

POLICY BRIEFING

The Pacific Alliance: Regional integration or fragmentation?

Abstract

The year 2013 brought much attention to the Pacific Alliance (*Alianza del Pacífico*), the most recent regional integration initiative in Latin America.

Building on the existing free trade agreements between them, the four members of the Alliance — Chile, Colombia, Mexico and Peru — have set the goal of advancing towards the free movement of goods, services, capitals and people, with the objective of creating an 'area of deep integration' to stimulate economic growth and competitiveness.

Since it was formally constituted in June 2012, the Pacific Alliance has come to be seen as the most promising and dynamic regional group in Latin America. Adopting a free-market approach to regional integration, it is widely perceived as an alternative to the 'stagnating' and 'increasingly protectionist' Mercosur bloc. In this regard, the Pacific Alliance has led to hopes for a new momentum for regional integration and cooperation in Latin America, as well as to concerns about a possible fracture in the region.

The EU, which has long-standing institutionalised links, liberalised trade and good relations with the members of the Pacific Alliance, has welcomed the Alliance as a promising initiative. The evolution of the Alliance could have direct or indirect consequences for the EU's relations with other regional blocs in Latin America.

This Policy Briefing is an initiative of the Policy Department, DG EXPO

AUTHOR:

Jesper TVEVAD
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 051
rue Wiertz 60jj
B-1047 Brussels

Editorial Assistant: Adriana BUCHIU

CONTACT:

Feedback of all kinds is welcome. Please write to:
jesper.tvevad@europarl.europa.eu

To obtain paper copies, please send a request by e-mail to:
poldep-expo@europarl.europa.eu.

PUBLICATION:

English-language manuscript completed on 10 January 2014.
© European Union, 2014
Printed in Belgium

This Policy Briefing is available on the intranet site of the Directorate-General for External Policies, in the [Regions and countries](#) or [Policy Areas](#) section.

DISCLAIMER:

Any opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

Reproduction and translation, except for commercial purposes, are authorised, provided the source is acknowledged and provided the publisher is given prior notice and supplied with a copy of the publication.

Table of contents

1	Introduction	4
2	Origin, objectives and institutions	4
	2.1 Members and observers	6
	2.2 Institutions	7
	2.3 The Parliamentary aspect	9
3	Achievements and prospects	10
	3.1 Prospects for free trade	12
4	The regional context	15
	4.1 The model of integration	17
	4.2 The Pacific Alliance and Mercosur	18
	4.2.1 Competing integration schemes?	21
	4.3 Regional integration or new divisions?	23
5	The EU and the Pacific Alliance	25
	5.1 Policy options	27

1 Introduction

The Pacific Alliance, formally established in June 2012, has rapidly come to be seen by many as the most promising and dynamic regional group in Latin America.

Officially established in June 2012, the Pacific Alliance (*Alianza del Pacífico*) has attracted great enthusiasm, both within Latin America and outside the region. The economic weight of the Alliance's four member states (Chile, Colombia, Mexico and Peru), the group's commitment to open markets and the rapid accomplishment of its ambitious goals for liberalising trade, assisted by an effective communication strategy (underpinned by frequent presidential summits), have managed to rapidly create perceptions of the Alliance as the most dynamic and forward-looking regional group in Latin America.

The Alliance has thus been branded a 'motor' for economic development and the 'most exciting thing going on' in Latin America, and its creation has been hailed as a 'seismic shift' in Latin American integration promising a 'historic breakthrough'¹. A rapidly growing number of observers to the group, including seven EU Member States, the USA and China, underlines the interest the Alliance has provoked in the region and internationally.

To what extent the Pacific Alliance will achieve its overall goals for the free circulation of goods, services, capitals and people remains to be seen. However, this most recent initiative for economic integration and cooperation in Latin America and its free-market approach to regional integration has frequently come to be seen as a counterweight — or least an alternative — to the allegedly stagnating and increasingly protectionist Mercosur.

2 Origin, objectives and institutions

The first summit of the presidents of the four members of the Alliance took place in 2011, when the group's basic goals and objectives were set.

The first step in creating the Alliance was taken in October 2010, when the then President of Peru, Alan García, invited Chile, Colombia, Ecuador and Panama to participate in an integration scheme to promote economic relations with the countries on the 'other side' of the Pacific. Mexico later joined the initiative, Panama decided to participate as an observer and Ecuador opted not to join the initiative.

The Alliance was launched on 28 April 2011 by the Presidents of Chile, Colombia, Mexico and Peru at a summit in Lima. According to the 'Lima Declaration', the four countries confirmed their willingness to consolidate the Latin American 'Pacific Arch' as a space for convergence, political dialogue and projection towards the Asia-Pacific region. They agreed to establish the Alliance as an 'area of deep integration' to stimulate their economies' development and competitiveness, using the existing free trade agreements (FTAs) between their countries as a platform to facilitate economic integration. They also affirmed their commitment to integration

¹ See: <http://blogs.ft.com/beyond-brics/2013/04/08/guest-post-the-pacific-alliance-and-why-it-matters/#axzz2WaBEzkuo> and <http://blogs.ft.com/beyond-brics/2013/05/23/pacific-alliance-the-most-exciting-thing-going-on-in-latam-these-days/#axzz2WaBEzkuo>

as an instrument for economic and social development by promoting trade and investment links, particularly with the Asia-Pacific region.

Building on existing free trade agreements between its members, the Alliance's overall objective is to gradually advance towards the free movement of goods, services, capitals and people.

The Framework Agreement (*Acuerdo Marco*) formally constituting the Alliance was signed on 6 June 2012 at the bloc's fourth presidential summit, in Paranal in northern Chile. It sets three fundamental objectives:

- to establish an area of 'deep integration' to advance gradually towards the free movement of goods, services, capitals and people;
- to promote higher economic growth, development and competitiveness in the member states, achieving greater welfare and social inclusion for their inhabitants, while overcoming social and economic inequality;
- to become a platform for political coordination, economic and trade integration and worldwide projection, particularly in Asia and the Pacific.

Table 1:
The Pacific Alliance: Basic data

	Population (thousands - estimate 2013)	GDP (USD billions, estimate 2013)	Value of foreign trade in goods 2012 (USD millions)	Influx foreign direct investment (USD millions, 2012)
Chile	17 603	281 666	153 132	30 323
Colombia	48 374	369 225	118 296	15 823
Mexico	115 988	1 327 021	741 667	12 659
Peru	30 297	210 349	86 752	12 240
Costa Rica	4 860	48 505	29 031	2 265
Panama	3 635	40 618	40 025	3 020
TOTAL	220 757	2 277 384	1 168 603	76 330

Sources: Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean, 2012*

(http://www.eclac.org/publicaciones/xml/4/48864/AnuarioEstadistico2012_ing.pdf);

IMF, *World Economic Outlook Database, October 2013*

(<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/weoselgr.aspx>);

Economic Commission for Latin America and the Caribbean (ECLAC), *Updated Economic Overview of Latin America and the Caribbean 2012*

(<http://www.eclac.org/publicaciones/xml/2/49712/EconomicOverview2012.pdf>);

Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2012*

(<http://www.eclac.org/publicaciones/xml/2/46572/liei2011eng.pdf>).

To achieve these objectives, actions should be taken notably in the following areas:

- the liberalisation of exchanges of goods and services with a view to consolidating a free trade area among the member states;
- the free movement for capitals and the promotion of investments between the countries;
- trade facilitation and cooperation on customs issues;
- cooperation between migration and consular authorities and with a view to facilitate the movement of persons and migration transit between the member states;

- the coordination of measures to prevent and suppress transnational organised crime and to strengthen public security services and the judiciary;
- the integration of the member states through cooperation in various areas of common interest.

2.1 Members and observers

Accession to the Alliance is open to all countries in the region that share its objectives.

The Lima Declaration establishes that participation in the integration process is open to all countries in the region that share the willingness to achieve the goals of the Alliance, in line with the principles of 'open regionalism' advocated by its members. Despite the name of the bloc, there is no requirement that they should be 'Pacific' countries. The Framework Agreement simply establishes that it is open to all states that apply to be signatories, on the condition that they have concluded FTAs with the other members of the group. New members will need to be agreed unanimously by the Alliance's leading body, the Council of Ministers (*Consejo de Ministros*). The Framework Agreement also includes a 'democracy clause', establishing that the respect for the rule of law, constitutional order, separation of powers and respect for human rights and fundamental freedoms are 'essential requirements' for participation in the Alliance. However, it does not include provisions on actions to be taken in case of a breach of the democratic order.

Costa Rica and Panama are likely to join as full members soon.

