

INTERNATIONAL TRADE

The Pacific Alliance and its economic impact on regional trade and investment

Evaluation and perspectives

José Durán Lima
Daniel Cracau



UNITED NATIONS

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This document has been prepared by José E. Durán Lima and Daniel Cracau, staff of the International Trade and Integration Division of the Economic Commission for Latin America and the Caribbean (ECLAC).

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Abstract

The entry into force of the Additional Protocol of the Framework Agreement of the Pacific Alliance in May 2016 marked an important step towards the regional integration efforts of its four members: Chile, Colombia, Mexico and Peru. In addition to promoting trade and investment linkages among its members, a core objective of the Pacific Alliance —and what distinguishes it from other regional integration efforts in Latin America— is to serve as a platform for economic and commercial integration between Latin America and Asia-Pacific. It is, therefore, of particular interest to evaluate current economic developments taking part in modern Latin America and their impact upon these integration efforts.

The data of bilateral flows of trade in goods at the product and sector level, together with the study of trade in services as well as foreign direct investment, reflect the strong links within the Pacific Alliance. It also reveals the potential to further increase its members' participation in regional and global value chains. The Additional Protocol will serve not only to immediately eliminate tariffs for nearly 95% of intraregional imports, but also to foster economic integration through cumulation of origin and trade facilitation.

The Pacific Alliance faces several challenges in the medium-term. First, it must successfully incorporate Costa Rica as a full member, the first accession since the Pacific Alliance was formed. Further, it must clearly define how to fulfill one of its driving forces: to serve as a bridge between Asian and Latin American countries on both sides of the Pacific.

Introduction

This document has a dual purpose. On the one hand, it analyzes the links between the member countries of the Pacific Alliance (PA, or *the Alliance*) on trade in merchandise goods and services as well as foreign direct investment (FDI). The analysis focuses on the documentation of the existing spaces in regional value chains in the bilateral trade between the members of the Alliance. Hereby, those main industrial sectors are identified for which important productive linkages are emerging, particularly in cases where a high intensity of trade in intermediate goods exists.

On the other hand, the document addresses some of the major challenges the PA faces ahead of its goal of becoming a platform for the joint development of its members in the Asia Pacific region. The second part of the analysis necessarily includes a speculative component, since the PA project is still in its early stages. The analysis also includes a comprehensive review of the main results of the Additional Protocol to the Framework Agreement, the same that already has legislative approval of the four countries and entered into force in May 2016. Finally, some considerations about the possible effects of the eventual entry of Costa Rica as a full member of the Pacific Alliance are reviewed.

The document is organized as follows. Section I provides an overview of the Pacific Alliance in the context of the Latin American regional economy and the world economy. In section II the trade in merchandise goods among the members of the PA is analyzed both from an aggregate perspective and at the level of the main sectors and products involved in trade. In section III, FDI flows and trade in services among members of the PA are analyzed and some of the major achievements of the PA in these areas are pointed out. Section IV reviews the progress of the Additional Protocol to the Framework Agreement on its main topics over the Alliance's predecessoring initiative, the Pacific Rim. Section V delves into the possible future path of the Pacific Alliance, starting with the analysis of the possible impact of access of Costa Rica to the group, and then discussing the possible role of PA in strengthening economic and trade relations between Latin America and Asia Pacific. Finally in section VI, some conclusions are drawn.

I. The Pacific Alliance in the context of Latin America and the world

In 2015, the countries of the Pacific Alliance counted 225.1 million inhabitants, equivalent to 35% of the population of Latin America and the Caribbean (LAC). This bloc generated a gross domestic product (GDP) of US\$ 1.9 trillion, i.e. 37% of LAC. The average growth rate of production in the PA in real terms in 2015 was 2.6%, which is well above the regional average of -0.1% in Latin America and the Caribbean.¹

In the same year, the per capita GDP of the PA as a bloc averaged US\$ 8,800 (with the lowest being US\$ 6,021 in Colombia and the highest being US\$ 13,341 in Chile). If this indicator is adjusted to account for different cost of living under the premise of purchasing power parity (PPP), the regional average is US\$ 17,169.

Overall, the unemployment and inflation rates within the Pacific Alliance are lower than the regional average. The indices of human development, competitiveness and the Doing Business Rank also point in the same direction and show that the members of the Pacific Alliance perform better than the average observed in the region (see table 1).

Among the salient features of the countries of the Pacific Alliance it can be recognized that all maintain a trade policy based on the promotion of free trade and deep integration into global markets. The four countries hold prominent places in the ranking of regional competitiveness, especially in the regional context, with Chile ranking first, Mexico fifth, Peru sixth and Colombia seventh in LAC. In addition, the Doing Business Index places the four countries in leading positions by ranking them at the top four places at the regional level.

¹ This means after discounting inflation. It thus corresponds to the growth in the volume of production.

Table 1
Macroeconomic and social indicators of the Pacific Alliance members, 2015

Indicator	Chile	Colombia	Mexico	Peru	Pacific Alliance ^a	Latin America and the Caribbean
GDP (<i>million dollars</i>)	240 222	293 243	1 144 334	192 141	1 869 940	5 052 489
Real growth rate (<i>percentages</i>) ^b	2.1	3.1	2.5	3.3	2.6	-0.1
GDP per capita (<i>dollars</i>) ^b	13 341	6 084	9 009	6 021	8 800	7 966
GDP per capita PPP (<i>dollars</i>) ^c	23 460	13 847	17 534	12 195	17 169	15 377
Population (<i>million inhabitants</i>)	18.0	48.2	127.0	31.9	225.1	634.3
Unemployment rate (<i>percentage</i>)	6.2	8.9	4.3	6.0	5.4	6.1 ^c
Annual inflation (<i>percentage</i>)	4.3	5.0	2.7	3.5	3.4	8.4 ^d
Poverty rate, 2014 (<i>percentage of population</i>)	7.8 ^e	28.6	41.2	22.7	33.2	28.2
Human development index	0.832	0.720	0.756	0.734	0.761	0.748
Rank competitiveness index (out of 144)	34	66	61	65	...	...
Rank competitiveness index (within LAC)	1	7	5	6	...	...
Rank Doing Business (out of 189)	34	42	43	53	...	...
Rank Doing Business (within LAC)	1	2	3	4	...	...
Exports (<i>million dollars</i>)	63 362	35 491	380 772	33 247	512 872	906 548
Imports (<i>million dollars</i>)	59 220	54 058	395 232	38 060	546 569	1 007 032
Number of signed trade agreements	27	18	17	25	22	74
Number of trade partners with agreement	65	64	54	58	79	83
Exports with agreement (<i>percentage of value</i>)	96.0	64.2	92.9	94.3	91.4	...
Imports with agreement (<i>percentage of value</i>)	77.0	63.7	65.1	92.1	68.1	...
Average MFN tariff (<i>percentage</i>)	6.0	8.8	7.8	3.7	7.4	...
Average applied tariff (<i>percentage</i>)	1.4	3.2	2.7	0.3	2.4	...

Source: Authors based on ECLAC (2016), International Monetary Fund, World Economic Outlook Database (April 2016), and UNDP.

^a Figures for the Alliance are estimated by summing up or averaging the figures from its members, according to the indicator.

^b Average of each country's index weighted by its GDP share within the joint GDP of the Alliance.

^c Figure for the region from 2013.

^d Figure for the region from 2014.

^e Figure for Chile from 2013.

Moreover, the four countries of the Alliance have in common the application of low average tariffs and the use of few non-tariff barriers. The applied MFN tariffs are below the regional average. The effectively applied tariffs—including free trade agreements that each country has signed—are quite low, at just under 1% and 2% in the cases of Chile and Mexico and between 3% and 4% for Colombia and Peru. On average, the countries of the Pacific Alliance receive tariff preferences with next to zero tariffs for 65% of their exports, and grant tariff preferences next to zero tariffs for 55% of their imports.

All the above mentioned features are a clear demonstration that the four member countries of the Pacific Alliance are relatively homogeneous in their pattern of insertion into world trade and international financial markets.

II. Trade in merchandise goods between the members of the Pacific Alliance

A. General outlook

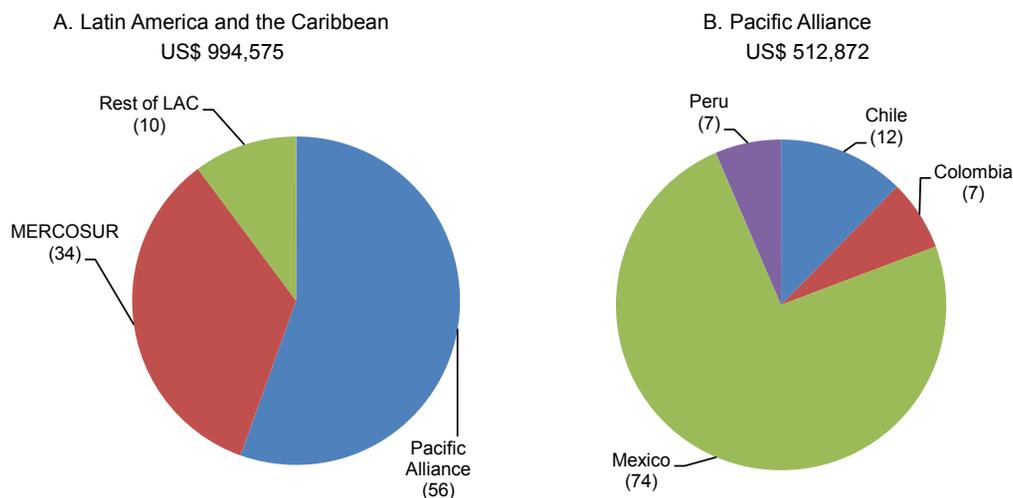
The PA represented 56% of total exports of merchandise goods from Latin America and the Caribbean in 2015, and Mexico is the largest partner of the four members, followed by Chile, while Peru and Colombia have a relatively similar weight (see figure 1).²

The PA member countries trade very little with each other. Indeed, intra-PA trade represents only 3.2% of total exports of goods of all its members, less than in 2013 when it was 3.5% (see table 2). This can not be attributed to the presence of high trade barriers, as nearly 90% of trade between the four member countries is already fully liberalized under the various free trade agreements (FTA) that link them. A more plausible explanation is that the members of the PA are not natural trade partners. On the one hand, the exports of Chile, Colombia and Peru are dominated by raw materials: copper and other minerals and metals in the case of Chile and Peru, oil and coal in Colombia's case (see figure 2). The prevalence of this type of export basket limits the options of expanding trade among the three countries. Moreover, the PA is not a contiguous economic area. Mexico, the largest and more diversified member of the group, is geographically remote from its three South American partners. Its foreign trade is also strongly oriented towards the United States. As a result, Mexico addresses only 2% of its exports of goods to the PA, and less than 1% of its imports originate therefrom.

² This total figure can be misleading. If you exclude Mexico (PA's largest economy that allocates almost 80% of its exports to the United States), the sum of exports from Chile, Colombia and Peru represents only 14% of the region's total exports.

Figure 1
Latin America and the Pacific Alliance: total exports, 2015

(In percentages of total exports)



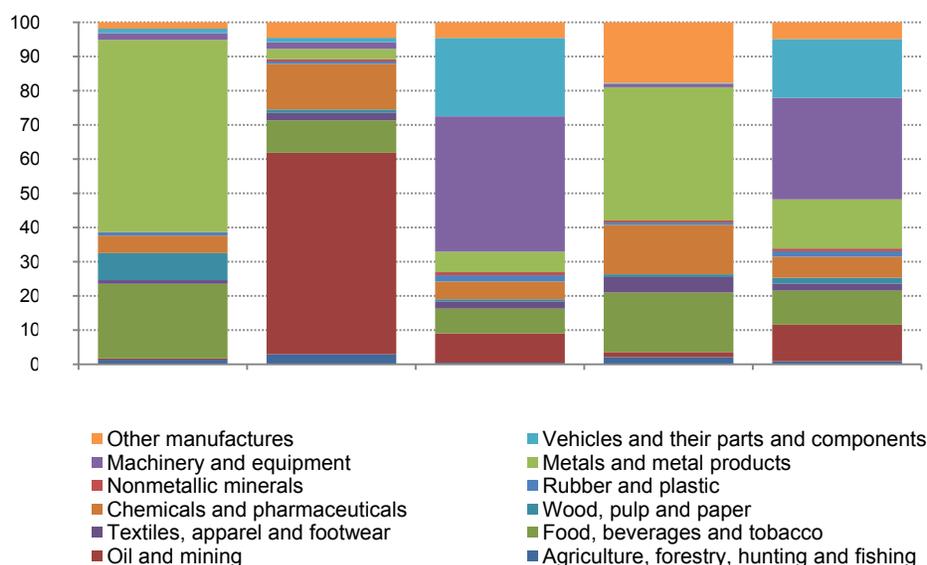
Source: Authors, based on figures from United Nations Commodity Trade Statistics Database (Comtrade).

