melo, J.; Panagariya, Ar.; Rodrik, D. (1993). The New Regionalism: A Country Perspective. Policy Research Working Paper Series. The World Bank.
[53] Mattoo, A.; Rocha, N.; Ruta, M. (2020). Overview: The Evolution of Deep Trade Agreements. In Mattoo, A.; Rocha, N.; Ruta, M. (eds.) (2020). Handbook of Deep Trade Agreements, Washington, DC: World Bank.
[54] See, for example, Yang, Shanping; Martinez-Zarzoso, Inmaculada. (2014). A panel data analysis of trade creation and trade diversion effects: The case of ASEAN–China Free Trade Area. China Economic Review, 29(), 138–151. doi:10.1016/j.chieco.2014.04.002; Handoyo, Rossanto Dwi; Sugiharti, Lilik; and Esquivas, Miguel Angel (2021). Trade creation and trade diversion effects: The case of the ASEAN plus six Free Trade Area. Bulletin of Monetary Economics and Banking: Vol. 24: No. 1, Article 3.
[55] United Nations Development Programme (2011). Regional Integration and Human Development: A Pathway for Africa.

the other end of the spectrum, unilateralism and multilateralism are considered less likely scenarios. Despite the rise of populism, unilateralism is unlikely to be sustainable and may lead to unstable, even immiserating, growth. The scenario of multilateralism delivers the greatest welfare gains. Still, it no longer appears very likely to continue in its present form, not to mention expand, given the increasing tensions in multilateral trade talks, an increasing perception of wishing to push back against globalisation, and the 'free rider' concerns in multilateral environmental negotiations. The recent submissions by the US and the EU also point to fundamental divergences in the approach to WTO reform.

The US's recent submission to the WTO[56] highlights its "*serious concerns with the trading system embodied by the WTO, given that the system has overseen and contributed to a world of severe and sustained imbalances* [..which..] *have undermined many countries' legitimate aspirations to develop or maintain industrial capacity*. [..] *The WTO cannot serve as the forum for solving all existing and future challenges in the global trading system. Indeed, the WTO does not fully live up to its own mission*. " As highlighted by one trade expert, Simon Everett, it is as if "*the US is making plain that the WTO is no longer central to the trade governance -not quite Samson pulling down the temple, more like just ignoring it*"[57]. Shortly after, the US announced its withdrawal from major multilateral agencies, including trade specialised agencies that have played a prominent role in supporting the multilateral trade agenda, including the UN Conference on Trade and Development and the International Trade Centre[58].

The EU's recent submission to the WTO[59] takes a different approach to that of the US. It emphasises the pivotal role of the WTO in creating a rules-based system, highlighting that "*even with the current challenges, many WTO disciplines continue to shape Members' behaviour and provide reference points for resolving tensions through dialogue, peer review and negotiated solutions*". The EU nevertheless points to the need for reforms, notably stating that "*the multilateral rulebook meant to guarantee a level playing field needs to be reviewed and updated. The first step is to identify gaps and shortcomings that currently prevent Members from effectively addressing negative trade effects caused by State interventions in support of industrial sectors. This work should cover (i) transparency, (ii) disciplines, and (iii) remedies.* Finally, the EU makes the point that "*reform work should focus on the operationalisation of the concept of responsible consensus as opposed to a practice of unanimity*".

It should be noted that the following presents the extremes of each scenario; in reality, multiple aspects of each scenario may coexist as we observe today. As highlighted by some members of the Expert Working Group, which oversaw this study, the blurring of lines between scenarios is increasing over time. Even multilateralism has taken on an increasingly pluralist form due to bottlenecks in achieving consensus among the WTO's larger membership and increasingly divergent views. Furthermore, these pathways are dynamic, with likelihoods that are time-path-dependent, shaped by the actions and interactions of global players. As policies and behaviours reinforce themselves, the odds can rise through feedback loops: a virtuous loop may occur if early "big-push" actions build momentum for positive change, or a vicious loop may emerge if weak

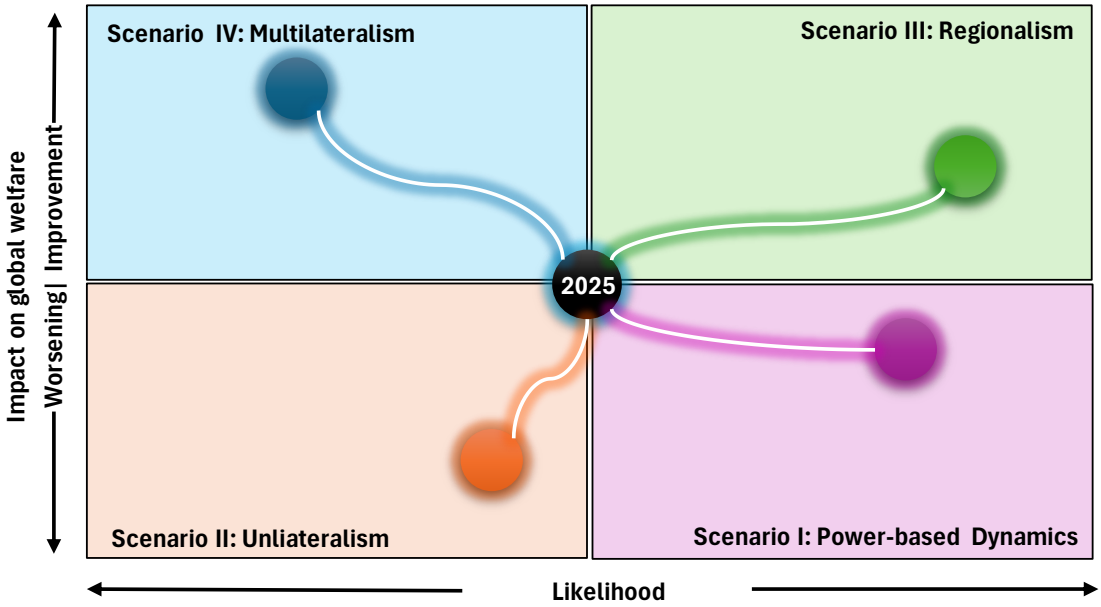
[56] WTO (2025). On WTO Reform. Communication from the United States. 15 December. WT/GC/W/94
[57] FT (2025). White House extends attack on WTO as body weighs policy reform. 17 December
[58] The White House (2026). Withdrawing the United States from International Organizations, Conventions, and treaties that are contrary to the interests of the United States. Presidential Actions. January 7
[59] WTO (2026). EU Submission on WTO Reform. Communication from the European Union. 21 January. WT/GC/W/986

rules and institutional frameworks breed more fragmentation and low trust, which then makes fixes even harder.

Figure 8 illustrates the scenario pathways and likely impacts on global welfare, showing higher welfare under scenarios IV (multilateralism) and III (multilateralism).

It should be noted that the following presents the extremes of each scenario; in reality, multiple aspects of each scenario may coexist as we observe today. As highlighted by some members of the Expert Working Group, which oversaw this study, the blurring of lines between scenarios is increasing over time. Even multilateralism has taken on an increasingly pluralist form due to bottlenecks in achieving consensus among the WTO's larger membership and increasingly divergent views. Furthermore, these pathways are dynamic, with likelihoods that are time-path-dependent, shaped by the actions and interactions of global players. As policies and behaviours reinforce themselves, the odds can rise through feedback loops: a virtuous loop may occur if early "big-push" actions build momentum for positive change, or a vicious loop may emerge if weak rules and institutional frameworks breed more fragmentation and low trust, which then makes fixes even harder.

Figure 8. Likelihood of foresight scenario pathways and impact on welfare



Note: Likelihood reflects "informed" probability based on perceptive understanding of the current global political-economy landscape. Global welfare reflects the global gains/losses in terms of GDP, output, income that are affected by possible measures implemented by countries under each scenario. For example, in an increasingly restrictive and fragmented trade landscape under Power-based or Unilateralism scenario, it is expected that more costs would incur for businesses and consumers, leading to an overall decreasing in total global welfare. Source: Author

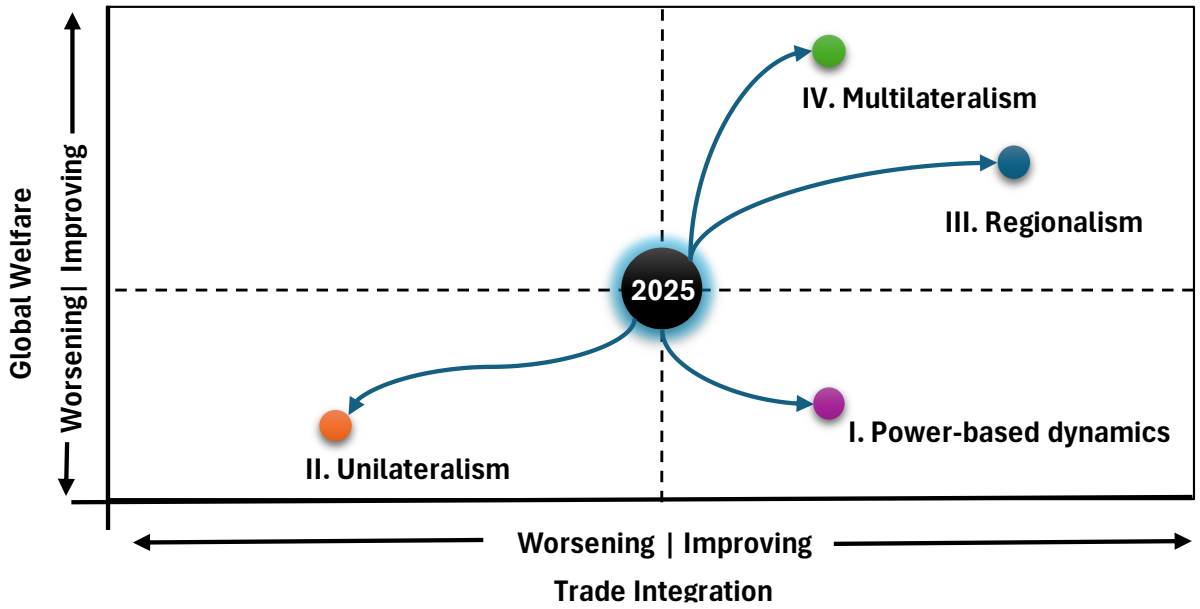
Table 1 describes the likely outcomes of each of the three areas corresponding to the three pillars of sustainable development (i.e., political economy, social, and environment) under each scenario. It summarises some of the underlying challenges and opportunities under each of the pillars, which are explored into greater depths in sections 2.2 to 2.5.