Costa Rica and Panama — which currently are 'candidate observers' (*observadores candidatos*) to the Alliance — are expected to join as full members once free trade agreements with all the four current member states have entered into force. Panama was invited to participate in the process launching the Alliance, and both Central American countries took part in the preparation of the Framework Agreement. Costa Rica's formal application for membership was welcomed by the May 2013 Summit in Cali, where a working group was created to manage the accession process.

Table 2:
The Pacific Alliance: Member and observer countries

Status	Countries
Full member states	Chile, Colombia, Mexico, Peru
Candidate observers	Costa Rica, Panama
Observers	<p>2012: Australia, Canada, New Zealand, Spain, Uruguay.</p> <p>2013 (Jan.): Guatemala, Japan</p> <p>(May): Dominican Republic, Ecuador, El Salvador, France, Honduras, Paraguay, Portugal</p> <p>(June): China, South Korea, Turkey, USA</p> <p>(Nov.): Germany, Italy, the Netherlands, Switzerland, United Kingdom</p>

While Costa Rica has signed FTAs with all four member states (most recently with Colombia in May 2013), Panama's access to the Alliance depends on concluding an FTA with Mexico. The two countries are

currently negotiating an agreement; the first round of talks took place on 29 July 2013.

There are no geographical or other requirements for obtaining observer status. Applications for observer status must be approved unanimously by the Council of Ministers, which also defines the conditions for their participation. Observers can participate in the Alliance's various meetings, including the summits, if they have been invited, and have the right to speak, but not to vote. An observer state can at any moment apply for status as candidate for membership of the Alliance, provided it has signed FTAs with at least half the Alliance's members.

The number of observers to the Alliance has increased rapidly. The first five observers were admitted at the bloc's summit in Cadiz in November 2011 (in the margins of the 22nd Ibero-American Summit) and included one EU Member State: Spain. The Santiago Summit in January 2013 (in the margins of the summit of the Community of Latin American and Caribbean States (*Comunidad de Estados Latinoamericanos y Caribeños*, CELAC) welcomed another two observers, and the Alliance's May 2013 Summit in Cali welcomed an additional seven new observers to the group (five Latin American countries and France and Portugal). The meeting in Cali also confirmed significant international interest in the Pacific Alliance: it was attended not only by the Presidents of the four member states and the two candidate observer countries, but also the President of Guatemala, the Vice President of Uruguay and the Heads of Government of Canada and Spain, together with senior representatives of the governments of Australia, New Zealand and Japan.

On occasion of the eight meeting of the Alliance's member states' ministers of foreign affairs and trade, held in Villa Leyva (Colombia) on 29-30 June 2013, four additional countries obtained observer status: China, South Korea, Turkey and the USA. Finally, on 2 November, the Ministers admitted yet four EU member states (Germany, Italy, the Netherlands and United Kingdom) as observers, together with Switzerland.

Any country may obtain observer status to the Alliance. Among the current observers are seven Latin American countries, three Pacific countries, three EU member states, the US and China.

2.2 Institutions

The Pacific Alliance has a 'light' institutional structure, with no supra-national bodies. All decisions require unanimity.

The Alliance has opted for a reduced institutional structure, without a permanent secretariat or administrative body to support decision-making. The Framework Agreement establishes the Council of Ministers, formed by the member states' ministers of foreign relations and the ministers responsible for foreign trade, as the bloc's key body. The Council is responsible for:

- adopting the decisions to promote the goals and specific actions set out in the Framework Agreement and in the declarations from the presidential summits, monitoring that they are implemented correctly and evaluating the results achieved;
- approving the programmes launched by the Alliance;
- defining its policy towards third countries or regional groups;
- establishing working groups to accomplish the actions and goals of

the Alliance.

The Council of Ministers holds ordinary meetings once a year, but can meet extraordinarily if one of the members so requests. In fact, the meetings of the ministers have been very frequent: the most recent one, held in Mexico on 9 January 2014, was the tenth since the launch of the Alliance.

In line with the inter-governmental character of the group, the decisions of the Council — and other agreements taken in the framework of the Alliance — are adopted by unanimity.

The presidency of the Alliance rotates between the member states in alphabetic order, and is exercised for a period of one year, starting on 1 January. The most important functions of the *pro tempore* presidency are to organise and host the meetings of the presidents, and to coordinate the meetings of the Council of Ministers. The country having the presidency shall submit the Alliance's programme of activities to the consideration of the Council and represent it externally. On 1 January 2014, Mexico took over from Colombia as president of the bloc.

Work on the technical level takes place through two mechanisms created on basis of the 2011 Lima Declaration: the High Level Group (*Grupo de Alto Nivel*), which includes the member states' vice ministers of foreign affairs and trade, and technical working groups that cover the priority issues set out in the Lima Declaration. The High Level Group supervises the work of the technical working groups in five areas: trade and integration, services and capitals, movement of persons, cooperation and institutional matters.

Ministers of the members of the Alliance have also hold consultations outside this institutional setting. On 25 April 2013, the bloc's ministers of economy and finance met for the first time in Lima, addressing issues related to the integration of capital markets and policies to deal with capital flows.

In addition to these institutions, a Business Council (*Consejo Empresarial*) has been created to present proposals for the integration process and promote joint actions on third markets. Promoting the direct dialogue between government and business, the Alliance's a first Business Forum (*Encuentro Empresarial*) took place on 23 May 2013 during the summit in Cali and brought together some 500 businessmen and representatives of the Alliance's member and observer countries.

The presidential summits are not mentioned in the Framework Agreement, but their role in advancing the integration process and ensuring its visibility has been essential. Summits have taken place very frequently: in little more than two and a half years, between April 2011 and September 2013, the presidents of the Alliance's member states have held seven summits, including a 'virtual summit' (by videoconference) in March 2012. Most recently, three of the four presidents participated in the Alliance's 'Business Forum' held in New York on 25 September, on the margins of the UN General Assembly, where they presented the bloc and the agreements for trade and economic integration.

The presidential summits — of which seven have taken place since April 2011 — have played an important role in driving forward the integration process and, importantly, ensuring the bloc's visibility.

The key role played by 'presidential diplomacy' has been a characteristic feature of Latin American integration in the last couple of decades. While the political commitment to integration expressed at the highest level has often injected momentum into integration processes and resolved disagreements between the members of different integration blocs, reliance on presidential diplomacy and reluctance to establish common institutions also give rise to weaknesses, such as the politicisation of trade and economic disputes.

The need for clear legal rules and effective mechanisms for the settlement of disputes may become clearer once trade between the members of the Alliance has been liberalised. The group has not yet agreed on such mechanisms and the Framework Agreement's provisions in this regard are rather vague: the parties shall make 'all efforts' to reach a satisfying solution to any difference over the interpretation or implementation of the Agreement. The member states are currently negotiating a regime for resolving differences related to the decisions of the Council of Ministers and 'other agreements adopted within the scope of the Pacific Alliance'.

2.3 The Parliamentary aspect

Despite the Pacific Alliance's 'light' institutional structure, plans to establish a parliamentary institution have advanced rapidly. On 13 February 2013, the presidents of the Peruvian Congress and the chambers of deputies of Chile, Colombia and Mexico met in Lima, expressing their commitment to the regional integration initiative and agreeing to identify legislative areas in which they could help further it.

Representatives from the parliaments of the member states have established an interparliamentary committee to monitor the integration process.

At a meeting on 6 May 2013 in Bogotá, the presidents of the Chilean and Colombian Senate and the Peruvian Congress, as well as the vice president of the Mexican Senate, agreed to create an interparliamentary committee to monitor the work of the Alliance and the development of legislation and legislative framework agreements for the free movement of goods, services, capital and people.

The Parliamentary Monitoring Committee of the Pacific Alliance Agreement (*Comisión de Seguimiento Parlamentario al Acuerdo de la Alianza del Pacífico*), the name of new parliamentary body, was inaugurated in July 2013 in Chile. The Committee is composed of as many as eight members of each of the Alliance's member states' congress, designated for a period of four years according to the rules of the national parliaments. It shall meet at least twice a year and can make recommendations to the Alliance's presidents, the Council of Ministers and the High Level Group².

² The Committee's rules of procedure can be found at: <http://gaceta.diputados.gob.mx/Gaceta/62/2013/sep/20130904.html>

3 Achievements and prospects

The Alliance has agreed to abolish tariffs immediately on 92 % of the goods traded between the member states with the remaining tariffs to be dismantled in the following years. Trade liberalisation builds on the existing bilateral free trade agreements between members.

The removal of tariffs is accompanied by measures to facilitate trade and remove technical and non-tariff trade barriers, including by adopting common norms and standards.

The Alliance is also set to promote trade in services and adopt common rules on investment.

The principal accomplishment of the Pacific Alliance is its agreement on trade liberalisation, which was reached at the ninth meeting of the Alliance's Foreign Affairs and Trade Ministers, held in Mexico on 25-26 August 2013. The agreement is included in a protocol (*Protocolo Adicional*) to the Framework Agreement. After legal revision and ratification by the four countries' parliaments, it is foreseen that the trade agreement will be signed by the presidents of the Alliance's member states on 10 February 2014 in Cartagena de Indias (Colombia).