Table 2
Pacific Alliance: total and intra-block goods exports, 2013, 2014, 2015
 (In million dollars and percentages)

Origin	Destination				Total PA	World	Participation PA (percentage)
	Chile	Colombia	Mexico	Peru			
2013							
Chile		867	1 315	1 908	4 089	76 684	5.3
Colombia	1 572		864	1 274	3 709	58 824	6.3
Mexico	2 085	4 735		1 770	8 590	380 027	2.3
Peru	1 667	838	508		3 012	41 512	7.3
Pacific Alliance	5 323	6 440	2 686	4 952	19 401	557 046	3.5
2014							
Chile		902	1 305	1 849	4 056	75 675	5.4
Colombia	989		914	1 186	3 090	54 795	5.6
Mexico	2 148	4 734		1 730	8 612	397 129	2.2
Peru	1 525	1 224	734		3 484	38 162	9.1
Pacific Alliance	4 662	6 860	2 954	4 766	19 242	565 760	3.4
2015							
Chile		787	1 344	1 636	3 766	63 362	5.9
Colombia	737		914	1 148	2 799	35 491	7.9
Mexico	1 861	3 668		1 651	7 180	380 772	1.9
Peru	1 069	871	545		2 484	33 247	7.5
Pacific Alliance	3 667	5 325	2 803	4 435	16 231	512 872	3.2

Source: Authors, based on figures from Comtrade.

Figure 2
Sectoral composition of goods exports of members
of the Pacific Alliance, 2013-2015
(In percentages)



Source: Authors, based on figures from Comtrade.

An indirect indicator of the importance of trade in manufacturing value chains is the share of intermediate goods (specifically parts and components) in total trade flows. According to this measure, productive integration among members of the PA is very low: parts and components represent less than 7% of total intra-block exports (Rosales, Herreros and Durán, 2015).³ This participation is lower than that recorded in intra-regional trade in the world's leading factories: East Asia (the so called “Factory Asia”, where parts and components account for a third), in the North American Free Trade Agreement (NAFTA), of which Mexico is a Member, and in Europe, where parts and components account for about 20%, as well as in Latin America and the Caribbean as a whole, where the number is near to 17% (Rosales, Herreros and Durán, 2015).

B. Analysis by sectors and products

The overview of intra-PA trade indicates that it only represents a small fraction of exports of its members and the participation therein of parts and components is rather low. Still, an analysis of that trade at the industry and product group level is useful to identify those sectors where a further strengthening of productive integration is possible.

Durán Lima and Lo Turco (2010) analyzed the pattern of specialization of Latin American intraregional trade and estimated potential gaps in bilateral trade. Their results indicated that many bilateral relations (including those among member countries of the PA) showed potential for expansion, especially in trade in low –and medium– tech manufactures, as well as in natural resources. The authors calculated the intensity of intra-industry trade (IIT, also called two-way trade) between 1990 and 2008,

³ The definition of parts and components is used as in Fung, Garcia-Herrero and Siu (2009). This includes all products classified as “Parts of...” in Revision 2 of the Standard International Trade Classification (SITC), plus other products of the following groups: textiles (chapters 61 and 65), machinery and transport equipment (section 7), manufactures of metals (chapter 69) and miscellaneous manufactured articles (section 8).

measured by the Grubel-Lloyd Index (GLI).⁴ In the case of trade between the members of the PA, they found that during this period the intra-industry relationships had increased in intensity. Indeed, while in 1990 almost all bilateral relations (except between Colombia and Mexico) were of interindustrial type, in 2008 almost all had gone to the classification as potential IIT. Since then, this development has continued, as is shown by the increased value of the GLI in all the bilateral relations between 2008 and 2015 (see table 3).

Table 3
Intra-industry trade among countries of the Pacific Alliance,
1990, 2008 and 2013-2015

(Grubel-Lloyd index, calculated with information at SITC Rev.2, at the 3-digit level)

	1990	2008	2013	2014	2015
Colombia - Chile	0.05	0.18	0.12	0.16	0.17
Colombia - Mexico	0.13	0.16	0.20	0.21	0.24
Colombia - Peru	0.08	0.29	0.30	0.37	0.37
Chile - Mexico	0.06	0.16	0.22	0.20	0.20
Chile - Peru	0.06	0.20	0.26	0.25	0.33
Peru - Mexico	0.01	0.06	0.09	0.09	0.12
Simple average	0.07	0.18	0.20	0.21	0.24

Source: Authors, based on Durán and Lo Turco (2010) and figures from Comtrade for 2013-2015.

From information about intra-PA trade in the period 2013-2015, and the already presented indicators of IIT, the value of intra-PA trade flows of intraindustrial type was estimated. The results showed that about 5,611 million (30.7% of the total), correspond to IIT, with Mexico and Colombia being the countries where the density in absolute terms is the highest (see table 4).

Table 4
Intra-Industry trade estimated intra-Pacific Alliance, 2013-2015

(Annual average in million dollars and percentages of total)

Origin	Destination				Pacific Alliance	Percentage of total exports
	Chile	Colombia	Mexico	Peru		
Chile		185	491	588	1 263	31.8
Colombia	245		549	592	1 385	43.3
Mexico	540	1 313		167	2 020	24.9
Peru	381	450	110		942	31.5
Pacific Alliance	1 166	1 948	1 150	1 346	5 611	30.7

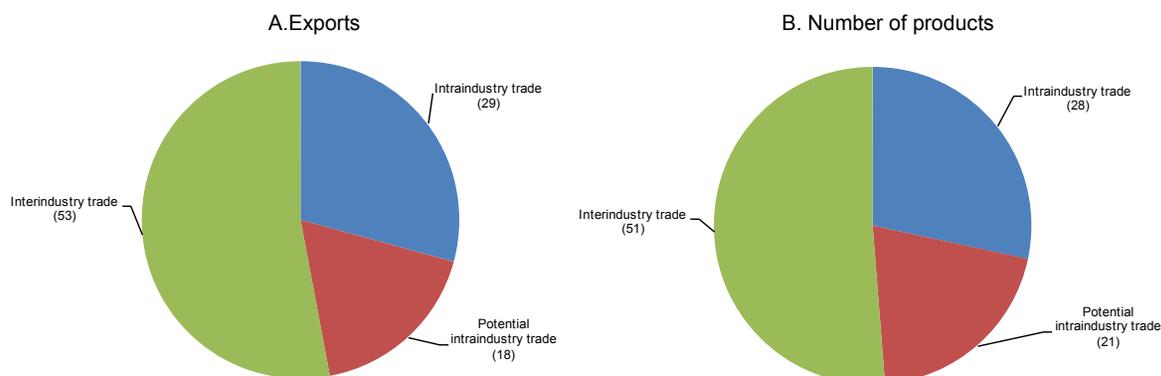
Source: Authors, based on figures from Comtrade and own calculations.

Decomposing the intra-PA trade in three categories (IIT, interindustry trade and potential intra-industry trade), we find that about the half is interindustrial, a little less than a third is IIT, and about a fifth represents potential IIT. These proportions vary slightly, depending on whether the value of exports or the number of traded products is considered (see figure 3).

⁴ The GLI takes values between 0 (when trade is only interindustrial) and 1 (when it is only IIT). In order to differentiate the degree of depth of the intra-industry relations, Durán Lima and Lo Turco (2010) define three levels: level 1: GLI less than 0.10 (interindustrial business relationship); level 2: $0.10 < \text{GLI} < 0.33$ (with potential IIT); and level 3: GLI greater than or equal to 0.33 (intra-industry trade relationship).

Figure 3
Composition of intra-Pacific Alliance trade, 2015

(In percentages of total)



Source: Authors, based on figures from Comtrade and own calculations.

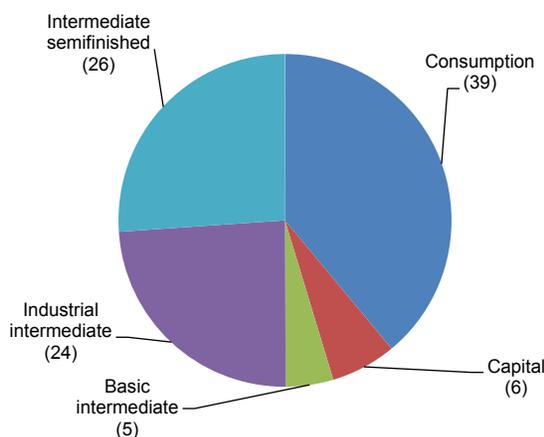
In the case of Chile's trade with the remaining PA member countries, an analysis at the industry and product level indicates that important links with its partners exist. Among the industries with the largest IIT links, the following should be highlighted: agriculture and agroindustry, beverages and tobacco, paper and cardboard, plastics, agrochemicals, pharmaceuticals, copper and minerals, and machinery and engineering equipment. The textile and footwear industry reveals IIT only to a lesser extent. The proportion of intermediate goods in total exports reached 53% of the total with a notable high share of semifinished and industrial intermediate goods (see figure 4). The 20 main groups of industries with high IIT linkages (according to the Standard International Trade Classification, SITC), account for 43% of the total exports and register a significant involvement of intermediate products reaching a mean of 71% in the exports of these sectors. Also, for this set of products the weighted Grubel-Lloyd index is 0.37 (see table 5).⁵ The bilateral trade of high intra-industry content occurs between Chile and Peru especially in products with higher value added than those exported to the rest of the world. Among these industries are rubber and plastic, paper and cardboard, as well as machinery and equipment and tools of domestic use.

The sector with the largest exports to the PA is the one of agricultural and agro-industrial products. This includes traditional agricultural products, specially fruits and nuts (apples, pears, grapes, kiwis, plums, blueberries, watermelons and other fruits) and related agroindustrials (wine and sparkling beverages, cereals, oats, pasta and baby food). These sectors are widely linked into the Chilean economy and generate 20% of direct and 40% of indirect export-related employment (Durán Lima, Zaclicever and Castresana, 2014). They represent about a quarter of exports from Chile to the PA partners, with Mexico and Peru being the most important destinations.

The second sector with large exports to the PA is paper and cardboard, with just over 8% of total exports. The main products exported in this sector are cellulose and bleached and semi-bleached wood pulp. It also includes more than thirty different types of paper and grammage (paper, kraft, parchment, waterproof, curled, folded, corrugated, for wrapping cigarette, among others). Moreover in the category cardboard, the products with highest sales are cartons of different types and sizes. The proportion of intermediate goods within this industry is 82%, while 18% correspond to the export of paper notebooks and school supplies (folders, envelopes and paper), plus toiletries (napkins and kitchen towels and bathroom). In all these products, trade is two-way, although there is a significant comparative advantage in favor of Chile, which reports a trade surplus in paper and a slight deficit in cardboards.

⁵ If agricultural and agro-industrial products and beverages are excluded, the share of intermediate goods in the trade between Chile and the PA countries of the PA increases to 79%. It should be noted that the definition of intermediate goods used in this section is wider than the sum of the parts and components, also including primary and semifinished goods.

Figure 4
Chile: composition of exports to Pacific Alliance
by broad economic categories, 2013-2015
(In percentages of total)



Source: Authors, based on figures from Comtrade and own calculations.

Table 5
Chile: main product groups exported to the Pacific Alliance, 2013-2015
(Grubel-Lloyd index and percentages)

SITC Rev. 2	Description	Share in the total	GLI ^a	Predominant type of good	Percentage of intermediate goods
057	Fruits and nuts	7.8	0.15	Consumption	0.1
641	Paper and paperboard	7.0	0.18	Intermediate	100.0
562	Manufactured fertilizers	5.2	0.60	Intermediate	100.0
058	Canned fruits and fruit preparations	3.2	0.32	Consumption	3.4
048	Cereal preparations and preparations of flour	2.6	0.64	Consumption	19.5
112	Alcoholic drinks	2.1	0.52	Consumption	0.0
583	Polymerization and copolymerization	2.1	0.54	Intermediate	100.0
287	Minerals metals and concentrates	2.0	0.33	Intermediate	100.0
893	Articles and plastic products	2.0	0.85	Intermediate	97.7
728	Other machinery and equipment	1.6	0.28	Intermediate	71.5
723	Machinery and equipment engineering	1.2	0.33	Intermediate	42.4
541	Medicinal and pharmaceutical products	1.1	0.27	Consumption	12.2
642	Paper and paperboard, cut certain way	1.0	0.77	Intermediate	100.0
784	Parts & accessories of automotive vehicles	1.0	0.19	Intermediate	100.0
699	Articles of base metals, n.e.s.	0.8	0.51	Intermediate	99.9
658	Total articles made mainly with mat	0.7	0.40	Consumption	21.0
292	Vegetable products raw n.e.s.	0.7	0.40	Intermediate	99.3
411	Oils and fats of animal origin	0.6	0.42	Intermediate	100.0
775	Household devices, electrical and non-electrical	0.5	0.38	Intermediate	34.1
081	Animal feed (except cereal unmilled)	0.4	0.48	Intermediate	100.0
	20 main chapters SITC Rev. 2.	43.4	0.37	Intermediate	71.0

Source: Authors, based on figures from Comtrade and own calculations.

