



Are deep trade agreements a solution for Asia?

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ABSTRACT

The current crisis in the international trading system has led many to ask whether Asia can succeed where the WTO has failed. The purpose of this paper is to discuss the possibility of stronger regional trade ties as a result of the turmoil in the WTO. It is argued that, given its size and heterogeneity, Asia is unlikely to succeed in deepening trade relations as a continent, but it could succeed with a well selected and targeted group of countries.

1. Introduction

The international trading system (ITS) is under threat. The multi-lateral negotiations have been all but abandoned, the dispute settlement mechanism, the centerpiece of the international trading system - the WTO - has been paralyzed, the US, the founder of the Bretton Woods System, has all but formally withdrawn from the WTO.¹ “The WTO hasn’t worked for years,” German Chancellor Friedrich Merz said in a press conference following the summit. Mrs. von Leyen, President of the European Commission called the WTO a sleeper and proposed to EU leaders the launch of a Europe-led initiative to establish a structured trade cooperation with Asian countries, potentially laying the groundwork for an alternative to the gridlocked World Trade Organization (WTO).

In particular, the chaos created by the tariff policy of the Trump administration is extremely disruptive. The US has violated all its commitments in the WTO on tariff bindings, and it has abandoned one of the core principles of the WTO agreements – the MFN provision. It has decided to block the functioning of the appellate body, the jewel of the crown of the WTO system.

As disruptive as the US moves are for the WTO system, the system has been under pressure for a long time and, in fact, the instability of the system preceded even all the tariff attacks of the Trump’s administration. In fact, the strong reactions of the US against the WTO may have its origins in what the US saw as an inadequate protection of its interests by the system of dispute settlement in the WTO². Clearly, the turmoil in the

international trading system (ITS) raises questions about the future of the WTO and about regional integration in Asia. Will a new global trading system or a stronger Asian regional trade arrangement emerge against the US aggressive tariff regime?

The purpose of this paper is to answer the question by looking at the most likely scenarios for the ITS and identifying the forces leading to changes in regional integration. This will be done by first discussing the origins of the instability in the WTO and by proposing the likely outcome of the turmoil in the system multilateral governance. I shall then discuss the implications of the turmoil in the ITS for regional economic ties in Asia and its further integration.

My answer to the question is that we shall not see a stronger multi-lateral system evolving from the existing WTO system. The most likely scenario will be a mixture of the old system and new initiatives which will actually mean more room for stronger Asian FTAs created by more homogeneous countries. A new global system is likely to emerge in which Asia will grow stronger because of (i) greater involvement of China and Japan and (ii) greater emphasis on the expansion of regional markets (iii) greater emphasis on identifying new sources of trade and (iv) greater willingness to seek regulatory cooperation. The benefits of deep integration are well recognized by WTO Members but poorly implemented, and this provides an opportunity for Asia. New preferential trade agreements (PTAs) could be more successful in establishing common standards.

The paper is organized as follows. It begins in [Section 2](#) with a brief review of the basic scenarios emerging from the current crisis of our

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¹ See, for example, [Hoekman and Mavroidis \(2021\)](#) or [Horn and Mavroidis \(2025\)](#) or [Harbinson \(2025\)](#).

² For more details, see [Hoekman and Mavroidis \(2013\)](#).

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system of global governance and identifies and elaborates the most likely outcome – the search for regional or plurilateral arrangements. The future will be driven by a search for common interests in Asia, and this issue is discussed in [Section 3](#). The specific conditions of Asia and its interests and ambitions are discussed in [Sections 4 and 5](#).

2. Global trade governance after Trump - “Multilateralism minus one”

As we can witness both from the WTO and from media reports, the multilateral approach to agreements about trade rules and about trade liberalization has reached its limits. With a few exceptions including, for example, the Fisheries Agreement or the E-Commerce Agreement, multilateral negotiations have stalled. Where do we go from here? Could regional attempts be more successful?

In any scenario about the future international trading system, the key question is about the future role of the US. That role is a big unknown. Will the US aggressive protectionism lead to a collapse of the global rules-based system and to anarchy and to trade wars? How will the rest of the world respond? The scenarios are captured in the following table.

