

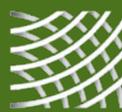


WIDER ATLANTIC POLICY PAPER SERIES

TRADE IN THE WIDER ATLANTIC AND THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

PETER SPARDING

G | M | F The German Marshall Fund
of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

 **OCP
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The German Marshall Fund of the United States
1744 R Street, NW
Washington, DC 20009
T 1 202 683 2650
F 1 202 265 1662
E info@gmfus.org

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On the cover: A sunny morning at the Casablanca, Morocco, seaport. © AlexanderCher/istockphoto

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WIDER ATLANTIC POLICY PAPERS

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By Peter Sparding¹

Introduction	1
A Brief History of Trade in the Wider Atlantic	2
The Changing Global Trade Landscape	4
The Geography of Changing Trade Patterns: Implications for the Wider Atlantic	6
Conclusion: TTIP – A Game Changer for the Wider Atlantic?	12

¹ Peter Sparding is a transatlantic fellow for economic policy with the German Marshall Fund of the United States. He would like to thank Vanessa Stachtou, graduate student at the Johns Hopkins School of Advanced International Studies, for her help with this paper.

1 INTRODUCTION

The concept of the Atlantic as one region was a European invention. This is not because “Europeans were its only denizens, but because Europeans were the first to connect its four sides into a single entity, both as a system and as the representation of a discrete natural feature.”¹ Since then, the notion of what constitutes this Atlantic system has undergone various iterations. Today, our view of the Atlantic and the four continents bordering it are once again changing.

Historically, transatlantic relations have often been focused on North-North connections in the Atlantic space. In light of momentous geopolitical, economic, and demographic changes around the world, it now seems expedient to expand the view of the Atlantic by exploring its “vertical map”² and including its Southern half. This perspective offers the possibility to examine the wider Atlantic region “not only in geographical terms but as a space characterized by specific trends and challenges.”³

This paper will focus on one of these trends currently shaping the region — the changing role of trade in the Wider Atlantic space. Significant developments are unfolding. Total trade among the regions of the Atlantic Basin has seen a dramatic increase in recent years, more than doubling in volume between 2000 and 2011.⁴ Over the same period, new actors have entered the Atlantic sphere.

In addition, trade patterns are slowly shifting between the four continents.

The Wider Atlantic is also a region characterized by a plethora of trade deals or ongoing trade negotiations. Much like the situation in the Asia-Pacific, which has been labeled a “noodle bowl” of trade deals, trade in the Atlantic Basin is covered by a variety of overlapping negotiations and agreements. The newest and potentially most significant such negotiation is the Transatlantic Trade and Investment Partnership (TTIP), a proposed deal between the United States and the European Union that would cover a significant part of the global economy. This paper will illustrate and analyze the history of trade relations in the Atlantic, the changing trade patterns in the Wider Atlantic, and explore the potential impacts of TTIP on geostrategic and economic developments in the region.

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¹ Armitage, David. 2002. “Three Concepts of Atlantic History,” in Armitage, David and Bradick, Michael J. (eds.). *The British Atlantic World, 1500-1800*, p. 12.

² Dassù, Marta. 2012. “Why the West should be enlarged.” <https://www.aspeninstitute.it/aspensia-online/article/why-west-should-be-enlarged>

³ Alcaro, Ricardo and Alessandri, Emiliano. 2013. “A Deeper and Wider Atlantic.” <http://www.gmfus.org/archives/a-deeper-and-wider-atlantic/>

⁴ Ruano, Lorena. 2012. “Trade in the Atlantic Basin, Upgraded graphics on pan-Atlantic commercial flows.” <http://transatlantic.sais-jhu.edu/events/2012/Atlantic%20Basin%20Initiative/Atlantic%20Basin%20Initiative%20-%20Presentations>

2 A BRIEF HISTORY OF TRADE IN THE WIDER ATLANTIC

Atlantic trade not only permanently altered the geopolitical landscape but brought about significant economic and societal changes in Europe.

The history of trade in the Atlantic Basin links four continents over five centuries. It is closely intertwined with the rise of Europe and later the United States; it thus continues to shape our world to this day.

Over the past 500 years, the Atlantic system has been the center of the world's economic activity. Starting around 1500 following the discovery of the New World, Atlantic powers, first in Western Europe and later the United States of America, rose to become global powers. Trade across the Atlantic Ocean played a key role in this development, turning Western Europe from a peripheral region of the Eurasian land mass into a global and centrally located economic actor.⁵ Between 1500 and 1800, the countries of Western Europe experienced an unprecedented era of economic growth, leading to “perhaps the ‘First Great Divergence,’ making this area substantially richer than Asia and Eastern Europe by the beginning of the 19th century.”⁶

The unique benefits derived from trade across the Atlantic in this process were already observed in the late 18th century by Adam Smith who noted in the *Wealth of Nations* that the parts of Europe “washed by the Atlantic ocean” had “become the manufacturers for the numerous and thriving cultivators of America, and the carriers, and in some respects the manufacturers too, for almost all the different nations of Asia, Africa, and America.”⁷ The new Atlantic trade routes transformed Europe's Atlantic nations — Britain, Spain, Portugal, the Netherlands, and France — into global powers.

⁵ O'Rourke, Kevin; Prados de la Escosura, Leandro; and Daudin, Guillaume. 2008. “Trade and Empire, 1700-1870,” p. 2. <http://www.tcd.ie/Economics/TEP/2008/TEP0208.pdf>

⁶ Acemoglu, Daron; Johnson, Simon; and Robinson, James. December 2002. “The Rise of Europe. Atlantic Trade, Institutional Change and Economic Growth,” NBER Working paper, No. 93778, p. 1.

⁷ Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*, p. 238 f.

