The Evolving Role of Trade Agreements in Shaping Global Market Dynamics

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Trade deals are no longer just about cutting tariffs. They are now legal and regulatory structures that reshuffle and reconfigure supply chains, the flows of investment, and the rules of the game across entire regions. Even before 2025, this transformation was evidenced by the mega-regional trade agreements RCEP and CPTPP, as well as the empirical studies of "deep" trade agreements.

From Shallow Tariff Cuts to Deep Integration

Most trade agreements made directly after the Second World War reduced tariffs on goods entering a country. Current trade agreements, however, are "deep" and focus on services, investment, intellectual property, and even competition, public procurement, and regulation. These factors fundamentally alter the ways in which firms engage with one another in global value chains.

The World Bank has demonstrated through empirical methodology that the addition of a "sector" to a trade agreement, such as services, increases the domestic value added of intermediate goods by 0.48 % This means that the country becomes more integrated into the global supply chain. Similarly, the foreign value-added increase per added policy area 0.38 % These are signs of more robust forward and backward integrations into global value chains [2]. In the macroeconomic sphere, the more "rules" that are added to a carte blanche trade agreement, the greater the increase in global trade and GDP [3].

Regional Mega-Agreements and Market Reorientation

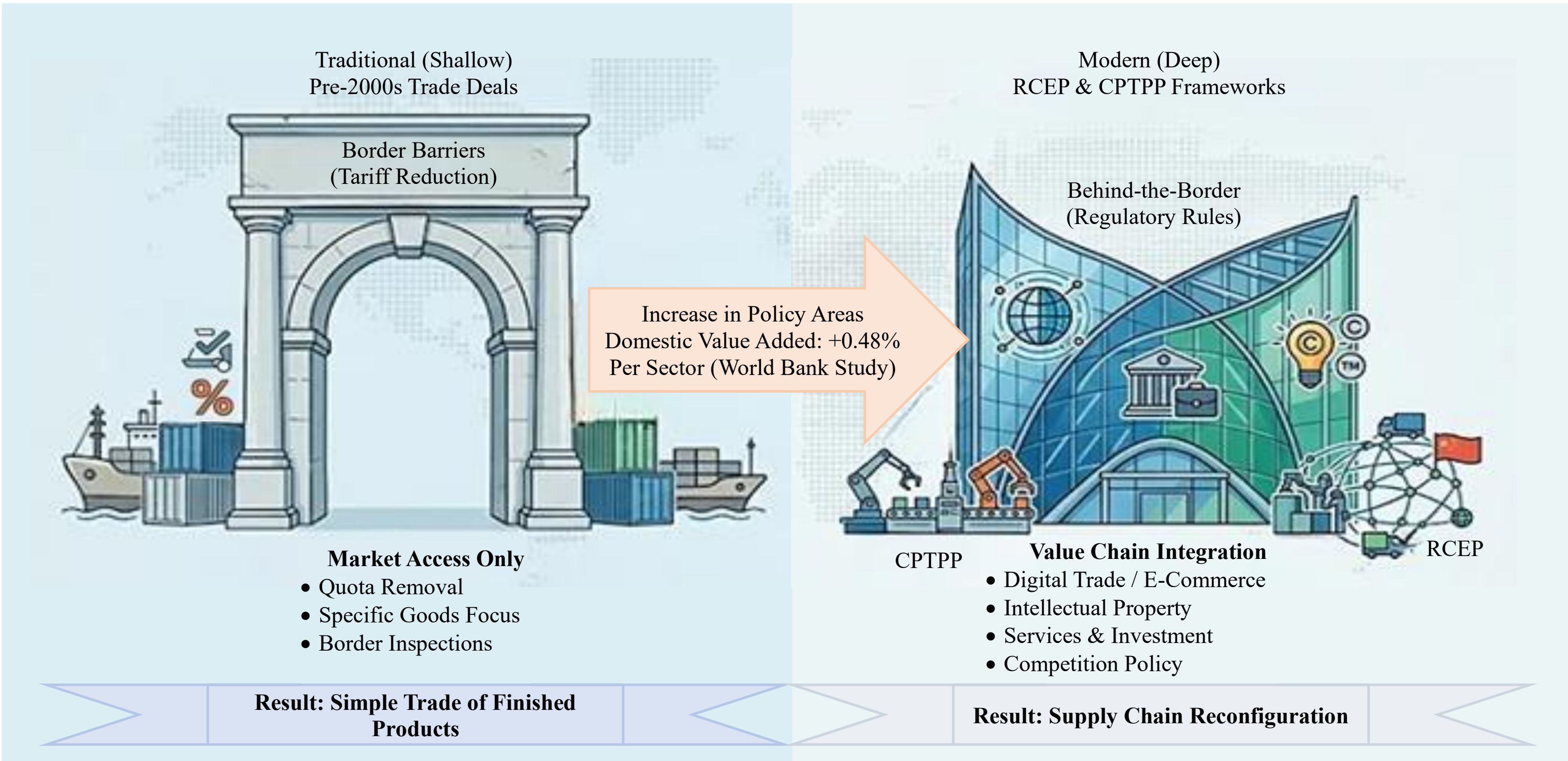

Figure 1: The evolution from shallow to deep trade agreements

The diagram lays out the evolution of the world trade policy framework from 'shallow' agreements to 'deep' agreements (Figure 1). Beginning from the left, the 'shallow' agreements model focuses exclusively on barriers at the border, that is, tariffs and quotas, to facilitate trade in finished goods. Conversely, the 'deep' agreements model represented by mega-regionals such as the RCEP and the CPTPP, deal with 'behind the border' trade barriers, meaning they set rules/standards for digital trade, IP, and services. The central arrow indicates one of the World Bank's findings from 2017: each additional 'policy' sector in a trade agreement is associated with a 0.48% increase in domestic value added per sector. Overall, the diagram illustrates the changing nature of trade agreements from instruments that simply provide access to a market, to agreements that provide a change in a country's position in a value chain.

RCEP: Consolidating Asia-Pacific Trade

