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# Analysis of Experiences in Trade and Investment between LAC and Korea: The Case of Member Countries of the Pacific Alliance

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Rosario Santa Gadea, Editor

August 2015

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Rosario Santa Gadea, Editor

Research Center at the Universidad del Pacífico

**August 2015**

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# EXECUTIVE SUMMARY

Trade and investment have been the main drivers of economic development in Latin America and the Caribbean (LAC) and in the member countries of the Pacific Alliance (Chile, Colombia, Mexico and Peru) in particular, which are the focus of this study. The results of the trade policy reforms made by these four countries are impressive. Exports have increased considerably and a path toward diversification has been forged. Liberalization and foreign investment facilitation efforts also posted outstanding results. To better understand the member countries of the Pacific Alliance, it is necessary to examine their trade and foreign direct investment (FDI) openness, which contributed to average year-on-year growth of 6.3% in gross domestic product (GDP) over the last two-plus decades (1990-2013) compared to the rest of LAC, which posted an average of 5.3%. These aspects are analyzed in Section I.

The member countries of the Pacific Alliance have posted better economic fundamentals and performance than 20 years ago and this put them in good stead to benefit from the various trade agreements that they have signed with many other countries in the world, including Korea. Three of the four countries of the Pacific Alliance (Chile, Colombia and Peru) have free trade agreements (FTAs) with Korea, the only such agreements that Korea has signed with LAC countries. Mexico does not have an FTA with Korea but is the main importer of its products in the Latin American region. Therefore, Mexico represents the missing link to complete Korea's set of FTAs with the member countries of the Pacific Alliance. Combined, these countries represent almost 42% of LAC exports to Korea and more than 55% of LAC imports from Korea. Chile leads the pack in terms of exports and Mexico in imports (see Section I).

Differentiating between the FTAs with regard to scope and depth depends, among other factors, on the inclusion of trade related disciplines. A comparative overview of the agreements, undertaken in Section II of this study, shows that Peru's FTA with Korea is, by far, more comprehensive than Korea's FTAS with Chile and Colombia because it covers more issues and in greater detail (see also Appendix 2). As such, it is an interesting and useful point of reference for other negotiations or to enter into new agreements with LAC countries. In terms of the use of the agreement, the case of Chile is quite significant given that it is the only country that has a decade of experience in deriving full benefits from its FTA with Korea. Section III - Experience 1 shows that this country knew how to leverage the advantages of the agreement and the results

are concrete: growth in export values, in the number of companies exporting to Korea and in number of products exported to that country (see also Appendix 4).

Trade liberalization is expanding between Korea and the Pacific Alliance countries. Progress has been facilitated by Chile´s FTA, which has been in place for the past decade, and by Peru's FTA, which went into effect in 2011. Similar results can be expected when the Colombia-Korea FTA, signed in 2013, goes into effect. However, after a period of tariff liberalization, it is clear that future gains in bilateral relations are likely to be found in non-tariff-related areas. This is the domain that requires work. Aspects related to *non-tariff barriers* are covered in the comparative analysis of FTAs signed with Korea (Section II) and discussed in the segment on Chile's FTA with Korea (Section III - Experience 1).

The role of *transport and logistics infrastructure* is greater in relationships with distant countries like Korea and is especially important when dealing with perishable products, like fresh fruits, which have great potential to fuel export growth in Chile and Peru. Fruits undergo an irreversible natural process of deterioration that post-harvest technologies can only delay but not prevent. Therefore, the time it takes for a product to arrive at a destination market is a key issue. Factors that contribute to saving time are good conditions in internal infrastructure (transport and ports) as well as logistics, optimal maintenance of the cold chain and direct maritime routes to destination markets. These aspects are analyzed in the study for both Chilean and Peruvian exports of grapes and blueberries to Korea. Some possibilities of cooperation and complementarity between these countries were identified during this examination (Section IV - Experience 1 and Appendix 5).

*Simplification and harmonization of procedures* for international trade are powerful mechanisms for trade facilitation. The Pacific Alliance has ambitious plans in this regard. One of them is the foreign trade single window (SW), which has been conceived as a mechanism to enhance trade competitiveness by improving import/export and logistics procedures as well as document handling. The Pacific Alliance is the first regional trade agreement in the Americas where SW is extensively regulated and the goal is develop well-defined obligations based on the trade policy orientations shared by its member countries. Progress in implementing the SW in the Pacific Alliance is analyzed in Section IV - Experience 2, which also explores the potential for cooperation with Korea, which is on the vanguard of trade facilitation and paperless trade. Additionally, an overview of national SW platforms is provided in Appendix 6.

Promotion, strategies and successful cases of *internationalization of small and medium enterprises* (SME) to serve the Korean market are covered in Section V. In exports, under the umbrella of the "country brand" and with the support of government, some private companies have positioned their products with their own brands in international markets, including Korea. This is the case of Chilean wines and Mexican avocados, which are analyzed in Experience 1. SMEs have a greater chance of internationalizing is they operate through strategic alliances such as franchising and consortia. Colombian coffee *Juan Valdez* and Chile Pork are successful examples of business models for SMEs that are oriented to international markets. The corresponding cases with regard to the Korean market are analyzed in Experience 2.

Finally, but not less importantly, having a more integrated economic space within the Pacific Alliance will be relevant when participating in global value chains with Korea. Member countries of the Pacific Alliance have a long way to go in this respect given that despite the promising features of this scheme of integration, intra-regional trade between member countries represents less than 4% of their total trade with the rest of the world (see Appendix 1). The possibility of e*xpanded cumulation* (EC) in the field of rules of origin between countries that have signed FTAs with Korea could be explored in the future to foster productive integration and insertion into global value chains with Korea. This question is explored in Section II and Appendix 3 of this study.

# SECTION I

# TRADE AND INVESTMENT AS DRIVERS OF DEVELOPMENT IN MEMBER COUNTRIES OF THE PACIFIC ALLIANCE

## 1. Why Focus on Member Countries of the Pacific Alliance?

Trade and investment have been main drivers of the economic development in LAC in general and in the member countries of the Pacific Alliance (Chile, Colombia, Mexico and Peru) in particular, whose cases have been the subject of this study. Although the countries of LAC share similar histories and cultures, the continent is heterogeneous in economic terms and posts significant differences in GDP, population, GDP per capita, among other variables (Ruiz F., 2015) across countries. Therefore, studies of relationships with Korea must take a number of similarities into account. With this in mind, the study at hand focuses on Chile, Colombia, Mexico and Peru for the following reasons:

First, three of the four countries (Chile, Colombia and Peru) have FTAs with Korea and these are the only agreements that Korea has signed with LAC countries. Mexico does not have an FTA with Korea but is the main importer of its products in the Latin American region.

Second, these countries have a long-standing projection in the Pacific. Chile, Mexico and Peru are members of Asia-Pacific Economic Cooperation (APEC) forum and participate in negotiations for the Trans-Pacific Partnership (TPP). Chile and Peru are the two countries in LAC that have signed the highest number of FTAs with Asian countries. Additionally, all four countries are in the Pacific Rim. This is an important characteristic given that their location in the Pacific gives them the opportunity to assume a "gateway role" for relations between Asian countries and the rest of LAC. Moreover, when the Pacific Alliance was set up, one of its main objectives was to strengthen the member countries' projection towards the Pacific, the most dynamic area of the 21th century (see Box 1).

And finally, but no less importantly, these countries have instituted reforms over the last few decades for trade openness and to liberalize investments that have led to high growth in exports and dynamism in inward foreign direct investment (FDI) flows. The reforms that have been implemented have resulted in open economies with solid economic fundamentals and outstanding growth.

## 2. Overview of Trade and Investment Policies

In Latin America, almost all countries have opened their commercial systems and have foregone inward-oriented policies that guided their economies in the 1960s, 1970s and, in some cases, even early 1980s. The debt crisis in the 1980s generated inefficiencies and uncertainties in the financial markets. This was further exacerbated by alarming periods of hyperinflation and macroeconomic instability. All this resulted in considerable outflows of FDI, which peaked in 1982 and continued throughout the so-called "lost decade" of the 1980s (Bittencourt & Domingo, 1996). Later on, most LAC countries made adjustments to regain macroeconomic stability and to recover high FDI flows. FDI in Latin America has been closely linked to changes in the economic policies of each country but, given its wealth in commodities, the region has received mainly investments directed to extractive activities.

In trade, liberalization policies have been characterized by significant unilateral reductions, less escalation in tariffs, and the elimination of quantitative restrictions (Santos-Paulino, 2010). One of the first Latin American countries that experienced this type of trade liberalization process was **Chile**, in 1973, when a series of economic reforms took place including unilateral reduction of tariffs as well as efforts to unify multiple exchange rates into a single rate. Much of this liberalization process was aimed at increasing the competitiveness of exports by lowering the costs of inputs for production (Ffrench Davis, 2001).

**Mexico** also experienced unilateral trade liberalization within trade policy reform. After the debt crisis, between 1982 and 1985, the government began eliminating previous import permits and reducing tariffs. In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT). By 1987, the Mexican economic policies were focused on privatizing certain economic sectors and improving competitiveness. Yet, by the end of the 1980s, a series of consultations began to address bilateral issues with the United States in the realms of trade and investment (SECOFI, 1992).

Between the mid-1980s and the late 1990s, there was a profound change in economic policies in LAC that was inspired by the so-called "Washington Consensus." The development model, which was based on protecting domestic markets and promoting government intervention, was replaced by a set of policies geared mostly towards improving efficiency, facilitating market functioning and reducing the distorting effects of State intervention in

economic activities (Lora, 2012). In terms of trade policy, the years to come were characterized by trade liberalization based on multilateral and bilateral negotiation.

In this context, along with macroeconomic reforms, Mexico implemented a series of open trade policies seeking to increase the number of foreign partners and to improve the competitiveness of its manufacturing exports. Mexico's move to sign the GATT agreements in 1986 and join the World Trade Organization (WTO) in 1995 were indeed milestones but the major turning point was its decision to sign the North American Free Trade Agreement (NAFTA) in 1992 (which went into effect in 1994). The FTA with the United States and Canada had the greatest impact on the productive structure of Mexico and represented one of the anchors of the modernization of its economic policy and trade liberalization (Zabludovsky, 2005).

NAFTA was pioneer in efforts to include several areas of study that were generally overlooked in negotiations, such as liberalization of trade in services, FDI, trade-related intellectual property rights, government procurement and the implementation of innovative trade dispute settlement mechanisms. Under NAFTA's institutional framework, Mexico was legally bound to follow a series of trade procedures and undertake reforms that drove business dynamics and boosted international competition. After this, Mexico started bilateral negotiations with different countries in the LAC region as well as with important world trade partners such as the European Union (EU) and Japan, among others. Moreover, NAFTA helped Mexico become one of the main suppliers of the United States and Canada. Mexico also joined the Organization for Economic Co-operation and Development (OECD) and the Asia Pacific Economic Cooperation Forum (APEC) in 1993.

**Chile** followed similar path in its trade policy in the 1990s and 2000s. This included policies to strengthen intra-regional trade and cooperation with LAC countries, which was reflected in its agreements with Bolivia (1993), Southern Common Market (Mercado Común del Sur, MERCOSUR) (1996), Mexico (1999), Central America (2002), Colombia and Peru (2009), among others. But most importantly, Chile moved to sign agreements with major global trading partners: Canada (1997) and later on, the EU (2003), the United States (2004) and some Asia-Pacific countries, including Korea (2004), China (2006) and Japan (2007) given that 75% of Chile's exports are directed to these markets and more than 90% of its inward FDI comes from these destinations (Agosin & Montecinos, 2011). More efforts were made on both the diplomacy and policy coordination fronts. One of the most important frameworks for cooperation and

networking within the Pacific Basin is APEC, which Chile joined in 1994. It is worthwhile to note that Chile also signed FTAs with Malaysia, Vietnam, Australia and New Zealand, among others (Van Klaveren, 2011).

Colombia and Peru started their process of trade liberalization in the early 90s, after a tumultuous decade of political and economic instability. In the case of **Colombia**, to increase competitiveness and export volumes in the first half of the 1990s, the government sought to reduce the cost of raw materials and imported capital goods by lowering tariffs and implementing refunds of indirect taxes paid by exporters. The tariff scheme was simplified into four tariff levels for raw materials, supplies, intermediate and capital goods not produced in Colombia (Roa, 2000). FDI was also promoted as an important factor for economic growth. In the early 90s, a series of reforms authorizing investment in all economic sectors, except for defense and national security, were implemented. These policy measures were reflected in the negotiation of several bilateral agreements to protect foreign investment (Fedesarrollo, 2007).

As part of this process to liberalize trade and attract investment, the Ministry of Foreign Trade of Colombia was created in 1991 (Ministerio de Comercio, Industria y Turismo de Colombia, 2015) to coordinate trade policies and to structure export promotion strategies. Many of the efforts made by Colombia in the early 1990s in foreign trade were direct at signing multilateral trade agreements within the WTO and restructuring the Andean Community of Nations (Comunidad Andina de Naciones, CAN). This process laid the foundations for a deeper and broader scope of bilateral negotiations in the second half of the 2000s with partners such as Mexico, Chile, United States, Canada and the EU.

In the case of **Peru**, the trade liberalization process also began in the first half of the 1990s through a series of legislatives decrees that sought to open the economy by eliminating import licenses and permits while reducing and restructuring the tariff scheme. These measures aimed to improve the competitiveness of local production which, due to mismanagement in the 1980s in terms of fiscal deficit, exchange controls and hyperinflation, had suffered the brunt of major imbalances between international and local prices and the undercapitalization of industrial economic groups. Moreover, unilateral tariff and non-tariff reform was accompanied by serious institutional changes in government structure, some of which were reflected in customs procedures and in the legal framework for international trade (Rojas, 1997).

Peru has been a member of GATT since its foundation in 1951 and became a member of WTO in 1995, when it began participating in multilateral trade negotiations. Trade and investment liberalization reforms were accompanied by major changes in Peruvian regulation. New laws were issued to protect business and investors and to generate new dynamism in the financial system. A privatization process was launched to attract FDI to boost the local economy. Some of these reforms were anchored by international commitments, particularly the FTA with the United States, which was signed in 2006 (effective in 2009). This was the first agreement signed by Peru with a major global trading partner and the principal destination and origin of its foreign trade. As for other LAC countries, the effects of this agreement were reflected in trade flows but more importantly, in Peru's institutional framework. Several other FTAs followed: Canada and Singapore (2009), China (2010), Korea (2011), Japan and Mexico (2012), EU, Thailand (2013), among others[1].

It is clear from these experiences that Chile, Colombia, Mexico and Peru followed a similar path toward trade policy reforms over the last few decades but the timing was different. All of them began with unilateral liberalization to gain competitiveness, followed by multilateral negotiations, and finally negotiated bilateral liberalization under the FTA format. In this sense, these countries followed a pattern of convergence in institutional reforms, where FTAs were signed with global trade partners such as the United States, the EU and Japan. This endowed their institutional frameworks with common features, particularly with regard to trade and dispute resolution procedures.

LAC countries, in general, are in better economic position to benefit from signed trade agreements than 10 or 20 years ago. The process to liberalize trade and investment in Chile, Colombia, Mexico and Peru, coupled with these nations' willingness to participate in regional, hemispheric and global integration schemes over the last few decades, has had a highly positive impact on their foreign trade, inward FDI flows and economic growth even if challenges in terms of economic and social development continue.

[1] Dates refer to entry into force of the agreements.

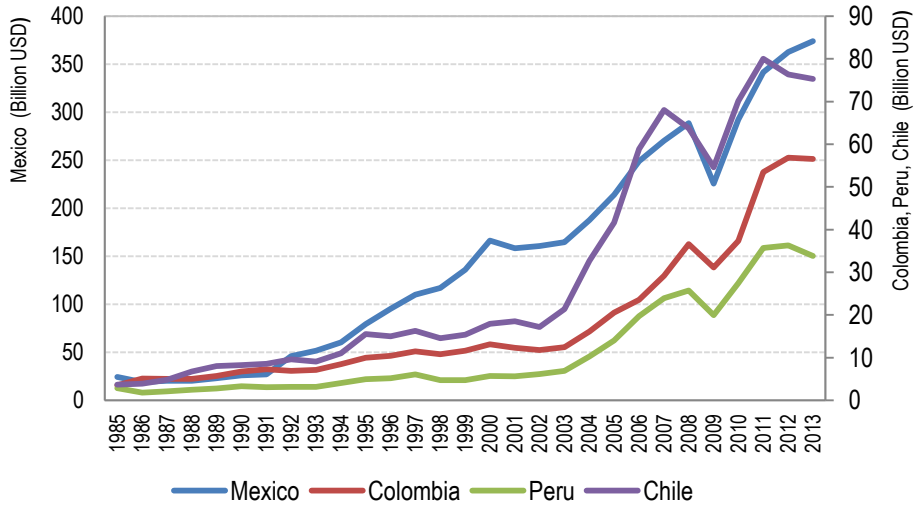
## 3. Importance and Impact of Trade and Investment in National Economies

### a. Exports

Chile, Colombia, Mexico and Peru followed similar liberalization strategies but with different timing. This led, among other things, to sustainable growth in export values and an increase in exports' share of GDP. From 1990 to 2013, exports of goods from Chile, Colombia, Mexico and Peru increased 8, 7, 13 and 9 times respectively (see Annex 1). Oil and mineral commodities represent an important share of these countries' exports, and during the same period of time, according to KITCO commodities data base, the international prices for oil, gold and copper grew 2.4, 2.1 and 1.9 times. Therefore, their performance in terms of export values outpaced the growth of prices for primary goods.

Although the countries analyzed have followed a similar upward trend in their exports over the years, they also display certain differences. Mexico posted stable growth since NAFTA went into effect in the mid-90s. Chile, Colombia and Peru reported relatively stable export growth throughout the 90s and, in the second half of 2000, experienced exponential growth that was largely attributable to the increase in commodities prices but also by the trade agreements negotiated (see Figure 1).

**Figure 1• Chile, Colombia, Mexico and Peru: Exports of Goods to the World, 1985-2013 *(Billions US$)***

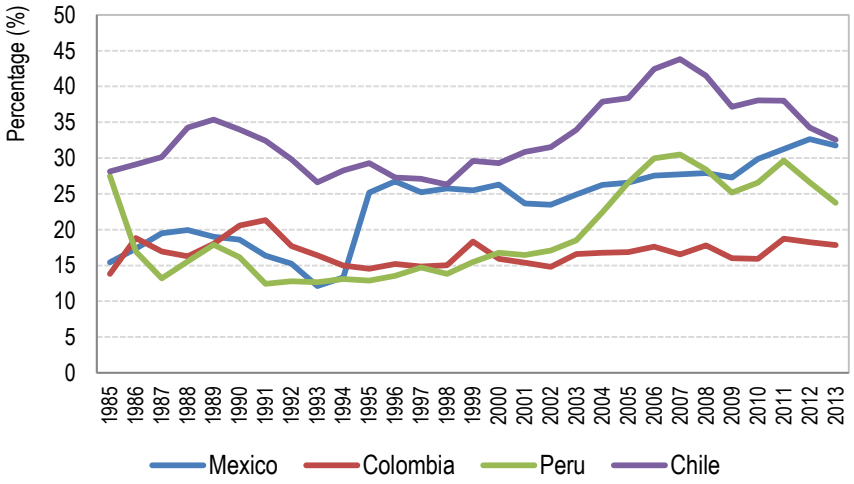



*Source*: See Annex 1.

Of the four countries, Chile has always had the highest ratio of exports to GDP(see Figure 2), followed by Mexico and Peru, whose ratios have increased significantly over the last few decades but with different timing: Mexico in the 90s, Peru in the first decade of 2000. After 2008, Chile began to post a decrease in the share of its exports as a percentage of GDP while Mexico continued to report an increase, so these two countries appear to have the same ratio by the end of the period. Colombia remained relatively stable during the entire period and has the lowest ratio of the four countries under analysis.

**Figure 2• Chile, Colombia, Mexico and Peru: Exports/GDP, 1985-2013**

***(Percentages)***




*Source*: See Annex 1.

Export performance was in line with GDP dynamics in Chile, Colombia, Mexico and Peru, which experienced higher rates of economic growth in the following periods: 1992-1997, 2002-2007 and 2010-2013 that was interrupted by the impact of the Asian crisis (1998-2001) and the international financial crisis (2008-2009) (see Annex 2). Therefore, the liberalization process over the last few decades, which resulted in more open economies, had significant effects on each country´s exposure to evolution of international trade and at the same time enhanced GDP performance.

In real terms, based on available data, we have calculated GDP growth (at Purchasing Power Parity, PPP) for the member countries of the Pacific Alliance for 1990-2013. In combined terms, the average annual real GDP growth (PPP) of the Pacific Alliance was 6.3%

with Chile showing the highest growth (8.6%) followed by Peru (7.1%), Mexico (6.1%) and Colombia (5.7%). As a result, Chile almost doubled its share in LAC´s GDP during this period. Peru and Mexico also increased their participation, albeit to a lesser extent, while Colombia's share has remained the same (see Table 1).

**Table 1• Chile, Colombia, Mexico and Peru: Average GDP (PPP) Growth and Share over LAC´s GDP (PPP), 1990-2013 *(Percentages)***

| Country | YoY Average GDP (PPP) Growth 1990-2013 | Share of LAC GDP (PPP) 1990 | Share of LAC GDP (PPP) 2013 |
|---|---|---|---|
| Chile | 8.6 | 2.2 | 4.2 |
| Colombia | 5.7 | 6.4 | 6.5 |
| Mexico | 6.1 | 19.7 | 21.8 |
| Peru | 7.1 | 2.8 | 3.9 |
| **Pacific Alliance** | **6.3** | **31.1** | **36.4** |
| Rest of LAC | 5.3 | 68.9 | 63.6 |
| **LAC** | **5.6** | **100.0** | **100.0** |

*Source*: Elaboration based on World Bank Statistics.

In terms of the liberalization process's impact on the export structure of each country, Annex 3 gives a clear picture of the export profile according to the level of technological sophistication of goods (Lall, 2000). If we compare 1992 and 2013, we see a considerable reduction of the share of primary goods (PG) in total exports to the world in spite of the commodity price boom in the cases of Chile, Mexico and Peru. Only Colombia has increased the participation of PG in this period.

The importance of manufacture in Mexican exports has been accentuated by a higher level of technological sophistication, particularly in terms of medium technology manufactures (MTM), which represent almost half of total Mexican exports to the world in 2013.High technology manufactures (HTM) maintained their share of this country's total exports and posted a high average yearly growth rate, which increased six times during the two decades under

analysis. This is clearly related to NAFTA given that, by 2013, nearly 82% of Mexico's total exports went to this market. However, Mexico shows a similar export pattern to LAC, especially in terms of the shares of low technology manufactures (LTM), MTM and HTM, which attests to the importance of its role as a gateway of manufactured products to both NAFTA and LAC markets.

For Chile and Peru, the increase in natural resources based manufactures (NRBM) is the main feature, especially in terms of exports to the world, but the regional market also grew in importance, especially for LTM in the case of Peru, and MTM in the case of Chile. In fact, for these two countries more than a third of exports to LAC are LTM, MTM and HTM. In Colombia's case, LTM, MTM and HTM together represent 42% of exports to regional markets in 2013 compared to only 15% in exports to the world. In sum, the trade policy reforms implemented by these countries have forged a path towards diversifying the export structure and the regional market has played a growing role in manufacturing exports.

**b. Foreign Direct Investment**

Trade liberalization and foreign investment facilitation posted impressive results in Chile, Colombia, Mexico and Peru. The FDI stock multiplied in the last two decades, going from US$ 43.4 billion in 1990 to US$ 806.1 billion in 2013. However, there is a large difference between Mexico and the other three countries given the size of its economy and its capacity to attract investment. As seen in Table 2, Mexico ratified its position as the largest recipient of FDI by accounting for almost half of the total FDI stock in these four countries.

**Table 2• Chile, Colombia, Mexico, and Peru: FDI Stock, 1990-2013**

***(Billions US$)***

| | Chile | Colombia | Mexico | Peru |
|---|---|---|---|---|
| **1990** | 16.11 | 3.50 | 22.42 | 1.33 |
| **2013** | 215.45 | 127.90 | 389.08 | 73.62 |

*Source*: Elaboration based on OECD database.

However, if we consider the size of each economy, we find that Chile attracts more investment than the other three members of the Pacific Alliance, as its FDI net inflow over GDP was 7.3% of GDP in 2013, which contrasted favorably with the performances of Mexico (3.1%), Colombia (4.3%) and Peru (4.6%) in the same year. However, Colombia surpassed Peru in terms of value of FDI inflows during the last decade (see Annex 4).

The effects of the inward FDI on the whole economy are different depending on the recipient sector. As outlined by (ECLAC, 2013), those investments with a strong emphasis on technology-intensive sectors have a greater potential to develop knowledge transfers through the local value chain and to expand productive capacities at a sector and country level. In this sense, the stock of FDI in Chile, Colombia and Peru by economic sectors shows a pattern of concentration in primary resources. For Peru and Chile, the mining sector accounts for the largest share with 24.2% and 45.2% of total FDI stock. In Colombia, oil is the principal sector (27% of total FDI stock). Mexico differentiates from the trend, with manufactures concentrating around 46.1% of total FDI stock in the country (see Annex 5).

The countries' growing integration with the world is also the result of sustainable and sound macroeconomic policies that provide a solid foundation and accompany trade and investment liberalization reforms. Combined, these policy reforms have generated a business-friendly environment that is reflected in the positions of the Pacific Alliance member countries in the Doing Business ranking (see Annex 6). By 2015, Colombia and Peru ranked in the upper fifth and Chile and Mexico in the upper third.

### c. Challenges Ahead

Significant effects of the trade and investment reforms implemented over the last few decades in Latin America can be seen in the evolution of the average income perceived by its citizens. Between 1990 and 2013, GDP per capita (PPP) grew by 136% in Chile, 55% in Colombia, 31% in Mexico and 116% in Peru. The cases of Peru and Chile are impressive, as average income more than doubled in two decades. Moreover, social mobility has been remarkable as the share of population under the poverty line shrank dramatically and the middle class grew significantly and even doubled its share of total population in most of the countries analyzed (see Annex 7).

However, there is a pending agenda on inequality issues, since Gini coefficients among the analyzed countries are no lower than 47.5, which indicates that the distribution of income

among the population remains highly unequal. It is also important to consider that a portion of the middle class population is categorized as the "vulnerable middle class," for which a negative shock in the economy could imply sliding back into poverty (Ruiz, F. 2015). In this sense, there are at least two principal challenges ahead on the internal agenda of LAC countries. The first is related to income distribution and inequality reduction while the second entails working to gain competitiveness in international markets, where countries of the Pacific Alliance, despite the significant improvement, still have much to do (see Annex 8).

## 4. Trade and Investment with Korea

Member countries of the Pacific Alliance represent almost 42% of LAC exports to Korea and more than 55% of LAC imports from Korea. But the leader in each case is different: Chile, in exports and Mexico in imports.

Growth in exports to Korea begins in the mid-2000s and was partially fueled by surging commodity prices. However, there are differences between these four countries: Chile had a longstanding trade relationship with Korea and reported increase in exports as of the mid-1990´s with renewed dynamism in the 2000s that was primarily attributable to the Chile-Korea FTA, which entered into effect in April 2004. For Mexico and Peru, exports to Korea followed quite the same pattern, with an upward trend in the last decade. The impact of Peru´s FTA with Korea, which went into effect in August 2011, will require more time to analyze but an upward trend in Peruvian exports to the Korean market is evident from the mid-2000s and on. This trend is expected to consolidate thanks to the agreement. The shares of member countries of the Pacific Alliance in total LAC exports and imports have increased over the last decade (see Table 3).