In the process, Atlantic trade not only permanently altered the geopolitical landscape but brought about significant economic and societal changes in Europe. Without access to vast overseas markets, the innovations of the British Industrial Revolution may have been unthinkable. Following Adam Smith's dictum that the division of labor is limited by the extent of the market, trade helped to promote innovation, as British entrepreneurs of the time relied on large markets to recoup their significant investments. Despite its advanced stage, the British domestic market itself was too small for this task.⁸ The new Atlantic markets, on the other hand, promised sufficient returns. At the same time, the rise in trade across the Atlantic “strengthened new commercial interests and enabled them to demand and obtain the institutional changes necessary for capitalist growth,”⁹ thus also contributing to political transformations in Europe.

During this time period, the Atlantic became the focus of Europe's economic activity, and Europe, in turn, was the center of this Atlantic economy. Europe developed into a truly global actor as most land masses in the Atlantic Basin fell under direct control of European powers. The continent was the hub of all transatlantic trade routes. Sea lanes originated from and returned to the continent. Mercantilism dominated economic thinking in the Old World. At the same time, the rise of European powers and the establishment of the Atlantic economy brought devastation to indigenous people in the Americas and the transatlantic slave-trade forcefully dislocated millions of Africans.

By the end of the 19th century, the United States had joined the ranks of European Atlantic global powers, leading to a rebalancing between Europe and North America as “the North

⁸ O'Rourke, Kevin et al. 2008. p. 21.

⁹ Acemoglu, Daron et al. p. 4.

Atlantic eventually emerged as a community of technologically advanced countries – the ‘West’ – able to shape international relations on a global scale.”¹⁰ This period from the second half of the 19th century until the beginning of World War I was also a golden era of trade, sometimes referred to as the first age of globalization. It saw a rapid decrease in transatlantic transport costs, mass migration from the Old to the New World, and rising integration of Atlantic commodity markets.

As World War I plunged Europe into chaos, the first era of globalization came to an end. The interwar period and World War II witnessed a reversal of globalization trends as isolationism and nationalism dominated, with protectionist “beggar-thy-neighbor” trade policies becoming the new orthodoxy. Global trade volumes plummeted.

After World War II, the North Atlantic partners set out to create a new global economic architecture by establishing a set of multilateral institutions and treaties. The following decades saw a subsequent lowering of trade barriers among advanced economies in successive rounds of negotiations under the General Agreement on Tariffs and Trade (GATT), the precursor of the World Trade Organization (WTO). Together with strong post-war economic growth in most Western economies, this led to steady increases in trade volumes, but it was not until the mid-1970s that world trade, measured as a share of global output, recovered to the levels of 1913.¹¹

Over the past decades, the world has entered a new phase of global trade, described by Arvind Subramanian and Martin Kessler as the age of “hyperglobalization,” in which world trade has

grown much faster than world GDP.¹² Among other features, this era is characterized by a rapid rise in trade integration, as more countries have liberalized trade policies and the number of regional trade agreements has soared.¹³ These developments have altered the global trade landscape and the picture in the Wider Atlantic in profound ways.

Over the past decades, the world has entered a new phase of global trade, described by Arvind Subramanian and Martin Kessler as the age of “hyperglobalization,” in which world trade has grown much faster than world GDP.

¹⁰ Alcaro, Ricardo and Alessandri, Emiliano. 2013.

¹¹ Krugman, Paul. 1995. *Growing World Trade. Causes and Consequences*, p. 330.

¹² Subramanian, Arvind and Kessler, Martin. 2013. “The Hyperglobalization of Trade and Its Future,” Peterson Institute for International Economics.

¹³ *Ibid*, p. 4ff.

3 THE CHANGING GLOBAL TRADE LANDSCAPE

North-North trade flows between developed economies are slowly being overtaken by South-South commerce and North-South commerce.

Changing Global Trade Patterns

Measured as a share of global output, trade today is almost three times the level of the early 1950s. Between 1980 and 2011 alone, the increase in the dollar value of global merchandise trade averaged more than 7 percent per year, with trade in services rising even faster. In this period, world trade on average grew twice as fast as world production.¹⁴

The biggest agent of change in global trade over this period has been the rise of new emerging market economies and their integration into the world trade system. Previously, world trade was dominated by North-North flows, mostly between the traditional transatlantic partners and Japan. In the early 1970s, the United States, Germany, and Japan alone accounted for one-third of all global trade.¹⁵ The recent rise of emerging economies is challenging this composition in dramatic ways. North-North trade flows between developed economies are slowly being overtaken by South-South commerce (trade between developing countries) and North-South commerce (trade between developed and developing countries).¹⁶

As the economies of the South (generally understood to include the developing countries of Asia, the Middle East, Africa, and Latin America) have grown at relatively higher rates than developed countries of the North, import demand has shifted accordingly. Consequently, the share of South-South trade in world trade increased from 8 percent in 1990 to 24 percent in 2011.¹⁷ The global economic crisis of the last five years has accelerated

this trend. Today, trade flows between developing countries have surpassed pre-crisis levels by a wide margin.¹⁸ These trends are expected to continue, as growth prospects in emerging and developed economies continue to diverge. Over the next 20 years, trade routes among emerging economies, as well as between emerging and developed economies, are thus anticipated to become more significant.¹⁹

Factors Behind Changing Trade Patterns

The changes to global trade patterns are driven by a number of factors. First, the past decades have seen a dramatic increase in bilateral and multilateral trade agreements. The creation of the World Trade Organization in 1995 and the successive inclusion of major trading powers, such as China, have affected global trade patterns.²⁰ At the same time, the number of preferential trade agreements (PTAs) has ballooned, growing from 70 to 300 between 1990 and 2010. Increasingly, these trade deals also go beyond existing multilateral agreements to cover not only tariffs and quotas, but so called “behind-the-border barriers” like regulatory issues and standards.²¹

Technology is another factor in explaining changing trade patterns. Although transportation costs are no longer declining at the rate of previous eras, lowered communication and information costs have had a positive impact on trade volumes.

¹⁴ WTO. 2013. *World Trade Report 2013*. “Factors shaping the future of world trade,” p. 5.

