Implications of the Proposed EU-U.S. Transatlantic Trade and Investment Partnership for EU-Sub-Sahara Africa Relations[1]

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Introduction

The day after his February 12, 2013 State of the Union address during which he advised members of the U.S. Congress and the American people of his administration's plan to initiate talks on a comprehensive transatlantic economic relationship with the European Union (EU), President Barack Obama, along with his EU counterparts—the European Council's President Herman Van Rompuy and the European Commission's President Jose Manuel Barroso—jointly announced their intention to launch negotiations on a Transatlantic Trade and Investment Partnership (TTIP). Already the world's two largest economies with regard to their share of global economic output, trade, and foreign direct investment, a new agreement between the EU and U.S. would not only rekindle and augment their age-old bilateral relationship, but would also make it an even stronger economic driver of their prosperity.[2] It would also give a much-needed shot-in-the arm to sluggish economic results on both sides of the Atlantic, particularly in the wake of the global financial meltdown that began in earnest in 2007 and the prolonged fiscal crisis that continues to date to afflict the Eurozone. The agreement, both parties believe, would also strengthen the multilateral trading system and, consequently, boost global economic growth and jobs via intensified trade and investment.

On the sidelines of the June 17-18, 2013 G-8 meeting in the United Kingdom (Northern Ireland), Presidents Obama and Barroso announced at a joint U.S.-EU press conference that both parties were poised to commence negotiations, which finally got underway on July 8, 2013 in Washington, D.C. As we shall discuss later, negotiations have focused overwhelmingly on trade and trade-related issues, including trade in services, and also on ancillary issues such as health, safety, and environmental regulations and standards that govern trade and investment activities between the two. In essence, what is being negotiated goes beyond mere trade or a free trade agreement (FTA), and could thus be described as a "trade-plus" pact or an FTA-plus deal.

The agreement, if finalized, signed, and ratified, would essentially create the world's largest and most comprehensive bilateral preferential trade agreement (PTA) to date. It would amalgamate the two largest economic entities in the modern era, because between them they accounted in 2013 for practically 46 percent of global output, almost 32 percent of global trade, and virtually 20 percent of global foreign direct investment (FDI) flows.[3] Others have also estimated that the two Atlantic partners account for almost 26 percent of global goods exports, about 44 percent of global service exports, almost $4 trillion of investments in each other's markets, and nearly 15 million of combined jobs created by their economic activities in each other's economies.[4] That translates into commercial activities in excess of $2 billion daily and $5 trillion annually between the U.S. and the EU.[5]

While reactions to the proposed TTIP within the EU and the U.S. have been mixed, a point to which we will return later, another constituency that is equally concerned, if not alarmed, by the proposed mega-trade partnership is the global community, referred to here as the rest of the world (ROW).[6] Naturally, the primary concern and preoccupation of the architects and the principals of the proposed TTIP is and should be its net economic effect on their economies, which they project to be a win-win, positive-sum outcome. However, what about the ROW? That is, how would the proposed gargantuan PTA impact the ROW, especially many countries or groups of countries with which the EU or the U.S. has bilateral, multilateral, or plurilateral economic relationships?

It is against that backdrop that this paper examines the potential impact of the proposed TTIP on Africa. We are particularly interested in how the TTIP might impact EU-Africa and U.S.-Africa relationships, notably the EU's Economic Partnership Agreements (EPAs) and its Everything But Arms (EBA) initiative, as well as the U.S.'s Africa Growth and Opportunity Act (AGOA). In the next section of the paper, we will provide a brief overview of the TTIP by discussing its objectives, negotiations, and projected benefits. In section three, we will sketch out the history and substance of existing EU-Africa and U.S.-Africa economic relations, in order to set the stage for an assessment of the impact of the TTIP on those relationships. In the penultimate section, we will delve into the plausible implications of the TTIP for Africa economically (trade and FDI) and politically (democracy and governance), as well as on existing agreements between Africa and the TTIP partners (AGOA, EBA, EPAs, etc.). In the concluding section, we will discuss policy recommendations, including what African countries should be doing. The inquiry will employ applicable theoretical constructs, such as dynamic and static effects of international trade theory, realism, and liberalism, and the discourse will inevitably be conjectural and speculative, especially since negotiations of the TTIP are still on-going.

The Transatlantic Trade and Investment Partnership

The proposed TTIP is more than a conventional free trade agreement, which would focus on the reduction and the eventual elimination of barriers to trade between the EU and the U.S. This is a trade-plus initiative, because it encompasses more than just import and export issues. Besides, tariffs on trade crisscrossing the Atlantic between the U.S. and the EU are already low anyway—hovering between 3 percent and 4 percent on average. In addition to the elimination of trade barriers (i.e., tariffs and non-tariff barriers— NTBs) that impede a broad range of economic activities between the EU and the U.S., the TTIP aims to harmonize in both markets existing rules as well as establish new regulations that govern FDI, intellectual property rights and patents, public procurement, competition, labor issues, and the environment. Both EU and U.S. officials also hope that the TTIP will stimulate economic growth and job creation in both economies, particularly after the global financial crisis and the EU's seemingly endless fiscal crisis. More specifically, if and when the proposed pact comes on-stream, the TTIP is expected to add over $600 in disposable income annually for an average family both in the EU and in the U.S, according to the findings of a 2013 comprehensive study commissioned by the European Commission.[7] Additionally, the same report noted that the TTIP could boost annual economic output by 0.5 percent in the U.S. and by 0.4 percent in the EU, as well as increase U.S. exports to the EU by almost 40 percent and EU exports to the U.S. by nearly 30 percent.

It is no wonder, therefore, that within a month of President Obama's 2013 State of the Union address, the European Commission had agreed a draft negotiating mandate for the TTIP initiative, which the Council of the EU later endorsed on June 14, 2013. The approved mandate, which is required by EU law, thus set the stage for the commencement of negotiations, particularly since President Obama merely needed to formally notify the U.S. Congress of his administration's intention to negotiate the TTIP agreement, which he did via the State of the Union address. On the U.S. side, and by law, the U.S. Trade Representative (USTR), Ambassador Michael Froman, is in charge of the negotiations and a negotiating team led by Dan Mullaney—the Chief Negotiator. On the EU side, the Commissioner for Trade, initially Karel De Gaucht (2013-2014), and later Cecillia Malmstrom (2014 to date), is responsible for the negotiations, and the negotiating team comprises a Chief Negotiator, Ignacio Garcia Bercero of the Directorate-General (DG) for Trade, and technical experts drawn from nine other DGs.[8] Negotiations finally got underway in July 2013, and between then and February 2015, negotiators had concluded eight rounds of TTIP negotiations, starting in Washington, D.C, and alternating between the U.S. (Washington, D.C. or nearby) and Brussels.