Table 1. Scenarios 2025-2040

Political Economy	Social	Environment
Power-based route		
Multitrack world: Fragmented rules; modest progress; rising compliance costs.	**Frayed commons, societal decline**: Strained safety nets; falling wages; trust erosion.	**Extreme events, slow adaptation**: Emissions plateau; extreme events escalate; adaptation lags.
Unilateral route		
Fortress autonomy, standards rivalry: Fortress policies; rival standards; cross-bloc trade shrinks.	**Walled gardens, uneven resilience**: Insider welfare; dual markets; regional inequalities deepen.	**Green islands, defensive adaptation**: Decarbonised islands; leakage rises; defensive adaptation dominates.
Regional integration route		
Convergence clubs, mesoregional solutions: Intra-bloc convergence; inter-bloc frictions persist.	**Regional safety nets, civic resilience**: Intra-regional portable social benefits; credential recognition; trust improves regionally.	**Green corridors, bio-regional stewardship**: Green corridors scale; shared MRV; nature compacts expand intra-regionally.
Multilateral route		
Resilient multilateralism, open standards: Restored multilateral trade system; interoperable standards lower frictions globally.	**Inclusive resilience compact, mobility with dignity**: Shock-responsive systems; mobility with dignity; inequality narrows.	**Net-zero compact, nature-positive pivot**: Carbon governance alignment; rapid clean deployment; measurable biodiversity gains.

Overall, the expected pathways to trade integration under different scenarios are given in **Figure 9**. It illustrates the weakening of trade integration and trade outcome indicators in scenario II (unilateralism). All other scenarios lead to continued momentum in trade integration, although the speed of integration differs, with scenario I (power-based dynamics) leading to the slowest gains, followed by scenarios IV (multilateralism) and III (regionalism). The slow pace of change for scenario IV (multilateralism) is due to the time it takes to reach consensus, the lower depth and scope of commitments in negotiated outcomes, and the longer transition phases for implementation (often contingent on receiving aid for trade support).

Figure 9. Foresight pathways of trade integration under different scenarios 2025-2040



Scenario I - Power-based route: Trade integration inches forward through ad-hoc cooperation based on perceptions of interests and relative power, but fragmentation and volatile shocks keep costs high, increasing compliance burdens for economic operators, thereby reducing overall welfare. Meanwhile, gains are uneven and prone to reversal based on relative power and coercion.

Scenario II - Unilateral route. States increase use of subsidies, controls, and data localisation, pushing friend-shoring and standards wars; cross-bloc trade contracts and supply chains are duplicated. Integration retreats as firms build captive regional or national networks to serve fragmented markets, leading to higher costs.

Scenario III - Regional integration route. Blocs deepen ties through mutual recognition, digital connectivity, and green corridors, thereby smoothing and promoting intra-regional trade growth. Yet inter-bloc frictions persist, limiting diversification and keeping cross-region compliance costly.

Scenario IV - Multilateral route. Interoperable rules established, dispute settlement restored, and shared digital/ green standards cut global trade costs and improved SME participation. Cross-border networks scale efficiently, accelerating the integration of goods and services through 2040.

Source: Author

2.2 Scenario I: Power-based dynamics - A world adrift

In this scenario, countries pursue incremental, risk-averse adjustments, allowing fragmented rules and weak reforms to persist despite mounting systemic pressures.

By 2040, the world will have settled into an uneasy equilibrium of fragmented progress and recurrent crises. Geopolitical competition between established powers and rising economies fractures the international order into competing spheres of influence, where information manipulation and surveillance constrain innovation in authoritarian systems while weakly regulated democracies struggle with disinformation epidemics. The WTO remains sidelined as mercantilist policies dominate, producing only modest plurilateral agreements that fail to reverse rising trade barriers and regionalisation. Global value chains expand incrementally, but compliance costs surge as businesses navigate incompatible regulatory frameworks across markets. Dollar dominance may persist but weakens as global debt spirals, while headline inflation lurches unpredictably with each energy shortage, harvest failure, or logistics disruption.

Productivity growth remains subdued despite selective automation and reshoring, as persistent uncertainty delays capital investments that could drive meaningful efficiency gains. Debt overhang persist and the dollar continues to dominate trade and financial flows. This is an especially acute challenge for some countries, such as Laos or Sri Lanka, which had debt-to-GDP ratios above 90% in 2025, with US dollar-denominated repayments affecting reserves.

In the social domain, the fraying of shared institutions accelerates. Historically, technological disruptions - from mechanized agriculture to industrial automation to digital transformation - demonstrated that while aggregate productivity and wealth increased over multi-decade periods, the transition phases often saw labour displacement with prolonged adjustment costs, especially for workers with non-transferable skills.[60] Under an uncoordinated scenario, strong expansion of automation and artificial intelligence (AI) eliminates jobs faster than new economic sectors emerge, driving down wages and swelling precarious employment. Misinformation fuels distrust of traditional institutions. Overwhelmed welfare systems buckle under cost-of-living shocks and mounting health burdens, while inadequate safety nets leave populations vulnerable to successive crises. Migration dominates political discourse as climate displacement, conflict, and economic desperation push millions across borders, fuelling nationalist backlash and policy paralysis. Gender and skills gaps widen dramatically as inequality deepens within nearly all countries, eroding the middle class and concentrating wealth among narrow elites. Trust in institutions continues to collapse, with thriving misinformation ecosystems driving periodic social unrest and democratic backsliding that paralyse coordinated responses to displacement and social protection needs.

In the environmental domain, emissions plateau rather than decline, while natural carbon sinks weaken from accumulated stress, locking in escalating heatwaves, flooding, and wildfire frequency that compound human suffering and economic losses. Biodiversity collapses locally as land conversion, ocean exploitation, and pollution overwhelm ecosystems, causing critical ecosystem services (pollination, water filtration, coastal protection, etc.) to fail in affected regions. Environmental, Social, and Governance (ESG) practices fragment across markets, with some requiring sustainable production while others ignore externalities. This fragmentation in environmental sustainability practices creates uneven competitive landscapes, with the lack of cooperation among sovereign states leading to a failure to address transboundary externalities.

Table 2. Power-based dynamics scenario outcomes 2040

Political Economy	Social	Environment
Multitrack world • **Geopolitics**: Competition between advanced economies and BRICs continues to fragment the geopolitical landscape; information disorder and surveillance stifle innovation in some economies,	**Frayed commons, societal decline** : • **Employment:** Continued drive for automation and AI leads to job losses at a faster pace than the creation of new sectors of the economy. A drop in wages is witnessed	**Extreme events, slow adaptation**: • **Climate change:** emissions plateau, sinks weaken; heat, floods, and wildfire risk compound the human, animal and economic costs

[60] Acemoglu, D.; Restrepo. P. (2019). Automation and New Tasks: How Technology Displaces and Reinstates Labor. Journal of Economic Perspectives—Volume 33, Number 2—Spring 2019—Pages 3–30; United Nations (2017). The impact of the technological revolution on labour markets and income distribution. Department of Economic & Social Affairs; McKinsey (2017). Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation; World Trade Organization (2017). World Trade Report. Trade, technology and jobs.

Political Economy	Social	Environment
while others remain weakly regulated. • **Trade & investment**: WTO sidelined; mercantilist sentiment continues; modest plurilateral outcomes reached; modest growth in GVCs; continued use of trade restrictive measures; increased regionalisation; differentiated rules increase compliance costs for businesses. • **Economics**: Dollar dominance remains, but strengths wane; global debt rises; Headline inflation remains volatile, driven by periodic energy, food, and logistics shocks; incremental reshoring and automation proceed without major scale effects; productivity growth is subdued, and capex is selectively delayed by uncertainty • **Digital economy**: Progress has been made in data governance and cybersecurity rules, but with divergent approaches. APTA members each tighten domestic digital regulations in different directions. Cross-border data becomes harder, not easier.	• **Welfare**: cost-of-living shocks, weak safety nets, health burdens overwhelm systems • **Migration:** Remains an important issue and dominates the political economy • **Inequality**: widening gender/skills gaps, and rising inequality in most countries • **Social unrest**: trust erosion continues to drive periodic unrest; thriving misinformation is accelerating democratic backsliding; paralysing coordinated responses to displacement and social protection.	associated with global warming. • **Biodiversity**: Biodiversity collapses from land/sea use and pollution; ecosystem services fail locally. • **Sustainability**: ESG practices and sustainable production are required in many but not all markets, leading to fragmentation and uneven distribution of the benefits.