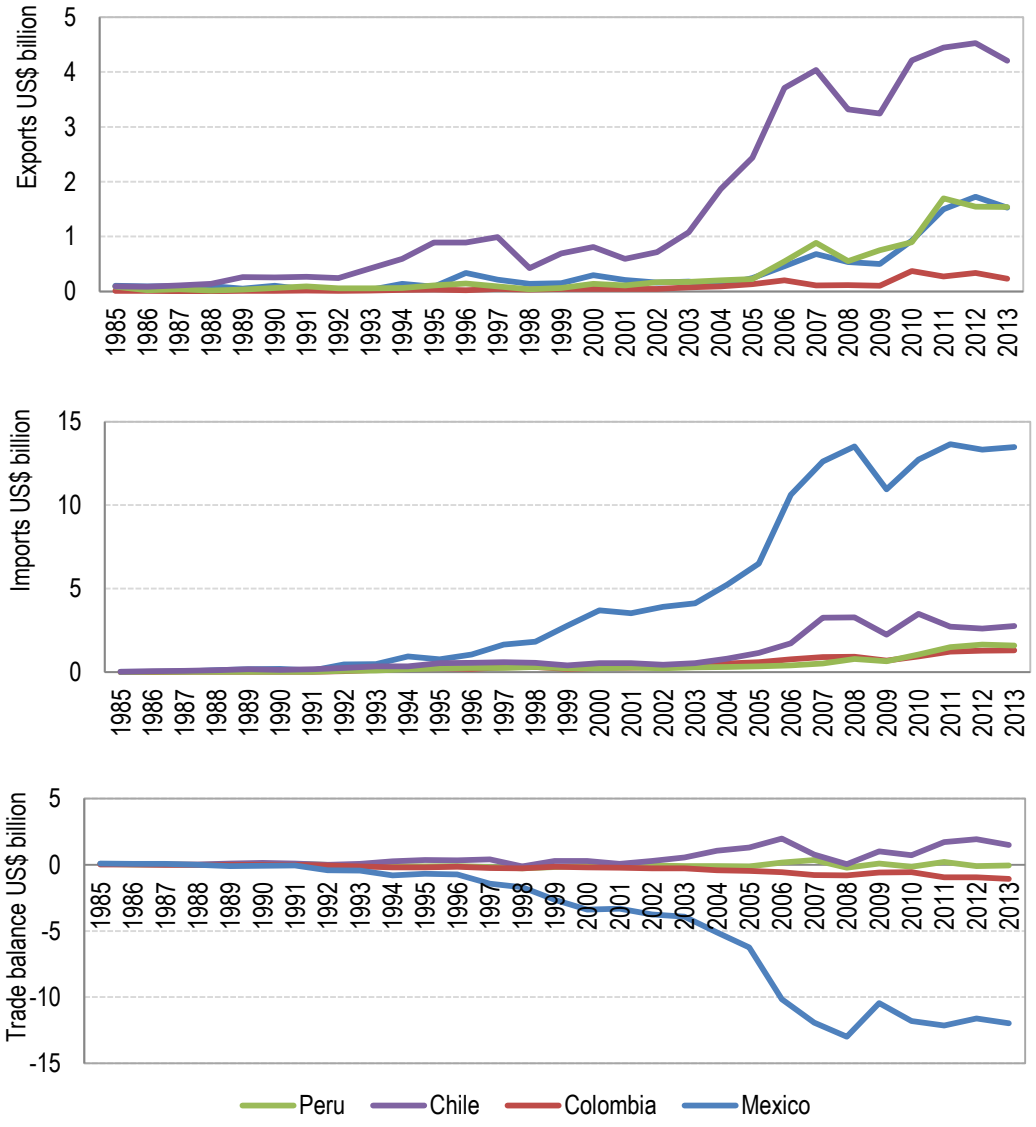
## Table 3• Participation of Chile, Colombia, Mexico and Peru in LAC Trade with Korea, 2001 and 2013 *(Percentages)*

| Country | Exports to Korea | | Imports from Korea | |
|---|---|---|---|---|
| | 2001 | 2013 | 2001 | 2013 |
| Chile | 17.58 | 23.59 | 5.65 | 8.05 |
| Colombia | 1.29 | 1.27 | 2.80 | 3.76 |
| Mexico | 6.15 | 8.42 | 37.07 | 39.18 |
| Peru | 3.26 | 8.51 | 2.69 | 4.62 |
| **Pacific Alliance** | **28.29** | **41.80** | **48.21** | **55.61** |
| **Total LAC** | **100.00** | **100.00** | **100.00** | **100.00** |

*Source*: Elaboration based on Trade Map database, International Trade Center (ITC).

In the imports side, Mexico is definitely the most important partner of Korea, not only in the Pacific Alliance, but in LAC, with sustained growth over the last two decades and pronounced dynamism right after the NAFTA entered into force in January 1994, which points out Mexico's position as platform for manufacturing products whose final destination are the NAFTA market. This effect is also reflected in the trade balance with Korea. Mexico, unlike the other member countries of the Pacific Alliance, displays a large, persistent and growing trade deficit with Korea. Chile has a different pattern, exhibiting a surplus with Korea over the years. Peru tends to have an even position, while Colombia has a trade deficit with Korea and the relationship has not taken off significantly yet, pending entry into force of the FTA (see Figure 3).

## Figure 3• Chile, Colombia, Mexico and Peru Exports/Imports/Trade Balance of Goods to/from/with Korea, 1985-2013 *(Billions US$)*




*Source*: Elaboration based on World Integrated Trade Solution (WITS).

Korea became one of the top 10 market destinations for exports of two countries of the Pacific Alliance: it occupies 5th position for Chile and 10th position for Peru, in 2013. For the other two member countries, Korea is far behind in the ranking of destination markets for exports: it occupies 16th position for Mexico and 34th for Colombia, in 2013. The picture is quite different for imports: Korea is the 4th country of origin of imports for Mexico, 6th for Peru, 7th for Chile and 9th for Colombia.

Pacific Alliance exports to Korea are heavily concentrated in primary goods. The main exports are from the mineral, oil and agricultural sectors. Mexico is the exception and exports few categories of manufacturing products (see Annex 9). Imports from Korea, on the other hand, are concentrated in manufacturing, predominantly metal mechanic and electronic goods.

Korean FDI stock in member countries of the Pacific Alliance is concentrated in Mexico and Peru, which represented 58% and 29%, respectively of total FDI stock in the four countries by the end of December 2014. Chile accounts for around 7% and Colombia around 6% of this total. In almost all cases, mining and quarrying represents the major share: 96% for Peru, 69% for Chile and 49% for Mexico. Colombia is the only country where the majority of Korean FDI stock (almost 60%) is concentrated in manufacturing. However, this amount, in terms of value, is small in comparison to that of Mexico, where manufacturing is the second most important sector for Korean FDI (32% of the country's total): from all FDI stock in manufacturing invested by Korea in the Pacific Alliance member countries (US$ 1.2 billion by December 2014), 82% is localized in Mexico (see Annex 10).

**BOX 1: THE PACIFIC ALLIANCE INTEGRATION EFFORTS**

The Pacific Alliance is a regional integration initiative whose member states are Chile, Colombia, Mexico and Peru. It was created on April 28th 2011, following the Presidential Declaration of Lima, and institutionally constituted through the subscription of the Framework Agreement, on July 6th 2012, in Antofagasta.

The main objectives of the Pacific Alliance, as stated in the third article of the Framework Agreement, are: a) build an area of deep economic integration and move gradually toward the free circulation of goods, services, capital and persons; b) promote growth, development and competitiveness of the Parties' economies, aiming at achieving greater welfare, overcoming socioeconomic inequality and building greater social inclusion; c) become a platform for political articulation and economic and trade integration, and project these strengths to the rest of the world, with a special emphasis on the Asia-Pacific region (Presidents of the Pacific Alliance, 2012).

The Framework Agreement establishes the institutional basis of the Pacific Alliance. It was signed on June 6, 2012 and went into effect on July 20, 2015. An Additional Protocol to the Framework Agreement addresses commercial issues relative to Pacific Alliance´s FTA. This protocol was agreed on at the VIII Summit of the Pacific Alliance, in Cartagena de Indias, on February 10th 2014. The Framework Agreement's recent entry in effect means that member countries can now begin legal processes to seek the protocol's ratification.

In terms of financial issues, the Latin American Integrated Market (Mercado Integrado Latinoamericano, MILA) is an important part of the financial integration agenda covered by the Pacific Alliance. MILA aims to integrate the securities markets of its member countries, promotes the growth of participants' financial business, and provides alternatives in investments, diversification, liquidity and financing. It is sometimes referred to as LAC's most important integration effort in capital markets.

See Appendix 1 for details regarding the Pacific Alliance FTA and MILA.

# SECTION II
# FREE TRADE AGREEMENTS KOREA-LAC COUNTRIES: COMPARATIVE OVERVIEW

Korea has signed FTAs with only three countries in LAC: Chile, Peru and Colombia. All three are member countries of the Pacific Alliance. The FTA Korea-Chile entered into force in 2004, and the Peru-Korea FTA went into effect in 2011. As of April 2015, the agreement Colombia signed with Korea in 2012 is not yet in force. This section analyses the agreements from a comparative perspective to assess their contents, scope and depth. We will conclude with lessons learned, policy recommendations and suggestions for next steps.

## 1. Background and Chronology of the FTAs

The FTAs that Chile, Colombia and Peru have with Korea give them with access to the fourth-largest economy in Asia, with an annual GDP of $1.3 trillion and a population of 50 million people (Austrade, 2014). Furthermore, the current capacity of these countries to export to Asian markets and the preferential tariff treatment offered by Korea grant new market access conditions, opening opportunities for export diversification.

Regarding the period of negotiation (between its launch and the date of completion), the FTA with Peru was completed in the shortest time (about 1 year and 5 months), followed by Colombia (2 years and 7 months) and Chile (about 3 years and 1 month), as indicated in Annex 11. During the negotiation processes with Korea, all the countries analyzed showed some sensitivities in specific sectors: Chile, in steel, footwear and new tires; Colombia, in the automotive, spare parts and electrical appliances sector; and Peru, with regard to some agricultural products. Korea has shown sensitivities in terms of some agricultural items (especially rice and rice-related products), fish and wood products.

With regard to the approval of the FTAs by the respective national authorities, in Colombia, the FTA with Korea has met with strong opposition not only in Congress but also among business associations from the automotive and spare parts sectors. As such, the FTA has

been sent to Congress for approval on two occasions and was finally ratified on December 2014. As of April 2015, constitutional approval was still pending. A different, more positive panorama was observed when the FTA with Korea was submitted for approval before the Chilean Senate and the Peruvian Congress.

## 2. Comparative Assessment on the Scope and Depth of the FTAs

As shown in Annex 12 and 13, Chile offered Korea 44.7% of its tariff lines for "immediate" elimination; 54.1% in a tariff elimination period of no more than 14 years; and 1.2% of total lines were excluded from tariff elimination. The Korean side offered to Chile about 87.2% of its tariff lines for "immediate" elimination; 9.1%, in a tariff elimination period of no more than 17 years; 0.01% fell in the "seasonal" category; and 3.7 % of total tariff lines were excluded.

Colombia offered Korea about 60.6% of its tariff lines for "immediate" elimination; 38.6% in a tariff elimination period of no more than 20 years; 0.08% were to be subjected to tariff-rate quotas (TRQ); and 0.7% of total tariff lines were excluded. On the other hand, Korea offered to Colombia 82.4% of its tariff lines for "immediate" elimination; 16.3% in a tariff elimination period of no more than 19 years; 0.04% under the TRQ category; and lastly, 1.3% of total tariff lines were excluded.

Peru offered Korea 67.9% of its tariff lines for "immediate" elimination; 32.1% in a tariff elimination period of no more than 17 years; and 0.07% of its total tariff lines were excluded. Korea offered to Peru 84.5% of its tariff lines in "immediate" elimination; 14.5% in a tariff elimination period of no more than 16 years; 0.02% were assigned on the "seasonal" category; and 0.9% of total tariff lines were excluded. Comparing the three FTAs, Peru offered a larger percentage of tariff lines in the "immediate" category.

The longest tariff elimination period corresponds to the Korea-Colombia FTA (19 years). Korea offered Peru the shortest period (16 years) while Chile was given 17 years. In the Peru-Korea FTA, the tariff elimination schedule will be fully implemented in 2027, while treaty implementation with Colombia will run through 2034. As Chile was the first LAC country to negotiate an FTA with Korea, its tariff elimination schedule will be completed first, in 2020.

The exclusions established by Korea include 457 items under the Doha Development Agenda (DDA) category, which states that the tariff elimination schedule applied to these lines shall be negotiated after the end of the WTO´s DDA negotiations. Although Korea explicitly excluded only a small number of tariff lines in its FTA with Chile, in fact, the DDA category of products may also be considered exclusions given that they do not benefit from preferential treatment. It is a well-known fact that the Doha negotiations have been going on since 2001 and have suffered a number of setbacks over the years. The DDA category contains the following products: some live animals (cows, cattle, ducks), some meat products, offal (liver, frogs legs), cream, milk powder, butter, onions, garlic, tea, bananas, mangoes, barley flour, refined oil, lactose, glucose, fructose, onion preparations, soya sauce, casein, silkworm cocoons, among others.

In sum, the FTAs between Chile, Peru and Korea have made significant progress toward trade liberalization. This will also be Colombia's when its treaty with Korea enters into force. As of2015, around 96% of tariff lines (for exports) and 95% (for imports) will be duty free between Chile and Korea. In Peru's case, around 92% of tariff lines for exports to Korea are duty free versus 82% for imports. The Colombia-Korea FTA foresees immediately eliminating tariffs on around 82% of the tariff lines for Colombian exports and around 61% of tariff lines will be duty free for Colombian imports from Korea once the treaty goes into effect.

However, the three FTAs maintain exclusions for some sensitive products that are mainly concentrated in the agricultural sector. The Korea-Peru FTA has the fewest exclusions while the Korea-Chile FTA has the most due to the DDA category where preferential treatment will be negotiated after the conclusion of the WTO Doha Round.

The Korea-Chile FTA has a different structure from that used in the other two FTAs that Korea has with LAC countries. This may be due to the fact that it was concluded prior to the beginning of the negotiations of the FTA between Korea and the United States, whose structure was similar to NAFTA and can be considered a milestone for Korea with regard to text structure given that it has been used in subsequent negotiations with other countries, like Peru or Colombia.

Peru's FTA with Korea is, by far, more comprehensive than the other FTAs since it covers more issues in a more detailed manner. Differences in the scope and depth of the treaties depend on the inclusion of trade-related disciplines. For example, only the Peru-Korea FTA

includes chapters on Labor and Financial Services. Chapters on Customs Administration and Trade Facilitation, Electronic Commerce, Environment and Cooperation are included in the FTAs Korea-Peru and Korea-Colombia, along with specific provisions under anti-dumping or countervailing cases and an article on import licensing. These elements are not covered by the Korea-Chile FTA. However, all three agreements have chapters on Investment, Competition Policy, Intellectual Property Rights and Public Procurement. A comparative overview of the structure of the agreements is presented in Annex 14. The comparison of contents in principal chapters of trade liberalization rules and trade-related disciplines are presented in Appendix 2.

## 3. Policy Recommendations and Suggestions on Next Steps

### a. Non-Tariff Barriers: The Challenge Ahead

Despite the fact that the Market Access chapter is usually considered a core issue in all the FTAs, given that its main objective is to eliminate tariff barriers to trade, this is only true to a certain extent. In fact, countries participating in the agreements will be unable to fully benefit from the agreements unless they address non-tariff barriers. Thus, Sanitary and Phytosanitary Measures and Technical Barriers to Trade have gradually been gaining importance and leading the ranking of the trade barriers that companies face.

It is important to note the role of the countries' health authorities in expediting the issue of protocols, which although not included in the scope of the agreement are crucial to maximizing gains that these agreements can generate. Harmonization with international standards is arguably one of the most outstanding obligations in this field so that different countries have equivalent requirements, conduct comparable assessments of conformity and establish similar levels of protection, thus contributing to building confidence between trading partners and improving market access. Closer coordination between national sanitary authorities is needed to achieve this goal.

It is necessary to develop and improve strategies at the national level that are aimed directly at businesses activity, particularly for SMEs. This can be accomplished through policy support and training and ensuring that quality information and technical assistance are available

to facilitate and promote the internationalization at the firm level while overcoming technical barriers to trade.

**b. Trade Facilitation, Implementation Process and Cooperation**

The governments of countries that join FTAs must make internal efforts to address issues that may impede or reduce the functionality of treaties, such as the time-consuming procedures in Customs as well as other deficiencies in transport infrastructure and port services.

During the negotiation period, multi-sector work is essential to achieve consensus on how to deal with a country's interests and sensitivities while securing support for the FTA post-signing to usher it through internal approval channels. The same is true during the subsequent implementation period, which requires continuity and efficiency, particularly to overcome the obstacles that could reduce the benefits that companies and countries may obtain from FTAs. It is also necessary to establish close cooperation between member countries of the agreements to enforce economic and technical issues to strengthen capacities to maximize opportunities and benefits under the agreements and promote economic and social development.

**c. Upgrade and Convergence of Agreements**

It is worth noting that provisions exist in the FTA negotiated between Korea and the three Pacific Alliance member countries that permit content renegotiation and the inclusion of new issues, subject to mutual approval, to introduce improvements to facilitate the implementation. In this respect, Chile, Colombia and Peru could work together to obtain greater benefits from their FTAs with Korea if *expanded cumulation* (EC) of origin is implemented.

Cumulation of origin consists in allowing producers from member countries of an FTA, under certain condition, to consider as originating inputs generated by other partners in the agreement as well as the production processes used to produce them. Cumulation is applied to determine whether a final good complies (or not) with the rule of origin. It constitutes one of the most important elements of the regime of origin as it permits member countries to integrate production processes to effectively grow trade and foster insertion in global value chains.

Almost all agreements include *cumulation of goods,* allowing producers in a member country to consider goods from other member countries "originating goods." Some agreements also include *cumulation of processes*, which considers manufacturing in member countries as

originating from a single territory and enables countries that are part of the agreement to integrate production. Finally, EC of origin permits members of an agreement to cumulate inputs from *third parties* that are not members of the agreement, provided that these third parties have agreements in force with each one of the members of the agreement. EC can be applied to all products or on a sector-by-sector basis.

One of the main potential benefits is that is relaxes the rigidity imposed by origin regimes. As such, EC constitutes an effective step towards converging existing agreements. Considering a single input as originating in several agreements reduces business inventory costs and facilitates trade by shrinking the universe of rules and regulations with which businesses must contend. This also expands the market for producers of inputs that are considered originating, which increases competitiveness.

In agreements signed by LAC countries, among them and with countries of North America, and even with Europe and Asia, there is a clear pattern: all apply cumulation of goods and some include cumulation of processes while a more limited number are beginning to anticipate implementation of EC. Colombia and Peru, for example, already include clauses that contemplate the implementation of EC in several of their trade agreements with other countries, such as the United States and the EU.

There are strong links among Chile, Colombia and Peru whose trading relationships are framed in trade agreements, some of which date many years back, such as those established under the framework of the Latin American Integration Association (Asociación Latinoamericana de Integración, ALADI) and CAN; others, such as the Pacific Alliance, which is a deep-integration agreement that has established a single set of rules of origin between its member countries, are more recent. All three countries have also shown a marked interest in advancing in their insertion in the Asia-Pacific region and are currently the only ones in LAC with an FTA with Korea. Thus, it is worth analyzing the possibility of implementing a mechanism of EC between Chile, Colombia, Peru and Korea based on the existing FTAs that link all of them. Some guidelines to advance in this direction are provided in Appendix 3.

# SECTION III
# BALANCE OF ACHIEVEMENTS AND PROBLEMS AFTER THE FREE TRADE AGREEMENT CHILE-KOREA

Given that it has been in place for a decade, Korea's agreement with Chile is the FTA with a LAC country that has been in place long enough to permit an analysis of its advantages, limitations and potential. This contrasts with the FTA Peru-Korea, which has only been in force four years. Therefore, this experience will be focus on the Chile-Korea FTA.

## EXPERIENCE 1: ADVANTAGES, LIMITATIONS AND POTENTIAL OF THE FTA CHILE-KOREA

### 1. Assessment of a Decade

The Korea-Chile FTA has yielded tremendous benefits for Chile. Due to the agreement, trade between these two countries has increased in value; has also added new products; and opened the doors to exports from new companies. There is complementarity between the two economies. Thus, bilateral trade, based on each country's comparative advantages, has benefitted both. Korean products have high technological sophistication and there is high demand from producers and consumers in Chile for these kinds of products.

The FTA has enabled Chile to access cutting-edge technologies for final consumption goods (such as, vehicles and cellular phone devices) as well as intermediate and capital goods. Chile has comparative advantage in natural resources (mainly copper and other mining products), cellulose and fresh food products (mainly, meat, fish, vegetables and fruits), which are in high demand in Korea. Currently, Chile is an important supplier of these products to Korea.

Chile has reaped enormous benefits as an exporter of products to Korea. By 2013, Korea had become Chile´s fifth largest trade partner. In fact, in the period 2003-2013, imports grew 17% a year on average and exports increased an average 16% per year. Moreover, since the beginning of the FTA, 370 additional companies have begun exporting to Korea, which represents a 128% increase in the period (currently, overall there are 658 Chilean companies exporting to Korea). In terms of the number of products, as of 2013, 248 new products had been

added to the export list in comparison 2003 (the year before the FTA took effect). Comparing the basket of exported products with and without agreement, new export products represented 15% of Chilean exports to Korea (US$ 623 million) in 2013; the majority of these new products were subject to tariffs in 2003 that were eliminated through the agreement (DIRECON, 2014a). There is no doubt that the Chilean economy has taken advantage of the agreement.

Mining exports, specifically copper, have been very important for Chile, particularly in the case of Korea. These exports have brought enormous benefits to the Chilean state, which owns one of world´s largest copper companies, Corporación Nacional del Cobre de Chile (CODELCO). However, the non-mining export sector has demonstrated a positive evolution in its trade with Korea by offering new products and posting growth in sales. Fruits, salmon and bottled wines, although not representing a significant amount in Chilean total exports to Korea, have registered significant average annual growth of around 30%, which is outstanding (see Annex 15).

This reflects not only reduced tariffs but also the high quality of Chilean products such as salmon and fresh grapes, which are recognized internationally. There is also significant demand for these products in the Korean market. However, the impact of the treaty has been important. As seen in Section II of this study, once the FTA entered into force, almost 40% of Chilean exports to Korea were immediately duty-free, which corresponds to around 87% of tariff lines. This provided an important competitive advantage vis-à-vis other Korean trade partners. For instance, 67% of fishing exports and 61% of forest exports were immediately duty-free upon entry into force. At the same time, in the case of salmon, the tariff went from 10% to zero between 2003 and 2013. Something similar happened with fresh grapes, whose tariff prior to the agreement for the May-October period was 45.5% and is gradually being eliminated (see Annex 16).

According to the Directorate of International Economic Relations (Dirección General de Relaciones Económicas Internacionales, DIRECON) of the Ministry of Foreign Affairs of Chile, in 2013, 11,720 items (representing 96% of the total) could enter Korea free of tariffs. In terms of value, in 2013, 99.9% of Korean imports from Chile were duty free (see Table 4).

## Table 4• Korea's Tariff Reduction Program to Chilean Exports, 2013

| Category | Number of items | % | Millions of US$ | % |
|---|---|---|---|---|
| 0% Tariff | 11,720 | 96.0 | 4273.4 | 99.9 |
| Year 16 | 10 | 0.1 | 0.3 | 0.0 |
| DDA Products | 457 | 3.7 | 4.2 | 0.1 |
| Exceptions | 21 | 0.2 | 0.0 | 0.0 |
| **Total** | **12,208** | **100.0** | **4,277.9** | **100.0** |

*Source*: DIRECON, 2014a.

Moreover, certain Chilean products, such as salmon and grapes represent a significant percentage of total Korean imports (almost 68% in the case of salmon and more than 80% in the case of fresh grapes). In 2013, Chile also became the main provider of products to Korea such as frozen fruit, grape and apple juices, flour and fishmeal. Combined, the top 14 agricultural, fishery and food products that Korea imports from Chile represents 26.9% of its total imports from the world in these products (see Annex 16).

Korea imports more than two-thirds of the food and agricultural products it needs for a total of around US$ 21 billion (DIRECON & PROCHILE, 2014). This is due to the fact that the population is concentrated in big cities and cultivable land is scarce. Chile has taken advantage of this scenario, as is reflected in the fact that exports to Korea of agricultural, fishery and food products in general have increased 10% on average per year in the last ten years and have the potential to grow more in the future. In fact, it is estimated that by 2020, Korean imports from Chile of these products will double compared to current imports (DIRECON & ODEPA, 2014). However, the entrance of new competitors, such as Peru, Australia and New Zealand, could affect the performance of Chilean exports, particularly given that these countries would also benefit from zero-tariff in the Korean market. This means that non-tariff issues will become increasingly important and ensure that competition is based on quality recognition. Positioning in the market will depend on effective promotion strategies and permanent improvements in trade facilitation, among other factors.

The upside of trading with Korea should be measured by more than just an increase in exports. In fact, advantages trickle down to the supply chains of exported products while the rest of Chilean economy benefits from interrelations with other sectors through increased economic activity, jobs, and, ultimately through contributions to the country's economic development. This benefits regions in Chile due to the geographic location of product production. Despite this success, tasks are still pending regarding sanitary protocols, restrictions for DDA products and quotas embedded in the FTA. Since most of the Chilean products exported to the Korean market do not pay tariffs, the current challenge for Chile is to deepen the use of this agreement by increasing exports of products to Korea that go beyond copper (and other minerals) and non-processed food products.

## 2. Limitations for a Better Use of the FTA

### a. Sanitary Protocols

Signing the FTA does not imply that agricultural and forestry products are subject to automatic entry. Sanitary Protocols should be negotiated. FTA signatory countries agree on these procedures to study, analyze, and establish the quarantine conditions under which an agricultural and forestry product can or cannot enter the target market. Korea has two types of protocols (phytosanitary and zoosanitary).

Due to local regulations in Korea, the analysis is product-by-product and it is not possible to conduct the process with more than one product simultaneously. These procedures are not unique to Chile, so the number of applications that the competent Korean institution receives makes the process very time consuming. Once the protocol request is made for a product, the local authority asks for the necessary documentation regarding the technical, administrative and specific aspects of the production process, treatment, packing, labeling, inspection, and transportation of the product. This information is analyzed by experts and submitted to public consultation with the participation of consumers and producer associations. Finally, the Korean authorities make a decision.

The negotiation of Sanitary Protocols has been complex and in some cases has taken around eight years to complete. In fact, even after more than a decade of the FTA, protocols are still pending and as such, some new products cannot enter the Korean market (see Annex 17).

**b. Doha Development Agenda Products**

As seen in Section II, the elimination of tariffs for the DDA list of products will be negotiated by Korea and Chile when the Doha Round of the WTO finishes. After the General Council of the WTO adopted the Bali decisions on trade facilitation and other issues in November 2014, a new deadline was set to complete the Doha Round negotiations of no later than December 2015.

The DDA category consists of agricultural products. Within this category, products of most interest for Chile have Ad Valorem tariffs (Most Favored Nation, MFN) of 20%-50% (DIRECON & ODEPA, 2014). After the FTA with Chile, Korea signed other agreements with Singapore (2006), EFTA (2006), the Association of Southeast Asian Nations, ASEAN (2009), India (2010), EU (2011), Peru (2011), the United States (2012), and Colombia (2013), where did not require the inclusion of the DDA category.

This creates a major competitive disadvantage for Chilean exporters of DDA products vis-à-vis other suppliers in the Korean market. In the last meeting of the Free Trade Commission in 2012, Korea maintained its position of not negotiating these products until the end of the Doha Round. In addition, they pointed out that, due to Korean legislation, they need to carry out a consultation process and impact studies before removing tariffs for the DDA products.

**c. Quotas**

Seven products were subject to quotas to enter the Korean market: beef, poultry, turkey (since 2012, it is not subject to a quota), buttermilk, other vegetables, mandarins, and plums. Quotas depend on Korea´s internal regulations and are auctioned. Once the auction has taken place, the Korean Agro-Fisheries and Food Trade Corporation (AT Center) informs Customs which importers can use the quota. In addition, since all the products subject to quota come from the agricultural sector, they are also subject to sanitary protocols.

Chilean exports have not been able to fulfill quotas due to different problems that have arisen during the application process: there is no clear schedule for the auction and at least two importers have to apply; the timing allowed for the quota to enter the country is too short and if

the load arrives later, the quota cannot be used and the embankment has to pay full tariff in addition to the application fee already paid; the AT Center requires the payment of a non-negligible commission to apply for a quota (for poultry it has been around 6% of the export value under the quota); and when importers request the use of a quota they must report the price of the product, however if market conditions change, importers cannot alter the fixed price of the product. Therefore, the situation of the unfilled quotas needs to be reviewed in order to improve Chile's access to the Korean market.

## 3. Potential Areas for Further Advantage of the FTA

One of the main challenges for Chile is diversifying exports to Korea, which is the third largest food market in Asia-Pacific and the fifth largest in the world. For this purpose, several actions should be foreseen.

First, exports in the agricultural and fishery sector should continue to increase given that the Korean demand for products that Chile already exports, such as fresh fruits (grapes, kiwi, berries); alcoholic drinks (wine); processed fruits (concentrate grape juices); frozen and unfrozen meat; fish and sea products (salmon, cuttlefish); and nuts is on the rise. In this case, Chile will be able to continue taking advantage of the FTA given that these products will continue to enjoy free access. In products under quotas, Chilean producers could potentially make better use of them. Finally, restrictions on products in the DDA category will not last forever.

Second, producers in the agricultural and fishing sectors can add value to their products by improving their packaging and presentation, changing sizes and quantities (for example making snack portions or ready-to-eat fruits),mixing products (for example salmon and cream cheese) and improving the quality of exports (premium wines instead of cheaper options).