The negotiation of the TTIP agreement and the planned final document can be divided into three broad spheres or negotiating areas.[9] The first area pertains to market access, which addresses how to remove customs duties on goods, lift restrictions on services, enable better access to public sector procurement, and make FDI easier. The second negotiating sphere deals with improving the regulatory environment by eliminating needless bureaucratic duplications and redundancies on both sides of the Atlantic. The third sphere is about improving EU-U.S. cooperation on the establishment of international standards. Negotiations have been somewhat in-depth and specialized, as breakout sessions have concentrated on thematic issues, such as regulatory issues and regulatory coherence, technical barriers to trade, intellectual property rights, labor and the environment, textiles, rules of origin, sanitary and phytosanitary (SPS) measures, energy and raw materials, and sectoral issues in, among others, pharmaceuticals, medical devices, cosmetics, chemicals, pesticides, Information Communications Technology (ICT), and automobiles.

One of the factors that prompted the TTIP is undoubtedly the frustration of the two TTIP partners with the stalled Doha Development Round, and the rising economic powers of transition economies and emerging markets. Both entities began to explore ways through which they could leverage their long-standing relationship to revive their anemic economies via bilateral trade and investment. To be sure, relations between the EU and the U.S., although resilient, have also been fraught with acrimony at times, tracing back to at least the end of the Second World War (Vogel 1997; Woolcock 1992),[10] when the U.S. was supportive of and instrumental in the establishment of the EU. Despite being allies during the post-World War II era, it was not until the end of the Cold War that both signed a Transatlantic Declaration in 1990. Five years later, they signed a new pact, known as the New Transatlantic Agenda. Not long afterwards, they signed a Transatlantic Economic Partnership (TEP) in 1998, which did not gain much traction or notoriety, largely due to the fact that the North American Free Trade Area (NAFTA), in which the U.S. had invested so much capital, had just come on-stream, and the U.S. was understandably preoccupied with it. Besides NAFTA being an irresistible pre-occupation for the U.S. at the time, the completion of the Uruguay Round and the concomitant inception of the World Trade Organization (WTO) were also meant to signal and celebrate multilateralism as the dawn of a new era and a paradigm shift from bilateralism (which the TEP exemplified) in global trade relations (Hindley 1999).[11]

The passage of time between 1998 and 2013, however, has not wished away the angst harbored by many observers that any widening of the economic space linking the EU and the U.S. could be damaging to the WTO and the global trading system. The fear is that negotiations between the two economic juggernauts would quite likely divert substantial human and economic resources away from the stalled Doha Round on Development, and would be detrimental to Africa. This would be indicative of a preference by the two transatlantic economic powers for a bilateral accord over a multilateral one. The perception has again resurfaced and is gaining strength since the announcement of the TTIP initiative, so much so that the then EU Commissioner for Trade, Karel De Gucht, felt compelled to address it head-on in an April 2013 speech. Whereas he acknowledged the magnitude of the combined economic output, trade, and investment sizes of the two transatlantic partners, he emphatically rejected the suggestion that it meant that “Europe and the United States are withdrawing from the rest of the world and pulling away from the multilateral system” (De Gucht 2013).[12] He further argued that if anything, rather than view the TTIP as a threat to the WTO and the global multilateral system, it should be seen as a contribution to the liberalization of global trade.

If the angst about a transatlantic economic agreement between the EU and the U.S. has endured, and if, as Mr. De Gucht acknowledged, tariffs on imports between the two entities are already low, why then are both entities still pursuing a preferential trade-plus agreement? We now examine that question and offer a number of plausible justifications.

Viewed from a neo-realist perspective, perhaps the foremost rationale for the proposed TTIP is the economic security of both entities involved in the FTA, vis-à-vis job creation, economic growth, and being less vulnerable to extraneous developments. In other words, a transatlantic FTA could be the shot in the arm that the sluggish economies of both entities desperately need in order to get their struggling economies moving again. In view of the fact that the economic performance of both entities has not fully rebounded from the financial crisis that engulfed the world beginning in 2008 and 2009, it makes sense to consider combining the economic spaces of both entities because of the benefits that are inherently associated with regional economic agreements (REAs). Put differently, despite massive stimulus spending on both sides of the Atlantic, recovery has been painstakingly slow, unimpressive, and even stunted by the sovereign debt crisis that has compounded the economic challenges of many Eurozone member states. The argument, therefore, is that linking the economic spaces of the EU and the U.S. might provide additional impetus for the rejuvenation of the economic fortunes of both entities through new economic opportunities. So, when viewed from the point of view of neo-liberalism, especially given that trade and investment are proven engines of economic growth, an economic partnership between the EU and the U.S. would enable trade creation and economies of scale opportunities for economic actors that operate within the TTIP and with it, which in turn would accelerate economic growth on both sides of the Atlantic. Ultimately, therefore, a TTIP agreement would create a mutually beneficial win-win outcome for both the EU and the U.S.

A second related justification is that an FTA agreement that binds the two entities and eliminates remaining barriers to trade and investment and non-tariff barriers (NTBs), and provides unfettered access to each other's vast markets, would enhance both transatlantic partners' global competitiveness, particularly against rising emerging markets (EMs) across the world, including the BRICS—Brazil, Russia, India, China, and South Africa—and hopefully reverse their ebbing shares of global economic output and global trade. Inter-alia, by 2011, the EU's share of global economic output and global exports had declined precipitously from 34 percent and 23 percent, respectively, in 1980 to 25 percent and 14 percent.[13] Similarly, whereas the U.S.'s share of global economic output remained essentially unchanged at roughly 25 percent between 1980 and 2011, its share of global exports declined from 11 percent in 1980 to 8 percent in 2011.[14] The argument, therefore, is that an FTA that links the two economic giants could enable them to increase their shares of both global trade and global economic output, and thereby regain some of the grounds they had lost to other countries.

A third motivation for the TTIP, as has been suggested in some quarters, is that at least for the EU, there were concerns that the U.S. was perhaps less interested in Europe, its traditional ally, and showing more interest in Asia, especially judging by its leadership role in the Asia-Pacific Economic Community (APEC) and its most recent interest in the region—the plurilateral FTA that it has been negotiating with 11 Asia-Pacific countries, otherwise dubbed the Trans-Pacific Partnership (TPP) initiative. The concern expressed by some in the EU was that in the absence of any new substantive economic initiative between the U.S. and Europe since the 1990s, the EU might be left behind, and that doing nothing was not a rational response, particularly when viewed through the zero-sum lenses of economic nationalism.[15] Hence, something ought to be done quickly to bring the U.S. back and anchored to Europe, and the TTIP was the likely response that could enhance Europe's economic security and concomitantly assuage European concerns.

A related fourth motivation, at least for the U.S., is that the TTIP could help it negotiate a breakthrough and obtain concessions on some stubbornly thorny and vexing economic issues such as agriculture, and particularly the EU's infamous Common Agricultural Policy (CAP). These benefits would be more at the bilateral level than at the multilateral level, especially given that the Doha Round has stalled.

A fifth justification for both the EU and the U.S. is that although tariffs on imports between the two entities are already relatively low, a central focus of the proposed transatlantic FTA is the removal of remaining tariffs and non-tariff barriers through the harmonization of standards and customs protocols. Such a feat, even EU Trade Commissioner De Gucht acknowledged, would benefit not only economic actors that operate within the EU and within the U.S., but also those that deal with the two entities from the outside—a point to which we shall return in the next section.