The central point of the agreement is the removal of tariffs on 92 % of the goods traded between the member states upon the entry into force of the Framework Agreement³. The remaining tariffs, applied to products considered sensitive, will be eliminated gradually over a three- or seven-year period, depending on the products, according to a schedule yet to be agreed.

The elimination of tariffs is accompanied by several measures to reduce non-tariff barriers to trade:

- the creation of a common regime on rules of origin and accumulation, including electronic certification;
- the removal of technical barriers to trade, including through regulatory cooperation (in, for example, the medication and cosmetics sectors), cooperation between the member states' intellectual property offices and the mutual recognition of standards, including common sanitary and phyto-sanitary standards;
- the strengthening of trade facilitation measures, such as cooperation between customs services, simpler administrative procedures, the inter-operability of member states' 'single windows' for export and import procedures and the promotion of electronic commerce;
- the adoption of common rules on government procurement to guarantee national treatment, transparency in procurement processes and clear rules for all member states.

The trade agreement also include provisions on trade in services in various areas, such as professional services, telecommunications, financial services and transport (maritime and air transport), which go beyond existing bilateral agreements. Similarly, the four countries have negotiated common rules on investment to complement and improve the standards set out in the existing bilateral agreements, building on 'best practices' for settling disputes between investors and states. They have also agreed to exchange information on taxation issues, following the 'highest international standards'.

The public organisations promoting exports and foreign investments in

³ This appears to be in accordance with the EU's interpretation of the rules of the World Trade Organisation (WTO) that a regional trade agreement is required to eliminate duties on 'substantially all trade between the constituent territories' means that around 90 % on average of the total trade between its parties should be liberalised.

Moving towards the objective of the free circulation of people between the countries of the Alliance, visa requirements have been abolished for some categories of citizens. The Alliance has also launched a programme for student exchanges.

The stock exchanges of Bogota, Lima and Santiago de Chile function as an integrated market. Mexico's main stock exchange is expected to join the system in the second half of 2014.

the member states (Colombia's *Proexport*, Chile's *ProChile*, Peru's *PromPerú* and *Proinversión* and Mexico's *ProMéxico*) cooperate, including by jointly promoting activities on new markets. The Alliance has also been the framework for a business encounter (called '*macrorueda*'), in which 150 exporters and importers from each country meet to close business agreements. The first one was held in Cali on 19-20 June 2013. Events to promote the Alliance and the trade and investment opportunities it offers have been held in China, Japan, India, Turkey, the United Arab Emirates and other countries.

Concerning the free movement of people, the Alliance aims to facilitate migration and cooperation between the member states' migration authorities and consular services. The most notable result in this area has been the elimination, from November 2012, of visa requirements for business travellers and people not exercising paid activities for stays up to 180 days. A common visa will be introduced for tourists from third countries. To promote mobility among students and academics and to support the formation of 'human capital', the Alliance has established a programme of scholarships.

To advance cooperation in a number of priority areas, the member states signed a memorandum of understanding, or 'cooperation platform' in 2011. Its fields include the environment and climate change; innovation, science and technology; micro-, small- and medium-sized enterprises; and social development. The members have also set the objective of improving physical infrastructure (roads, ports) between the countries and supporting initiatives to improve energy and electricity interconnectivity.

Among the most important results of this cooperation are the following:

- As early as in 2010, the stock exchanges of Bogota, Lima and Santiago de Chile established a system for integrated exchanges, the Latin American Integrated Market (Mercado Integrado Latinoamericano, MILA). Starting operations in 2011, MILA is the second-largest exchange market in Latin America (after Brazil's Bolsa de Valores de São Paulo, BOVESPA) and the third in trading volume, but the largest in terms of the number of listed companies. Mexico's principal stock exchange, the Bolsa Mexicana de Valores (BVM) is expected to join MILA in the second half of 2014.
- The four member states have begun cooperating to share diplomatic and consular representations abroad. Their embassies in Accra (Ghana) are located in the same building. In April 2013 Chile and Colombia signed an agreement to share their embassies and consulates in Algeria and Morocco. Colombia and Peru have agreed to a joint representation in Vietnam, and they signed an agreement in November 2013 to share the seats and infrastructure of embassies and consulates.
- The summit held in June 2012 created a joint cultural program.
- In the area of tourism, a special cooperation agreement and programme has been set up. The Cali summit in May 2013

requested that national tourist authorities initiate joint projects and activities.

- The launch of a project to improve the competitiveness of small and medium-sized enterprises.
- The promotion of a network for scientific research and exchanges on climate change, to reduce emissions and adapt to climate change.

The Alliance has created the 'Pacific Alliance Cooperation Fund' (*Fondo de Cooperación de la Alianza del Pacífico*) to finance cooperation projects. The member states will initially contribute USD 250 000 to the fund.

Also outside the economic area, the Framework Agreement establishes cooperation in security and justice to combat organised crime. However, no specific initiatives have been taken in this area so far, as the member states apparently prefer to continue bilateral cooperation.

3.1 Prospects for free trade

The rapid agreement reached on eliminating 92 % of all tariff lines has largely been possible because the five bilateral FTAs in place have already significantly liberalised trade flows. Reaching agreement on abolishing tariffs and adopting other measures to stimulate trade between the Alliance's member states has therefore to a large extent entailed homologating the existing schemes for tariff reductions, and harmonising norms, requirements and procedures in the bilateral agreements.

However, it remains to be seen to what extent liberalisation will increase trade between the members of the bloc and lead to deeper integration between their economies:

Until now, trade between the four (or future six) members of the Alliance has been limited (see Table 3). With only a few exceptions, for none of them has trade with the other Alliance members accounted for more than around 1-2 % of all exchanges. In 2012, Colombia was the only member state directing more than 10 % of total exports to the other Alliance members. At the other end of the scale, Mexico sent a mere 3.1 % of its exports to the partners in the bloc — and only 1.6 % of its imports originated there. Figures for the first nine months of 2013 do not indicate any general increase in the member states' exports to the other — except for the continuing growth in Colombian exports to Panama and a significant increase in trade between Mexico and Peru (which began from a relatively low level.

The limited nature of intra-bloc exchanges is a fundamental difference from other regional groups — from Mercosur in the first place, but also the Andean Community (*Comunidad Andina, CAN*) and the Central American Common Market (*Mercado Común Centroamericano, MCCA*), where intra-regional trade links are much stronger and are of vital economic importance for some countries. Compared with the Mercosur countries (including Bolivia and Ecuador), the Alliance member states are among the countries with the lowest share of exports to the other Latin American countries (see Figure 1).

Trade flows between the members of the Alliance have been limited until now. This distinguishes the Pacific Alliance from other regional blocs in Latin America.

Table 3:
Pacific Alliance: exports to other members states as share of total exports, 2012

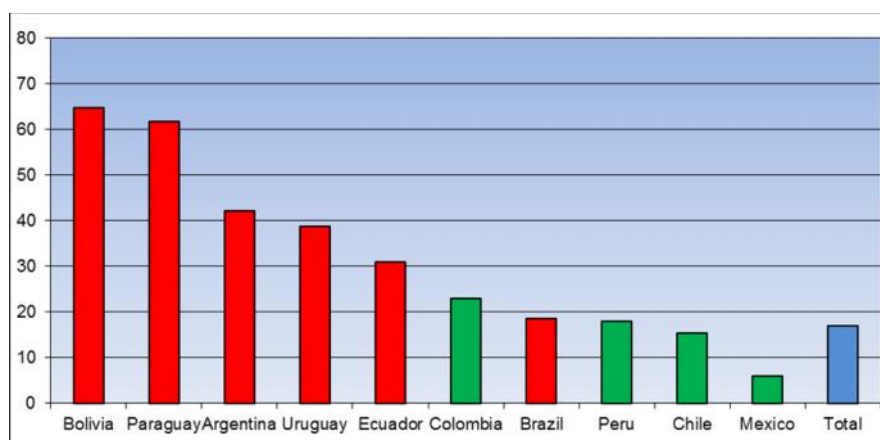
	to Chile	to Colomb.	To Mexico	to Peru	to Costa R.	to Panama	Total
from Chile		1.2 %	1.7 %	2.3 %	0.3 %	0.2 %	5.7 %
from Colomb.	3.6 %		1.4 %	2.6 %	0.5 %	4.8 %	12.9 %
from Mexico	0.6 %	1.5 %		0.4 %	0.3 %	0.3 %	3.1 %
from Peru	4.4 %	2.0 %	0.9 %		0.2 %	1.1 %	8.6 %
from Costa R.	0.2 %	0.6 %	2.8 %	0.2 %		5.1 %	8.9 %
from Panama	0.9 %	1.0 %	0.6 %	0.4 %	6.6 %		9.5 %
	from Chile	from Colomb.	From Mexico	from Peru	from Costa R.	from Panama	Total
to Chile		2.7%	3.3 %	2.6 %	0.0 %	0.1 %	8.7 %
to Colomb.	1.6 %		11.1 %	1.6 %	0.1 %	0.1 %	14.5 %
to Mexico	0.4 %	0.2 %		0.1 %	0.9 %	0.0 %	1.6 %
to Peru	3.0 %	3.7 %	4.0 %		0.1 %	0.1 %	10.9 %
to Costa R.	1.7 %	1.9 %	6.6 %	0.3 %		2.2 %	12.7 %
to Panama	0.6 %	3.4 %	4.4 %	0.8 %	4.6 %		13.8 %

