

THE PACIFIC ALLIANCE: AN OVERVIEW



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CANNING HOUSE BRIEFING PAPER

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The Pacific Alliance: An Overview

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Executive Summary

- The Pacific Alliance officially came into existence in 2012 and is comprised of 4 pro-trade Latin American countries: Chile, Colombia, Mexico and Peru. It has 4 Associate Members and 55 Observer States, of which the UK is one.
- The objective of the Pacific Alliance is to increase competitiveness by integrating economies, allowing for the free flow of goods, capital, services and people among members of the group, and seeking to expand trade with countries of the Asia-Pacific region.
- Member states account for 38% of the total GDP of Latin America and the Caribbean. They receive 45% of the region's foreign direct investment, and are responsible for approximately 50% of the region's trade.
- Achievements to date include eliminating tariffs on 92% of imports and exports among member states; eliminating or significantly reducing visa requirements for member citizens; funding over 100 annual university scholarships between states; integrating stock exchanges between member states; and establishing joint embassies in multiple countries.
- Trade relations between members of the Pacific Alliance remain weak, and little progress has been made in way of cooperation in the energy sector.
- The Alliance has expressed interest in deepening ties with various other blocs and groups around the world. This could potentially include Mercosur, the EU and the UK, and the Asia-Pacific region, especially China. Though as to how much progress it can make strengthening trade relations in coming years will remain to be seen.
- With the UK expected to leave the EU in the not too distant future, it will potentially need to seek trade deals with new markets around the world, or deepen existing ones. In this regard, the UK's exit from the EU could act as a spur for the UK to increase engagement with the Pacific Alliance, which it already has trade deals with courtesy of its membership of the EU. This could help the UK to achieve the objectives of its 'Global Britain' strategy, provided that there is continuity regarding existing agreements with the Pacific Alliance when it exits the EU, such as the continuity agreement signed between the UK and Chile in January 2019.

About Canning House

Canning House is the UK's leading forum for contacts, thought-leadership and pragmatic debate on Latin American political, economic and social trends and issues, and business risks and opportunities. Founded in 1943, it has over 75 years' experience building networks and connecting people and companies between the UK and Latin America. It acts as the secretariat for the All Party Parliamentary Group on Latin America and individual Latin American countries, and has given evidence to other Parliamentary Select Committee enquiries into the UK's relationship with the region.

What is the Pacific Alliance?

Origins and Membership

The Pacific Alliance is comprised of four countries- Chile, Colombia, Mexico and Peru – and was informally created on April 28, 2011, with the signing of the Lima Declaration by the presidents of each member state. The driving force of the initiative was Alan Garcia, then-President of Peru. The intention of the Alliance was to supplement the existing bilateral trade agreements between the members and create an economic bloc that could negotiate and trade with other economies as a unified group. The bloc officially came into existence on 6th June 2012, at the Summit of the Pacific Alliance in Antofagasta, Chile, when the presidents of the four member states signed the Pacific Alliance Framework Agreement. The Framework Agreement dictates that all member state have to be democracies, and must also have existing bilateral trade agreements with other member countries.

The Alliance also offers the status of ‘Associate Member’, which to date has so far been taken up by Canada, Australia, New Zealand, and Singapore. In June 2018, Ecuador requested to become an official member, and Costa Rica and Panama have also been negotiating to become official members, but progress has been stymied recently.¹ The Alliance also has 55 ‘Observer States’, of which the UK is one.

Objectives

The objective of the Pacific Alliance is to increase competitiveness by integrating economies, allowing for the free flow of goods, capital, services and people among members of the group, as well as seeking to expand trade with countries of the Asia-Pacific region. Since its conception the Alliance has made progress in liberalising trade by opening up to foreign investment and taking measures to integrate into a common market.

Member states account for 38% of the total GDP of Latin America and the Caribbean. They receive 45% of the region’s foreign direct investment (FDI), and are responsible for approximately 50% of the region’s trade.²

¹ The government of Costa Rica has slowed its accession process owing to concerns surrounding the impact membership might have on the agricultural sector, and a disagreement over tariffs has been the main obstacle to Panama joining.