Four Scenarios for Global Trade in 2030

	Global Trade Rules	Geopolitical Blocs
With the US	Muddling Through	Regional trade agreements (RTAs)
Without the US	“World Order Minus One”	DTA (EU+, selective RTAs)

In the scenario in which trade wars are excluded, we need to distinguish between the ITS with or without the US. The system of global trade rules – with the US remaining in the WTO – will be what I call “muddling through scenario”. Members are keen on maintaining and if possible increasing openness to trade. Hence, they will insist on rules-based system, which would most likely mean WTO rules for trade other than with the US. However, trade with the US is typically already violating the WTO rules (viz. the recent US-EU agreement) and will clearly have to be treated as a special case.³ Will Members be able to enhance multilateral negotiations beyond the Fisheries and IT agreements?⁴ Will other countries, say Russia and China or BRICS, be able to construct a new institutional framework for a post-Western ITS? Will LDC be able to accept the non-discrimination rule of the WTO? Can “international progressives” carry enough weight to protect the fundamental rules of the WTO and generate enough support for deepening and expanding the negotiations about the WTO rules?⁵

My answer to all these questions is – very unlikely and lean towards an alternative scenario. The US will not formally withdraw from the WTO.⁶ The US had the same objections against the WTO already during the first Trump presidency but continued to be a non-paying Member. The US had just recently appointed a new deputy director general in the WTO. The WTO has not demonstrated any antisemitic or anti-Israeli sentiments which led to the exit of the US from UNESCO. It has also not been responsible for Covid related “propaganda” which led to the

exit of the US from the WHO. The US will be a “non-paying sleeper” unless the WTO Members will jointly negotiate with the US a solution to the US Membership – either to exit or to some other form of Membership. Finally, any fundamental change in the WTO to solidify its governance and future negotiations would require strong leaders for its Members. China’s own position in the WTO is not a position of leader.⁷ The only possible candidate could be BRICS but their ability to come up with new proposals to enhance the role of the multilateral system has so far come to nothing.⁸

This also means that the WTO will continue to work along similar lines as today for as long as the Members desire. It will continue to monitor international trade and carry out surveillance of Members’ obligations, and it may even continue to conduct dispute settlement functions. The Members will aim at adhering to their WTO commitments to avoid trade wars.⁹ They may continue to negotiate plurilateral agreements such as the Fisheries Agreements at present but no major change in the system of WTO governance by any of the major players can be expected.¹⁰

3. In search of common interests

The future will be driven by a search for common interests of countries, and this will open room for regional initiatives, PTAs or plurilateral initiatives including a search for DTAs. The move towards regional integration is “incentivized” by the treatment of RTAs in the WTO as an exception to the WTO fundamental rules, and the poor treatment of non-tariff barriers (NTBs). WTO agreements are not perfect contracts which leads to ambiguity, exceptions to the agreed rules.¹¹ Such a drive will require cooperation of countries with similar interests and objectives. More homogeneous groupings of countries than one observes in the WTO today will allow countries to better reap benefits from international cooperation and trade agreements than it appears to be the case for many Members in the WTO.¹²

Cooperation along these lines means agreeing on a mutually satisfactory solution/ an outcome. This does not mean that the outcome has to be a maximum maximorum in every aspect of their negotiations, considering that the conditions under which countries enter negotiations vary. This means that maximum maximorum is impossible. Hence, some adjustments in negotiating positions are necessary but results will still be positive.¹³

This scenario allows countries to form plurilateral trade agreements or preferential trade agreements (PTA), which are compatible with the

⁷ See, for example, [Mavroidis and Sapir \(2023\)](#).

⁸ BRICS and, especially China and Russia have been talking for some time without much success about finding an alternative international financial system to replace dollar as global currency. See, for example, [Poenisch \(2023\)](#). See also [Wolf and Ungphakorn \(2025\)](#).

⁹ Recent WTO work shows that >80% of global trade in goods is conducted on standard non-discrimination (“most-favored-nation”) terms, even when businesses could have used preferences under bilateral or regional trade agreements ([Gonciarz and Verbeet, 2025](#)).

¹⁰ Quoting Mavroidis and Sapir – “Some might say that the WTO needs a reform to give developing countries a greater voice, or redress power imbalances. We have argued that this view is out of date. Similarly, some might argue that the consensus rule urgently needs to be changed to get the WTO off the rocks. We’ve also shown why there is no prospect of consensus on dropping consensus.”

¹¹ The WTO agreements are seen as “incomplete contracts”. See [Horn et al. \(2006\)](#) or [Staiger and Sykes \(2017\)](#). There is a large legal literature identifying various exceptions and other weaknesses of the agreements. See, for example, [Jain and Sharma \(2025\)](#) or [Muller \(2017\)](#).

