GED-Focus

Global Economic Dynamics

The Effect of a Transatlantic Free Trade Agreement on Latin America

Latin American countries could face an economic downturn of 3.28 percent (GDP per capita)

By Samuel George, Thieß Petersen and Ulrich Schoof

A new study by two German Think Tanks - the Bertelsmann Stiftung and ifo institute - concludes that in economic terms, both the United States (US) and the entire European Union (EU) would profit from a comprehensive Transatlantic Trade and Investment Partnership (TTIP). Both parties seek a deep liberalization of trade, and our model indicates that such a deal would increase the real per capita gross domestic product while simultaneously boosting employment for both the EU and the US.

In the case of a broad free trade agreement that not only eliminates tariffs but also minimizes non-tariff barriers, real per capita income would increase by an average of 13.4 percent in the US and five percent in the 27 EU member states. In terms of labor, The US and Great Britain would benefit in particular, with nearly 1.1 million and 400,000 additional jobs created respectively.

However, these economic gains come at a price. Countries not participating in TTIP, especially emerging markets that are traditional trade partners of the US and EU, would face trade contraction that would result in decreases to real income and employment.

The Latin America Perspective

While East Asia in general and China in particular, has emerged as a key trading partner, the importance of traditional trade relations between Latin America and the United States and Europe cannot be underestimated. The United States remains by far the region's largest trading partner, while European countries such as Spain, Germany and the Netherlands are also important export destinations for Latin American goods.

The new Bertelsmann Stiftung and ifo institute study forecasts that these relations could suffer following a comprehensive TTIP agreement. Latin American exports to the US would decline at a 27.53 percent average per country. Countries such as Brazil, Colombia and Argentina would be particularly punished, suffering 29.72, 28.48 and 30.57 percent declines, respectively. Mexico, a country which relies on exports to the US, would see their exports to the US shrink by 16.04 percent.

The model's forecast of TTIP's effect on Latin American – EU trade is similarly bleak. Under a comprehensive EU-US deal, Brazilian exports to Germany contract by 7.92 percent. Argentine exports to Spain decline 15.31 percent, while Mexico's exports to Great Britain would fall 8.71 percent. For its part, Colombian exports to the Netherlands and Great Britain, two important partners for the Andean country, would fall 5.91 percent and 22.84 percent respectively. Overall, the model indicates that Latin American exports to Europe would decline by an average of 7.26 percent per country.

This contraction would have an adverse effect on regional per-capita GDP. Mexican per-capita GDP would decline 7.24 percent, while Colombia would contract 2.6 percent, Brazil 2.11 percent, and Argentina 1.79 percent. On average, Latin American countries would face a per-capita GDP decline of 3.28 percent.

A theoretical explanation

At first glance, these numbers appear exaggerated. After all, the US-Latin America trade portfolio is rather different from the US-EU trade portfolio. But the Bertelsmann-ifo forecast is based on an Armington trade model that measures long-term elasticity. Following TTIP, US-Latin America trade would not deteriorate immediately. However, over the course of 15 to 20 years, Europe would become increasingly competitive and Latin American goods increasingly expensive by comparison. Europe may not have the copper of Chile or the oil of Brazil, but the model suggests that over time, the EU would produce substitute goods that would replace Latin American resources.

All is not lost

The forecast is predicated upon 2007 trade flows and 2010 statistics. Since then, parts of Latin America, specifically along the continent's pacific coast, have adopted free trade models that could align these countries with even a profound TTIP agreement. In particular, the Bertelsmann Stiftung's Global Economic Dynamics team has highlighted the Pacific Pumas: Mexico, Colombia, Peru and Chile. If these countries can successfully align the standards on their own Pacific Alliance pact with TTIP, this could well mitigate the adverse consequences of a transatlantic pact.

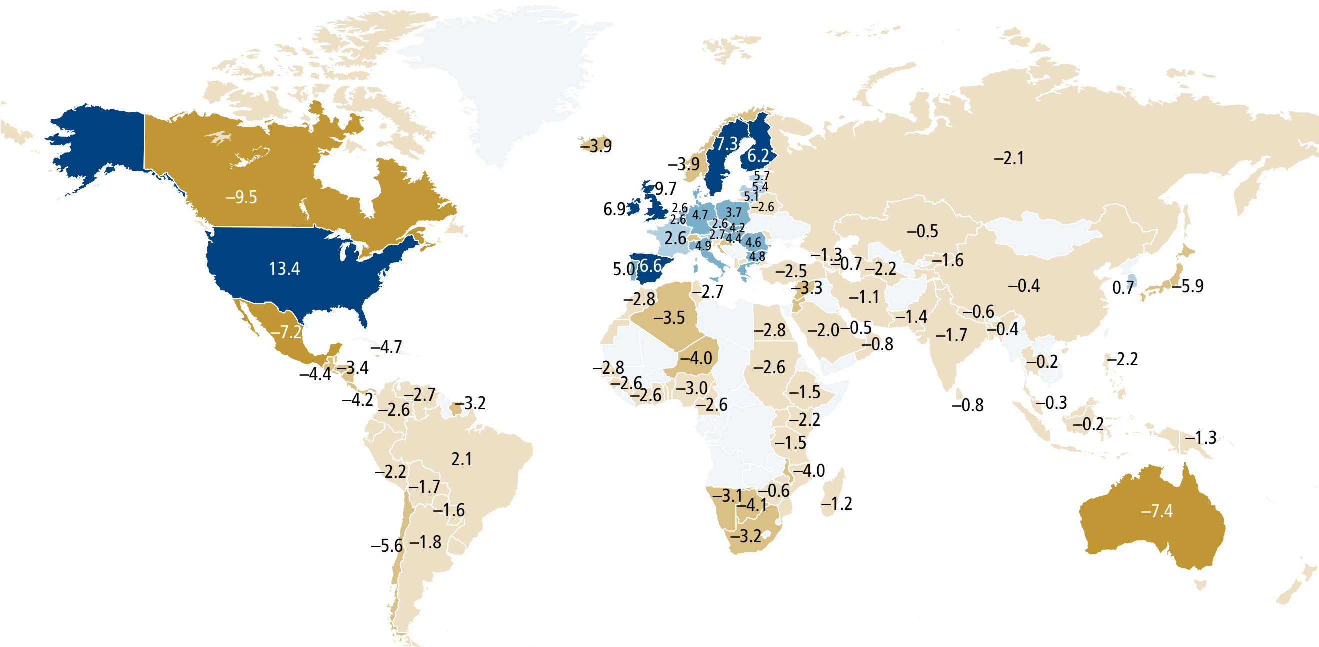
Moreover, as part of the North American Free Trade Pacts (NAFTA), Mexico is in a position to request a two-track TTIP negotiation strategy that would include a role for immediately effected countries such as Mexico, Canada, and Turkey.

But this is just the TTIP of the iceberg. The Global Economic Dynamics (GED) project team of the Bertelsmann Stiftung has featured this topic online at www.ged-shorts.org.

For more insights and specific data on Latin America please contact GED Project Manager Samuel George at Samuel.george@bfna.org

Figures and Images

Change in global real per capita income, deep liberalization



–9.5 bis –6.1 | –6.0 bis –3.1 | –3.0 bis 0.0 | 0.1 bis 3.0 | 3.1 bis 6.0 | 6.1 bis 13.4

Source: ifo Institut

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