2.3 Scenario 2: Unilateral route - Fortress worlds

Under the Unilateral route scenario, states prioritise national interests, leading to the adoption of beggar-thy-neighbour strategies and immiserating growth results from trade policies.

By 2040, the world will have splintered into walled economic and technological fortresses where strategic autonomy overrides cooperation. Security exceptions expand far beyond traditional defence to encompass technology transfers, data governance, food security, and healthcare, among others. Smaller states constantly hedge between competing power blocs through shifting tactical alliances that prioritise short-term advantage over stable partnerships. Data localisation mandates, sweeping export controls, and escalating subsidy wars fragment global commerce while investment screening regimes monitor both inbound and outbound capital flows. Cross-border trade withers under mounting compliance burdens that devastate Small and Medium Enterprises (SMEs), who are unable to navigate divergent regulatory mazes, while industrial policy drives aggressive reshoring that duplicates productive capacity and inflates unit costs. Price levels diverge sharply across fortresses as tariffs, export restrictions, and localisation requirements cascade through supply chains, creating sectoral overheating in subsidised industries while non-priority sectors languish. Public debt balloons due to subsidy outlays and

defensive infrastructure investments, yet productivity gains remain uneven, as duplicated capacity and fragmented markets prevent economies of scale. Rival technology stacks emerge as incompatible ecosystems. Source code access and algorithm disclosure become mandatory for market entry, while interoperability tools remain costly, ad-hoc solutions rather than standard infrastructure.

Aggressive industrial policies drive nations to reshore strategic production through massive subsidy programs that create duplicated manufacturing capacity across countries and industries, from semiconductors and batteries to clean energy equipment, resulting in global overcapacity. As subsidised industries fail to generate anticipated revenues while non-priority sectors stagnate without support, governments face ballooning fiscal deficits and mounting public debt from sustained subsidy outlays, yet politically. Yet, political pressures prevent subsidy withdrawal once industries and jobs become dependent on state support. This debt accumulation constrains future fiscal capacity to address other needs in the areas of climate adaptation, social protection, and infrastructure development. This creates a vicious, reinforcing loop in which subsidy commitments crowd out productive investments. At the same time, duplicated capacity prevents any country from achieving the scale economies to make reshored production economically sustainable.

In the social domain, fortress economies create stark insider-outsider divisions where protected sectors add employment with rising skills premiums while non-priority industries stagnate, deepening dual labour markets split between formal workers enjoying enhanced benefits and informal workers trapped without social safety coverage. Legal migration pathways narrow even as demographic ageing creates persistent labour shortages, with refugee integration becoming entirely contingent on host countries' political willingness and available fiscal space rather than humanitarian principles or economic logic. Credential recognition barriers and inadequate childcare infrastructure particularly disadvantage women and migrants, widening gender and regional inequality gaps. Social discontent concentrates in excluded regions and marginalised populations, amplified by politicised media ecosystems that transform grievances into polarised narratives. Coordination failures persist during shocks as fragmented governance structures cannot mount effective collective responses.

In the environmental domain, wealthy fortresses decarbonise electricity generation and transportation behind defensive border carbon adjustment mechanisms. As a result, emissions merely shift to less-regulated producers rather than decline globally, leading to a situation in which carbon leakage undermines climate progress while reinforcing economic fragmentation. Cross-border ecosystems degrade catastrophically as weak coordination allows each jurisdiction to prioritise narrow national interests over shared biospheres, with migratory species, watersheds, and ocean systems suffering accumulated neglect. ESG standards are becoming weapons of economic competition, enforced through procurement requirements and border adjustment tools, yet divergent verification regimes further fragment supply chains as producers struggle to demonstrate compliance across incompatible certification systems, raising costs while delivering uncertain environmental benefits.

Table 3. Unilateral route scenario outcomes 2040

Political Economy	Social	Environment
Fortress autonomy, standards rivalry	**Walled gardens, uneven resilience:**	**Green islands, defensive adaptation**:

Political Economy	Social	Environment
Geopolitics: Strategic autonomy dominates. Security exceptions expand to technology, data, food, and health-related measures. Alignments shift frequently as states adopt a hedging strategy to navigate between major powers. **Trade & investment**: Data localisation, export controls, and subsidy races intensify. Investment screening regimes expand inbound and outbound. Cross-bloc trade shrinks; compliance burdens rise for SMEs. Industrial policy accelerates re-shoring. Capital costs diverge across blocs. **Economics**: Price levels diverge as tariffs, export controls, and localisation pass through to costs; subsidy races create sectoral overheating while non-priority sectors stagnate; public debt grows with subsidy outlays; productivity gains are uneven; aggressive reshoring duplicates capacity and raises unit costs; overcapacity emerges in subsidised sectors **Digital economy**: Rival tech stacks emerge. Source-code access and algorithm disclosures become market-entry conditions. Interoperability tools are ad hoc and costly. Digitally delivered services across APTA suffer from fragmented regulatory frameworks, thereby restricting cross-border data flows.	**Employment**: Protected sectors add jobs; non-priority sectors stagnate. Skills premiums rise in sanctioned industries; dual labour markets (formal-informal)deepen. **Welfare**: Insider-focused benefits expand. Informal workers face social safety coverage gaps and higher out-of-pocket costs. **Migration**: Legal pathways narrow while labour shortages persist in hosting countries. Refugee integration depends on host ideology and fiscal space. **Inequality**: Regional and skills gaps widen. Women and migrants face credential barriers and childcare constraints. **Social unrest**: Discontent concentrates in excluded regions. Politicised media ecosystems amplify grievances; coordination failures persist during shocks.	**Climate change**: Richer economies decarbonise power and transport behind border measures. Leakage shifts emissions to less-regulated producers. **Biodiversity**: Cross-border ecosystems degrade due to weak coordination. **Sustainability**: ESG enforced through procurement and CBAM-like tools. Verification regimes diverge and fragment supply chains.

2.4 Scenario 3: Regional integration route – Block consolidation

Under the regional integration route, states concentrate cooperation within blocs rather than globally by harmonising rules and infrastructure regionally. Some countries may seek alliances and bilateral arrangements outside the bloc, which may or may not undermine it, while others tolerate continued frictions with trading partners outside regional blocs.

In the political-economy domain, the global order has reorganised into coherent regional blocs characterised by deepened intra-bloc cooperation coexisting with persistent inter-bloc frictions. Regional compacts anchor infrastructure investment, regulatory harmonisation, and coordinated

crisis response mechanisms that make intra-bloc relations predictable and efficient, even as inter-bloc tensions remain significant. Mutual recognition agreements expand within regions, enabling cross-border transactions and paperless trade systems that interoperate seamlessly across member borders, while conformity costs persist for firms navigating between blocs with incompatible standards. Intra-bloc supply chains (i.e., regional value chains) deepen around common technical standards and mutual recognition, shortening logistics networks to dampen price spikes during disruptions, though inter-bloc frictions keep prices elevated at external borders. Shared infrastructure investments and interconnected production systems drive meaningful manufacturing productivity improvements within regions, while digital integration advances through regional data-sharing agreements and converging technology governance frameworks, enabling cross-border identity verification and payment systems to achieve partial interoperability. While regionalism differs from multilateralism in the pace of advancement and integration among its members, it runs complementary tracks with multilateralism and can strengthen multilateral frameworks by addressing low-hanging fruit that requires collaboration in multilateral fora.

In the social domain, regional integration delivers tangible improvements in labour mobility and social protection, as credential recognition systems and portable skills programs enable workers to move easily across member countries, while technical and vocational education aligns with regional standards through employer co-financing, ensuring training relevance. Basic social benefits gain cross-border portability for residents and documented migrants, supported by shock-responsive funds linked to regional early-warning systems that automatically deploy assistance during crises. Legal migration pathways and talent partnerships expand across blocs, with host communities receiving predictable co-financing for integration services, reducing local resentment and improving outcomes. Inequality gaps narrow measurably within blocs, particularly in economic corridors benefiting from enhanced connectivity, though peripheral areas still risk exclusion without targeted investments that connect them to regional networks. Regional media codes and collaborative fact-checking pools substantially reduce the circulation of misinformation, rebuilding civic trust as improvements in service delivery become visible to populations.

In the environmental domain, bloc consolidation enables transformative infrastructure coordination: cross-border electricity grids and energy storage systems achieve economies of scale that accelerate renewable energy deployment, while Measurement, Reporting, and Verification (MRV) systems enhance intra-bloc interoperability, reducing compliance burdens. Transboundary watershed and habitat compacts proliferate as neighbouring countries recognise shared interests in ecosystem preservation, contracting nature-based solutions with common metrics and results-based payments that align incentives across borders. Regional environmental taxonomies and disclosure standards eliminate regulatory duplication, allowing suppliers to meet a single coherent rule set across blocs rather than navigating contradictory national requirements, thereby substantially lowering verification costs and improving environmental outcomes through consistent enforcement.