Imports from other members states as share of total imports, 2012

Sources:

- <http://www.bcentral.cl/publicaciones/estadisticas/sector-externo/pdf/ice012013.pdf>
- <https://www.mincomercio.gov.co/publicaciones.php?id=10422>
- <http://www.economia.gob.mx/comunidad-negocios/comercio-externo/informacion-estadistica-y-arancelaria>
- <http://www.mincetur.gob.pe/newweb/Default.aspx?tabid=133>
- <http://www.comex.go.cr/estadisticas/index.aspx>
- <http://censos2010.gob.pa/ComercioExterior/menu.htm>

Figure 1:
Interregional exports as share (%) of total exports: Members of Pacific Alliance (in green) and Mercosur (except Venezuela, including Bolivia and Ecuador, in red), 2012



Source: Latin American Integration Association (Asociación Latinoamericana de Integración, ALADI)

(http://www.aladi.org/biblioteca/Publicaciones/ALADI/Secretaria_General/SEC_di/2500/2500_3.pdf)

Figures based on the value of exports to the other members of ALADI (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay).

Trade liberalisation may not lead to significantly increased trade flows within the Alliance; factors such as geographical distances and the lack of economic complementarities could hamper the emergence of supply and value chains between the member states.

Attracting direct foreign investment will be an important criterion of the Alliance's success.

The growth potential of trade within the Alliance may be hampered by the absence of economic complementarities between the member states. While the economies of Chile, Peru and — to a somewhat lesser degree — Colombia are largely based on exports of raw materials and commodities (mineral or agricultural), Mexico is a manufacturing economy closely integrated with the US (and Canadian) economy.

Geographical distances and inadequate transport infrastructures may also hinder the goal of increasing trade flows with more efficient supply chains and cross-border value chains. The distance between Mexico's most important Pacific port, Manzanillo, and the port of Valparaíso in Chile is more than 6 700 kilometres.

It has been argued that one of the Alliance's strengths is that it builds on a shared policy agenda and common business interests, rather than on the proximity of the member states. However, in the four cases in which a member state's exports to another member represent more than 4 % of total exports, the two countries are neighbours (Colombia/Panama, Peru/Chile, Costa Rica/Panama).

The growth potential of intra-bloc trade will also depend on the relative weight of sensitive products in trade exchanges. The agreement to abolish 92 % of tariff lines upon the entry into force of the protocol to the Framework Agreement may not result in the liberalisation of a similar portion of the actual trade within the group.

In the medium and long term, growth in intra-regional trade is likely to largely depend on the implementation of the various mechanisms to facilitate trade and of the measures to remove non-tariff and technical barriers to trade, as well as on policies to boost trade in services and investments. Because trade in goods between the Alliance's members has already largely been liberalised, and because it primarily aims to reinforce positions in third markets, the benefits of the bloc in terms of the free circulation of services and capital may well prove more important than the growth in intra-regional trade in goods.

The harmonisation and the introduction of common norms for recognition of standards and requirements — and in particular the creation of a common system for certification of rules of origin — is expected to open new opportunities for trade and attract foreign investment.

Whether inflows of foreign direct investment (FDI) increase will be an important measure of the Alliance's success. In addition to attracting investment from Asia, the USA and Europe, common investment rules may boost FDI flows between its members. Chile and Mexico are already by far the most important investor countries in Latin America. The overwhelming majority of outgoing FDIs from the region in recent years originates from these two countries: in 2012, Mexican and Chilean companies made

investments abroad for close to USD 47 million, or 95 % of outward FDI from the major Latin American economies⁴. Many of these investments are placed in other Latin American countries (Chilean companies investing in Peru and Colombia, for example). Increasing intra-Alliance FDI flows would contribute to building 'productive chains' and gaining stronger trade positions in Asian and other foreign markets.

4 The regional context

The Pacific Alliance member states have all signed free trade agreements with the USA and the EU. Chile and Mexico are members of the Organisation for Economic Cooperation and Development (OECD); Colombia and Costa Rica have started the membership procedures.

The members of the Alliance follow free-market, pro-business economic policies, seeking economic growth and development through trade and investment.

The Pacific Alliance's member states share a number of characteristics which distinguish them from other countries in the region:

- The Alliance comprises the four Latin American countries that have been most active in concluding FTAs and other economic agreements with third countries and regions in the last two decades. In addition to the FTAs signed between the four member states and other Latin American countries, all four have concluded FTAs with the USA and the EU (see Annexes I and II). Chile, Mexico and Peru are also participating in the negotiations on the Trans-Pacific Partnership (TPP).
- The Alliance includes the two countries that are currently the only Latin American members of the Organisation for Economic Cooperation and Development (OECD): Mexico and Chile. Colombia's accession process was formally launched in October 2013, following the decision of the OECD's Ministerial Council in May. The OECD has also confirmed its intention to open accession talks with Costa Rica in 2015. This contributes to identify the Alliance economies as among the region's most dynamic and advanced.
- The Alliance integrates Chile and Mexico — the only two countries in the region which have not yet participated in a regional integration mechanism. Colombia and Peru are members of the CAN, but the almost 45-year-old integration bloc faces an uncertain future, as its two other member states, Bolivia and Ecuador, are both opting for accession to Mercosur.
- The four current member states of the Alliance (and the two candidate observer countries) have all adopted liberal, pro-business economic policies, giving priority to macro-economic stability and to attracting foreign investments through open trade and investment regimes.
- This has contributed to fundamental political affinities between them, based on the strategic direction of their free-market economic growth and development model, rather than the political colour of their governments. For example, although it was the former Peruvian President Alán García who took the initiative to create the

⁴ Economic Commission for Latin America and the Caribbean (ECLAC), Foreign Direct Investment in Latin America and the Caribbean 2012 (<http://www.eclac.org/publicaciones/xml/4/49844/ForeignDirectInvestmentBriefPaper2012.pdf>)

Alliance, the government of President Ollanta Humala (in office since July 2011) has remained committed to the Alliance, despite initial expectations that he would conduct a more nationalistic and interventionist policy. In Mexico, the government of President Enrique Peña Nieto, of the Revolutionary Institutional Party (Partido Revolucionario Institucional, PRI), in power since December 2012, has not modified the approach taken by the former governing party, the centre-right National Action Party (Partido de Acción Nacional, PAN) in favour of the Alliance. Similarly, the incoming government in Chile — that of President Michelle Bachelet, who will assume office on 11 March 2014 — is unlikely to fundamentally change the country's position in the Pacific Alliance, although Bachelet has stressed that the Alliance should not be a rival to other regional blocs and is expected to pursue a somewhat broader regional integration agenda than the government of current President Sebastián Piñera has done.

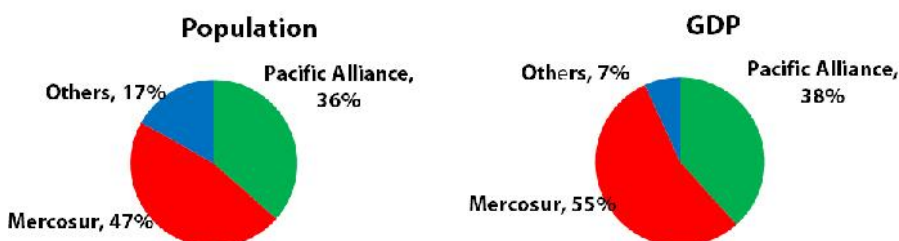
The four members of the Pacific Alliance represent 36 % of Latin America's population and the region's total GDP.

Economically, the member states represent a considerable share of Latin America's population, combined GDP, exports and foreign investment.

The Alliance represents 36-38 % of both the region's population and the combined production (2013 estimates), but almost half (around 48 %) of its total exports of goods and services —52 % if Costa Rica and Panama are included — and around 45 % of the total FDI inflows to the region (2012 figures).

Figure 2:

The Pacific Alliance: Share of the region's population and total GDP (2013 estimates, GDP without Cuba).



Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean, 2012* (http://www.eclac.org/publicaciones/xml/4/48864/AES2012EstadisticasSociales_ing.pdf)
 IMF, *World Economic Outlook Database, October 2013* (<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/weoselgr.aspx>)

Overall, the member states, particularly Peru and Panama, have registered high economic growth rates in recent years. However, economic growth in the Alliance countries has generally not been substantially higher than average growth figures for other countries in the region (Figures 3 and 4). Forecasts for the coming years indicate that the Alliance countries will see higher growth rates than most other countries in the region, but not by a significant margin.

Figure 3:

Compounded annual GDP growth rates for members of the Pacific Alliance (including Costa Rica and Panama, marked in green) and Mercosur (including Bolivia and Ecuador, marked in red), 2009-2013

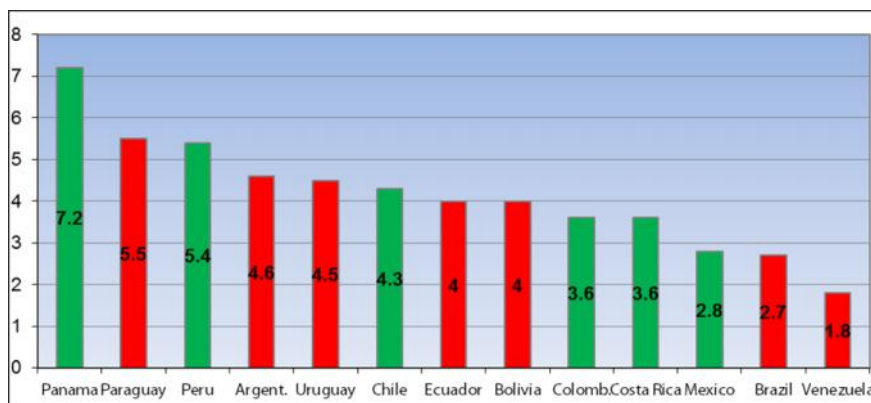
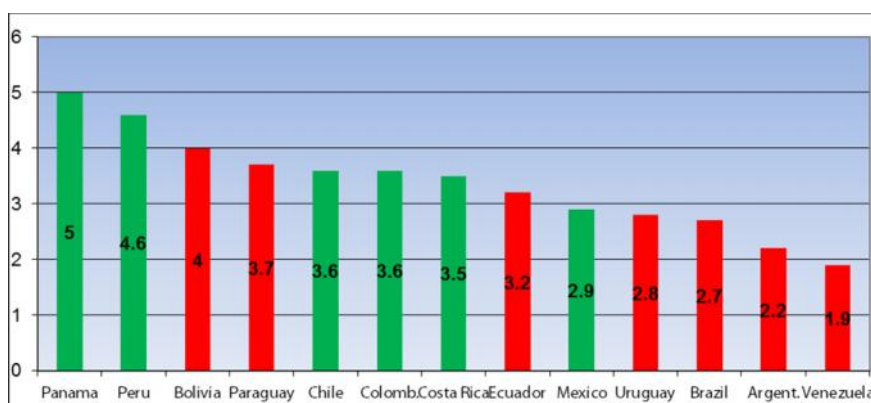


Figure 4:

Compounded annual GDP growth rates for members of the Pacific Alliance (including Costa Rica and Panama, marked in green) and Mercosur (including Bolivia and Ecuador, marked in red), 2014-2018 forecasts.



Source: IMF, World Economic Outlook Database, October 2013
<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/weoselgr.aspx>

4.1 The model of integration

In contrast to other regional blocs, notably Mercosur, the Pacific Alliance does not seek to create a customs union or a common market. This allows its members to maintain free trade agreements with third countries.

The Pacific Alliance is often presented as the newest (and very frequently as the most promising) of the many initiatives for regional integration and cooperation in Latin America. Colombia's President Juan Manuel Santos has described the Alliance as 'one of the most significant integration processes that have taken place in Latin America'.

However, the Alliance is in many ways different from other regional blocs, such as Mercosur, the CAN and the MCCA. Unlike these groups, the Alliance does not seek to adopt a common external tariff, customs union or common market. In line with the 'open regionalism' followed by its member states, membership in the Alliance is thus compatible with existing or future FTAs with other countries, which are seen as complementary to the group's own integration process. In fact, one of the defining attributes of the Alliance is the large number of FTAs its members have concluded with third countries. The concept of 'Alliance' is in itself an indicator of this. Similarly, the Alliance lacks a juridical personality and can therefore not conclude international agreements on behalf of its member states.

Unlike other regional groups, the Pacific Alliance has also not defined detailed or overtly ambitious common policies. While both the Framework Agreement and declarations from the presidential summits refer to cooperation in various areas — including in areas outside economic and

The Alliance's approach to integration and cooperation is inter-governmental, flexible and pragmatic. In some areas it promotes 'deeper' integration than do other blocs, in other areas less.

trade-related areas — the bloc follows a pragmatic approach, setting tangible goals for functional cooperation in specific areas. Cooperation between the members of the Alliance is purely intergovernmental, with no supra-national elements that could infringe on the member states' sovereignty.

In this respect, the Pacific Alliance shares traits with what has sometimes been called the 'Asian integration' model for pragmatic, flexible and market-driven integration, focussing on specific activities. (One example of this model could be the Asia-Pacific Economic Cooperation (APEC), of which Chile, Mexico and Peru are members). In the same vein, others have referred to the Alliance as exemplifying a region-wide trend of moving from 'integration to cooperation'.

While the Alliance therefore represents a more limited form of regional integration in some aspects than do other groups in Latin America, it seeks to promote a 'deeper' or more ambitious integration in other aspects than other blocs. This is notably the case for its measures on services and investment and the free movement of people.

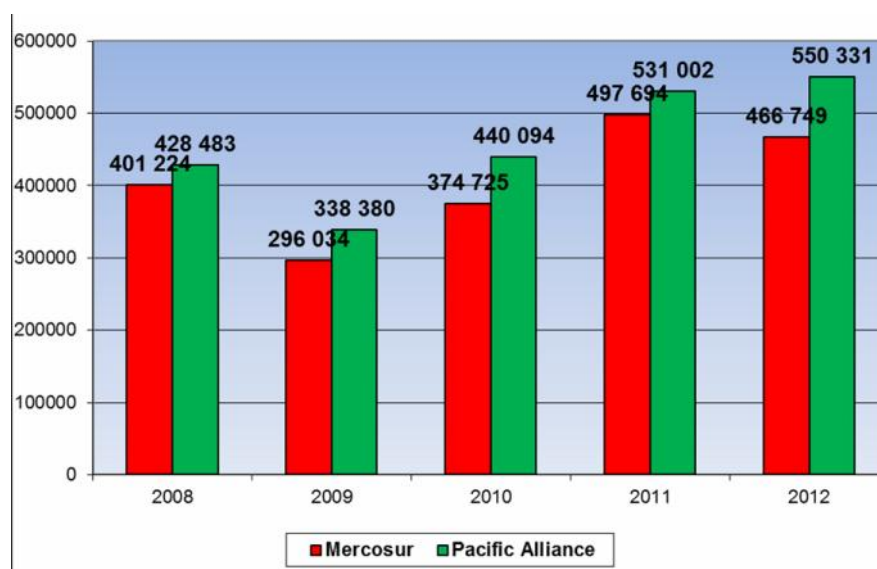
4.2 The Pacific Alliance and Mercosur

The Pacific Alliance is smaller than Mercosur, but its exports are greater. In contrast to Mercosur, almost all exports from the Alliance's member states are sent beyond the bloc. Around half of them, however, are Mexican exports to the USA.

The Alliance's size and economic weight have made inevitable comparisons with Mercosur, the other principal integration bloc in Latin America.

While Mercosur (which includes Argentina, Brazil, Paraguay, Uruguay and Venezuela) is bigger than the Pacific Alliance in terms of population and the combined value of the countries' economic production, the Alliance's members export more than the Mercosur countries. Their export sectors have also been more dynamic in recent years: while total exports from the five Mercosur countries (plus Bolivia and Ecuador) fell between 2011 and 2012, those from the four Alliance countries grew.

Figure 5:
The Pacific Alliance and Mercosur (including Bolivia and Ecuador): Total exports, 2008-2012 (USD millions)



Source: ALADI, Sistema de Información de Comercio Exterior (http://consultaweb.aladi.org/sicoex/jsf/totales_comercio_exterior.seam?cid=954) and <http://www.cei.gob.ar/es/comercio-exterior-por-socios>

The differences in the two blocs' export performances are particularly marked in terms of their exports outside their own two groups (Figure 6). Looking specifically at exports to Asia and the Pacific region, between 2008 and 2012 the value of the Alliances' exports have represented between 72 % (2011) and 83 % (2008) of Mercosur's exports to that region. Although in 2012 the Alliance's exports increased while those of the Mercosur countries dropped, their growth seen over the whole of the period has been relatively weaker than that of Mercosur's exports to Asia and the Pacific (Figure 7).