¹⁵ Riad, Nagwa; Errico, Luca; Henn, Christian; Saborowski, Christian; Saito, Mika; and Turunen, Jarkko. 2012. “Changing Patterns of Global Trade,” International Monetary Fund, p. 6.

¹⁶ Hanson, Gordon H. 2012. “The Rise of Middle Kingdoms. Emerging Economies in Global Trade,” in *Journal of Economic Perspectives* – Volume 26, Number 2, p. 42.

¹⁷ WTO. 2013. p. 6.

¹⁸ Giordano, Paolo (coordinator). 2013. “After the Boom. Prospects for Latin America and the Caribbean in the South-South Trade,” *Trade and Integration Monitor 2013*, Inter-American Development Bank, p. 3.

¹⁹ Selfin, Yael and Hope, David. 2011. “Future of World Trade. Top 25 sea and air freight routes in 2030,” *PricewaterhouseCoopers Economic Views*, p. 5.

²⁰ The exact impact of the WTO on trade volumes is disputed. See Rose, Andrew. 2004. “Do we really know that the WTO Increases Trade?,” *American Economic Review* 94 (1): 98-114; and Balding, Christopher. 2010. “Joining the World Trade Organization. What is the Impact?,” *Review of International Economics*, 18(1), 193-206.

²¹ Subramanian, Arvind and Kessler, Martin. 2013. p. 9.

These technological advances have allowed a “slicing-up” of the value-added chain, as different stages of the manufacturing process can be separated across countries. In connection with low tariffs and transportation costs, this allows for the creation of regional or even global supply chains, as “each country specializes in particular stages of a good’s production sequence.”²²

This “vertical specialization” could also lead to a statistical inflation of recorded trade volumes where “gross trade flows (that is, total exports) overstate *net* trade flows (that is exports net of imported intermediate inputs),”²³ given that official trade statistics are measured in gross terms. Such effects are likely most pronounced for middle-income countries engaged mostly in assembly and manufacturing processes. They are less distinct for developing countries that specialize in primary products. Here, increasing export numbers are mostly a “reflection of specialization for global markets.”²⁴

Another important component shaping global trade patterns is demography, as countries are reaching different stages of their demographic transitions and global demand patterns are shifting accordingly. With the world’s population expected to grow to 9.3 billion by 2050, its distribution is expected to continue to shift toward developing and emerging economies. At the same time, the convergence of per capita income levels across countries is leading to the development of a global middle class.²⁵ Studies predict that the size of this new middle class could reach anywhere between one-half to two-thirds of global population by 2030,

with a large share of this group living in the Asia-Pacific region.²⁶

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²² Riad, Nagwa et. al. 2012. p. 7.

²³ Hanson, Gordon. 2012. p. 45.

²⁴ Ibid. p. 46.

²⁵ WTO. 2013. p. 114 ff.

²⁶ Ernst & Young. 2013. “Hitting the sweet spot: The growth of the middle class in emerging markets,” p. 4. [http://www.ey.com/Publication/vwLUAssets/Hitting_the_sweet_spot/\\$FILE/Hitting_the_sweet_spot.pdf](http://www.ey.com/Publication/vwLUAssets/Hitting_the_sweet_spot/$FILE/Hitting_the_sweet_spot.pdf)

4 THE GEOGRAPHY OF CHANGING TRADE PATTERNS: IMPLICATIONS FOR THE WIDER ATLANTIC

As part of an overall trend of increasing global South-South trade flows, both Africa and Latin America have rapidly developed stronger economic ties with Asia in recent years.

Perhaps not surprisingly, the Asia-Pacific region has also been the biggest driver of the above-mentioned changing trade patterns in geographic terms. China alone has increased its share in world exports from 1 percent in 1980 to 11 percent in 2011, thereby becoming the world's largest exporter.²⁷ Other countries in the Asia-Pacific region are experiencing similar boosts to their share of world trade, if at a lower volumes. Although a large share of the increased trade reflects growing Asian exports to Western markets as global production chains have moved to the Asia-Pacific, Asia's rapidly growing middle class could signal a shift in the distribution of global demand going forward.²⁸ This is likely to further affect trade patterns in the Wider Atlantic area, which is increasingly linked economically to developments in Asia.

The Southern Atlantic and Asia

As part of an overall trend of increasing global South-South trade flows, both Africa and Latin America have rapidly developed stronger economic ties with Asia in recent years. The driving force behind these increasing South-South trade flows is China, accounting for roughly 40 percent of all South-South trade and about one-third of all developing-country imports from Africa and Latin America.²⁹

For many African countries, the industrial transition of emerging Asian economies offers valuable lessons about economic transitions. Historically African trade with Asia has been negligible compared to trade with the global North, especially Europe. But in the past decades, Asia

has increasingly gained significance as a trading partner for many African countries. A first boost to the economic relationship occurred in the 1990s when the average annual growth rate of African exports to Asia was 10.4 percent, reaching 14.2 percent of total African exports in 2000.³⁰ To a large degree, these export numbers reflected growing raw material and energy flows. These trends have continued, such that between 1990 and 2011, the share of Africa-Asia trade in world trade had nearly tripled.³¹

Across the Southern Atlantic, the debate regarding trade relations between Latin America and Asia is dominated by two topics: 1) the potential impact of the new Trans-Pacific Partnership (TPP) agreement, currently being negotiated between 12 countries in the Pacific region, including Mexico, Chile, and Peru; and 2) the prominent economic role of China in Latin America.

If successfully concluded and implemented, TPP is set to shake up the global trade landscape. Many of the countries who are currently part of the negotiations are already linked through trade agreements: for example, the United States, Canada, and Mexico are members of the North American Free Trade Agreement (NAFTA). For Latin America, this means that "some countries with existing strong trade ties across the Pacific are in negotiations; others are not." Thus, TPP may "disrupt existing intra-American integration arrangements."³² While no further Latin American countries are expected to join TPP at the moment, the way in which potential future accession of other countries is addressed might indicate how broadly

²⁷ WTO. 2013. p. 5.

