

# A Literature Review on Regional Trade Agreements and Development Outcomes

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## Abstract

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This study investigates the developmental implications of Regional Trade Agreements (RTAs) through a systematic literature review of empirical and theoretical research published over the last five years. As multilateral trade negotiations under the World Trade Organization (WTO) face increasing gridlock, RTAs have emerged as key instruments for economic cooperation, particularly among developing and emerging economies. Modern RTAs have evolved to include provisions beyond traditional trade liberalization, such as environmental standards, labor rights, digital trade, and investment protections. The findings suggest that while RTAs can promote trade creation, export diversification, institutional reform, and foreign direct investment, their positive impacts are unevenly distributed. Countries with stronger institutional frameworks and policy coherence tend to benefit more, whereas those with weak governance or limited industrial capacity may experience adverse effects such as trade diversion or increased inequality. Ultimately, the effectiveness of RTAs in fostering inclusive and sustainable development depends on their design quality, enforcement mechanisms, and the extent to which domestic policies are aligned with international commitments.

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## **1. Introduction**

Regional Trade Agreements (RTAs) have emerged as pivotal instruments in shaping global trade patterns and influencing development trajectories, particularly in developing and emerging economies. As multilateral trade negotiations under the World Trade Organization (WTO) increasingly stall due to diverging national interests and complex consensus-building processes, countries are progressively turning to RTAs as alternative mechanisms to pursue their economic and strategic objectives. These agreements, which range from bilateral arrangements to large-scale plurilateral and regional pacts, are designed not only to reduce tariffs and eliminate non-tariff barriers, but also to facilitate deeper economic integration and regulatory harmonization across borders (Mattoo et al., 2020).

In addition to trade liberalization, modern RTAs often encompass a wide array of provisions covering investment flows, competition policy, labor rights, environmental sustainability, and intellectual property protection. This expansion in scope reflects the evolving nature of global trade, which is increasingly characterized by global value chains (GVCs), digital trade, and the need for alignment on non-trade issues that affect competitiveness and development. For many developing countries, RTAs represent an opportunity to access larger markets, attract foreign direct investment (FDI), enhance institutional credibility, and implement domestic reforms through international commitments.

However, the development implications of RTAs remain a subject of ongoing academic and policy debate. While numerous empirical studies have documented the potential positive spillovers of RTAs on economic growth, infrastructure

development, export diversification, and institutional quality (Baier et al., 2019; Dür et al., 2022), there are also significant concerns about their distributional consequences. Critics argue that RTAs may lead to trade diversion instead of trade creation, widen inequalities between member and non-member states, and disproportionately benefit stronger economies within the bloc at the expense of smaller or less competitive partners. Moreover, the effectiveness of RTAs in contributing to inclusive and sustainable development is often limited by domestic constraints such as weak governance structures, inadequate industrial capacity, or lack of institutional readiness.

Against this backdrop, it becomes crucial to reassess the evidence regarding the developmental outcomes associated with RTAs, particularly in the context of a shifting global trade environment marked by geopolitical tensions, digital transformation, and post-pandemic recovery efforts. This literature review aims to synthesize recent empirical findings on the relationship between regional trade agreements and development outcomes. By examining studies from diverse geographical regions and methodological approaches, this review seeks to identify key theoretical contributions, recurring empirical patterns, and critical policy implications that have emerged over the last five years. Ultimately, the review endeavors to provide a comprehensive understanding of whether and under what conditions RTAs serve as effective vehicles for fostering inclusive and sustainable development.

## **2. Literatur Review**

The impact of Regional Trade Agreements (RTAs) on development outcomes has become a growing area of interest in recent years. Several scholars have argued that RTAs play a significant role in promoting economic integration, reducing trade costs, and encouraging investment, especially when they include deeper provisions beyond tariff reductions (Hoekman & Sabel, 2021). These deeper provisions often encompass regulatory cooperation, digital trade rules, and sustainable development standards, which can influence domestic policy reforms and institutional modernization.

However, the developmental benefits of RTAs are not uniform across countries. Shapiro (2021) points out that while RTAs may stimulate export growth and efficiency, they often exhibit biases in favor of capital-intensive sectors, thereby amplifying inequality in countries with uneven resource endowments. Similarly, Alessandria et al. (2023) emphasize that the success of RTAs in facilitating structural transformation largely depends on the internal policy environment, including infrastructure readiness, education, and industrial support systems.

Moreover, Alessandria et al. (2023) raises concerns about the enforceability of social and environmental clauses included in newer RTAs. In many developing countries, weak institutional capacity hinders the full implementation of such commitments, limiting their potential to contribute to inclusive and sustainable development. These findings suggest that while RTAs hold potential as tools for development, their effectiveness is contingent on both design quality and domestic preparedness.

### **3. Methods**

This study adopts a qualitative research design using a systematic literature review (SLR) approach to explore the relationship between Regional Trade Agreements (RTAs) and development outcomes. The purpose of this method is to synthesize existing empirical evidence, theoretical perspectives, and policy discussions published between 2018 and 2023, with a particular focus on studies that evaluate the economic, institutional, and social implications of RTAs in both developed and developing economies.