Figure 6:
The Pacific Alliance and Mercosur (including Bolivia and Ecuador): Exports outside the respective blocs, 2008-2012 (USD millions)

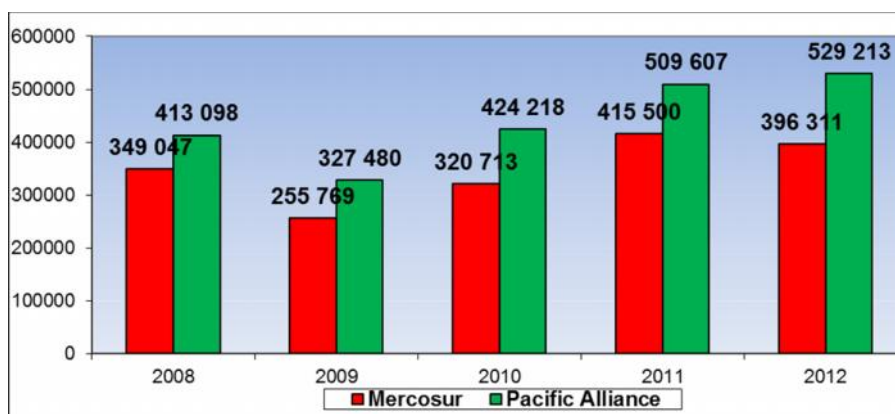
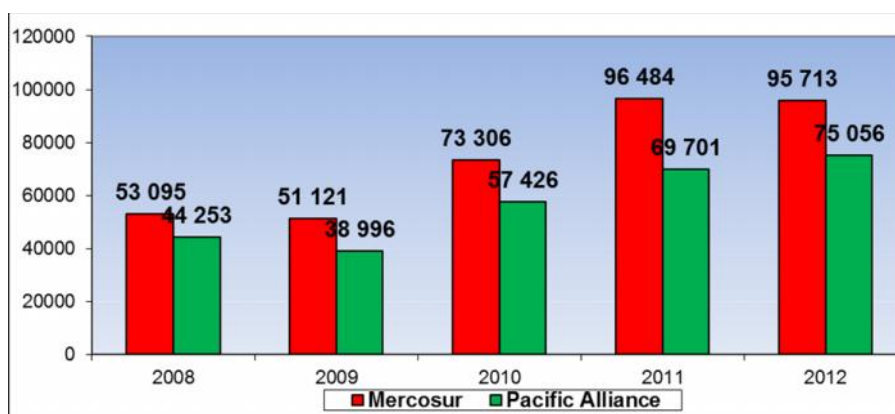


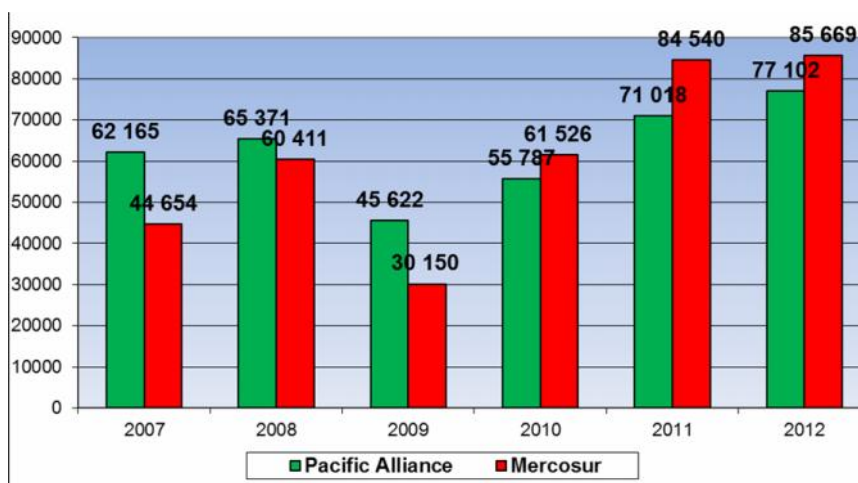
Figure 7:
Members of the Pacific Alliance and Mercosur (including Bolivia and Ecuador): Exports to the Asia-Pacific region, 2008-2012 (USD millions)



Sources: ALADI, Sistema de Información de Comercio Exterior (http://consultaweb.aladi.org/sicoex/jsf/totales_comercio_exterior.seam?cid=954) and <http://www.cei.gob.ar/es/comercio-exterior-por-socios>

There are no consistent differences between the two blocs in terms of FDI inflows. Both the Pacific Alliance and Mercosur have registered increased foreign investments since the setback in 2009 caused by the international economic crisis. In recent years, the Mercosur countries have received higher amounts of FDI than the Alliance countries, which was not the case before 2010 (Figure 8).

Figure 8:
Inflows of foreign direct investment to members of the Pacific Alliance (including Costa Rica and Panama) and Mercosur (including Bolivia and Ecuador), 2007-2012 (USD millions)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2012* (<http://www.eclac.org/publicaciones/xml/4/49844/ForeignDirectInvestmentBriefPaper2012.pdf>)

Any comparison between the two blocs must take account of the weight of Mexico and Brazil.

The Alliance's export performance to a large extent reflects the importance of Mexico's export sector and thus the country's economic integration with the USA in the framework of the North American Free Trade Agreement (NAFTA). In 2012, Mexican exports represented 67 % of all Pacific Alliance's exports⁵. Mexico's exports to the USA alone counted for more than 50 % of the total value of exports from the Pacific Alliance.

Yet, despite the disproportionate weight of the Mexican export sector within the Pacific Alliance, the asymmetries within the Alliance in other regards are less pronounced than those within Mercosur, which includes Brazil. Mexico is by far the dominating economy within the bloc, but its relative weight (56 % of the group's combined GDP) is less than Brazil's (70 %) within Mercosur.

In terms of FDI inflows, the differences between Mexico and the other members of the Alliance have also been reduced in recent years. This is due to a combination of rapidly growing investment flows to Chile, Colombia and Peru, and to stagnating or declining flows to Mexico. In 2012, FDI inflows to Mexico registered a sharp drop and were significantly below the value of flows to Chile and Colombia, while comparable to FDI inflows to Peru. However, during the first half of 2013, inflows to Mexico registered a significant growth (to USD 23.8 million, from USD 9.2 million in January-June 2012). Overall, FDI inflows to the countries of the Pacific Alliance reached USD 47.8 million, or 36 % more than in the same period of 2012.⁶

⁵ ALADI, *Sistema de Información de Comercio Exterior* (http://consultaweb.aladi.org/sicoex/jsf/totales_comercio_exterior.seam?cid=954)

⁶ United Nations Conference on Trade and Development (UNCTAD), *Global Investment Trends Monitor*, no. 13, October 2013 (http://unctad.org/en/PublicationsLibrary/webdiaeia2013d10_en.pdf)

4.2.1 Competing integration schemes?

Comparisons between the Pacific Alliance and Mercosur go beyond economic data. The two groups have to a great extent come to represent two different and even antagonistic 'models' for regional integration and cooperation.

On the one hand, the Alliance has been identified with a liberal, free-market 'Pacific model' which is said to be dynamic and innovative and represents a real commitment to market integration, as opposed to political rhetoric. It responds to globalisation by opening up markets and offering opportunities and legal certainty to investors, exemplified by the FTAs signed by its members with the US, the EU and several countries in Asia.

Mercosur, on the other hand, has been identified with an inward-looking, stagnating 'Atlantic model', which is accused of failing to fulfil its objectives in terms of trade and economic integration, and of developing into an inefficient political association. Lacking agreements with the world's leading traders, the bloc's relations with the outside world are considered hampered by protectionist measures, which also raise barriers for trade within the bloc.

Perceptions like these have been reinforced by some recent economic trends, particularly declining growth in Brazil and Argentina, the slowdown in exports for all Mercosur countries (in particular for intra-bloc exchanges), and the recurrent tensions within the bloc over import restrictions and other barriers hampering intra-regional trade. Some analysts have even referred to a 'continental divide' between Mercosur's '21st century socialism' and the Alliance's '21st century capitalism'.

For their part, advocates of Mercosur reject the notion of a bloc in paralysis, and defend Mercosur as a project for genuine regional integration, as opposed to the Pacific Alliance, which they see as merely a scheme for free trade. Others have underlined the benefits of Mercosur for its member states, and particularly for the export market it offers manufactures. Brazil's Foreign Minister, Antonio Patriota, has attributed a great deal of the Alliance's image to successful marketing. Others see the Alliance as an US-instigated attempt to neutralise Mercosur and other regional initiatives that do not conform to 'neoliberal' principles.