Table 4. Regional integration route scenario outcomes 2040

Political Economy	Social	Environment
Convergence clubs, mesoregional solutions: **Geopolitics**: Regional compacts deepen cooperation on	**Regional safety nets, civic resilience**: **Employment**: Labour mobility improves through credential	**Green corridors, bio-regional stewardship**: **Climate change**: Cross-border grids and energy

Political Economy	Social	Environment
infrastructure, standards, and crisis response. Inter-bloc frictions remain significant but predictable. **Trade & investment**: Mutual recognition expands within regions. Single-window and paperless trade interoperate intra-bloc. Inter-bloc conformity costs persist. Ambitious reduction in restrictions for investment and trade in services. **Economics**: Intra-bloc supply chains shorten price spikes, though inter-bloc frictions keep prices elevated at borders; RVCs deepen around common standards and MRAs; shared infrastructure and interconnected systems improve manufacturing productivity **Digital economy**: Regional data-sharing agreements and AI governance converge. Cross-border identity and payments achieve partial interoperability. Mutual recognition of e-signatures, trusted services etc, voluntary standards are adopted on cross-border data flows.	recognition and portable skills wallets. Technical and Vocational Education and Training (TVET) aligns with regional standards and employer co-financing. **Welfare**: Basic benefits gain cross-border social protection portability for residents and documented migrants. Shock-responsive fund links to regional early warning systems. **Migration**: Legal pathways and talent partnerships expand within regions. Host-community services receive predictable co-financing. **Inequality**: Gaps narrow inside blocs, especially at borders and corridors. Peripheral areas still risk exclusion without feeder investments. **Social unrest**: Regional media codes and fact-checking pools reduce misinformation and disinformation risks. Trust improves where delivery is visible.	storage scale. Renewable energy accelerates. MRV achieves intra-bloc interoperability. **Biodiversity**: Transboundary watershed and habitat compacts grow. Nature-based solutions are contracted with shared metrics and payments for outcomes. **Sustainability**: Regional taxonomies and disclosure standards reduce duplication. Suppliers meet one set of rules per bloc, lowering verification costs.

2.5. Scenario 4: Multilateral route - Global renewal

Under the Multilateral route, states coordinate through interoperable rules and shared institutions, which prioritise collective problem-solving to reduce global frictions and leave no one behind.

In the political-economy domain, crisis-tested multilateralism is pragmatically reformed and revitalised, with nations recognising that interconnected challenges demand coordinated solutions. Interoperable standards and expanded mutual recognition dramatically reduce trade frictions. Modernised dispute settlement mechanisms restore confidence in rules-based trade forums, while plurilateral initiatives remain deliberately open and expandable rather than exclusive clubs. Repaired global logistics networks, converging standards, and lower trade costs anchor inflation expectations worldwide as reduced policy uncertainty compresses risk premiums and channels investment toward cross-border infrastructure with strong governance frameworks. Debt sustainability improves as coordinated growth strategies lift revenues while open standards enable globally scalable manufacturing that accelerates diffusion and learning curves, delivering broad-based productivity gains rather than concentrating benefits among early adopters. Digital economy governance centres on trusted data transfer frameworks, while safety baselines

promote technological interoperability, enabling SMEs to access technological advancements that dramatically lower entry barriers and operational costs.

In the social domain, an inclusive resilience compact transforms safety nets and mobility frameworks, while skills portability expands through global competency frameworks, enabling workers to carry credentials across borders. Scaled public-private upskilling programs in essential and green sectors prepare populations for economic transitions, creating job security in the face of changes. Shock-responsive cash transfers are automated and linked to early-warning systems, enabling immediate delivery of support during crises. Regular migration pathways expand substantially with recognised work rights and shared financing mechanisms, while displaced people gain standard access to education and healthcare regardless of legal status, reflecting shared responsibility for humanitarian protection. Gender and skills gaps narrow measurably through investments in universal childcare, streamlined skill certifications, and targeted cash or support programs, with coordinated development assistance and improved outcomes in historically lagging regions. Information-integrity norms and mandatory audited platform transparency substantially reduce manipulation and viral disinformation, rebuilding civic trust as reliable service delivery demonstrates government effectiveness.

In the environmental domain, a net-zero compact with nature-positive commitments drives synchronised decarbonization as carbon pricing interoperates across jurisdictions and power-market integration enables renewable energy to flow where needed. Global biodiversity finance directly funds verified restoration outcomes and deforestation-free supply chain transitions, with transparent monitoring and third-party auditing to ensure accountability and prevent greenwashing. Environmental, social, and governance standards converge on materiality principles and common assurance frameworks. Embedded-carbon measurement, reporting, and verification links directly to customs systems, enabling efficient border adjustments that reward clean production without fragmenting markets, creating powerful economic incentives aligned with planetary boundaries.

Table 5. Multilateral route scenario outcomes 2040

Political Economy	Social	Environment
Resilient multilateralism, open standards: **Geopolitics**: Crisis learning enables pragmatic multilateral fixes. **Trade & investment**: Interoperable standards and mutual recognition reduce friction. Dispute settlement is restored and modernised. Plurilateral initiatives remain open and expandable. **Economics**: Repaired logistics, interoperable standards, and lower trade costs anchor inflation expectations globally; lower policy uncertainty reduces risk premia. Investment flows to cross-border networks with strong governance.	**Inclusive resilience compact, mobility with dignity:** **Employment**: Skills portability increases through global competency frameworks. Public–private upskilling scales in essential and green sectors. **Welfare**: Shock-responsive cash is automated. Primary care integrates mental health, reducing long-tail burdens. **Migration**: Regular pathways, recognition, and work rights expand with shared financing mechanisms. Education and health access have become standard for displaced people.	**Net-zero compact, nature-positive pivot**: **Climate change**: Carbon pricing and power-market integration accelerate decarbonisation. Clean-tech costs fall faster with pooled procurement and facilitated technology transfers. **Biodiversity**: Global finance pays for verified restoration and deforestation-free supply chains. Monitoring is transparent and third-party audited.

Political Economy	Social	Environment
Debt sustainability improves with growth. Open standards and mutual recognition enable globally scalable manufacturing with higher diffusion and learning curves; productivity gains become broad-based. **Digital economy**: Data transfer rules converge on trusted frameworks. AI assurance and safety baselines interoperate. SMEs access technological advancements to lower barriers to access and costs in the digital economy.	**Inequality**: Gender and skills gaps narrow with childcare, credentialing, and targeted transfers. Outcomes improve fastest in lagging regions. **Social unrest**: Information-integrity norms and audited platform transparency reduce manipulation. Trust rebounds as services deliver reliably.	**Sustainability**: ESG converges on materiality and assurance standards. Embedded-carbon MRV links to customs, enabling efficient border adjustments and incentives.

2.6. Cross-cutting theme: Impact of digitalisation and AI on productivity, competitiveness and jobs

The scenarios are intentionally high-level to establish overarching global conditions and directional trends across political economy, social, and environmental domains. This same approach can be applied to envision specific outcomes for individual policy areas or technologies within each domain-scenario combination, generating granular insights to inform targeted strategies. While the digital economy will more generally transform economies and influence their political, social, and environmental dimensions (see box 1), AI is viewed as especially transformative in each of these areas, to the extent that it could fundamentally challenge humanity's existence.

Box 1. Expert's insights: Mia Mikic, ARTNeT Advisor at Large, Research Associate, Waikato University, New Zealand

Digital trade, especially digitally delivered services and data-intensive trade, is among the few trade segments still expanding rapidly despite wider global fragmentation. For APTA members, cross-border data flows, digital services, and digital inputs embedded in goods are increasingly central to competitiveness. The main regional gains come from a lowering of transaction and compliance costs for firms, supporting SMEs join regional value chains through cheaper market access and scalable digital delivery, and diversifying trade patterns beyond merchandise trade that remains highly China-centric for many APTA members.

Without greater alignment, APTA economies face rising regulatory distance—driving up compliance costs and functioning as de facto non-tariff barriers (e.g., divergent data rules, incompatible cybersecurity requirements, unclear conditions for cross-border digital services). Excessive divergence may deepen dependence on a single partner (China) and weaken the region's ability to build its own digital competitiveness. Some regulatory distance is a legitimate choice of sovereignty, but excessive divergence is economically costly.

APTA currently has no dedicated, binding digital trade architecture, relying mainly on general WTO/UN instruments. Members have not aligned on data governance, digital IDs, cybersecurity frameworks, or interoperable, cross-border, paperless trade beyond a few limited existing frameworks, such as ESCAP's Paperless Trade initiative. As a result, APTA's digital "distance" is widening, not narrowing, with some members moving into digital economy agreements, while others remain on the periphery of standards-setting.

The section below presents an example of Artificial Intelligence (AI) by examining how countries respond under each scenario's distinct governance logic and the corresponding outcomes for productivity gains, skills development, and distributional effects.

Business as Usual: Fragmented adoption, uneven gains

Under incremental progress punctuated by volatility, AI adoption follows a patchwork pattern in which early adopters, whether firms or sectors, achieve significant productivity gains, while laggards fall further behind, thereby widening productivity dispersion within and across economies. Advanced economies' productivity improvements in knowledge-intensive sectors (finance, professional services, software development), but struggle with regulatory uncertainty that slows deployment in healthcare, education, and public services. Job displacement is concentrated in routine cognitive tasks, such as data entry, basic analysis, and customer service, while job creation in AI development, implementation, and oversight remains concentrated in high-skilled urban centres, exacerbating spatial and educational inequality. Countries respond inconsistently: some implement modest reskilling programs, while others provide minimal support, creating a muddle-through labour transition in which displaced workers face prolonged unemployment or underemployment in lower-productivity sectors. Countries see divergent outcomes – more advanced economies and early adopters achieve substantial gains through coordinated industrial AI strategies and AI services exports, while less ICT-mature and laggards experience productivity stagnation as limited digital infrastructure and skills prevent effective adoption, widening the intra-regional development gap. Latecomer advantages for laggards in AI adoption may still be possible if they move deliberately by piggybacking on cheaper, better models with proven use cases, open standards, and mature governance to scale faster with lower risk and cost.