²⁸ Sparding, Peter and Small, Andrew. 2012. "Towards a transatlantic economic strategy in the Asia Pacific," in *Look East, Act East. Transatlantic Agendas in the Asia Pacific*, EUISS, p. 10.

²⁹ UNCTAD. 2013. *Trade and Development Report, 2013*, p. 29.

³⁰ World Bank. 2004. "Patterns of Africa-Asia Trade and Investment. Potential for Ownership and Partnership," p. 1.

³¹ WTO. 2013. p. 77.

³² Kotschwar, Barbara and Schott, Jeffrey J. 2013. "The Next Big Thing? The Trans-Pacific Partnership & Latin America," *Americas Quarterly*. <http://www.americasquarterly.org/next-big-thing-trans-pacific-partnership>

the new mega-regional trade agreements like TPP and TTIP will be able to shape the global trade agenda.

Trade between China and Latin America has skyrocketed during the past decade, growing from \$10 billion to \$130 billion between 2000 and 2009.³³ Even during the global economic crisis, as Latin American overall exports contracted, those going to China continued to grow. Today, China accounts for almost half of Latin American and Caribbean trade with Asia and could overtake Europe as the second-largest trading partner of the region by the middle of the coming decade.³⁴ Accordingly, China is becoming an increasingly significant actor in the region. However, as with Africa, a large share of Latin American exports to China consist of natural resources. As a result, benefits are largely concentrated in the resource-rich countries of Latin America (especially Brazil, Chile, and Argentina).³⁵ Although China's demand for natural resources is expected to remain high in the short-term, it is projected to plateau in the medium-term, necessitating difficult adaptation processes throughout Latin America.³⁶ This is yet another incentive for both Africa and Latin America to continue to diversify economic relationships. Along these lines, South-South trade across the Atlantic could start to play a more important role.

³³ U.S.-China Economic and Security Review Commission. 2011. "Backgrounder. China in Latin America," p. 4.

³⁴ Rosales, Osvaldo and Kuwayama, Mikio. 2012. "China and Latin America and the Caribbean. Building a strategic economic and trade relationship," UN Economic Commission for Latin America and the Caribbean (ECLAC), p. 65f.

³⁵ U.S.-China Economic and Security Review Commission. 2011. p. 5.

³⁶ Cardenas, Mauricio and Levy-Yeyati Eduardo. 2010. "Brookings Latin America Economic Perspectives." http://www.brookings.edu/~media/research/files/reports/2010/9/1006%20latin%20america%20economy%20cardenas/1006_latin_america_economy_cardenas.pdf

South-South Trade in the Wider Atlantic

In terms of volume, trade across the Southern Atlantic is the weakest of the trade relations between the four continents of the Wider Atlantic. South-South investment linkages across the Atlantic are also small. While Asia increased its share in total FDI inflows to Africa from 6.7 percent for the period 1995-99 to 15.2 percent for the period 2000-08, the share of Latin America and the Caribbean fell from 5.5 percent to 0.7 percent over the same period.³⁷

However, the Africa-Latin America merchandise trade relationship has been the fastest growing relationship in the Wider Atlantic. Though total volume remains small, trade flows between Africa and Latin America increased by more than 409 percent from 2000 to 2008.³⁸ In the process, crucial bilateral trade relationships, like the one between Brazil and Morocco, have been forged across the Atlantic. Today, Morocco is the leading fertilizer supplier for Brazil, one of the world's agricultural powerhouses. Perhaps not surprisingly, Brazil, in particular, has actively sought to strengthen its economic ties with Africa. Then Brazilian President Lula da Silva visited 29 African countries during his tenure.³⁹ Within ten years, the country has more than doubled the number of its embassies in African countries from 17 to 37. Meanwhile, trade flows have seen a sharp rise, increasing more than six-fold, from \$4.2 billion in 2000 to \$27.6 billion

³⁷ UNCTAD. 2010. "Economic Development in Africa Report 2010." South-South Cooperation: Africa and the New Forms of Development Partnership, p. 84.

³⁸ Ruano, Lorena. 2012.

³⁹ Hinshaw, Drew. 2011. "West Africa Rising. Latin American leaders bolster ties to Africa at World Social Forum," *Christian Science Monitor*. <http://www.csmonitor.com/World/Africa/Africa-Monitor/2011/0208/West-Africa-Rising-Latin-American-leaders-bolster-ties-to-Africa-at-World-Social-Forum>

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While South-South trade is gaining importance for the Atlantic South, trade linkages with Northern Atlantic countries remain dominant.

in 2011.⁴⁰ As with other large emerging economies, the lion's share of Brazilian imports from Africa, more than 80 percent, are mineral products and crude materials.⁴¹ But in contrast to Asia's emerging economies, Brazil itself is a resource-rich country and thus not dependent on Africa's resources. Rather than a strategy of securing natural resources, Brazil's import composition from Africa may thus reflect the attempt of the country's large resource companies to internationalize and diversify.⁴² Brazil's state company Petrobrás, for example, is engaged in oil exploration in Angola and Nigeria and is furthermore "involved in the construction of processing facilities creating opportunities for oil-producing countries in Africa to add value to their products."⁴³ Recently, however, the company has started to shed stakes in minor exploration projects in Africa in order to focus on developing offshore fields in Brazil.

North-South and South-North Trade in the Wider Atlantic

While South-South trade is gaining importance for the Atlantic South, trade linkages with Northern Atlantic countries remain dominant. For Africa, the European Union remains the largest trading partner. However, the EU's overall share of Africa's trade has fallen from around 55 percent in the mid-1980s to below 40 percent in 2008.⁴⁴ In line with this trend, the EU's share of African exports dropped from 47 percent in 2000 to 33 percent

in 2011.⁴⁵ Still, some forecasts estimate that due to projected rapid economic growth in Africa, Europe's exports to Africa and the Middle East will be around 50 percent larger than its exports to the United States by 2020.⁴⁶ These developments could increase economic opportunities for countries, such as Morocco, that are traditionally well connected to all four corners of the Wider Atlantic and could serve as a hub for trade for the broader region. It is thus no surprise that the European Union in the spring of 2013 launched free trade negotiations with its southern neighbor.

