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## THE PACIFIC ALLIANCE: A BRIDGE BETWEEN LATIN AMERICA AND THE ASIA-PACIFIC?

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### INTRODUCTION

In April 2011, the Presidents of Chile, Colombia, Mexico, and Peru gathered in Lima, Peru to establish a new regional integration initiative, the Pacific Alliance (PA). It had two stated goals. Firstly, to move progressively towards the free circulation of goods, services, capitals, and people among its members. Secondly, to become a platform from which these countries can project themselves towards the world and particularly the Asia-Pacific.

In its short lifetime, the PA has attracted great attention, both in Latin America and abroad. This chapter attempts to answer some of the most frequent questions surrounding it, such as:

- What is the strategic and economic rationale for the PA?
- What are the criteria for membership and observer status?
- Does the PA adopt any specific integration model, and (if so) why?
- Can the PA be considered a “high standard” Free Trade Agreement (FTA)?
- Is the PA linked to the Trans-Pacific Partnership (TPP)?
- Can the PA contribute to enhancing economic links between Latin America and the Asia-Pacific?

The answers to several of these questions are necessarily speculative at this point since the PA project is still in its early stages. The rest of the chapter is organized as follows. Section 2 provides an overview of the PA member economies and their trade and Foreign Direct Investment (FDI) links. Section 3 reviews the main milestones in the PA's history. Section 4 discusses the PA's possible role in strengthening trans-Pacific economic links. Section 5 concludes.

## THE PACIFIC ALLIANCE: AN ECONOMIC OVERVIEW

PA members are generally regarded as Latin America's most dynamic economies, characterized by high growth (by Latin American standards), solid macroeconomic policies, improved social indicators, and a strong commitment to open markets (see, for example, George 2014). While much of this is true, the group's growth performance over the last decade is not remarkable. Mexico, by far the PA's largest economy, has grown well below the regional average, while Colombia and Chile have grown moderately above it. Only Peru has been among the region's fastest growing economies during that period (see Table 14.1).

Within the Latin American context, all PA members are known for sharing a positive attitude towards trade and investment liberalization. Overall, they have pursued a pro-liberalization agenda in the Doha Round of the World Trade Organisation (WTO). Moreover, all PA members participate in the plurilateral negotiations of the Trade in Services Agreement (TiSA). PA members also apply lower average most-favoured nation (MFN) tariffs than their counterparts from MERCOSUR, Latin America's largest economic integration bloc (see Figure 14.1).<sup>1</sup> Indeed, all PA members conduct a substantial — and growing — share of their imports duty free through their numerous FTAs (see Table 14.2). They also make generally little use of non-tariff barriers such as import licensing and managed trade arrangements, unlike the larger MERCOSUR members.

Taken together, PA members account for large shares of Latin America's GDP, population, trade, and FDI flows (see Table 14.3). However, economic and demographic weight is not evenly distributed within the group: Mexico's GDP, population, and trade are greater than that of the other three members combined. Mexico is Latin America's largest exporter and traditionally its second largest FDI recipient (after Brazil), with Chile occupying the third place and Colombia and Peru quickly gaining ground. PA members are also among Latin America's

**TABLE 14.1**  
**Pacific Alliance Members: Selected Economic and Social Indicators**

	Average GDP Growth, 2004–13 (%)	Inflation Rate, 2013 (%)	Poverty Rate, 2012 (%) <sup>a</sup>	Rank Doing Business 2014 (Out of 189) <sup>b</sup>	Rank Global Competitiveness Report 2014–15 (Out of 144) <sup>b</sup>
Chile	4.7	1.8	11.0 (2011)	34 (1)	33 (1)
Colombia	4.8	2.0	32.9	42 (2)	66 (7)
Mexico	2.6	3.8	37.1	43 (3)	61 (5)
Peru	6.6	2.8	25.8	53 (4)	65 (6)
LAC <sup>c</sup>	4.2	6.3	28.2	—	—

*Notes:* <sup>a</sup> Poverty rates are not comparable across countries due to methodological differences.

<sup>b</sup> Figures in parentheses correspond to the ranking among Latin American countries.

<sup>c</sup> Latin America and the Caribbean.

*Source:* IMF, World Economic Outlook Database (GDP growth and inflation); ECLAC (poverty); World Bank (Doing Business rank); and World Economic Forum (Global Competitiveness rank).

**TABLE 14.2**  
**Pacific Alliance Members' FTA Network, as of December 2015**

	United States	European Union	China	Japan	MERCOSUR	Others (in force) <sup>a</sup>	Others (under negotiation)
<b>Chile</b>	Yes	Yes	Yes	Yes	Yes	Canada, Malaysia, Thailand, Turkey, ROK, P4, Australia	TPP <sup>c</sup> , Indonesia
<b>Colombia</b>	Yes	Yes	No	Under negotiation	Yes	Canada, ROK <sup>b</sup>	
<b>Mexico</b>	Yes	Yes	No	Yes	Partial liberalization in the auto sector	Canada	TPP <sup>c</sup>
<b>Peru</b>	Yes	Yes	Yes	Yes	Yes	Canada, ROK, Thailand, Singapore	TPP <sup>c</sup>

*Notes:* ROK = Republic of Korea

<sup>a</sup> Non-exhaustive list

<sup>b</sup> Signed in 2013 but still not in force.