¹² The WTO system was seen as a solution to the Prisoner’s dilemma. It is meant to foster communication among countries, impose cooperative behavior, permits exception and provide incentives to conform with the rules. See [Deardorf \(1996\)](#).

¹³ In his 1989 paper, Krugman is modelling three RTAs and finds that the outcome is the least efficient for the world economy. See [Krugman \(1989\)](#).

³ The violation of the key WTO rules – Art. XXIV and the nondiscrimination principle – by the US and EU is officially recognized by both sides and formally acknowledged, for example by the European Commission’s Director-general for trade, Sabine Weyand. (Politico, 24 Sept. 2025).

⁴ Fisheries and IT agreements are the most recent plurilateral agreements in the WTO.

⁵ In the meantime, discussions of WTO Members in Geneva have been going on about reforms of the WTO system. Obviously, problems are realized by Members and various initiatives have been proposed by Member in their discussions in Geneva. The initiatives have so far been only tentative and without much substance but there is clearly a movement among Members to seek a creative solution to the current situation. See [Wolff \(2025\)](#) or [Gonciarz and Verbeet \(2025\)](#) for more details.

⁶ ■

WTO system. The only point of contention is whether the push should be for PTAs or for plurilateral agreements. Some argue for plurilateral agreements, others for PTAs.¹⁴ The scenario provides for a strategy at different speeds of trade policy reform, and this will include proposals for deeper trade integration. It will allow for continued support and a special treatment of poor countries by means of bilateral deals.

Deep integration is one of the important sources of trade, which has so far not been adequately exploited in Asia, and it provides a new opportunity for economic growth.¹⁵ Harmonization of technical standards (TBT and SPS), strengthening intellectual property rights of investors, more cooperation in harmonizing the rights and responsibilities of foreign investors in local markets, or liberalizing, for example, rules of origin, visa and export regimes or trade in services are all examples of measures that could bring considerable efficiencies and open up new trade opportunities. Capital restrictions may be means to allocate savings, promote growth and facilitate BOP adjustments but should be reviewed in light of the huge external imbalances in global markets.

Deep integration will call for “identifying long-term partners based on shared interests and demographic realities, rather than ideological abstractions”.¹⁶ The decision should derive from the willingness of countries to harmonize regulations, creating a PTA of “willing partners”. Ideally, countries should think of PTA/DTA as a driver of economic growth, and they should identify the common minimum.¹⁷ In this respect, the current countries’ tariff and quota policies are a good start but this is not the case with subsidies and other interventions of industrial policy. Existing proposals already move towards seeking DTA, going beyond the existing set of rules, typically starting with digital documentation in trade.¹⁸ More ambitious DTA would have to increasingly target services, which will be one of the key drivers of future growth. The recent growth of services in global trade has been dramatic.

Deep integration is not an end in itself, of course. Countries will

continue to regulate. It would clearly help to design DTA (i.e., the choice of segments of markets to be harmonized) or the choice of partners who have their social priorities as comparable as possible.¹⁹ Countries should have similar economic interests broadly. A poor agricultural country views problems of industrial policy differently than rich countries. For poor agricultural countries, the primary objective may be to build up industrial sector. For rich industrial countries, the primary objective is to secure their industrial competitiveness and to optimize their market access to other countries²⁰. This calls for means of recognizing the needs of poor countries to build their “infant industry” but under mutually agreed rules of support from rich countries. Furthermore, there should be certain level of institutional compatibility among countries trying to form a PTA (e.g., rule of law, stable and reasonably efficient public administration, role of markets).

The same argument applies even to rich countries. Consider the current market situation in trade involving development of AI. To quote S. Johnson, “Now it looks like 95 percent of the money being spent on AI development is in the US, 3 percent in Europe, and 2 percent in the rest of the world”.²¹ This means that the US has, and for some time will have, absolute advantage in trade in AI related services and the EU simply must attempt to catch up with the US. This would have to be taken into account when evaluating the benefits of trade between both partners.²²

Which countries are the likely candidates of the “willing” (like-minded) partners for DTAs? DTAs could be created by the EU with countries such as US, UK, Canada, Australia, New Zealand to create DTA EU+, or separately with each country. If the US reengages in international cooperation, that could mean a revitalized G-7 leading trade negotiations — perhaps outside the WTO’s auspices and likely with particular attention to technology and to countering China, as argued by Lipsky. Other likely candidates for DTA are members of OECD. Just to recall the official founding statement of OECD, “to become a member of the OECD, a country must undergo a multi-year accession process that involves aligning with OECD standards and best practices across various policy areas such as corporate governance, anti-corruption, investment, competition, financial markets and public governance”. Clearly, some of these countries may prefer to establish a DTA among themselves.²³ Other candidates include Asian countries to which I turn next.