As for Europe, the United States' share of African exports dropped from 17 to 10 percent from 2000 to 2011. In 2009, China overtook the United States as a major trading partner for Africa (with both countries still far behind the European Union in total trade volume).⁴⁷ But while global shares fell, the U.S.-Africa trade volumes still grew significantly: U.S. exports to Africa rose from \$10.6 billion to \$32.7 billion between 2002 and 2012, and imports tripled from \$22.1 billion to \$66.8 billion in the same time period.⁴⁸ In fact, between 2000 and 2008, overall trade with Africa was the fastest-growing U.S. trade relationship with any Atlantic region, increasing by 276.3 percent over the period.⁴⁹ The composition of U.S. trade is largely driven by natural resource imports. In sub-Saharan Africa, a significant portion of U.S. trade is thus concentrated in just a few countries. In

⁴⁰ Stolte, Christina. 2012. "Brazil in Africa. Just Another BRICS Country Seeking Resources?," *Chatham House Briefing Paper*. <http://www.chathamhouse.org/publications/papers/view/186957>

⁴¹ African Development Bank Group. 2011. "Brazil's Economic Engagement with Africa," *Africa Economic Brief*, Vol. 2, Issue 5, p. 2.

⁴² Stolte, Christina. 2012.

⁴³ UNCTAD. 2010. p. 23.

⁴⁴ UNCTAD. 2010. p. 30.

⁴⁵ African Development Bank Group a.o. 2013. "African Economic Outlook 2013. Structural Transformation and Natural Resources," p. 14.

⁴⁶ Ernst & Young. 2011. "Trading Places. The emergence of new patterns of international trade," p. 3.

⁴⁷ OECD. 2011. "OECD Factbook 2011-2012. Economic, Environmental and Social Statistics," p. 98. http://www.oecd-ilibrary.org/economics/oecd-factbook-2011-2012_factbook-2011-en

⁴⁸ U.S. Department of Commerce. 2013b. "U.S. Census Bureau. Trade in Goods with Africa." <http://www.census.gov/foreign-trade/balance/c0013.html>

⁴⁹ Ruano, Lorena. 2012.

2011, three countries — Nigeria, Angola, and South Africa — were responsible for about 79 percent of all U.S. imports from sub-Saharan Africa, four-fifths of which were mineral fuels and mineral oils. Similarly, 68 percent of U.S. exports went to South Africa, Nigeria, and Angola.⁵⁰

Latin America's trade relations with the Atlantic North are also undergoing significant changes. Historically, trade linkages of Latin American countries have been closest with the United States. In 2012, the United States remained the most important trading partner for Latin America, accounting for 43.6 percent of the region's total external trade in goods.⁵¹ But the share of the United States in the region's trade has been shrinking. This trend held despite overall growing trade flows and although U.S. trade with Latin America and Caribbean countries has grown faster than with most of its other main trading partners, except for China.⁵² From 1998 to 2009, total U.S. merchandise trade with Latin America grew by 82 percent and thus at higher levels than trade with Asia overall or Europe over the same time period.⁵³ The United States has also been responsible for roughly one-third of all FDI inflows to Latin America from 1999 to 2009, concentrated mostly in Mexico, Central America, and the Caribbean countries.⁵⁴

⁵⁰ Jones, Vivian C. and Williams, Brock R. 2012. "U.S. Trade and Investment Relations with sub-Saharan Africa and the African Growth and Opportunity Act," Congressional Research Service, p. 8.

⁵¹ EU Commission. 2013e. "DG Trade. European Union, Trade in goods with Latin American Countries." http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113483.pdf

⁵² Rosales, Osvaldo a.o. 2011. "The United States and Latin America and the Caribbean. Highlights of economics and trade," UN ECLAC, p. 12.

⁵³ Hornbeck, J.F. 2011. "U.S.-Latin America Trade: Recent Trends and Policy Issues," Congressional Research Service, p. 2.

⁵⁴ Rosales, Osvaldo. a.o. 2011. p. 29.

FDI inflows from Europe, on the other hand, were dominant among Mercosur countries (Argentina, Brazil, Paraguay, Uruguay, and Venezuela).⁵⁵ Overall, Europe remained the second-most important trading partner for Latin America and the Caribbean, with a total market share of about 14 percent in 2009. However, since the 1980s, the European Union has become less important as a destination of Latin American exports and as a source of imports, increasingly losing shares to China. Consequently, China is expected to overtake the European Union as Latin America's second-most important trading partner within the next few years.⁵⁶ For the aforementioned Mercosur countries, however, the EU remains the first trading partner, accounting for 20 percent of Mercosur's total trade. Mercosur is the EU's eighth most important trading partner, making up 3 percent of the Union's total trade.⁵⁷ It is with these countries, and key among them Brazil, that the EU has relaunched trade negotiations in 2010. However, reaching a successful conclusion of a Mercosur-EU FTA could prove difficult. Some observers question whether the "EU's fragile decision-making process" will be able to devote all of the necessary attention to negotiations on trade agreements "with countries, such as Brazil (or India), that are dragging their feet and that will become truly attractive in economic terms to the EU only within a couple of decades."⁵⁸ Instead, the EU's efforts may concentrate on the Asia-Pacific and — in the Wider Atlantic context — on negotiations with the United States.

⁵⁵ Rosales, Osvaldo. a.o. 2011. p. 30.

⁵⁶ Rosales, Osvaldo. a.o. 2012. "Latin America and the Caribbean and the European Union. Striving for a renewed partnership." UN ECLAC, p. 29-31.

⁵⁷ EU Commission. 2013f. "DG Trade. Countries and regions: Mercosur." <http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/>

⁵⁸ Messerlin, Patrick. 2013. "The Mercosur-EU Preferential Trade Agreement. A view from Europe," CEPS, p. 5.