Third, new products should be added to the current export basket. Exporters should improve their grasp of the Korean culture in order to identify new products. They also need to develop technologies and capabilities to produce these offerings. Adding new products to this basket could mean, for instance, new kinds of fish or seafood and processed food. Exporters

should study the Korean population's demand to identify new products[2]. Moreover, new ways of marketing, such as internet and social media, must be incorporated in the sales process.

In this respect, some Chilean industries and strategies have been identified (DIRECON & PROCHILE, 2014) to continue benefiting from the FTA:

- In the case of fresh fruits, it is necessary to continue consolidating the Chile brand as the point of origin of high quality fruits. Korean families place a high value on the nutritional content of food and on organic certification.
- In the wine industry, although Chile exports more wine than France (in volume), French exports have a higher value (in monetary terms). PROCHILE sees an opportunity in the premium segment: male population in their forties or older who earn high incomes and are very knowledgeable about wine. There is also an opportunity in sparkling wine and light blends for the under-thirty population, mainly working women, with growing income and which like wine on social occasions and for health reasons.
- In the case of meats, Chile only obtained the authorization to enter to the Korean market in 2012. Supply has to adapt to demand in terms of cuts, portions, packaging, etc.
- In addition, Chilean frozen salmon is a well-known product in Korea. However the challenge for Chile is to develop a brand that acknowledges Chile as the world leader in frozen salmon (similar to Norway, who is the world leader in fresh salmon).

Hence, the challenge is to continue penetrating the Korean market, focusing on the same export products but also adding value to the present basket, incorporating new products, improving marketing and, more importantly, fully understanding the needs and culture of the Korean people. If these points are not addressed, Chile will lose competitiveness as Korea signs FTAs with countries that compete internationally with Chile.

In terms of institutions, it is important to note the roles of the Free Trade Commission (FTC), which supervises the implementation of the agreement; PROCHILE and this entity's Commercial Office in Korea, which conducts activities that focus on export promotion and market penetration as well as on attracting investment in strategic sectors for the country. Finally, the Agricultural Office in Korea, based on Seoul, is part of Chile's external network of support and facilitates the presence of Chilean products in this sector. Its specific functions are to

[2] "It is necessary to diversify Chile's export basket. For this purposes, we are promoting multiple activities for agricultural and forestry products; attracting new investments to Chile; and coordinating visits for Chilean companies to the Korean market" (Andres Rebolledo, Director of DIRECON, El Mercurio, May 3rd 2014).

support the market penetration process and act as a liaison with the Korean authorities. Moreover, this office must anticipate and solve health and administrative issues that hinder the export process and research technological innovation topics in this sector.

## 4. Policy Recommendations and Suggestions on Next Steps

The FTA has provided highly significant benefits to Chile, giving it an advantage over Korea's other trade partners. Whereas 40% of Chilean exports to Korea were immediately benefitted with zero-tariff, in 2013 around 99.9% of Chilean exports entered this market free of duties.

However, there are three features that have limited the ability of Chilean exporters to take full advantage of the FTA. First, the highly complex process of negotiating the sanitary protocols with Korean authorities has been a major impediment to the entry of Chilean agricultural products in the Korean market. Second, there is a list of DDA products that are not part of the preferential treatment and hence are subject to tariffs. Although there are not that many products on this list, this situation unnecessarily reduces Chilean competitiveness because Korea´s subsequent FTAs do not include this restriction. Third, Chilean products face entry quotas to Korea that have not been fulfilled and therefore represent a challenge for the Chilean export sector to improve its product standards to satisfy Korean demand.

Authorities of both countries should continue working to resolve the limitations of the FTA that unnecessarily undermine Chilean exports' competiveness in the Korean market. At the same time, institutions from Chile based in Korea that promote Chilean products in situ have proven to be particularly important in the case of agricultural products (e.g. fruits), fish and seafood, poultry, and other products due to Korean demand. In order to successfully support the implementation of trade agreements and promote export growth, it is necessary to develop an external network of trade offices. In the case of Chile, the network (including the one in Korea) has played a fundamental role.

The next step is deepening the use of the Chile-Korea FTA. The Chilean export sector still has a large margin to add new products to the export basket or new value to current exports. Clearly, public-private partnerships are key to continue improving Chile exports' competitiveness in the Korean market.

# SECTION IV
# FACILITATION OF TRADE

## EXPERIENCE 1: INFRASTRUCTURE AND LOGISTICS FOR EXPORTS OF FRESH FRUITS FROM CHILE AND PERU TO KOREA

The analysis is focused on two products: grapes and blueberries. For both countries, grapes are the main fresh fruit exported to Korea. Blueberries currently represent a minor share of Chile's total exports of fresh fruits to Korea but have been growing rapidly in recent years. In the case of Peru, blueberries are exported to destinations in Asia but have yet to reach Korea because the sanitary protocol is pending approval. The evolution of exports of fresh fruits, and in particular of these two products from both countries, is presented in Appendix 5. This experience is focused on issues relating to infrastructure and logistics for exports of fresh grapes and blueberries from each of the countries under analysis. It ends with some conclusions and recommendations from a comparative perspective for this key group of Chilean and Peruvian exports to the Korean market.

### 1. The Case of Chile

#### a. Zones of Agriculture Production

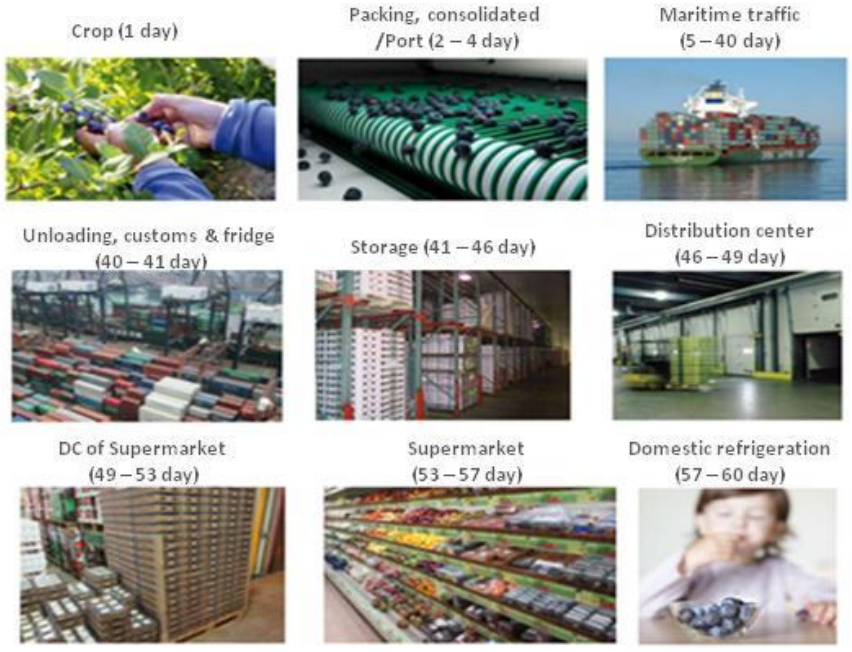
In 2013, Chile produced almost 1.4 million tons of grapes on 52,234 hectares distributed in six regions, from North to South, from Atacama to Maule. O'Higgins is the most important region, followed by Valparaiso, Coquimbo, Metropolitan Region and Atacama (see Annex 18). According to the Fruit Exporters Association of Chile (Asociación de Exportadores de Frutas de Chile, ASOEX), during the 2012/2013 season, 34% of grapes exported to Korea came from the Region of O'Higgins; 26% from Coquimbo; 23% from Metropolitan Region and Valparaiso (each of them); and 13% from Atacama. As for blueberry production, it is mainly concentrated in the Maule and Los Rios regions (see Annex 19). Production is in the hands of small farmers. "Farmers Chile" is an example of a partnership given that the company brings together several small blueberry growers to jointly export to international markets. In the case of grapes,

production is concentrated in medium and large farmers; it is less common to find companies that consolidate production because they sell their products directly to traders or importers.

### b. From Farms to Ports: Steps of the Cold Chain

Export processes include planting, harvesting, packing, cold processes and administrative procedures at ports prior to maritime transport to destination markets. Chile has been exporting fresh fruits for more than30 years and has its own, optimally developed internal export logistics chain, which enables producers and/or exporters of fruit to reach the output port in an expeditious manner while maintaining the cold chain from packing to the port of destination. From the Chilean perspective, the critical factor for fruits is time: the process from fruit harvest to Korean consumers takes almost two months. Maritime transit takes the largest part: about 35 days from Chile to Korea under the existing shipping routes (see Figure 4).

**Figure 4• Chile: Steps from Farm to Consumption**




*Source*: Elaborated with information from Felipe Juillerat, October 2014 (Hortifrut) and other sources.

The export process and agents involved in each step of the cold chain are the following:

- **Planting:** Producers should worry about complying with all regulations protocols for grapes and blueberries for the Korean market. Monitoring is conducted by the Agriculture and Livestock Service (Servicio Agrícola y Ganadero, SAG) of the Ministry of Agriculture of Chile, along with the National Plant Quarantine Service of Korea (NPQS).
- **Harvesting:** This should be a skilled process given that fruit must maintain the wax that surrounds, which protects it from the weather and preserves it longer as it travels to the destination market.
- **Packing:** Small farmers generally outsource this process because it is not profitable for producers with less than eight acres. Producers that have more hectares generally have their own packing facilities, so small farmers should seek packing near plantations because cannot withstand high temperatures for long. This step is crucial: optimally calibrated fruit is selected and packed here. Most importantly, this process should be completed quickly to send the fruit to the cold chain on time. This procedure involves the SAG, ensuring that no insects or external objects enter the boxes where the product will be exported. Once the SAG inspection certifies the product, it can be sent to refrigerators.
- **Cold:** In this process, the fruit undergoes a cold chain to preserve its size, color and quality. SAG is also involved to certify container loading; a quality inspection is performed to re-certify the load. It is the duty of the refrigerator requesting and SAG inspection to give one-day advance notice to the exporting producer. The agency delivers the necessary documents so the load can enter the port and then sail to destination. The animal health certificate of export (Certificado Zoosanitario de Exportación, CZE) is the document that lists the contents of the container (number of boxes, gross and net kilos) as well as the recipient's name and country of destination.
- **Port:** Once the refrigerated container enters the port, the customs agent responsible for inspecting the container arrives. The CZE and the guidance dispatch documents must be provided. The broker is also responsible for handling the sole exit document (Documento Único de Salida (DUS). The process implemented by the National Customs Service has various steps to file goods with customs and to authorize their exit and shipping. The

primary zone is where containers wait to be uploaded to the ship that transports them to destination. The capacity, better known as physical inspection by the SAG port, is basically when they randomly take a container for inspection to verify that the load indicated in the CZE matches the contents of the container.

**c. Infrastructure and maritime connectivity**

Almost 96.4% of the total tonnage of fresh fruits exported by Chile is mobilized by sea, and 61.6% of this is destined for Asia and Oceania. For fruits, Valparaiso is the most important port region of Chile with two harbors: Valparaiso port and San Antonio port. Grapes and blueberries follow the same pattern.

According to ASOEX, during the 2013-2014 season, the major port of exit was Valparaiso, with 51% of the volume exported by Chile, corresponding to 1.2 million tons. This port is located 199 km from Santiago. The second most important port for fruits is San Antonio, with 719,200 tons, representing 31% of total fruits exported in the same season. San Antonio's major advantage is its strategic location in the central area, where the nearest terminal is in Santiago, and its excellent accessibility: it is connected to the capital city (only 100 km) by the "Autopista del Sol," a high-speed highway, through the "Camino de la Fruta" (fruit road).

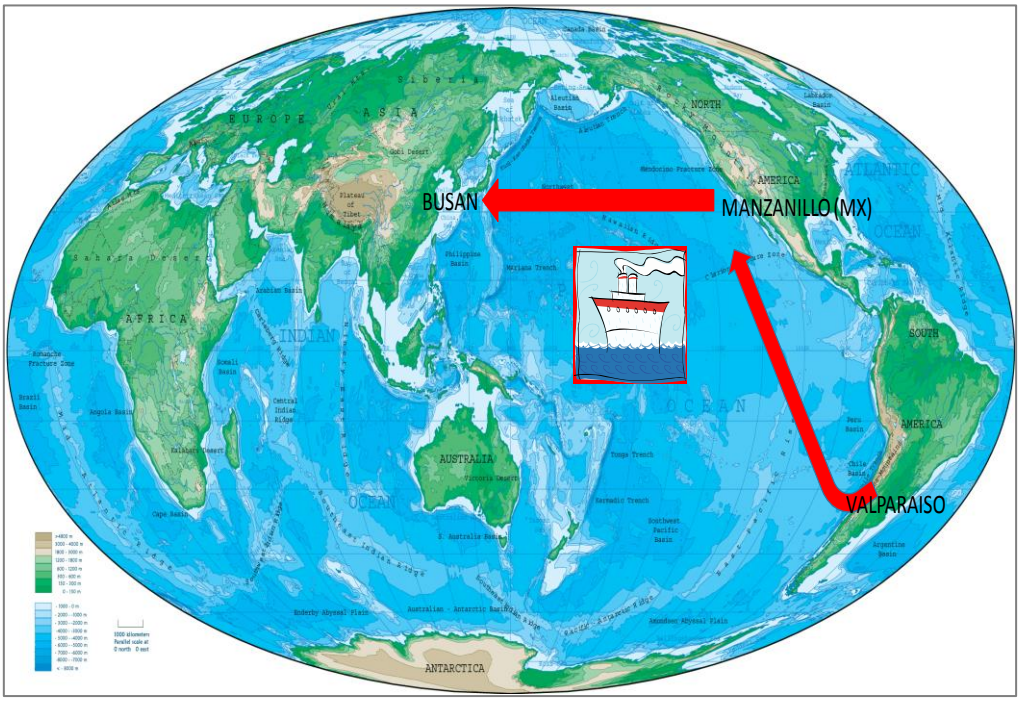
From the Atacama region, the main zone for grape production, the distance to the Valparaiso port is 755 km on double and paved routes and from the O'Higgins region, the second major zone for grape production, the distance is only 251 km. In the case of blueberries, its output port is San Vicente, the third largest port on a national scale for refrigerated cargo movement, located in Bío Bío region. So the distance traveled to the port is less than 300 km. It is estimated that it takes less than one day to get to any of the output ports. The average distance between the production area and the output port is 227 km, and transport time is about 3 hrs.

Fruits from Chile arrive to Busan, Korea's main port, which facilitates interconnection with the rest of Asia and, in general, with over 500 ports around the world in over 100 countries. It ranks fifth worldwide in container ports. According to the information provided by companies, the cost of shipping to Busan is US $ 1.5 per kilo, versus US $ 2.7 per kilo in air transportation. The cost of ground transportation from the packing area to the port and/or airport is $ 0.5 dollar per kilo should be added. This low shipping cost and the good road infrastructure linking

production areas with ports as well as good port infrastructure boost the performance of Chilean fruits in Asian markets.

Main shipping lines leaving the Port of Valparaiso to Asia offer "full service containers." Liner services offer a total of 10 ships on a weekly basis, with a transit time of 29 days between Valparaiso and Busan and their path is: West Coast American/Mexico/Central America/Asia. The total capacity is 5,500-5,600 metric tons (see Figure 5 and Annex 20).

**Figure 5• Chile: Maritime Route to Korea**




*Source*: Base document elaborated for this study.

Moreover, the logistics community of San Antonio, which includes representatives of the Port Logistics System, is the number one port nationally for container traffic, traffic RO-RO[3], and non-petroleum bulk. They operate scheduled services to major companies in the shipping world as MAERSK, CSAV, NYK, CCNI, among others.

Chile is ranked highest in LAC in the World Economic Forum (WEF) infrastructure rankings, particularly for roads and port infrastructure. In coming years, investment is expected

[3]Roll-on/roll-off (RORO or ro-ro) ships are vessels designed to carry wheeled cargo, such as automobiles, trucks, semi-trailer trucks, trailers, and railroad cars that are driven on and off the ship on their own wheels or using a platform vehicle, such as a self-propelled modular transporter.

to absorb an increasing demand. Major infrastructure projects have been financed by private concessions. The quality if very high, but fees are charged for their use. Currently the Chilean Ministry of Public Works has scheduled 28 projects for concession in order to meet transportation needs by 2020. Private port services are concessions. The largest investments projected for coming years are in the Port of San Antonio. In the realm of airport modernization, new airport concessions have been awarded in 2015.

The Chile Logistics Association (ALOG Chile) groups together logistics operators, freight forwarders, and logistics providers. ALOG Chile is composed of approximately 100 member companies that represent 90% of the domestic market. Companies that are registered as active partners are engaged in transport and cargo services through all venues (land, air, sea, and multimodal), receive and handles charges for storage, stock control, movement and preparation orders, physical distribution, integrated logistics operations outsourcing, logistics consulting, software development for industry, equipment for movement and inventory control, technological integrations chain storage, plus port and airport service activities.

ASOEX's members include 6,000 producers-exporters, which represent more than 96% of fruit exports of Chile. The organization has several commodity committees. These committees are composed of producing-exporting companies, which focus on promotion, development, maintenance and protection issues. The Chilean Blueberry Committee and the Committee of Grape were established in May 2014.

**d. Assessment: Key Lessons and Recommendations**

All areas where grapes and blueberries are produced effectively connect production with output ports so inland transport costs are marginal in this business. Exports are almost all by sea, where costs are 80% lower than air tariffs.

Remarkably, 10 years after the Chile-Korea FTA took effect, the cases studied here are an example of value-added products that have profited greatly from the opportunities that the agreement has generated for Chilean farmers and exporters. The State has created incentives for private investment and managed to live up to the challenge of competitive exporting. As a result, Chile is the world's largest exporter of grapes and blueberries.

It is important to note that fruit is subject to irreversible deterioration. Post-harvest technologies cannot prevent this natural process and only delay it. According to the statements

made by exporters, the cold chain is difficult to maintain, but there is research to develop a variety "more resistant to travel.” The time it takes from fruit harvest to Korean consumers’ tables is almost two months. This is mainly due to the fact that on existing shipping routes, maritime transit takes about 35 days.

Therefore, it seems reasonable to focus efforts on three aspects: first, invest in maintenance of the cold chain to delay fruit deterioration as much as possible; second, invest in infrastructure (roads and ports) and research about variety of grapes and blueberries that are more resistant to travel; third, encourage producers to take advantage of the opportunities offered by PROCHILE institutions to promote and increase exports to third markets, especially Korea. In this regard, investments in the cold chain are important to ensure that the private sector can continue to provide excellent service and cover the expected increase in demand. In Chile, investment in ports and roads has been through concessions. The public sector procurement generates competition through tenders and then the private sector invests.

The producers and/or exporters of fresh fruit in Chile have been exporting fresh fruit for more than 30 years and have improved every link of the chain with infrastructure and logistics services. The only problem (bottleneck) we have identified is possibility that strikes may surge at ports related to a new labor law being discussed in Congress. An additional challenge may be posed by the cost of labor.

Given the seasonality of the grapes and blueberries in Chile and Peru, complementarity, in both cases, is nearly perfect. It is possible to offer these fruits to the market 6 or more months out of the year, which facilitates importers the search of providers in the southern hemisphere. Therefore, it would be interesting to explore opportunities for business partnerships between Peru and Chile to offer the high-quality volumes of fruit that Korea and other countries in the northern hemisphere require. A case study may be the company Food Link, which is owned by Chilean and Peruvian interests and is seeking to serve the Chinese market with a range of products from both countries.

This seasonal complementarity between Peru and Chile has led several Chilean businessmen to invest in Peru, mainly in grapes. Many Chilean professionals have gone to Peru to provide professional services to increase the productivity of these fruits in Peru. Case studies about companies may be SAFCO PERU (WHITE RIVER in Chile); VERFRUT and EL PEDREGAL S.A.

## 2. The Case of Peru

### a. Zones of Agriculture Production

The major production areas for fresh grapes registered in 2013 are located in coastal valleys in Ica, Piura, Lima, La Libertad and Arequipa, among others. Fresh blueberries are produced in the departments of Ancash, Arequipa, Ica, La Libertad, Lima, Piura and Cajamarca. Nationwide, about 3000 hectares of fresh blueberries were cultivated. The main region that produces blueberries is Cajamarca, located 870 km away from Lima and Ancash, 385 km away from Lima. Fresh blueberry cultivation requires acidic soils that are located 1,000-2,500 meters above sea level. As such, blueberries, like grapes, are produced in the mountains of the coastal regions. This proximity to the coast allows them to use the same infrastructure as grapes (see Annex 21).

### b. From Farms to Ports: Steps of the Cold Chain

In the case of fresh grapes and blueberries, the cold chain starts at harvest time. Fruit goes through a selection process to meet required specifications, is washed and then packed. Then the fruit is subjected to a cooling process and is stored in a conservation chamber. The next step is internal transport from the production site to port or airport.

Based on the experience of asparagus exports, Peru developed an efficient supply chain. Companies that export fresh fruits (grapes mainly) begin the cold chain at vintage time then outsource transportation using firms that specialize in cold chain logistics services. The actors in the supply chain have the knowledge and the experience necessary to work with this type of product.

Due to the scale of production and export volumes maritime shipping is used for fresh grapes, which are mainly exported through the Port of Callao. This port, which is the most modern in the country, is close to the capital, Lima. However, grapes produced in Piura and La Libertad are exported through the Port of Paita, in the north of the country. This port was modernized through a private sector concession. It is common for companies to pack products in the same place where the fruit is produced, after which they are transported to port. The distances from zones of production to the Port of Callao are detailed in Annex 22.

The information gathered from companies indicates that the time from a vineyard in Ica to the Port of Callao is around 8 hours; from Piura, transfer to the Port of Paita takes 1.5 hours.

In both cases, companies stated that they have experienced no major difficulties with road infrastructure because roads utilized are totally paved. Similarly, refrigerated merchandise is given priority to enter ports.

Most fresh blueberries are exported to Asia by air through Jorge Chávez International Airport. This airport is the largest in the country and is located in Callao, next to Lima. Due to low production volumes and favorable profit margins, blueberries can be shipped by air instead of by sea. Blueberries produced in Ancash are transported to Jorge Chavez airport. The average time from the production point to airport is 8 hours. Due to the location of the producer regions, near the coast, infrastructure and logistics do not generate damage to the cold chain.

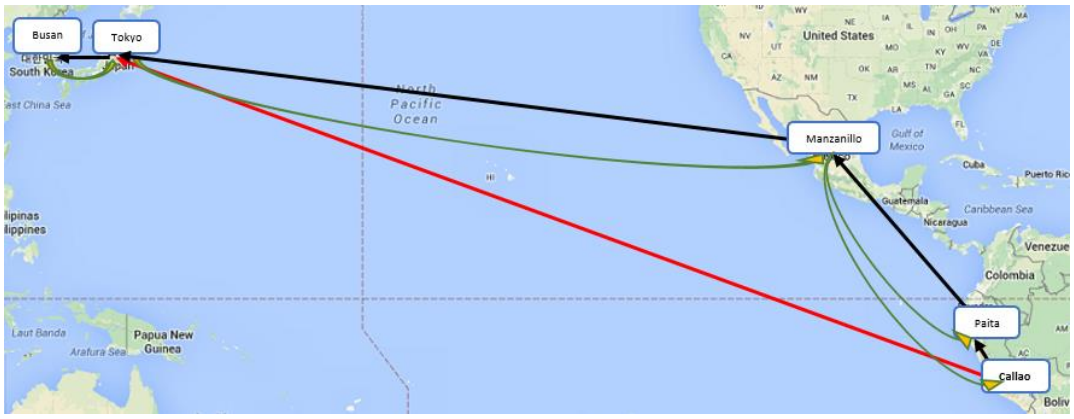
Finally, goods must enter the port in reefer containers, which must meet the standards set by the National Agrarian Health Service of Peru (Servicio Nacional de Sanidad Agraria del Perú, SENASA). Containers will be reviewed by an inspector to verify if necessary conditions have been met. If everything is in order, the inspector will seal the container prior to shipment. Only competent authorities at the port of arrival may break the container's seal. .

**c. Infrastructure and Maritime Connectivity**

The main port of Peru is Callao, which is managed by the companies DP World-South Dock and APM Terminals-North Dock. Paita Port Terminals are managed by Euroandinos. There are seven shipping lines that cover the route Callao-Busan on a weekly basis, including Nippon Yusen Kaisha (NYK), and transit time is 25 days. The Maersk Line travels weekly and the transit time is 28 days. The time between the ports of Callao and Busan is 25-38 days (see Annex 23). Times are referential given that contingencies may arise.

The NYK Line offers a direct route Peru-Japan-Korea while the Maersk Line offers the Peru-Mexico-Korea route. However, there is no direct route of return Busan-Tokyo-Callao. All shipping lines cross the Pacific and go to the Port of Manzanillo in Mexico. From here, they continue their route to the Port of Paita or the Port of Callao (see Figure 6). The direct route Callao-Tokyo-Busan run by the NYK shipping line operates Panamax and Post-Panamax container type vessels, which mobilize dry goods and refrigerated containers depending on the capacity of each vessel.

## Figure 6• Peru : Maritime Routes Callao Port-Busan Port




*Source:* Base document elaborated for this study.

In sum, maritime connectivity between Peru and Korea is favorable and has improved in the last decade. Growth in trade between LAC and Asia has generated more demand for direct routes and has driven the supply side to meet an increase in demand. Nonetheless, transit times are long for perishable products and should improve in the future. The Port of Callao in Peru is expected to become a regional hub for international physical distribution between LAC and Asia. In addition, the Port of Paita, under the private sector concession signed with the Peruvian government, is undertaking improvements and implementing cranes that will allow better cargo movement to facilitate exports from the northern region of Peru, where the producers of fresh grapes and blueberries are located.

Jorge Chavez International Airport is managed by Lima Airport Partners, composed of Fraport AG Frankfurt Airport Services Worldwide, Bechtel Enterprises Services, Ltd. and Cosapi S.A. Hot Air, which specializes in providing logistics services for refrigerated merchandise shipping by air to help ensure that products meet quality criteria for perishable products. However, air connectivity between Peru and Korea requires different connections and transfers to reach destination. As a result, travel time is estimated at 45-52 hours, which is considered long.

As for infrastructure, due to Peru's geographic complexity, certain regions are considered as having high, intermediate and low performance for exports. Regions that produce fresh grapes and blueberries are near the Peruvian coast, and are considered high performers in terms of exports.

Grape producers are organized in the Peruvian Association of Grape Producers (Asociación de Productores de Uva de Mesa del Perú, PROVID), which provides supports at the national and international level. Some producers are members of other associations, such as the Peruvian Association of Exporters (Asociación de Exportadores, ADEX), Peruvian Trade Association (Sociedad de Comercio Exterior del Perú, COMEX) or Lima Chamber of Commerce (Cámara de Comercio de Lima, CCL).

**d. Assessment: Key Lessons and Recommendations**

Peru is fifth large exporter on the global scene of fresh grapes. This fruit accounts for the majority of the country's exports to Korea. Grapes are produced in coastal valleys and good internal transport infrastructure is in place to ensure that fruit quality is preserved on route to port. The actors participating in the cold chain also meet international standards. Port infrastructure improved greatly after world-class operators took over the Port of Callao but one major bottleneck is that ground access routes to the port are congested. Nonetheless, refrigerated goods have priority.

Fruit exports to the Korean market have the potential to diversify given that Peru's crop schedule is extensive and its climate is favorable for a better part of the year. Moreover, as already mentioned, opportunities exist for Peru and Chile to cooperate in maritime transit to Korea to leverage complementarity due to fruit seasonality. So cooperation in export promotion and business partnerships between both countries could be developed to offer Korean and other Asian importers, not only a larger, but also permanent supply of quality fresh fruits.

For maritime routes, only trade growth between South America and Asia will entice shipping companies to offer more frequencies and open direct routes to cross the Pacific. Fruit exports would certainly benefit from this. There is already one direct maritime route from Peru to Japan and Korea weekly taking 25 to 35 days of transit between Callao port and Busan. The possibility for Chile to use this route could be explored.

It is also important to promote the use of refrigerated ships for fruits exports, which significantly reduce logistics costs. From Chile and Peru, this service is available for exports to the United States and Europe but not for exports to Asia. If export volumes grow, this option may become more viable. The use of reefer vessels, which could use the Port of Callao as a hub,

could facilitate transporting fresh fruits from Ecuador, Colombia and Chile across the Pacific in less time and at lower costs.

## EXPERIENCE 2: FOREIGN TRADE SINGLE WINDOW IN THE PACIFIC ALLIANCE

Creating an international legal framework for the single window (SW) has proven to be feasible. SW was considered in the recently approved Agreement on Trade Facilitation of the WTO,[4] which highlights the importance of this instrument and actually validates the progress made by Peru and Colombia. A general mandate exists to promote efforts to set up a SW and to eliminate duplicity of efforts. Smaller-scale trade agreements among countries with similar policy standards could regulate more detailed provisions in this regard.