<sup>c</sup> Negotiations concluded in October 2015.

*Source:* Organisation of America States, Foreign Trade Information System.

**TABLE 14.3**  
**Pacific Alliance, LAC, and the World: Selected Indicators, 2013**

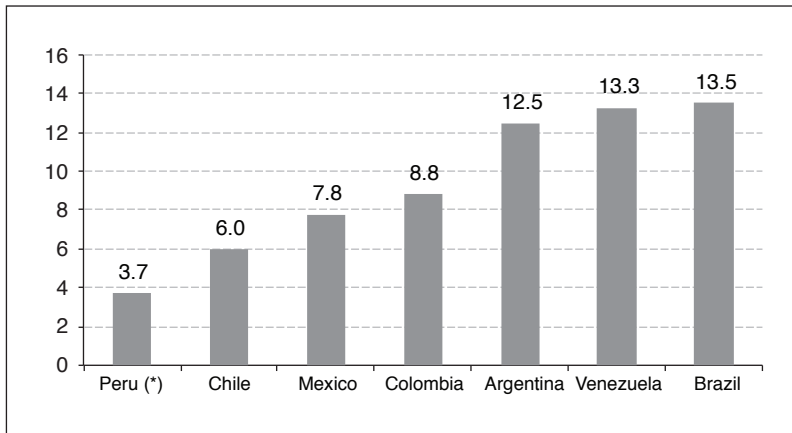
	GDP (US\$ billions, PPP)	Population (millions)	Per Capita GDP (US\$, PPP)	Merchandise Exports (US\$ billions)	Merchandise Imports (US\$ billions)	FDI Inflows (US\$ billions)	FDI Outflows (US\$ billions)
Chile	335	17.6	19,067	77.4	79.6	20.3	10.9
Colombia	528	47.2	11,189	58.8	59.4	16.8	7.7
Mexico	1,843	118.4	15,563	380.1	381.2	38.3	12.9
Peru	344	30.9	11,124	41.9	43.4	10.2	0.1
<b>Pacific Alliance</b>	<b>3,049</b>	<b>214.1</b>	<b>14,245</b>	<b>558.2</b>	<b>563.6</b>	<b>85.5</b>	<b>31.6</b>
<b>LAC</b>	<b>7,513</b>	<b>593.1</b>	<b>12,667</b>	<b>1,116.9</b>	<b>1,163.6</b>	<b>184.9</b>	<b>31.6 a</b>
<b>World</b>	<b>86,995</b>	<b>7,162.1</b>	<b>—</b>	<b>18,784</b>	<b>18,874</b>	<b>1,461</b>	<b>1,418</b>
<b>PA/LAC (%)</b>	<b>40.6</b>	<b>36.1</b>	<b>—</b>	<b>50.0</b>	<b>48.4</b>	<b>46.2</b>	<b>100.0</b>
<b>PA/World (%)</b>	<b>3.5</b>	<b>3.0</b>	<b>—</b>	<b>3.0</b>	<b>3.0</b>	<b>5.9</b>	<b>2.2</b>

Note: PPP = purchasing power parity

<sup>a</sup> In 2013, positive FDI outflows from all non-Pacific Alliance LAC countries were exactly compensated by a negative outflow of US\$3.5 billion from Brazil. This is why total FDI outflows from the PA and LAC as a whole coincide.

Source: IMF (GDP and population); WTO (exports and imports); UNCTAD and ECLAC (FDI).

**FIGURE 14.1**  
**Selected Countries: Average Applied MFN Tariffs, 2012**  
 (Simple average for all products in %)



*Note:* \* Figures are from 2011.

*Source:* WTO (2013).

largest foreign investors. In 2013, Mexico, Chile, and Colombia were the top, second, and third most important sources of FDI originating in the region, respectively (ECLAC 2014).