^a Calculated based on weighted average of each chapter in the bilateral relation with PA partners.

A third sector in which Chile has a comparative advantage over its partners in the PA is copper products, especially cathodes, pipes and wire. In these products, Chile has surpluses, especially in its trade with Colombia and Mexico. In the case of base metals, Chile imports more than it exports, especially concentrated and molibdenum copper, presumably for its processing and further elaboration. Note that in this sector there is a great potential as the share of intermediate goods is total.

A Chilean industry with potential in the PA market is the agrochemical one, which has a set of fertilizers and manures for industrial crops of various kinds (flowers, vegetables, legumes etc.). Among the main intermediate products, which are all classified as medium technology, are listed: potassium chloride, ammonium nitrate, potassium sulfate, nitrogen phosphorus and potassium fertilizer. Mexico and Peru are the main consumers of these products within the Alliance, and there is a high intra-industry trade relationship with Mexico, and potentially with Colombia.

In the plastics industry, the IIT ratio is quite high, with high Grubel Lloyd indices in the bilateral relation with the partner countries. Chile provides them with intermediate inputs for their industry (polymers, copolymers such as propylene, ethylene, vinyl, polypropylene monofilament, etc.) and also exports finished products such as boxes, bottles, roof and floor coverings, pipes of different designs, office equipment, as well as parts for construction, especially for sanitary and kitchen furniture. The intra-PA trade relationship from the perspective of Chile is very interesting and incorporates intensive intermediate goods chains among all member countries. It is emphasized that Chile has a positive trade balances in the segment of plastic products, and deficits in intermediate inputs for the manufacture of such products. A lot of export industries around this sector benefit in turn, as among them food, pharmaceutical, automotive as well as construction.

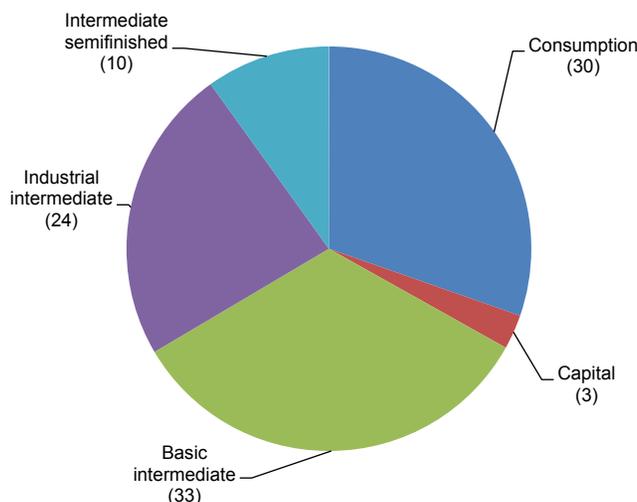
An industry that is developing in Chile from the comparative advantage in mining is that of machinery and engineering equipment. This sector includes two of the top twenty groups of products exported to the PA (machinery and equipment for industry, and machinery and civil engineering equipment). These include medium-technology products, both intermediate and capital goods (boring and drilling equipment, equipment for compaction of land, digging shovels and tongs, bulldozers, excavators, etc.). In this sector, trade is two-way with Mexico and Peru standing out in the exchange of goods. The bulk of exports of machinery and engineering equipment heads to the Pacific Alliance (45%). Therein, Peru absorbs slightly more than 70% of all of Chile's exports in the sector.

From table 5 it can also be derived that Chile has potential IIT with the PA in medical and pharmaceutical products, footwear and vehicle parts and accessories. These are also important sectors for other PA members, especially Colombia and Peru. In particular, these countries have important comparative advantages in the textile and apparel industry as well as in perfume and cosmetics.

Finally, Chile exports a set of products of the automotive chain to the PA (especially Colombia and Peru). With these countries, Chile has a trade surplus in various products such as passenger vehicles, tractors chassis, buses, trucks, parts and pieces of vehicles and motor vehicle transmissions. In the case of transmissions, Chile also maintains a surplus with Mexico, from which it can be inferred that some Chilean suppliers have managed to integrate well in the Mexican automotive chain.

In the case of Colombia, one could confirm the existence of productive complementarities between that country and its partners in the PA in some industries with a high intensity of intermediate goods. 67% of Colombia's exports to PA are concentrated in intermediate products, especially basic and industrial ones (see figure 5). Similar to the case of Chile, Peru is the partner with the largest intra-industry linkages from Colombia's perspective, and therefore most likely to boost the productive relationships aimed at the sophistication of subregionals value chain.

Figure 5
Colombia: composition of export to Pacific Alliance
by broad economic categories, 2013-2015
(In percentages of total)



Source: Authors, based on figures from Comtrade and own calculations.

Among the top twenty export groups from Colombia to the PA, which represent 46% of the total, an important set of industries can be highlighted: automotive and metalworking, agroindustry, petrochemicals, chemicals, paper and cardboard, textiles and clothing (see table 6). Together, these seven industries captured slightly more than 70% of total manufacturing value added of the Colombian economy between 2013 and 2015 and are an important part of Colombian products with higher value added. They stand out for their weight in total exports in the automotive sector, which is primarily directed at Mexico.

Another area of importance is the petrochemical industry, in addition to oil refining, including groups of polymers and copolymers. These products, in turn, also include products such as pigments, paints and varnishes, and various plastic products in the domestic chain of Colombia. All these are groups that make up the different sections of the petrochemical chain of plastics, rubbers, paints, inks and fibers. It is a well-developed domestic chain that on average links between 27 and 37 individual links of the sectors in the input-output table (IOT) of Colombia. This is a sector with above-average chains in the segment corresponding to the manufacturing of rubber and plastic products (Durán Lima, Castresana and Mulder, 2014). By 2009, the sector of the products of oil refining and of rubber and plastic together accounted for 18% of value added in manufacturing of Colombia (Carolina Ramirez et al., 2012).

In the plastics industry, the segments of polymerization and copolymerization (belonging to the category of medium-technology products) have great links with Andean subregional chains, especially in advanced segments of the chain in Ecuador and Peru. These countries mainly import polypropylene, vinyl polychloride and polyvinyl chloride from Colombia. Colombia also imports products from these two countries, so that the intra-industry relationship in the petrochemical sector is quite high. The range of products involved is close to 150, with over 90% in the category of intermediate goods. The petrochemical industry has a competitive structure, including several companies of small and medium size, especially in the production of plastics. The products of the latter industry are directed towards various industrial activities and final consumption, like manufacturing of auto parts, containers, packaging, toys and footwear, among others (DNP, 2007).

Table 6
Colombia: main product groups exported to the Pacific Alliance, 2013-2015
(Grubel-Lloyd index and percentages)

SITC Rev. 2	Description	Share in the total	GLI	Predominant type of good	Percentage of intermediate goods
781	Vehicles (passenger cars)	8.2	0.30	Consumption	0.0
583	Polymerization and copolymerization	5.9	0.86	Intermediate	100.0
553	Perfumery, cosmetics and prepared	5.3	0.52	Consumption	28.7
061	Sugar and honey	4.0	0.59	Consumption	1.7
642	Paper and paperboard, cut certain way	3.1	0.39	Intermediate	100.0
541	Medicinal and pharmaceutical products	3.1	0.23	Consumption	2.0
334	Petroleum products (refined)	3.1	0.22	Intermediate	100.0
893	Articles of plastic products	2.4	0.72	Intermediate	90.1
846	Underwear knitted or crocheted	1.6	0.41	Consumption	0.0
591	Disinfectants, insecticides, fungicides...	1.4	0.43	Intermediate	100.0
071	Coffee and coffee substitutes	1.3	0.31	Consumption	17.8
554	Soap and detergents for cleaning...	1.2	0.13	Consumption	3.2
641	Paper and paperboard	1.1	0.17	Intermediate	100.0
892	Printed matter	0.7	0.79	Intermediate	96.9
775	Household devices	0.7	0.09	Consumption	3.4
598	Various chemicals n.e.s.	0.7	0.21	Intermediate	100.0
048	Cereal preparations	0.7	0.59	Consumption	5.6
845	Outdoor clothing and clothing accessories	0.7	0.34	Consumption	0.0
665	Glass Manufactures	0.6	0.81	Intermediate	100.0
821	Furniture & parts thereof	0.6	0.49	Consumption	20.6
	20 main chapters SITC Rev. 2.	46.4	0.47	Intermediate	45.2

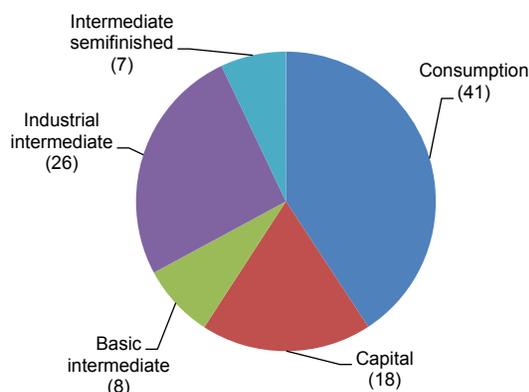
Source: Authors, based on figures from Comtrade and own calculations.

Six groups of products in which trade between Colombia and the other countries of the PA, especially Chile and Peru, is located in the area of potential IIT stand out in the food industry. Besides sugar and honey and animal feed, where the presence of intermediate inputs is greater than 50%, there is a set of products for which the potential is concentrated in consumer goods. These are the cases of coffee and margarines, butters and essential oils.

In the cosmetics groups, the main products exported to the PA correspond to facial cosmetics, bath and hair gel, and perfumes. These are especially sold to Peru and Mexico and to a lesser extent to Chile. Among medicinal and pharmaceutical products, medications in doses, antibiotics, vitamins, alkaloids and vaccines slightly stand out, sold mainly to Peru and Mexico. The total chemical industry in Colombia accounts for 13.5% of manufacturing value added (Carolina Ramirez et al., 2012), and has links to more segments than the average of all sectors of the IOT of the country.

The analysis of productive linkages and of possible existence of value chains for the export industry of Mexico within the PA found the increased presence of intermediate goods in the two-way trade in that country. Although in general, the share of exports from Mexico to its partners in the Pacific Alliance is low at a level less than 2%, at the level of certain manufacturing sectors it is markedly more important. This is the case for chemicals, perfumery and some types of inputs of the plastics industry, for which the share of exports from Mexico to the Pacific Alliance is just over 9%, with Colombia being the country with which there is evidently the largest intra-industry linkage. Regarding the composition of trade by broad economic categories in the period 2013-2015, one can appreciate the greater diversification of the export basket of Mexico to the Pacific Alliance. Furthermore, it also includes a significant proportion of intermediate products, a significant proportion of capital goods and consumer products (see figure 6).

Figure 6
Mexico: composition of export to Pacific Alliance
by broad economic categories, 2013-2015
(In percentages of total)



Source: Authors, based on figures from Comtrade and own calculations.

In the period 2013-2015, the twenty main commodity groups exported by Mexico to the PA accounted for 38.4% of total shipments. In turn, within these twenty groups, intermediate products accounted for 39% of shipments to the PA (see table 7). Unlike the list of products in other countries of the Alliance, in the case of Mexico, the presence of capital goods within the exports is of great importance.

A detailed review of the intra —and inter— industry trade between Mexico and the rest of the members of the PA verified the existence of significant intra-industry links to a fairly diversified set of industries. Among them, the automotive industry stands out, in which Mexico plays a central role in the value chain oriented towards the US market. Integrating themselves in some segments of such chains presents a highly relevant opportunity to all other members of the PA, either in the supply of components or the provision of services.

Another industry with great presence of Mexican exports is the one of perfumery and cosmetics, which represents 3.7% of total exports from Mexico to the PA. The main export products of this industry to the rest of the PA are shampoo, hairspray, deodorants and antiperspirants, along with toothpaste and makeup products, all complementary products to those that Colombia and Peru export.

In the case of the pharmaceutical industry, the following products stand out: drugs in doses, estrogens and progestogens, penicillins as well as vaccines and different types of vitamins; products that complement the domestic supply of pharmaceutical products in the other countries of the PA. This industry registers a high number of intermediate inputs, and the exported products of Mexico are primarily classified as high-tech.

Following the sectors already mentioned, among the twenty major commodity groups exported by Mexico to the PA are a set of industries that produce medium technology intensive both in intermediate and capital goods. The industries of plastics, base metals, machinery and equipment, chemical and agrochemical and telecommunications stand out. The listing also shows electrical and electronic products, such as heating and cooling equipment and pumps and compressors (see table 7).