### 1. Objectives

The Pacific Alliance has set ambitious provisions in the field of trade facilitation. One of them is the SW, which has been conceived as a mechanism to enhance trade competitiveness by improving import/export and logistics procedures and documentation handling. Governments are thus expected to migrate from a paper-based environment to a collaborative e-government/e-business platform that reduces the use of time and resources. This enables thousands of trade-related proceedings to flow through a single platform, which is virtual and open year-round. SW seeks to reduce time and costs.

The Pacific Alliance is the first regional trade agreement in the Americas where SW is extensively regulated. The objective is to generate more detailed obligations based on the similar trade policy orientations shared by member countries. The set of obligations that has been decided on up to this point is comparable to those set forth by South East Asian countries, which have made the process to develop a national SW a priority as a prerequisite to joining the regional schemes (the SW of ASEAN is an example). SW has been conceived as a tool to facilitate trade by delivering standardized information through a single point that permits an

[4] See Item 4 Clause 10. http://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

electronic exchange of information. Furthermore, the Pacific Alliance has stipulated that parties will implement their own SW and guarantee interoperability among members[5]. This provision is similar to Recommendation 33 issued by the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT 2005).

Interoperability regulation turned out to be the most challenging aspect of integrating cross- border transactions. Over the years, trade policy makers have realized that economic integration demands common collaborative trade rules. Regional agreements pose an unparalleled opportunity to make this possible by providing a suitable framework for establishing a system based on interconnectivity and data harmonization. For this purpose, the SW (Ventanilla Única de Comercio Exterior, VUCE, in Spanish), will use technological architectures (to be phased in progressively) that allows electronic information to be transferred among parties[6].

However, SW is more than a technology-based solution. It is seen as a suitable mechanism to foster deeper reforms aimed at simplifying public administration. Moreover, adopting a narrow vision in which SW is merely a technology mechanism will do little to produce expected benefits. Regulatory bodies need to make structural reforms to streamline processes, eliminate requirements and revise, in general, their approach to control.

## 2. Impacts and Challenges

SW is a cost-cutting tool that addresses technology and regulatory challenges in the field of trade facilitation. It encourages parties to adopt international standards, harmonize data, and engage in administrative simplification, which make interoperability possible. Along these lines, a technical group on regulatory improvements was established in the Pacific Alliance to propose administrative simplifications[7]. Moreover, within the framework of negotiations on technical barriers to trade, sanitary agencies shaped an institutional Agreement of Cooperation of Sanitary

[5] Article 5.9. Pacific Alliance Agreement.
[6] Exhibit 5.9-2 Pacific Alliance Agreement.
[7] During the XV Meeting (May 2013 in Santiago de Chile), the High Level Group (GAN) of the Pacific Alliance established a Technical Group with the mandate of negotiating a side chapter on regulatory improvement as of June 2013.

Authorities for member countries to develop working groups to simplify processes and facilitate trade in cosmetics[8].

SW's contribution to facilitating trade and administrative simplification has encouraged regulatory bodies to initiate reform to simplify proceedings. In Peru, it was found that primary costs factors are the man-hours required to prepare documentation, submit it to the authorities and provide follow up. There are also laboratory tests for health protection and fees for each proceeding. In 2013, food trade related proceedings represented 68% of the total transactions through SW[9]. Therefore, simplifying proceedings could clearly improve the competitiveness of those products.

Awareness of the potential of the SW for administrative simplification also led the Ministry of Health to enact in July 2013, its 2013-2015 Simplification Plan for Administrative Procedures, which acknowledges the importance of administrative simplification within the framework of foreign trade procedures. More importantly, this plan also reflects the Peruvian government's commitment to move beyond VUCE-related reforms, thus embracing every administrative proceeding managed by both entities. These challenges are also being fostered by the Ministry of Foreign Trade and Tourism (Ministerio de Comercio Exterior y Turismo, MINCETUR) and have been specifically established in the Peruvian Competitiveness Agenda 2014-2018. The main objective include fully incorporating trade-related proceedings in the SW and interconnecting them with customs procedures.

Efforts towards a solid and efficient regional SW are in progress. The SW has a legal framework (backed by the WTO Trade Facilitation Agreement and the Pacific Alliance) and has gained support from international organizations such as the IDB, which has become a major partner for it development in the PA. IDB has already funded the governments of Peru and Chile to implement their SW. Moreover, sponsored by the Latin American and Caribbean Economic System (Sistema Económico Latinoamericano y del Caribe, SELA) and the IDB, various initiatives are being undertaken to support LAC countries in efforts to implement the SW and then set up a regional program. Based on this initiative, a major conference took place in Cuzco (Peru), the first week of December 2014 to further discuss SW implementation programs in the region.

[8] Cali Declaration, VII Presidencial Summit.
[9] Obtained from VUCE, Bulletin 2013. https://www.vuce.gob.pe/boletines/Boletin_Anual_2013.pdf.

In sum, Pacific Alliance has the most detailed and ambitious trade agreement on SW negotiated by member countries and is the first international legal framework in the Americas on SW. Membercountries, however, are at different points in the implementation process. Even though benefits from SW will mostly to be seen in the long term, some early resultshave been achieved in the case of Peru and Colombia, where deep reforms are in progress in several regulatory bodies, particularly in terms of food certificates. For an overview of the Pacific Alliance'sprogress in developing SW national platforms, see Appendix 6.

Certainly, the ultimate goal is to make interoperability a reality, which will requiresignificant effort from all of thecountries concerned. Additionally, regulatory bodies involved in a paperless trade model must implement legal reforms as well as consider IT, finance and marketing resources to adopt e-tools. The economic impact of implementing reforms must be measured on a regular basis with a reliable methodology that shows costs for paperless trade vis-à-vis profits. Moreover, this methodology must be implemented, to the extent possible, across Pacific Alliance member countries so that benefits can be compared.

## 3. Potential Cooperation with Korea

Pacific Alliance member countries are aware that inefficiencies in international supply chain impede their ability to reap the benefits of preferential treatments and economic integration. Korea´s outstanding performance in this area is reflected in international rankings. For instance, Korea was ranked third globally in the WB Doing Business "trading across border indicator" (2015), while Chile have ranked 40$^{th}$, Mexico (44$^{th}$), Peru (55$^{th}$) and Colombia (93th), although slight improvements were achieved compared to past rankings.

Korea is a world leader in trade facilitation and paperless trade, significantly outperforming the OECD average indicators for simplification and harmonization of documents, automation, border agency cooperation (internal and external) and SW. Korea has a competitive advantage in paperless trade, clearance and grounded interoperability and has made impressive investments in innovation. It holds the first ever 100% electronic clearance portal (UNI-PASS) and its system links thousands of customers and trade-related organizations, including trading

companies, banks, customs brokers, shipping companies, insurance firms, forwarders and bonded storages.

The Korean foreign trade SW system is possibly one of the world´s most developed. Public- Private Korean SW operator, KTNET, has digitalized about 620 types of export & import documents in the G2B (Government to Business) and B2B (Business to Business) sectors and is processing an annual average of 306 million cases of paperless documents, thereby carrying out a true hidden champion's role in the development of national industries.

This situation poses an unparalleled opportunity to enhance cooperation between member countries of the Pacific Alliance and Korea for trade facilitation. The provisions of the Peru-Korea FTA in this matter provide encouragement to follow the standards and instruments of the World Customs Organization, the International Convention on the Simplification and Harmonization of Customs Procedures and the Protocol of Amendment to the International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention). Efforts to address these topics constitute remarkable development in trade facilitation and are in accordance with current trends. More importantly, the Trade Facilitation chapter of the FTA also deepened commitments regarding topics where Korea has a notable degree of sophistication: SW and Customs Clearance. Therefore, the Cooperation chapter of Peru-Korea FTA provides an important opportunity to continue working on these matters.

In the Pacific Alliance, provisions on trade facilitation have improved regulations and share Korean standards and priorities. This has paved the way for further cooperation on this matter. For instance, establishing an e-trade community system has turned out to be a major goal for the Pacific Alliance. Korea has already provided technical assistance in paperless trade and trade community system, performing a feasibility study for paperless trade in Peru and later signing a Memorandum of Understanding, currently in force, to support its implementation. Using the FTA with Peru as a platform, KTNET is willing to provide expertise as part of a cooperation agenda. It has developed a route map on how the SW should operate. Moreover, a feasibility study on SW for paperless trade was also performed in Chile in 2010.

In sum, Pacific Alliance member countries and Korea share common objectives in terms of trade facilitation goals. All members already enjoy some degree of integration with Korea. This paves the way for trade facilitation instruments and makes interoperability easier, particularly considering that Korea’s key industries (electronic devices and automotive) require

efficient international supply chain regulations and customs clearance tools. Korea has provided technical assistance to Peru and Chile (feasibility studies) to implement a paperless trading system that matches domestic long term plans. Cooperation is expected to grow, which opens the door for Pacific Alliance member countries to take advantage of Korea's cutting edge developments in trade facilitation.

Another area of cooperation relative to trade facilitation is the Authorized Economic Operator (AEO) program, which has been operating in Korea since 2009. Those which qualified to act as AEOs gain several benefits, such as simplified physical inspection and customs procedures, among others. Pacific Alliance member countries, with the exception of Chile, implemented AEO programs in 2012-2013. A major stepping stone is the AEO mutual recognition agreement between Korea and Mexico, which was concluded on March 2014 with IDB support and went into effect in 2015.

# SECTION V
# INTERNATIONALIZATION OF SMALL AND MEDIUM ENTERPRISES AND ENTREPRENURIAL CASES

## 1. Importance and Internationalization Strategies of SMEs

There is no single definition of a SME; it varies depending on the criteria considered: number of employees, maximum levels of capital, assets or sales. Some economies define SME based on a single criterion while others use a combination of criteria. Many economies also further classify SME into micro, small and medium enterprises. Even in the case of a single criterion -for example the number of employees- the definition varies from country to country. Therefore, it is not easy to compare SME statistics across economies. Nevertheless, the common feature is that most businesses in each economy are SMEs. In member countries of the Pacific Alliance, they represent more than 98.5% of the total number of firms (OCDE, 2015).

SMEs must be able to handle increasing competition from developed and emerging economies in all sectors. International activities reinforce growth, enhance competitiveness and support the sustainability of firms. There are different forms of internationalization: exports, strategic alliances (joint ventures, franchising, among others), licensing, and direct investment through establishment of subsidiaries or branches. Most of the support programs are directed at exporting activities but internationalization increasingly involves other aspects and venues.

However, exporting is still the most common form internationalizing SMEs under different modalities: specialized SMEs with export capacity, for example gold jewelry or handicrafts; indirect exporting activity of SMEs through transnational corporations or large domestic exporting firms, for example garments, fruits and vegetables; and SMEs engaged in clustering and networking, for example, automobile parts. The number of SMEs becoming partners, suppliers and/or distributors of multinational enterprises is increasing every year.

Different benefits are reaped from internationalization, including sharing business risks, improving the quality of goods and services and the efficiency of production process, increasing revenues for reinvestment, shareholders and employees rewards. The main barriers or constraints that SMEs face for opening, developing or maintaining business in overseas markets can be classified as internal and external. Internal barriers are related to limited information (market

analysis, commercial contacts, among others) or limited capacities (working capital, personnel capacity, marketing learning and other capabilities). External barriers includes exporting procedures, insufficient incentives and government assistance, competition, tariff and non-tariff barriers in foreign markets, different cultural behaviors, among others (APEC Project SME, 2011).

These barriers are dynamic and are not uniform across all SMEs. In order to remove them, government and specialized agencies need to ascertain the kind of SME they are dealing with and the stage of international operations in which they are involved. Some of the strategies that are currently being used by promotion agencies seem to cater more to "internationalization infants" and focus less on growth initiatives that are essential (OECD, 2009).

The open market oriented model, such as the one adopted by member countries of the Pacific Alliance, facilitates the internationalization of SMEs through by reducing trade barriers and transport costs. This process of internationalization is taking place in different sectors (agroindustry, textile and garments, automobiles and its parts, furniture, consumer electronics, telecommunication services, among others). Growth in service activity outsourcing has been greater than that posted by goods in recent years.

National promotion policies and strategies are aimed at supporting SMEs in their internationalization efforts. They are underway in four areas: exports, investment, tourism and country brand in the four member countries of the Pacific Alliance. For an overview of the institutional framework of national policies and strategies in export promotion and investment attraction, see Appendix 7.

## 2. Situation and Opportunities of SMEs in Peru

94.6% of the total number of firms in Peru corresponds to microenterprises; 4.6% are small firms, 0.2% are medium-sized firms and only 0.5% represent large enterprises. Therefore, 99.5% of the total firms in the country are SMEs, which are defined by Law N° 30056 and based on

annual sales volumes[10]. If we measure SMEs in terms of the number of employees, their total share SME is even higher (Ministerio de la Producción, 2014).

These firms have faced difficult challenges since the Peruvian market opened up in the 1990s: growing competition in all the sectors, limited access to and high cost of funding, limited managerial skills of the owner-manager, and scarce opportunities to expand overseas, among others. This situation steered SMEs toward internationalization. There are two types of drivers for this process: push-reactive and pull-proactive. The first is due to negative conditions within the internal market. The second is attributable to the existence of attractive markets abroad.

E-business is valuable tool for SMEs to communicate and build networks within an international market by providing them with the same access as large organizations. Internet has broken geographical barriers in terms of communication and the way of doing business, SMEs can compete in new markets by having a customer base abroad and facilitating the internationalization process. However, limited access to reliable and time-sensitive information poses a challenge.

In sum, there are SMEs that are prepared to export directly and have even adopted more advanced and sophisticated forms of internationalization. This is the case of Peruvian exports of cotton Pima garments for children to specialized stores in New York or processed quinoa products with branding to Germany or the United Kingdom. Another strategy used by SME to sell their products abroad is to form strategic alliances such as consortia. Some examples are: PROVID, Peruvian Association of Software Producers (Asociación Peruana de Productores de Software, APESOFT) or trout producers (ARAPA), which has used this model to improve their negotiating capacity and to obtain scale economies.

Other modalities implemented in the context of strategic alliances include: joint ventures, such as a move by ATHOS (fresh asparagus) to join forces with three foreign investors, one from United States of America and two from Europe; franchising**,** such as Astrid y Gaston (gastronomy), Ilaria (jewelry) or Michelle Belau (garments); or subcontracting of national providers for exports through medium size or large exporters, which is currently being used by some wood product firms. At present, international value chains offer new possibilities to SMEs

[10] Microenterprises, up to 150 tax units (unidades impositivas tributarias, UIT); small enterprises, between 150 and 1,700 UIT; and medium enterprises, between 1,700 and 2 300 UIT. According to National Customs and Tax Administration (Superintendencia Nacional de Aduanas y Administración Tributaria, SUNAT) in 2015, 1 UIT is equivalent to S/. 3,850 (approximately US$ 1,211 at exchange rate of 3.179 soles per US$).

by articulating the capabilities of different enterprises from different countries. This will be the new frontier going forward.

## 3. Successful Cases of Sustained Internationalization involving the Korean Market

The business case studies that follow demonstrate some exemplary promotion efforts in Pacific Alliance member countries: (i) Branding, in the case of Chilean Wines as sector brand, with the support of PROCHILE; (ii) Building a system through a public-private partnership with the "avocado system" in the case of the Mexico; and (iii) Strategic alliances such as franchising and consortia, in the case of *Juan Valdez* coffee from Colombia and Chile Pork, respectively.

### EXPERIENCE 1: BRANDING DEVELOPMENT BY CHILE AND MEXICO

There are two paths for SMEs entering international markets: branding (developing their own brand and investing in marketing) or private label (producing for a brand already established in the market). Most of the countries prefer the second path due to a limited budget and knowledge of the market. Nevertheless, those that chose branding are more likely to be sustainable because they cannot be easily replaced by other suppliers as is the case of private labeling. Branding is a successful strategy due to public-private partnership: under the umbrella of the country brand, some private companies, with the government's support, position their products with their own brands in international markets, including Korea.

#### a. Wines of Chile

Chile is the world´s 8th largest wine producer and the 5th largest exporter with a market share of 8% in terms of volume, which is situates it behind only Italy, France, Spain and Australia. Chilean wines are positioned as the country's most emblematic and best known world ambassador. In conjunction with the wineries and key industry members, the Strategic Plan 2020 was developed. In the case of Korea, investing in positioning a brand could be very expensive. Nevertheless, Chile is already the largest supplier of wines to the Korean market by volume and the second largest in terms of value, behind only France.

This is an interesting market for alcoholic beverages. Drinking is considered an important part of social life and is common in social and business events. It is decreasing among the elderly population due to health problems but growing among young people and women. Wine consumption accounts for only 2% of the total alcohol consumption in Korea, given that the market for alcoholic beverages dominated by beer. The wine market (75% red) is relatively new, but growing very quickly.

French and Chilean wines dominate the market. France's reputation puts it in excellent stead worldwide while Chile's success is fueled by price competitiveness, which has been strengthened by the FTA and successful marketing campaigns. Big Korean traders, such as CHAEBOLS, concentrate wine distribution through department stores -gourmet stores, high-quality imported products stores- or supermarkets, hypermarkets and convenience stores. There are also retailers specialized in wines.

There are some key factors that explain the success of *Wines of Chile* in the demanding Korean market: (i) identification of an opportunity: most failures of SME internationalization are due to a lack of information on the market and its trends- in this case, a successful market study identified a growing segment of young professionals between 30 and 40 years old; (ii) strong campaigns that showed the benefits of wine consumption and the extraordinary conditions offered by Chile (stable quality due to climatic conditions); the campaigns involved Flavors of Chile, Chile-Gastronomy Week, press campaigns, invitations for specialized press professionals; (iii) opportunities made possible by the FTA to offer an excellent price-quality ratio; (iv) public-private partnership: strong support from PROCHILE considering that marketing costs are very high; (v) branding: building a brand instead of exporting products through private labels.

**b. Avocados from Mexico**

Mexico concentrates almost 27% of total world production of avocado. It leads the world with 40% of total exports and is the largest consumer of this product in the world, with 10 kg per capita per year (ITC, 2014). Korean consumers are very sensitive to brands and are willing to pay for quality. Luxury product consumption is growing as well as the interest in international brands. Koreans are particularly interested in products with health benefits and appreciate post-sales service. The consumption of imported goods of this kind is increasing in almost every sector and every segment of Korean society. Opportunities for natural products are growing:

quality matters as well as the health benefits offered, such as improving intellectual performance, health care (skin, eyes, among others) and disease prevention; cosmetics for both men and women have become popular (Euromonitor International, 2014).

In the food Korean culture, avocado is not, like grapes, a widely consumed fruit. It is not a typical ingredient for salads, and is not very well known although its importance is increasing progressively. At present, avocado consumption in Korea is concentrated primarily in the cosmetics industry but is also growing in the food sector due to its nutritional characteristics: helps prevent Alzheimer, Parkinson, cardiac diseases, prostate cancer and ophthalmological diseases, reduces cholesterol and is a powerful antioxidant-E vitamin.

The key factors of the Mexican strategy are: (i) establishing the "avocado system" with public-private participation and all actors related to this product; (ii) designing policies directed at promoting productivity and modernizing production; (iii) scientific development to improve quality, such as plague control, agricultural management, among others; (iv) inviting Korean agricultural experts to Mexico to learn about sanitary conditions, production and processing of avocado; (v) promoting consumption in domestic and international markets; (vi) brand building *Avocados from Mexico.*

## EXPERIENCE 2: BUSINESS MODELS IMPLEMENTED BY COLOMBIA AND CHILE

In products or services, possibilities to internationalize are fortified through strategic alliances such as franchising, joint ventures and consortia. They provide important advantages in terms of negotiation power, economies of scale, possibility of branding, shared risks, among others.

### a. Franchising: Colombian Coffee Juan Valdez

This model offers faster business expansion by using investments by the franchisee instead of the franchiser. The latter allows the former to use the brand and transfers know how, receiving as payment a fee plus royalties over sales. The *Juan Valdez* chain of coffee shops was created by Colombia´s national federation of coffee growers through the Colombian coffee promotion company (Sociedad Promotora de Café Colombia, PROCAFECOL).

Consumers in Korea are becoming more sophisticated and appreciate premium products; this is why *Juan Valdez* products have been very well received. This popular brand entered the Korean market in March 2014. It is now in Dongdaemun Design Plaza mall in Seoul and has an ambitious plan to expand in the main cities in the Korean market. Colombians are training local partners for this new experience. The portfolio includes roasted coffee, cold and hot beverages based on Colombian premium coffee and bakery products, among others.

The rising presence of Colombian coffee in the Asian market was described as follows by Alejandra Londono, International Vice President of *Juan Valdez* coffee: "we could not wait any longer to enter the booming Asian coffee shop chain market. Coffee consumption is rising rapidly and there is a huge potential…competition is growing too and other foreign coffee chains are aiming to take advantage of this booming market."[11] At present, including Seoul, *Juan Valdez* has 266 stores all over the world: 187 in Colombia and 79 in 11 countries (Aruba, Chile, Korea, Ecuador, Spain, USA, El Salvador, Kuwait, Mexico, Peru and Panama).

The key factors that define the success of this brand are: (i) association of growers with direct participation in the revenues; (ii) diversification of markets and adaptation of products according to the specific characteristics of; (iii) certified quality standards; (iv) franchise model: faster expansion through franchisees with lower investment; and (v) go to retail market to be a player in the entire value chain.

**b. Consortium: Chile Pork**

Chile Pork is a sector brand that represents Chilean exporters of pork meat in the Asian market, particularly in Korea, Japan and China. They are strongly supported by PROCHILE through aggressive promotion activities. This brand includes the five largest Chilean companies in this field: AGROSUPER, COEXA S.A., MAXAGRO, AASA and FRIOSA. All of them work to ensure that safe products arrive to final consumers.

The main suppliers of pork meat to the Korean market are Germany, the United States, Denmark, Spain, Canada, the Netherlands, Belgium and Chile. Exports of Chile Pork have maintained a steady growth from2010 to 2014, notwithstanding a brief decline in 2013. Prospects are good for this product as stated by Juan Miguel Ovalle, President of Chile Pork:

[11] Global Coffee Report (GCR) Magazine, September 2014.

"the amount of exported by Chile Pork to Korea has doubled in the last ten years due to the FTA Chile-Korea…we need a future plan for the next ten years."[12]

The key factors of the strategy are: (i) an integrated management system; (ii) certified quality assurance program (health, harmless and flavor); (iii) traceability from breeding to distribution; (iv) sector brand: Chile Pork, (v) benefits of the FTA, (vi) PROCHILE as strategic partner, (vii) long-term vision supported by investment in technology and innovation (product and process), quality standards as well as environmental and social responsibility; and (viii) consortium as business model involving cooperation, economies of scale and negotiating power.

In conclusion, the successful experiences referred in this section show that public-private partnership is a good practice since it contributes to solving bottlenecks faster and accelerates the internationalization process of SMEs. Branding strategies are costly but make businesses sustainable: in the case of private label strategies, the exporter depends on the owner of the brand, who can replace the supplier anytime. Finally, strategic alliances (consortia, franchising, joint venture, outsourcing, etc.) represent an opportunity to reduce risks and improve competitiveness, helping SMEs effectively internationalize.

[12]Food Journal and The Livestock Times, May 2014.

# CONCLUSIONS

- The results of trade policy reforms, liberalization and FDI facilitation generated by Chile, Colombia, Mexico and Peru are impressive. Exports have increased significantly and progress has been made towards diversification. FDI stock increased in the four countries, but remains concentrated in primary resources, with the exception of Mexico, where manufacturing was the main destination sector. All of this contributed to growth in the year-on-year GDP average (PPP) of 6.3% during the last two decades (1990-2013) compared to growth of 5.3% for the rest of LAC.
- Tariff liberalization is well advanced in Chile and Peru under their respective FTAs with Korea and the same will be the case when the Colombian treaty with Korea enters into force. However, despite the fact that the Market Access chapter is usually considered the core issue of all FTAs, given that its main objective is to eliminate tariff barriers to trade, it is necessary to note that countries that participate in these agreements will not fully benefit from the FTAs unless they are able to address non-tariff barriers. This is and will be a challenge moving forward. Sanitary and phytosanitary measures as well as technical standards have gradually gained importance and are often cited by companies as the leading barrier to trade. More cooperation with Korea in this field would be of interest to all parties involved.
- Peru's FTA with Korea by far is more comprehensive than Korea's FTAs with Chile and Colombia since it covers more issues and in greater detail. There are provisions in the FTAs that allow content renegotiation and the inclusion of new issues -based on a mutual agreement- to introduce improvements to make these agreements more efficient. In this respect, expanded cumulation of origin between member countries in the agreements could be analyzed as a future possibility. Chile, Colombia and Peru could combine forces to obtain more and new benefits from the FTAs with Korea if this mechanism is negotiated. This would strengthen and make better use of the agreements by promoting the integration of production, the formation of regional value chains and the participation of Chile, Colombia and Peru in global value chains with Korea. It would help eliminate productive inefficiencies and reduce the costs associated with the rules of origin and would motivate entrepreneurs from these countries to form strategic alliances for more competitive and higher value-added production.

- Mexico does not have an FTA with Korea but is the main importer of its products in the Latin American region. Pacific Alliance member countries combined represent almost 42% of LAC exports to Korea and more than 55% of LAC imports from Korea, with a leading country in each case (Chile, in exports, Mexico, in imports). A Mexico-Korea FTA would complete the set of agreements and provide market opportunities not only for bilateral relations but also for greater productive integration among Pacific Alliance members given that the expanded cumulation of origin could be used by the entire group as a mechanism in their relationship with Korea.
- The Chilean economy has taken advantage of the opportunities provided by its FTA with Korea. In the period 2003-2013, imports grew 17% on average per year and exports have increased an average of 16% per year. 370 additional Chilean companies started exporting to Korea during this period, and 248 new products were exported, representing 15% of total Chilean exports to Korea. However, some non-tariff barriers have limited Chile's ability to make better use of the agreement, particularly in terms of agriculture products. First, the DDA list of products is still subject to tariffs. Second, it has been difficult to negotiate sanitary protocols due to high entry requirements in the Korean market. Third, quotas for certain products have yet to be fully utilized.
- Infrastructure and logistics are key issues for exports of fresh fruits to the Korean market. Nonetheless, these issues have different facets in Chile and Peru, as is clear in the experiences analyzed in this study. Chile, after over 30 years of exporting fresh fruits and acting the world´s largest exporter of grapes and blueberries, has developed an optimal internal logistics chain for exports. From the Chilean perspective, the critical factor for fruits is time: the process from fruit harvest to Korean consumers takes almost two months, of which maritime transit accounts for about 35 days under existing shipping routes. Therefore, permanent investment to maintain the cold chain to delay fruit deterioration and research to develop varieties of fruits that are "more resistant to travel" are part of the challenge ahead.
- Peru is the fifth larger exporter of fresh grapes in the world. Its fresh fruits exports to Korea are currently concentrated in this fruit. Since grapes are produced in coastal valleys, good internal transport infrastructure is available to bring products to port. The actors that participate in the cold chain meet international standards as well. Port infrastructure improved greatly after world-class operators were awarded the concession of the Port of Callao. In

addition, the Port of Paita, under the private sector concession, is undertaking improvements that will allow better cargo movement to facilitate exports from the northern region of the country, where the producers of fresh grapes and blueberries are located. Peru could diversify fruit exports to the Korean market by leveraging its favorable climate and long crop schedule but the Korean authorities must first approve sanitary protocols.

- There are possibilities of cooperation between Peru and Chile for maritime transit to Korea. Complementarity also exists due to the seasonality of grapes and blueberries, which allows both countries to offer these fruits to market over a period of 6 months or more. Opportunities to share export promotion and forge business partnerships would increase the possibilities of offering products to Korea and to other Asian countries. In this scenario, a larger and permanent supply of quality fresh fruits could be foreseen. In terms of maritime routes, only growth in trade between South America and Asia has the power to entice shipping companies to offer more frequencies and open direct routes to cross the Pacific, which would certainly benefit fruit exports. There is already one direct maritime route from Peru to Japan and Korea. The possibility that Chile could use this route could be explored. Moreover, refrigerated ships offer services for fresh products from Chile and Peru to the United States and Europe. This service is currently not available for exports to Asia. There may be potential to develop this option if export volumes continue to grow.
- Efforts to develop a solid, efficient and regional SW are in progress in the Pacific Alliance, which is the first regional agreement in the Americas to seriously address trade facilitation through SW. Although the benefits of the SW are mostly long term, some early results have been achieved in all member countries. Some members have even instigated deep reforms in several regulatory bodies. The economic impact of implementing the SW must be measured on a regular basis with a reliable methodology that shows the costs of paperless trade vis-à-vis profits. Moreover, this methodology must be standardized within the Pacific Alliance to the extent possible, so benefits can be compared. Certainly the ultimate goal is to make interoperability a reality, which will require member countries to dedicate significant efforts to this task.
- The Korean foreign trade SW system is arguably one of the world´s most developed and provides an unparalleled opportunity to enhance cooperation within the Pacific Alliance member countries with regard to trade facilitation. Korea also has provided technical

assistance to Chile and Peru in the form of feasibility studies to implement a paperless trading system. The AEO is another area for cooperation. A major stepping stone is the AEO mutual recognition agreement between Korea and Mexico, which was concluded in 2014 with IDB support and went into effect in 2015. The IDB has also become a major partner in efforts related to SW in the Pacific Alliance and has supported implementation in Chile and Peru.