4. Towards a greater regional cooperation in Asia

There are three critical questions about external conditions for regional initiatives in Asia following the turmoil in the ITS:

The first key question is whether the US will engage in economic cooperation or whether it will continue to seek “deals” with every country of the world separately. If the US does the latter, it will further fragment the trade links and interest of Asia and complicate its

¹⁴ Plurilateral agreements in the WTO context allow sub-sets of countries to agree to commitments in specific policy areas that only apply to signatories, and thus allow for ‘variable geometry’ in the WTO. Plurilateral agreements share a number of features with preferential trade agreements (PTAs) that are increasingly used by governments to liberalize trade in goods and services. Hoekman and Mavroidis (2013). I take the same view but suggest that it is easier to take the route of PTA rather than plurilateral agreements. The current WTO rules make it much more difficult to pursue the plurilateral route than to negotiate a PTA, as recognized by Hoekman and Mavroidis.

¹⁵ The unexploited benefits from deep integration are seen by the IMF as the “binding constraints” on economic growth, See IMF (2025). For more details about deep integration and its benefits, see Mattoo et al. (2020), Kohl et al. (2016), Larch and Yotov (2025). A great example comes from the EU. The acceptance of the EU laws and standards by newcomers like Central and East European countries has produced favorable effects of the EU membership on the trade and investment flows of those countries. (Meinhart 2023). In other words, harmonization of regulations as a goal obviously influenced the choice of partners of the EU for their PTAs. Another European agreement which went over and above an agreement on tariffs was CEFTA. Its existence was perhaps not long enough to provide a statistically long time series to justify a rigorous analysis but the existing partial evidence, too, shows its positive effect on trade and investment (Grievson 2021).

¹⁶ These views about common standards are also increasingly shared on both sides of the Atlantic. See, for example, Josh Lipsky, at the Atlantic Council’s GeoEconomics Center and R. Shoenhammet, *Brussels Signal*, 2 Sept. 2025.

¹⁷ I am joining here the group of economists who have recently made the same proposals. They include professors Mavroidis, Sapir, Horn and Hoekman. A similar proposal is made by Larch and Yotov (2025) who refer such groupings as “natural” partners.

¹⁸ Viz, for example plans to deepen the EU-CPTPP to deepen their relations, or the announcement by Singapore and UAE to create grouping of Members to boost “trade openness” (already joined by Morocco, Rwanda, Malaysia Uruguay, Costa Rica, Paraguay, Panama and Norway or the Digital Economy Partnership created by New Zealand, Singapore and Chile in 2020. All reported in FT, 30 August 2025.

¹⁹ Countries at different levels of development typically have different social and institutional needs, and trade agreements (would) still need to strike the right balance between rules in PTAs and the needed discretion at the national level to pursue desirable social objectives. (Mattoo et al. 2020). This also means that they may have a different level of institutional capabilities to implement trade agreements.

²⁰ Even though one we are hearing a different message from president Trump.

²¹ Those numbers exclude numbers for China, which are not available. Simon Johnson’s interview in IMF’s Newsletter, July 2025.

²² My recommendations are almost entirely consistent with recommendations of prof. P. Mavroidis and his colleague, and our co-presenter this conference – B. Hoekman. In their 2021 study, they reach the following conclusions: The WTO faces two interconnected challenges: reestablishing an effective dispute settlement mechanism and reviving the negotiation function. Doing one and not the other will not suffice to revitalize multilateral trade cooperation. The difference between us is that my proposal goes one step further – beyond the analysis of the WTO shortcomings.

²³ With other countries the EU could maintain/create bilateral FTA -, EU/LAC, EU/India. FTAs with LDCs

negotiating position as it will not only have to negotiate separate deals with the US but it will greatly complicate integration within the region. In addition, those deals will not be “pro-trade”, they will restrict trade.