² Pacific Alliance (2019). *What is the Pacific Alliance?* [Online]. <https://alianzapacifico.net/en/what-is-the-pacific-alliance/> [Accessed 19 March 2019]

Structure of Institutions:

The Pacific Alliance is comprised of various different institutions. To briefly summarise, they include the following:

- **High-Level Group:** Created to help accomplish the goals of the Alliance. It is comprised of ministers and vice ministers of commerce, trade, and foreign affairs from member states. Upon request, the Inter-American Development Bank also provides technical assistance to these groups.
- **Business Council:** Comprises business leaders from member states who meet to discuss further private-sector integration.
- **Inter-Parliamentary Commission:** Develops legislation to approve trade agreements of the Alliance.
- **Council of Finance Ministers:** Works towards increasing financial integration between member states of the Alliance, as well as investing in infrastructure and fiscal transparency and managing the risks posed by natural disasters.³

Achievements

Research from both the Americas Society/Council of the Americas⁴ (AS/COA) and the Center for Strategic & International Studies⁵ (CSIS) have suggested that at a time when protectionism has been taking over free trade, the Pacific Alliance has become a pioneer in the future of international cooperation, treaty innovation and market integration. Since its conception, the Pacific Alliance has made significant progress in various areas. To briefly summarise, significant achievements include the following:

- **Trade:** Eliminating tariffs on 92% of imports and exports among member states, with the other 8% to be phased out in the following 2 to 16 years.
- **Migration:** Eliminating or significantly reducing visa requirements for member citizens. Talks have also begun to create a single passport for member countries.

³ Etoniru, N. (2018). *Explainer: What is the Pacific Alliance?* [Online]. AS/COA. <https://www.as-coa.org/articles/explainer-what-pacific-alliance> [Accessed 13 March 2019].

⁴ Ibid

⁵ Matera, M. (2017). *The Potential of the Pacific Alliance: Will it Rise to the Challenges Ahead?* [Online]. CSIS. <https://www.csis.org/analysis/potential-pacific-alliance-will-it-rise-challenges-ahead> [Accessed 13 March 2019].

- **Education:** Creating a formal educational interchange by implementing a system to provide 100 annual university scholarships between states.
- **Financial Markets:** Integrating stock exchanges between member states to establish the Latin American Integrated Market (MILA) and allow for cross-border trading between companies.
- **Multilateral Ties:**
 - Holding bilateral meetings and signing agreements with European leaders to deepen ties with European markets.
 - With the exception of Colombia, members of the Pacific Alliance are also part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free trade agreement between 11 Asia-Pacific states.
 - Leaders from both Mercosur – another regional block currently consisting of four nations: Argentina, Brazil, Paraguay, and Uruguay (Venezuela is currently suspended)- and the Pacific Alliance blocs have also met to develop a plan for possible closer alignment.
- **Diplomacy:** Establishing joint embassies, as for example in Ghana, and sharing facilities in multiple countries to amplify the Alliance’s voice, deepen joint diplomatic goals, and cut costs.

Outstanding Issues

While the progress made to date as highlighted above is considerable, it is clear that the Alliance faces certain challenges and issues that need to be addressed or resolved going forward. To paraphrase the scholar Gian Luca Gardini⁶, the Pacific Alliance has good press in the member states and enjoys broad support from the public. The results to date have been impressive, but we should be cautious when evaluating the Pacific Alliance.

As highlighted by Michael Matera in the CSIS report, some of the original initiatives have lost momentum at one point or another, and many of the newer initiatives have been vague or unclear. For example, few details have been provided as to what Associate Member status means. Are they states that are on the way to becoming full members? It is not exactly clear.

Trade relationships between members of the Pacific Alliance are still weak, with trade between members being billions of dollars less than members’ trade with other states. To put things in

⁶ Gardini, G L. (2018). *An agenda for the Pacific Alliance and its observer states*. [Online]. Friedrich-Alexander-Universität Erlangen-Nürnberg. <https://www.fau.eu/2018/05/07/news/an-agenda-for-the-pacific-alliance-and-its-observer-states/> [Accessed 13 March 2019].

perspective, the United States, China, Germany, Japan and Canada import over \$270 billion more in goods and services from the Pacific Alliance than Pacific Alliance countries import from one another.