- More than 98.5% of the all firms in Pacific Alliance countries are SMEs. These businesses need to be prepared to face more competition in all sectors. International activities reinforce growth, enhance competitiveness and support long-term sustainability. Exporting is still the most common venue to internationalize SMEs but other modalities include strategic alliances such as franchising, consortia and joint ventures. These strategies are interesting in that they help increase economies of scale, promote risk sharing, improve negotiating power, and enhance branding development. The cases of Chilean wine, Mexican avocado, Colombian coffee and Chilean pork in the Korean market examined in this study reveal learning experiences and key factors that help explain their successful results.
- Branding strategies are costly but make businesses sustainable beyond recurring to exporting products through private label strategies. The country brand Wines of Chile is an example of a public-private partnership to market Chilean wines based on a reputation of quality and competitiveness in prices. This has been complemented by efforts to precisely identify a market opportunity based on a study of trends in Korean consumer' behavior. Avocados from Mexico also represent a systemic effort (public-private) to build a country brand by taking advantage of increasing opportunities in the Korean market for natural products (not only quality matters but also the health benefits offered by the products).
- The Colombian coffee producer Juan Valdez has successfully established franchises in the Korean market by meeting the quality standards that more sophisticated Korean consumers expect of premium products. The franchise model facilitated faster expansion with less investment. The Chile Pork consortium, which groups together the country's five largest pork companies, bases its success on product safety and on building a sector brand that is recognized in Asian markets. This initiative has received strong support from the government. In sum, the factors common to all the successful experiences were: public-private efforts, brand development, certified quality standards, precise identification of market opportunities and the willingness to establish strategic alliances.

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# ABBREVIATIONS

| | |
|---|---|
| ACE | Acuerdo de Complementación Económica (Economic Complementation Agreement) |
| ADEX | Asociación de Exportadores (Peruvian Association of Exporters) |
| AEO | Authorized Economic Operator |
| ALADI | Asociación Latinoamericana de Integración (Latin American Integration Association) |
| APEC | Asia-Pacific Economic Cooperation |
| ASOEX | Asociación de Exportadores de Frutas de Chile (Fruit Exporters Association of Chile) |
| CAN | Comunidad Andina de Naciones (Andean Community of Nations) |
| CIREN | Centro de Información de Recursos Naturales (Natural Resources Information Center) |
| CIUP | Centro de Investigación de la Universidad del Pacífico (Research Center at the Universidad del Pacífico) |
| CZE | Certificado Zoosanitario de Exportación (Animal Health Certificate of Export) |
| DDA | Doha Development Agenda |
| DIRECON | Dirección General de Relaciones Económicas Internacionales (General Directorate of International Economic Relations) |
| EC | Expanded Cumulation |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| EFTA | European Free TradeAssociation |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Agreement |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |

| | |
|---|---|
| HTM | High Technology Manufactures |
| IDB | Inter-American Development Bank |
| ITC | International Trade Center |
| KIEP | Korean Institute for International Economic Policy |
| LAC | Latin American and the Caribbean |
| LTM | Low Technology Manufactures |
| MFN | Most Favored Nation |
| MILA | Mercado Integrado Latinoamericano (Latin American Integrated Market) |
| MINCETUR | Ministerio de Comercio Exterior y Turismo (Ministry of Foreign Trade and Tourism) |
| MTM | Medium Technology Manufactures |
| NAFTA | North American Free Trade Agreement |
| NRBM | Natural Resources Based Manufactures |
| ODEPA | Oficina de Estudios y Políticas Agrarias (Office of Agricultural Policies and Studies) |
| OECD | Organization for Economic Co-operation and Development |
| PG | Primary Goods |
| PPP | Purchasing Power Parity |
| PROVID | Asociación de Productores de Uva de Mesa del Perú (Peruvian Association of Grape Producers) |
| SAG | Servicio Agrícola y Ganadero (Agriculture and Livestock Service) |
| SME | Small and Medium Enterprise |
| SW | Single Window |
| TRQ | Tariff-Rate Quota |
| VUCE | Ventanilla Única de Comercio Exterior (Single Window of Foreign Trade) |
| WB | World Bank |
| WEF | World Economic Forum |
| WITS | World Integrated Trade Solution |
| WTO | World Trade Organization |

# ANNEXES

## Annex 1• Chile, Colombia Mexico and Peru: Exports to the World and Exports/ GDP *(Billions US$ and Percentages)*

| Years | Goods exports (value) | | | | Exports of goods and services (% of GDP) | | | |
|---|---|---|---|---|---|---|---|---|
| | Chile | Colombia | Mexico | Peru | Chile | Colombia | Mexico | Peru |
| 1985 | 3.7 | 3.6 | 24.4 | 2.9 | 28.1 | 13.8 | 15.4 | 27.5 |
| 1986 | 4.0 | 5.1 | 19.1 | 1.8 | 29.1 | 18.8 | 17.3 | 16.9 |
| 1987 | 4.9 | 5.0 | 20.5 | 2.2 | 30.1 | 17.0 | 19.5 | 13.2 |
| 1988 | 6.8 | 5.0 | 20.4 | 2.5 | 34.2 | 16.3 | 19.9 | 15.6 |
| 1989 | 8.0 | 5.7 | 23.0 | 2.8 | 35.4 | 18.0 | 19.0 | 17.9 |
| 1990 | 8.3 | 6.8 | 26.3 | 3.3 | 34.0 | 20.6 | 18.6 | 16.1 |
| 1991 | 8.6 | 7.3 | 26.9 | 3.1 | 32.4 | 21.3 | 16.4 | 12.4 |
| 1992 | 9.7 | 6.9 | 46.2 | 3.2 | 29.8 | 17.7 | 15.2 | 12.8 |
| 1993 | 9.1 | 7.1 | 51.8 | 3.1 | 26.6 | 16.4 | 12.1 | 12.7 |
| 1994 | 11.1 | 8.5 | 60.5 | 4.1 | 28.2 | 15.0 | 13.3 | 13.1 |
| 1995 | 15.5 | 10.0 | 79.4 | 5.0 | 29.3 | 14.5 | 25.2 | 12.9 |
| 1996 | 15.0 | 10.4 | 95.4 | 5.2 | 27.3 | 15.2 | 26.7 | 13.6 |
| 1997 | 16.3 | 11.5 | 109.9 | 6.1 | 27.1 | 14.8 | 25.2 | 14.7 |
| 1998 | 14.6 | 10.8 | 117.2 | 4.7 | 26.3 | 15.0 | 25.7 | 13.8 |
| 1999 | 15.4 | 11.6 | 136.1 | 4.7 | 29.6 | 18.3 | 25.5 | 15.5 |
| 2000 | 17.9 | 13.2 | 166.2 | 5.7 | 29.3 | 15.9 | 26.3 | 16.8 |
| 2001 | 18.5 | 12.3 | 158.3 | 5.7 | 30.9 | 15.4 | 23.6 | 16.5 |
| 2002 | 17.2 | 11.8 | 160.7 | 6.2 | 31.5 | 14.8 | 23.5 | 17.1 |
| 2003 | 21.4 | 12.5 | 164.8 | 7.0 | 33.9 | 16.6 | 24.9 | 18.5 |
| 2004 | 32.7 | 16.2 | 187.8 | 10.3 | 37.9 | 16.8 | 26.2 | 22.4 |
| 2005 | 41.6 | 20.6 | 213.9 | 14.0 | 38.4 | 16.8 | 26.6 | 26.6 |
| 2006 | 58.9 | 23.6 | 248.9 | 19.8 | 42.4 | 17.6 | 27.6 | 30.0 |
| 2007 | 68.0 | 29.2 | 270.2 | 23.9 | 43.8 | 16.5 | 27.7 | 30.5 |
| 2008 | 63.8 | 36.6 | 288.5 | 25.7 | 41.5 | 17.8 | 27.9 | 28.4 |
| 2009 | 54.6 | 31.1 | 225.7 | 20.0 | 37.2 | 16.0 | 27.3 | 25.2 |
| 2010 | 70.1 | 37.4 | 292.5 | 27.5 | 38.1 | 15.9 | 29.9 | 26.6 |
| 2011 | 80.0 | 53.5 | 341.7 | 35.7 | 38.0 | 18.7 | 31.2 | 29.7 |
| 2012 | 76.3 | 56.9 | 362.5 | 36.3 | 34.2 | 18.3 | 32.6 | 26.6 |
| 2013 | 75.3 | 56.6 | 374.0 | 33.8 | 32.6 | 17.8 | 31.7 | 23.7 |

*Source:* Elaboration based on WITS for exports of goods and World Bank Statistics for exports of goods and services as a percentage of GDP.

## Annex 2• Chile, Colombia, Mexico and Peru: Export Expansion and Economic Growth, 1985-2013 *(Percentages)*

| Periods | Average Export Growth Rate per Year (%) | Average Real GDP Growth Rate per Year (%) |
|---|---|---|
| **Chile** | | |
| 1985 - 1991 | 15.1 | 6.9 |
| 1992 - 1997 | 11.3 | 7.5 |
| 1998 - 2001 | 3.2 | 2.3 |
| 2002 - 2007 | 24.2 | 5.0 |
| 2008 - 2009 | -10.4 | -1.0 |
| 2010 - 2013 | 8.4 | 5.1 |
| **Colombia** | | |
| 1985 - 1991 | 12.7 | 4.5 |
| 1992 - 1997 | 7.9 | 3.8 |
| 1998 - 2001 | 1.7 | 0.6 |
| 2002 - 2007 | 15.5 | 5.5 |
| 2008 - 2009 | 3.2 | 1.7 |
| 2010 - 2013 | 16.1 | 5.1 |
| **Mexico** | | |
| 1985 - 1991 | 1.7 | 2.1 |
| 1992 - 1997 | 26.4 | 3.1 |
| 1998 - 2001 | 9.6 | 2.4 |
| 2002 - 2007 | 9.3 | 3.4 |
| 2008 - 2009 | -8.6 | -4.7 |
| 2010 - 2013 | 13.5 | 3.0 |
| **Peru** | | |
| 1985 - 1991 | 1.3 | -1.3 |
| 1992 - 1997 | 12.1 | 6.8 |
| 1998 - 2001 | -1.9 | 1.6 |
| 2002 - 2007 | 27.1 | 6.3 |
| 2008 - 2009 | -8.6 | 1.0 |
| 2010 - 2013 | 14.1 | 6.1 |

*Source:* Elaboration based on WITS for export value data and World Bank Statistics for real (at constant local currency) GDP data.

## Annex 3• Chile, Colombia, Mexico and Peru: Exports by Technology Level to LAC and the World, 1992 and 2013 *(Percentages)*

| Sector | LAC | | World | |
|---|---|---|---|---|
| | 1992 | 2013 | 1992 | 2013 |
| **Chile** | | | | |
| PG | 34 | 32 | 60 | 49 |
| NRBM | 36 | 31 | 32 | 43 |
| LTM | 13 | 13 | 4 | 3 |
| MTM | 15 | 20 | 4 | 5 |
| HTM | 1 | 3 | 0 | 1 |
| **Colombia** | | | | |
| PG | 18 | 38 | 59 | 71 |
| NRBM | 23 | 20 | 14 | 14 |
| LTM | 32 | 13 | 17 | 5 |
| MTM | 25 | 25 | 9 | 9 |
| HTM | 3 | 4 | 1 | 1 |
| **Mexico** | | | | |
| PG | 23 | 7 | 26 | 20 |
| NRBM | 15 | 16 | 8 | 10 |
| LTM | 12 | 14 | 15 | 10 |
| MTM | 43 | 54 | 38 | 48 |
| HTM | 7 | 9 | 13 | 12 |
| **Peru** | | | | |
| PG | 47 | 29 | 56 | 49 |
| NRBM | 28 | 38 | 29 | 42 |
| LTM | 11 | 21 | 12 | 7 |
| MTM | 12 | 11 | 3 | 3 |
| HTM | 1 | 1 | 1 | 0 |

*Source:* Elaboration based on UN Comtrade database. Since 1992, data is available under the harmonized system in WITS.

## Annex 4• Chile, Colombia, Mexico and Peru: Inward FDI Flows and Participation in GDP, 2002-2013

### *(Billions US$ and Percentages)*

| Years | Inward FDI Flows | | | | FDI, Net Inflows (% of GDP) | | | |
|---|---|---|---|---|---|---|---|---|
| | Mexico | Colombia | Peru | Chile | Mexico | Colombia | Peru | Chile |
| 2002 | 24.0 | 2.1 | 2.2 | 2.6 | 3.2 | 2.2 | 4.0 | 3.6 |
| 2003 | 18.9 | 1.7 | 1.3 | 4.3 | 2.6 | 1.8 | 2.3 | 5.5 |
| 2004 | 25.1 | 3.0 | 1.6 | 7.2 | 3.2 | 2.6 | 2.4 | 7.1 |
| 2005 | 24.7 | 10.3 | 2.6 | 7.1 | 2.9 | 7.0 | 3.4 | 5.6 |
| 2006 | 20.9 | 6.7 | 3.5 | 7.4 | 2.2 | 4.2 | 3.9 | 4.7 |
| 2007 | 32.3 | 9.1 | 5.5 | 12.6 | 3.1 | 4.3 | 5.4 | 7.2 |
| 2008 | 28.3 | 10.6 | 6.9 | 15.5 | 2.6 | 4.3 | 5.7 | 8.4 |
| 2009 | 17.3 | 7.1 | 6.4 | 12.9 | 2.0 | 3.4 | 5.3 | 7.5 |
| 2010 | 23.4 | 6.8 | 8.5 | 15.7 | 2.2 | 2.2 | 5.7 | 7.2 |
| 2011 | 23.4 | 13.4 | 8.2 | 23.4 | 2.0 | 4.4 | 4.5 | 9.3 |
| 2012 | 17.6 | 15.5 | 12.2 | 28.5 | 1.5 | 4.1 | 6.2 | 10.7 |
| 2013 | 38.3 | 16.8 | 10.2 | 20.3 | 3.1 | 4.3 | 4.6 | 7.3 |

*Source:* Databases of UNCTAD Statistics for inward FDI flows and World Bank Statistics for FDI net inflows as a percentage of GDP data.

## Annex 5• FDI Stock by Sector, 2012

### *(Billions US$ and Percentages)*

| Sector | Value | % |
|---|---|---|
| **Chile** | | |
| Mining | 74.91 | 45.2 |
| Electricity, Gas and Water | 26.88 | 16.2 |
| Financial Services | 15.92 | 9.6 |
| Communications | 10.14 | 6.1 |
| Wholesale and Retail Trade | 6.45 | 3.9 |
| Transport and Storage | 4.92 | 3.0 |
| Chemicals | 4.85 | 2.9 |
| Insurance | 3.61 | 2.2 |
| Food, Beverages and Tobacco | 3.58 | 2.2 |
| Rest | 14.43 | 8.7 |
| **Total** | **165.69** | **100.0** |
| **Colombia** | | |
| Oil | 34.44 | 27.0 |
| Mining and Quarrying (including coal) | 23.73 | 18.6 |
| Manufacturing | 22.87 | 18.0 |
| Financial and Business Services | 14.55 | 11.4 |
| Transport, Storage and Communications | 11.35 | 8.9 |
| Commerce, Restaurants and Hotels | 10.28 | 8.1 |
| Electricity, Gas and Water | 4.63 | 3.6 |
| Construction | 3.18 | 2.5 |
| Rest | 2.38 | 1.9 |
| **Total** | **127.41** | **100.0** |

| | | |
|---|---|---|
| **Mexico** | | |
| Manufacturing | 169 | 46.1 |
| Financial Services | 64 | 17.6 |
| Commerce | 31 | 8.5 |
| Mining | 21 | 5.7 |
| Mass Media | 16 | 4.2 |
| Real Estate Services | 14 | 3.8 |
| Temporary Housing | 13 | 3.5 |
| Rest | 39.00 | 10.6 |
| **Total** | **367.00** | **100.0** |
| **Peru** | | |
| Mining | 5.60 | 24.2 |
| Finance | 4.22 | 18.2 |
| Communications | 3.93 | 17.0 |
| Industry | 3.16 | 13.6 |
| Energy | 3.07 | 13.2 |
| Commerce | 0.80 | 3.4 |
| Oil | 0.68 | 2.9 |
| Services | 0.67 | 2.9 |
| Rest | 1.06 | 4.5 |
| **Total** | **23.19** | **100.0** |

*Sources:* Chile - Elaboration based on Foreign Investment Committee, Government of Chile; Colombia - (Ministerio de Comercio, Industria y Turismo de Colombia, 2006) and calculations based on FDI flows (2006-2014) in balance of payments data published by Banco de la República de Colombia until the third trimester of 2014; Mexico - (Secretaría de Economía de México,2014). Data is accumulated only until the third quarter of 2014; Peru -PROINVERSION data base until the second quarter of 2014.

## Annex 6• Doing Business Ranking: LAC Countries, 2006-2015

| Country | 2006-2007 | 2014-2015 | | Difference in position |
|---|---|---|---|---|
| | Position | Position | Qualification | |
| **Countries that improve their position** | | | | |
| Colombia | 66 | 34 | UpperFifth | 32 |
| Costa Rica | 89 | 83 | UpperHalf | 6 |
| Dominican Republic | 103 | 84 | UpperHalf | 19 |
| Guatemala | 109 | 73 | UpperHalf | 36 |
| Honduras | 112 | 104 | LowerHalf | 8 |
| Mexico | 73 | 39 | UpperThird | 34 |
| Panama | 57 | 52 | UpperThird | 5 |
| Peru | 71 | 35 | UpperFifth | 36 |
| Uruguay | 85 | 82 | UpperHalf | 3 |
| **Countries that worsen their position** | | | | |
| Argentina | 77 | 124 | LowerHalf | 47 |
| Bolivia | 111 | 157 | LowerHalf | 46 |
| Brazil | 119 | 120 | LowerHalf | 1 |
| Chile | 25 | 41 | UpperThird | 16 |
| Ecuador | 107 | 115 | LowerHalf | 8 |
| El Salvador | 76 | 109 | LowerHalf | 33 |
| Haiti | 134 | 180 | LowerHalf | 46 |
| Nicaragua | 59 | 119 | LowerHalf | 60 |
| Paraguay | 88 | 92 | UpperHalf | 4 |
| Venezuela | 120 | 182 | LowerHalf | 62 |

*Note*: Rankings 2006-2007 and 2014-2015 include 155 and 189 economies respectively.
*Source:* Elaboration based on Doing Business data-World Bank Group.

## Annex 7• Chile, Colombia, Mexico and Peru: Socio-Economic Indicators, 1990 and 2013

| Indicator | 1990 | 2013 |
|---|---|---|
| **GDP per capita, PPP (US$)** | | |
| Chile | 9,199 | 21,714 |
| Colombia | 7,752 | 12,025 |
| Mexico | 12,479 | 16,291 |
| Peru | 5,280 | 11,396 |
| **% Extreme Poor (PPP per capita below US$ 2.5 a day)** | | |
| Chile | 18.52 | 3.67 |
| Colombia | 34.76 | 18.75 |
| Mexico | 28.56 | 19.86 |
| Peru | 36.58 | 19.34 |
| **% Moderate Poor (PPP per capita below US$ 4 a day)** | | |
| Chile | 36.68 | 10.37 |
| Colombia | 56.24 | 34.17 |
| Mexico | 46.23 | 37.52 |
| Peru | 53.71 | 33.21 |
| **Gini Coefficient of per capita income** | | |
| Chile | 57.56 | 51.85 |
| Colombia | 50.77 | 54.94 |
| Mexico | 57.03 | 54.08 |
| Peru | 54.98 | 47.48 |
| **% Vulnerable Population (PPP per capita between US$ 4-10 a day)** | | |
| Chile | 37.70 | 38.30 |
| Colombia | 32.00 | 36.70 |
| Mexico | 34.60 | 37.60 |
| Peru | 32.10 | 40.70 |
| **% Middle Class (PPP per capita between US$10-50 a day)** | | |
| Chile | 22.95 | 45.47 |
| Colombia | 11.44 | 27.01 |
| Mexico | 17.84 | 23.07 |
| Peru | 13.46 | 25.25 |

*Source:* World Bank Statistics for GDP per capita (PPP) and Sociometro-BID for the rest of variables in the annex.

## Annex 8• Global Competitiveness Index: LAC countries, 2006-2015

| Country | 2006-2007 | 2014-2015 | | Difference in position |
|---|---|---|---|---|
| | Position | Position | Qualification | |
| **Countries that improved their ranking** | | | | |
| Brazil | 66 | 57 | UpperHalf | 9 |
| Costa Rica | 68 | 51 | UpperHalf | 17 |
| Guatemala | 91 | 78 | LowerHalf | 13 |
| Nicaragua | 100 | 99 | LowerHalf | 1 |
| Panama | 60 | 48 | UpperThird | 12 |
| Peru | 78 | 65 | UpperHalf | 13 |
| **Countries that fell in the ranking** | | | | |
| Argentina | 70 | 104 | LowerHalf | 34 |
| Bolivia | 99 | 105 | LowerHalf | 6 |
| Chile | 27 | 33 | UpperThird | 6 |
| Colombia | 63 | 66 | UpperHalf | 3 |
| Dominican Republic | 93 | 101 | LowerHalf | 8 |
| El Salvador | 53 | 84 | LowerHalf | 31 |
| Honduras | 90 | 100 | LowerHalf | 10 |
| Mexico | 52 | 61 | UpperHalf | 9 |
| Paraguay | 107 | 120 | LowerHalf | 13 |
| Uruguay | 79 | 80 | UpperHalf | 1 |
| Venezuela | 85 | 131 | LowerHalf | 46 |

*Note*: Rankings 2006-2007 and 2014-2015 include 125 and 144 economies respectively.
*Source:* Elaboration based on The Global Competitiveness Reports (WEF).

## Annex 9 • Chile, Colombia, Mexico and Peru Exports to Korea, 2013

*(Millions US$ and Percentages)*

| ProductLabel | ExportstoKorea | |
|---|---|---|
| | Value | % |
| **Chile** | | |
| Copper and articles thereof | 1,797 | 39.4 |
| Ores, slag and ash | 1,741 | 38.2 |
| Pulp of wood, fibrous cellulosic material, waste, a.o. | 234 | 5.1 |
| Edible fruit, nuts, peel of citrus fruit, melons | 182 | 4.0 |
| Wood and articles of wood, wood charcoal | 122 | 2.7 |
| Inorganic chemicals, precious metal compound, isotopes | 116 | 2.5 |
| Meat and edible meat offal | 102 | 2.2 |
| Fish, crustaceans, mollusks, aquatic invertebrates | 98 | 2.2 |
| Residues, wastes of food industry, animal fodder | 43 | 0.9 |
| Beverages, spirits and vinegar | 39 | 0.9 |
| Rest | 87 | 1.9 |
| **All products** | **4,561** | **100** |
| **Colombia** | | |
| Mineral fuels, oils, distillation products, a.o. | 72 | 31.4 |
| Ironand steel | 59 | 25.8 |
| Coffee, tea, mate and spices | 48 | 20.7 |
| Copper and articles thereof | 12 | 5 |
| Aluminium and articles thereof | 10 | 4.5 |
| Miscellaneous chemical products | 9 | 3.9 |
| Miscellaneous edible preparations | 6 | 2.5 |
| Sugars and sugar confectionery | 4 | 1.6 |
| Raw hides and skins (other than fur skins) and leather | 3 | 1.2 |
| Live trees, plants, bulbs, roots, cut flowers, a.o. | 2 | 0.9 |
| Rest | 5 | 2.5 |
| **All products** | **230** | **100** |

| Product Label | Exports to Korea | |
|---|---|---|
| | Value | % |
| **Mexico** | | |
| Ores, slag and ash | 755 | 49.5 |
| Vehicles other than railway, tramway | 174 | 11.4 |
| Electrical, electronic equipment | 144 | 9.5 |
| Iron and steel | 113 | 7.4 |
| Machinery, nuclear reactors, boilers, a.o. | 64 | 4.2 |
| Copper and articles thereof | 64 | 4.2 |
| Rubber and articles thereof | 51 | 3.4 |
| Meat and edible meat offal | 21 | 1.4 |
| Optical, photo, technical, medical, apparatus, a.o. | 20 | 1.3 |
| Aluminium and articles thereof | 13 | 0.9 |
| Rest | 106 | 6.8 |
| **All products** | **1,525** | **100** |
| **Peru** | | |
| Ores, slag and ash | 1,041 | 67.5 |
| Mineral fuels, oils, distillation products, a.o. | 296 | 19.2 |
| Copper and articles thereof | 58 | 3.7 |
| Coffee, tea, mate and spices | 31 | 2 |
| Fish, crustaceans, mollusks, aquatic invertebrates | 30 | 2 |
| Meat, fish and seafood food preparations | 22 | 1.4 |
| Zinc and articles thereof | 20 | 1.3 |
| Edible fruit, nuts, peel of citrus fruit, melons | 14 | 0.9 |
| Lead and articles thereof | 8 | 0.5 |
| Residues, wastes of food industry, animal fodder | 4 | 0.2 |
| Rest | 17 | 1.3 |
| **All products** | **1,541** | **100** |

*Note*: among others (a.o.)
*Source:* Elaboration based on Trade Map database (ITC). For Chile, data corresponds to 2014.

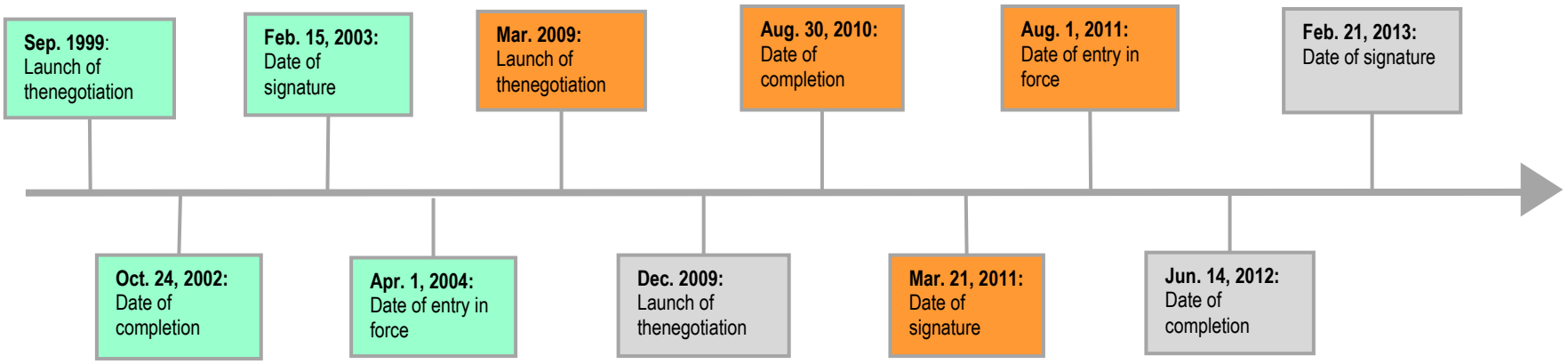
## Annex 10• Korean FDI Stock by Sectors in Chile, Colombia, Mexico and Peru, 2014

*(Thousands US$ and Percentages)*

| Industry | Chile | | Colombia | | Mexico | | Peru | |
|---|---|---|---|---|---|---|---|---|
| | Value | % | Value | % | Value | % | Value | % |
| Agriculture, forestry and fishing | 6,713 | 1.83 | -- | -- | 561 | 0.02 | 1,637 | 0.11 |
| Mining and quarrying | 254,544 | 69.3 | 54,475 | 18.18 | 1,535,621 | 49.39 | 1,491,786 | 96.32 |
| Manufacturing | 27,178 | 7.4 | 178,586 | 59.59 | 998,053 | 32.1 | 19,758 | 1.28 |
| Electricity, gas, steam and water supply | 962 | 0.26 | 16,250 | 5.42 | 94,482 | 3.04 | 103 | 0.01 |
| Construction | 20,435 | 5.56 | -- | -- | 32,834 | 1.06 | 235 | 0.02 |
| Wholesale and retail trade | 56,880 | 15.48 | 42,430 | 14.16 | 388,081 | 12.48 | 29,641 | 1.91 |
| Transportation | 516 | 0.14 | 661 | 0.22 | 2,318 | 0.07 | 636 | 0.04 |
| Accommodation and food service activs. | -- | -- | -- | -- | 3,250 | 0.1 | -- | -- |
| Business facilities and services | -- | -- | -- | -- | 2,897 | 0.09 | -- | -- |
| Arts, sports and recreation services | -- | -- | 100 | 0.03 | 90 | -- | 4,737 | 0.31 |
| Others | 100 | 0.03 | 7,190 | 2.4 | 53,614 | 1.73 | 325 | 0.02 |
| **Total** | **367,328** | **100.00** | **299,692** | **100.00** | **3,108,902** | **100.00** | **1,548,858** | **100.00** |

*Note*: Eximbank data on FDI differentiates between Accepted Amount and Invested Amount. In this table, Invested Amount is used.
*Source:* Korea Eximbank, December 2014.