The analysis of industrial linkages of Peru in intra-AP trade showed great complementarity of the exportable supply of that country with other partner countries of the grouping, especially with Colombia and Chile who receive 95% of its exports (61% and 34%, respectively). Mexico receives only 5%. The composition of exports from Peru to the Alliance focuses on intermediate goods (82%), especially basic intermediate goods among which mining products stand out (see figure 7).

Table 7
Mexico: main product groups exported to the Pacific Alliance, 2013-2015
(Grubel-Lloyd index and percentages)

SITC Rev. 2	Description	Share in the total	GLI	Predominant type of good	Percentage of intermediate goods
781	Passenger cars (vehicles)	11.6	0.26	Consumption/capital	0.0
553	Perfumery, cosmetics and prepared	3.7	0.25	Intermediate	0.0
541	Medicinal and pharmaceutical products	2.4	0.29	Consumption	3.5
582	Condensation products polycondensation	2.3	0.32	Intermediate	62.5
583	Polymerization and copolymerization	2.3	0.65	Intermediate	94.1
287	Minerals metals and concentrates, n.e.s.	2.2	0.75	Intermediate	96.1
764	Telecommunications equipment, n.e.s.	2.2	0.04	Capital/intermediate	22.7
562	Manufactured fertilizers	1.5	0.83	Intermediate	65.4
554	Soap and detergents for cleaning	1.2	0.06	Consumption	5.2
678	Pipes and pipe fittings iron or steel	1.2	0.13	Intermediate	80.2
112	Alcoholic drinks	1.1	0.51	Consumption	0.0
048	Cereal preparations	1.1	0.08	Consumption	0.0
682	Copper	0.9	0.31	Intermediate	80.3
893	Articles plastic and products	0.8	0.74	Intermediate	70.8
551	Essential oils, flavorings and materials	0.8	0.38	Intermediate	85.4
598	Various chemicals n.e.s.	0.7	0.18	Intermediate	86.2
743	Pumps and compressors	0.7	0.04	Capital/intermediate	3.0
699	Articles of base metals, n.e.s.	0.6	0.22	Intermediate	87.9
522	Inorganic chemical elements, oxides	0.6	0.24	Intermediate	88.5
741	Heating and cooling equipment parts	0.6	0.15	Capital/intermediate	24.5
	20 main chapters sitc rev. 2.	38.4	0.30	Intermediate	39.1

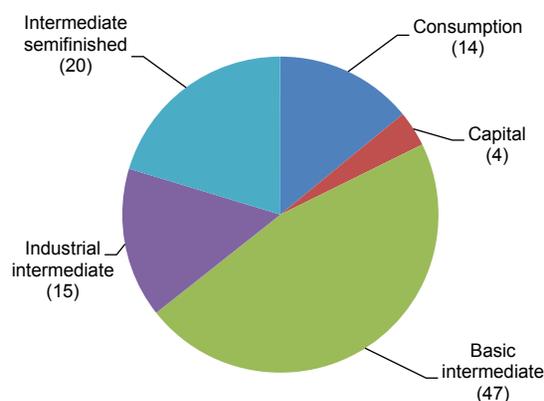
Source: Authors, based on figures from Comtrade and own calculations.

Complementarity is particularly observed in agricultural and agroindustrial products, plastics, textiles, apparel and footwear, chemicals and petrochemicals, perfumes and cosmetics, and paper and cardboard. In all these products, intra-industry relationships are important. The first twenty selected products with high intra-industry relationship represent almost a third of total exports from Peru, with a high intensity of intermediate products (see table 8).⁶ At first, exports of refined petroleum products such as oils, lubricants and asphalt can be highlighted, a group that fully corresponds to intermediate inputs, with Colombia being the main destination of these products (just over 90%). At the same time, Colombia exports crude oil to Peru, accompanied by a set of refined products, especially lubricants, although only in small amounts.

Second in importance in Peruvian exports to the PA are agricultural and agro-industry exports, with 15% of the total. Among the products of these industries, the intensity of intermediate goods is about 64%, especially in the categories animal feed (100%), prepared cereal and flour 9 (0.1%), and coffee and coffee substitutes (49.4%) with most products being part of the consumer goods category in the case of fresh and chilled vegetables. Moreover, the extensive development of the cuisine of Peru, and the dissemination of the same in the region, has resulted in an increase in traditional exports of Peruvian products in this group (cassava, bananas, tropical fruits) to other PA countries.

⁶ Although exports of copper and metal products represent an important amount in Peru's exports to the Pacific Alliance (26% of total), exchanges are of purely interindustrial nature, as revealed by the calculated low values of GLI.

Figure 7
Peru: composition of export to Pacific Alliance
by broad economic categories, 2013-2015
(In percentages of total)



Source: Authors, based on figures from Comtrade and own calculations.

Table 8
Peru: main product groups exported to the Pacific Alliance, 2013-2015
(Grubel-Lloyd index and percentages)

SITC Rev. 2	Description	Share in the total exports	GLI ^a	Predominant type of good	Percentage of intermediate goods
334	Petroleum products, refined	9.0	0.21	Intermediate	100.0
081	Animal feed (unmilled cereals)	3.6	0.51	Intermediate	100.0
583	Polymerization and copolymerization	2.8	0.60	Intermediate	100.0
522	Inorganic chemical elements, oxides and salts	2.7	0.35	Intermediate	100.0
893	Product of plastics	2.4	0.79	Intermediate	78.0
553	Perfumery, cosmetics and prepared	1.8	0.42	Consumption	35.1
048	Cereal preparations and preparations of flour	1.4	0.66	Consumption	0.1
846	Underwear knitted or crocheted	1.3	0.52	Consumption	0.0
845	Outdoor clothing and clothing accessories knitted	1.2	0.60	Consumption	0.0
642	Paper and paperboard, cut certain way	1.1	0.50	Intermediate	100.0
892	Printed matter	1.0	0.59	Intermediate	98.7
061	Sugar and honey	0.8	0.50	Consumption	5.9
071	Coffee and coffee substitutes	0.8	0.83	Intermediate	98.2
554	Soap and detergents for cleaning and polishing	0.6	0.14	Consumption	0.6
652	Cotton fabrics (except narrow fabricso spice)	0.5	0.65	Intermediate	100.0
098	Edible products and preparations,	0.4	0.41	Consumption	0.1
665	Glass manufactures	0.4	0.57	Intermediate	100.0
582	Condensation products polycondensation	0.3	0.58	Intermediate	100.0
541	Medicinal and pharmaceutical products	0.3	0.16	Consumption	11.5
749	Parts and accessories no electrical machines	0.2	0.33	Intermediate	89.5
	20 main chapters SITC Rev. 2.	32.4	0.45	Intermediate	72.5

Source: Authors, based on figures from Comtrade and own calculations.

^a Calculated based on weighted average of each chapter in the bilateral relation with PA partners.

Exports of textiles, apparel and footwear represent 6% of shipments from Peru to the PA. This sector is of great importance to Peru due to the great impulse of employment and domestic linkages, particularly the use of domestic cotton textiles, as well as the use of sheep wool, fine hairs, and also synthetic and artificial

fibers and filament. Within the PA, Peru registers a surplus in trade in textiles, apparel and footwear. 7% of the sector's exports are directed to the PA, and 2% of imports originate therefrom.

Other industries of interest to Peru, with links already identified with the other members of the PA, are the plastics industry, petrochemicals, agricultural chemistry, construction materials, and the paper and cardboard industry. All these industries export and import medium-technology products and are linked to the productive and exporting apparatus of other countries in the PA. As indicated in the analysis of previous cases, in all of these industries, the use of intermediate raw materials exceeds 50% (see table 8).

Within the PA, Peru's largest intra-industry ties are with Colombia and Chile, countries with which it shares boundaries. This has resulted in increased intraindustrial relations in recent years. However, trade relations with Mexico still remain in the interindustrial area with a high prevalence of primary exports from Peru and products with higher technological content in the imports from Mexico.

As is evident in this section, trade in goods and productive integration among members of the PA currently have fairly low levels, focusing on a limited number of industries (plastics, food, chemical and agrochemical industries, among others). While this largely responds to structural causes, the commitments contained in the Additional Protocol to the Framework Agreement of the PA (signed in February 2014 and entered into force in May 2016) should help boost these flows. Three aspects stand out in this regard: the accumulation of origin, harmonization or mutual recognition of technical regulations, and trade facilitation. Later in this document, we will review in detail all the single chapters of that Additional Protocol to evaluate the concrete progress that it promises.

It is important to highlight the importance of the simultaneous operation of the three highlighted components. Indeed, the absence of any of them can seriously affect the dynamics of intra-PA trade, even in the presence of full tariff liberalization.

III. The foreign direct investment flows and trade in services among the members of the Pacific Alliance

Flows of foreign direct investment (FDI) of the group represent a high proportion of both inward and outward FDI of all countries of Latin America and the Caribbean (43% and 96%, respectively). Participation in FDI inflows is more homogeneous than in the case of FDI outflows, where Chile and Mexico lead the list of investing countries in whole Latin America and the Caribbean (see figure 8).

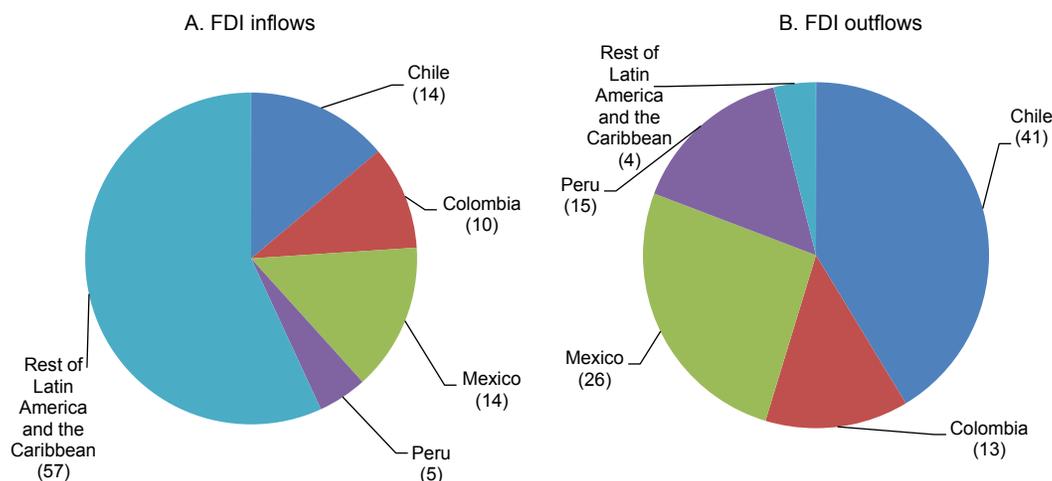
Despite its limited trade in goods, the members of the PA have growing linkages with each other regarding foreign direct investment. Overall, for the member countries of the PA, their partner in this group are more important as an export destination of capital as a source of FDI (which continues to come mainly from the United States and Europe).⁷ For example, the PA countries account for 15% of Chile's accumulated stock of FDI abroad in 2014, equivalent to 10 times the participation that these countries have in the stock of FDI in Chile in the same year. The same phenomenon is observed with different magnitudes, in the cases of Colombia, Peru and Mexico (compare tables 9 and 10). The latter country is notable for the minimum share of capital originating from the PA in its FDI stock, while Peru constitutes the opposite case.

Chile and Mexico have the quality of net exporters of FDI in intra-PA flows. The opposite holds in the case of Colombia and Peru, which receive more FDI flows than those sent to the rest of the world (see tables 9 and 10). Overall, 1.2 out of every ten dollars invested by the country group is destined for the Pacific Alliance. Clearly, the largest impulse of investment flows occurs in South America, where Peru would attract much more investment originating from Chile and Colombia.

⁷ It should be noted, however, that 2015 Chile was the seventh source of FDI that Colombia received. In 2012 it had been the first.

Figure 8
Pacific Alliance trade in Latin American FDI, 2014

(In percentages of total)



Source: Authors, based on figures from ECLAC (2015).

Table 9
FDI stock received by Pacific Alliance countries from the Pacific Alliance and the world (2014)
 (In million dollars and percentages)

Receiving	Origin					World	Participation PA (percentages)
	Chile	Colombia	Mexico	Peru	Total PA		
Chile		2 081	1 191	163	3 435	237 454	1.4
Colombia ^a	5 124		4 113	808	10 045	139 741	7.2
Mexico ^b	477	486		n.d. ^c	963 ^d	360 390	0.3
Peru ^e	1 878	1 448	629		3 956	79 464	5.0
Pacific Alliance	7 479	4 015	5 933	971	18 398	817 049	2.3

Source: Authors, based on figures from Central Bank of Chile, Procolombia (Colombia), National Commission of Foreign Investment (Mexico) and UNCTAD (2014) (Peru), and General Directorate of International Economic Relations, Ministry of Foreign Relations of Chile.

^a The considered period is 1994-2014.

^b The considered period is 2000-2014.

^c FDI originating from Peru represents less than 0.1% of the accumulated stock in Mexico between 2000 and 2013.