The second key question is how successful China will be in forging closer links with the rest of the world. First, there are already close trade links between China and their Asian partners, but will Asia be ready to form a DTA (or a strong PTA) with China? Second, it is also not clear whether China will be able to forge a really strong and effective grouping under the heading of BRICS. If it does succeed, this would additionally complicate the position of countries such as those in SE Asia.

The third critical question is whether Asian countries will be ready to sign and implement profitable PTAs among themselves but without China? Let me now turn to these three questions.

Given the speed with which Trump administration has made deals with Europe while similar deals with China and India continue to be a mystery, it is clear that Asia represents a major challenge for the US. On the one hand, China has become by far the biggest exporter of manufactured goods to the US, which is precisely the reason for the US protectionist interventions against other countries. On the other hand, Trump's administration faces in China a tough opponent represented by China's control over rare earths and tough competition in AI. President Trump faces a similar problem with India. On the one hand, he does not like India's purchases of Russian crude oil. On the other, India is fast becoming not only IT powerhouse but also an important player in the AI business. The powerful positions of China and India vis-à-vis the US mean that attempts to regionally integrate Asia will compete with interests of both countries to make good deals with the US. The US, after all, still represents 11 % of global trade.

This brings us to the second question - how successful will China and India be in forging closer links with the rest of the world. In this respect, the cohesion and creativity of BRICS is unclear as argued above. In addition, China is a large international creditor and has been reluctant to join international efforts to address debt problems of their trading partners. This will limit its trade expansion in developing countries.

However, China's trade with other countries, especially with Asia is a different story. China has an enormous interest in building its production and trade capacities, which will undoubtedly lead to a further push for exports. Arguably, China's interest is access to markets for energy and raw materials, but increasingly also access to foreign markets with manufactured goods as witnessed by the recent attempt of China to update its free trade agreement with ASEAN by focusing on digital trade.

The role of India will be different. India has become a major exporter of services, much less as an importer of services and with exports primarily directed to the West. The same does not hold for China, which is exporting its services globally, including fast growing SE Asia. In other words, both countries are enjoying their current high market share in the most dynamic of global markets.²⁴ If current negotiations of the plurilateral agreement on foreign investment in the WTO is any indication of interest to harmonize trade policy with Asia, then India does not seem to be ready for deeper harmonization of business relations. India is more likely to be interested in policies that encourage its exports of services.

Finally, Russia is also unlikely to be a partner for DTAs in Asia. Russia is entirely dependent on exports of oil, gas and a few other raw materials and had virtually no interest in global markets for manufactured goods except planes and military equipment.

This takes me to the third question – what about regional integration within Asia itself? Let me start by looking at the past experience of harmonizing trade relations in SE Asia. If the past is to be of any guidance for the whole Asia, then deep integration with China would seem unlikely. As the experience of ASEAN shows, the reluctance to engage ASEAN in deep trade arrangements was and perhaps continues to be considerable. Asian countries are unlikely to become a major outlet for exports to the US to avoid high tariffs on Chinese exports to the US. This

is evident in the high tariffs imposed by the Trump administration on exports of Vietnam and India. Chinese exports include both high tech goods and services but also relatively standard consumer goods, which means that the China's export strategy is flexible and increasingly targeting Asia as the final market.²⁵ Thus, given the new restrictions on exports of consumer goods to the US, more of those exports are channeled to Asia, threatening local manufacturing firms.

Moreover, Asian countries have not been very successful even with the existing attempts to broaden and deepen their integration. ASEAN has been a free trade deal, nothing more. The ASEAN countries have made an attempt to at least broaden the agreement and agreed with Japan, China and Australia to create the Regional Comprehensive Economic Partnership (RCEP). Bangladesh, Hong Kong, Sri Lanka and even Chile expressed an interest in joining but the initiative has been so far very slow, presumably not ambitious enough for some, too ambitious for others.

One reason for the difficulties is clearly the threat of the Chinese competition within its market. Facing the new US market restrictions, China's exports have been dramatically diverted to other markets including markets in Asia.²⁶ The interests of Japan and India in regional integration are different compared to those of China. On the one hand Japan's [commitment to invest](#) ¥10 trillion (€58 billion) in India over the next decade represents a fundamental bet on Indo-Pacific integration. The India-Japan [agreement encompasses](#) "economy, clean energy, innovation, health, mobility and human capital."²⁷ On the other hand, both Japan and India are under enormous pressures to service the US market, especially given the close relationship between Washington and Tokyo, and this will temper their interests in closer deals with the rest of Asia.