The RCEP (Regional Comprehensive Economic Partnership) is now the largest trade agreement, measured by GDP, covering around 30% of global trade and GDP. The RCEP became effective on January 1, 2022, for the 10 founding members (Brunei, Cambodia, Laos, Australia, China, Japan, New Zealand, Singapore, Thailand, and Vietnam) [5].

Available research on the trade dynamics of the RCEP members suggests that trade integration was already taking place prior to the agreement becoming effective. Research published last year noted that from 2001 to 2018 trade integration consisted of a gradual improvement of intra-regional trade and the strengthening of intra-industry trade. These rising trends set the foundation for the agreement to further advance supply chain trade.

Data from AsiaGlobal Institute's RCEP Trade Tracker shows bilateral trade between China and the RCEP partners and trade agreements in relation to economic cycles. Exports from China to the RCEP partners increased by 24.9% in 2021 and 13.8% in 2022 (recovery from the global pandemic) and were then down 8.5% in 2023 due to global economic downturns and supply chain variations. This shows a boom in trade after the pandemic, followed by trade consolidation. However, the trade agreement will encourage trade in the long run.

CPTPP: Deep Integration Across the Pacific

CPTPP is a sort of case study when it comes to deep agreements. These include trade agreements that have a lot of depth when it comes to the amount of sectors the agreements service. This would include agreements on things like e-commerce, service agreements, investment agreements, and agreements on intellectual property. In the case of the trade agreement in question, within the CPTPP, trade financial values amount to $308.9 billion in 2021. This is a 5.5% increase since the trade agreement came into force in 2018. When looking at the state of the world at the time, the trade agreement created certainty in an otherwise uncertain world [4].

CPTPP members created a supply chain analysis to understand the impact of the agreement. What the analysis showed was an increase in overall trade along with an increase in trade along supply chains that existed [6][7]. This was especially true for members of CPTPP that did not have previously existing preferential trade agreements. The analysis showed trade flow from Canada to the new CPTPP member states and showed an increase of 18.0% in Canada’s exports to those states between 2018 and 2019. Canada’s imports also showed a 10.4% increase from the CPTPP new states. This increase was mainly from exports of meat to Japan and imports of machinery and textiles from Canada.

Illustration

When looking at the agreements in place that existed before 2025, if we take the increase in China's exports to the countries within RCEP and the amount of trade taking place within CPTPP, we find a good representation of the impact of the agreements on trade.

