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The Role of International Trade Agreements

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Abstract

This article provides an in-depth analysis of the evolving role of international trade agreements in 2025, highlighting their centrality in shaping global economic interactions, market access, and policy frameworks. Trade agreements—ranging from bilateral to regional and multilateral—continue to drive tariff reduction, investment, and economic growth, while also addressing broader contemporary challenges including sustainable development, supply chain resilience, and labor standards. The study synthesizes recent case studies, such as the India-EFTA TEPA and AfCFTA, evidencing impacts like increased foreign direct investment, job creation, and intra-regional trade expansion. Major agreements have contributed to higher GDP growth and competitiveness, though their benefits are distributed unequally across sectors and countries. The article also examines modern debates around protectionism, distributional effects, and regulatory divergence, as well as the institutional development of standards and dispute resolution mechanisms. Emphasizing the need for adaptive, inclusive, and sustainability-oriented trade policies, it recommends that future agreements balance liberalization with measures for workforce and industrial adjustment, stronger institutional frameworks, and digital policy innovation to ensure shared global prosperity.

Keywords: International trade agreements | Economic growth | Trade liberalization | Global value chains | Policy adaptation

INTRODUCTION

International trade agreements are foundational pillars of the global economic system, shaping how countries interact, access markets, and pursue growth. In 2025, trade agreements—whether bilateral, regional, or multilateral—remain central to alleviating trade barriers, stimulating investment, promoting standards of governance, and addressing contemporary challenges such as sustainable development and supply chain resilience. This article analyzes the core roles and emerging dynamics of international trade agreements, their economic and institutional impacts, notable case studies from 2024–2025, and the debates evolving amidst rising protectionism and geopolitical tensions.

Understanding International Trade Agreements

Trade agreements are treaties between two or more countries or trading blocs, setting the terms for international exchange of goods, services, and investments. Their core objectives typically include:

- Liberalizing trade by reducing tariffs, quotas, and non-tariff barriers
- Enhancing transparency, legal predictability, and dispute resolution mechanisms
- Promoting competition, specialization, and economic efficiency through comparative advantage

- Supporting development goals—such as technology transfer, capacity building, and sustainable practices

Trade agreements can be categorized as:

- **Bilateral Agreements:** India-UK FTA (2025), U.S.-Vietnam Agreement (2025)
- **Regional Agreements:** African Continental Free Trade Area (AfCFTA), EU-Mercosur, CPTPP
- **Multilateral Agreements:** World Trade Organization (WTO)-led frameworks

Historical and Contemporary Context Evolution and Growth

In the decades since the post-WWII era, the proliferation of trade agreements has fundamentally expanded cross-border economic activity. Today, about two-thirds of international trade occurs without tariffs, thanks to commitments under MFN status and formal trade agreements^[1]. The remainder continues to face significant barriers—particularly in agriculture, textiles, and industrial goods—highlighting the ongoing importance of negotiation and reform.

2025 Trade Landscape

The global trade landscape of 2025 is shaped by both new cooperation and resurging contestation. While global trade reached a record \$33 trillion in 2024, continued regulatory divergences, geopolitical rifts, and

regional supply chain strategies have complicated both existing and new agreement negotiations^{[1][2][3]}. There is a concerted effort to balance national priorities with the drive for more open global commerce.

Economic Impacts of Trade Agreements

Market Access and Growth

Trade agreements typically spur economic growth through:

- Expanded market access for exporters, increasing revenues and competitiveness^{[4][5][6]}
- Broader product variety and lower consumer prices
- Attraction of foreign direct investment (FDI) linked to assured legal frameworks^{[5][6]}
- Specialization and resource allocation efficiency via comparative advantage^[4]

Illustrative Table: Economic Impacts of Trade Agreements

Impact Area	Description
GDP Growth	Economies with active trade agreements see higher GDP
Export and Import Volumes	Agreements increase trade flows and diversity
Job Creation	Market access and investment drive new employment
Competitiveness	Domestic firms exposed to competition innovate more
Consumer Benefits	Lower prices, improved quality, and greater choice

Evidence from Recent Agreements

- **India-EFTA TEPA (2025):** EFTA will invest \$100B in India over 15 years, with expected 1 million new jobs^[7].
- **India-UK FTA (2025):** Eliminates tariffs on 99% of Indian and 90% of UK exports; aims to boost trade by £25.5B and fast-track growth in both economies^[8].
- **AfCFTA:** With 54 of 55 African Union members participating, the agreement creates the largest global free trade area by number of countries, aiming to double intra-African trade and spur industrialization^[9].