^d Corresponds to the sum of FDI originating from Chile and Colombia.

^e Includes only capital contributions (reinvested earnings and net lending with the parent company are excluded). This implies a significant underestimation of the FDI stock from Chile, as several Chilean companies have a presence of more than 10 years in Peru.

Table 10
FDI stock issued by Pacific Alliance countries to the Pacific Alliance and the world (2014)
 (In million dollars and percentages)

Issuing	Destination					World	Participation PA (percentages)
	Chile	Colombia	Mexico	Peru	Total PA		
Chile		6 420	643	10 343	17 406	113 985	15.3
Colombia	2 513		2 833	3 049	8 395	43 561	19.3
Mexico	4 815	3 810		1 400	10 025	138 716	7.2
Peru	367	655	n.d.		1 022 ^a	6,002	17.0
Pacific Alliance	7 695	10 885	3 476	14 792	36 848	302 264	12.2

Source: Authors, based on figures from Central Bank of Chile, Proexport (Colombia) and UNCTAD (2014) (Mexico and Peru).

^a Corresponds to the sum of Chile and Colombia.

The importance of the PA countries as a destination for capital originating from within the grouping reflects the growing internationalization of Latin American companies (so-called trans-Latins) that has taken place over the last decade. Multinationals based in the PA countries have played a prominent role in this phenomenon. Of the 50 major trans-Latins in 2012, as measured by total sales, 16 are from Mexico, 11 from Chile and 6 from Colombia. Likewise, Mexico, Chile and Colombia ranked first, second and third, respectively, among the top foreign investors in Latin America and the Caribbean in 2013 (ECLAC, 2014). Two major mergers and acquisitions in the region took place in that year between countries of the Pacific Alliance: the acquisition of the Chilean company Tresmontes Luchetti (operating in the food sector) by Nutresa of Colombia, for \$ 758 million, and the acquisition of Nextel Peru (operating in the area of telecommunications) by ENTEL Chile, for 400 million dollars (*ibid.*).

The expansion of trans-latins has concentrated heavily in the region itself. In the case of companies in Chile, Colombia and Peru, new investments and the acquisition of existing assets have been specifically targeted in neighboring countries, gradually extending to other more distant destinations within Latin America and the Caribbean. In contrast, Mexico has a profile of internationalization more diversified, with a significant investment presence in North America (*ibid.*). In sum, and as in the case of trade flows of goods, Mexico appears somewhat disassociated from the dense network of cross-investments that is recorded among the other three members of the PA.

It is impossible to obtain a complete picture of the magnitude and composition of trade in services among members of the PA, due to the limited statistics available. Only Colombia and Chile (the latter partially) have official statistics of trade in services by partner, which are reproduced in tables 11, 13, 14 and 15. Despite this limitation, and based on surveys of exporters of services developed by PROMPERU on the one hand, and using the mirror statistics of Chile and Colombia, for export figures of Mexico, it was estimated that intra-regional trade in services between the countries of the Pacific Alliance in 2014 accounts for about 11% of total services exports of the group to the world. Within these intraregional flows, an important share is found between Chile, Colombia and Peru. A smaller share is related to Mexico, a country which has increased its exports of services directed towards the United States. In fact, if Mexico is excluded, the share of intra-regional trade in services among the three remaining PA members increases from 11% to 17% (see figure 9).

The main component of services is in the category travel (22%) and other services (15%), among which telecommunication services can be highlighted, as well as a number of business services (IT, audit, administration, advertising, management, accounting, legal and personnel management).

Also, countries have been working in the development of some key factors to improve competitiveness in the service sectors. This includes improving internet speed, the quality of infrastructure, risk management, human capital, among other factors, all with the purpose of turning their comparative advantages to become more equal to other countries like India, the Philippines and Japan (see table 12).

Table 11
Pacific Alliance, intraregional trade in services, 2014, breakdown
by main type of flows
(Share in total service trade)

	Chile	Colombia	Peru	Mexico	Intra-PA (including Mexico)	Intra-PA (excluding Mexico)
Transports	10.1	14.1	23.2	16.7	13.7	13.4
Travel	5.2	21.0	34.4	4.1	10.9	21.5
Other services	12.9	14.3	20.1	3.8	9.8	14.6
Total Xs PA / Xs World	10.1	17.8	28.3	4.5	11.1	16.8
Total PA	1 105	1 219	1 645	908	4 876	3 969

Source: Authors' estimations, based on figures from DANE, Central Bank of Chile, Ederly Muñoz (2015) and Balance of Payment of Mexico and other countries.

Table 12
Pacific Alliance and other selected countries
some key factors in services, 2015 or closest year

Key factors	Peru	Chile	Colombia	Mexico	India	Philippines	Singapore	Japan
Labor cost								
Human capital								
Quality of infrastructure								
Logistic								
Internet speed								
	very competitive							
	less competitive							

Source: Authors, based on various databases including The Conference Board (2013): "International Comparisons of Hourly Compensation Costs in Manufacturing, 2013" (www.conference-board.org/ilcprogram/index.cfm?id=28269); World Economic Forum (2015): "Human Capital Report 2015". (reports.weforum.org/human-capital-report-2015/); Akamai (2015): "State of the Internet. Q3 2015 Report" (www.akamai.com/us/en/multimedia/documents/report/q3-2015-soti-connectivity-final.pdf); and World Bank's "Global Ranking of Logistic Performance Index".

Table 13
Colombia: trade in services with the Pacific Alliance and the world, 2013-2015^a
(In million dollars and percentages)

	Exports			Imports		
	2013	2014	2015 ^a	2013	2014	2015 ^a
Chile	325	368	258	188	257	217
Mexico	386	434	331	506	614	544
Peru	334	417	297	280	289	245
Total PA	1 044	1 219	886	974	1 160	1 006
World (services) ^b	6 859	6 846	5 004	12 774	13 506	8 888
Share PA (percentages)	15.2	17.8	17.7	7.6	8.6	11.3

Source: Authors, based on figures from National Administrative Department (DANE).

^a Figures are for January to September.

^b Total exports and imports for 2013 and 2014 coincide with the figures registered in Colombia's Balance of Payments.

Table 14
Colombia: main sectors involved in trade in services with the Pacific Alliance, 2013
(In percentages)

Exports				
	Main	Second	Third	Fourth
Chile	Air transport of passengers (53)	Other air transport services (10)	Computer and related services (9)	Telecommunications (7)
Mexico	Computer and related services (37)	Telecommunications (11)	Maritime transport of cargo (8)	Commercial and similar franchises (8)
Peru	Air transport of passengers (24)	Architectural and engineering services (15)	Air transport of cargo (14)	Telecommunications (10)
Imports				
Chile	Computer and related services (16)	Maritime transport of cargo (13)	Agricultural, mining and transformational services (13)	Consulting services in administration, management and human resources (10)
Mexico	Computer and related services (22)	Telecommunications (16)	Maritime transport of cargo (13)	Commercial and similar franchises (7)
Peru	Architectural and engineering services (20)	Other air transport services (20)	Commercial and similar franchises (17)	Air transport of passengers (9)

Source: Authors, based on figures from National Administrative Department (DANE).

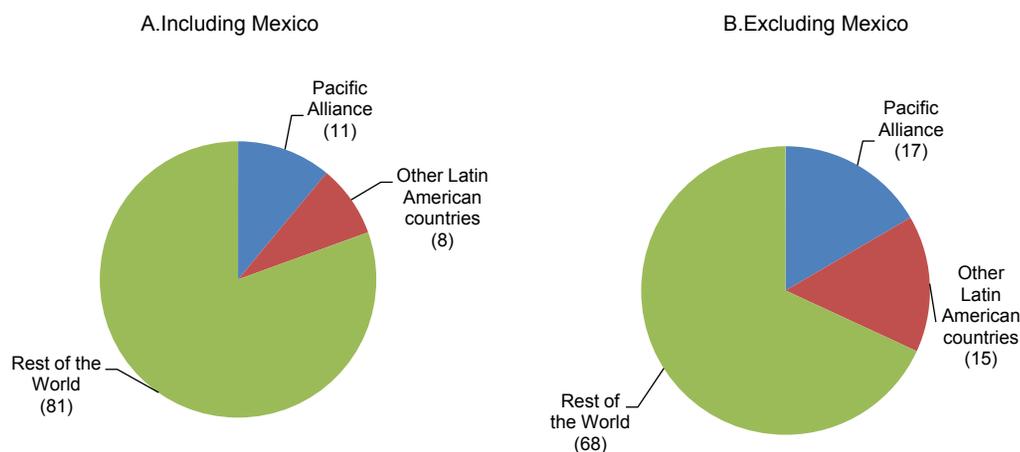
Table 15
Chile: trade in services with the Pacific Alliance and the world, 2011-2013^a
(In million dollars and percentages)

	Exports			Imports		
	2011	2012	2013	2011	2012	2013
Chile	113	138	196	144	136	151
Mexico	273	267	267	224	204	187
Peru	668	714	642	295	347	364
Total PA	1,054	1,119	1,105	663	687	702
World (services) ^a	13 105	12 387	12 452	16 158	15 131	15 855
Share PA (percentages)	8.0	9.0	8.9	4.1	4.5	4.4

Source: Authors, based on figures from Central Bank of Chile.

^a Total exports and imports coincide with the figures registered in Chile's Balance of Payments.

Figure 9
Pacific Alliance trade in services, 2014
(In percentages of total)



Source: Authors, based on figures from DANE, Central Bank of Chile, Ederly Muñoz, David (2015), "Avances y desafíos de la promoción de exportaciones peruanas de Servicios", PERUSERVICE Summit 2015, PROMPERU and Balance of Payment of Mexico.

In some cases, it will be more difficult for the countries of the Pacific Alliance to close existing gaps or even exceed the other regions of the world in terms of service competitiveness. For example, Chile and Mexico have the highest wages among the four countries of the Pacific Alliance. Although these are not as high as in Japan or Singapore, they are sufficiently high for other competitors to take advantage, as in the case of India or the Philippines. However, the two countries have other key factors in their favor, such as a better position in the ranking of infrastructure, and the fastest broadband download speeds (almost 15 mbps), well above the regional average (7.26 mbps). In the global ranking of internet speed, Chile and Mexico are in an intermediate position, although still well below Japan. Colombia and Peru are still below average. The countries of the Alliance have an important agenda to cover together to boost some key factors to competitiveness that go beyond mere tariff reductions. In the area of services, the greater geographical proximity (at least in South America), and the high level of foreign direct investment between Mexico and its partners in South America allow to postulate that there is great potential of trade in services that still needs to be driven in areas such as contact centers, centers for knowledge management, design, telecommunications and consulting services of various kinds.

Moreover, the high level of intra-regional trade in services highlights the importance of nearshoring in the field of services.

Colombian exports of services to the PA reached 1,219 million dollars in 2014, equivalent to 17.8% of its global services exports and also 39% of its exports of goods to that group in the same year. The main destination of exports of services to the PA is Mexico (36%), followed by Peru (34%) and Chile (30%). Colombian imports of services from the PA reached 1,160 million dollars in 2014, equivalent to 9.3% of their global imports of services and 17% of its imports of goods from that group in the same year. The main source of imports of services from the PA is Mexico (53%), followed by Peru (25%) and Chile (22%). Since 2008 until 2013, Colombian imports of services from the PA have shown higher growth than total imports of services (Rosales, Herreros y Durán, 2015). This can be explained by the strong growth of imports from Mexico and Peru, which offset the stagnation of imports from Chile. Using the data available for the first three quarters of 2015, it can be seen that the greatest part of intra-regional exports of services in Colombia's exchanges with the other member countries of the group can be called reoccurring (see table 13).

Trade in services between Colombia and its partners in the PA shows a significant presence of different categories of business services (e.g. architectural, engineering, administration and management, agricultural and mining) and IT services, many of which are intensive in knowledge. In fact, this means the equivalent of what in trade in goods is called intra-industry trade, i.e. Colombia exports to its partners in the PA and imports from them services in the same categories. The PA is a market of great importance to Colombia in some of these categories. For example, in 2013 it absorbed 36% of Colombian exports of architectural, engineering and other technical services, 19% in other royalties and license fees, and 15% in IT services. Within the imports of services, the category other business services is also very important, especially in IT and telecommunication services, as well as the category transportation, of cargo, especially by sea. By partner, the strongest link is between Colombia and Peru (see table 14).

Chilean exports of transportation services to the PA totaled 1,105 million in 2013 (see table 15). This is equivalent to 9% of its total exports to the world, and 27% of its exports of goods to the PA in the same year. It should be noted that for Chile the PA is an export market of relatively higher importance in services than in goods: as already indicated, in 2013 the PA absorbed 9% of Chilean exports of services, but only 5% of its goods exports. The strong performance registered in business and professional services as well as in IT services exports to the PA is also of note. Between 2008 and 2013, exports to the PA in the first category grew at a rate three times that of the corresponding global exports, almost doubling its share, from 21% to 39%. In the same period, exports of IT services to the PA also grew significantly more than the corresponding global exports, bringing its share from 31% to 45% (Rosales, Herreros and Durán, 2015).