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Globally, the United States and Europe are still by far the most important sources and destinations of FDI.

North-North Trade in the Atlantic Basin

Overall, trade in the Atlantic Basin is still dominated by the northern transatlantic partners, especially the United States and the European Union. Together, they form the biggest and most interconnected economic bloc in the world, accounting for more than 50 percent of global GDP in terms of value and 41 percent in terms of purchasing power. Merchandise trade between the United States and the European Union totaled an estimated \$650 billion in 2012, an increase of 68 percent from 2000.⁵⁹ Per day, the U.S.-EU economic relationship generates goods and services trade flows of about \$2.7 billion.⁶⁰

The European Union is the destination of about 21 percent of all U.S. goods and services exports,⁶¹ making Europe one of the most important targets for U.S. exports. This continuing significance is further demonstrated by the fact that “45 of 50 U.S. states still exported more to Europe than to China in 2012, and by a wider margin in many cases.”⁶² In goods, the U.S. export volume to Europe reached \$265 billion in 2012, leading to a \$115.8 billion deficit, a 15.8 percent increase over 2011.⁶³ In services, however, the United States was running a trade surplus with Europe of about \$55.4 billion in 2012, an increase of 6.5 percent over 2011.⁶⁴

From the European perspective, merchandise exports to the United States account for about 17

percent of all European Union exports in goods. Total trade with the U.S. makes up approximately 14 percent of the European Union’s overall merchandise trade, making the United States the EU’s most important export destination as well as its biggest trade partner.⁶⁵ After witnessing a dramatic drop following the financial and economic crisis in 2008-09, overall trade in goods between the European Union and the United States has rebounded, despite the sluggish recovery in the United States and ongoing economic problems in Europe.

An even more significant feature of the EU-U.S. economic relationship is the important role of foreign direct investment (FDI). Each side holds significant investments across the Atlantic. The combined two-way FDI at year-end 2011 amounted to \$3.7 trillion, with the stock of U.S. FDI in the European Union exceeding \$2 trillion and EU FDI in the United States around \$1.6 trillion.⁶⁶ The significance of these positions is apparent in comparison to other investment relationships. For example, total U.S. investment in the European Union is three times higher than in all of Asia, and EU investment in the United States is eight times the volume of EU investment in India and China combined.⁶⁷ Globally, the United States and Europe are still by far the most important sources and destinations of FDI. Together, the United States and Europe account for 57 percent of global inward FDI stock, and an even more impressive 71 percent of outward stock of FDI.⁶⁸

⁵⁹ Hamilton, Daniel S. and Quinlan, Joseph P. 2013. *The Transatlantic Economy 2013. Annual Survey of Jobs, Trade and Investment between the United States and Europe, Vol.1*, p. ix.

⁶⁰ USTR. 2013. “European Union. Key Trade and Investment Data and Trends.” <http://www.ustr.gov/countries-regions/europe-middle-east/europe/european-union>

⁶¹ USTR. 2013.

⁶² Hamilton, Daniel. S. and Quinlan, Joseph P. 2013. p. x.

⁶³ U.S. Department of Commerce. 2013a. “U.S. Census Bureau. Trade in Goods with European Union.” <http://www.census.gov/foreign-trade/balance/c0003.html>

⁶⁴ USTR. 2013.

⁶⁵ European Commission. 2013a. “Client and Supplier Countries of the EU27 in Merchandise Trade.” http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf

⁶⁶ Schott, Jeffrey and Cimino, Cathleen. 2013. “Crafting a Transatlantic Trade and Investment Partnership. What Can Be Done,” Peterson Institute for International Economics, p. 1.

⁶⁷ European Commission. 2013b. “DG Trade. Countries and Regions: United States.” <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>

⁶⁸ Hamilton, Daniel S. and Quinlan, Joseph P. 2013. p. v.

Including Canada in the analysis of North-North trade flows in the Atlantic further illustrates the dominant position of the North Atlantic economic relationship. Historically, and due to geographic proximity, Canada is the United States' most important trading partner. Since 1994, Canada, the United States, and Mexico have been linked in NAFTA. Since then, U.S. trade with Canada has increased significantly. Today, the country is the main destination for U.S. exports in goods, reaching a volume of \$292.5 in 2012,⁶⁹ a more than 81 percent increase over 2002.

In the fall of 2013, the European Union and Canada successfully concluded long negotiations to sign the Canada-EU Comprehensive Economic and Trade Agreement (CETA). Similarly to TTIP, the deal is supposed to be “deeper in ambition and broader in scope” than NAFTA.⁷⁰ The EU Commission expects increases of 23 percent in two-way bilateral trade, or €26 billion, once the agreement is fully implemented.⁷¹

This would add to an already positive trend. Over the past decade, the volume of trade between the EU and Canada has been growing steadily. From 2002 to 2012, total trade in goods increased from €39.6 billion to €61.5 billion,⁷² an increase of more than 55 percent. In 2012, Canada ranked as the EU's 12th biggest trade relationship, while the EU is Canada's second-most important goods trading partner, after the United States.

⁶⁹ U.S. Department of Commerce. 2013b. “U.S. Census Bureau. Trade in Goods with Canada.” <http://www.census.gov/foreign-trade/balance/c1220.html>

⁷⁰ Government of Canada. 2013. “Trade Negotiations and Agreements.” http://www.canadainternational.gc.ca/eu-ue/policies-politiques/trade_agreements-accords_commerciaux.aspx

⁷¹ EU Commission. 2013c. “DG Trade. Countries and regions: Canada.” <http://ec.europa.eu/trade/policy/countries-and-regions/countries/canada/>

⁷² EU Commission. 2013d. “DG Trade. European Union, Trade in goods with Canada.” http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113363.pdf

In light of this ambitious new trade agreement, trade in services — already a key component of Canada-EU trade — will gain further significance. In 2011, services trade between the EU and Canada totaled €26.8 billion, making the EU also Canada's second-largest trading partner in services behind the United States. As an example of a “deep integration” deal that goes beyond WTO trade agreements, CETA specifically aims to tackle remaining barriers to cross-border trade in services. Accordingly, the EU Commission projects that 50 percent of the total expected gains for the EU from CETA will be related to trade in services.⁷³ As such, the EU-Canada agreement could offer a preview of what grounds a potential deal between the United States and Europe could cover.