Energy is another area where little or no progress has been made in terms of cooperation between member states. There are immense possibilities that haven't been tapped in this sector. Combined, the Alliance is the 26th largest natural gas producer, and the 16th largest oil producer in the world. Moreover it is the 9th largest renewable energy producer in the world. Yet, the Alliance is lacking an initiative to push for innovation in climate change and integration of energy rules.

The Future

In contrast to the increasing political and economic uncertainty seen in many parts of the world, including Latin America, since its conception member states of the Pacific Alliance have appeared to buck the trend of increasing populism and protectionist economic policies seen elsewhere. But in order to still be considered a success story, supporters of the Pacific Alliance will be keen for it to keep up momentum, and continue making tangible progress. There are plenty of opportunities for it to do so, including potentially deepening its relations with Mercosur, Europe, the UK, and China, each of which are assessed in the section below.

Mercosur

At the 13th Summit of the Pacific Alliance in Puerto Vallarta, Mexico, in July 2018, heads of state from the Mercosur nations were in attendance, sending a clear message that there is currently good will on both parts for there to be closer collaboration between the two blocs. But the election of left-wing candidate Andrés Manuel López Obrador in Mexico has left many uncertain as to what direction the Pacific Alliance may take. By embracing Pacific Alliance-Mercosur convergence, López Obrador could potentially make good on his own campaign promises while helping to make Latin America the trade powerhouse it has long had the potential to be. Elected against a backdrop of global trade uncertainty- especially with the US pulling out of the Trans Pacific Partnership (TPP), and renegotiating the North American Free Trade Agreement (NAFTA)- López Obrador campaigned heavily on the need to diversify the country's trade relationships, as well as the need to integrate Mexico further with Latin America.⁷

Given that added together, the Pacific Alliance and Mercosur account for 81 percent of Latin America's GDP, and over 90% of its FDI inflows, greater cooperation between the two blocs is a

⁷ Marczak, J. (2018). *Latin America's Future Begins with the Pacific Alliance*. [Online]. Atlantic Council. <https://www.atlanticcouncil.org/blogs/new-atlanticist/latin-america-s-future-begins-with-the-pacific-alliance> [Accessed 13 March 2019].

tantalising prospect. Not only would an agreement increase access to each other's markets, integration might also see all member states becoming more competitive in a global marketplace, and help to harmonise standards in Latin America's biggest economies, potentially allowing for more integrated value and supply chains that have so far eluded the region. Moreover, as Mauricio Mesquita Moreira estimates in a recent report from the Inter-American Development Bank⁸, a free trade bloc spanning from the Rio Grande to Tierra del Fuego could potentially boost intraregional trade in Latin America by \$11 billion annually, and greatly decrease the region's vulnerability to external shocks and global trade frictions.

On the surface, deepening the relationship between the Pacific Alliance and Mercosur certainly appears to have many benefits, and with the initiative having the support of both President Macri of Argentina and President Bolsonaro of Brazil⁹, evidence would suggest that closer collaboration between the two blocs is certainly something that currently has support at high levels. However, as is well documented, Latin America is not one homogenous region and attempts to form closer political and economic regional alliances, such as the possibility of the Pacific Alliance and Mercosur working closer together, may take longer than expected owing to the many differences between countries, and the fact that the region remains vulnerable to political swings at future elections.