Statistics on trade in services derived from the balance of payments do not include sales realized within the territory of a country by service companies of foreign origin established in that country. This is the so-called Mode 3 of supply of services (commercial presence). This is an important omission, since it is estimated that Mode 3 represents about 50% of world trade in services (Centre for International Economics, 2010). Therefore, to have a more complete picture of trade in services among members of the PA, it is necessary to analyze the FDI flows between them. As already mentioned, these flows are of a significant amount. In fact, the focus of FDI in neighboring countries has been a strategy widely used by service enterprises in the region (ECLAC, 2014).

Unfortunately, in the member countries of the PA there are very little statistical information that cross the origin of FDI to the sectors to which it is directed. However, there is evidence that much of FDI flows between PA countries occurs in service sectors. For example, DIRECON (2014a) estimates that 57.4% of Chilean FDI stock accumulated in all PA countries between 1990 and December 2013 went to services, reaching an amount close to 18,886 million dollars.⁸ The vast majority of these investments went

⁸ The methodology and data sources used in the DIRECON reports are different from those employed by the Central Bank of Chile, so the figures produced by the two agencies are not comparable.

to Colombia and Peru and to a lesser extent to Mexico. Also, DIRECON (2014a) estimates that investments in services of partners of the Pacific Alliance countries would be generating about one hundred fifty-one thousand jobs, of which 84% would be direct employees (approximately 127,000 people).

More recently, DIRECON (2015) estimates that 52.7% of Chilean FDI stock accumulated in Colombia between 1990 and December 2014 went to services, reaching an amount close to 9,239 million dollars. Especially the retail trade (47%), financial intermediation (31%) and transport (16%) can be highlighted (DIRECON, 2014b). Further, DIRECON (2014b,c) estimates that 63.3% of the stock of Chilean FDI in Peru accumulated in the same period went to services in the amount of 8,820 million dollars, with transport sectors (44%) and retail trade (36%) standing out. Although the stock of foreign investments to Mexico does not exceed US\$ 1,400 million at December 2014, the services also account for the majority (825 million dollars) of the total.

Table 16 illustrates the strong presence of the leading trans-Latin service enterprises of Chile, Colombia, Mexico and Peru in the PA markets. The individual data in table 16 show a predominance of Chilean and Mexican trans-Latins, with clear high specialization by Chilean retail sales companies, as well as public services as telecommunication and gas, as well as a strong presence in air transport, construction and health. Meanwhile, Colombian investors are located in finance, air transport, electricity and communications. For its part, Mexico concentrates sales of its main companies in telecommunications (see table 16). The large presence of companies of the four countries is a clear demonstration of the importance of (market-led) market integration, which not only confines to services, but also to trade in goods. However, it must be recognized that this is still more vigorous in services and investment.

Trade in services is strongly linked to cross-border mobility of people through the so-called Modes 2 and 4 (consumption abroad and the presence of natural persons, respectively). To the extent that these barriers to mobility get lower, greater opportunities will open up for trade in a wide range of services, both by movements of providers (e.g. a software developer or an architect) and consumers (e.g. tourists).

Table 16
Main translatin services enterprises of the Pacific Alliance, 2013
(In million dollars)

Enterprise	Sector	Chile	Colombia	Mexico	Peru	Sales (million dollars)
CENCOSUD	Retail	PC ^a	X		X	19 743
Grupo Falabella	Retail	PC	X		X	11 834
LATAM	Air transport	PC	X	X	X	11 906
Sigdo Koppers	Construction	PC				2 953
Ripley	Retail	PC	X		X	2 624
Entel Chile	Telecommunications	PC	X		X	3 101
Salfacorp	Construction	PC	X		X	2 024
Sonda	Software	PC	X	X	X	1 283
Cruz Blanca SA	Health	PC			X	982
Lipigas Chile	Gas distribution	PC	X		X	440
Grupo Sura	Finance	X	PC	X	X	...
Grupo Aval	Finance		PC	X		9 000
Empresas Públicas de Medellín	Electricity and telecom	X	PC	X		6 753
Avianca	Air Transport		PC		X	4 269
Grupo Carvajal	Graphic industry	X	PC	X	X	1 813
America Movil	Telecommunications	X	X	PC	X	60 079
Ingenieros Civiles Asociados (ICA)	Construction	X	X	PC	X	2 259
Grupo Saba	Retail			PC		3 601
Grupo ACP	Microfinance				PC	...

Source: Authors, based on figures from ECLAC (2014) and information from international financial press.

^a PC: Parent Company.

Given the previous considerations, the results of the agreements reached within the framework of the PA to facilitate the mobility of people are notable. In November 2012, Mexico announced the abolition of visas for nationals of Colombia and Peru (nationals of Chile did not require visas to enter Mexico). Meanwhile, in May 2013, Peru announced the abolition of visas for businessmen from Chile, Colombia and Mexico for up to 183 days, provided that they only perform unpaid activity in the country.⁹ These developments complement and reinforce the commitments on trade in services contained in the Additional Protocol to the Framework Agreement of the PA. A natural next step would be advancing in the approval or mutual recognition of professional and academic qualifications among members of the PA. This would facilitate technicians and professionals of one member country providing services in other PA member countries.

Despite being an initiative that is formally independent from the PA, the agreements reached to integrate the stock exchanges in Chile, Colombia and Peru through the Integrated Latin American Market (ILAM) may also contribute to increase the amount and variety of trade in financial services among these countries. The opportunities in this regard should expand significantly after the announcement of the forthcoming incorporation of the Mexican Stock Exchange to ILAM.

Finally, the recommendations on trade in services that the Business Council of the PA (“Consejo Empresarial de la Alianza del Pacifico”, CEAP) suggested to the authorities of member countries during the Summits of Punta Mita (Mexico) in June 2014 and Paracas (Peru) in July 2015 should be noted. Recognizing the dynamism and potential of trade in services, the CEAP called on governments to carry out the following actions (CEAP, 2015, 2014):

- Detect areas where greater integration and complementarity can be achieved;
- mobilising depth of the commitments made in the chapters of services in the (bilaterally signed) FTAs in these sectors;
- measures of trade facilitation regarding services in the identified sectors:
 - Regulatory and tax aspects,
 - documentation,
 - possibilities for harmonization and mutual recognition of professions;
- initiate negotiations for a possible additional protocol on financial inclusion;
- promote the use of information technology into existing business programs.

Until July 2015, the CEAP had met 7 times. Their recommendations should play a prominent role in the agenda of the PA in the coming years. It should also include a joint work program aimed at the development of comparable statistics on trade in services by partner, sector and mode of supply. This availability, as already mentioned, is very limited at the moment. In the absence of such statistics, it is very difficult to formulate policies and joint actions to exploit the strong potential of the sector. Given the complexity of this task, the PA could benefit from the technical cooperation of specialized international organizations such as the OECD.¹⁰

⁹ See alianzapacifico.net/temas-de-trabajo/ (accessed on November 10, 2016).

¹⁰ Chile and Mexico are already members of this organization, while Colombia is in the process of accession since October 2013.

IV. What is the progress of the trade protocol of the Pacific Alliance compared to the Pacific Rim?

As background to the signing of the Protocol creating the Pacific Alliance, it must be noted that between 2007 and April 2011, when Colombia, Chile, Mexico and Peru agreed on a first declaration that gave body to the current Pacific Alliance, a predeceasing initiative called Pacific Rim was in force, a *sui generis* grouping incorporating eleven countries in Latin America with coasts on the Pacific (Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru). The main objective of this group was to strengthen regional integration among its members, to afterwards address relations with Asia Pacific. After several meetings between the member countries of the arc, and the lack of agreements on specific issues such as the deepening of tariff reduction among members, and the lack of concrete progress on new issues such as accumulation of origin, government procurement, services, and investments, it ended, leaving behind what in economic terms is called de facto integration rather than de jure integration.¹¹ Obviously, the protocol of the creation of the Alliance is a clear manifestation that the leaders of the four countries that signed the initial statement put a higher weight on factors closer to a common project and towards progressing on the issues that the Rim could not solve. Thus, through signing the agreement for the creation of the Alliance, also the termination of its predecessor was signed.

Following the signing of a Framework Agreement of the Pacific Alliance in Paranal, Chile, in 2012, negotiations for the creation of a free trade zone had begun, and took place during the biennium 2012-2103.¹² Within their framework, the negotiations focused on the approval of all existing

¹¹ Several analyses of the evolution of trade policy in Latin America and the Caribbean prove the enormous difficulty of the initiative of the Pacific Rim to achieve consensus in a scenario in which some countries of the group maintained diametrically different positions. One example is Ecuador that did not show all the interest expected by their counterparts in the sense of promoting greater economic integration in the commercial sector over a more cooperative approach as at that time promoted the “Bolivarian Alliance for the Peoples of our America” (ALBA). Nicaragua followed a similar line, while the other Central American countries were more interested in strengthening its relationship with the United States. For further information the review of Herreros (2016) and also Kahhat (2011) is suggested.

¹² It is noted that the Framework Agreement only defined the objectives to achieve free trade area, the bodies and the nature of the instruments adopted between member states. In addition, the Framework Agreement established the modality for possible further accessions of states. Initially it was established that the countries that would be part of the Pacific Alliance necessarily had to have

bilateral agreements between the four members of the Alliance, and concluded with the signing of the Additional Protocol to the Framework Agreement at the VIII Presidential Summit in Cartagena, Colombia, in February 2014. This document already is a Trade Protocol supplementing, improving, updating and deepening what is contained in all existing bilateral agreements in the member countries.

It is emphasized that the Additional Protocol to the Framework Agreement resolves some of the dilemmas unresolved in the initial experience of the Pacific Rim in order to address directly the objectives outlined by the four member countries, such as: providing the basis for increased trade and investment within the Alliance, achieving economies of scale and developing more integrated supply chains to respond to new forms of organization of world production and finally promoting greater trade integration in the region to achieve higher levels of competitiveness in third country markets.

Table 17 schematically summarizes the main results of the Additional Protocol to the Framework Agreement of the Pacific Alliance in some chapters taking as reference the imports from each country from the rest of its members. As a percentage of tariff lines, it was calculated that between 96% and 98% are duty free, depending on the country. The rest of the tariffs will be reduced according to the schedule in successive periods of between 2 and 7 years. Note that the biggest changes in the schedule will occur between year 1 and 3 in the markets of Colombia and Chile, which register a large proportion of tariff lines with zero tariff from January 1, 2018, on.

Another important jump in the granted preferences occurs in early 2020, when Chile, following the lowering of tariffs for a set of vegetable products (beans, squashes, leeks and vegetables, celery, garlic and potatoes), plus ham, pate and related products reaches just over 99.5% of tariff lines of imports, while the other partners will be around 97 and 98%. In the same year, also a set of sensitive products of Colombia of interest to Chile and Mexico (duck meat, goose, dairy products, and sheep and pig meat) will reach zero tariffs.

The calendar between 2020 and 2030 includes linear reductions of annual character, previously determined. Those are of much more interest in the cases of trade between Colombia, Peru and Mexico, compared to the trade between Colombia and Peru, as these latter two countries already have 100% of fully liberalized trade, as part of the relief that has already taken place among member countries of the Andean Community (Colombia Ministry of commerce, 2016), a group of which Peru and Colombia are members. By 2030, the Pacific Alliance would reach about 99% deductibility of all tariff lines of the 4 member countries (see table 17 and figure 10).

It is noted that in the cases of Peru and Mexico a special list of products (P List) exists for which seasonal tariffs are applied to protect their farmers from foreign competition in national crop seasons. Among other cases, some varieties of onions can be mentioned here as examples, products for which the tariffs agreed upon in each case in the schedule to Annex 3 of the Protocol are applied. Only in 2030, tariffs for all products of this group will be completely eliminated.

The last staging category, called X, maintains a list of between 27 and 34 sensitive products that represent between 0.28% and 0.35% of total tariff lines (Colombia and Chile) and about 0.45% in the cases of Mexico and Peru. In this list of exclusions are basically sugar and related products (fructose, molasses, glucose, lactose, sweeteners, syrups, etc.), all of which were excluded from the preferences. In all of these cases, the countries continue to apply the MFN principle (see table 17).

free trade agreements in force with all the founding members. Later, the requirement was changed to admit that potential new members might have free trade agreements with at least half of the founding members at the time of such access becoming effective.