As an example of a “deep integration” deal that goes beyond WTO trade agreements, CETA specifically aims to tackle remaining barriers to cross-border trade in services.

⁷³ EU Commission. 2013c.

5 CONCLUSION: TTIP – A GAME CHANGER FOR THE WIDER ATLANTIC?

Given the already dominant position of North Atlantic trade, the start of TTIP-negotiations has led to questions as to the impact a potential U.S.-EU agreement may have on trade relations in the Wider Atlantic region.

The global trade landscape is undergoing momentous changes. Countries in the Wider Atlantic region are both driving these developments and are being affected by them. The rapid economic rise of Asia, and in particular China, has altered trade patterns in the region. China's influence as an economic actor is growing in all four corners of the Atlantic space. This is not only swaying the direction and volume of trade flows, but also altering the composition and nature of traded goods and services. But, despite these remarkable shifts, pan-Atlantic trade remains of foremost importance to the regions of the Wider Atlantic. In particular, the developing countries of Africa and Latin America still depend heavily on trade with their northern neighbors.⁷⁴

Trade between the United States and the European Union remains the main economic artery in the Atlantic. Now the two Northern Atlantic partners have set out to negotiate a comprehensive Transatlantic Trade and Investment Partnership. To be sure, many formidable obstacles remain in the negotiations. Issues related to food safety standards, access to agricultural markets, government procurement policies, and geographical indicators have long been points of contention between the United States and Europe. A swift and comprehensive deal is far from certain. If successful, however, such an agreement would cover a vast share of world trade flows. Given the already dominant position of North Atlantic trade, the start of TTIP-negotiations has led to questions as to the impact a potential U.S.-EU agreement may have on trade relations in the Wider Atlantic region.

Multiple factors are driving the push for TTIP. First, there are economic reasons. Tariffs between the United States and Europe are already low. Yet, the sheer size of the North Atlantic economy means

⁷⁴ Ruano, Lorena. 2012.

that even the removal of remaining tariffs could garner considerable economic benefits. But the proposed trade deal seeks to go beyond tariffs and to tackle non-tariff barriers (NTBs). These “behind-the-border” obstacles range from differences in technical regulations and standards, to differing approval procedures. It is in this area that observers expect to achieve the biggest economic gains. Estimates assuming a very ambitious reduction in tariffs and NTBs project GDP increases of 0.48 percent (€119.2 billion) for the European Union and 0.39 percent (€94.9 billion) in the case of the United States.⁷⁵ While these numbers are not insignificant, it remains to be seen whether such a sweeping agreement is even realistic or if projected economic gains can actually be achieved. Reality is unlikely to follow the most far-reaching projections.

A second motivation behind the transatlantic trade deal, however, could prove to have even broader and longer-lasting effects. Given the economic heft of the United States and the European Union, new standards and rules under TTIP would have immediate global reach and could “spur a de facto global standards regime.”⁷⁶ From this perspective, TTIP can also be seen as a strategic answer of the North Atlantic partners to emerging trade challenges from Asia.

However, both the expected economic boost to North Atlantic trade and the potential to set global standards are not without complications. Comprehensive and “deep integration” agreements, including TTIP, can lead to significant discriminatory effects against third parties, especially in services and in sectors where tariffs

⁷⁵ Centre for Economic Policy Research. 2013. “Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment,” p. 46.

⁷⁶ Rines, Samuel. 2013. “Can TTIP Save the West?” *National Interest*. <http://nationalinterest.org/commentary/can-ttip-save-the-west-9325>

are still high.⁷⁷ If TTIP is implemented, some trade diversion effects are likely to occur.⁷⁸ Moreover, the distinct focus on non-tariff barriers is of concern to those left outside of the agreement. Depending on how new TTIP standards are established, more stringent rules and obligations could disadvantage outsiders that are less equipped to meet them. On the other hand, if the United States and EU were to agree to mutual recognition of standards, outside business could follow the less demanding standard to enter the broader transatlantic market.⁷⁹

For non-TTIP countries in the Wider Atlantic, this outlook offers both opportunities and challenges. Should TTIP deliver projected economic gains to the United States and Europe, other countries in the Atlantic Basin could benefit from growth in the northern half. Studies project that both EU exports and imports with third party countries will increase under TTIP.⁸⁰ At the same time, many of these countries are likely to suffer at least some trade diversion effects. For some countries, such as Brazil, the prospect of being caught between two mega-trade agreements — TTIP on the one side and TPP on the other — without being part of either, poses not only economic but geopolitical and strategic questions. In addition, bound by its membership in Mercosur, Brazil is unable to negotiate free trade agreements on its own, further narrowing the field of potential policy options. For an emerging power with global aspirations, it will

be increasingly challenging to sit on the sidelines as a new global trade landscape is taking shape.

In light of these developments and the variety of overlapping trade agreements in the Atlantic space, some observers have called for TTIP negotiations to be open to third parties and to “create the foundation for a free-trade area of the entire Atlantic Basin.”⁸¹ Some countries, like Mexico, have made no secret of their interest in joining the negotiations. However, for the time being, no accessions are planned.

In the long-term, however, it seems realistic that countries like Mexico and Canada, both of which already have free trade agreements with the European Union and the United States, will become part of a broader transatlantic free trade area. Given the economic pull that a comprehensive free trade agreement between the United States and Europe is likely to exert, other countries in the Wider Atlantic region may be forced to react. TTIP could thus have a “competitive liberalization” effect, whereby other actors will be compelled to adjust their trade policies to conform to the level of openness and high standards of the United States and Europe. However, such a scenario poses the risk of regional economic disintegration, as some countries — for example, in Latin America — may deem it beneficial to join a northern Atlantic-led trade bloc, while others may not.