The leaders of the Alliance countries have countered by arguing that their bloc is not opposed to other groups and have denied notions of a regional rivalry with Mercosur. Nonetheless, the Alliance's apparent rapid progress in achieving trade liberalisation and economic integration has effectively spurred discontent within Mercosur. This has been most pronounced in the two small Mercosur countries — Paraguay and Uruguay — where perceptions of discrimination and frustrations with Mercosur and with Argentina's and Brazil's protectionist policies are strongest. Both Paraguay and Uruguay are observers to the Pacific Alliance.

Paraguay's suspension from Mercosur in June 2012 added to the existing

The Pacific Alliance has to a large extent become identified with a more dynamic, free-market alternative to the allegedly stagnating and protectionist Mercosur.

The critics of the Pacific Alliance reject it as merely a scheme for free trade. Some accuse the Alliance of seeking to divide Latin America and to neutralise Mercosur and other regional initiatives that do not conform with 'neoliberalism'

discontent with the asymmetries within the bloc and provoked expressions of anti-Mercosur sentiments and suggestions that the country would in fact be better off outside Mercosur, with the freedom to develop trade and investment links with other countries and regional groups. This was partly behind Paraguay's request for observer status in the Pacific Alliance, which it obtained in May 2013. Press reports claim that Brazil had (unsuccessfully) tried to block Paraguay from achieving observer status in the Alliance, on the ground that the country was suspended from the Union of South American Nations (*Union de Naciones Suramericanas*, Unasur). The President of one of Paraguay's leading business organisations, the Paraguayan Industrial Union (*Unión Industrial Paraguaya*, UIP), went so far as to state that the business world preferred the Alliance to Mercosur.

In Uruguay, the Alliance has also provoked a lively political debate, including within the governing left-wing Broad Front (*Frente Amplio*, FA) coalition. Vice President Danilo Astori, who has long been outspoken in his criticism of Mercosur protectionism, has pleaded for Uruguay's accession as full member of the Alliance, arguing that the trade and investment opportunities it offers are of 'absolutely strategic' importance for Uruguay. However, another sector of the government and the FA has rejected this suggestion, maintaining that Mercosur membership should remain a priority. President José Mujica has stated that Uruguay hopes to participate in all regional integration initiatives — including as an observer in the Pacific Alliance and in the Bolivarian Alliance for the Peoples of Our America (*Alianza Bolivariana para los Pueblos de Nuestra América*, ALBA) — but that Mercosur is the priority.

Even in Brazil the Alliance has stirred debate about the country's Mercosur membership. The political opposition and business associations have expressed concerns that Brazil is losing important opportunities for economic growth and innovation by opting exclusively for a paralysed Mercosur. It is feared that, without a reform of Mercosur, competition from the Alliance could weaken the bloc and hence Brazil's economic and geo-political interests.

Yet one important impediment to Uruguay's and/or Paraguay's possible membership of the Pacific Alliance is the Mercosur customs union and the rule adopted in 2000 which prevents the member states from individually negotiate and conclude FTAs with third countries. Addressing the debate in Uruguay, the Mercosur's High Representative, Brazilian Ivan Ramalho, recalled that only the entire bloc could negotiate with other countries and regions.

The Pacific Alliance's perceived success in rapidly achieving agreement on an ambitious scheme for trade liberalisation and its openness towards global markets has generally nourished demands for a more 'flexible' Mercosur that allows the members of the bloc to seek stronger trade and investment links — and possibly conclude FTAs — with countries and regions outside the group. The Brazilian National Confederation of Industry (*Confederação Nacional da Indústria*, CNI) has pleaded for

In some Mercosur countries, the Alliance has provoked a lively debate, acting as a sort of catalyst for discontent with Mercosur.

This could nurture demands for a more flexible Mercosur, possibly allowing members to negotiate trade agreements independently with third parties.

Mercosur member states to be allowed to individually negotiate trade accords on their own. Swayed by the emergence of the Alliance (and the prospects of the Trans-Atlantic Trade and Investment Partnership (TTIP)), Brazilian business organisations have called on the government to break the country's 'isolation' and actively seek to conclude new trade agreements, including without Mercosur.

Mercosur members would be able to pursue such agreements if the Mercosur's customs union (which has already been weakened by many exceptions) were abolished and the bloc transformed into a free trade area. This possibility has already been raised — not only in relation to the Pacific Alliance, but also in relation to Paraguay's re-admission to Mercosur.

4.3 Regional integration or new divisions?

The Pacific Alliance has put trade liberalisation and other forms of economic cooperation back at the centre of regional integration.

The Pacific Alliance has provoked both expectations for a new momentum for regional integration and cooperation and concerns about a possible fracture in the region and the weakening of organisations such as Unasur and CELAC. While it is premature to assess any lasting impact the Alliance could have on other Latin American schemes for regional integration and cooperation, the following elements should be taken into consideration:

- The Alliance's ambitious deadlines for removing tariffs and other trade barriers marks a sort of 'return' for trade liberalisation as the basis for regional integration and cooperation, in contrast to what has been seen as an increasing 'politicisation' of — principally of Mercosur.
- At the same time, the attention devoted to issues that go beyond the elimination of tariffs — notably investment and services, but also government procurement, intellectual property rights, standards and the free movement of people — highlights the importance of an economic agenda that includes more than issues of market access. This is in line with the so-called 'new generation FTAs negotiation, notably the TPP.
- The Alliance has helped to anchor Mexico's engagement in South America and has somewhat dispelled notions of a widening divide between South America on the one hand and Mexico and Central America on the other.
- The Alliance is the clearest expression so far of how the 'Asian pivot' is shifting the dynamics of Latin American regional integration towards the Asia-Pacific area.
- The Pacific Alliance's quest for stronger links with the Asia-Pacific region is compatible with the member states' close relations with the USA, and actually seems to have reinforced cooperative efforts to expand trade and investment relations in Asia. The Alliance countries' participation in the TPP talks together with the USA stresses this 'triangular' aspect of the Alliance, which has also been demonstrated by bilateral contacts between the governments of the

The establishment of the Alliance seems to have reinforced its members' already close relations to the USA, as all seek to strengthen economic ties with the Asia-Pacific region.

Alliance and the USA. The admission of the USA as observer to the Alliance in November 2013 and the meeting of the Alliance's foreign ministers with US Vice President Joe Biden during the UN General Assembly on 23 September 2013 further reinforced the close relationship with the USA.

- The Alliance's close relations to Washington and free-market approach have led to strong criticism from Latin America's left. In particular, the Alliance has been accused of being merely an attempt to revive the Free Trade Area of the Americas (FTAA), which definitively foundered in 2005 because it lacked support among Latin American countries. The Alliance has also been charged with dividing the region and preventing Latin American opposition to an FTAA-like free-market model. Bolivian President Evo Morales characterised the Alliance in October 2013 as a US instrument to divide the South American countries, and Ecuador's President Rafael Correa has described it as part of a strategy to prevent regional unity and oppose 'alternative projects'. Similarly, the July-August 2013 meeting of the left-wing party alliance Foro de São Paulo - which includes the governing parties of Bolivia, Brazil and Uruguay - expressly referred to the Alliance when it denounced the 'attempts, inspired by extra-regional powers, to fracture and sabotage regional integration' and the 'tireless' effort to generate crises and stimulate divisions within Mercosur⁷.

While the creation of the Pacific Alliance has underlined the different models for economic growth and development in Latin America, it is uncertain whether or not this will lead to a more fundamental and lasting regional divide or to political consequences.

The current participation of three South American countries in the Alliance — and the interest expressed by others — raises questions about the future of South American integration which has progressed to a large extent under Brazil's leadership and epitomised by Mercosur and Unasur, and in the wider region in the framework of CELAC. However, while there seem to be few prospects for further economic integration through an 'expansion' of Mercosur (after the expected accession of Bolivia and, perhaps, Ecuador) or a 'merging' Mercosur and the CAN, the Alliance will not necessarily have a negative impact on cooperation on political issues and in other areas of mutual interest (infrastructure, energy, social issues, etc.).

In this respect, much will depend on the extent to which the Alliance's goal of becoming a platform for political coordination and a mechanism for political dialogue will actually lead its member states to speak with 'one voice'. Until now, while signs of differences between the Alliance members and other Unasur members have sometimes been evident⁸, they have not created an open political divide in South America.

Also important in this respect will be the political willingness of the

⁷ <http://forodesaopaulo.org/?p=3030>

⁸ One example was the reactions to the issue of the barring of Bolivian President Evo Morales' flight from the airspace of some European countries in early July 2013: none of the Alliance countries' presidents attended the organisation's special summit on 4 July 2013, held in Cochabamba (Bolivia) in support of Morales.

governments of the Alliance countries and Mercosur members, and others, to downplay their differences and embark on common regional projects when they are possible and mutually beneficial. Some have rejected the portrayal of the Alliance and Mercosur as antipodal, arguing that this is excessively ideological and that the region should not create false antinomies, but allow for 'unity in diversity'.⁹ An extensive tradition of co-existent, varied subregional integration projects suggests that fears of a regional fracture may well be exaggerated.