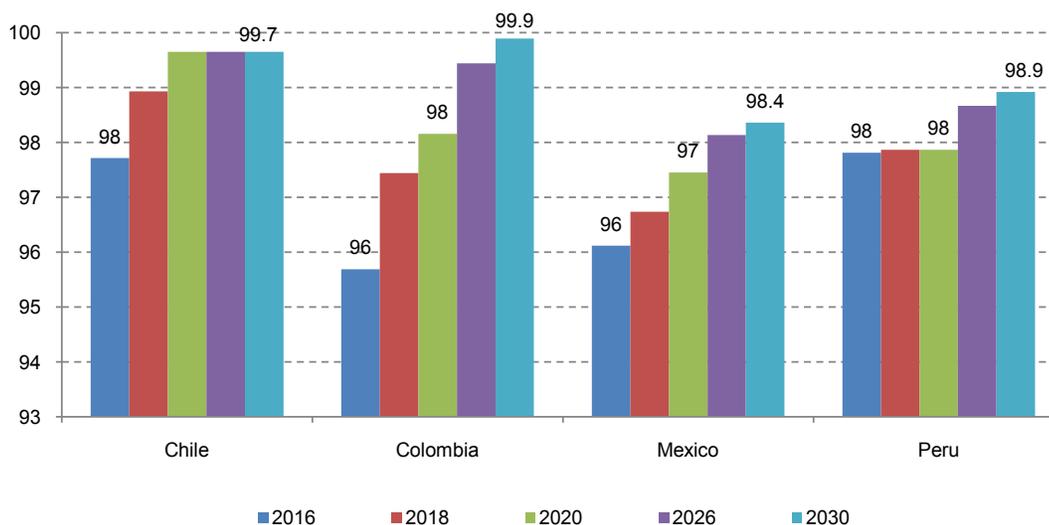
Table 17
Pacific Alliance: market access results, tariff schedule

Staging category	Tariff cut period	Years	Numbers of products ^a				Percentage of total tariff lines			
			Chile	Colombia	Mexico	Peru	Chile	Colombia	Mexico	Peru
A	Immediately	2014	7 612	7 213	11 840	7 429	97.72	95.69	96.12	97.81
B	2 years	2015	34	0	0	4	0.44	0.00	0.00	0.05
C	3 years	2016	61	132	76	3	0.78	1.75	0.62	0.04
D ^a	4 years	2017	0	0	0	1	0.00	0.00	0.00	0.01
E	5 years	2018	0	21	25	29	0.00	0.28	0.20	0.38
F	6 years	2019	0	3	1	0	0.00	0.04	0.01	0.00
G	7 years	2020	56	5	223	12	0.72	0.07	1.81	0.16
H, I, J	8-10 years	2023	0	71	64	24	0.00	0.94	0.52	0.32
K, L, M	10-15 years	2026	0	26	20	37	0.00	0.34	0.16	0.49
N, O	16-17 years	2029	0	34	28	19	0.00	0.45	0.23	0.25
P	Seasonality	2030	0	0	7	3	0.00	0.00	0.06	0.04
X	Excluded	...	27	33	34	34	0.35	0.44	0.28	0.45
Total tariff lines			7 790	7 538	12 318	7 595	100.0	100.0	100.0	100.0

Source: Authors, calculation based on Annex 3 of the “Additional Protocol of the Framework Agreement to the Pacific Alliance”. Note: in the cases of Chile and Mexico, the calculations were performed based on the Harmonized System (HS) 2012 with products at 8-digit level. In the case of Colombia and Peru, products were at the 10-digit level.

^a Staging only used for Peru to protect its canned animal liver (HS2012, 16022000).

Figure 10
Pacific Alliance: market access results, tariff schedule
(In percentage of tariff lines)



Source: Authors, calculation based on Annex 3 of the “Additional Protocol of the Framework Agreement to the Pacific Alliance”.

Measured in terms of import value, the immediate relief reaches 94.5% of all products, with greater relief in the case of Chile, which gives preference to 97.6% of total imports from the other partners of the trade group. In value, the greatest impact of opening occurs in the market of Mexico in the opening of list C products. Herein, low tariffs for some meat products should be highlight (e.g. meat and edible offal of poultry, pork), further trout, catfish, tilapia and carp, for which the baseline tariff fluctuates between 10% and 20%. Moreover, this holds for a set of agricultural products (peas, avocados,

beans, mushrooms, brussel sprouts, etc.) that also have base tariffs above 20%. Finally, the cases of lard and pork fat stand out, being products for which the tariff base falls from 254% to zero in just 3 years.

In terms of import value, a second milestone in tariff reductions will occur in 2020, when Mexico also reduces a set of tariffs of the meat sector (edible offal of bovine, sheep, goats or swine) with base tariffs of 20%. In this group of tariff relief also the programmed lowering of poultry products should be mentioned, especially meat and edible offal of poultry, for which the average of tariff is dropping from levels averaging 200% ad valorem to 26% in 2019 and to 0% in 2020 (see figure 11).

Table 18
Pacific Alliance: market access results base on imports, tariff schedule
(Millions of dollars and percentages)

Staging category	Tariff cut period	Imports from Pacific Alliances members, 2015 (In millions of dollars)					Share of total imports (In percentages)				
		Chile	Colombia ^a	Mexico	Peru	Pacific Alliance ^a	Chile	Colombia ^a	Mexico	Peru	Pacific Alliance ^a
A	Immediately	4 028	7 174	2 602	4 000	17 804	97.6	96.9	84.4	94.5	94.5
B	2 years	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
C	3 years	7	36	100	0	143	0.2	0.5	3.2	0.0	0.8
D	4 years	...	...	...	0	...	...	...	...	0.0	...
E	5 years	0	18	18	2	38	0.0	0.2	0.6	0.0	0.2
F	6 years	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
G	7 years	27	0	169	2	199	0.7	0.0	5.5	0.1	1.1
H, I, J	8-10 years	0	19	64	45	127	0.0	0.3	2.1	1.1	0.7
K, L M	10-15 years	0	43	43	10	96	0.0	0.6	1.4	0.2	0.5
N, O	16-17 years	0	24	18	1	43	0.0	0.3	0.6	0.0	0.2
P	Seasonality	0	0	65	0	65	0.0	0.0	2.1	0.0	0.3
X	Excluded	65	92	5	171	334	1.6	1.2	0.2	4.0	1.8
Total imports		4 127	7 407	3 084	4 231	18 849	100	100	100	100	100

Source: Authors, calculation based on Comtrade and Annex 3 of the "Additional Protocol of the Framework Agreement to the Pacific Alliance".

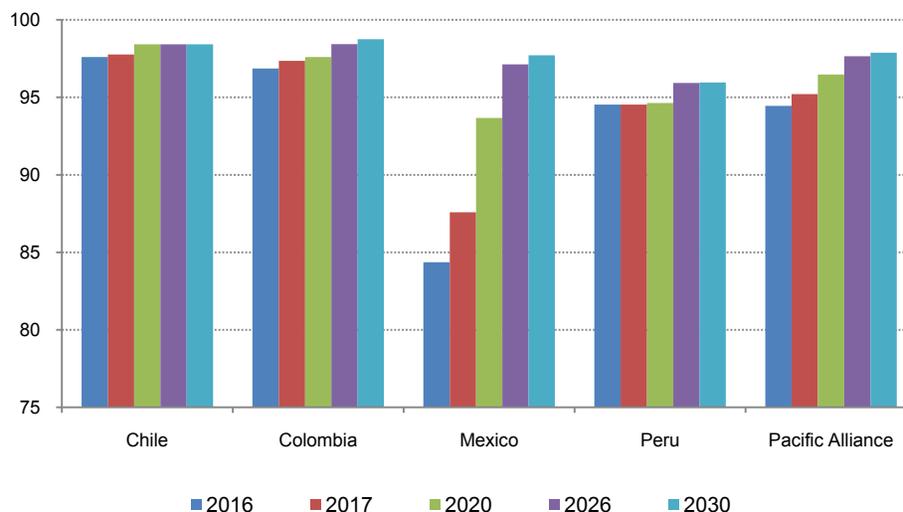
Note: Calculations were based on the Harmonized System 2012 at the 6 digit-level. Within the mapping of different products at the 8- and 10-digit level into a common 6-digit group, staging categories were taken into account. In cases where products mapped into the same 6-digit group showed more than one staging category, always the more restrictive staging category (i.e. with a longer period of tariff cuts) was chosen.

^a Figures for Colombia are from 2014.

Along with the increased opening of the Mexican market that will reduce tariffs with high base levels comes the improved relative position of Colombian, Chilean and Peruvian exporters for that large market of 127 million inhabitants. The same holds true for the dismantling of tariffs in Colombia and Peru, where, according to DIRECON (2014d), Chile has particular interests in meat products such as beef and swine, plus poultry and dairy products (cheese, butter and whey).

Besides the obvious achievement of harmonization in terms of tariff reductions as analyzed above, a first recognized advance of the Protocol is the harmonization of multiple provisions of the various existing agreements to establish common standards, specifically in commercial disciplines. This directly reduces transaction costs for operators of member states. What once was in full existence only at the bilateral level between a pair of member states, will be applicable to all members through the implementation of the agreement after its ratification by all states.

Figure 11
Pacific Alliance: market access results, tariff schedule
(In percentage of total imports)



Source: Authors, calculation based on Comtrade and Annex 3 of the "Additional Protocol of the Framework Agreement to the Pacific Alliance".

Table 19 summarizes the core results in the thirteen main topics of the Protocol, including the chapter on access to markets. A first observation within the analysis of the summarized chapters is that in several of the topics new aspects exist when compared to the baseline constituted by the bilaterally signed agreements between the parties in their respective network of preexisting FATs. The key changes occur in the area of public procurement, telecommunications, e-commerce, financial services and maritime services. All these are chapters where a modernization of disciplines is observed, such as the standardization of procedures to be applied in all the four countries. A special case that can be referred to as an example is the chapter on public procurement, which now includes the incorporation of Peru while the initial FTA between Chile and Peru did not contain such rules. Also, it is noted that Colombia improved its offerings regarding Chile. Such regulatory improvements also allowed the Alliance member countries which were negotiating the TPP to bring their positions closer together, allowing them to form groups to engage in defensive positions in line with their interests (Castillo, 2016). For example, the protocol opens the Peruvian government procurement market to Chilean service providers, while the bilateral FTA between the two countries did not contain provisions on the subject. Similarly, commitments on government procurement adopted by Colombia in the protocol entail an improvement in the supply of considered entities and an elimination of the exceptions in engineering, architecture and printing services. Thus, access conditions agreed in the bilateral FTA between the two countries improve (DIRECON, 2014d).

Another aspect to be highlighted among the results of the Protocol, widely known due to negotiators, businessmen and academics has to do with the accumulation of origin. This refers to a mechanism that opens the possibility that an exporting producer of a good may seek not only domestic intermediate inputs, but also those originating in any of the other three members of the agreement, and also possibly of a third country not member of the agreement. Thus it is promoting greater regional integration and facilitates the possible use of subregional production networks, expanding the ability to leverage the comparative advantages of all producers of intermediate goods in all Alliance members. The greater the number of members of an agreement, the greater the benefit of the cumulation of origin criteria, since it is possible to add own inputs and those originating in the Pacific Alliance in an export to a partner of the Alliance. In addition, the Protocol allows producers of a country of the Alliance,

exceptionally, to import inputs from third parties (countries outside the agreement) and incorporate those in exports to the Alliance as if being originating. DIRECON (2014d) cites as examples the cases of timber, and nitric acid, both inputs that Chilean processors incorporated in their exports of sawn wood and ammonium nitrate, those being products that are then exported to other countries of the Alliance.

The full entry into force of a scheme treating the cumulation of origin opens spaces for the establishment of subregional value chains between member countries in the areas of interest defined in each country, based on the comparative advantages of each member countries.