Unilateral Route: Winner-takes-all AI race

In a mercantilist environment, countries pursue AI supremacy as strategic competition, leading to duplicative investments, technology hoarding, and fragmented standards that reduce global productivity gains while concentrating benefits among technological leaders. Major economies dominate AI development through massive state investments and data advantages, generating significant productivity gains in targeted strategic sectors (defence, surveillance, advanced manufacturing) within isolated global technology ecosystems with limited interoperability. Smaller economies face difficult choices: adopt dominant platforms (sacrificing technological sovereignty), pursue autonomous development (inefficient resource allocation), or remain technologically dependent (perpetual productivity lag). Job displacement accelerates as countries race to automate to gain competitive advantage without coordinating workforce transitions, while job creation remains nationally siloed in a handful of technology hubs. Export-oriented manufacturing in developing economies faces severe disruption as automated production in high-income

markets reduces incentives to offshore, while these countries lack the capital and expertise to deploy competitive AI systems domestically. Countries respond with protectionist measures, including data localisation requirements, AI export controls, and discriminatory procurement practices, thereby further fragmenting the global AI ecosystem. This leads to an overall reduction of productivity potential while creating zero-sum competition for AI talent and investment that smaller economies cannot win.

Regional Integration Route: Coordinated AI strategy

Regional cooperation enables countries to pool resources, share AI development costs, and coordinate workforce transitions to achieve productivity improvements across all countries through technology transfer and joint deployment strategies. Tech-savvy economies lead in platform development and manufacturing automation, while establishing technology-sharing agreements that provide smaller economies with subsidised access to AI tools, thereby accelerating adoption timelines compared to unilateral approaches. Job displacement happens in traditional roles but is offset by coordinated workforce programs: regional AI skills certification recognised across member countries, cross-border placement services connecting displaced workers with emerging opportunities, and shared adjustment financing that supports retraining without requiring individuals to bear full costs. Regional blocs establish common AI governance standards for algorithmic transparency requirements, data protection protocols, and liability frameworks, reducing compliance costs for firms operating across multiple member markets while preventing a regulatory race to the bottom. Productivity gains are distributed evenly across regions as agricultural AI adoption (precision farming, yield optimisation) benefits rural populations, logistics automation improves connectivity, and manufacturing co-bots enable countries to move up the value chain. However, inter-bloc friction persists because regional AI systems remain incompatible, leading to efficiency losses in global trade while strengthening intra-regional economic integration.

Multilateral Route: Inclusive AI diffusion

Global cooperation through reformed multilateral institutions enables broad agreement on principles for AI usage, technology transfer, coordinated governance, and workforce transitions that maximise AI's productivity benefits while minimising displacement harms. The agreement, starting from a plurilateral route, requires watering down ambitions to reach consensus. Implementation of commitments is phased, with different paces depending on countries' capacities. Assistance is provided to less-developed countries that require capacity-building support. In an ideal outcome, international agreements would establish AI technology-sharing mechanisms that provide developing countries access to foundational models, computing infrastructure, and implementation expertise at subsidised costs, enabling them to deploy sophisticated AI systems within an accelerated timeline. Job displacement happens as automation proceeds gradually due to coordinated labour protections and just transition requirements, while job creation distributes globally with AI implementation roles emerging across all countries as technology diffuses widely, digital platform work becomes accessible to populations with internet connectivity regardless of location, and AI-augmented services (education, healthcare, creative industries) expand employment in previously underserved markets. A global, coordinated workforce transition program with shared financing supports retraining, income protection during transitions, and cross-border job matching. Could be envisaged. Global AI governance standards on algorithmic accountability, data protection, bias mitigation, and related areas become internationally recognised, reducing compliance

fragmentation and enabling firms to deploy AI at scale across markets. Productivity gains translate more directly into broad-based wage growth as coordinated labour standards prevent AI deployment from becoming purely a tool for labour substitution, instead requiring human-AI collaboration models that augment worker capabilities, maintain employment levels, and improve output quality while reducing human interactions with more repetitive tasks.

3. The way forward: Bring it home to APTA

The four scenarios provide a glimpse into different futures, ranging from marginalisation in fortress worlds, where current regional configurations fragment along great-power alignments, to leadership opportunities in regional integration and multilateral renewal, where coordinated positions shape global rule-making. The success of the best-case scenario - the multilateral route - depends on major economies recognising that **global challenges require global solutions** and accepting the sovereignty constraints and financial commitments that effective multilateralism demands. APTA members, by demonstrating that South-South cooperation can achieve remarkable results while actively championing inclusive multilateralism in global forums, can tip the balance toward renewed global collaboration. Regional integration is also a primary channel and framework for promoting peace and security across APTA, via investment and trade flows. In conclusion, regional integration is a means of building a cooperative solution across the three pillars (political economy, social, and environmental).

The alternative of fragmentation into competing blocs, or, worse, uncoordinated national responses, leads to dystopian outcomes: disorganised scenarios (unilateral and power-based routes). Given its membership, APTA's policy choices over the next decade will likely have knock-on effects beyond the region's cooperation trajectory. It should be noted that some areas of cooperation are likely to be more difficult than others. Labour mobility, mutual recognition and portability of skills are cases in point. Furthermore, the described scenarios contain utopian elements; however, in reality, a combination of events from one or more of them may occur. There are nuances in each scenario and a spectrum of outcomes, including dynamic shifts and possible coexistence across regions, necessitating careful analysis of trade-offs to deliver optimal outcomes.

A major challenge towards building regional integration efforts with significant infrastructure and policy challenges, such as those faced by APTA, is that political will and policy alignment is needed, which appear to become more pronounced in some areas in recent times. This said, the political economy challenges, including those of finding a level of comfort in opening the Indian and Chinese economies to each other, have been raised in section 2 of this report. Another challenge is the decline in aid-for-trade flows since 2024. The US, UK, Federal Republic of Germany, and Canada have all signalled a shift in public funding priorities away from overseas development assistance. Moreover, the secondary benefits of aid-for-trade financing also mean a shifting priority towards direct bilateral relationships between donor and recipient countries. While this does not suggest that regional integration efforts will not be supported, the financing gap for capacity building is likely to be greater than ever. It will require more ambitious commitments from beneficiary countries.

The outcomes from the different scenarios will affect countries very differently due to the heterogeneity of the country characteristics across APTA. Landlocked developing countries (LLDCs), such as Laos and Mongolia, are highly dependent on their neighbours as transit corridors but also as destination markets for exports and sources of supply for imports. Removing frictions to trade, including those related to tariffs and trade facilitation, is an essential goal for such countries. Bangladesh, a soon-to-graduate least developed country (LDC), has been dependent on preferences granted by developed countries, but will also rely on those same markets in APTA for its exports post-graduation in 2026. APTA further integration efforts will help lift industries and the economy of Bangladesh. The two most prominent members – India and

China - have significant geopolitical differences, but there are large economic gains to be made from improving trade and investment linkages and removing barriers to trade and investment flows. Finally, with the proper framework for regional integration, a developed market such as the Republic of Korea could become a major driver of investment, technological transfer and a source for building value chains across the region. While each country would require a differentiated approach across different timelines for regional integration, each has significant interests in promoting convergence on trade rules.

Box 2. Expert's insights: Enkhbold Vorshilov, Advisor, Department of International Trade & Economic Diplomacy, Ministry of Foreign Affairs, Mongolia

Fragmentation and geopolitical as well as geo-economic rivalries are increasingly shaping global and regional trade dynamics. For land-locked, resource-rich, and small vulnerable economies, these forces directly affect market access, participation in global and regional value chains, transit freedom, and overall economic resilience. As multilateral rules weaken and mercantilist strategies gain traction, international trade is increasingly driven by security and strategic considerations rather than purely economic objectives. While this environment introduces uncertainty, it also presents opportunities for deeper regional cooperation and South–South partnerships.

Rising tensions among major powers, combined with the emerging 5th Industrial Revolution—powered by AI, automation, renewable energy, and advanced digital technologies—are intensifying competition for energy commodities, critical minerals, rare earth elements, and secure supply corridors.

The WTO remains constrained by its stalled dispute settlement mechanism, while coalitions such as BRICS expand their influence and the Bretton Woods institutions face governance challenges. These dynamics contribute to heightened competition over technological leadership, energy security, and access to strategic resources among powers.

Fragmentation could worsen if geopolitical or geo-economic rivalries escalate, sanctions deepen, or global institutions erode. Conversely, convergence may arise through strengthened economic diplomacy, North–South and South–South cooperation, and revitalised regionalism that complements a rules-based global order.

Looking toward 2040, the best-case scenario envisions strengthened, rules-based regional integration, a revitalized WTO, and comprehensive frameworks such as the RCEP and a modernized APTA covering trade facilitation, digital trade, sustainability, investment, and services. APTA becomes a leading platform for South–South cooperation and resilient supply chains. The worst-case scenario involves stagnation or abandonment of APTA, with persistent fragmentation.

To realize the best-case outcome, APTA must evolve into a comprehensive economic integration framework that harmonizes standards, digitalizes customs and border management, promotes sustainable trade, and ensures predictable business environments. Strong political will from member countries, rebalanced global governance structures, and inclusive multilateralism are essential.