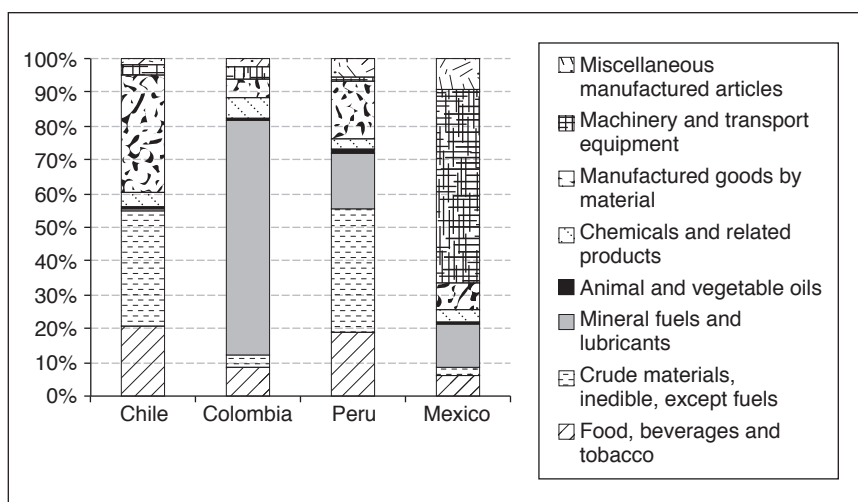
PA members trade little with each other: less than 4 per cent of their combined merchandise exports in 2013 went to the PA market (see Table 14.4). This cannot be attributed to high trade barriers, as nearly 90 per cent of trade among the four countries is already duty-free under existing bilateral FTAs.<sup>2</sup> A more likely explanation is that, by and large, PA members are not natural trading partners. Firstly, the export baskets of Chile, Colombia, and Peru are dominated by raw materials.<sup>3</sup> There is limited room for expanding trade among countries with such commodity-intensive export profiles (see Figure 14.2). Secondly, the PA is not a contiguous economic space. Mexico, the only PA member with a predominantly industrial export profile, is geographically distant from its three South American partners and its trade is dominated by U.S.-centred production networks. Thus Mexico takes less than 1 per cent of its total imports from Chile, Colombia, and Peru combined.

**TABLE 14.4**  
**Pacific Alliance: Total and Intra-Bloc Merchandise Exports, 2013**  
 (in million dollars and %)

Origin	Destination				Total PA	World	PA Share (%)
	Chile	Colombia	Mexico	Peru			
Chile	1,963	869	1,321	1,963	4,153	77,367	5.4
Colombia	1,572	1,274	864	1,274	3,709	58,822	6.3
Mexico	2,085	4,735	1,771	1,771	8,591	380,123	2.3
Peru	1,670	843	509	3,023	3,023	41,872	7.2
<b>Pacific Alliance</b>	<b>5,326</b>	<b>6,448</b>	<b>2,695</b>	<b>5,007</b>	<b>19,476</b>	<b>558,184</b>	<b>3.5</b>

Source: Comtrade database.

**FIGURE 14.2**  
**Sectorial Breakdown of PA Members' Total Merchandise Exports, 2013**  
 (in %)



Source: Comtrade database.

Despite their limited trade interdependence, PA members have growing FDI links among themselves (see Tables 14.5 and 14.6). PA markets are especially important as destinations for PA members' outward FDI: Colombia,

**TABLE 14.5**  
**Pacific Alliance Members: Inward FDI Stock from the**  
**Pacific Alliance and the World, 2013**  
(in million dollars and %)

Origin	Destination				Total PA	World	PA Share (%)
	Chile	Colombia	Mexico	Peru			
Chile		2,081	1,191	163	3,435	215,452	1.6
Colombia	4,683		3,459	543	8,685	123,416	7.0
Mexico	430	486		... <sup>a</sup>	916 <sup>b</sup>	337,595	0.3
Peru <sup>c</sup>	1,475	1,079	457		3,011	23,133	13.0

Notes: <sup>a</sup> Less than 0.1 per cent of Mexico's inward FDI stock.

<sup>b</sup> Corresponds to the sum of Chile and Colombia.

<sup>c</sup> It only includes equity investment, thus excluding reinvested earnings and inter-company loans.

Source: Compiled by the author, based on figures from Central Bank (Chile), Proexport (Colombia), National Commission of Foreign Investments (Mexico), and ProInversión (Peru).

**TABLE 14.6**  
**Pacific Alliance Members: Outward FDI Stock in the**  
**Pacific Alliance and the World, 2013**  
(in million dollars and %)

Origin	Destination				Total PA	World	PA Share (%)
	Chile	Colombia	Mexico	Peru			
Chile		5,979	596	9,887	16,462	101,933	16.1
Colombia	2,513		2,833	2,669	8,015	39,662	20.2
Mexico <sup>a</sup>	4,815	3,156		1,248	9,219	131,106	7.0
Peru <sup>b</sup>	367	79	...		446 <sup>c</sup>	1,239	36.0

Notes: <sup>a</sup> Stock up to 2012.

<sup>b</sup> Stock up to 2010.

<sup>c</sup> Corresponds to the sum of Chile and Colombia.

Source: Compiled by the author, based on figures from Central Bank (Chile), Proexport (Colombia), and UNCTAD (2014) (Mexico and Peru).