A sixth plausible motivation for the TTIP is that with no movement in the Doha Round negotiations for quite a while, bilateral FTAs may be a viable alternative for the EU and the U.S. to advance liberalized trade between them. It could be further argued that the TTIP and similar REA schemes, especially among the world's largest economies, could provide the impetus for the completion of the stalled Doha Development Round. The argument is that successful negotiations of FTAs like the TTIP might enable renewed interest in the Doha Round, and even make negotiations easier. In fact, according to Goldfarb (2005),[16] for example, what provided the impetus for non-member countries to push for the completion of the Uruguay Round was the completion of the North American Free Trade Agreement (NAFTA) negotiations in 1992 and the inception of the EU's Single European Market (SEM) in January 1993.

While the proposed pact has been favorably received within the corridors of government in the EU and the U.S., the same cannot be said about the reception by the general public in both societies, which has been a mixed bag of emotional reactions ranging from unbridled enthusiasm to outright hostility. Whereas the business community and industry are predictably excited about the prospect of an enlarged economic space linking U.S. and EU markets, civil society on both sides of the pond has, for the most part, been skeptical and opposed. The business community and industry have greeted the proposed pact with palpable enthusiasm, because they see immense opportunities in the TTIP to expand their market outlets, pool scarce resources, reduce operating costs, enjoy economies of scale, and improve operating margins.[17] Some government functionaries, such as the Mayor of London, Boris Johnson, have been equally delighted by the proposed deal.[18] Conversely, civil society, particularly consumer groups, labor unions, environmental movements, and so forth fret about the proposed deal being unreservedly and unmistakably pro-(big) business, and a deal for "Wall Street" and not so much for "Main Street."[19] More specifically, many in the civil society community have mounted opposition to the proposed deal for sundry reasons, including on environmental, transparency, and litigation grounds.[20]

Africa's Historical Relations with the TTIP partners/parties

In this section, we will provide an overview of Africa's economic relations with the EU and the U.S. in order to provide the contexts for an impact assessment of the proposed TTIP for Africa in the ensuing section.

Relations between the EU and Africa are centuries old dating back to the arrival of European explorers in Africa in the 15th century through the late-19th century when European nation-states scrambled for and partitioned Africa according to their own whims. The entering into force of the Treaties of Rome in 1958 was a watershed in Africa's relationship with Europe, not only because it was the eve of the former's independence decade, but it marked the start of an attempt by Europe to re-define and re-position the relationship between the two continents on a relatively more equal footing as "partners." Between the late-1950s and the late-2000s, African countries, particularly south of the Sahara, enjoyed a privileged relationship with the EU and effectively remained atop the Europeans' pyramid of privileges. Sub-Sahara African (SSA) countries, along with European countries' ex-colonies in the Caribbean and the Pacific, were granted special trade concessions in a series of mostly negotiated *sui generis* agreements by the EU in the hopes of using them to stimulate the development of the mostly African beneficiaries. The concessions continued in one form or another through a series of conventions and agreements until they were to be replaced by EPAs by the beginning of 2008, in accordance with relevant provisions of the 2000 Cotonou Agreement, in order for the economic relationship to be WTO-compliant (Babarinde and Faber 2005).[21] As reciprocal FTAs, the EPAs are to replace the previously exclusive non-reciprocal PTAs. This was consequent to the outcome of a complaint filed by the U.S. in the late-1990s against the EU that its preferential arrangement for banana growers from its former colonies in the Caribbean contravened the MFN principle (Article I) of the WTO (Barkham 1999).[22] The European Commission is still busy negotiating EPAs with two of the five sub-groups of SSA, and of those completed, none has been signed, let alone ratified or entered to force.[23] It is noteworthy that some members of the two sub-groups that are still negotiating EPAs with the EU— Cameroon from the Central Africa bloc, and Madagascar, Mauritius, Seychelles, and Zimbabwe of the Eastern and Southern Africa bloc—have signed interim agreements with the EU.

Besides the EPAs, the EU maintains three additional preferential schemes for qualified African countries. They are the Generalized System of Preferences (GSP), GSP-plus, and Everything But Arms (EBA). The GSP and the GSP-plus are non-reciprocal tariff preferences that lower tariffs or provide duty-free access for imports from many developing countries across the world. The EBA, which is also non-reciprocal, is a special concession for the least-developed countries of the world, which allows all non-ammunition products, grown or manufactured, from qualified countries to enter the EU duty-free and quota-free. Against this background, it is noteworthy and not surprising that the EU remains the largest export market and the largest trading partner of African countries. According to Figure 1, although its share of total Africa's exports has declined from approximately 42 percent in 1996 to roughly 36 percent in 2012, the

EU is still by far African countries' most important market, accounting for 42.5 percent of Africa's exports during the period. Moreover, the EU also remains the single largest provider of Official Development Assistance (ODA) and FDI in Africa to date. In fact, as depicted in Figure 2, the EU's combined ODA to Africa (EU institutions and Member States) is, on average, four times that of the U.S.'s.

If Africa's most lucrative export market is the EU, its second most important is the U.S. However, unlike the EU, whose share of Africa's total exports has steadily ebbed, albeit slightly, from a peak of nearly 55 percent in 2001, the U.S.'s share has averaged about 19 percent between 1996 and 2012, although it rose measurably between 2000 and 2008, per Figure 1. One could attribute the respectable exports market share to the U.S.'s age-old engagement in Africa, especially since the 1950s, the start of post-colonial Africa. One of the most significant and enduring trade concessions the U.S. grants to qualified African countries for their exports is AGOA, which was signed into law in May 2000 by President Clinton, and is designed to promote development in Africa. Additionally, and like the EU, the U.S. government established its own GSP scheme in 1974, which allows products from the world's less-developed countries (LDCs) to enter the U.S. market duty free. Unlike the EU's EBA, the AGOA scheme, which is due to expire in September 2015 unless the U.S. Congress renews and extends it, is designed such that eligible SSA countries have to be re-certified every year, in order to ensure that they are working hard to improve their business environment, reduce/eliminate corruption, and so forth.[24] All told, and by one estimate, over 93 percent of exports to the U.S. from qualified SSA countries entered the U.S. market duty-free-and under the auspices of AGOA or the GSP scheme.[25]

Impact Assessment of the TTIP for Africa

We will now turn to examine the potential implications of the TTIP for Africa. In other words, the discussion will focus on the extent to which the proposed bilateral free trade and investment agreement between the EU and the U.S. might impact the African continent. As the extant literature has long established, REAs create general equilibrium effects for participants and non-participants alike (Venables 2003, Lipsey 1957, Viner 1950).[26] It is, therefore, reasonable to expect that a regional trade agreement of the magnitude of the TTIP is likely to have both beneficial and harmful effects on non-participating or third countries, in this case within Africa.