Several policy considerations for APTA members across the three domains are to foster regional cooperation and put APTA in a more proactive role in driving the multilateral cooperation agenda.

3.1. Trade ambitions: APTA as a bulwark against fragmentation

APTA member countries, collectively representing over 3 billion people and spanning diverse levels of development, possess a unique capacity to demonstrate that regional cooperation can counter global fragmentation. APTA presents not only opportunities in trade and investment but also significant opportunities to influence geopolitical directions in these areas and can be viewed as having the strategic potential of becoming one of the most influential regional groupings if alignment can be reached. The first critical policy response involves transforming APTA from its current preferential tariff agreement into a comprehensive regional integration framework that aligns with regulatory standards, simplifies customs procedures, and creates a predictable business environment resistant to external shocks. The depth of regional value chains serves as a good starting point to make progress towards further convergence. With restrictions on trade in services still prevailing in many economies in the Asia Pacific, pursuing an ambitious agenda to remove barriers to services trade will create opportunities for services trade and digitally delivered services, and enhance competitiveness across economic sectors (the so-called *servisification* of industries). Furthermore, convergence should extend to *digital economy governance* within a regional framework that balances privacy protection, cross-border data flows, and developmental needs, serving members' interests rather than external powers' strategic goals. A helpful foundation for digital trade regulations is building on cross-border trade in services commitments. APTA should consider, at a minimum, principles on AI, but preferably a binding agreement that covers AI-safety standards that promote innovation and trust, such as those adopted in 2019 and updated in 2014 by the OECD[61]. Currently, no APTA members have adopted these principles, despite APTA's openness to non-OECD members. While no framework has been adopted so far by ASEAN, ASEAN has produced a guide on AI Governance and Ethics[62], which may be a softer approach towards reaching a regional consensus before aiming for a binding agreement.

Deepening intra-APTA economic integration requires moving beyond tariff preferences to address non-tariff barriers that actually constrain commerce. APTA members can build on comprehensive trade facilitation frameworks such as the WTO Trade Facilitation Agreement and the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific to *digitize customs procedures*, operate *interconnected single windows* for import/export documentation, and create *authorized economic operator programs* with *mutual recognition* to allow rapid movement of goods across APTA borders with minimal inspections or disruptions. Recognizing that least developed APTA members face capacity constraints in implementing sophisticated trade facilitation measures, the agreement should include *dedicated technical assistance* funded by more developed members to finance infrastructure upgrades, train customs officials, and deploy digital systems. The UN's Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific (CPTA) provides a foundation for digitalizing border agency documentary requirements and processes. Four APTA members have ratified the CPTA, namely, Cambodia, China, Mongolia and the Republic of Korea.

With industrial policy objectives increasingly prioritized by policymakers, the trade policy and industrial policy nexus needs to be well articulated in the APTA vision and priorities, with cross-border regional value chains at the forefront of this process. Cooperation among members on industrial policy and linking this to servicification strategies under the trade in services agenda will

[61] OECD (n.d.) AI Principles. OECD: Paris
[62] ASEAN (2024) ASEAN Guide on AI Governance and Ethics. ASEAN Secretariat: Jakarta.

be effective instruments to further promote APTA's already strong competitiveness. It needs to deliver results across all its members while targeting sustainability and inclusion in the design of its instruments.

Protecting APTA's integration agenda from drifting into oblivion requires explicit political commitments, especially from its larger members – China and India, through balancing sovereignty concerns with shared governance principles. The role that the larger members can play is significant in providing impetus, resources and policy direction. While Republic of Korea has traditionally been funding many of the capacity-building and technical assistance projects linked to APTA, other large developing countries should also play a more active role to build capacity and identify entry points for deeper integration on key priorities in the region. In this context, *participative and transparent trade policy-making processes* can be promoted by increasing consultation with business associations, trade unions, and consumer advocacy groups to provide feedback on trade policies, recognizing that effective regional integration requires active participation from non-state actors who understand market realities. Furthermore, established *procedural norms*, such as publishing draft regulations for public comment, conducting impact assessments before major policy changes, and providing explanations of decisions, can help create accountability and predictability.

Investment policy coordination becomes essential given the growing trend of investment screening and financial sanctions.[63] Rather than competing to offer the most generous tax holidays and regulatory forbearance, APTA members should coordinate investment incentives and establish *common minimum standards for labour rights, environmental protection (e.g., labour and environmental cooperation framework), and tax obligations (e.g.*, tax cooperation treaties). This coordination extends to screening foreign investment from non-APTA countries: members should share information on investments with security implications, coordinate responses to predatory investment practices, and jointly negotiate with major investors to prevent playing members against each other. An ***APTA Investment Insurance Facility***, similar to the Multilateral Investment Guarantee Agency (MIGA)[64] but being regional in scope, it can provide political risk coverage for intra-APTA investments, for example, by encouraging Republic of Korea firms to invest in Bangladesh manufacturing and Chinese companies to develop Mongolian infrastructure with confidence. The governance and financing of such a facility would need to be established during its design phase.

APTA already has a legal scaffolding, comprising framework agreements on investment, services, and trade facilitation, that can be "activated" through annexes, protocols, mutual recognition arrangements, etc., to serve as a basis for deepening regional cooperation. Existing bilateral tax treaties and members' participation in the BEPS Inclusive Framework (only Bangladesh and Lao PDR are currently not members) provide immediate tools to promote consistency and transparency across jurisdictions. Building on these existing instruments, APTA can deepen cooperation by focusing on implementation and interoperability.

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[63] UNCTAD (2023). The Evolution of FDI Screening Mechanisms – Key trends and features. Investment Policy Monitor.
[64] Established in 1988, MIGA is an investment insurance facility to encourage confident investment in developing countries. The Agency provides guarantees against non-commercial risk (i.e., political risk insurance, credit enhancement products, and trade finance guarantees) to investors and lenders to facilitate the flow of foreign investment in developing countries and lift people out of poverty. See World Bank (2025). Annual Report 2025 - Multilateral Investment Guarantee Agency (MIGA).

3.2. Social: building regional resilience through shared prosperity

APTA's social policy responses should recognize that economic integration without attention to distributional consequences and social protection creates political backlash that undermines cooperation. The most immediate priority is to establish a Regional Labour Mobility Framework that creates legal pathways for workers to move to where opportunities exist, while protecting their rights and ensuring the portability of social benefits. Given vast wage differentials across APTA (e.g., Bangladeshi garment workers earn 10% of Korean manufacturing wages[65]), unmanaged migration could create political contentions. Instead, APTA may implement sector-specific mobility schemes modelled on Mutual Recognition Arrangements (MRAs) by the Association of Southeast Asian Nations (ASEAN) or the European Union, starting with high-skill sectors or in-demand expertise (ICT professionals, healthcare workers, engineers), then gradually expanding to construction, agriculture, and care work. To ensure the social safety net for migrant laborers moving within APTA under these schemes, the establishment of *portable social insurance system*[66] that pools contributions across host and home countries can ensure that workers maintain pension accrual, health coverage, and unemployment protection regardless of where they work.

Addressing the skills gap requires unprecedented regional cooperation on education and training. APTA should establish a ***Regional Skills Development Network*** that coordinates vocational training curricula across members, ensuring that skills certifications earned in Bangladesh are recognized in India and Republic of Korea. This network can move beyond traditional vocational training to emphasize skills necessary for economies undergoing rapid technological change, such as digital literacy, adaptive learning capabilities, and entrepreneurship. More developed APTA members (Republic of Korea, China) possess advanced technical education systems that could support capacity building in less developed members. This support can be formalized through educational exchange programs, twinning arrangements between technical universities, and digital learning platforms that deliver technical training content. Critically, this skills development agenda should prioritize women and rural populations who face greatest barriers to economic participation, with targeted programs addressing childcare constraints, cultural barriers, and infrastructure deficits that limit their training access.

Healthcare cooperation becomes vital as systems across APTA face converging pressures from aging populations (particularly acute in China and Republic of Korea), rising chronic disease burdens, and pandemic threats that ignore borders. In this context, a **Regional Health Security Framework** can help pool epidemic surveillance, coordinate vaccine and medical supply production, and create mutual assistance mechanisms for health emergencies. Concretely, this would entail real-time sharing of disease outbreak data through Health Information Systems; technology transfer agreements to support generic manufacturing capacity in less developed markets; and pre-positioned medical supply stockpiles available for rapid deployment to members facing emergencies. These mechanisms require sustained regional funding to ensure that preparedness investments occur during calm periods rather than only during crises. Given the mix of countries with R&D and manufacturing capacity and provision of medicines in public health

[65] According to recent reports and salary data, the minimum salary for the garment workers in Bangladesh in 2023 is Tk 12,500 (~USD 102). Meanwhile, Republic of Korea's national minimum wage for 2025 is KRW 10,030 per hour (~USD $7.48), which translates to KRW 2,096,270 per month (~USD 1,563) (based on 209 working hours).
[66] ASEAN also provide example of an early consideration for such scheme. See ASEAN (2024). ASEAN Guidelines on Portability of Social Security Benefits for Migrant Workers in ASEAN.

emergencies, a cooperation chapter on health, expanding on the existing trade cooperation framework, can be considered.