Much will hinge on the details of a final TTIP agreement. The actual and immediate economic impact on the Wider Atlantic countries depends on how many and which trade barriers will be tackled. In strategic terms, TTIP could send an important signal of renewed transatlantic engagement, if negotiations succeed in a timely manner. For now,

TTIP could thus have a “competitive liberalization” effect, whereby other actors will be compelled to adjust their trade policies to conform to the level of openness and high standards of the United States and Europe.

⁷⁷ Subramanian, Arvind and Kessler, Martin. 2013. p. 10.

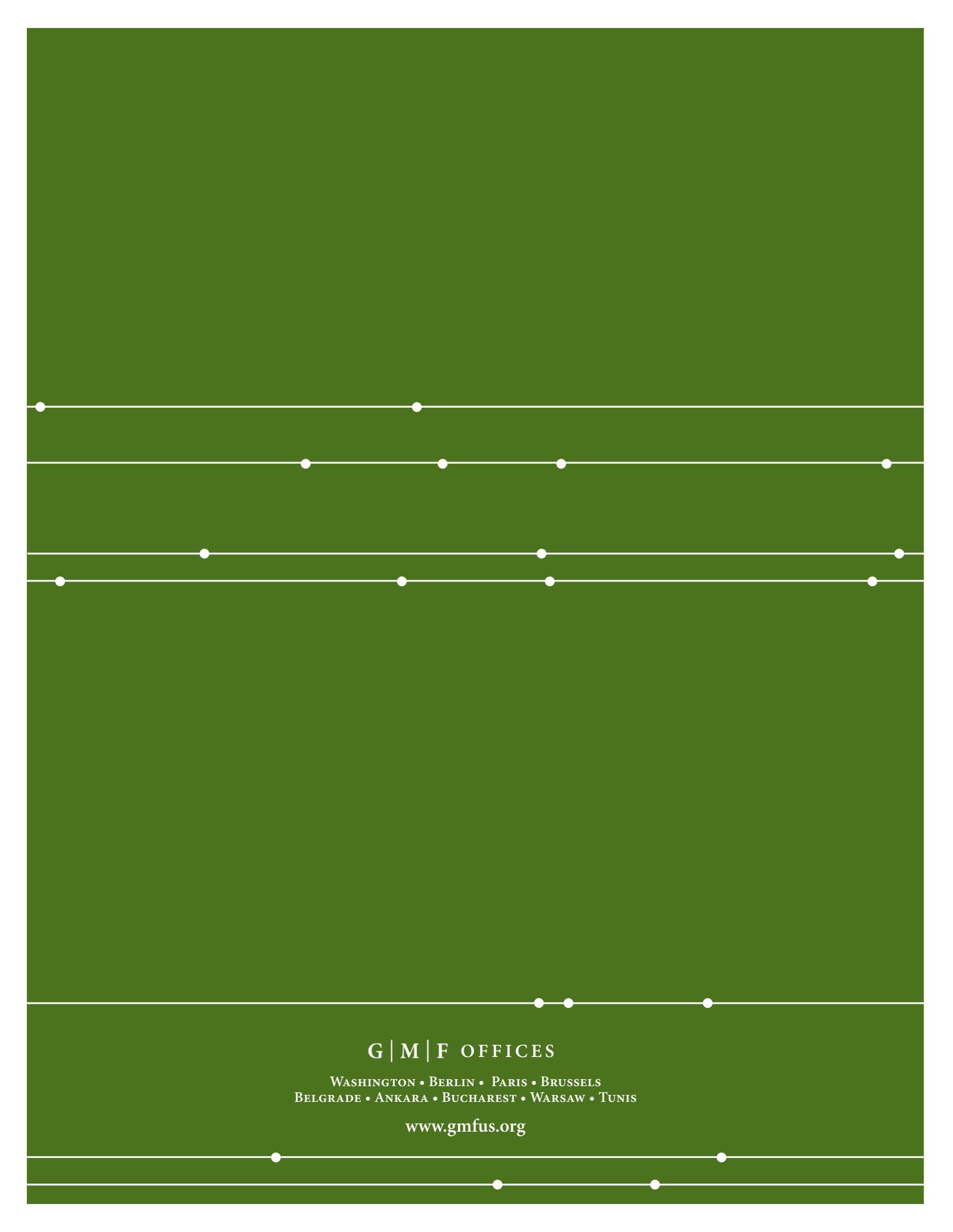
⁷⁸ For projections of potential trade diversion effects of TTIP, see Felbermayr, Gabriel; Heid, Benedikt; and Lehwald, Sybille. 2013. “Transatlantic Trade and Investment Partnership (TTIP). Who benefits from a free trade deal?” <http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf>

⁷⁹ Mattoo, Aaditya. 2013. “Transatlantic Trade for All, Project Syndicate.” <http://www.project-syndicate.org/commentary/aaditya-mattoo-2protecting-developing-economies-from-the-transatlantic-trade-and-investment-partnership>

⁸⁰ EU Commission. 2013g. “Transatlantic Trade and Investment Partnership. The Economic Analysis Explained,” p. 7.

⁸¹ Palacio, Ana. 2013. “Winning the Transatlantic Trade Challenge” Project Syndicate. <http://www.project-syndicate.org/commentary/new-hope-for-a-us-eu-trade-and-investment-agreement-by-ana-palacio>

the agreement undoubtedly remains an endeavor solely between the United States and Europe. The time is not yet ripe for an Atlantic Basin free trade area. But, with an eye to the future, the negotiation partners would be wise to take into account the lasting impacts of their policy choices on the future of trade in the Wider Atlantic.

The image features a solid green background with several horizontal white lines. Small white dots are placed at various intervals along these lines, creating a minimalist, grid-like pattern. The lines and dots are distributed across the page, with a higher density in the upper and lower sections.

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