Mexico, and Peru together accounted for 16 per cent of Chile's outward FDI stock up to 2013, while Chile, Mexico, and Peru accounted for 20 per cent of Colombia's outward FDI stock in the same period. Chile, for its part, has been a key market in the expansion of Peruvian firms abroad. FDI flows are especially dynamic among Chile, Colombia, and Peru.<sup>4</sup> By contrast, just 0.3 per cent of Mexico's inward FDI stock up to 2013 came from PA members, reflecting Mexico's much stronger economic links with the United States and other developed countries. The increasing importance of PA markets as a destination for capital originating within the group reflects a wider trend: the internationalization of Latin American multinational companies (the so-called multilatinas), especially during the last decade. Of the fifty largest multilatinas in 2012 by total sales, sixteen were Mexican, eleven were Chilean, and six were Colombian (ECLAC 2014).

Within the PA, only Colombia and, to a lesser extent, Chile have official statistics on trade in services by partner country. Therefore, it is currently impossible to have a full picture of the amount and composition of intra-PA trade in services. Nevertheless, the limited statistics available confirm that the PA is an important market for its members' exports of services. For example, in 2013 the PA absorbed 45 per cent of Chile's exports of IT (information technology) services, and 39 per cent of its exports of professional and business services. In the same year, the PA absorbed 36 per cent of Colombia's exports of engineering and architectural services and 15 per cent of its exports of IT services. Moreover, a large share of FDI flows among PA members goes to the services sectors such as air transport, retail, telecommunication, and financial services (ECLAC 2014).

### FROM THE ARC OF THE PACIFIC TO THE PACIFIC ALLIANCE

The PA is the direct successor of the Latin American Pacific Arc (*Arco del Pacífico Latinoamericano*). Created in January 2007 and now unofficially defunct, the Arc had as its members the eleven Latin American countries with coasts on the Pacific Ocean.<sup>5</sup> Its goals were broadly similar to those of the PA: furthering economic integration among its members and jointly exploring links with the Asia-Pacific.

The Arc's creation was largely a reaction to the ascendancy of anti-free trade views in the region. The main highlights in this regard were the creation of the Bolivarian Alliance for the Peoples of Our America (ALBA) in December 2004, led by Cuba and Venezuela; the definitive failure of the

Free Trade Area of the Americas (FTAA) project in November 2005; and Venezuela's withdrawal from the Andean Community (another economic integration mechanism) in April 2006 in protest against Colombia's and Peru's decision to pursue FTAs with the United States. Against this background, the Arc grouped all Latin American countries which at the time had (or were negotiating) FTAs with the United States and were favourable to the FTAA. However, it also included Ecuador, which since 2007 grew increasingly vocal against both trade liberalization and U.S. influence in the region, eventually joining ALBA in 2009. Another Arc member, Nicaragua, had already joined ALBA in 2007, despite having signed an FTA with the United States (DR-CAFTA) in 2004.

The Arc failed to make any significant progress during the four years it remained active. This was the result of several factors, including its lack of clear goals and differences within the group. Following a failed ministerial meeting in October 2010, then-Peruvian President Alan Garcia decided to proceed in a smaller configuration of like-minded countries. Thus, in April 2011, the then-Presidents of Chile, Colombia, Mexico and Peru subscribed the Lima Declaration, giving birth to the PA. On that occasion, they committed to move progressively towards the free circulation of goods, services, capital, and people among the four countries. Panama attended the Lima summit as an observer, with Costa Rica following suit in March 2012.

In June 2012, a Framework Agreement giving formal existence to the PA was signed in Paranal, Chile. One of its stated goals was to create a free trade area among the four founding members, ruling out the establishment of a customs union. It was made explicit that any future trade agreement within the framework of the PA would not replace the FTAs already linking its members. It was also agreed that other countries could apply for accession to the PA, if they already had FTAs in force with all the founding members.<sup>6</sup>

Following intensive negotiations in 2012 and 2013, PA members subscribed the Additional Protocol to the Framework Agreement (henceforth the Protocol) at the PA's Eighth Presidential Summit, held in Cartagena, Colombia in February 2014. The Protocol, currently awaiting ratification in all PA member countries, supplements the existing bilateral FTAs. Both the Protocol and those FTAs closely follow the NAFTA (North American Free Trade Agreement) model in structure and content. The Protocol's main features are:

- Market-opening provisions covering trade in goods, cross-border trade in services, government procurement, investment, financial services, electronic commerce, and telecommunications.
- Upon entry into force, it will liberalize 92 per cent of trade in goods among the four countries, while tariffs on most of the remaining 8 per cent will be eliminated within three to seven years.<sup>7</sup>
- Full cumulation of origin is granted among the four signatories.
- Government procurement commitments apply to the procurement of goods and services (including construction services) carried out by designated entities at the central and subcentral levels, plus some public companies.
- The main opening commitments affecting cross-border trade in services and investment apply on a negative list basis (that is, non-conforming measures were listed by the parties).
- The investment chapter includes an investor–state dispute settlement (ISDS) mechanism, which can also be applied to some provisions of the financial services chapter.
- The chapter on trade facilitation includes several provisions similar to those of the recent WTO Agreement on Trade Facilitation, such as on transparency, advance rulings, single windows, appeal procedures, expedited shipments, and authorized operators.
- An intergovernmental dispute settlement mechanism applies to all areas covered by the Protocol (except for investment disputes subject to the ISDS mechanism).
- The Protocol does not include chapters on intellectual property, trade remedies, competition policy, temporary entry for business persons, labour, and the environment.<sup>8</sup>

