



PART 2

Read the text below and answer questions 14–26.

THE IMPACTS OF REGIONAL TRADE AGREEMENTS

A

Regional trade agreements (RTAs) have multiplied over recent decades, linking neighbouring economies and, increasingly, partners separated by oceans. They are often advertised as tariff-cutting tools, but their practical influence is wider: they reshape supply chains, alter investment incentives, and change how firms prove compliance with technical rules. Because RTAs apply preferential treatment only among members, the gains are rarely uniform. Some sectors expand quickly, others face intensified competition, and the distribution of benefits depends on how firms reorganise production, sourcing, and logistics to fit the agreement's conditions.

B

A standard welfare argument for RTAs is trade creation: as tariffs fall or administrative barriers shrink, member countries buy more from each other because prices fall and market access improves. Yet the same preference can re-route trade in less efficient ways. Trade diversion occurs when imports shift away from lower-cost non-members toward higher-cost member suppliers simply because the agreement changes relative prices. In such cases, a country may import “more cheaply” in a narrow contractual sense, while society bears a hidden efficiency loss because the truly most competitive producer is excluded by the preference margin. Whether an RTA is ultimately beneficial therefore depends on how large these shifts are, how quickly industries adjust, and whether new competition within the bloc encourages productivity improvements that offset diversion effects.

C

Modern RTAs also extend far beyond border taxes into what economists call “deep integration”. They increasingly include provisions on services, investment, intellectual property, public procurement, competition policy, and digital trade. These chapters target behind-the-border barriers such as duplicative testing requirements, licensing rules, or restrictions on cross-border data flows—constraints that may matter more than tariffs for high-value manufacturing and many services. However, deep integration can also generate domestic controversy. When treaty commitments are perceived to limit future choices on health regulation, subsidies, environmental rules, or industrial strategy, political support can weaken. The result is a tension: deeper provisions can reduce transaction costs for firms, yet they can also raise questions about legitimacy and policy autonomy.



D

Among the most practical—and frequently misunderstood—features of RTAs are rules-of-origin. To qualify for preferential tariffs, exporters must demonstrate that a product was sufficiently made within member countries, usually by meeting a value-content threshold or a change-in-tariff-classification test. In principle, these rules encourage local sourcing and strengthen regional supply chains. In practice, they can impose documentation burdens, supplier declarations, and audit risk, particularly when products contain inputs from many countries. Firms must decide whether the preference is worth the paperwork. If the tariff margin is small, the administrative cost can outweigh the benefit, and exporters may pay the normal tariff to avoid compliance. This helps explain why headline tariff cuts do not automatically translate into high utilisation of an agreement.

E

RTAs can also shift the geography of production by attracting investment into member states. If firms expect stable, preferential access to a large market, they may build factories inside the bloc to serve customers tariff-free, reduce border friction, or satisfy origin thresholds. Supporters argue that this can promote regional supply-chain development, upgrade technology, and create jobs. Critics counter that investment may concentrate in already-advantaged regions with better infrastructure, skilled labour, or established clusters, leaving poorer areas with limited gains. In that sense, an RTA can increase overall output while widening internal disparities, especially if complementary policies—skills training, regional development, and transport investment—do not spread opportunities.

F

Standards provisions add another layer of impact. Some agreements pursue mutual recognition, in which a product tested or certified under one member's system can be accepted in another, reducing duplicative costs. Others seek harmonisation, aligning technical rules, labelling, or sanitary measures so that firms can produce to a single rulebook. Both approaches can lower compliance costs for exporters, but neither is frictionless. Sensitive sectors such as food and pharmaceuticals often provoke caution because governments may prioritise domestic public health preferences. The firm-level effects are also uneven. Large multinationals can maintain compliance teams, manage certification across markets, and reorganise sourcing to meet origin and standards rules. By contrast, small firms may find that administrative overhead, auditing risk, and logistics complexity reduce the practical value of preferences, even when tariffs on paper are lower.

G

Finally, RTAs influence resilience and the strategic shape of trade governance. By lowering



barriers within a bloc, they can diversify sourcing across members and reduce reliance on a single foreign supplier. Yet deeper interdependence can also transmit shocks more rapidly: if a key member hub faces disruption, ripple effects may spread quickly through integrated networks. Origin requirements can further limit emergency substitution if switching suppliers would break eligibility for preferential treatment. At the global level, overlapping agreements can fragment trade governance into competing rule-sets, forcing businesses to navigate multiple compliance regimes and pushing non-members to align with standards they did not help design. The debate is therefore not only economic. It is also about which rules dominate future trade, how disputes are managed, and whether cooperation can be maintained in a more contested environment.

Questions 14–18

Choose the correct heading for each paragraph.

List of Headings

- i Investment relocation and unequal gains inside the bloc
- ii Agreements that start with tariffs but reshape much more
- iii When lower barriers redirect trade away from efficient outsiders
- iv ‘Deep integration’ that reaches behind the border
- v Paperwork thresholds that determine who can claim preferences
- vi Why all members end up with identical regulations
- vii The disappearance of services trade under RTAs
- viii Workers everywhere benefit immediately from RTAs

14 Paragraph A

15 Paragraph B

16 Paragraph C

17 Paragraph D

18 Paragraph E

Questions 19–22

Choose **TRUE** if the statement agrees with the information given in the text, choose **FALSE** if the statement contradicts the information, or choose **NOT GIVEN** if there is no information on this.

19 The passage states that trade diversion happens only when tariffs are completely removed.



20 The passage suggests that deeper integration can create disputes about domestic policy space.

21 The passage claims that harmonisation of standards is always faster than mutual recognition.

22 The passage suggests that overlapping regional agreements can fragment global trade governance.

Questions 23–26

Complete the summary below. Choose **NO MORE THAN TWO WORDS** from the text for each answer.

How regional trade agreements affect trade

Regional trade agreements can increase welfare through trade creation, but they can also cause **23** when imports shift away from efficient non-members. Many modern RTAs include “deep integration” provisions, while access to tariff preferences often depends on complying with **24** Some agreements reduce duplicative costs by accepting certification under another member’s system through **25** Overall gains may be uneven, particularly for **26** that face higher relative compliance burdens.

Answer Key

14. ii

15. iii

16. iv

17. v

18. i

19. FALSE

20. TRUE

21. NOT GIVEN

22. TRUE

23. trade diversion

24. rules-of-origin



25. mutual recognition

26. small firms