5. Deep integration in Asia: A new opportunity to stimulate growth

The drivers of PTA in Asia are strong, and there are equally attractive opportunities to be exploited from deep integration. The large imbalances of global trade can only be addressed either by cooperation of countries (especially US and China) or higher protection, i.e., trade tensions. Whatever emerges from the negotiations between the US and China, or Asia's dealings with the BRICS, the negotiating positions of Asia would increase if Asian countries coordinated and harmonized their negotiating positions as much as possible. This would require them to create stronger PTAs and perhaps even DTAs.

The incentives to harmonize certain regulations such as TBT and SPS²⁸ are strong. The markets of some of the Asian countries are already very integrated due to the internet and online shopping (e-commerce) and to liberal FDI regimes. Some ASEAN countries are already well integrated through common investment in transport infrastructure. Strong sectoral candidates for harmonization are also tourism and commercial services. South and South-East Asia are becoming strong in innovations which would be beneficial for growth in the region. For example, nuclear power of Korea or FinTechs such as GoTo or Grab are already making an impact. A key to successful innovation is size of the market for new technologies, which should motivate Asian leaders to cooperate.

On the other hand, there are serious impediments barriers to

²⁵ China like India has become a major exporter of services, as noted above in addition to consumer electronics, electric vehicles, and AI as well as exports of low-tech goods! See, for example, [Natsuda and Thoburn \(2021\)](#).

²⁶ China's exports between the end of May and beginning of July rose by 6% year on year. Exports to the ASEAN market rose by fifth and China is moving production inside ASEAN to comply with rules of origin. The Economist 13 Sept. 2025.

²⁷ Brussels Signal 2. Sept. 2025.

²⁸ For example, [China has recently toughened import rules on Vietnamese durians after detecting health risks](#) (i.e., an issue of SPS harmonization).

²⁴ For more details see WTO statistics and data on trade in services.

harmonize. Unstable political relations in Asia continue to put pressure on the stability of trade links even in the most elementary modes of trade, and re-establishment of political stability is the fundamental precondition before talking about trade, especially about deep trade integration. There is clearly a great deal of interest in resolving the tensions and this should be conducive to more trade and integration. Countries avoiding or resolving these conflicts fast are seeing greater success in trade integration and experiencing faster economic growth.

Economic barriers include a number of structural impediments, some of which are specific to Asian markets. A large part of the manufacturing sector in most of Asian countries has been closely tied to supply chains while the rest of the sectors tends to have home market focus. FDI import regimes often contain local content rules, a policy that succeeded in some Asian countries but not in other countries of the region. Competition is often restricted in markets by monopoly practices which involve serious resistance to foreign competition.²⁹ Technological leadership of the US and China originates in the strength of financial markets, especially in the non-banking sector in the US and in the government support, funding and other interventions in China. Asia must have those sources of finance, or it will have to offer other incentives to attract foreign investors to finance local innovations. Either way, a big market will be a critical condition for success. These examples show areas to be addressed for DTA to succeed.

In order to enhance cooperation in Asia, it will be necessary to start with a greater Asia's Strategic Clarity. This would have to start in each country from identification of its strategic interests, especially with regards to the role of international trade and accepting the positive role of international agreements in promoting trade and economic growth.³⁰ Treating international trade as the driver of economic growth will mean that the countries will have to recognize the importance of trade with all its implications. This will mainly mean recognition of fundamental changes in the structure of global trade and its shift from supply chains within the global market to the increasing role of trade in new technologies, services, especially tech services. The next step would have to lead to the decision about -cooperation with whom and how?

Manufacturing and services sectors will be the principal markets to be contested, especially those with high value added. Asian market will be under increasing pressure from China where industrial firms are facing tough competition, skeptical consumers, deflation and overcapacity. In addition, China is a global technological leader when it comes to many new technologies such as EV or batteries or AI.³¹ This, in turn, may run against the commercial interests of some countries but be welcomed in others. It would also call for closer links of Asian firms with MNCs, with centers of finance, both domestic and foreign, more emphasis on education and innovation, and even a greater emphasis on efficiency and competitiveness but involve also a sensitive use of regulations.