Overall, the main value of the Protocol is that, once it enters into force, it will make applicable among all PA members several commitments that under existing agreements apply only bilaterally. Perhaps the most obvious example is the establishment of a cumulation of origin regime, which should promote shared production arrangements within the group. Another example could be the gradual harmonization or mutual recognition of technical regulations among the four members.<sup>9</sup> This “plurilateralization” of bilateral commitments should reduce transaction costs for firms operating in or trading with PA members, irrespective of their origin. Other improvements brought about by the Protocol are the following:

- It updates the rules contained in previous FTAs, thus reflecting recent developments (for example, in trade facilitation).

- It improves some market access commitments negotiated in previous FTAs, in goods, services, investment, and government procurement.
- It includes topics not covered in one or more of the existing agreements. For example, maritime services are not covered by any of the previous FTAs, while the Chile–Peru FTA does not have a government procurement chapter.

Whether the PA Protocol is a “high standard” FTA depends on the chosen metric. To start with, it cannot be judged in isolation from the previous FTAs among PA members, with which it will coexist. Moreover, since the Protocol is not yet in force, there is no way to judge how its provisions are working in practice. Nevertheless, the Protocol is among the most trade liberalizing pacts ever subscribed among Latin American countries. The obvious point of comparison is MERCOSUR. Although more than twenty years old and envisioned as a common market, its members have failed to reach or implement agreements on common regimes for the treatment of investment, trade in services and government procurement, among other topics. Indeed, trade in autos and auto parts (a large part of total intra-MERCOSUR trade) works on the basis of bilateral quotas and non-tariff barriers remain pervasive in many sectors.

While the PA Protocol does not include a chapter on intellectual property (IP), some of the existing FTAs among PA members do. More importantly, all PA members have signed up to comprehensive, TRIPS-Plus (Trade-Related Aspects of Intellectual Property Rights-Plus) commitments in the context of their bilateral FTAs with the United States. Most of those commitments, being regulatory in nature, apply also among PA members. Indeed, it is far from clear that using trade agreements to continuously raise the level of protection of IP is good from either a developmental perspective or a broader public policy perspective. The same can be said of the inclusion of ISDS clauses, another NAFTA legacy that is firmly enshrined in the PA Protocol and previous FTAs among PA members.

Aside from trade liberalization, the PA has made progress on several fronts. Probably its best known achievement so far is the creation in 2011 of the Latin American Integrated Market (MILA). This initiative links the equities markets of Chile, Colombia, and Peru, allowing investors and brokers from the three countries to buy and sell shares from the three stock markets through a local broker. In June 2014, Mexico’s Stock Exchange announced it was joining this platform. Although the MILA initiative is independent from the PA, it is fully consistent with its goals. Other PA accomplishments to date include:

- The decision by Mexico in November 2012 to waive visa requirements for visitors from Colombia and Peru (visas were not required by the other PA members).
- The creation of a student exchange platform and of a scientific network to foster research on responses to climate change.
- The creation of the PA business council as an advisory body to the PA's ministerial council.
- The joint promotion of the PA in trade, investment, and tourism forums.
- Arrangements to share embassies (in Ghana and Morocco) and trade offices (in Turkey). Similar arrangements are under study in Asia.

Summing up, the PA shows a number of tangible results in a very short time. This dynamism, coupled with the overall policy stance and relatively good economic performance of its members, has attracted the attention of many countries. Thus the number of observers has grown substantially, reaching thirty-two by late 2014 (including eight of the world's ten largest economies). Interestingly, twenty of those observers are from outside the Americas, including seven from the Asia-Pacific (see Table 14.7).

**TABLE 14.7**  
**Observer States of the Pacific Alliance, as of September 2014**

Latin America	North America	Europe	Asia and Oceania	Africa
1. Costa Rica <sup>a</sup>	1. Canada	1. Belgium	1. Australia	1. Morocco
2. Panama <sup>a</sup>	2. United States	2. Finland	2. China	
3. Dominican Republic		3. France	3. India	
4. Ecuador		4. Germany	4. Israel	
5. El Salvador		5. Italy	5. Japan	
6. Guatemala		6. Netherlands	6. New Zealand	
7. Honduras		7. Portugal	7. Rep. of Korea	
8. Paraguay		8. Spain	8. Singapore	
9. Trinidad and Tobago		9. Switzerland	9. Turkey	
10. Uruguay		10. United Kingdom		

*Note:* <sup>a</sup> Accession candidates. Costa Rica's accession process is the most advanced. However, it seems to have lost some momentum following the presidential elections held in April 2014, which brought an opposition coalition to power.

*Source:* Pacific Alliance website.