Having established the scope and the nature of Africa's trade relations with the TTIP negotiating parties, we can now shift the focus of our inquiry to the theoretical and empirical analysis of how the proposed EU-U.S. FTA is likely to impact Africa. Foremost, regional economic agreements (REAs), by definition and by design, discriminate against third countries outside of the REA. They are intended to benefit primarily, if not exclusively, the economic actors in participating member countries via economies of scale and economic efficiency— the so-called dynamic effects—and through trade creation and trade diversion for the participating states—the so-called static effects.

Dynamic Effects: Traditional international trade economics theory posits that REAs make it possible for economic actors within their participating member states to avail themselves of economies of large scale production made possible by the enlarged economic space at their disposal. *Ceteris paribus*, REAs are capable of injecting competition into the domestic economies of participating countries, and thereby lower consumer prices and shift production factors to more efficient usage. In other words, the intensified competition that results from the enlarged economic space, as well as improved access to foreign direct investment and foreign technologies, enable production reallocation and economic efficiency gains in the participating member states and among their economic actors. In the context of the focus of this inquiry, if the TTIP yields positive economic results for its two members, then that could translate into tangible, even if indirect, benefits for the ROW, including Africa— a theme to which we shall return below.

Static Effects: Theoretically, the primary concerns of REAs in general and the TTIP in this instance are the resultant trade creation and trade diversion. Relying on the seminal work of Jacob Viner (1950) and subsequent works by Lipsey (1960, 1957) and Venables (2003),[27] *trade creation* simply refers to the replacement of higher production cost domestic producers by more cost-efficient producers in a participating REA member state, as a result of the removal of tariff and/or non-tariff barriers to trade. Conversely, *trade diversion* simply means the substitution of imports from a lower-cost non-member state by imports from a less cost-efficient member state, consequent to the formation of an REA and the erection of trade barriers. Whereas trade creation analysis is more internally focused in so far as it is concerned with intra-REA effects, trade diversion is more externally-oriented, because it is preoccupied with the impact of the REA on the ROW. Thus, of the two static effects, it should be obvious that the one that is more pertinent to the analysis here is the latter—trade diversion—given that the focus of our inquiry is the implications of the TTIP for Africa.

Against this backdrop, one of the questions to address here is the extent to which the TTIP partners will replace imports from Africa with imports from each other. To help answer that question, we offer a diagnostic of Africa's exports portfolio to both the EU and the U.S. According to the most recent trade data, Africa's key exports to the EU have comprised agriculture, textiles and cloth, transportation equipment, energy, automotive, machinery, and chemical, while its key exports to the U.S. have included petroleum (83 percent), transportation equipment (8 percent), minerals and metals (3 percent), and textile and apparel (3 percent). At first blush, it seems evident from the two lists that the EU and the U.S. could turn to each other for the supply of virtually all of the products that Africa exports to them, including petroleum, although they might be relatively more expensive in the short-term. However, over time, and as the economies of scale and production efficiency gains that are typically associated with REAs kick in, and as the marginal cost of production comes down, they would be able to turn the trade diversion from African exports to trade creation within the TTIP space. Increased investment in oil exploration and renewable/alternative energy might enable both the EU and the U.S. to rapidly replace lost African petroleum with TTIP supplies. Notwithstanding the TTIP, many analysts already predict anyway that the U.S.'s consumption of imported petroleum, including from Africa, will steadily decline by 2020 as its investment in oil drilling and renewable energy begin to bear fruit.[28]

A second plausible trade diversion impact of the TTIP on Africa, at least theoretically, is to determine the net effect of the loss of revenue from lost exports to the TTIP countries, relative to the value of the (new) activity to which the freed-up resources are being deployed because they are no longer being used to produce for exports to the TTIP countries. Hypothetically, what this means is that the impact of the resultant trade diversion for Africa will be significant if it is unable to quickly replace the lost U.S. and EU markets with new market outlets of an equivalent or higher monetary value. It will be significant if, on the one hand, it is unable to replace the lost export markets with new ones, and, on the other hand, the freed-up resources are underutilized or lay fallow. If, however, African countries are able to replace the lost exports markets to the U.S. and to the EU, per Figure 1, in the short- to medium-term, and are able to secure markets that are of comparable or higher value to the lost markets, then the impact of the TTIP on Africa will be minimal, if not insignificant.

There are two plausible scenarios here. It could be argued, on the one hand, that given the size and the share of their exports that have historically gone to the EU and the U.S., it is doubtful that African countries will be able to secure new markets of equal or superior market value quickly enough to mitigate the adverse effects of the trade diversion from the TTIP. Admittedly, African countries have of recent been diversifying their export markets and shifting them from a North-South orientation towards a South-South one, the fact remains that the U.S. and EU markets are vital to them. On the other hand, and related to the preceding point, one could argue that Africa's export market diversification is encouraging, especially in light of the increasing share of China as a destination for African products. Specifically, African exports to China leapt measurably from roughly \$1 billion in 1996 to over \$60 billion in 2012, according to Figure 3. Similarly, over the same 17-year period, Africa's exports to India and to Brazil markedly increased from about \$2 billion and \$1.5 billion, respectively, to around \$30 billion and \$14 billion, much of the growth spurt starting around the middle of the first decade of the 21st century.[29] Hence, if the growth trajectories continue, Africa would have succeeded in mitigating the adverse impact the resultant trade diversion from the TTIP might have inflicted on its economy. Two unfolding and related trends are particularly noteworthy and encouraging here. First, China is intensifying its trade relations with Africa and is increasing its interest in the African (commodities) market. Second, the forecast by analysts is that China's demand for imported oil will soar by 360 percent between 2005 and 2020. This forecast, however, may not be realized after all due to the Chinese government's aggressive strategy to reduce the country's reliance of fossil fuel so as to address sundry environmental and health negative externalities that stem from the consumption of crude oil. In any case, given that petroleum has accounted for roughly 80 percent of Africa's exports to the U.S., China may easily fill the void that will be created by the declining American appetite for imported oil.

A third related plausible way the resultant trade diversion from the TTIP could be harmful to Africa is if African countries cannot replace the lost export markets to the EU and the U.S. in the medium- to long-term, thereby causing export prices to fall, and ultimately leading to a decline in their terms of trade. As Schiff and Winters (2003) have also noted,[30] large REAs—a characterization that would befit the TTIP—have the potential to affect world prices. If African exporters have to lower their prices in order to be able to sell to the TTIP (and to other markets for that matter), especially given the preponderance of energy/petroleum products (commodities) in their portfolio of exports, which by definition tend to be price inelastic, then it is logical to expect them to suffer a decline in their terms of trade, assuming the price of imports remains constant. However, and as noted above and in Figure 3, any measurable decline in demand for Africa's exports may be counteracted or mitigated by the fact that African countries have begun diversifying their exports markets and increasing their collective share of global exports. Again, not only have the shares of China, Brazil, and India as destinations of African exports soared, but the collective share of Africa's exports globally has increased modestly from slightly over 2 percent in 1996 to almost 3 percent in 2012.