Social protection portability extends beyond labor mobility to create safety nets that function across the region. APTA members may consider negotiating a **Social Security Coordination Agreement**[67] that allows workers who have contributed to systems in multiple APTA countries to aggregate contributions for pension eligibility, claim unemployment benefits based on combined work history, and access healthcare using home country insurance while temporarily in other APTA countries. This requires significant technical coordination to link national social security databases, establishing contribution transfer mechanisms, and agreeing on benefit equivalence formulas, but, if done, will create enormous value by protecting mobile workers and reducing barriers to labor mobility that constrain economic efficiency. Technical support can be anticipated for less advanced APTA members with limited social protection systems to establish foundational systems (national identification, contribution collection, benefit disbursement) necessary for regional coordination.

Gender equality and social inclusion (GESI) are another priority for achieving inclusive regional economic integration. As a practical approach, APTA should **mainstream GESI** into all regional initiatives: trade facilitation measures with specific measures to support female traders and women-owned businesses, labor mobility schemes with measures to support for accessibility by female, youth, and indigenous workers, infrastructure investments especially for socio-economically disadvantaged regions, etc.

The demographic complementarity among APTA members can underpin labour mobility in selected sectors, such as health care, and in specific segments, such as geriatric care. Within the regional health security framework, APTA members may consider issuing common positions in global and regional platforms on global public good issues - such as health, environment, food security - to provide a basis for deeper integration and cooperation going forward. As the mix of countries involves different levels of development, the messaging can be position as a strong South-South voice on global concerns.

3.3. Environment: collective climate action and resource management

APTA's environmental policy responses must acknowledge that member profiles encompass both high-emissions and climate-vulnerability characteristics, which will shape both shared interests and potential conflicts. All APTA members have made ambitious commitments under the Paris Agreement. As a result, the foundational response should involve regional cooperation to enable faster transitions than isolated national efforts. This framework should incorporate multiple aspect efforts, such as: accelerated coal phase-outs and renewable energy deployment; clean technology transfers and provides climate finance; support for adaptation and leapfrogging to clean energy development for less developed economies; a regional Carbon Market linking national emissions trading systems (where they exist) and creating carbon credit mechanisms

[67] An example of a Social Security Coordination Agreement is the Protocol on Social Security Coordination of the EU-UK Trade and Cooperation Agreement. ASEAN has also studied the possibility of transferring social security rights across ASEAN countries, available at https://asean.org/wp-content/uploads/2021/10/EPUB-Study-Report-on-the-Portability-of-Social-Security-Rights-between-ASEAN-Member-States-Final-Sep2021.pdf. A less ambitious proposal is ASEAN Guidelines on Portability of Social Security Benefits for Migrant Workers in ASEAN at https://asean.org/wp-content/uploads/2024/10/43-Final_ASEAN-Guidelines-on-Portability-of-Social-Security-Benefits-for-Migrant-Workers-in-ASEAN.pdf

that channel finance from higher-income to lower-income members for verified emissions reductions. A regional carbon market can be established in order to gain economies of scale and ensure more efficiency and transparency across members.

Table 6. APTA Members' Net Zero Targets

Country	2030 Targets	Net Zero Target
Bangladesh	Reduce emissions by 6.73% (unconditional) & 15.12% (conditional) vs Business as Usual (BAU) by 2030.	No formal net-zero year; long-term ambition under discussion.
China	Peak CO_2 before 2030; ≥65% reduction in CO_2 intensity vs. 2005 by 2030; ≈25% non-fossil energy share by 2030; ≥1.2 TW wind & solar by 2030	Carbon neutrality before 2060
India	Reduce 45% intensity of GDP vs 2005 by 2030; 50% of installed electric capacity from non-fossil sources by 2030	Net-zero by 2070
Lao PDR	Sectoral/measure-based targets including hydropower expansion (~13 gigawatt (GW) by 2030), forest cover toward 70%, electric vehicle/efficiency, renewable energy (solar/ wind/ biomass)	Net-zero by 2050
Mongolia	Reduce emissions by 22.7% (unconditional) and 44.9% (conditional) vs 2030 BAU.	No formal net-zero year; long-term ambition under discussion.
Republic of Korea	Reduce economy-wide emissions by 40% vs 2018 by 2030 (from 727.6 $MtCO_2e$ to 436.6 $MtCO_2e$)	Carbon neutrality by 2050
Sri Lanka	Reduce emissions by 4% (unconditional) and 14.5% (conditional) cumulative reduction (2021–2030) vs BAU in 2030	Carbon neutrality by 2050

Source: Author's compilation from UNFCCC registry

As part of climate actions, energy cooperation offers immediate opportunities for emissions reduction and energy security. APTA should establish a **Regional Energy Cooperation Framework** to leverage the members' strengths in energy potential to supply regional demand: Mongolia's vast solar and wind energy, Lao PDR's hydropower, and Indian solar capacity. This cooperation requires massive infrastructure investment - high-voltage transmission lines, grid management systems, and storage facilities. However, it will create transformative benefits by enabling energy trade, especially renewable energy deployment far beyond what isolated national grids can absorb. An **APTA Regional Grid Development Fund**, capitalized through multilateral development banks loans backed by member guarantees, can finance these infrastructure investments with long-term cost recovery through transmission fees. An alternative would be to aim to pool resources .

Natural resource management cooperation is another essential area for cooperation, as ecosystem degradation transcends borders. APTA members share major river basins (Ganges, Brahmaputra, Mekong tributaries) in which upstream actions affect downstream countries, creating potential conflicts as well as opportunities for cooperation. To address challenges and

capture opportunities, Members may, for example, establish a Natural Resource Management Cooperation Framework (including a River Basin Management Arrangement) that centres on "no significant harm" principles to promote activities such as conducting environmental impact assessments and consulting with affected downstream countries before proceeding with major water infrastructure projects. Similarly, APTA members sharing the Bay of Bengal and the South China Sea should coordinate fisheries management, establish marine protected areas, combat illegal fishing, and support sustainable livelihoods for coastal communities that depend on increasingly stressed ocean ecosystems.

Biodiversity protection requires moving beyond protected areas that exist on paper to functional conservation supported by economic incentives. APTA should establish a **Regional Biodiversity Fund** that provides financial incentives for countries and communities for verified conservation outcomes, such as forest cover maintained, habitat connectivity preserved, and endangered species populations stabilized. This payment-for-ecosystem-services approach channels resources from beneficiary countries to providers of conservation efforts with economic value for conservation that exceeds short-term returns from habitat destruction. Operationalizing such mechanisms requires sophisticated monitoring - satellite imagery, ecological surveys, community-based monitoring systems - to verify conservation outcomes and prevent fraud, which necessitates significant capacity building supported by more developed APTA members.

Finally, circular economy principles offer pathways to decouple economic growth from resource consumption and environmental degradation. APTA should adopt a **Regional Circular Economy Framework** that establishes design standards for repair-reuse-recycle of products and develops regional markets for secondary materials and refurbished goods. Republic of Korea and China, with advanced manufacturing sectors, can lead in establishing circular economy demonstration zones and developing technologies for materials recovery, while providing technical assistance to other members implementing circular approaches. This strategy requires harmonizing standards for recycled content, establishing quality certifications for refurbished products, and potentially implementing regional extended producer responsibility schemes, where manufacturers pay for end-of-life management regardless of where products are sold within APTA.

3.4. Institutional mechanisms: Making APTA cooperation effective

Transforming APTA from a limited tariff preference agreement into a comprehensive regional integration framework requires significant institutional strengthening. APTA should establish a permanent Secretariat with technical staff, adequate budget, and authority to monitor implementation, conduct research, and support negotiations. This Secretariat, currently housed in UNESCAP, should include a specialized unit, staffed with experts who develop work programs, coordinate member activities, and report on progress. The Secretariat should be sufficiently independent to provide objective analysis and to push members toward deeper cooperation, while remaining accountable to members through regular Ministerial Conferences that set strategic direction. The Secretariat can also play an important role in more effectively analysing the benefits of regional integration for member states and in identifying the key bottlenecks to progress.

The Secretariat[68] should play a critical role in coordinating and assisting with the deployment of technical assistance, especially for less-developed members, to build capacity to understand the impacts and implications, and to negotiate the provisions of APTA agreements. Such technical assistance and capacity-building support have already been provided in the past by ESCAP, with the Republic of Korea funding[69].

Financing regional cooperation requires dedicated, predictable resources rather than ad hoc voluntary contributions. APTA should establish a **Regional Cooperation Fund** with mandatory member contributions scaled to GDP to fund trade facilitation infrastructure, capacity-building programs, health security preparedness, climate adaptation, and technical assistance. Governance of this fund could be executed through majority voting, either a weighted voting system reflecting both GDP contributions and population, or through equal voting rights, to ensure smaller members have a voice.

Civil society engagement mechanisms should be established to ensure that regional integration serves broader development goals rather than commercial interests alone. This could be done through a **Regional Stakeholder Forum** that brings together business associations, labor unions, consumer groups, environmental non-governmental organizations (NGOs), youth and women's organizations from member countries to provide input on APTA initiatives, monitor implementation, and raise concerns. This forum can meet annually in conjunction with Ministerial Conferences and ensure an accountability mechanism for inclusive decision-making. In shaping support for public policies, Stantcheva (2022) finds three robust patterns: (i) perceived job risks outweigh perceived consumer gains in shaping views; (ii) belief in efficiency gains strongly increases support for openness; and (iii) acknowledging distributional downsides does not reduce support if people believe compensation policies will work.[70] APTA can leverage this by designing policy packages that clearly deliver efficiency gains and provide visible protections for disadvantaged groups.

