Waves of regional trade agreements

Since the signing of the General Agreement on Tariffs and Trade (GATT) in 1947, three waves of RTAs have swept through the global trading system. The six Western European countries (Belgium, Luxembourg, France, Italy, Netherlands, and Germany) led the first wave of regionalism in the late 1950s and 1960s, which founded the only substantial new customs union of the 1960s—the European Customs Union. Seven other European countries (Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom) formed the European Free Trade Association (EFTA) during the same period. The European Customs Union used preferential trading agreements to encourage future members and as a substitute for traditional foreign policy instruments.[1]

The union was subsequently used as a model by groups of developing economies in Africa, the Caribbean, Latin America, and South America. The most promising of these agreements, the East African Community and the Central American Common Market, however, eventually collapsed in the 1970s.[2]

These two agreements failed because they were based on a regional form of import substitution. Each member country wanted a regional market for its inefficient industries but was unwilling to buy the expensive or poor-quality import substitutes being produced by their partners. The European Customs Union had similar strains. However, in most instances (except for agriculture products), the least-cost supplier within the union was globally competitive. In addition, the political will for a greater economic union outweighed the perceived costs.[3]

The second wave was initiated by the US’s departure from the GATT non-discrimination (countries cannot discriminate products from different trading partners) principle in the first half of the 1980s and peaked with the North American Free Trade Agreement (NAFTA) negotiations in the early 1990s, which coincided with the establishment of European Union’s (EU) in 1993. It turned out that discriminatory trade policies posed less of a threat to the global trade system.

Although NAFTA was signed and implemented in 1994 and the EU established the year before, the major trading nations reaffirmed their commitment to the non-discrimination principle with the successful conclusion of the 1986–1994 Uruguay Round of multilateral trade negotiations and the establishment in 1995 of the WTO as the successor to the GATT. The practical outcomes of these RTAs were, however, minimal for much the same reasons as in the first wave: each partner was unwilling to grant other partners non-trivial preferential access to its own protected markets.
The third wave of RTAs began in the early years of the 21st century (the early 2000s) and was led by East Asian countries, partly stimulated by a perception that the global economic institutions let the region down in the 1997 Asian Crisis and the increase of China’s economic power. The bilateral negotiations started with Japan and Singapore, whilst plurilateral (or multi-national) agreements were initiated between China and the Association of Southeast Asian Nations (ASEAN).

In this wave, the number of RTAs notified to the WTO reached an all-time high in the early 2000s. In Africa, evidence of the increased regionalism in the early 2000s was provided with the revival of the defunct EAC in 2001.[4] In Europe, further evidence of deeper regional integration is seen in the expansion of the European Union (EU) to 25 in 2004 and to 27 members in 2007 with Croatia becoming its 28th member in 2013, although the UK left in 2020. This wave continues many of the trends towards deeper regional integration that cover additional economic policies such as foreign direct investment (FDI), intellectual property rights and the environment in addition to trade.[5]
Endnotes

5. The World Bank, Deep Trade Agreements

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