A fourth implication of the TTIP for Africa is the potential diversion of FDI from Africa by (TTIP) investors, particularly if the return on investment (ROI) in the TTIP PTA is higher or comparable to Africa's. With an enlarged TTIP economic space that allows for economies of scale and the rationalization of economic activities through synergies and efficiency gains, it is possible to expect economic actors to divert their attention to the TTIP PTA, especially in view of the political and economic risks that are often associated with the African continent. Conversely, it is also plausible to expect investors in the TTIP PTA to look toward Africa as they attempt to diversify their portfolio, particularly because of the continent's increasing stability, transparency, economic and political reforms, and improved business climate, among others. After all, according to Figure 4, although Africa's shares in global and in developing countries' FDI are considerably low, one is encouraged by their steady improvements over time between 1990 and 2013, particularly since 2000.[31]

As a fifth implication of the TTIP FTA for Africa, we should consider how existing non-reciprocal PTAs between the U.S. and Africa and between the EU and Africa would likely be impacted. Given how long the GSP schemes of both the U.S. and the EU have been in existence, how the GSP initiative came about (courtesy of the United Nations Conference on Trade and Development [UNCTAD] in the late-1960s), and how they have been accommodated by the 1979 Enabling Clause, or the "Special and Differential Treatment" provision of the WTO, because they are extended to many developing countries across the globe, it is unlikely that the entering into force of the TTIP will threaten their existence. Similarly, the EBA is unlikely to be threatened by the emergence of the TTIP, because it is offered to the least-developed countries around the world, and is thus protected by the permanent waiver of the Enabling Clause of the WTO. The two PTAs that could be susceptible to pressure directly or indirectly as a result of the TTIP coming on-stream are AGOA and the EPAs.

To be sure, AGOA's vulnerability has been a matter of curious speculation for some time, especially every time it comes up for renewal by the U.S. Congress. The prevarication of the U.S. Congress on whether or not to renew the PTA during the past couple of renewals has already damaged potential investment in Africa, It is well-documented, after all, that the duty-free access of qualified exports from qualified SSA countries to the U.S. market encouraged investors and entrepreneurs, especially from China, Taiwan, India, and so forth to build operating textile plants, for example, in Lesotho, Mauritius, and other SSA countries.[32] If AGOA is not renewed in 2015, perhaps because of pressure from vested industry interests on the U.S. Congress to discontinue the preferential trade arrangement for SSA products, then FDI in SSA will likely take a hit. For instance, those foreign investors whose initial or sole attraction to Africa is to take advantage of the lower or duty-free tariff for most U.S.-bound SSA products will be compelled to reconsider their investment in Africa, and may well relocate some or all of their operations elsewhere or scale back their investment there. What is even more worrisome is that as presently designed, AGOA incentivizes SSA governments to combat abject poverty, establish rule of law, promote human and labor rights, fight corruption, reform their political landscapes, and improve their business environments if they are to be re-certified annually. Thus, if AGOA is discontinued either because of the TTIP entering to force, or for some other reasons, the incentive to continue to reform will likely dissipate, especially as China and India have no such prerequisites for their trade and investment. The leverage the U.S. government currently enjoys over SSA governments will ebb or cease, and business and governance reforms that have been noticeable lately in Africa may slow down or even be reversed.

With respect to the EPAs, however, the entering into force of the TTIP FTA might encourage or put pressure on African countries, particularly those that do not qualify for the GSP, GSP-plus, or the EBA, to complete the FTAs, if they wish to continue to gain access to the EU market. After all, the EPAs, like the TTIP, will be WTO-compliant, courtesy of Article XXIV of the General Agreement on Tariffs and Trade (GATT), which exempts FTAs from the MFN clause, so long as they do not create higher trade barriers overall for the non-participating members of the WTO, cover substantially all trade, and are liberalizing trade among the participating countries (Schiff & Winters).[33]

Last but not least, and to be sure, it is not being suggested here that the TTIP is all doom and gloom for Africa. Indeed, the TTIP could potentially be beneficial to Africa, at least indirectly. As noted earlier, while the TTIP is expected to boost the EU's economy by over \$130 billion (€120 billion) and the U.S.'s economy by more than \$100 billion (€90 billion), the ROW is expected to get a \$110 billion (€100 billion) boost in its economy.[34] If, in fact, the forecast comes true and the proposed FTA translates into rapid economic growth (via the dynamic effects of the TTIP) and a more optimistic consumer outlook on both sides of the Atlantic, this could translate into increased demand for imports from the ROW, including Africa. Additionally, African exporters could also benefit from the *positive spillover effects* of the TTIP. That is, if the TTIP is able to achieve mutual recognition or harmonization of EU and U.S. regulations and standards, this will lower transaction costs for TTIP-bound exports from Africa and elsewhere.

Exporters in Africa who target EU and U.S. markets will thus be able to rationalize their production operations and effectively cater to one market instead of two. The magnitude of the cost savings for Africa, however, will be different, depending on whether the EU and the U.S. adopt a mutual recognition rule or a harmonization rule. If the TTIP adopts a mutual recognition regime, it will suffice for the African exporter to comply with the standards of either the U.S. or the EU, and not both. Moreover, if the African exporter already meets the standards of either of the TTIP contracting partners at the time the mutual recognition is adopted, then it will be poised to benefit from the mutual recognition regime instantaneously. If, however, the EU and the U.S. agree to a harmonization regime instead, the costs burden on the African exporter to meet TTIP standards may be substantial, especially if they entail the construction of testing and certification facilities for their TTIP-bound products.[35]

Furthermore, it is also quite possible that an operational TTIP could trigger some movement on two of Africa's most-prized economic relationships with the U.S. and the EU, namely the AGOA and the EPAs. The fact that AGOA is non-reciprocal while the EPAs are reciprocal may partly or largely explain why on the one hand, the U.S. Congress is reluctant to renew AGOA, and, on the other hand, why SSA countries have been dragging their feet on the completion of EPA negotiations.[36] TTIP may encourage both the EU and the U.S. to revisit and reconcile their PTAs in Africa, and align them with the African Union's regional integration impulses and strategy of building an integrated continent-wide African Economic Community so as to promote economic growth and development.