## Annex 11• Comparative Chronology of Negotiation Processes: FTAs of Korea with Chile, Colombia and Peru




**Number of Meeting FTA Korea-Chile:** 6 negotiation rounds and several technical meetings.

**Number of Meeting FTA Korea-Peru**: 5 negotiations rounds and 3 specific inter-session meetings.

**Number of Meeting FTA Korea-Colombia:** 7 negotiation rounds and 5 mini rounds.

*Source:* Elaboration based on information from each country's government.

## Annex 12• Tariff Elimination Schedule of Chile, Colombia and Peru to Korea

| Free Trade Agreement | Duty phase - out period | 2004 | 2007 | 2009 | 2011 | 2013 | 2014 | 2015 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2029 | 2030 | 2032 | 2033 | 2034 | Exclusion | TRQ | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FTA Korea - Chile | N° Lines | 3,546 | 1 | 2,464 | 20 | - | 1,519 | - | 290 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 96 | - | 7,936 |
| | % Lines | 44.68% | 0.01% | 31.05% | 0.25% | - | 19.14% | - | 3.65% | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1% | - | 100% |
| FTA Korea - Colombia* | N° Lines | - | - | - | - | - | - | 4,390 | 33 | - | 1,547 | - | 503 | - | 1 | 544 | - | 18 | - | 105 | 38 | 3 | 3 | 2 | 47 | 6 | 7,240 |
| | % Lines | - | - | - | - | - | - | 60.64% | 0.46% | - | 21.37% | - | 6.95% | - | 0.01% | 7.51% | - | 0.25% | - | 1.45% | 0.52% | 0.04% | 0.04% | 0.03% | 1% | 0% | 100% |
| FTA Korea - Peru | N° Lines | - | - | - | 5,001 | 58 | 2 | 934 | 40 | 11 | - | 1,240 | - | 24 | - | - | 20 | - | 35 | - | - | - | - | - | 5 | - | 7,370 |
| | % Lines | - | - | - | 63.02% | 0.73% | 0.03% | 11.77% | 0.50% | 0.14% | - | 15.63% | - | 0.30% | - | - | 0.25% | - | 0.44% | - | - | - | - | - | 0.06% | - | 100% |

## Annex 13• Tariff Elimination Schedule of Korea to Chile, Colombia and Peru

| Free Trade Agreement | Duty phase - out period | 2004 | 2009 | 2011 | 2013 | 2014 | 2015 | 2017 | 2019 | 2020 | 2021 | 2022 | 2024 | 2025 | 2026 | 2027 | 2029 | 2030 | 2033 | 2020 / 2026 * | Exclusion | DDA | Seasonal | TRQ | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FTA Korea - Chile | N° Lines | 9,740 | 701 | 41 | 1 | 262 | - | - | - | 12 | - | - | - | - | - | - | - | - | - | - | 21 | 391 | 1 | - | 11,170 |
| | % Lines | 87.20% | 6.28% | 0.37% | 0.01% | 2.35% | - | - | - | 0.11% | - | - | - | - | - | - | - | - | - | - | 0.19% | 3.50% | 0.01% | - | 100% |
| FTA Korea - Colombia* | N° Lines | - | - | - | - | - | 9,775 | 268 | 670 | - | 136 | - | 558 | - | 33 | 2 | 4 | 260 | 5 | - | 153 | - | - | 5 | 11,869 |
| | % Lines | - | - | - | - | - | 82.36% | 2.26% | 5.64% | - | 1.15% | - | 4.70% | - | 0.28% | 0.02% | 0.03% | 2.19% | 0.04% | - | 1.29% | - | - | 0.04% | 100% |
| FTA Korea - Peru | N° Lines | - | - | 10,044 | 223 | - | 609 | 170 | - | 524 | - | 2 | - | 1 | - | 198 | - | - | - | 1 | 107 | - | 2 | - | 11,881 |
| | % Lines | - | - | 84.54% | 1.88% | - | 5.13% | 1.43% | - | 4.41% | - | 0.02% | - | 0.01% | - | 1.67% | - | - | - | 0.01% | 0.90% | - | 0.02% | - | 100% |

*Note* (*): It is assumed that the entry into force of FTA Korea-Colombia will be in 2015.
*Source:* Elaboration based on Korea's signed FTAs with LAC.

## Annex 14• Structure of FTAs between Korea and Chile, Colombia and Peru

| FTA Korea and Chile | FTA Korea and Peru | FTA Korea and Colombia |
|---|---|---|
| - | Preamble | Preamble |
| Initial Provisions; General Definitions | Initial Provisions and Definitions | Initial Provisions and General Definitions |
| National Treatment and Market Access | National Treatment and Market Access for Goods | National Treatment and Market Access for Goods |
| Rules of Origin | Rules of Origin<br>Origin Procedures | Rules of Origin and Origin Procedures |
| Customs Procedures | Customs Administration and Trade Facilitation | Customs Administration and Trade Facilitation |
| Sanitary and Phytosanitary Measures; Standard-Related Measures | Sanitary and Phytosanitary Measures | Sanitary and Phytosanitary Measures |
| - | Technical Barriers toTrade | Technical Barriers toTrade |
| Safeguard Measures; Anti-Dumping and Countervailing Duty Matters | Trade Remedies | Trade Remedies |
| Investment | Investment | Investment |
| Cross-Border Trade in Services | Cross-Border Trade in Services | Cross-Border Trade in Services |
| Temporary Entry for Business Persons | Temporary Entry for Business Persons | Temporary Entry for Business Persons |
| - | Financial Services | - |
| Telecommunications | Telecommunications | Telecommunications |
| - | Electronic Commerce | Electronic Commerce |
| Competition Policy | Competition Policy | Competition and Consumer Policy |
| Government Procurement | Government Procurement | Government Procurement |
| Intellectual Property Rights | Intellectual Property Rights | Intellectual Property Rights |

| | | |
|---|---|---|
| - | Labor | - |
| - | Environment | Trade and Sustainable Development |
| - | Cooperation | Cooperation |
| Transparency | Transparency | Transparency |
| Administration of the Agreement | Administration of the Agreement | Institutional Provisions |
| Dispute Settlement Procedures | Dispute Settlement | Dispute Settlement |
| Exceptions | Exceptions | Exceptions |
| Final Provisions | Final Provisions | Final Provisions |

*Source:* Elaboration based on Korea's signed FTAs with LAC.

## Annex 15• Chile: Exports to Korea by Main Sectors and Products, 2003-2013

*(Millions US$)*

| Products | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Average Growth per Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Copper | 735.6 | 1,377.2 | 1,512.9 | 2,639.3 | 2,969.0 | 2,761.9 | 2,277.0 | 3,134.7 | 3,509.7 | 3,568.9 | 3,097.7 | 15.5 |
| Rest mining non-cooper | 20.8 | 19.9 | 64.0 | 51.8 | 127.7 | 186.9 | 67.1 | 123.2 | 114.9 | 199.6 | 186.7 | 24.6 |
| Cellulose | 62.0 | 74.9 | 80.7 | 99.0 | 173.6 | 312.3 | 177.2 | 229.6 | 234.9 | 235.4 | 260.9 | 15.4 |
| **Total mining plus cellulose** | **818.4** | **1.472.0** | **1,657.7** | **2,790.1** | **3,270.3** | **3,261.1** | **2,521.3** | **3,487.5** | **3,859.5** | **4,003.9** | **3,545.2** | **15.8** |
| Fruits | 10.8 | 11.1 | 18.8 | 29.1 | 44.6 | 68.6 | 44.1 | 67.9 | 90.4 | 130.6 | 154.7 | 30.5 |
| Salmon | 2.8 | 3.2 | 8.2 | 23.9 | 21.6 | 30.3 | 19.8 | 10.2 | 47.0 | 30.4 | 40.7 | 30.9 |
| Process food non-salmon | 57.8 | 87.4 | 104.4 | 123.2 | 166.8 | 168.5 | 162.8 | 173.2 | 241.2 | 256.5 | 230.0 | 14.8 |
| Bottled wine | 3.1 | 8.2 | 9.1 | 11.2 | 25.3 | 31.8 | 20.0 | 21.0 | 27.5 | 29.7 | 34.1 | 26.9 |
| Forestry and wood furniture | 12.0 | 14.7 | 11.4 | 15.1 | 18.3 | 33.9 | 25.1 | 40.0 | 72.2 | 68.4 | 84.9 | 21.6 |
| Chemicals | 91.2 | 181.6 | 369.7 | 392.5 | 263.4 | 179.5 | 97.4 | 98.4 | 69.6 | 80.7 | 97.8 | 0.7 |
| Rest | 17.8 | 26.1 | 31.7 | 20.2 | 39.1 | 107.7 | 25.2 | 40.2 | 46.1 | 34.8 | 90.5 | 17.6 |
| **Total non-mining and non-cellulose** | **195.6** | **332.2** | **553.2** | **615.1** | **579.0** | **620.3** | **394.5** | **450.9** | **593.9** | **631.1** | **732.7** | **14.1** |
| **Total** | **1,014.0** | **1,804.2** | **2,210.9** | **3,405.2** | **3,849.3** | **3,881.4** | **2,915.8** | **3,938.4** | **4,453.4** | **4,635.0** | **4,277.9** | **15.5** |

*Source:* Elaboration based on DIRECON data and (DIRECON, 2014a).

## Annex 16• Chile: Main Agriculture, Fishing and other Food Products Exported to Korea, 2003 and 2013

### *(Millions US$ and Percentages)*

| Product | 2003 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Exports | Tariff | Share of Korean Imports | Exports | Tariff | Share of Korean Imports |
| Other meat of swine, frozen | 30.0 | 26.2 | 16.7 | 90.0 | 0.0 | 11.8 |
| Frozen angelfish | 0.0 | 10.0 | 0.0 | 8.0 | 0.0 | 13.1 |
| Other mollusks; aquatic invertebrates other than crustaceans and mollusks; flours, meals and pellets of aquatic invertebrates other than crustaceans | 0.0 | 10-35 | 0.0 | 26.0 | 0.0 | 30.2 |
| Other meat of swine, fresh or chilled | 0.0 | 23.2 | 0.0 | 12.0 | 0.0 | 19.7 |
| Shelled walnuts, fresh or dry | 0.0 | 8.0 | 0.0 | 13.0 | 0.0 | 11.1 |
| Pacific salmon and Danube salmon | 0.0 | 10.0 | 0.0 | 40.0 | 0.0 | 67.8 |
| Other frozen fruits | 12.0 | 30.0 | 0.1 | 22.0 | 0.0 | 23.9 |
| Other unfermented apple juice unfermented | 0.0 | 45.5 | 0.0 | 6.0 | 0.0 | 40.0 |
| Unfermented grape juice | 0.2 | 45.5 | 0.1 | 23.0 | 0.0 | 51.1 |
| Fresh grapes | 14.0 | 45.5 | 77.0 | 144.0 | 0.0 | 81.4 |
| Fresh cranberries, bilberries and other fruits of the genus vaccinium | 0.0 | 46.4 | 0.0 | 5.0 | 0.0 | 62.5 |
| Fresh kiwis | 1.8 | 45.5 | 7.8 | 12.0 | 0.0 | 27.9 |
| Other wine; grape fermentation must not include the addition of alcohol, in containers holding 2 liters or less. | 2.8 | 23.2 | 6.8 | 35.0 | 0.0 | 24.3 |
| Flours, meals and pellets, of fish or of crustaceans, mollusks or other aquatic invertebrates | 15.0 | 5.0 | 55.4 | 30.0 | 0.0 | 47.6 |
| **Total** | **75.8** | | | **466.0** | | **26.9** |

*Source:* For 2013 (DIRECON & ODEPA, 2014) based on Trade Map database (ITC). For 2003, elaboration is based on Trade Map database (ITC). For certain products, there could be some differences with data provided in other annexes. Identification of some products between 2003 and 2013 may vary because the codification they had when they were negotiated may differ from the one they have now. Therefore, data provided in this annex should be considered as referential, based on information at 6 digits, and giving a general overview and trend.

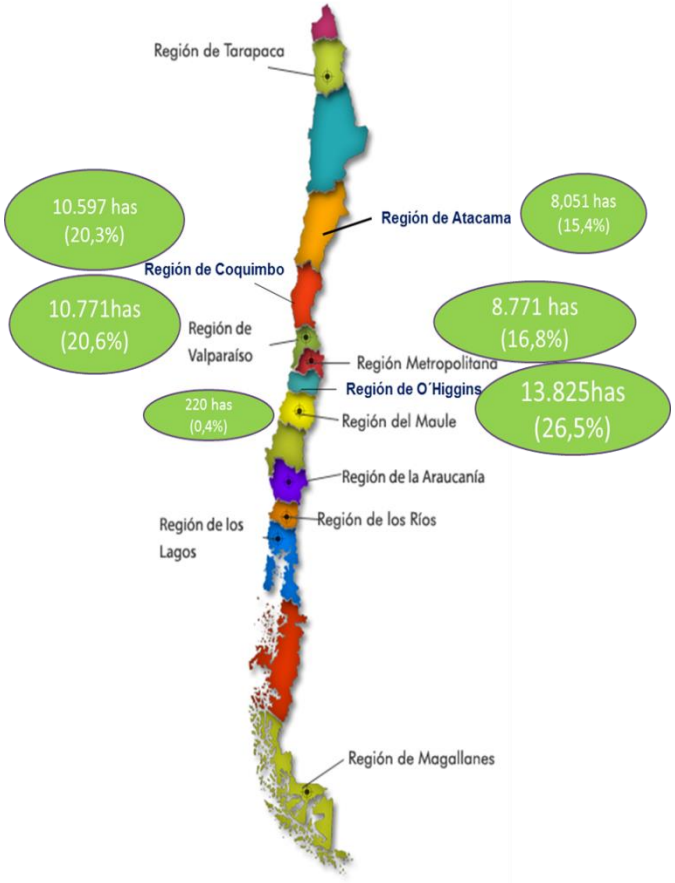
## Annex 17• Chilean Sanitary Protocols with Korea

| Product | Starting Date Negotiation | Ending Date Negotiation | FTA List | Tariff 2015 | Comments |
|---|---|---|---|---|---|
| **Approved Protocols** | | | | | |
| Grapes | Sept. 1988 | Dec. 1995 | 10S | 0<br>45 | Tariff is 0 from Nov. to Ap. 30th.<br>Rest of the year is 45% |
| Kiwis | Sept. 1995 | Nov. 1998 | Year 10 | 0 | |
| Lemons | Sept. 1998 | Jul. 2004 | Year 10 | 0 | |
| Oranges | Jun. 2004 | May. 2006 | DDA | 50 | |
| Poultry, whole, refrigerated | Nov. 2002 | Nov. 2006 | Year 10 | 0 | |
| Poultry, whole, chilled | Nov. 2002 | Nov. 2006 | Year 10 | 0 | |
| Poultry, chopped, refrigerated | Nov. 2002 | Nov. 2006 | Year 10 | 0 | |
| Poultry, chopped, chilled | Nov. 2002 | Nov. 2006 | DDA | 20 | 2,000 tons with zero-tariff |
| Turkey, whole, refrigerated | Nov. 2002 | Nov. 2006 | Year 10 | 0 | |
| Turkey, whole, chilled | Nov. 2002 | Nov. 2006 | Year 7 | 0 | 600 tons with zero-tariff |
| Turkey, chopped, refrigerated | Nov. 2002 | Nov. 2006 | Year 10 | 0 | |
| Turkey, chopped, chilled | Nov. 2002 | Nov. 2006 | Year 7 | 0 | 600 tons with zero-tariff |
| Bovine meat | Nov. 2002 | 2012 | | | |
| Blueberries | Nov. 2002 | 2013 | | | |
| **In process of approval** | | | | | |
| Cherries | Dec. 2011 | | | | In stage 4 out of 8 |
| Pomegranates | Apr. 2012 | | | | Product has 2nd priority after cherries. |
| Sheep meat and offal | Jul. 2012 | | | | It is expected to move to stage 3 out of 8 |

*Source:* Elaboration based on Report from the Agricultural Attaché Chilean Embassy in the Korea, 2010.

## Annex 18• Chile: Grape Surface by Region 2013

### *(Hectares and Percentages)*



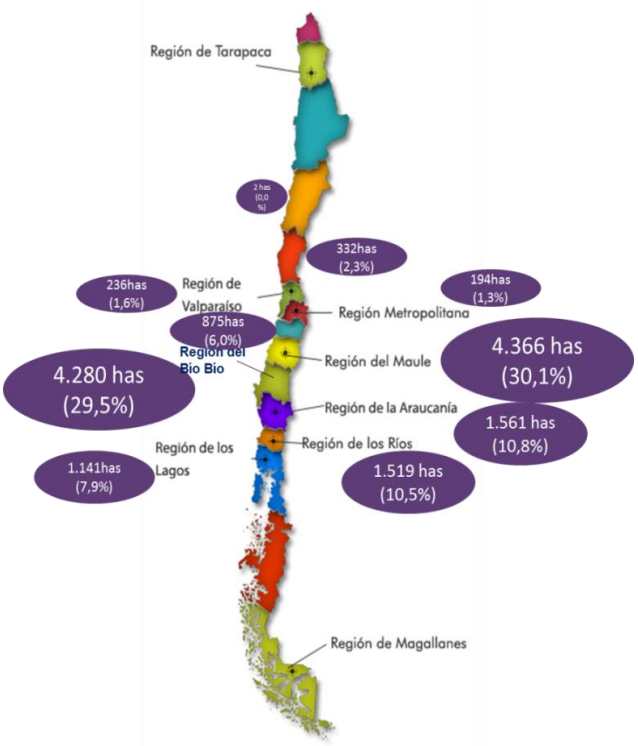

### Grape Surface by Region and Year of the Fruit Cadastre

| Region | Year | Surface (Ha) | Participation (%) |
|---|---|---|---|
| Atacama | 2011 | 8,050.7 | 15.4 |
| Coquimbo | 2011 | 10,597.1 | 20.03 |
| Valparaiso | 2014 | 10,770.9 | 20.6 |
| Metropolitana | 2014 | 8,771.1 | 16.8 |
| O'Higgins | 2009 | 13,824.5 | 26.5 |
| Maule | 2013 | 219.8 | 0.4 |
| **Total** | | **52,234.1** | **100.0** |

*Source:* Office of Agricultural Policies and Studies (Oficina de Estudios y Políticas Agrarias, ODEPA) and Natural Resources Information Center (Centro de Información de Recursos Naturales (CIREN). http://www.odepa.cl/catastros-de-superficie-fruticola-regional/ http://www.ciren.cl/web/content.php?i=66

## Annex 19• Chile: Blueberry Surface by Region 2013

### *(Hectares and Percentages)*




### Blueberry Surface by Region and Year of Fruit Cadastre

| Region | Year | Surface (Ha) | Participation (%) |
|---|---|---|---|
| Atacama | 2011 | 2 | 0.0 |
| Coquimbo | 2011 | 332 | 2.3 |
| Valparaiso | 2014 | 236 | 1.6 |
| Metropolitana | 2014 | 194 | 1.3 |
| O'Higgins | 2009 | 875 | 6.0 |
| Maule | 2013 | 4,366 | 30.1 |
| Bio Bio | 2012 | 4,280 | 29.5 |
| La Araucania | 2012 | 1,561 | 10.8 |
| Los Rios | 2012 | 1,519 | 10.5 |
| Los Lagos | 2012 | 1,141 | 7.9 |
| **Total** | | **14,506** | **100.0** |

*Source:* ODEPA and CIREN. http://www.odepa.cl/catastros-de-superficie-fruticola-regional/ http://www.ciren.cl/web/content.php?i=66

## Annex 20• Chile: Regular Services from the Port of Valparaiso

| Service | Sea Companies | Type of Load | Frequency | Route |
|---|---|---|---|---|
| Eurosal/ Eurosal/SW1 | Hamburg Sud, CGM, and Hapag Lloyd | Full Container | Weekly | West Coast South America /Mexico/Central America/Asia |
| NAX/Aspa I/LW1/NP2 | CCNI, Hamburg Sud, Hanjin, HMM and CSCL | Full Container | Weekly | West Coast South America /Mexico/Central America/Asia |
| CEX/New Aspa II/LW2/New Pioneer 2/Andex 2/New Alpaca/ ACSA 5 | CCNI, Hamburg Sud, Hanjin, HMM, CSAV, MSC, CMACGM and CSCL | Full Container | Weekly | West Coast South America /Mexico/Central America/Asia |

*Source:* Elaboration based on databases of the Port of Valparaiso. http://www.puertovalparaiso.cl/WebLectorRealInfo/Tapa.aspx?sitio=49&edicion=75&cuerpo=503

## Annex 21• Peru: Regional Map of Grapes and Blueberry Production Area

*Source:* Base document elaborated for this study.

## Annex 22• Peru: Grapes Production and Distance from Callao Port

### *(Tons, Hectares and Kilometers)*

| Department | Production 2013 (Tn) | Growing Area (Ha) | Distance from Callao (Km) |
|---|---|---|---|
| Ica | 169,042.63 | 8,643.08 | 325 |
| Piura | 125,616.00 | 3,517.00 | 1,050 |
| Lima | 63,868.00 | 3,697.00 | 200 |
| La Libertad | 41,072.38 | 1,923.43 | 780 |
| Arequipa | 17,870.19 | 806.00 | 1,030 |
| Tacna | 6,093.00 | 563.00 | 1,348 |
| Moquegua | 4,415.36 | 351.00 | 1,225 |
| Lambayeque | 3,504.00 | 471.00 | 791 |
| Cajamarca | 2,144.00 | 216.00 | 870 |
| Ancash | 1,915.00 | 72.00 | 385 |

*Source:* Ministry of Agriculture-Business Intelligence System "Agro al día." http://www.agroaldia.minagri.gob.pe

## Annex 23• Peru: Maritime Routes Callao Port-Busan Port

| Shipping Line | Agent | Warehouse | Transit Days | Shipping Frequency |
|---|---|---|---|---|
| CMA-CGM | B6M MARÍTIMA PERÚ | NEPTUNIA | 37 | Weekly |
| MAERSK LINE | IAN TAYLOR & CO. | ALCONSA | 28 | Weekly |
| HANJIN SHIPPING | TRANSTOTAL | ALCONSA | 34 | Biweekly |
| CSCL | BROOM PERÚ | NEPTUNIA | 35 | Weekly |
| K-LINE | K-LINE | IMUPESA | 38 | Weekly |
| NYK (NIPPON YUSEN KAISHA) | TRANSTOTAL | NEPTUNIA | 25 | Weekly |
| APL | AMERANDES | NEPTUNIA | 34 | Weekly |

*Source:* Foreign Trade Integrated Information System (Sistema Integrado de Información de Comercio Exterior, SIICEX). http://www.siicex.gob.pe

# APPENDICES

## APPENDIX 1

## THE PACIFIC ALLIANCE: ECONOMIC ARCHITECTURE AND INSTITUTIONS

### Institutional Dynamics

One of the salient features of the Pacific Alliance is that the Presidents of the four member countries have been directly involved and had led the process. They are the ultimate decision makers and meet on regular summits. Between 2011 and 2014, nine summits have taken place. This frequency is outstanding and was rare during the process to integrate other schemes of this nature in LAC. The pro tempore presidency is exercised by each member country for annual periods and rotates alphabetically. Mexico held the presidency in 2014 and Peru has exercised this position since July 2015.

Another important characteristic of the Alliance is the level of involvement of the private sector. Its active participation is institutionalized through the Pacific Alliance Business Council (PABC), created on August 29th, 2012 in Mexico City. Some of the main objectives of this council include promoting the involvement of the business community in the Pacific Alliance and providing recommendations to governments to implement the integration process.

Due to the interest that this scheme of integration has generated within third partners, there are currently 32 State Observers from America (12), Europe (10), Asia (7), Oceania (2) and Africa (1). Korea has been an observer since July 17$^{th}$, 2013. There is much room for economic cooperation between States Observers and the Alliance. This will require enhancing the Alliance's capacity to take full advantage of opportunities of cooperation in different areas. Also, several multilateral organizations such as IDB, the Economic Commission for Latin America and the Caribbean (ECLAC), Organization of American States (OAS), CAF-development bank of Latin America (banco de desarrollo de América Latina), and World Bank (WB) offer support, particularly through technical assistance.

### Trading Architecture

The chapters negotiated in the Additional Protocol to the Framework Agreement of the Pacific Alliance are usually part of an FTA and "given that the four countries already have FTAs with each other, the Protocol complements, improves, updates and deepens what has been accomplished, harmonizing its dispositions and establishing common standards, particularly in

trade related matters" (DIRECON, 2014). It is also important to understand that "the resolutions adopted in the framework of the Pacific Alliance will not replace or modify the economic, trade and integration aspects of bilateral or multilateral agreements between the Parties" (MINCETUR, 2015). So, the different agreements in force co-exist.

The Protocol indicates 2014 as the first year of implementation (rather than "the first year of the entry into force" as is the usual formula). So the ratification process that is still under way will not generate delays in the implementation phase. Once the Protocol enters into force, a major achievement in market access will be the immediate tariff elimination of 92% of the subheadings of the Harmonized System (6 digits). The remaining 8% will be subject to tariff reduction schedules from 2 to 17 years. It is important to highlight that there is a qualitative improvement over pre-existing bilateral or intra-regional agreements given that, among others, there are no safeguard mechanisms and no exemptions.

Additionally, single rules of origin were negotiated under the mechanism of cumulation of origin. These rules coexist with those set by CAN as well as with the bilateral agreements in place between member countries. Therefore, economic operators will choose which rules they want to use and will have the tariff preference that correspond to the regime of origin that is chosen. Disputes will be subject to different stages of arbitration as specified in the corresponding regime.

Apart from market access, there are also a large number of topics covered by the Protocol in trade-related disciplines. In financial services: national treatment in banking and facilitation of cross border investments; in electronic commerce: regulation of electronic transactions and commitment of not imposing custom duties on digital products; in technical barriers to trade: harmonization, recognition and equivalence of norms should be fostered; in public procurement: promoting SMEs and expanding the coverage of existing agreements; among other topics.

Despite the advancement and potential of this scheme of integration, it is important to note that intra-regional exports represent less that 4% of total exports of member countries of the Pacific Alliance in 2013 (see Table 5). Promoting productive integration to stimulate exports to regional and global markets is part of the challenge ahead. Exploring the feasibility of participating in global value chains with Korea can be an issue for future cooperation between governments and partnership between firms in the Pacific Alliance and in Korea.

**Stock Exchanges Integration**

MILA was created by integrating the Stock Exchange of Chile (Bolsa de Comercio de Santiago), Colombia (Bolsa de Valores de Colombia, BVC), Peru (Bolsa de Valores de Lima, BVL) and Mexico (Bolsa Mexicana de Valores, BMV). It started operations in May 2011 with three member countries of the Pacific Alliance (Chile, Colombia and Peru). Mexico joined the group in late 2014.

The principal benefits would be: (i) issuers gain access to a wider range of potential investors, international visibility, increased opportunities for international partnerships, increased liquidity and lower transaction costs; (ii) investors gain access to more issuers, which means diversification of their home Stock Exchanges (for example, the Peruvian Stock Exchange is highly concentrated in mining sector); moreover, a single platform decreases costs for all participants and increased liquidity will narrow spreads; (iii) intermediaries have more opportunities to offer new products with international standards to new clients that are attracted by the lower cost of trading; (iv) each country benefits from integration given that the representative sectors of each Stock Exchange differ from each other (for an illiquid and concentrated Exchange, such as the Peruvian market, MILA represents an opportunity to increase the trading volume, bringing wider access to more investors; similarly, for Colombian, Mexican and Chilean Exchanges, MILA is an important step for deepening the stock markets, giving investors the opportunity to easily reach four attractive markets in terms of costs and effectiveness).

MILA has been compared with another Stock Exchange integration effort like the Euronext, which was created by merging the Amsterdam, Brussels and Paris Stock Exchanges in 2000. The main difference is that Euronext was the result of a merger process, which required harmonizing legal, tax and commercial codes, whereas MILA is only a trading integration without corporate integration at a global level (BVC and BVL have agreed to merge but this is a separate decision from MILA initiative). Another difference is that Euronext is a platform that trades different types of securities (equities, bonds, derivatives, commodities) as opposed to MILA, which trades only equities. The inclusion of fixed income products is still pending. In this regard, MILA is just the Pacific Alliance's initial step in the process to pursue further goals.