The EU

Forging closer relations with the European Union, something that has so far eluded the Mercosur bloc despite over 25 years of talks, is also a possible option for the Pacific Alliance. Most EU member states are observers of the Pacific Alliance, and there is certainly good will behind forging a deeper relationship as indicated by the communique¹⁰ issued after a recent meeting in July 2018 in Brussels, of the High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission, and representatives of the four countries of the Pacific Alliance, along with the Foreign Ministers from all 28 current EU member states. The participants confirmed the willingness of both the EU and the Pacific Alliance to reinforce relations on the basis of common values of democracy, human rights and the rule of law, and on a shared vision for open trade and investment and sustainable development. Both sides affirmed the importance of promoting multilateralism and a rules-based global order as well as open, transparent, inclusive and World Trade Organisation-consistent free trade agreements (FTAs) for improving

⁸ Mesquita Moreira, M. (2018). *Connecting The Dots: A Road Map for Better Integration in Latin America and the Caribbean*. [Online]. Inter-American Development Bank. <https://publications.iadb.org/en/connecting-dots-road-map-better-integration-latin-america-and-caribbean> [Accessed 19 March 2019]

⁹ O'Neil, S. (2019). *Latin America's Right Turn Could Draw Its Economies Closer*. Bloomberg. [Online] <https://www.bloomberg.com/opinion/articles/2019-02-25/latin-america-s-right-turn-could-bring-its-economies-closer> [Accessed 19.03.19]

¹⁰ European Union (2018). *Joint statement by High Representative/Vice-President Federica Mogherini and the Pacific Alliance Foreign Ministers*. [Online] European Union. https://eeas.europa.eu/headquarters/headquarters-homepage/48514/joint-statement-high-representativevice-president-federica-mogherini-and-pacific-alliance_en [Accessed 19 March 2019]

competitiveness and fostering sustainable socio-economic development and social inclusion. Moreover, both parties also highlighted the convergence between the Pacific Alliance's objectives of creating an area of integration achieving the free movement of people, goods, services and capitals, with the EU's own experience, notwithstanding the UK's decision in 2016 to exit the European Union. Representatives agreed to establish a road map of specific areas of dialogue, cooperation and mutually beneficial activities, drawing on relevant lessons from each other's integration processes. In light of this, both parties were in agreement of the desire to increase dialogue, deepen relations and conclude a Joint Declaration in the not too distant future.

Given the fact that the EU has spent over 25 years trying to negotiate an agreement with Mercosur, and has still yet to come up with any concrete proposals for a trade deal, critics remain doubtful that any Pacific Alliance-EU agreement would materialise anytime soon. However, those who remain more positive are keen to highlight that the EU already has trade agreements in place with Chile and Mexico, and has agreements partly in place with Colombia and Peru¹¹, suggesting that deepening relations between the Pacific Alliance and the EU might not be as problematic as with their counterparts in Mercosur.

The UK

The UK's decision in 2016 to leave the EU generated a lot of renewed interest in Latin America amongst British business groups over the potential of striking new trade deals with Latin American states. Whilst some big markets like Brazil remain quite difficult for British companies to break into and navigate owing to difficulties caused by a lack of familiarity with the market, as well as red tape and bureaucratic processes that seem alien to UK businesses, the obvious countries that the UK might want to be turning its attention to and deepening its relations with are those of the Pacific Alliance.

However, as highlighted by Canning House in its 2017 Conference Report¹², courtesy of the UK's membership of the EU, it is already party to trade deals that put it on an equal par with its European peers. The reason why the UK is not doing as well as the likes of France, Spain, Germany and Italy in trading with Pacific Alliance countries is because for many years British companies have neglected these countries as places to do business. While the UK's departure from the EU might mean that it is able to deepen trading relations with Latin American nations that it has been inhibited from trading with during the recent past such as the Mercosur countries, in principle, the UK's relations with Pacific Alliance states will gain little from it leaving the EU, as it already has trade agreements in place with them. A greater concern for the UK will be making sure there existing agreements can be rolled over when it does leave the EU, as it will

¹¹The agreements will be fully in place when all parties have ratified them.

¹² Canning House (2017). *Doing Business In Latin America: Does Brexit Matter?* Conference Report. Canning House. London.

need to make sure continuity agreements are in place like the one between the UK and Chile signed in January 2019.¹³

China

A recent report by the influential US think-tank, the Wilson Center¹⁴, of Chinese perceptions of and engagement with the countries of the Pacific Alliance, has suggested that in the manufacturing sector especially, China is by far the largest and fastest-growing catalyst for Latin America's trade, loans, and investment. Official Chinese policy papers in 2008 and 2016, multiple visits by Chinese officials on an annual basis to Latin America, participation at the annual CELAC summit – another regional block that excludes the USA and Canada- and a stream of loans and investment initiatives, highlights China's eagerness to engage in the region.