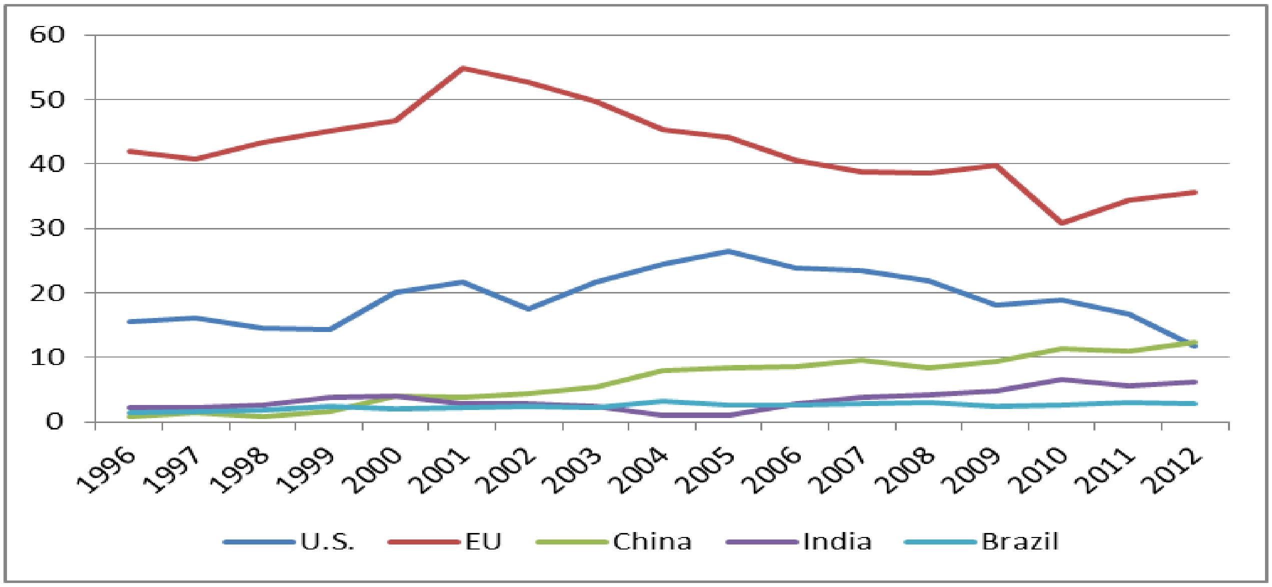
Conclusion

This paper has focused on the broad implications of the proposed TTIP for Africa. It discussed economic and political implications of the proposed TTIP on EU-Africa and U.S.-Africa relationships within the broad context of existing agreements between the TTIP partners and Africa, such as the U.S.'s AGOA and the EU's EBA and EPAs. In addition to providing an overview of what the proposed TTIP entails, the analysis examined the potential implications of the TTIP for Africa's economy (trade and FDI) and existing FTAs with Africa.

From the foregoing analysis, it is clear that the TTIP, if and when concluded, could have major implications, favorable or otherwise, for Africa. What is unclear is the net effect of the impact the TTIP FTA could have on the African continent. In view of positive developments in Africa during the past decade or so, among them an average economic growth of 5 percent, business environment reforms, improvement in the investment climate, increasing tranquility, spreading democracy and improved governance, and increased visibility of civil society, it is imperative that as the two economic powerhouses negotiate the TTIP FTA, they bear in mind Africa's track record and how far it has come. It is, therefore, in the interests of both the TTIP partners and Africa to keep the African economy on a positive growth trajectory, and prevent the continent from falling off the economic growth wagon and going into reverse. Notwithstanding the economic, societal, and political gains of the past decade or so, daily survival for many Africans is still precarious and susceptible to the vicissitude of the market and of nature. TTIP negotiators should remember a Swahili expression that it is not yet "*uhuru*" (freedom) in Africa. After all, according to the World Bank close to half of the one billion-plus African population continue to subsist on $1.25 or less daily.

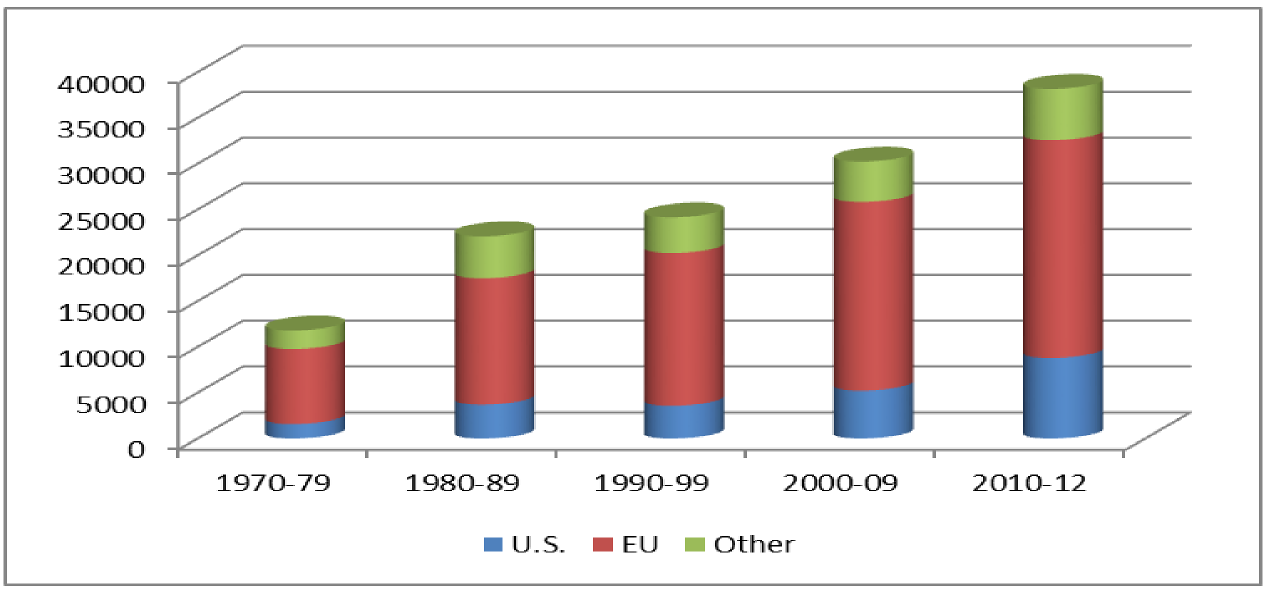
The contracting partners should consider how to make the TTIP sensitive and responsive to the challenges that the most-vulnerable and the most-marginalized in Africa routinely face on a daily basis, and how best to liberate them from abject poverty. Trade access, rather than aid dependence, may be the better route for Africa. To that end and to the extent possible, African governments should consider mobilizing in order to try to influence EU and U.S. negotiators on the sidelines of the TTIP talks before the two transatlantic partners solidify their positions. Their main agenda in these conversations would be to ensure continued and improved access to EU and U.S. markets if and when the TTIP enters into force, by pointing out that the continent has recorded its best overall economic results in its post-colonial history through mainly trade and economic liberalization rather than through aid.