In MILA, the Mexican Exchange is the most representative with a market capitalization of US$ 460.1 billion, followed by Chilean Exchange with US$ 225.2 billion, Colombian Exchange (US$ 139.5 billion) and Peruvian Exchange (US$ 76.7 billion) resulting in a total of US$ 901.6 billion, which is higher than the Brazilian Exchange's capitalization, which totals US$ 823.9 billion. As of January 2015, MILA had 739 issuers (220 Chilean, 74 Colombian, 160 Mexican and 275 Peruvian) versus 362 issuers on the Brazilian Exchange. Since its inception, the MILA market has traded over US$ 360 million through around 10,600 operations. Chilean equities have been the most traded (70% of total). These figures are still quite small compared to the home trading volume of each member country, as there are still key differences in taxes and regulation that inhibit MILA from reaching its full potential.

The pending agenda in capital markets of the Pacific Alliance includes issues regarding tax treatment, which differs greatly among member countries and constitutes a limitation for greater gains in MILA and in capital market integration. Standardization should include tax treatment of dividends and utilities. Another important issue is improving tax auditing through bilateral agreements in order to exchange information. Standardizing regulations is also quite important given that trading is still regulated by each country and subject to different laws, which leads to inefficiencies and prevents market growth.

The Pacific Alliance has a very demanding agenda in these matters. MILA, which covers secondary market trading, was the first step. Other goals include: (i) any Pension Fund within the Alliance could consider securities issued by Pacific Alliance companies as local investments; (ii) the primary market could be addressed, enabling any Pacific Alliance company to issue stock or debt under a single framework, giving companies access to all member countries as a single market; (iii) global integration of regulation framework is the final target. Although the market capitalization of MILA platform is larger than that posted by the Brazilian Stock Exchange, trading through this platform is still tiny compared to the latter's. Progress towards achieving the previously mentioned steps (taxes and regulations) will allow the MILA market (combining the platform with local transactions) to become the most important market in LAC (with higher volume and more diversification), which will position it globally and allow it to surpass the Brazilian Stock Market.

## Table 5• Intra-regional Exports: Value and Participation in Total Exports, 2013

*(Millions US$ and Percentages)*

| Exporting Region | MERCOSUR | CAN | Pacific Alliance | South America | MCCA | Latin America | World |
|---|---|---|---|---|---|---|---|
| **Values** | | | | | | | |
| MERCOSUR | 59,798 | 12,420 | 23,668 | 81,411 | 1,743 | 93,472 | 426,956 |
| CAN | 14,529 | 10,061 | 13,619 | 30,446 | 1,855 | 38,320 | 137,830 |
| Pacific Alliance | 23,567 | 17,128 | 19,356 | 46,020 | 6,623 | 60,414 | 556,974 |
| South America | 80,913 | 26,219 | 41,321 | 122,180 | 4,082 | 144,109 | 640,979 |
| MCCA* | 681 | 320 | 1,960 | 1,177 | 7,822 | 11,557 | 35,500 |
| Latin America | 91,546 | 34,187 | 51,906 | 143,051 | 16,671 | 181,182 | 1,057,413 |
| **Percentages** | | | | | | | |
| MERCOSUR | 14.0 | 2.9 | 5.5 | 19.1 | 0.4 | 21.9 | 100.0 |
| CAN | 10.5 | 7.3 | 9.9 | 22.1 | 1.3 | 27.8 | 100.0 |
| Pacific Alliance | 4.2 | 3.1 | 3.5 | 8.3 | 1.2 | 10.8 | 100.0 |
| South America | 12.6 | 4.1 | 6.4 | 19.1 | 0.6 | 22.5 | 100.0 |
| MCCA | 1.9 | 0.9 | 5.5 | 3.3 | 22.0 | 32.6 | 100.0 |
| Latin America | 8.7 | 3.2 | 4.9 | 13.5 | 1.6 | 17.1 | 100.0 |

*Note* (*): Central American Common Market (Mercado Común Centroamericano, MCCA)
*Source:* Elaboration based on DATAINTAL, IDB.

## APPENDIX 2

## COMPARATIVE OVERVIEW OF CONTENTS OF THE FTAs BETWEEN CHILE, COLOMBIA, PERU AND KOREA

- **Market Access**

Regarding National Treatment[13] and Export and Import Restrictions, Peru and Colombia have included their lists of exceptions in the application of both articles to ensure more predictability. Peru's list includes the *measures related to imports* of used clothing and footwear; used vehicles and used automotive engines, parts and replacements; used tires; used goods, machinery and equipment which utilize radioactive sources.

Colombia's list includes *export controls* of coffee; taxation of alcoholic beverages; *import controls* on some goods (fishery resources, surveillance equipment and private security equipment, radioactive isotopes and radioactive material, oil and gas, among others, as provided in its Decree 3803 of October 2006, except for remanufactured goods); import controls on automotive vehicles, including used vehicles and new vehicles imported after more than two years following the date of their manufacture. Chile's list of exceptions (on imports of used vehicles) is only applied in the article on export and import restrictions.

In the FTAs Korea-Peru and Korea-Chile, *export taxes* are prohibited unless the duty, tax or charge is also adopted or maintained on the good when it is destined for domestic consumption. The FTA Korea-Colombia has a similar provision that excludes two products (coffee and emeralds) on which export taxes are applied. It is important to point out that Peru and Chile do not apply export taxes.

With regard to *special regimes*, all of the FTAs contain articles on temporary admission of goods; goods re-entered after repair or alteration and duty-free entry of commercial samples of negligible value and printed advertising materials. However, only the FTAs Korea-Peru and Korea-Colombia include an article about waiving customs duties to eliminate trade distortions due to the application of any performance requirement. Furthermore, the FTAs Korea-Peru and Korea-Colombia also include an article on import licensing that seeks transparency in the application of this measure. The FTA Korea-Chile does not contain an article on this issue.

[13] This WTO principle means that both similar imported and locally-produced goods should be treated equally.

- **Rules of Origin**

The FTAs signed among Korea and Chile, Colombia and Peru include general provisions that establish conditions that goods must meet to be considered as originating: wholly obtained or produced, produced entirely from originating materials, produced of non-originating materials that meet specific origin rules, the De Minimis as well as other rules. Regarding specific rules of origin, in the three FTAs in general, goods produced using non-originating materials must undergo a change in tariff classification (CTC) either at the chapter, heading or sub-heading levels to qualify as originating goods. In certain cases, regional value content (RVC) is specified as an alternative rule to the CTC. RVC is defined either by the build-down method or the build-up method. In addition, the FTA Korea-Chile includes technical test criteria to be used only for apparel and clothing. Only the FTAs Korea-Peru and Korea-Colombia contain an article about the principle of territoriality.

- **Customs Procedures**

The three agreements contain provisions on customs procedures but, unlike the Korea-Chile FTA, the Korea-Peru and Korea-Colombia treaties include articles on Customs Administration and Trade Facilitation that seek to simplify and harmonize customs procedures to ensure predictability, consistency and transparency. There are also other specific provisions related to anti-dumping or countervailing cases and an article on import licensing that the Korea-Chile FTA does not include. The existence of provisions related to these issues is important since it contributes to improving the competitiveness of exports.

- **Sanitary and Phytosanitary Measures (SPS)**

In all three FTAs, these measures must be applied based on scientific principles and cannot constitute a disguised restriction to trade or arbitrarily discriminate against similar goods of the other Party and of any other country where similar conditions exist. Parties must refer to relevant international standards, guidelines or recommendations (with a view to seeking harmonization) to contribute to market access conditions. Furthermore, the FTAs Korea-Chile and Korea-Peru contain provisions to recognize the concepts of pest (or disease) free areas or areas of low pest (or disease) prevalence. Additionally, the FTA Korea-Chile includes articles about control, inspection and approval procedures, transparency and technical consultations. The FTAs in

question also include provisions relative to equivalence and risk regulation of the Parties' SPS measures that should be applied by national authorities in each country party to the agreement.

- **Technical Barriers to Trade**

The FTAs Korea-Peru and Korea-Colombia contain a chapter to improve the implementation of the WTO Agreement on this issue to ensure that standards, technical regulations and conformity assessment procedures do not create unnecessary obstacles to trade and to enhance cooperation between parties. They also include articles on the equivalence of technical regulations, conformity assessment procedures, transparency and technical cooperation, among others.

- **Safeguard Mechanisms**

In the three FTAs, Parties retain their rights and obligations under Article XIX of GATT and the WTO Agreement on Safeguards. The agreements also contain provisions for safeguards on agricultural products. In the case of FTAs Korea-Peru and Korea-Colombia, Parties (except Peru) include a list of agricultural products that may be subject to special safeguards. The FTA Korea-Chile does not include any related list. Furthermore, only Korea-Colombia and Korea-Peru FTAs include specific articles on the conditions for applying a bilateral safeguard measure (which allows a Party to impose a measure against imports from the contracting Party) as well as regarding notifications, consultations and compensation relative to this measure.

- **Anti-Dumping and Countervailing Measures**

Parties retain their rights and obligations under Article VI of GATT, the WTO Anti-Dumping Agreement and the WTO Agreement on Subsidies and Countervailing Measures regarding the application of measures in these areas. Only the FTAs Korea-Peru and Korea-Colombia include the framework under which anti-dumping or countervailing cases will be applied, which contributes to the predictability of actions taken by the Parties under these cases.

- **Subsidies and State-Aid**

The FTA Korea-Chile states that Parties maintain their rights and obligations under the WTO Agreement on Subsidies and Countervailing Measures. Furthermore, it allows Parties to request information on cases of State-Aid that they believe affect trade between them. The FTAs Korea-

Peru and Korea-Colombia do not contain provisions per se on these topics; however, they contain articles in the Market Access chapter that prohibit the introduction or reintroduction of export subsidies on agricultural goods destined for the other Party. In addition, Parties retain their rights and obligations with regard to State trading enterprises under the WTO.

- **Investment**

This chapter applies to measures adopted or maintained by a Party related to investors of the other Party and all investments in the territory of the Party. Since these provisions are related to other chapters in the FTAs, in case of inconsistency, the latter will prevail. The chapter contains the WTO basic principles: National Treatment and MFN as well as other articles that guarantee the equitable treatment or relates to procedures and measures that may be linked to investment.

- **Financial Services**

The chapter sets rights and obligations of the Party with regard to financial agents or activities of the other Party, as well as articles on consultations and dispute settlement. It seeks transparency in actions under the agreement. The FTA Korea-Peru is the only one with a chapter on this topic.

- **Electronic Commerce**

The Parties recognize the applicability of the WTO Agreement to measures affecting electronic commerce. Along with Peru, the FTA Korea-Colombia also includes a chapter on this issue. The FTA Korea-Chile does not.

- **Competition Policy**

This chapter sets out a framework for cooperation and coordination between the Parties' competition authorities and for the implementation of their competition laws. Cooperation includes notification, consultation, exchange of non-confidential information and technical assistance. The FTAs Korea-Colombia and Korea-Peru also include an article on consumer protection while the FTAs Korea-Chile and Korea-Peru contain an article that allows Parties to establish or maintain State enterprises and designated monopolies provided they are subject to competition laws in each country and do not adopt or maintain anti-competitive practices that affect trade. All these provisions seek to guarantee a suitable environment for business activities.

- **Public Procurement**

The chapter establishes a regulatory framework of rights and obligations among the Parties with regard to their laws, regulations, procedures and practices relative to this matter. Korea is a party to the WTO Government Procurement Agreement while Peru, Colombia and Chile are observers.

- **Intellectual Property**

The treaties commit the Parties to provide each other's nationals adequate and effective protection and enforcement of intellectual property rights and to faithfully implement the international conventions they have acceded to.

- **Labor**

This chapter strengthens the guarantee of access to tribunals for enforcement of labor laws, the promotion of public awareness of such laws, the enforcement of rights, the establishment of a Labor Affairs Council and the requirement for the Parties to initiate cooperative activities. The FTA Korea-Peru is the only one with a chapter on this topic. The FTA Korea-Colombia includes it partially (some provisions) in the chapter of Trade and Sustainable Development.

- **Environment**

Commitments are to promote international trade in accordance with the objective of sustainable development and to strengthen communication and cooperation between their environmental authorities. There is no chapter on this matter in the FTA Korea-Chile. The FTA Korea-Colombia includes it partially in the chapter Trade and Sustainable Development.

- **Cooperation**

Particular attention is given to economic, trade and technical cooperation. A committee and contact points are established.

## APPENDIX 3

## EXPANDED CUMULATION OF ORIGIN BETWEEN MEMBER COUNTRIES OF THE AGREEMENTS: A POSSIBILITY FOR THE FUTURE?

### 1. Application of Expanded Cumulation in Chile, Colombia, and Peru

The following agreements are reference points on how EC is considered by the countries under analysis:

- *Immediate application*. EC is in force in the Economic Complementation Agreements (Acuerdos de Complementación Económica, ACE) under ALADI between MERCOSUR-Peru (ACE 58) and MERCOSUR-Colombia (ACE 59). These agreements define the scope of EC between member countries of CAN and MERCOSUR. However, the precise mechanisms for application are not clear as the agreements do not establish which rules of origin should apply to products from third countries. Another example currently in force with less complication is the multi-party agreement between the EU and Colombia and Peru.
- *Conditional application*. EC is provided for in the text of the FTA but its implementation is conditional on additional negotiations and agreements to be set by the Parties at a later date. The FTAs Colombia-United States and Peru-United States are examples that provide for EC in the textile sector. These two countries also have a provision for EC across all products in the FTAs with Canada, EU (eg. EC with Central American countries and others) and the European Free Trade Association (EFTA).
- *Beneficiaries*. There are cases in which Colombia and Peru receive the benefits of EC in other agreements without direct membership as their inputs can be considered originating by the signatories of the agreement between the EU and Central America.

In sum, Figure 7 shows the agreements in which any of the three countries anticipate application of EC with other partners (extra-regional or otherwise). The agreements are divided according to their status and the form of application of this flexibility stipulated in each one of the treaties that include it. It is noteworthy that both Colombia and Peru have several agreements in which EC is considered while Chile does not have any. Colombia and Peru have jointly negotiated several agreements despite the fact that, subsequently, their conclusion and entry into

force have not been simultaneous. This contributes to the observed similarity in the consideration of EC.

## Figure 7• Expanded Cumulation in Agreements of Colombia and Peru with other Partners

*Source:* Elaboration based on the agreements.

### 2. Possibilities of Expanded Cumulation among Korea, Chile, Colombia, and Peru

In the older bilateral agreements existing among Chile, Colombia and Peru (ACEs) there are only provisions for cumulation of goods. These countries recently included cumulation of processes in the Additional Protocol of the Framework Agreement of the Pacific Alliance (as of July 2015, this Protocol is not yet in force). The origin regime approved among Chile, Colombia, Mexico and Peru is a cumulation mechanism and in this sense overcomes the preexisting restrictions in their bilateral agreements. In the same way, cumulation of goods and processes is contemplated in the three existing agreements in force with Korea (see Table 6).

## Table 6• Cumulation in Force in Bilateral Agreements of Colombia, Chile, and Peru within Themselves and with Korea

| Countries | Goods | Processes | EC |
|---|---|---|---|
| Chile-Peru ( ACE 38) | x | (-) | (-) |
| Colombia-Peru (ACE 28) | x | (-) | (-) |
| Chile-Colombia (ACE 24) | x | (-) | (-) |
| Pacific Alliance | x | x | (-) |
| Korea-Chile | x | x | (-) |
| Korea-Colombia | x | x | (-) |
| Korea-Peru | x | x | (-) |

*Note*: (x): in force, (-): not considered
*Source:* Elaboration based on the agreements

### 3. Necessary Elements for Expanded Cumulation

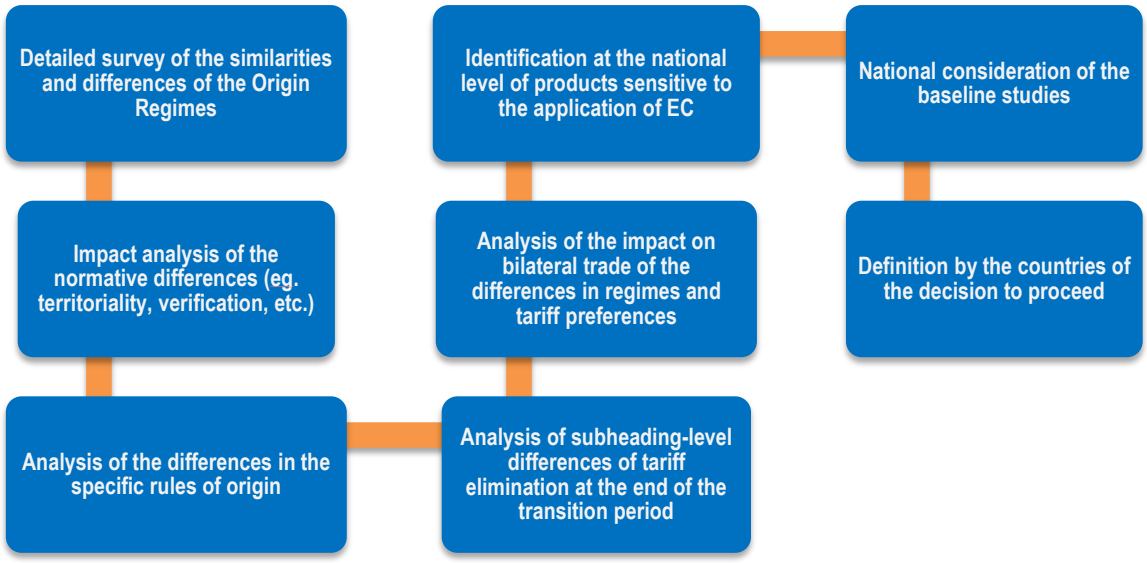
The first step to implement the EC is defining the geographical space where it will be applied. Each member country should have an FTA in force with all the other members in this geographical space. Such is the case for Chile, Colombia, Peru and Korea.

The lack of an FTA between Korea and Mexico rules out the possibility of applying EC with Korea based on the Pacific Alliance agreement which, from the normative point of view, could be a shortcut as the Alliance has already negotiated a common origin regime for its member countries that could be taken as a basis for negotiation with Korea. However, using the Pacific Alliance as an umbrella for such negotiations would require the approval of Mexico, which would not receive any benefits from these modifications. The disadvantage - and indeed the key limitation - is whether it is legally acceptable to include, within that tripartite agreement, clauses related to only three of the partners that provide no benefits to the fourth, which does not have an agreement with the external country in question (Korea).

Effective implementation of EC requires three key elements, which refer to origin regimes, tariff elimination schedules and rights and obligations of national authorities (see Figure 8).

- Concerning the origin regimes, it is necessary: (i) to enable a *mechanism* for cumulation from third countries within the bilateral regimes of the network, (ii) to define the *rules* of origin that should be applied to inputs cumulated from third countries, and (iii) to establish the *type* of cumulation that will be allowed with the third countries.
- It is necessary to adjust the tariff elimination schedules in force among all participating countries: each input that will be part of the cumulation regime should have the same preferential tariff in all the different liberalization schedules of the agreements negotiated with Korea.
- Rights and obligations of national authorities and businesses should be established so they can properly verify, or demonstrate, the originating status of inputs to be cumulated.

**Figure 8• Tentative Scope of Baseline Studies for Expanded Cumulation**




*Source:* Base document elaborated for this study.

## 4. Expanded Cumulation Scenarios and Alternative Paths

There are three possible scenarios. The first is that EC could be negotiated to allow producers in Chile, Colombia and Peru to cumulate among them in the elaboration of products for export to Korea. In addition to the previous possibilities, the second scenario includes the possibility that

Korean producers can cumulate inputs from the three LAC countries for the purpose of exporting to Chile, Colombia and Peru. Finally, the third scenario, most broadly, in addition to the previous two, devises a scheme in which Korean inputs can be cumulated in preferential trade among the three LAC countries. The existence (or not) of the three key necessary elements facilitates (or not) the realization of the different scenarios.

There are two alternative paths that are feasible for implementing the scenarios under the current trade architecture, though not necessarily with the same degree of effort, as the first would be the simplest.

First Option

It consists of applying EC based on the three bilateral regimes in force with Korea. This alternative would allow implementation of the first and second scenarios and could have two variations depending on the way in which the rules of origin would be applied:

One variation would be to expand the rules of origin governing the final commercial operation backwards up the value chain, that is, the inputs to be cumulated from a third country must meet the rules of origin defined in the regime governing the final transaction for those inputs. For example, if Colombia exports a product to Korea that cumulates an input from Peru, the Peruvian input must comply with the rules set out in the agreement between Colombia and Korea. The second variation would consist in requiring that the cumulable input meet the rule of origin defined in the agreement between the producer of the input (Peru) and the country that will receive the final good that contains it (Korea).

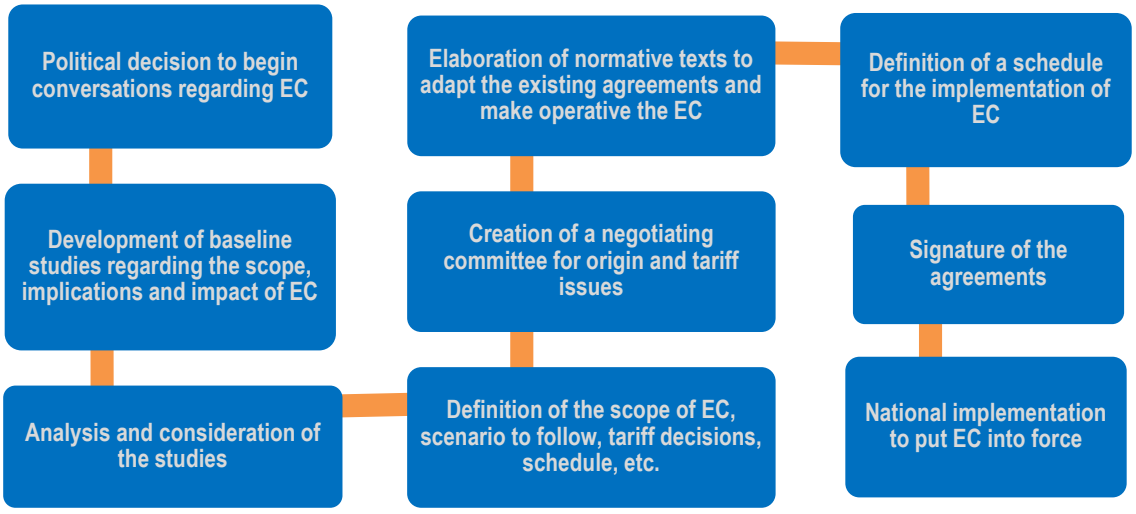
Second Option

This would enable application of the third scenario and require negotiation of a new origin regime among the four countries. It could apply to all of them and thus would allow free cumulation of goods and processes among them. In addition to the negotiation of this new regime, the existing tariff elimination schedules would have to be revised to remove differences in the three existing bilateral agreements so as to avoid undue triangulation.

Besides negotiation of such a narrow agreement among the four countries (only origin regime and adjustment of tariffs), the rest of the disciplines in the existing agreements could supplement it to provide the needed framework. For any option selected to achieve EC among

these countries, a series of steps will be needed but of differing scopes. Figure 9 shows a summary of stages of the negotiation process for EC.

**Figure 9 • Steps for the Application of Expanded Cumulation**




*Source:* Base document elaborated for this study.

## APPENDIX 4
## EVOLUTION OF TRADE AFTER THE FTA CHILE-KOREA

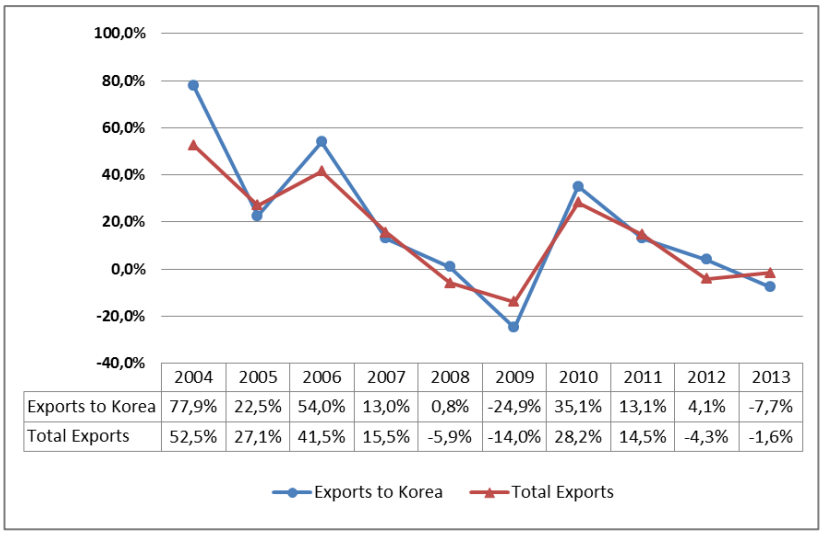
### 1. Chilean Exports to Korea: General Evolution and Beneficiary Sectors

In the period 2003-2013, Chilean exports to Korea increased 15.5% on average per year. Total exports to Korea posted similar growth rate to copper, the main product exported. In fact, a significant portion of Chilean exports to Korea come from the mining sector (77% of the total in 2013). Copper represents the major portion (72.5% of the total). This concentration is even higher than the total of Chilean exports to the rest of the world given that in the same year, the share of mining products in total exports was 57.3% (52.4% corresponding to copper).

However, it is important to highlight the significant performance of others products within non-mining exports. Even though the share of the non-mining and non-cellulose sectors in total Chilean exports to Korea did not change much over the period studied, and even fell slightly (19.3% in 2003 versus 17.1% in 2013), there are important increases in the share of some individual products. For instance, salmon increased its share in total exports to Korea from 0.3% in 2003 to 1.0% in 2013; fruits, from 1.1% to 3.6% and bottled wine from 0.3% to 0.8% during the same period (see Annex 15). These shares, which may be considered relatively unimportant because do not generate a huge amount of export revenue (compared to copper), are relevant because they represent efforts to diversify exports to serve growing Korean demand.

Throughout the decade under analysis, exports to Korea posted positive annual growth every year with the exception of 2009, when the global financial crisis hit, and 2013, when copper exports fell (-13.2%) but non-mining and non-cellulose products increased every year by 16.1%. Therefore, Chilean exports to Korea showed cyclical behavior that was very similar to that of total Chilean exports in the period under analysis due to the importance of copper in both cases (see Figure 10).

## Figure 10• Growth Rates of Chilean Exports to Korea and Total Exports, 2004-2013 *(Percentages)*




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Exports to Korea | 77,9% | 22,5% | 54,0% | 13,0% | 0,8% | -24,9% | 35,1% | 13,1% | 4,1% | -7,7% |
| Total Exports | 52,5% | 27,1% | 41,5% | 15,5% | -5,9% | -14,0% | 28,2% | 14,5% | -4,3% | -1,6% |

*Source*: Elaboration based on data from DIRECON.

The number of Chilean companies that export to Korea also grew significantly from 288 in 2003 to 658 in 2013. The DIRECON database does not provide information on the economic sector of these companies. Only their tax identification (tributary unique roll, RUT) is available. In addition, some company names are generic and it is impossible to determine which product is exported and the economic sector where the firm operates. Moreover, some companies exported in 2003 but not in 2013. Taking all this into account and considering only companies with non-generic names that exported in 2013 but not in 2003, the estimated number of new companies that apparently initiated exports of agricultural, fishery and food products to Korea due to the agreement would be at least 211, which represents 58% of the 370 additional firms that started exporting to Korea after the FTA.

Based on the composition of the export basket to Korea, certain Chilean regions have benefitted most from the FTA. Specifically, they are the Northern Chilean regions, where copper and other mining products account for the majority of GDP. Also there are regions in the south of Chile where agricultural, forestry and fishing sectors are very important. In the case of wine, the most benefitted regions are the Central and Southern regions (VI and VII) and the Metropolitan region, where Santiago, the capital, is located.

In 2004, the year that the agreement entered into effect, Chilean exports to Korea grew 77.9%. This significantly outpaced total exports, which grew 52.5%, and mainly reflects the immediate competitive advantage that Chilean exports gained in the Korean market, which included many products with zero-tariff. The Chile-Korea FTA originally established schedules for a "list of tariff eliminations" under the categories of year 0, year 5, year 7, year 9, year 10, year 10S, and year 16[14].

If we consider new products and those that ceased to be exported during the period under analysis, in net terms, Chile increased its supply from 179 product exports to Korea in 2003 to 369 in 2013. The country supplies Korea in 18 out of 24 agricultural chapters of the Harmonized Commodity Description and Coding System, providing mainly fish and crustaceans followed by meat and fruits. Korea is the fifth destination for agricultural, fishing and food products exported by Chile (DIRECON & ODEPA, 2014).