The response of Asian countries should be to recognize that China and India will increasingly be competitors in Asian markets. As a global technological leader China will undoubtedly be sought as partner in developing the technologies locally. In the case of the Indian manufacturing sector, this role is presumably going to be played by Japan, but India is and will be an exporter of services. Moreover, China will undoubtedly see Asia as a convenient market even for goods Asia can produce locally and with which it is trying to compete. India's manufacturing interests are primarily directed to the domestic market rather Asian market, which means that SE Asian countries should seek those market opportunities. At the same time, India has a big interest in promoting its trade with services which could be an opportunity for the rest of Asia to strengthen its service sector.

Regulations will clearly play an important role in Asia in the face of Chinese competition and its technological leadership. Regulations play extremely important role in China as well. China is currently pushing its technology and exports by domestic regulatory competition, and it may continue to do so in the future. More attention will have to be paid to operations of the Chinese SOEs and to the effects of the Chinese industrial policy which seriously affect competitive conditions in foreign markets.³² A certain degree of harmonization should be possible, for example, in the ASEAN market and in the car manufacturing sector, which must adjust to radical changes in demand (EV), competition (Tesla, BYD, Geely etc.) and production processes (e.g., robotics) to be competitive.³³ Much can be gained by harmonization of tourist services between South Asia and ASEAN. Most importantly, the key to technological advancement will be the size of the market and the Asian countries should seek enlargement of their market by reducing or eliminating barriers to trade as much as possible.

Finally, regulatory regimes in Asia differ, and this, together with differences in market conditions, will mean recognition of the fact that cooperation will be more realistic and more effective whenever the regulatory differences are smaller than with other countries. Trade regulation is expensive, and harmonizations should be sought only when the regulatory differences are relatively small.

For cooperation to take place, the benefits of comparative advantages or of other drivers of trade must be seen to outweigh the desire for (and costs of) asymmetric regulations. Significant cost differences are already recognized, for example, in the car industry within the ASEAN market, as noted above. Countries should, therefore, have clear ideas about partners with whom they want to harmonize their policies, and they would have to be more selective than they have been so far, be it in the form of PTAs or plurilateral deals.

6. Conclusions

The centers of trade policy making will move away from the WTO to regional cooperation, and Asia will in this respect play a crucial part as a big and important global trading block. The move towards regional integration of Asia has been "incentivized" by the treatment of RTAs as an exception to the WTO fundamental rules, and the poor treatment of NTBs in the WTO – both in terms of standards setting and their implementation.

Asia will take further steps towards integration provided it will politically stabilize and will find a *modus operandi* for trade relations with China, especially in dealing with import surges, both goods and FDI, from China. Some Asian countries have clearly been more successful than others. China, together with a number of other countries, continues to maintain its interest in the WTO safeguards and in the WTO dispute settlement mechanism. Should their efforts fail to succeed, Asian PTAs/DTAs will need to think about designing and implementing an alternative safeguard and dispute settlement systems of their own.

On the one hand, China provides a technological leadership from which the rest of Asia can benefit. Moreover, China translates its leadership into the growth of exports including exports to Asian markets. On the other hand, China's competitiveness is to a large extent the result of practices that are poorly disciplined by international standards. Asia's markets can, therefore, be the first ones establishing trade policy standards to do so.

Most of the regional initiatives will aim at keeping the markets open and they will involve shallow trade policy measures. Nevertheless, there is considerable room for deeper trade integration, which would generate

²⁹ E.g. hail rides in Indonesia?

³⁰ For the most relevant literature see, for example, Rose 2004, Brada et al. 2019 and 2021, Kohl et al., 2016, Matoo et l. 2020 and Larch and Yotov 2025.

³¹ See, for example, Natsuda and Thoburn (2021).

³² IMF identifies huge subsidies provided through a large set of government interventions and estimates their effect to the tune of 4% of GDP. See Garcia-Macia et al. (2025). For other relevant literature see also, for example, Drabek (1979) and (2006).

³³ See Natsuda and Thoburn (2021).

faster economic growth. This is an opportunity which should be exploited by Asia countries.

Asia will not be the only region seeking closer trade and investment ties. Much what has been said here applies to other regions, which means that we shall see further growth of PTAs globally.

CRedit authorship contribution statement

Zdenek Drabek: Conceptualization, Data curation, Formal analysis, Funding acquisition, Investigation, Methodology, Project administration, Resources, Supervision, Validation, Visualization, Writing – original draft, Writing – review & editing.

Declaration of competing interest

"I have no conflict of interest in the submission of this paper".

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