Figure 1: Share of Total Exports from Africa by Country of Destination (%)



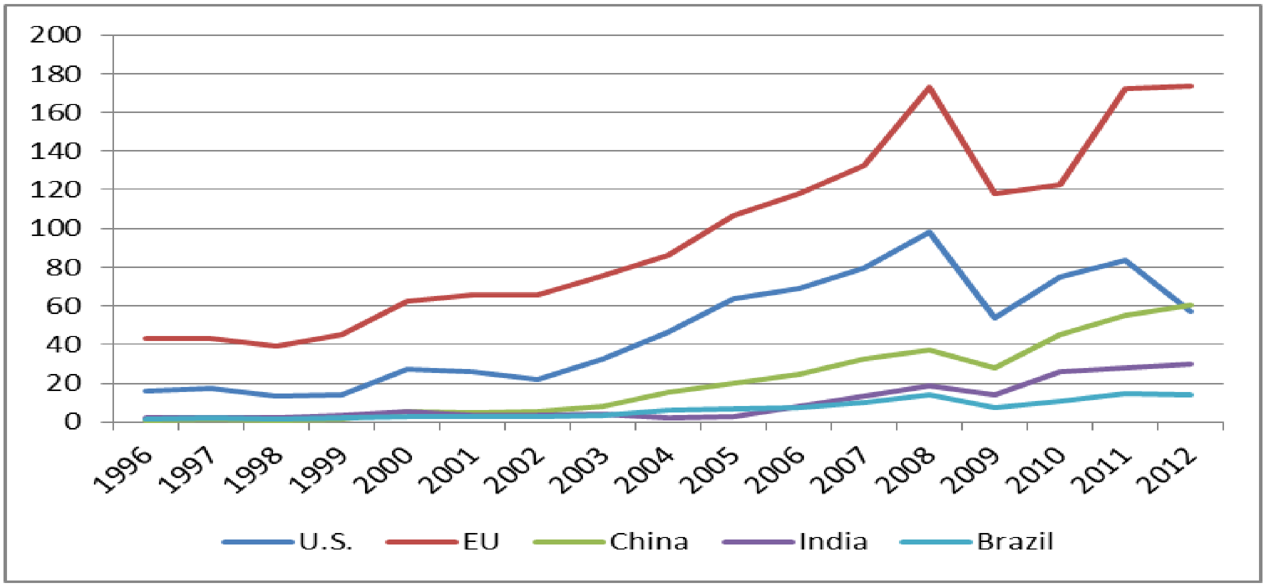
Source: *Direction of Trade Statistics Yearbook*, IMF, 2013, 2007, 2003

Figure 2: ODA to Africa by DAC Donor ($ million)



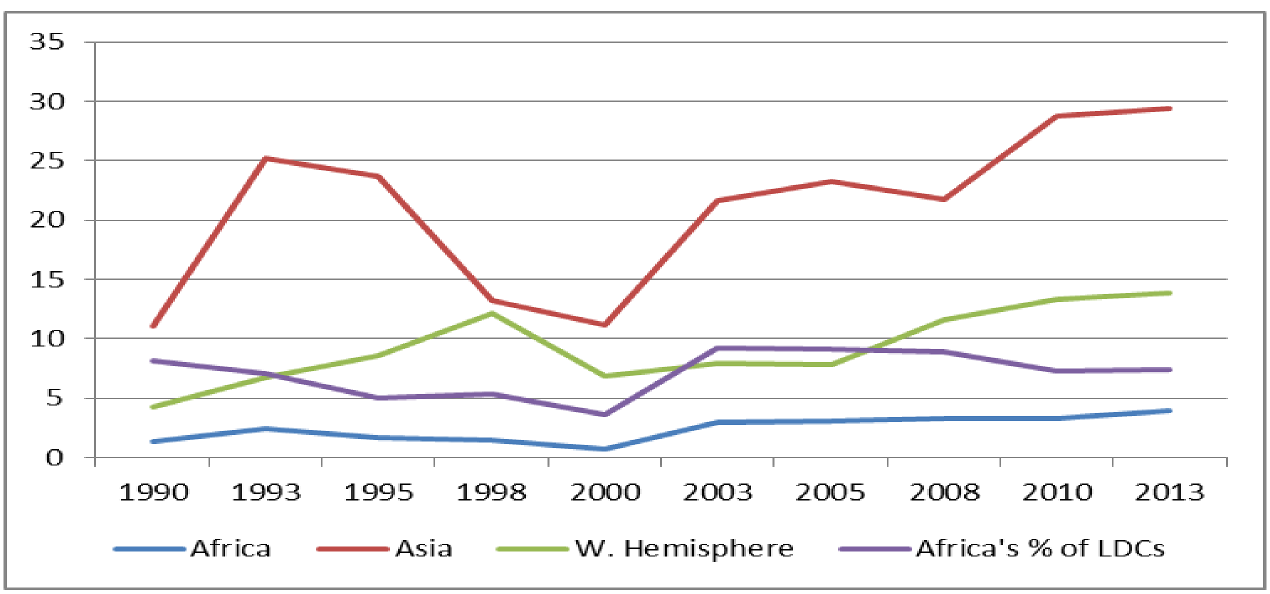
Source: *Development Aid at a Glance: Statistics by Region—Africa, 2014 edition*, OECD

Figure 3: Total Exports from Africa by Country of Destination ($ billion)



Source: *Direction of Trade Statistics Yearbook*, IMF, 2013, 2007, 2003

Figure 4: Share of Global Foreign Direct Investment Flows (%)



Source: *World Investment Report Yearbook*, UN, 1994, 2000, 2004 & 2011

Notes

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[1] An earlier version of this paper, "Implications of the TTIP for Africa: a conjectural analysis" is available in Joaquin Roy and Roberto Dominguez (eds.) The TTIP (Miami: University of Miami).

[2] http://europa.eu/rapid/press-release_MEMO-13-94_en.htm

[3] *World Development Indicators Yearbook*, 2014 (Washington, D.C.: World Bank), Direction of Trade Statistics Yearbook, 2014 (Washington, D.C.: International Monetary Fund), and *World Investment Report*, 2014 (Geneva: United Nations).

[4] Shayerah Akhtar and Vivian Jones, "Proposed Transatlantic Trade and Investment Partnership (TTIP): In Brief," *Congressional Research Service*, www.crs.gov, "Transatlantic Trade and Investment Partnership," http://ustr.gov/ttip, and "Transatlantic Trade and Investment Partnership: Commissioner Karel De Gucht welcomes Member States' green light to start negotiations," http://trade.ec.europa.eu/doclib/press/index.cfm?id=917.

[5] Joy Oliver, "EU, U.S. aim to agree free-trade deal," CNN (http://edition.cnn.com/2013/02/13/business/eu-us-trade-deal-economy/).

[6] See, for example, Octaviano Canuto, "Are mega-trade agreements a threat to Brazil," (http://www.huffingtonpost.com/otaviano-canuto/are-mega-trade-agreements_b_6763692.html), 2015, and Kemal Kirisci, "Don't Forget Free Trade with Turkey," (http://www.brookings.edu/research/opinions/2013/04/15-free-trade-turkey-kirisci), 2013

[7] http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf

[8] The other nine DGs are Internal Market, Agriculture and Rural Development, Enterprise and Industry, Taxation and Customs Union, Environment, Climate, Energy, Communications, and Competition (http://trade.ec.europa.eu/doclib/press/index.cfm?id=950).

[9] This section of the paper relied on the European Commission's "The Transatlantic Trade and Investment Partnership (TTIP), (http://ec.europa.eu/trade/policy/in-focus/ttip/).