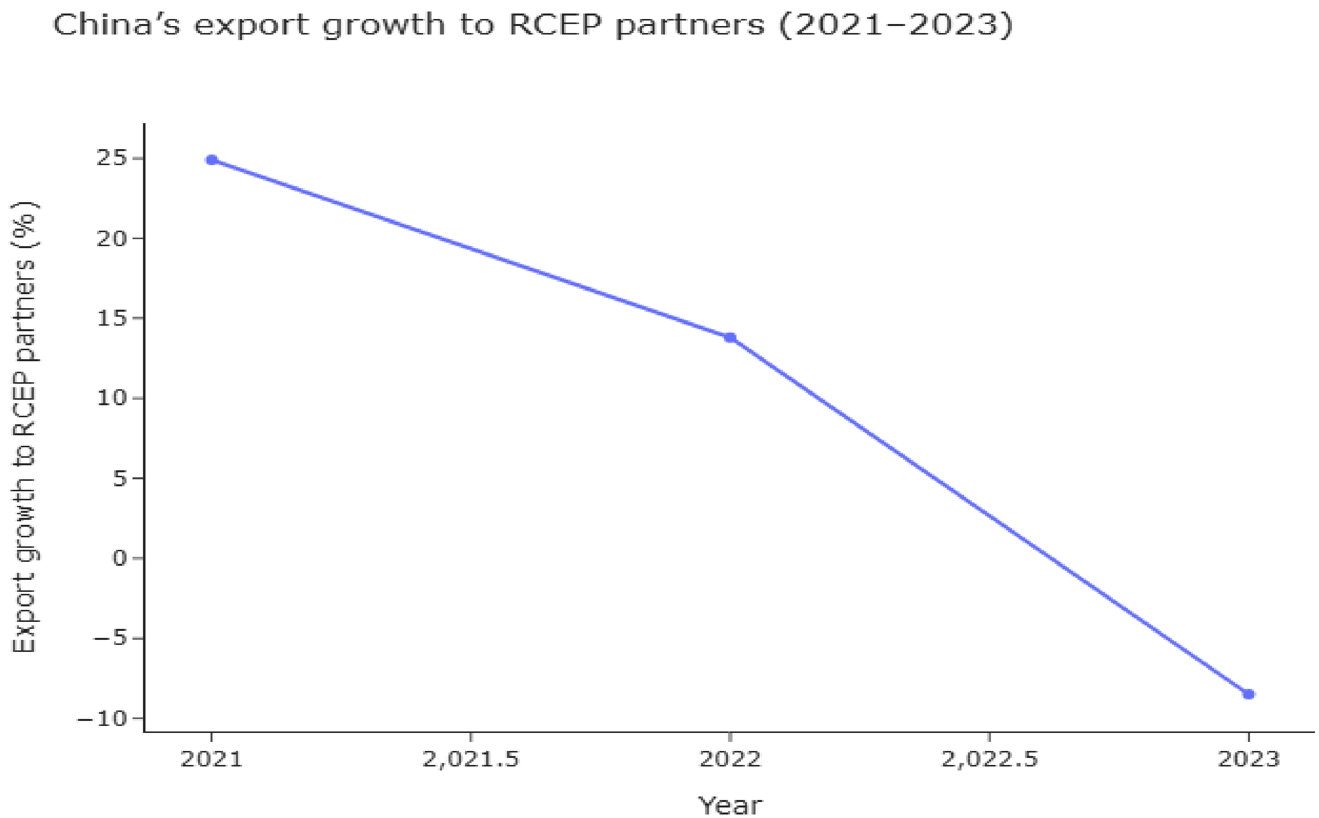

Figure 2: China's export growth to RCEP partners (2021–2023)

China's exports to RCEP partners had a percentage growth of 24.9 % in 2021, 13.8 % in 2022, and −8.5 % in 2023 (see figure 2). This shows that even with a rules-based agreement, macro shocks and supply chain alterations temporarily reverse trading growth. This is all while the underlying institutional framework remains unchanged.

Table 1: Selected pre-2025 indicators for RCEP and CPTPP

Indicator	Value	Year(s)	Source
China export growth to RCEP partners	24.9%	2021	AsiaGlobal Institute RCEP Trade Tracker
China export growth to RCEP partners	13.8%	2022	AsiaGlobal Institute RCEP Trade Tracker
China export growth to RCEP partners	−8.5%	2023	AsiaGlobal Institute RCEP Trade Tracker
Intra-CPTPP trade (US$ billions)	308.9	2021	CPTPP–CBF Supply Chains Analysis 2023
Intra-CPTPP trade growth since entry into force	5.5% (2018–2021)	2018–2021	CPTPP–CBF Supply Chains Analysis 2023
Domestic VA increase per added policy area	0.48%	Various	World Bank Deep Trade Agreements & GVCs
Foreign VA increase per added policy area	0.38%	Various	World Bank Deep Trade Agreements & GVCs

The impact of trade agreements on the CPTPP and China RCEP trade flows and the impact of trade agreement enhanced value chain integration given in table 1.

Deep Agreements, Value Chains, and Policy Implications

Deep trade agreements create more trade and less trade diversion than shallow agreements [1]. This is largely due to the reduction of behind the border friction and the enhanced regulatory compatibility. Global value chain analysis shows that deep agreements are particularly beneficial for high value-added activities as they allow countries to participate in the more sophisticated productive activities.

Policymakers should understand that the number of parties to a trade agreement is less important than the number of policy areas and the legal structure that are included. This is also true for the RCEP and CPTPP agreements as they allow firms to strategically locate their production and choose suppliers and target consumers based on the preferential tariffs, rules of origin, and digital trade obstructions [8].

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