Today the PA finds itself in a very unusual position. Firstly, it has many more observers than full members. Secondly, most observers — especially the non-Latin American ones — cannot realistically be expected to become full members. The chief impediment is probably that most observers are already members of other economic integration initiatives in their own regions (for example, the European Union, NAFTA, and ASEAN). The rules and commitments applicable within those groups differ from those negotiated within the PA, making parallel membership unfeasible. This begs the question of what type of work agenda the PA can offer its observers that is mutually beneficial for both groups. We turn to this point in the next section.

### **THE PACIFIC ALLIANCE AND THE ASIA-PACIFIC: WHICH WAY FORWARD?**

Within Latin America, a unique feature of the PA is that it partly defines itself in terms of its intended links with another region: the Asia-Pacific. Indeed, much has been written about the PA's potential role as a bridge between both regions (Dade and Meacham 2013; George 2014; Meacham 2014). Against this background, the first point to examine is the PA members' trade links with Asia. There is no common pattern in this regard: while the Asia-Pacific accounts for almost half of Chilean total exports and almost a third of Peru's, it is a much less important market for Colombia and a minor one for Mexico. The export baskets of Chile, Colombia, and Peru are complementary with those of China, Japan, and Korea, exchanging minerals and fuels for industrial products. In contrast, Mexico directly competes with Asian, especially Chinese, manufactures in its own market and the United States. On the import side, the Asia-Pacific is a large and increasingly important supplier for all PA members. Overall, Chile posts a trade surplus with the Asia-Pacific, while the other three PA members show deficits, with Mexico's being extremely high (see Table 14.8).

Almost all FTAs between Latin American and the Asia-Pacific economies involve PA members. Chile and Peru stand out: both have FTAs in force with China, Japan, the Republic of Korea, and some members of ASEAN. Mexico has an FTA in force with Japan, while Colombia signed, in 2013, an FTA with Korea (not yet in force) and is currently negotiating one with Japan.<sup>10</sup> Chile, Mexico, and Peru, the only three Latin American members of APEC, are also the region's

**TABLE 14.8**  
**Pacific Alliance Members' Merchandise Trade with the Asia-Pacific and the World, 2013**  
 (in million dollars and %)

	China	Japan	Rep. Korea	ASEAN-6 <sup>a</sup>	India	Total Asia-Pacific <sup>b</sup>	World	Share Asia-Pacific (%)
<b>Exports</b>								
Chile	19,219	7,661	4,272	1,285	2,304	34,741	77,367	44.9
Colombia	5,102	388	230	259	2,993	8,972	58,822	15.3
Mexico	6,467	2,242	1,525	1,601	3,812	15,648	380,123	4.1
Peru	7,343	2,228	1,541	496	593	12,201	41,872	29.1
<b>Imports</b>								
Chile	15,702	2,495	2,771	1,604	739	23,310	79,616	29.3
Colombia	10,363	1,479	1,296	1,204	1,144	15,486	59,381	26.1
Mexico	61,321	17,076	13,493	15,385	2,868	110,144	381,210	28.9
Peru	8,399	1,439	1,590	1,283	723	13,434	43,357	31.0
<b>Balance</b>								
Chile	3,517	5,166	1,501	-318	1,565	11,431	-2,249	—
Colombia	-5,261	-1,091	-1,066	-945	1,849	-6,514	-559	—
Mexico	-54,854	-14,834	-11,968	-13,784	944	-94,496	-1,087	—
Peru	-1,056	789	-49	-787	-131	-1,233	-1,486	—

Notes: <sup>a</sup> Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

<sup>b</sup> Corresponds to the sum of China, Japan, Korea, ASEAN-6, and India.

Source: Comtrade database.

only three participants in the TPP negotiations. In short, as far as FTA activity is concerned, the PA looks like Asia's natural partner in Latin America.<sup>11</sup> The key question is whether and how the creation of the PA will result in a more coordinated approach by its members towards the Asia-Pacific.

As far as trade negotiations are concerned, PA members continue to act individually. After the PA's creation, Colombia started FTA negotiations with Japan in December 2012, while Chile did the same with Indonesia in May 2014. Thus far, PA members have not shown any public signs of wishing to jointly negotiate trade agreements with third parties. Doing so would be very difficult at any rate for several reasons. Firstly, as already noted, trade patterns with Asia vary widely among PA members. Therefore, defining common positions that accommodate every member's offensive and defensive interests would be a very complex exercise. Secondly, some PA members (Chile and Peru) already have FTAs in force with most major Asia-Pacific partners. Thirdly, the PA is based on the premise that its members retain total freedom to pursue their trade policies *vis-à-vis* third countries. Thus, proposals such as launching FTA negotiations between the PA and ASEAN are not likely to materialize, at least in the short term.

