



The AfCFTA

Impact of Regional/Preferential Trade Agreements

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Impact of Regional/Preferential Trade Agreements

For the last half-century, regional or preferential trade agreements (RTAs or PTAs) have been a major and recurring means of eliminating trade barriers for almost all World Trade Organization (WTO) members and through which to advance trade. The attraction of RTAs is reflected in the steady increase in the share of global trade covered under them. The AfCFTA reflects this trend, which is the world's largest free trade area in terms of membership as it brings together 55 African countries and eight regional economic communities (RECs).

Promoting a free trade area such as the AfCFTA will help African countries implement domestic reforms and open their economies up to competitive market pressures at a sustainable pace, thus facilitating their economic integration into the world economy. It would also benefit the multilateral process by promoting trade openness and competitive liberalisation of international trade relations.

Economic welfare gains from a PTA follows a simply dynamic in that resources flowing to their most productive uses and lower consumer prices. However, creating such an arrangement does not necessarily guarantee the improvement of member states' welfare, as it may come at a cost. The preferential removal of tariffs may lead to trade diversion, where imports shift away from the most efficient supplier to the country receiving preferential treatment. Such diversion can generate an inefficiency in production, leading to welfare losses for member and non-member countries. It can harm member states if the changes in consumer welfare gains are too small to outweigh the cost of inefficient production. In contrast, trade welfare gains are achieved when a RTA shifts production from inefficient domestic providers to efficient RTA members through a process known as trade creation.

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Dr Blessing Chipanda joined the African Futures and Innovation (AFI) programme in January 2023. Before joining the ISS he worked as an assistant lecturer/research assistant at the University of Pretoria, Department of Economics. He is particularly interested in tasks within the wider realm of international trade, development economics, public policy, monetary policy, and econometric modelling. Equally interested in economic and socio-economic activities that impact social welfare. Blessing has a PhD in economics from the University of Pretoria, South Africa.

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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