The data for this review were collected from academic journals, policy papers, and working papers indexed in Google Scholar, Scopus, and Web of Science databases. The inclusion criteria for selected literature were: (1) studies published in peer-reviewed journals or by reputable policy institutions; (2) studies that specifically analyze the impact of RTAs on variables such as economic growth, trade performance, institutional reform, or social development; and (3) studies written in English and published within the target timeframe. Keywords such as “regional trade agreements”, “development outcomes”, “inclusive growth”, “trade liberalization”, and “economic integration” were used during the search process.

Once identified, the studies were assessed for relevance, methodology, and contribution to the field. The review integrates findings from both quantitative and qualitative research to provide a comprehensive understanding of how RTAs affect development outcomes under varying political, economic, and institutional conditions. The analysis also identifies common patterns, contrasting findings, and key research gaps to inform future investigations and policy design.

## **4. Results and Discussion**

The findings from the systematic literature review reveal that Regional Trade Agreements (RTAs) exhibit mixed but largely positive effects on development outcomes, particularly in countries with sufficient institutional capacity and complementary domestic policies. RTAs with comprehensive provisions extending beyond tariff liberalization to include investment protection, digital trade rules, environmental standards, and labor rights tend to yield more robust developmental outcomes. For instance, Yamaghuci and Shunta (2020) find that RTAs that incorporate sustainable development goals can stimulate institutional reforms and attract higher levels of green foreign direct investment (FDI), especially in middle-income countries.

Additionally, RTAs contribute significantly to trade creation and export diversification, especially when member countries possess compatible industrial structures and regional value chains. Studies such as those by Freund et al. (2020) show that intra-regional trade flows and productivity levels improve markedly after RTA implementation in sub-Saharan Africa and Latin America, contingent on the strength of trade-related infrastructure and customs efficiency. Moreover, the presence of deep integration clauses has been linked to increased policy credibility and regulatory convergence, which are vital for building investor confidence and ensuring policy consistency (De Melo et al., 2023).

However, the developmental benefits of RTAs are not evenly distributed. Smaller economies or those with limited bargaining power often struggle to benefit equally, especially when RTAs are dominated by larger or more industrialized

nations. As observed by Alessandria et al., (2023), trade diversion effects can occur, whereby trade shifts away from more efficient global suppliers to less efficient regional partners, thereby reducing overall welfare gains. Moreover, asymmetries in implementation capacity across member states particularly in enforcement of labor and environmental standards limit the inclusive and sustainable potential of these agreements (Hoekman & Mavroidis, 2020).

There is also concern that RTAs may exacerbate income inequality within and between countries. Shapiro (2021) argues that sectors benefiting most from RTAs are often capital-intensive, marginalizing labor intensive industries and low-skilled workers. Without adequate redistributive policies and social safety nets, such dynamics may widen socioeconomic gaps. This is further compounded by the challenges in aligning domestic policy reforms with RTA obligations, especially in states with fragile institutions or political resistance to liberalization (Baldwin, 2019).

From a policy perspective, the effectiveness of RTAs in promoting inclusive and sustainable development hinges not only on their design but also on domestic readiness. Effective RTAs require complementary investments in infrastructure, education, and institutional development. As emphasized by Sanguinet et al. (2022), RTAs can serve as catalysts for reform, but without internal policy coherence and strategic industrial planning, their transformative potential remains underutilized.

In sum, the evidence suggests that while RTAs offer promising pathways to economic growth and integration, their developmental impact is highly contingent on context-specific variables. Policymakers should therefore approach RTA negotiations with a strategic lens, ensuring alignment between trade commitments

and national development goals, while also prioritizing capacity building and inclusive implementation mechanisms.

## **5. Conclusion**

Regional Trade Agreements (RTAs) have become central instruments in the evolving architecture of global trade, offering significant opportunities for economic integration, trade expansion, and institutional development particularly in developing and emerging economies. The literature reviewed between 2018 and 2023 highlights that RTAs with deeper, more comprehensive provisions covering areas such as investment, environmental standards, labor rights, and digital trade can enhance developmental outcomes when supported by domestic policy readiness and institutional capacity.

However, the benefits of RTAs are not uniformly distributed. Countries with limited infrastructure, weak governance, and low institutional preparedness often fail to fully capitalize on RTA commitments, and in some cases, may even suffer from adverse effects such as trade diversion, increased inequality, or marginalization of less competitive sectors. Furthermore, disparities in implementation capacity and enforcement mechanisms, especially concerning social and environmental clauses, further constrain RTAs' contributions to inclusive and sustainable development.

Thus, while RTAs hold strong potential as catalysts for growth and reform, their success is conditional. To maximize developmental gains, policymakers must ensure alignment between international trade agreements and national development strategies. This includes investing in capacity building, strengthening institutions, and

adopting redistributive policies that mitigate inequality. Future RTA negotiations should prioritize inclusivity, enforceability, and coherence with broader sustainable development objectives to ensure that trade becomes a true engine for equitable progress.

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