[10] David Vogel, *Barriers or Benefits? Regulation in Transatlantic Trade*. Washington, D.C.: Brookings, 1997, and Stephen Woolcock, *Trading Partners or Trading Blows? Market Access in EC-U.S. Relations.* London: Royal Institute of International Affairs, 1992. For other materials on the history of the EU-U.S. relationship, see Miles Kahler, *Regional Futures and Transatlantic Economic Relations* New York: Council on Foreign Relations, 1995; Elizabeth Pond, *Friendly Fire: The Near-Death of the Transatlantic Alliance* Washington D.C.: EUSA/Brookings Institution, 2004; Simon Serfaty (ed.), *Visions of the Atlantic Alliance: The United States, the European Union, and NATO* Washington D.C.: Center for Strategic and International Studies, 2005.

[11] Brian Hindley, "New Institutions for Transatlantic Trade?" *International Affairs*, Volume 75: 45-60, 1999.

[12] Karel De Gucht, *"The Transatlantic Trade and Investment Partnership: Global Impacts,"* Brussels: European Commission, 2013.

[13] *World Development Indicators Yearbook,* 2014, Washington, D.C.: World Bank.

[14] *World Development Indicators Yearbook*, 2014, Washington, D.C.: World Bank and *International Trade Statistics Yearbook*, 1990, Geneva: United Nations.

[15] See, among others, Messerlin (2013) and http://www.iptegrity.com/index.php/internet-threats/763-why-europe-should-worry-about-the-trans-pacific-partnership

[16] Danielle Goldfarb, "U.S. Bilateral Free Trade Accords: Why Canada Should Be Cautious About Going the Same Route," *Howe Institute Border Papers*. Toronto: CD Howe Institute. August, 2005.

[17] See, for example, "America's take on the TTIP," by Peter Chase, the U.S. Chamber of Commerce's Vice President for Europe (http://www.amcham.it/detail.asp?c=12&p=0&id=6782).

[18] Boris Johnson, "This trade deal with America would have Churchill beaming," (http://www.telegraph.co.uk/news/politics/11173369/This-trade-deal-with-America-would-have-Churchill-beaming.html), 2014.

[19] See, among others, Emre Karaca, "Transatlantic Concerns Regarding TTIP," (http://americastradepolicy.com/transatlantic-concerns-regarding-ttip/#.VPTAOI5mrTo), 2014, Michaela Schiessl, "Will US-EU Trade Become Too Free?" (http://www.spiegel.de/international/business/criticism-grows-over-investor-protections-in-transatlantic-trade-deal-a-945107.html), 2014, William Jasper, "EU/U.S.—Transatlantic Convergence," (http://www.thenewamerican.com/world-news/item/16348-eu-u-s-transatlantic-convergence), 2013, and Lori Wallach, "The Corporation Invasion," (http://mondediplo.com/2013/12/02tafta), 2013.

[20] See, for example, http://www.ciel.org/Trade_Sustainable_Dev/TTIP_Home.html, http://www.independent.co.uk/voices/comment/what-is-ttip-and-six-reasons-why-the-answer-should-scare-you-9779688.html, and https://www.opendemocracy.net/ournhs/john-hilary/on-ttip-and-nhs-they-are-trying-to-bamboozle-us.

[21] See, Olufemi Babarinde, and Gerrit Faber (Eds.). *The European Union and the Developing Countries: The Cotonou Agreement*. Leiden: Brill Academic Publishers,,2005 and http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/index_en.htm .

[22] Patrick Barkham, "The Banana Wars Explained," *The Guardian*, March 5, 1999.

[23] The European Commission is still negotiating EPAs with the Central Africa and the Eastern and Southern Africa sub-groups. Although it has completed agreements with the Eastern Africa, the Southern African Development Community (SADC), and the West Africa sub-groups, they are still awaiting signatures http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf.

[24] For a comparative analysis of the efficacies of AGOA and EBA, see, inter-alia, Babarinde & Faber (2007).

[25] http://www.ustr.gov/trade-topics/trade-development/preference-programs/african-growth-and-opportunity-act-agoa

[26] Anthony Venables, "Winners and Losers from Regional Trade Agreements," *Economic Journal*, Volume 112: 747-761, 2003, Jacob Viner *The Customs Union Issue*. New York: Carnegie Endowment for International Peace, 1950, and Richard Lipsey, 1957. "The Theory of Customs Unions: Trade Diversion and Welfare," *Economica*, Volume 24: 40-46, 1957.

[27] Anthony Venables, "Winners and Losers from Regional Trade Agreements," *Economic Journal*, Volume 112: 747-761, 2003, Jacob Viner *The Customs Union Issue*. New York: Carnegie Endowment for International Peace, 1950, Richard Lipsey, 1957. "The Theory of Customs Unions: Trade Diversion and Welfare," *Economica*, Volume 24: 40-46, 1957, and Richard Lipsey, "The Theory of Customs Unions: A General Survey," *Economic Journal*, Volume 70: 496-513, 1960.

[28] See, among others, Melanie Cruthirds, "U.S. Crude Oil Imports Dependency to Decline 32% by 2020," *World Oil Online*, August 20

(http://www.worldoil.com/US_crude_oil_imports_dependency_to_decline_32percent_by_2020.html), 2013, and Ed Crooks, "US Crude Oil Imports Fall to 12-year Low," *Financial Times*, March 1, 2012, and http://peakoil.com/consumption/us-crude-oil-imports-dependency-to-decline-32-by-2020

[29] *Direction of Trade Statistics Yearbook*, IMF, 2003 & 2012; see also Yun Sun, *Africa in China's Foreign Policy* Washington D.C.: Brookings, 2014; and Harry G. Broadman, *Africa's Silk Road: China and India's New Economic Frontier* Washington D.C.: The World Bank, 2007.

[30] Maurice Schiff and Alan Winters, *Regional Integration and Development*. Washington, D.C.: The World Bank Group, 2003.

[31] See, for example, *World Development Indicators*, WBG, 1992 through 2012. This links to what many are labelling the "Africa Rising" scenario, named after the influential book by Vijay Mahajan, *Africa Rising* Upper Saddle River: Pearson, 2009.

[32] For example, see, Abdelal, Abrami, Maurer, and Musacchio (2006). For a discussion of U.S. and African trade possibilities in light of the future of AGOA, see *The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015* Washington D.C.: Brookings/UN Economic Commission for Africa, 2013.

[33] Maurice Schiff and Alan Winters, *Regional Integration and Development*. Washington, D.C.: The World Bank Group, 2003.

[34] http://ec.europa.eu/trade/policy/in-focus/ttip/

[35] This may thus constitute the imposition of a higher barrier, albeit NTBs, by the TTIP countries on African (ROW) countries.

[36] See, for example, Witney Schneidman's argument on the former point in "The missing link in President Obama's Africa Leaders Summit: Addressing the African, EU, U.S. Conundrum," (http://www.brookings.edu/blogs/africa-in-focus/posts/2014/10/27-obama-africa-leaders-summit-schneidman), 2014.