This brings us back to the question of what kind of work agenda the PA can offer its Asian observers. Joint promotion of business opportunities with PA countries is a promising area already being explored. In particular, PA members should join efforts to attract Asian FDI and help their own multinational companies to increase their presence in Asia. Reaching arrangements with Asian partners to help diversify the PA members' highly concentrated exports to that region should also be a priority. Since PA observers are very diverse, a "one-size-fits-all" agenda should be avoided. The PA could instead propose to each of its main Asian observers (China, Japan, India, and the Republic of Korea) the creation of bilateral forums on trade, investment, and cooperation. These bodies could meet regularly (say, annually), allowing both parties to tailor their agenda to their specific needs and interests. A similar arrangement should be proposed to ASEAN, given its centrality to the Asia-Pacific's regional integration efforts.<sup>12</sup>

Although the PA is a relatively high-quality FTA, trade interdependence among its members is quite low, especially between Mexico and the other three. This limits the PA's business appeal, including in Asia. In this regard, the PA becomes a much more interesting partner if it can

market itself as a privileged springboard from which Asian firms can do business with the rest of Latin America. This necessarily involves reaching out to MERCOSUR, since its members combined account for over half of the region's GDP. Moreover, Chile, Colombia, and Mexico export more to MERCOSUR than to the PA.<sup>13</sup>

Achieving convergence between the PA and MERCOSUR will be a challenging exercise, both technically and politically, given the very different policy orientations both blocs have today.<sup>14</sup> However, the more successful the PA proves in engaging MERCOSUR in a productive work agenda (for example, on trade facilitation, people mobility, harmonization of technical standards, and joint infrastructure projects), the more attractive it should become to Asian trade and investment partners. Some initial steps in this direction were taken during 2014, at the initiative of the government of Chile.<sup>15</sup> While there has not been much follow-up so far, prospects look brighter given the interest in closer PA–MERCOSUR ties expressed by the new administration that took office in Argentina in December 2015.

In a mid-term perspective, another crucial issue will be defining where and how the PA fits into the emerging architecture of trans-Pacific economic relations. The answer is not obvious. Unlike the main “mega-regional” processes underway in Asia-Pacific (the Regional Comprehensive Economic Partnership, the TPP, the China–Japan–Korea FTA negotiations, and the ASEAN Economic Community), the PA does not include Asian economies among its members, nor is it likely to do so any time soon. This is why the relationship between the PA and the TPP becomes strategically important.

Chile, Mexico, and Peru participated in the recently concluded TPP negotiations, while in the past Colombia has expressed interest in joining the TPP. If Colombia decides to join (and is accepted), the PA Protocol could be amended to ensure full compatibility between both agreements.<sup>16</sup> In principle, convergence between the PA Protocol and the TPP should be facilitated by the fact that both broadly follow the NAFTA model.<sup>17</sup> However, the prospect of such convergence raises important systemic questions for the PA's future. If all PA members also become members of a larger agreement whose dynamics are largely determined by other players (notably the United States), then the PA's existence as an autonomous Latin American integration project would be severely compromised.<sup>18</sup> Therefore, the issue of how to handle its relationship with the TPP will likely remain a critical one for the PA in the coming years.

## CONCLUSION

The PA is in many ways a *sui generis* initiative. Firstly, it is Latin America's only integration mechanism (aside from its predecessor, the Pacific Arc) that explicitly includes among its goals strengthening links with another region (the Asia-Pacific). Secondly, it aims for a "deep integration area" while explicitly avoiding the goal of creating a customs union. It thus departs from the traditional notion according to which deeper forms of economic integration are usually preceded by the harmonization of tariffs and the adoption of a common trade policy towards non-members. Thirdly, its membership does not correspond to any particular region of Latin America (aside from the fact that all its current members share coasts on the Pacific).

One risk facing the PA is that the freedom its members enjoy to independently pursue their economic links with third parties may end up weakening the PA's impact abroad. After all, its creation was partially a response to the recognition that it made sense to join forces to better exploit the opportunities presented by the rise of Asia. Therefore, it follows that PA members should coordinate when interacting with Asian partners. Thus far, such coordination has mostly been through joint participation in seminars and in trade, investment, and tourism fairs, as well as arrangements to share embassies or trade offices in some countries. While all these initiatives are welcome, they do not replace a full-fledged strategy towards the Asia-Pacific or at least towards its largest players. In its absence, the PA will find it difficult to realize its potential to become the main springboard for bi-regional trade, investment, and cooperation. Therefore, defining a strategy towards Asia is one key challenge for the PA.

This chapter has shown that trade interdependence among PA members is quite low. This limits the PA's business appeal and poses the question of how to sustain its momentum in the medium-term. This is a second key challenge going forward. In this regard, the PA becomes a much more interesting partner if it can position itself as a privileged springboard from which to do business with the rest of Latin America. This requires reaching out to MERCOSUR, due to its vast economic size. Achieving convergence between the PA and MERCOSUR is a tall order, given their currently very different policy orientations. However, starting work on a gradual convergence agenda between Latin America's two largest economic integration blocs is critically important. While the

PA has a key role to play in bridging Latin America and Asia, it also has a responsibility to help achieve a more integrated Latin America. Both goals are not mutually exclusive and in fact reinforce each other. The notion that Latin America is split between a “liberal” Pacific and a “protectionist” Atlantic (*The Economist* 2013) is not in the PA’s long-term interest. Moreover, it is becoming increasingly outdated in light of recent political developments in the region.

