



ATLANTIC FUTURE **BUSINESS BRIEF**

Economic and financial links in the Atlantic Space

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ECONOMY AND FINANCE

1. Summary

Economic and financial links are strong across the Atlantic space, especially the North Atlantic. While North-South and South-South links are growing, they are influenced by the presence of external factors, like China or the price of commodities. There is strong evidence of continued and lasting economic interaction among the developed Atlantic in the north, and there does appear to be some trend toward the integration of Africa and Latin America into the Atlantic (and global) trade and investment regimes, through their northern partners, partly because of the rise of emerging market economies (especially Brazil, Mexico, and South Africa) and partly because of decisions to increase South-South economic interactions.

2. Trends and analysis

Powerful developed states and multinational corporations continue to exert significant influence on economic patterns and on regional and global economic flows. New actors from large emerging states have begun to insert themselves into global value chains (GVCs), or begun the process of investing directly in other Atlantic states. There is some shift in the balance of economic power toward the “developing Atlantic” – Brazil, Mexico, South Africa and certain other parts of Africa and Latin America. But their influence is weaker and it is an open question as to how lasting this shift will be. It may be due to more or less temporary factors such as the commodity boom and investment by China.

Although economic activity is expanding across the South Atlantic, and also between the US and Africa, by comparison this activity is much weaker than in the North Atlantic or within the Americas. Europe’s role as a commercial partner to Africa is important, but its relative significance is shifting as new actors (especially China) become more active.

In trade, the Atlantic remains a key player. The top five goods importers globally are the United States, Germany, the United Kingdom, France and Japan. The top five exporters are Germany, the United States, China, Japan and France. In services trade, the US and European Union (EU) predominate.

In foreign direct investment, the strong North Atlantic link may be diluted by the growing importance of China and India, as well as by links between the North Atlantic developed core and Latin America and Africa. But the EU and the US both invested more in Brazil since 2000 than they did in China. Rising levels of FDI across the South Atlantic (though still low in overall terms) is noteworthy for its speed. Outward FDI from Brazil and South Africa is especially directed towards their neighbors. In some cases MNCs from South Atlantic states are government-controlled, meaning that outward investment is as much a political and strategic action as an economic one.

Africa's share of global FDI flows rose in the decade to 2011 but by 2014 had flattened out. Investment in the primary sector was at 31%, and in services was 48%, below the global average. South America's share of FDI outflows to Africa rose from 2.3% to 5.4%. But US outflows to Africa declined between 2001 and 2011, from 2% to 1.3%. Similarly, the share of EU outflows to Africa decreased, from 3.8% in 2004 to 1% in 2011. On the other hand, the EU's outflows to South America increased in the period from 2.2% to 4.7%.

We see an average increase in outward FDI from South American countries of around 40% between 2000 and 2011, showing that these countries are becoming more integrated in the global economic system. Likewise, there was a substantial rise (250%) in African outward direct investment between 2000 and 2011.

The data on aid shows that an overwhelming majority of the world's aid comes from Atlantic Space countries (when defined as the four Atlantic continents). This includes 84% of the world's development assistance, 97% of its food aid, and 93% of all aid to HIV/AIDs.

Participation of southern companies in GVCs is still generally low, suggesting the need for public policies to stimulate this activity. Asian countries have taken some of the two-way trade in parts and components between the US and Mexico, and while Mexico seeks to diversify away from the US, it is looking more across the Pacific than the Atlantic. Brazil on the other hand does appear to be concentrating its trade in parts and components with Atlantic partners, especially the US, Argentina, and the EU while its exports of primary products to Asia boomed in the 2000s.

Trade liberalization commitments undertaken within the Atlantic space by partner countries are driven by the aim of achieving convergence on trade rules between Regional Trade Agreements (RTAs) and the WTO. Member states may be committed in principle to convergence but in many cases – including MERCOSUR, COMESA, ANDEAN, ECOWAS, CACM, CARICOM, CAEMC and WAEMU – much remains to be done. The degree of trade governance convergence between Atlantic space trading arrangements and the WTO depends on the level of partner countries' development and their integration into the world economy. RTAs among countries that are well integrated into the world economy tend to exhibit greater convergence to WTO Agreements.

3. Business implications and opportunities

The main causes of trade and financial cooperation continue to be levels of economic development and pre-existing relations, especially between rich economies, and developing ones. The presence of new actors from emerging states, especially in the Pacific, also creates new incentives for economic cooperation. The main obstacles are governance and institutional problems, which impede inward investment in Africa, for example, as well as nationalist and mercantilist responses to economic challenges.

Growing GDP, lower trade barriers, the entry into the world economy of former centrally planned command economies as well as the emerging BRICS and NICs and the operations of multinational companies have all created incentives for increased trade and investment. On the supply side, a decline in transportation costs brought about by technological changes affecting ships and aircraft along with increased investment in sea ports and airports as well as development of hub and spoke networks have generated increased trade. Moreover, the use of internet connections has also boosted trade in goods and financial transactions.

Risks to economic cooperation include price fluctuations in commodities and oil, as well as government responses to these changes. The decline in commodities prices in recent years, including oil prices, makes investment in those areas more risky at present. In addition, regime change and governance pose risks, particularly in the South Atlantic. Risks to financial stability include disinvestment, which could harm developing countries' economies disproportionately. Also, failure to ensure labor and environmental standards, and certain elements of corporate social responsibility, could mitigate some of the gains experienced by South Atlantic states.

Governance is a further concern, but emerging RTAs enhance the zone of agreement between the Atlantic Space countries, in particular those in Africa and Latin America. They increase the likelihood that developing Atlantic states will become more competitive, more accepting of WTO rules, and will provide a multilateral forum through which cooperation on international issues is increased. In short RTAs can provide an "alternate vector for engagement on trade governance".

In terms of GVCs, participation is rising across all major Atlantic economies. South Atlantic countries are gradually becoming more deeply involved, with China assuming a greater role in GVCs for both Brazil and Mexico. But in terms of making GVC participation a success, much will depend on policy measures being taken in a timely fashion by governments, including trade facilitation measures, services which are related to the production or transport process, competitiveness, competition policy, liberalization, and infrastructure.

Hence, opportunities for Atlantic Space firms (including SMEs) to enter GVCs are abundant, depending on flanking measures being taken by governments to facilitate that. Also, FDI to Africa represents an opportunity for investors. In the mid-2010s, inward FDI flows to Africa were highest in Nigeria, South Africa, Egypt, Mozambique, and Congo, according to UNCTAD, and these countries represent potential opportunities for investors in services (especially energy, construction, finance, and telecommunications) and commodities. Services investment has increased substantially but remains below the global average, thus representing an opportunity for investors. Although India and China are rapidly advancing in these areas, Atlantic Space companies have distinct advantages based on deep experience and know-how.

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