Initial attention from China to the formation of the Pacific Alliance was positive, and it was one of the first countries to solicit admission as an observer nation in June 2013. The China Council for the Promotion of International Trade (CCPIT) suggested that the Pacific Alliance could be useful in helping to increase cooperation between China and Latin America, while some policy experts in Beijing commented that the Alliance could be a fundamental part of the Chinese government's approach to the region.

However, other policy analysts have been more cautious, suggesting that the Pacific Alliance is not a priority politically or economically as China does not forge alliances. Instead it engages with multinational forums, seeking observer status and minority stakes in existing groups, and is cautious of formal sub-groups. Whilst favouring centralising cooperation in large blocs such as CELAC, where it can take part in and influence the discussion, the Chinese government prefers to deal individually with countries to resolve issues.

So although the Chinese government and business community observe the Pacific Alliance with polite interest, it appears they see limited benefits of increased engagement for either side at the moment. There has been no significant increase of foreign direct investment from China into the Pacific Alliance countries, especially when compared to Chinese investment in countries that are members of Mercosur. Trade promotion efforts have been sporadic, and where progress has been made, for example by Chile and Peru in promoting agricultural goods in Asian markets, this success has not been shared by other Pacific Alliance members Mexico and Colombia.

Whilst Beijing appears to be keen to deepen its ties and engagement with Latin American, what appears to be central to China's foreign policy is bilateral engagement with the region's

¹³ UK Government (2019). *UK and Chile sign continuity agreement*. [Online] <https://www.gov.uk/government/news/uk-and-chile-sign-continuity-agreement> [Accessed 19.03.19]

¹⁴ Creutzfeldt, B. 2018. *China's Engagement with Regional Actors: The Pacific Alliance*. [Online]. Wilson Center. https://www.wilsoncenter.org/sites/default/files/creutzfeldt_pacific_alliance_final.pdf [Accessed 13 March 2019].

economies individually, whilst promoting a broader agenda through the China-CELAC forum, in addition to its engagement with other regional institutions such as the Inter-American Development Bank. Therefore, the Pacific Alliance is unlikely to gain any significant extra support from China anytime soon.

Conclusions

It is clear that in only a short space of time, the member states of the Pacific Alliance have achieved quite a lot, especially in comparison with its regional neighbours in Mercosur. The group clearly possess a strong purpose and robust political will, as evidenced by their willingness to push integration beyond free-trade agreements, following a model similar to that of the EU, giving consideration to the more complicated social and legal consolidation that is required to help facilitate collaboration regionally.

However, despite the progress, there are many areas for improvement, such as increasing trade between states within the bloc, and possible energy reform to help facilitate innovation and integration in the energy sector.

While there is also strong will amongst member states to deepen trade relations with other regions and blocs around the world, the reality of achieving this might not match the positive rhetoric emanating from member states for the time being. Although China is keen to engage more with Latin America and deepen its ties with certain governments in the region, the Pacific Alliance economies do not appear to be a major priority for Beijing at the moment. This perceived lack of interest from China, combined with the difficulties of deepening ties with Mercosur states, means that increasing trade links with the EU and UK are a decent possibility.

The UK exiting the EU, combined with the need for it to potentially seek new markets around the world, has the potential to act as a spur for the UK to engage more with a group that it already has trade deals with courtesy of its membership of the EU. Deepening ties with the Pacific Alliance could help the UK to achieve the objectives of its 'Global Britain' strategy, provided that there is continuity regarding existing agreements with members of the Alliance when it exits the EU.

Although there are still many questions that remain unanswered about the Alliance, members certainly appear to be taking a pragmatic approach to resolving difficulties with a spirit of cooperation, helping to ensure stability and progress in cooperation multilaterally. Continuing on this track can only serve it well.