The third key challenge for the PA will be managing its relations with other economic integration initiatives in which some of its members participate. For example, Colombia and Peru are also members of the Andean Community, one of the oldest economic integration mechanisms in Latin America. It remains to be seen how both countries will manage any potential inconsistencies arising from their parallel membership in two mechanisms with broadly similar goals but different political economy configurations. Getting the relationship right between the PA and the TPP will be even more important. In particular, if the PA is to play a meaningful role in the broader process of Latin American economic integration in the coming years, it will need to retain its autonomy from the U.S.-led TPP.

The fourth challenge relates to whether or how much the PA should expand its work agenda beyond its current, mostly economic, focus. Broadening too much the PA’s scope may result in reduced effectiveness. This issue relates in turn to the institutional dimension. Thus far the PA has a very light institutional framework, with no permanent secretariat. It remains an open question whether this structure will be able to effectively deal with a heavier integration agenda in the coming years.

Finally, there is the issue of possible enlargement. Unlike many integration blocs, the PA’s boundaries are not clearly defined by geography. Instead, membership has been defined mostly by shared visions in terms of economic policy. This obviously facilitates reaching agreements within the group. However, it may discourage other Latin American countries that could be interested in joining the PA but whose economic policies are not fully aligned with those of the current members. There are trade-offs to be considered between keeping the PA as a small club of like-minded countries and broadening its membership with the possible cost of more policy diversity. Either way, reviewing the PA’s current accession criteria seems crucial. In particular, having FTAs with at least half of the current members seems a restrictive criterion that should be dropped or at least complemented by others. Overall, the PA’s main challenge for the coming years is to live up to the big expectations it has aroused so far.

## Notes

1. MERCOSUR is Mercado Común del Sur or Southern Common Market. Its members are Argentina, Brazil, Paraguay, Uruguay and Venezuela. Bolivia is currently in the accession process.
2. These are the Chile–Peru, Chile–Colombia, Chile–Mexico, Colombia–Mexico, and Peru–Mexico FTAs, plus the Andean Community FTA between Bolivia, Colombia, Ecuador, and Peru.
3. Copper and other mining products in the case of Chile and Peru; petroleum and coal for Colombia.
4. Chile was the top foreign investor in Colombia in 2012.
5. Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru.
6. This rule was subsequently relaxed, requiring that the accession candidate have subscribed FTAs with at least half of the full members at the time of applying.
7. As mentioned earlier, this is a modest improvement on the status quo.
8. All these areas are covered (to different degrees) in existing FTAs. For example, all of these include provisions on trade remedies. By contrast, several do not include chapters on intellectual property, a topic traditionally seen as being of interest mostly to developed countries.
9. Some progress has already been made in this area, specifically for medicines and cosmetics.
10. Costa Rica, the PA's prospective fifth member, has FTAs in force with China and Singapore.
11. However, trade flows tell a different story. Brazil is the top Latin American trading partner for China, Japan, and the Republic of Korea, despite not having subscribed FTAs with any Asia-Pacific economy (only a fixed preference agreement with India in the context of MERCOSUR). In 2013, China imported US\$54.3 billion from Brazil, against US\$44.0 billion from all PA members combined.
12. A first step in this direction was taken on 26 September 2014, when the PA's Ministers of Foreign Affairs and Trade met a high-level delegation of ASEAN at the margins of the United Nations General Assembly. Both groups discussed possible avenues for future cooperation.
13. In 2013, Chilean, Colombian, and Mexican exports to the PA reached US\$4.15 billion, US\$3.71 billion, and US\$8.59 billion, respectively. In the same year, their exports to MERCOSUR reached US\$6.68 billion, US\$4.32 billion, and US\$9.95 billion, respectively.
14. For the same reason, there is no realistic prospect of a full-scale merger between both blocs any time soon. Indeed, their current rules and policy orientations differ so much that even parallel full membership in the PA

- and MERCOSUR by some countries (for example, Paraguay and Uruguay, both observers in the PA) seems ruled out at this point.
15. Two ministerial-level meetings between the PA and MERCOSUR took place in November 2014 to explore possible areas for joint work.
  16. Possible additions could take place in areas included in the TPP and not explicitly covered by the PA, such as intellectual property, regulatory coherence, state-owned enterprises, labour, and the environment.
  17. Both the PA Protocol and the TPP share features that are characteristic of all the FTAs negotiated by the United States since NAFTA, such as nearly universal product coverage for tariff elimination, the use of a negative list approach to list exclusions in services and investment, and the inclusion of investor-state dispute settlement clauses, among others.
  18. Some authors already envisage an explicit institutional link between the PA and the TPP. For example, Rashish (2014) argues that, should Costa Rica and Panama want to join the TPP in the future, they should first become full members of the PA.

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