The ultimate policy response to prevent the worst-case scenario's disruptive outcomes requires APTA members to recognize that deeper regional integration is not optional but essential for navigating an increasingly fragmented global environment. By pooling sovereignty in specific domains - trade policy, health security, climate action, labor mobility - while respecting diverse political systems and development levels, APTA can create a regional block that achieves collectively what members cannot accomplish individually: sustainable development, shared prosperity, and resilience against external shocks. This requires political courage to prioritize long-term regional cooperation over short-term national advantages. The alternative is far worse: it allows global fragmentation to isolate members, undermine their development prospects, and leave them vulnerable to great-power coercion. The policy choices APTA members make over the next few years will determine whether the region becomes an integration success story or fragments alongside the global order.

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[68] Some members of the EGM raised the question whether it was necessary to establish a new structure – a permanent unit or a regional fund, to support APTA integration. Equally, some EGM Members viewed a permanent structure as important to provide credibility and ownership from member states to move forward with the agenda. Generally, given the experiences in different RI schemes, it appears that more successful integration schemes tend to be endowed with well resourced and capable secretariats.

[69] ESCAP (2023). Evaluation of the project on Capacity Building on Trade Facilitation and the Asia-Pacific Trade Agreement Promotion to Strengthen Intra-Regional Cooperation (Phase III). ESCAP: Bangkok. March.

[70] Stantcheva, S. (2022). Understanding of Trade. NBER Working Paper No. 30040 May 2022.

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Annexes

Annex 1. Methodological approach

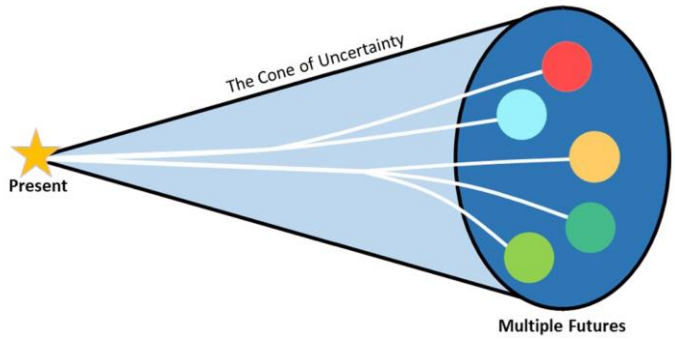
Framework for conducting the Foresight analysis

A foresight analysis relies on expertise from stakeholders in the field to envision where the world might be heading, taking into consideration the current state of affairs and the direction of travel. In order to make the foresight study broadly reflective of societal and expert views, the process should be inclusive, accessible, and participatory, ensuring that diverse perspectives are integrated from the outset. By combining diverse perspectives within a structured analytical framework, the approach aims to produce insights that go beyond a single viewpoint or analytical lens, while ensuring it takes into account complex policy contexts and interactions.[71]

The inclusive, accessible, and participatory characteristic of the study is ensured via the participation and contribution of a diverse representative group of experts. The Expert Group, organised by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and comprising a diverse range of expertise from academia, the private sector, policy makers, international organisations, and civil society organisations, offered the springboard for exploring scenarios and prioritising the key issues facing the Asia Pacific region, and the global economy more generally.

The foresight analysis reflected on the current situation and visualised likely scenarios into the future. A baseline state, with business as usual, formed the benchmark against which other scenarios were analysed. This covered an assessment of 1) the current state of regional integration in Asia and the Pacific, and 2) how the multilateral and regional trade situation has evolved since 2019 (pre-COVID baseline). When defining the potential scenarios and outcomes, scenarios should avoid mere extrapolation of current trends, but also need to be convincing, consistent, and plausible (Figure 11).[72]

Figure 10. Future possibilities



Source: Government Office for Science (2021)[73]

[71] OECD (2025). Strategic Foresight Toolkit for Resilient Public Policy: A Comprehensive Foresight Methodology to Support Sustainable and Future-Ready Public Policy, OECD Publishing: Paris.
[72] UNDP (2018). The Foresight Manual – Empowered Futures for the 2030 Agenda. UNDP: Singapore. February
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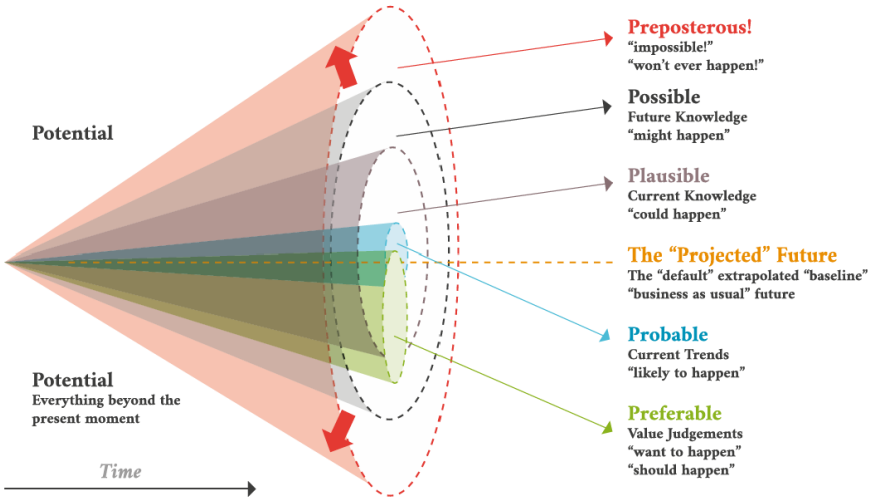
Figure 11. Scenario types



Source: UNDP (2018)

For this exercise, comprehensive and robust analysis can be found in the publications of international organisations, including the Asian Development Bank (ADB), the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO), the United Nations Trade and Development (UNCTAD), and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), among others. The annual flagship reports of UNESCAP Trade and Investment Reports and the Annual Trade Reports of the World Trade Organisation were relied upon for the global and regional contexts and trends, while specialised literature on regional and global value chains, the state of the multilateral system and outlook on trade risks relied on more specialised publications from the aforementioned organisation, the Asia-Pacific Economic Cooperation (APEC), the Asia-Pacific Research and Training Network on Trade (ARTNET), Group of Twenty (G20), the Organisation for Economic Co-operation and Development (OECD), the World Economic Forum (WEF), and others for sector specific focuses, and on the changes in geopolitical relations since January 2025. For example, the OECD identified 25 disruptions with broad socio-economic implications beyond a single policy area (Figure 12).

Figure 12. OECD Foresight Analysis: Disruptions to policy landscape 2030-50

Source: OECD (2025)

Scenario building explored the anticipated and unanticipated factors through a participatory approach with stakeholders. While business as usual is difficult to define in the current policy and geopolitical landscape, it should reflect the status of the global economy and its policy framework, with some degree of continuation of recent trends. It is proposed to have **three additional scenarios** to project the potential trajectories of the world economy into the future, each scenario having its own defined assumptions and risks, and reflecting some consensus amongst the expert group on their likelihood. The Expert group will be the sounding board as well as initiate potential scenarios and pathways for the evolution of regional integration and trade.

The study focuses on trade and investment within the context of the Asia Pacific Regional integration. While the scope is well defined, trade and investment impacts so many policy areas and are affected by so many policy levers that many dimensions will be explored. The time horizon is from 2025 to 2040, with a context section starting from 2019 (pre-COVID). While the geographical scope will necessarily be global since trade relationships are integrated into the global trading system, a focused view was provided on APTA countries, with data presented for those countries.

Process

Establishing the priority trends of focus. There are varying risks and opportunities to the global economy that may impact the world of trade and investment, as well as put pressure on the regional integration process of the Asia Pacific economies. The first workshop, therefore, aimed to establish what policy levers, external and endogenous forces that may play a critical role in the future. Examples of topics considered included:

Overarching conditions:

- Climate change and adaptation policies as they impact trade
- World Trade Organisation principles and functioning
- Disruption to business models through technology advancement, including AI
- Cyber risks and divergences in regulatory frameworks for the digital economy
- Geopolitical conflicts and warfare
- Growing populism, protectionism, and nearshoring
- Advances in e-Payments, fintech, and dollar hegemony

Specific and sector conditions:

- Access to critical raw materials and essential technologies
- Nearshoring and supply chain vulnerably
- Debt overhang, rising taxation, and other macroeconomic vulnerabilities
- ESG, unilateral climate-related instruments, sustainable and inclusive trade

Establishing the baseline and its implications. In order for the foresight study to reflect the expectations and likely scenarios of experts in the field, the approach promoted an inclusive and participatory approach to analysis. Rather than conducting traditional consultant/expert-led analysis, the approach deliberately engages diverse stakeholders to harness collective experiences in the field. The study began with a scoping exercise to define and delineate the topic under investigation and formulate guiding questions. Given that the future cone grows

exponentially over time, extending the time horizon further than 2040 would have detrimental effects on the quality and usefulness of attained insights.

A feedback loop between research insights and reflections of the expert group. A feedback loop aimed to shape how the foresight exercise was structured and ideas were deliberated. This iterative process aimed to strengthen the analytical rigour and reasoning advanced by the expert group, while ensuring the views are grounded in the literature and/or through data.

Workshop and online consultations in smaller groups were undertaken throughout the process. The workshop materials were prepared in advance and used to guide participants' discussions and focus, to benefit the study. A mix of open discussion and managed discussions was employed for stakeholder engagement.