ISS | AFRICAN FUTURES

The AfCFTA

Waves of regional trade agreements

Blessing Chipanda and Jakkie Cilliers

Last updated 19 April 2024 using IFs v7.84

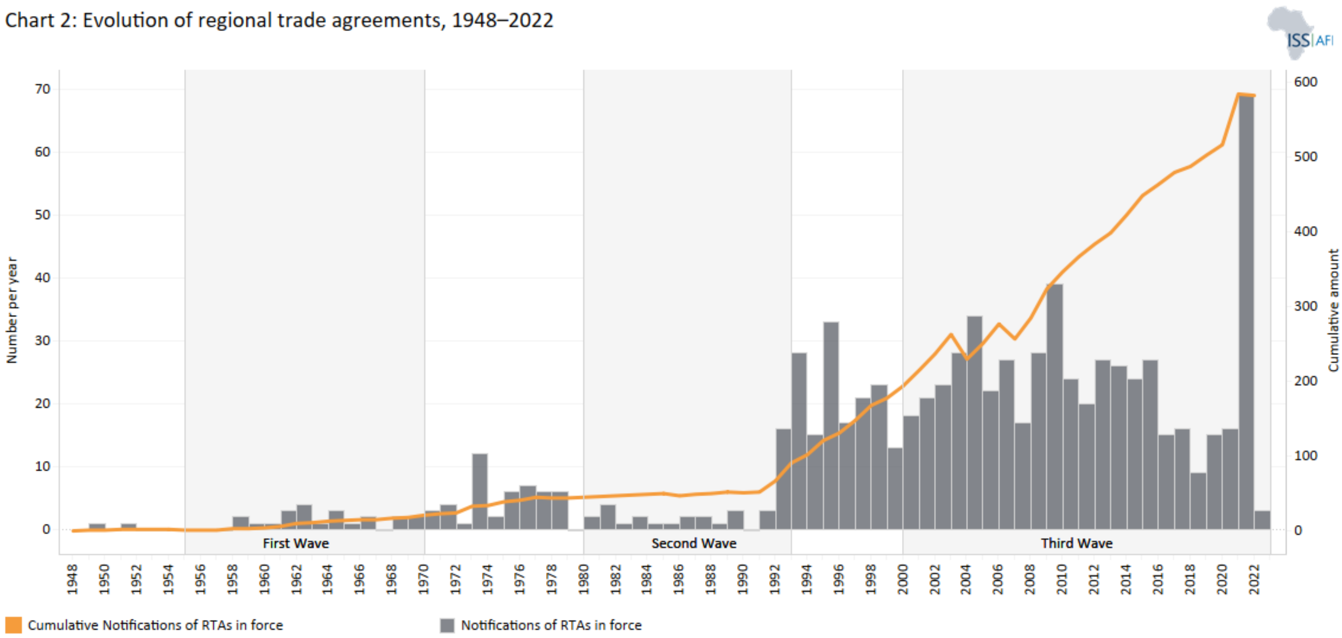
Waves of regional trade agreements

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 agreement 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]

Chart 2: Evolution of regional trade agreements, 1948–2022

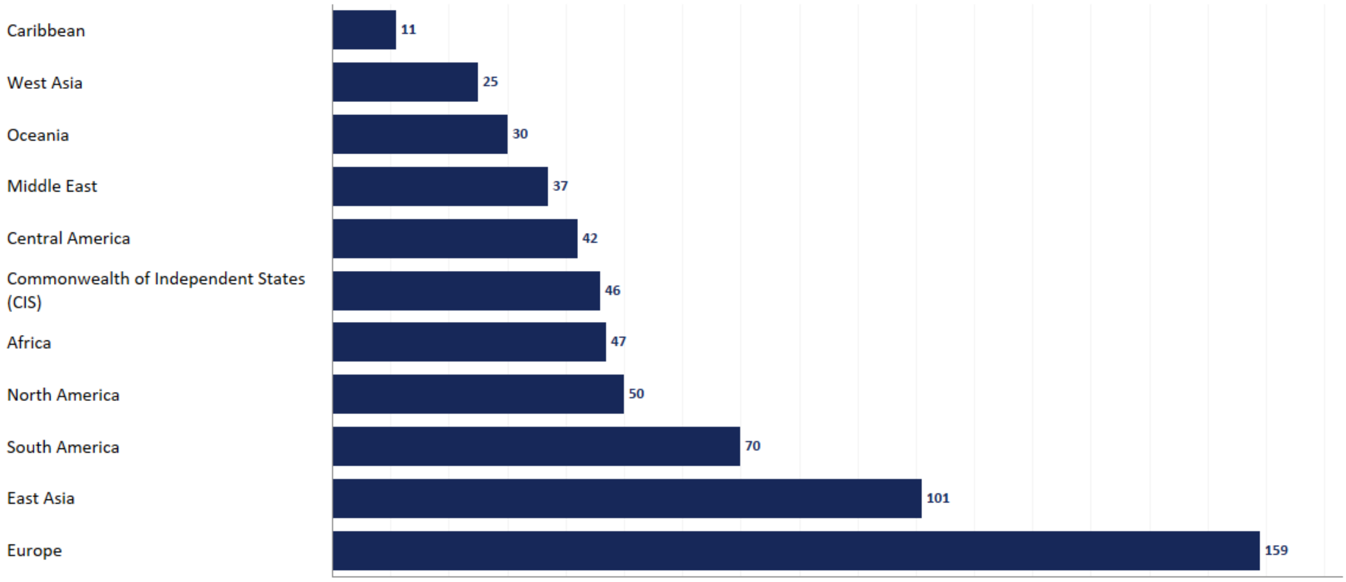


Source: RTA section of the WTO Secretariat, December 2022

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.

Chart 3: Regional trade agreements, participation by region, 1948–2022



Source: RTA section of the WTO Secretariat, December 2022

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

1. R Pomfret, Is Regionalism an Increasing Feature of the World Economy, The World Economy, 2007
2. R Pomfret, Regional trade agreements, in M Fratianni and A Rugman (eds.), *Regional economic integration*, Amsterdam: Elsevier, 2006
3. R Pomfret, Regional trade agreements, in M Fratianni and A Rugman (eds.), *Regional economic integration*, Amsterdam: Elsevier, 2006
4. B R Mngomezulu, Why did regional integration fail in the East Africa in the 1970s? A Historical explanation, 2013
5. The World Bank, Deep Trade Agreements

Donors and sponsors

Hanns Seidel Foundation

Sweden Sverige

AUDA-NEPAD AFRICAN UNION DEVELOPMENT AGENCY

Cite this research

Blessing Chipanda and Jakkie Cilliers (2024) The AfCFTA. Published online at futures.issafrica.org. Retrieved from https://futures.issafrica.org/thematic/08-afcfta/ [Online Resource] Updated 19 April 2024.

About the authors

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 of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. 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.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.