The Alliance's inclusion of observers could help avoiding regional divides. In addition to Paraguay and Uruguay, Ecuador is an observer to the Alliance, as well as a member of ALBA and a possible future member of Mercosur. Reportedly, Brazil asked that the Mercosur bloc be admitted as an Alliance observer, but the request was denied because the Alliance only admits individual states as observers.

The Pacific Alliance's greatest impact in the region may be indirect: contributing to reinforcing a market-oriented approach to regional integration and attracting other countries. The reactions to the Alliance in some Mercosur countries - leading to demands that Mercosur change fundamentally, including by abolishing its common external tariff - show that the Alliance may well have far-reaching consequences. However, the mid- and long-term impact of the Alliance on other Latin American integration blocs and schemes for regional cooperation will depend on its effectiveness in achieving its fundamental goals - instituting the free movement of goods, capital, investment and people - although these goals have yet to be accomplished.

5 The EU and the Pacific Alliance

The EU has signed free trade agreements with all four members of the Pacific Alliance and political relations are good.

The EU has long-standing institutional relations and free trade agreements with all members of the Pacific Alliance, including the 'candidate observers' Costa Rica and Panama.

Relations with Mexico and Chile are based on the partnership/ association agreements concluded more than a decade ago. When they were signed, both agreements were considered to be among the most advanced and ambitious agreements concluded by the EU. Today, the options for updating and modernising both are being explored.

The Trade Agreement with Colombia and Peru was signed in June 2012. The agreement entered into force on 1 March 2013 with Peru and on 1 August with Colombia. In addition to the Trade Agreement with Colombia and Peru, the European Commission has created a mechanism for bilateral consultations with both countries on issues of mutual interest.

⁹ Article by Carlos Alberto 'Chacho' Álvarez, Secretary General of the Latin American Integration Association (*Asociación Latinoamericana de Integración, ALADI*) (<http://www.infolatam.com/2013/06/05/la-integracion-y-la-alianza-del-pacifico>)

Consultations between senior officials take place yearly.

Table 4:

Association and trade agreements between the EU and Pacific Alliance member states

<i>Country</i>	<i>Agreement</i>	<i>Signature</i>	<i>Entry into force</i>
Chile	Association Agreement	18 November 2002	1 March 2005
Colombia	Trade Agreement	26 June 2012	1 August 2013
Mexico	Economic Partnership, Political Coordination and Cooperation Agreement ('Global Agreement')	8 December 1997	1 October 2000
Peru	Trade Agreement	26 June 2012	1 March 2013

The EU's interest in the Pacific Alliance was highlighted in the meeting of European Council President Herman van Rompuy, European Commission President José Manuel Barroso and the Presidents of Colombia and Peru on the margins of the January 2013 EU-CELAC summit in Chile. On that occasion, van Rompuy stated that the two countries' participation in the Alliance would reinforce their regional and international position and make them even more attractive partners to the EU. He added that the EU was attentively following the rapid development of the Alliance, which the Union considers a 'very promising initiative' by countries sharing the EU's views on open markets and modern economic policies, aiming to create an economic space in which goods, capital, services and persons circulate freely.

The Council President also expressed confidence that the Alliance was conducive to strengthening ties with the EU, as it would increase the welfare gains deriving from the existing trade and association agreements and also strengthen cooperation on multilateral level to promote a shared vision on trade and economic issues.

Similarly, the XII EU-Mexico Joint Committee, held on 10-11 June 2013, referred to the Alliance's May 2013 Cali summit, in which the EU was present as a special guest, and recognised the Alliance's important achievements.

The Alliance has made efforts to stimulate the interest in the EU for its potential. One example are the presentations and seminars in four cities (Hamburg, Rome, Warsaw and Helsinki) in November 2013, where government representatives and business organisations from the Alliance's member states informed their European counterparts about the Alliance and promoted its trade and investment opportunities.

5.1 Policy options

The EU should monitor the development of the Pacific Alliance closely, for various reasons, including:

- The importance of the bloc to the EU in terms of trade and investment relations. Approximately 46 % of the EU's trade with Latin America in 2012 took place with the four Alliance member states and the two candidates for accession (Costa Rica and Panama). European investment in the six countries is also important.
- The EU has close relations and liberalised trade with all six current and future Alliance member states, and the Alliance could also offer Europe new opportunities for trade and investment. The Alliance's goals are fully consistent with EU policies to strengthen trade integration through free trade and fighting protectionism. Political relations with the Alliance countries are smooth and have not experienced the same tensions that have hindered relations with some Latin American countries (such as, for instance, those following the incident with President Morales' flight in July 2013).
- The creation of the Pacific Alliance is likely not only to affect the EU's relations with the Alliance members, but may well have direct or indirect consequences for other groups and schemes for regional cooperation and integration. This, in turn, may influence the EU's relations with these other groups, including the on-going negotiations of the Association Agreement with Mercosur.

The Alliance's further integration and other issues relevant to the group could be addressed regularly on the various occasions for dialogue and cooperation established in the framework of the Association Agreement with Chile, the 'Global Agreement' with Mexico, the Trade Agreement with Colombia and Peru and the bilateral consultations with the two countries.

For the EP, the creation and future consolidation of the Pacific Alliance's interparliamentary committee will be of particular interest. In addition to fostering direct contacts and exchanges with the Committee (in the framework of the EuroLat Plenary and Committee meetings, for example) the EP should consider addressing issues relating to the Alliance in the EU-Mexico and the EU-Chile Joint Parliamentary Committees, as well as in its contacts with the Colombian and the Peruvian Congresses.

The Pacific Alliance is important for the EU, not only because of the weight of trade and investment links, but also because of the Alliance's possible impact in the wider region and on other regional blocs.

The interparliamentary committee of the Pacific Alliance could be a future interlocutor for the European Parliament.

ANNEX I

Pacific Alliance - intra-regional free trade agreements (year of signature / entry into force)

	Chile	Colombia	Mexico	Peru	Costa Rica	Panama	C. America	Guatemala	Mercosur	Venezuela	Bolivia	Uruguay
Chile		2006/2009	1998/1999	2006/2009	1999/2002	2006/2008	1999/2002-12	2007/2012	1996/1996			
Colombia	2006/2009		1994/1995	1969 ¹	2013/— ²	2013/— ³	2007/2009-10 ⁴				1969 ¹	
Mexico	1998/1999	1994/1995		2011/2012	1994/1995	1985/1986 ⁵	2011/2012-13				2010/2010	2003/2004
Peru	2006/2009	1969 ¹	2011/2012		2011/2013	2011/2012	—	2011/2013		2012/	1969 ¹	
Costa Rica	1999/2002	2013/	1994/1995	2011/2013		2007/2008						
Panama	2006/2008	— ³	— ⁵	2011/2012	2007/2008		2002/2002-09					

Source: SICE, the Organisation of American State's Foreign Trade Information System (<http://www.sice.oas.org/>)

¹ Members of the Andean Community of Nations (*Comunidad Andina de Naciones*, CAN)

² Existing partial preferential agreement, signed in 1984

³ Existing partial preferential agreement, signed in 1993

⁴ Agreement signed the 'Northern Triangle' countries: El Salvador, Guatemala and Honduras

⁵ Partial preferential agreement

ANNEX II

Pacific Alliance - extra-regional free trade agreements (year of signature / entry into force)

	Chile	Colombia	Mexico	Peru	Costa Rica	Panama
EU	2002/2003	2012/2013	1997/2000	2012/2013	2012/2013	2012/2013
EFTA	2003/2004	2008/2009	2000/2001	2010/2011	2013/	2013/
USA	2003/2004	2006/2012	1992/1994	2006/2009	2004/2009 (DR-CAFTA)	2007/2012
Canada	1996/1997	2008/2011	1992/1994	2008/2009	2001/2002	2010/2013
China	2005/2006			2009/2010	2010/2011	
Japan	2007/2007		2004/2005	2011/2012		
South Korea	2003/2004	2013/		2011/2011		
P-4 (Brunei, N. Zealand, Singapore)	2005/2006					
Singapore				2008/2009	2010/2013	2006/2006
Australia	2008/2009					
Malaysia	2010/2012					
Thailand	2013/			2006/2011		
Taiwan						2003/2004
Vietnam	2011/					
Turkey	2009/2011					
Israel		2013/	2000/2000			

Source: SICE, the Organisation of American State's Foreign Trade Information System (<http://www.sice.oas.org/>)