Graph: Simulated Global GDP Changes by Trade Policy Scenario

- Multilateral trade liberalization: +3.2% global real GDP
- Geopolitical rivalry and trade fragmentation: -5.4% global real GDP
- LDCs gain the most under multilateral cooperation (up to +4.8% real GDP)^[10]

Distributional and Sectoral Effects

Trade agreements create broad national gains, but not without winners and losers:

- Export-driven and efficient sectors thrive with expanded access and innovation^{[4][5]}
- Import-competing industries may struggle, requiring adjustment support, training, or compensation

- Governments may see reduced tariff revenue, offset in developed markets by broader tax bases^[4]
- Labor market shifts can be abrupt and politically contentious, particularly when support for displaced workers lags behind^{[4][5]}

Special Challenges for Developing Economies

- Tariff escalation on value-added exports undermines industrialization prospects
- South-South trade still faces high tariffs, limiting competitiveness^[11]
- Ensuring that agreements address infrastructure, capacity-building, and equitable participation is vital for inclusive growth

International Trade Agreements and Institutional Development

Trade agreements also play a key role in:

- Reducing policy uncertainty, thus promoting long-term investment^[4]
- Strengthening legal frameworks, intellectual property protection, and sustainability standards^[11]
- Fostering institutional reform and regulatory alignment, especially for countries integrating into global supply chains^[12]

Key Trends and Agreements in 2025

- **United States:** Entered bilateral deals with UK (cutting auto and aerospace tariffs) and Vietnam (imposing new tariffs on suspected Chinese transshipments, easing for select U.S. exports)^{[13][3]}
- **EU:** Expanding and modernizing agreements, including with Mercosur (Argentina, Brazil, Paraguay, Uruguay), Mexico, and relaunching talks with Malaysia^[9]
- **Asia-Pacific:** CPTPP expanding membership; India-UK FTA and EFTA TEPA soon in force^{[7][8]}
- **Africa:** AfCFTA aims to unlock major intra-regional trade potential^[9]
- **G7 policy shifts:** Focus on resilient critical minerals supply, climate alignment, and supply chain security^[3]

CASE STUDIES

Bilateral: India-European Free Trade Association (EFTA) TEPA

- Signed March 2024; to be fully implemented by October 2025
- \$100B investment commitment from EFTA, with direct job creation
- New pathways for services, labor mobility, technology, and sustainable development^[7]

Multilateral: AfCFTA

- 54/55 AU member states joined, creating a consumer market of over 1.3 billion people
- Aims to boost intra-African trade by eliminating tariffs on 90% of goods over time^[9]

Sectoral: U.S.-UK Economic Prosperity Deal

- Reduces tariffs in auto/aerospace, expands market access in agriculture
- Designed to support supply chain resilience and high-tech sector cooperation^{[13][3]}

Visualization: Recent Major International Trade Agreements (2024–25)

Agreement	Partners	Key Features
India-EFTA TEPA	India, Iceland, Liechtenstein, Norway, Switzerland	\$100B investment, job creation, FTA
India-UK FTA	India, United Kingdom	Tariff cuts, services liberalization
U.S.-UK Deal	United States, United Kingdom	Metals and auto tariffs cut, agriculture access
EU-Mercosur	EU, Mercosur (Latin America)	Tariff elimination, regulatory stabilization
AfCFTA	54 AU members	Largest global FTA by country count
U.S.-Vietnam Deal	United States, Vietnam	Tariff realignment, compliance mechanisms

Critiques and Contemporary Debates

- Rising protectionism: Since 2017, tariff tensions (especially U.S.–China) and non-tariff measures have complicated trade flows^{[14][2]}
- Unequal distribution: Long-lasting negative effects for some worker groups, fueling political opposition and slowing liberalization^[4]
- Policy innovation: Sustainability, labor, and environment standards are increasingly embedded in modern agreements, but regulatory divergence remains a flashpoint, especially between the EU and emerging economies^{[2][9]}

Best Practices and Policy Recommendations

- Combine trade liberalization with support for labor market adjustment and competitiveness upgrades
- Strengthen international institutions (WTO and UNCTAD) to resolve disputes, monitor compliance, and support the participation of developing and least-developed countries^{[1][10]}
- Ensure trade agreements are flexible to address 21st century issues: digital trade, supply chain resilience, and sustainability
- Invest in data infrastructure and continuous trade policy review for evidence-based negotiation and monitoring

CONCLUSION

International trade agreements in 2025 remain powerful levers for economic growth, job creation, and increased competitiveness. While trade expansion delivers aggregate gains, distributional dilemmas and rising protectionism underscore the necessity for adaptive, inclusive agreements. By embedding sustainability, resilience, and equity in their frameworks, new and renewed trade deals can foster robust prosperity while enabling flexible adjustment for businesses, workers, and societies. Navigating the tensions and opportunities posed by trade policy will be central to global economic wellbeing in the decade ahead.

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