In 2013, total Korean imports of these items rose by 1.7%,while imports from Chile of the same items increased by 6.7%. The competitive advantage provided by the FTA contributes to helping the Chilean agricultural, fishing and food industries penetrate the Korean market. If we compare total exports to Korea with total Chilean exports, there are some products that have performed extraordinarily in the Korean market. Salmon, a star Chilean product in international and Asian market in particular, has been a hit in Korea. In 2003-2013, salmon exports to Korea rose more than 14 times while total Chilean salmon exports to the world only tripled in the same period.

Exports of Chilean grapes to the Korean market have grown more than 11 times since 2003, whereas total grapes exports to the world only doubled in the same period. Korea moved from 6$^{th}$ place (1.3% of Chilean grapes exports) to 3$^{rd}$ place (with a significant 7.4% of total Chilean grapes exports to the world). Finally, fruit exports to Korea moved from 19$^{th}$ place in terms of Chilean exports to the world (in 2003) to 6$^{th}$ place (in 2013), growing more than 13 times since the agreement went into effect.

[14]This means, for instance, that 16 years after the agreement went into effect, products in this category will be subject to zero-tariff. This is set to occur in 2020.

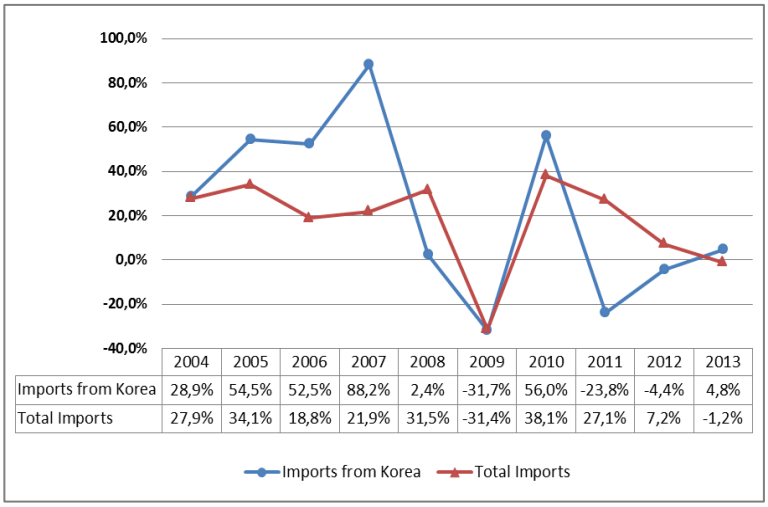
## 2. Chilean Imports from Korea: General Evolution and Main Beneficiary Sectors

Korea is the 6th largest source of imports for Chile after the United States, China, Brazil, Argentina and Germany. Imports from Korea represented US$2.6 billion or 3.6% of total Chilean imports in 2013; 45% of them were final goods, while 34% and 21% were intermediate and capital goods respectively (DIRECON, 2014b). Final goods began to dominant the scene in 2011, displacing intermediate goods, which had led imports for the five previous years (2005-2010). Imports almost doubled in 2007, then fell in 2009 (due to the global financial crisis), recovered significantly in 2010 and declined again the year after (slowdown caused by the Euro crisis). Since 2011, imports have been relatively stable. The growth rate was 16.9% on average per year during this period.

As for exports, Chilean imports from Korea have posted cyclical behavior similar to that seen in Chilean imports from the rest of the world. However, from 2004 to 2007, imports from Korea grew much faster than those from other areas around the globe, showing the initial impact of the FTA. In 2009, both imports fell significantly and in 2010 Chilean imports from Korea recovered faster than total imports. Finally, in the period 2011-2013, imports from Korea decreased but posted a slight recovery in 2013. This pace is mainly due to the reduction of imports of intermediate goods (see Figure 11).

In 2004 the FTA allowed 67% of Korean imports (41.4% of items) to be immediately moved to zero-tariff. The lists of tariff elimination under the categories of year 0, year 3, year 5, year 7 and year 10 have already been executed, which means that 95.1% of Korean items can be exported to Chile with no-tariff (94.8% of Korean imports). The last category (year 13) will be executed in 2017 (DIRECON, 2014a).

## Figure 11• Growth Rates of Chilean Imports from Korea and Total Imports, 2004-2013 *(Percentages)*




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Imports from Korea | 28,9% | 54,5% | 52,5% | 88,2% | 2,4% | -31,7% | 56,0% | -23,8% | -4,4% | 4,8% |
| Total Imports | 27,9% | 34,1% | 18,8% | 21,9% | 31,5% | -31,4% | 38,1% | 27,1% | 7,2% | -1,2% |

*Source*: Elaboration based on data from DIRECON

Chilean imports from Korea grew from 1,850 products in 2003 to 1,946 products in 2013. This increase (5.2%) was not as large as in the case of exports. However, there has been a change in the composition of imports, some products are no longer imported (e.g. some toys, shoes, clothes and some electrical appliances) while others have appeared on the list (e.g. cellular phones, and several intermediate goods, such as machinery, parts, accessories and other electrical appliances).

The top 10 products imported from Korea in 2013 represent 64% of the total Chilean imports from Korea. Motor cars and other motor vehicles -mainly designed for transport of persons and of a cylinder capacity exceeding 1,500 cc, but not exceeding 3,000 cc- are currently the main Chilean import from Korea, growing from US$15 million, in 2003 to US$194.2 million in 2013 and tripling its share of total imports (from 3.6% to 10.4%) during the decade under analysis.

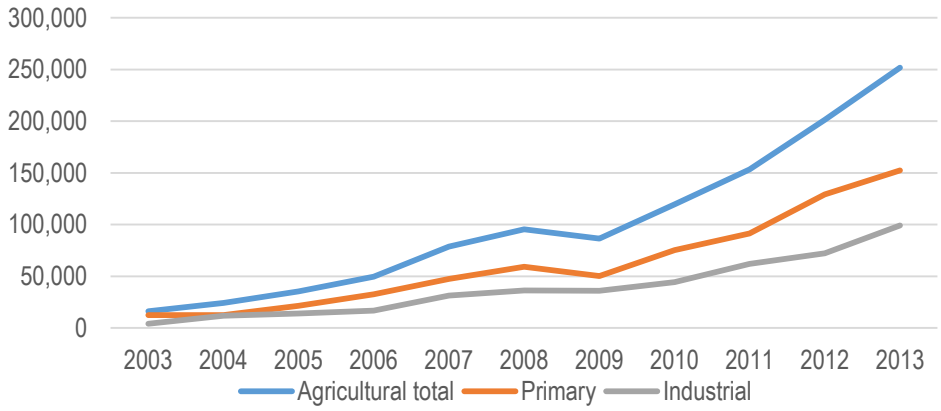
## APPENDIX 5
## EVOLUTION OF EXPORTS OF FRESH FRUITS FROM CHILE AND PERU TO KOREA

### 1. The Case of Chile

Of total agricultural exports shipped to Korea in 2013, 68% are primary agricultural products (US$ 152 million) and the remaining US$ 99 million are agro-industrial products. Approximately 82,823 tons of fruit -corresponding to US $ 211.3 million- were exported to Korea in 2013. Over 70% of this total is fresh fruits. Exports of fresh fruit grew 1,728% in the period 2003-2013, which corresponds to an average growth rate of 38% annually (see Figure 12).

**Figure 12• Chilean Agricultural Exports to Korea, 2003-2013**

***(Thousands US$)***




*Source:* Elaboration based on databases of the National Customs Service of Chile.
http://www.aduana.cl/exportaciones/aduana/2007-04-16/165951.html

In 2013, Korea ranks sixth as a destination for fresh fruits from Chile with 3.3% of total exports to the world, far behind the United States (34%), China (11%) and Netherlands (9%), the top three destinations. United Kingdom and Brazil represent 4% each one of total exports[15]. In 2003, only grapes and kiwis were exported as fresh fruits to the Korean market. In 2013, there

[15] Compiled from the National Customs Service of Chile

were already eight types of fruits exported for more than US$ 150 million. However, grapes represented 78% of this total, followed by walnuts (10%), kiwi (6%) and blueberries (2%). Some other fresh fruits exported to Korea are oranges, lemons, raisins and sweet cherries.

Grapes are sold in three varieties (Thompson, Red Globe, and Crimson Seedless). In 2013, Red Globe accounted for 80% of the total exports of fresh fruits to Korea. Due to the FTA, since January 1, 2014, Chilean grapes have entered the Korean market duty free rather than being subject to the 45% tariff previously in place (MFN). For the period 2003-2013, these exports grew on average 28% per year (from US $ 10.1 million to US $ 117.6 million). In 2013, the volume of grapes amounted 47,673 tons.

There is seasonality in exports: the most significant export period is January to May, while between June and December exports are very low. A total of 108 Chilean companies exported grapes to the Korean market in 2013. “Exportadora Río Blanco” represented almost 13% of the total, with nearly $ 13 million, followed by “Exportadora Subsole (7%), “Gestión de Exportaciones Frutícolas S.A” (6.14%), “Dole Chile” (6%) and “David del Curto S.A” (5%) each one with exports above US $ 5 million.

Blueberries are an interesting case because, until 2012, there were no Chilean exports reported of this product to the Korean market. The reason was that the sanitary authorization was issued recently in July 2012. From this year on, exports of this fruit have grown exponentially, going from US$ 876 thousand - equivalent to 113 tons - to US$ 3.5 million in 2013, and to nearly $ 6 million by November 2014. Since January 1, 2014, blueberries have been subject to a zero-tariff versus the 45% tariff previously in place (MFN).

Like grapes, blueberries are seasonal products that are mainly exported between November and March. Chile is the main provider of fresh blueberries to Korea, which are transported almost entirely by maritime venues. Blueberry exporters to Korea are fewer in comparison to the number of exporters of grapes. In in 2013, only 25 companies exported blueberries to this market. “Vital Berry Marketing S.A.” is the leader with 22% of total exports, followed by “Hortifrut Chile S.A.” (18%), “Copefrut S.A.” and “Patagonia Food S.A.” (10% each), “Alpine Chile S.A.” and “Niceblue S.A.” (7% each) and “David del Curto” (5%).

More information concerning Chilean exports of fresh fruits, in the context of total Chilean exports to Korea, are given in Appendix 4.

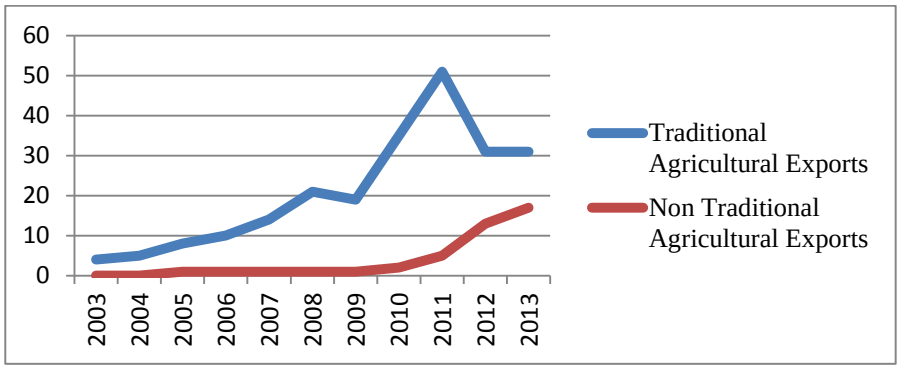
## 2. The Case of Peru

The main Peruvian agricultural export to Asia is by far fresh grapes followed by decaffeinated and unroasted coffee, fresh or chilled asparagus, tara powder, among others. Blueberries, which entered the export field recently in 2013, are ranked 10th among the main agricultural exports. From 2003 to 2013, the main destination of fresh fruits in Asia was China, with 26% of total, followed by Japan (24%) and Hong Kong (21%). Korea falls far behind (4%)[16]. Peruvian fruits are opening doors in various Asian destinations such as Thailand, Indonesia, Vietnam and Taiwan. Sanitary protocols are pending, which is the main reason why Peruvian exports to the Korean market are limited.

In 2013, traditional agricultural exports to Korea totaled US$ 31 million. Coffee was the main product. Non-traditional agricultural exports totaled US$ 17 million, led by fresh grapes. Annual growth rate of non-traditional exports to Korea was almost twice that of traditional exports (42% versus 23%) in 2003-2013. A strong increase in non-traditional agricultural exports occurred in 2011, when the FTA went into effect (see Figure 13).

**Figure 13• Peru: Agricultural Exports to Korea, 2003-2013**

***(Millions US$)***



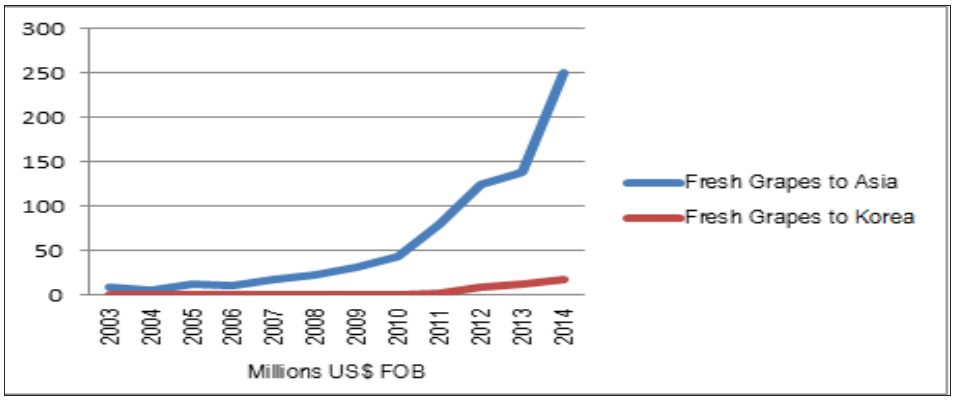

*Source:* Elaboration based on ADEX Data Trade.

Exports of fresh grapes to Asia reported steady growth between 2003 and 2014. Hong Kong, China, Thailand and Korea (since 2011) were the main destinations (see Figure 14).

[16] Based on ADEX Data Trade. http://www.adexdatatrade.com

## Figure 14• Peru: Grapes Exports to Asia and Korea, 2003-2014

### *(Millions US$)*

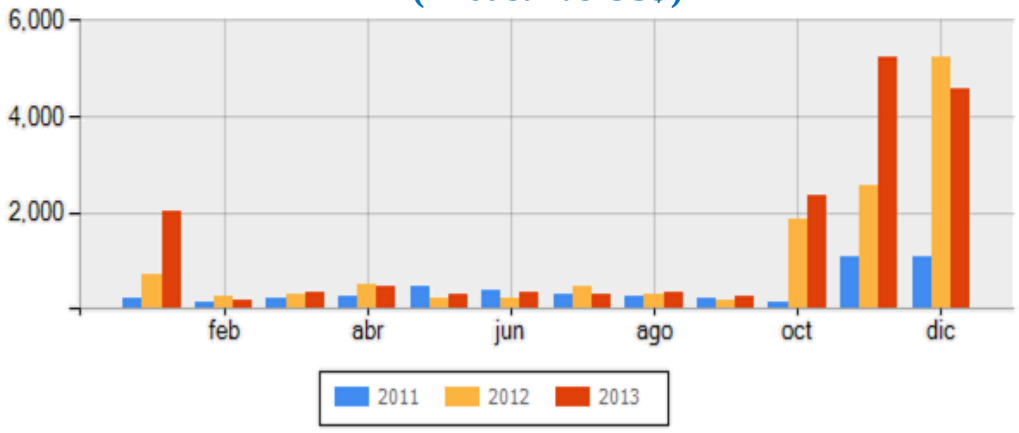



*Source:* Elaboration based on ADEX Data Trade.

The varieties of grapes produced are: Red Globe, Crimson Seedless, Flame Seedless, Surgraone and Thompson Seedless. In 2013, 47 companies exported to Korea. Among these are: Rapel Agricultural Society (55% of total), Agricola Don Ricardo and Complejo Agroindustrial Beta (6% each), Fundo Sacramento (7%) and Agricola San José (4%). Exports of fresh grapes are seasonal and the highest sales are posted from October to January. However, seasonality for 2014 has increased from October to April. The most productive months are November to April in the departments of Ica, Lima, Arequipa, Moquegua and Tacna. However, in La Libertad, production is almost the same throughout the year due to weather conditions (see Figure 15).

## Figure 15• Peru: Seasonal Grapes Exports to Korea, 2011-2013

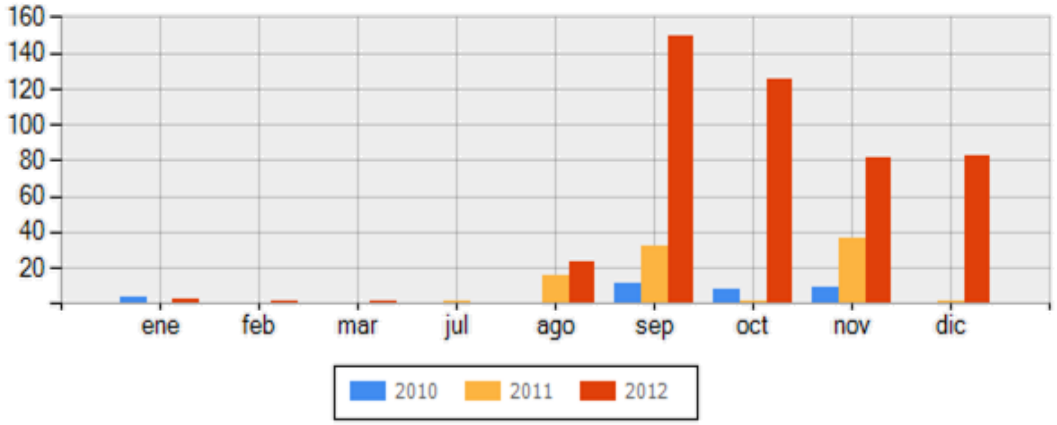
### (*Thousands US$*)




*Source:* Elaboration based on ADEX Data Trade.

Fresh blueberries have been exported to Asia since 2013, reporting an initial value of US$ 4 million that rose in 2014 to US$ 6 million. The destination for almost all exports of fresh blueberries is Hong Kong. In 2013, there were ten exporters but only CAMPOSOL and TAL exported over US$ 1 million, which represented 56 % and 38% of total exports respectively. Among others are INTIPA Foods (2%) and AGRICOLA ATHOS (1%). Similar to fresh grapes, blueberries are seasonal. The primary export period is September to December (see Figure 16).

**Figure 16• Peru: Seasonal Blueberries Exports to Asia, 2010-2012**
***(Thousands US$)***




*Source:* Elaboration based on ADEX Data Trade.

The main strength of the Peruvian export supply of berries is that the harvest coincides with periods of scarcity worldwide (September-October). Peruvian berries can enter the market before production starts in Uruguay, Argentina and Chile, providing a tactical advantage.

## APPENDIX 6
## SINGLE WINDOW NATIONAL PLATFORMS
## IN MEMBER COUNTRIES OF THE PACIFIC ALLIANCE

### 1. Chile

The Foreign Trade Integrated System (Sistema Integrado de Comercio Exterior, SICEX) is a SW that helps users obtain and trace documents related to import, export and transit from the Customs Authority and other public agencies through a single website. Although the window not full operative yet, SICEX´s main target is to facilitate trade and enable interagency collaboration, which play a role in foreign trade operations. The window is managed by the Ministry of Finance. SICEX is expected to operate all year round and will be free of charge, except for those official fees required by regulatory bodies.

The process to develop and implement SICEX has been scheduled as follow: in exports, pilot operations began in the second quarter of 2013 and were scheduled for completion in 2014; in imports, a pilot mode has been in effect since 2014 and were scheduled to be fully implemented in the first quarter of 2015; in transit, the model has been operating in pilot mode since 2014 and were scheduled to be fully implemented during 2015. By using SICEX, an exporter can file its export customs declaration, request licenses, permits and certificates from regulatory bodies. The SICEX export pilot Project started with five public agencies, 89 products (such as salmon, copper cathodes, grapes, apples, chicken, turkey, medicines, tires, tobacco, footwear), 3 port facilities (Valparaiso seaport, Santiago Airport and, Los Andes border check point), 12 customs brokers and 21 exporters. As of December 2014, the export module covered more than 13,201 products, every Chilean port and 306 customs brokers and exporters.

The agencies incorporated in SICEX are: National Fishing Authority, Customs Authority, Public Health Institute, Chilean Commission of Copper, Agriculture and Livestock Service. To make use of SICEX, clients must be registered in the Foreign Trade Single Registry, which is electronically based and enables users to upload the standardized information required by regulatory bodies.

## 2. Colombia

SW was created in 2004 and it is managed by the Ministry of Trade, Industry and Tourism. It is an online platform to handle trade-related proceedings with 21 regulatory bodies through a single point[17]. Security standards have been developed for different proceedings and the system allows digital signatures and online payments. It is comprised of three modules: i) Imports, ii) Exports and, iii) Foreign Trade Single Format (FUCE). The SW is connected with trade-related regulatory bodies such as the Ministry of Trade, Industry and Tourism, Mines and Energy, Environment, Housing and Territorial Development, Transport, Social Protection, Foreign Relations, Agriculture, Defense and Culture, Superintendence of Industry, Commerce, Superintendence of Surveillance and Private Security, Colombian Institute of Rural Development, Farming Colombian Institute, Ingeominas, Military Industry of Colombia, National Institute of Medicines and Foodstuffs, National Directorate of Drugs and the Drug National Fund.

The import module has two components: A "VUCE Web System," where the user or "client" can check official fees, file and respond to requests, sign electronically, make on line payments, and trace proceedings. The other component is the "VUCE Application," which is used to sign and transmit the electronic filings generated by users from their data systems. The export module allows users to obtain the permits and certificates requested by various export-related regulatory bodies. Finally, the Foreign Trade Single Format allows users to be registered in different public entities.

## 3. Mexico

In 2011[18] the Foreign Trade Single Window (Ventanilla Única de Comercio Exterior, VUCEM) was created as an automated data system of transactions to allow the trade community to submit electronic declarations to various regulatory bodies from a single entry point. Users are allowed to submit, make payments and inquire about any proceeding related imports, exports, transit,

[17] http://www.vuce.gov.co/
[18] In January 2014, an Official Decree was enacted by the Government.
https://www.ventanillaunica.gob.mx/cs/groups/public/documents/contenidovu/mdaw/mdaw/~edisp/stkmexvudb2000515.pdf

including regulations and non-tariff barriers required by regulatory bodies. An important VUCEM feature is the electronic signature. This is a dataset that is attached to an electronic message, which identifies the message of author/origin. It ensures secure transactions and prevents unauthorized modifications; its design is based on international standards.

VUCEM is linked to the following institutions related to foreign trade: Secretariat of Finance and Public Credit, Ministry of Economy, Ministry of Public Administration, Ministry of Health, Federal Commission for the Protection against Sanitary Risk, Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food, Ministry of National Defense, Ministry de Environment and Natural Resources, Attorney General for Environmental Protection, Ministry of Energy, National Institute of Arts, Mexican Association for the Coffee Productive Chain and the Tequila Council.

Strategic decisions are adopted by a special commission (Comisión Intersectorial de la Ventanilla Única) chaired by the Ministry of Economy. VUCEM is expected to cut costs and some of its long term objectives are: establishing single declarations to promote interoperability among regional SW; granting AEO special instruments to interoperate with other regional SW; and providing electronic cargo manifests (railway, maritime, airborne and landing), export control, electronic notifications of inspections, remedies and foreign trade tax refunds.

## 4. Peru

The SW in Peru was launched in 2010, several years after initiatives were set in motion to design an effective governance model. It is based on international Recommendation 33 and has created an interagency collaborative model managed by MINCETUR that embraces three components: controlled merchandises, certificates of origin and port-related services.

The *controlled merchandise* component allows users to obtain permits, certificates and licensees through internet for the entry, transit and exit of goods, such as foodstuffs, medicines, animals and perishables as well as telecommunication equipment, among others. This was the first module to be implemented and the largest in terms of volume of transactions (proceedings). Even though it has recorded impressive growth, it still needs to be interconnected with the

Customs Authority. As of December 2014, the SW covered 250 proceedings from 17 regulatory bodies related to foreign trade operations.

The system for *certificates of origin* issues certificates and provides information on rulings relative to origin. It integrates producers, exporters, regulatory bodies and the Customs authority. This module has conditions to become a precursor of interoperability. It is foreseen that this module could operate with the Colombian and Costa Rican SW. The *port service component* covers proceedings related to authorizations for entry, stay and departure of vessels, hazardous merchandise as well as collateral proceedings for the vessel crew members such as migrations, sanitary permits and health certificates. 96 proceedings from 7 public entities are to be incorporated in this component.

Basically, users access the SW through their tax ID and file their request electronically by uploading digitalized documentation. This information is delivered to the regulatory body which, with its own information systems or through access to the SW portal, can evaluate the request, give a response or notify the user. As of December 2014, SW was already well established as a single exchange platform of trade proceedings. However, a major target is to create data models for certificates and other related documentation including digital signature. Both are expected to generate substantial savings in time and costs.

## APPENDIX 7
## INSTITUTIONAL FRAMEWORK OF NATIONAL POLICIES IN EXPORT PROMOTION AND INVESTMEN ATTRACTION

There is a strong correlation between trade and investment promotion and economic growth. In this field, LAC faces important challenges to improve competitiveness and perform more effectively in global markets. Promotion policies and strategies of member countries of the Pacific Alliance share the objective of increasing exports, tourism and investment from abroad. For this purpose, there are at least two institutional levels: the ministries in charge of defining policies -Foreign Trade, Foreign Affairs, Economy and Finance- and one or more promotion agencies responsible for the definition and implementation of strategies in four areas: exports, investment, tourism and country brand.

At the first institutional level, the instrument is the national strategic plan, whose basic characteristics are: medium-long term vision translated into a State policy and the involvement of public-private partnerships, with the participation of academia, to develop concrete measures. For example, in Mexico, the definition of trade and investment policies and strategies is the result of strong coordination between the ministry of Trade and Industry, the National Bank of Foreign Trade and private sector - industrial and commercial chambers, Mexican National Council for International Affairs, among others.

Another example is Peru, which has three levels for policy definition in these areas: the National Agreement (Acuerdo Nacional), which involves political groups, businesses associations, academia, among others, in the process to define State policies; the National Competitiveness Council, which is under the umbrella of the Ministry of Economy and Finance and establishes guidelines in strategic areas; and the National Strategic Exports Plan, which is in effect for ten-years periods and includes four pillars: exportable supply, market development, trade facilitation and export culture. The first plan ran from 2003-2013 and the second will be in effect for the term 2015-2025.

At the second institutional level (promotion agencies), Chile established specialized agencies for four specific areas (exports, investments, tourism and country brand). Colombia, in contrast, established only one. In the middle, there are combinations. For example, in Peru,

PROMPERÚ is in charge of promoting exports, tourism and the country brand while PROINVERSIÓN is the agency that deals with investment attraction.

Promotion efforts of member countries of the Pacific Alliance put emphasis on diversifying exports to include non-traditional products. The corresponding agencies conduct market research, create tools and build databases to identify potential exportable products, services and markets, conduct tests on potential exports and engage in promotional activities in third markets.

PROCHILE was established in November 1974 as a subsidiary of DIRECON. Its mission is to contribute to economic development in Chile by promoting products and businesses abroad and ensuring that Chilean companies enjoy sustainable internationalization, with an emphasis on SMEs. It has 15 regional offices in the country and 62 international offices in 49 countries. In 2004, Chile began efforts to build a country brand. Within the most successful cases of export promotion are fresh fruits, wine and salmon.

PROCOLOMBIA was created in November 1992 with public resources and has a private administrative regime. It has 8 regional offices in the country and 26 offices abroad in 30 countries. Colombia´s country brand seeks to create a positive image of the country abroad, which is particularly important given that Colombia has suffered from internal conflict for many years. The campaign "The Answer is Colombia" began in September 2012 and strives to give a global overview of the country (biodiversity, culture, investment and exports). Within the most successful cases of export promotion are flowers, textiles and clothing, and building materials.

PROMEXICO, the agency for promotion of international trade and investment, was established in 2007. Mexico, as the largest exporter in LAC, leveraged its strength based on competitive advantages such as macroeconomic stability, export platform, strong domestic market, human capital and advanced manufacturing, as well as its participation in NAFTA. There are 29 regional offices and 48 offices abroad in 31 countries. One of the most successful cases of export promotion has been avocado.

PROMPERU was created in 2007 by merging Prompex, the former commission for promotion of exports, and the previous commission to promote Peru, which focused on tourism. It has 36 trade offices abroad in 32 countries and 7 in Peru. Peruvian country brand was developed as a strategy to position Peru as an attractive place for investment and tourism and as a reliable supplier for high quality products and services. Within the most successful cases of

export promotion are fresh vegetables (asparagus), fresh fruits (grapes and mangos), textiles and clothing.

Promotion efforts cannot deliver full advantages if they are not accompanied by: consistency between policies (macroeconomic, trade and others); market friendly regulations; technology diffusion in productive sectors; institutional stability, transparency, and limited corruption; strong and stable financial markets; good standards in infrastructure and logistics for trade; effective social policies and qualified human capital.