Table 19
Pacific Alliance: main outcomes of the additional protocol of the framework agreement

Topics	Main outcomes
Market access	<p>17 sets of staging categories for different product baskets were established (From A to X). Category A calls for full liberalization of between 7200 and 7600 products according to the Harmonized System 2012. This is between 96% and 98% of total tariff lines at 8-digit level, and 94.5% of import value.</p> <p>About 1.8% of products with tariff elimination scheduling between 3 and 7 years (2% of intra-regional imports).</p> <p>0.95% of products with high sensitivity are liberalized in between 8 and 17 years (2% of imports).</p> <p>Sugar and related products such as fructose, molasses and glucose products were excluded from preferences (0.38% of total tariff lines and 1.8% of total intra-regional imports).</p>
Rules of origin	<p>Unique rules of origin are negotiated for the four members.</p> <p>An accumulation of origin mechanism among the four members was established.</p> <p>In textiles and clothing a committee was established that may grant waivers to import products from third countries where not possible to obtain supplies from within Alliance members.</p>
Trade facilitation and customs cooperation	<p>The parties agreed to the fast resolution of difficulties in customs through exchange of information.</p> <p>Commitments of expediting shipments of goods were established by using international standards and automatization of information.</p> <p>Mutual recognition of AEO among member countries was agreed upon.</p> <p>The progressive interoperability of FTSW was agreed upon, starting the process with health and origin certificates.</p>
Technical barriers to trade	<p>Provisions go beyond WTO rules and include transparency, conformity assessment procedures and regulatory cooperation.</p> <p>A Committee on Technical Barriers to Trade was established for the monitoring and implementation of the provisions and issues of the agreement.</p>
Sanitary and phytosanitary measures	<p>Agreed rules considered by the parties tend to increase transparency in implementation of the Sanitary and Phytosanitary Standards (SPS), to strengthen the science-based use in its application.</p> <p>A Committee on Sanitary and Phytosanitary Standards was created for the monitoring and implementation of the provisions and issues of the agreement</p>
Public procurement	<p>Public procurement provisions of all existing agreements between the countries were certified.</p> <p>The chapter applies to all members for both purchases of goods and services (including construction services) required by plants and sectional entities as well as public companies.</p> <p>Public procurement between Chile and Peru was integrated and standards in the bilateral relations of the rest of the members were improved.</p>
Trade in services	<p>National treatment to all parties that signed the agreement on the basis of negative lists is available. This involves the application of non-conforming measures, the same as those listed for each country (see Annex I of the Protocol);</p> <p>The parties agreed to work together in sharing information, sharing methodologies, as well as the publication of statistics of services based on international standards.</p> <p>A Joint Committee on Investment and Services was created with a set of tasks towards implementation, coordination and development of common standards and the identification and analysis of barriers to trade in services with a view to their reduction or elimination, to coordinate the exchange of data and methodologies, and to promote the development of standards and criteria for the Provision of Professional Services.</p>

Table 19 (concluded)

Topics	Main outcomes
Financial services	<p>National treatment to all parties that signed the agreement on the basis of negative lists is available. This involves the application of non-conforming measures, the same as those listed for each country (see Annex 1 of the Protocol).</p> <p>A Committee on Financial Services with a set of tasks aimed at monitoring and implementation of the Chapter was created.</p> <p>A specific commitment of the chapter is that the parties agreed to allow a financial institution, organized outside its territory to provide investment advisory services to a collective investment scheme located in the territory of the party. It requires registering or authorization, as well as the possibility to regulate the service.</p>
Maritime services	<p>The parties are obliged to grant a treatment no less favorable to the vessels of the other party than it grants to its own vessels with regard to free access to, stay in and departure from ports, the use of port facilities and all secured facilities in its trade and navigation, for ships operations, its crew and cargo. This assignment also applies for the allocation of docks and loading and unloading facilities.</p> <p>Mutual recognition of the nationality of ships and of the documentation of the travel of crew from all member states of the Alliance is established. If one state recognizes the documents, they will be recognized by the other member states.</p> <p>The countries agreed to establish cooperation mechanisms to overcome obstacles that may arise in the development of maritime transport services. Among others are mentioned: sharing information and experiences on laws, best practices, and exchanges of students, management experiences, regulations as well as programs to encourage greater efficiency of maritime transport services.</p>
E-commerce	<p>The main objective of this chapter is to promote paperless trade by providing opportunities that open electronic commerce to economic growth.</p> <p>Electronic transactions of goods and services are regulated, including digital products.</p> <p>The parties commit themselves not to apply customs duties to digital products.</p> <p>The countries agreed to establish cooperation mechanisms to facilitate the use of electronic commerce by micro, small and medium enterprises, share information, and promote the development of electronic commerce.</p>
Telecomunicaciones	<p>Telecommunications companies of the four countries are guaranteed to be able to provide telecommunications services in all countries of the Pacific Alliance under conditions of free competition.</p> <p>Among others, aspects such as interconnection between telecommunications companies, number portability, access to infrastructure and transparency in promoting transparent tariffs for fixed telephony and mobile services, including international roaming, are secured.</p> <p>The independence and impartiality of the Telecommunications Regulatory Bodies is guaranteed</p>
Dispute Settlement	<p>The parties agreed on a mechanism for settling disputes applicable to disputes in all areas covered by the Protocol, with the exception of investment disputes, for which the settlement mechanism investor-state dispute provisions of the investment chapter applies.</p>

Source: Authors, on the basis of the text of the single chapters of the Additional Protocol of the Framework Agreement. (www.acuerdoscomerciales.gob.pe/index.php?option=com_content&view=category&layout=blog&id=187&Itemid=206).

In terms of disciplines, the Additional Protocol updates the standards of investment protection and liberalization of trade in services contained in bilateral FTA between PA members, some of whom are yet operating more than a decade.¹³ Also, opening levels contained in some bilateral agreements were improved under the Protocol. For example, in the case of Chile's relationship with Mexico, the Protocol enshrines the opening of the telecommunications sector to foreign participation in Mexico by 100%, compared with 49% in the bilateral FTA (which reflected the level of existing opening in the late nineties). Similarly, the Protocol establishes the opening of the Mexican broadcasting sector to foreign participation up to 49% of capital, while in the bilateral FTA that sector was reserved for Mexican nationals (DIRECON, 2014d).

The disciplines agreed in the protocol on trade facilitation could boost trade in services associated with logistics. The impact could be very strong in that joint strategies mentioned in the chapter on maritime services got more concrete, namely the facilitation of regional maritime transport, the

¹³ The Colombia-Mexico FTA was signed in 1994 and the Chile-Mexico FTA in 1998.

development of logistics chains and multimodal transport facilitation. These issues are highly complex and of slow development, so no significant results can necessarily be expected within a few years. In order to realize substantial progress in trade facilitation, such as full interoperability of Foreign Trade Single Window (FTSW), the extensive use of information technology in all customs offices of the Alliance as well as full recognition of Authorized Economic Operators (AEO), it will be necessary to promote flexible and timely cooperation mechanisms to actually achieve lower costs associated with delayed clearance of goods in the process.

V. The Pacific Alliance and the Asian Pacific region: which way to go?¹⁴

One of the aspects that differentiate the PA from other Latin American economic integration schemes is that among its founding objectives has been the goal to become a platform directed to the world, particularly to Asia Pacific. The other regional groupings in Latin America and the Caribbean have sought to strengthen further their intra-regional relations rather than their extra-regional relations. Even when the latter has been the case, links with Asia Pacific have not been a concrete focus in the sense that all member countries together would seek to strengthen its economic relations with this particular region as part of their trade strategy. This could be observed in the case of the Andean Community and the Southern Common Market (MERCOSUR). Regarding the Central American Common Market and the Community of Caribbean States (CARICOM), the strategy has been clearer in strengthening its ties with the United States and the European Union, its two most important partners.

Several recent publications include the potential for the PA to become a bridge between Latin America and Asia, a region with which the Pacific Alliance has strengthened its ties (Herreros, 2016; Dominguez, 2015; International Institute of Strategic Studies, 2015; George, 2014; Meacham, 2014; Dade and Meacham, 2013). In fact, the the PA has a shown a notable dynamism in its a little more than 4 years of existence, coupled with a relatively good economic performance of its members and open trade and investment policies. Despite slowing growth in the world economy observed in 2015, the countries of the Alliance showed output growth rates above the average for the rest of the region. All these reasons have attracted the attention of many countries around the world. Thus, the current number of observers of the PA until November 2016 reaches 49 countries of five continents (including some of the largest world economies). Nine observers belong to the Asia Pacific: Australia, China, India, Indonesia, Japan, New Zealand, the Republic of Korea, Singapore and Thailand (see table 20).

¹⁴ This section and the following section are based on Herreros (2016) and Rosales, Herreros and Durán (2015).

Table 20
Observer states of the Pacific Alliance, as of November 2016

Region	Countries	Number of countries
Latin America and the Caribbean	Argentina, Costa Rica ^a , Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Panama ^a , Paraguay, Trinidad and Tobago, and Uruguay	12
North America	Canada and United States	2
Africa	Egypt, Morocco	2
Asia	China, India, Indonesia, Israel, Japan, Rep. of Korea, Singapore, Thailand, and Turkey	9
Europe	Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Georgia, Greece, Hungary, Italy, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Switzerland, Sweden, Ukraine and United Kingdom	22
Oceania	Australia and New Zealand	2
Total of observer states		49

Source: Authors based on Pacific Alliance website (alianzapacifico.net/en/paises/#observer-countries).

^a Accession candidates.

Today, the PA is in an unusual situation. First, the number of observers is more than ten times that of its full members. Second, for the vast majority of observers, admission as full members is not a realistic prospect, either because they belong to other regions, other integration mechanisms, or a combination of these and other reasons. This raises the question what kind of agenda of mutual interest the PA can offer to observers, particularly to Asian ones. After the full entry into force of the Protocol of Accession in mid-2015, and the entry into force of the Additional Protocol to the Framework Agreement in May 2016, it is possible to verify some elements of interest in the agenda of the Pacific Alliance that might be interesting for potential partners in Asia Pacific. Among others, these points stand out:

- A renewed agenda for trade facilitation, including drivers of intraregional trade, namely commitments to expedite the transit of goods;
- the use of measures of automation in customs;
- mutual recognition of AEO, the beginning of a plan to implement progressive interoperability of FTSW of foreign trade.

All of these are elements aimed at reducing transaction costs for traders, especially small and medium enterprises.

Moreover, the harmonization of the various disciplines already mentioned in pre-existing agreements into a single agreement (the Additional Protocol to the Framework Agreement) promotes greater legal certainty to employers in the countries, which will be able to better promote their investment and trade in services, as well as participation in public procurement of its neighbors. All this is expected to result in better opportunities for increased intraregional trade.

Finally, the very advantageous position resulting from the possibility of accumulation of origin must be added. Such accumulation is likely to be the main mechanism through which the PA promotes productive integration among its members. In simple terms, for example, it will allow a peruvian producer to incorporate without constraints inputs originating in Colombia and Chile in those products exported to Mexico without such products losing the quality of originating in Colombia and therefore its preferential access to the mexican market. This possibility does not exist under bilateral FTAs linking the countries of the PA, whose origin regime is much more restrictive. In short, the accumulation of origin implies a much greater stimulus to the development of multinational value chains existing in the framework of already existing bilateral agreements. This is because it will allow exploiting the already existing productive complementarities among the four member countries of the PA.

The eventual upcoming incorporation of Costa Rica to the Pacific Alliance could be an additional element of interest to other countries in the region. They could see space of complementarity to join the implementation of the ambitious agenda described above.

A. Costa Rica on its way to join the Pacific Alliance

Among the current observer states of the PA, Costa Rica represents a special case because it is geographically situated right between the Latin American PA members and it already has bilateral FTAs with each of these current PA members. The bilateral FTA with Mexico dates back to 1995 and is thereby the oldest of Costa Rica's agreements with its Latin American partner countries that are part of the PA. While in 2011 efforts were undertaken to conclude a modernized, joint Central American commercial agreement with Mexico, up-to-date 98% of the Costa Rican products part of the FTA do not face tariff barriers. The bilateral FTA with Chile entered into force in 2002 and grants zero tariffs to about 95% of Costa Rica's exported products. In 2013, a bilateral FTA between Costa Rica and Peru entered into force. Following the negotiated conditions of the agreements, up to 78% of Costa Rica exports can be sent to Peru free of tariffs (OAS, 2015). Finally, the bilateral FTA between Costa Rica and Colombia, signed in 2013, after the approvals of the Congress of Costa Rica in May 2014 and the recent approval of the Congress and Constitutional Court of Colombia, in May 2015 and April 2016, respectively, entered into force in June 2016. Thereby, 69% of the exportable supplies of Costa Rica now receive zero tariffs in Colombia.

Compared to the Latin American members of the PA, Costa Rica weighs rather small both in terms of exports and imports. Despite the rather small absolute scale, the country has shown positive growth trends in its foreign trade between 2010 and 2014, averaging at about 5% annually (COMEX/ECLAC, 2015). Only recently in 2015, it could not withstand the negative trend in the region and registered declines at about the same magnitude as Latin America and the Caribbean as a whole. Approaching towards the opportunity offered by the PA market in terms of market size and trade facilitation prospects seems to be a highly valuable way for Costa Rica to pursue its future economic development.

On February 10, 2014, Costa Rica officially initiated the process of joining the PA as its fifth full member. The possible effects for Costa Rica in terms of real income are estimated to be positive at a size comparable to that in Colombia. If one takes into account the future effects of the upcoming large transregional agreements negotiated for example under the Trans-Pacific-Partnership (TPP) between American and Asian Pacific countries or the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union, the benefits for Costa Rica becoming a member of the PA are even more obvious (KAS, 2015). The same estimations provide a more detailed picture of the trade creation and trade substitution effects associated with Costa Rica entering the PA.

It is expected that as a first effect, exports in nearly all Costa Rican sectors would increase as the cost of trading would be significantly reduced within the PA. With intermediate inputs becoming cheaper and increased trade facilitation due to the trade agreement, Costa Rica's enterprises become more competitive and therefore can boost their export activities. The largest increases will be registered in the clothing sector and in chemicals. To a smaller extent, electronic manufacturing and the food industry would incorporate gains. It is worth noting that exports not only within the PA are expected to increase but also exports to all main trade partners. An exception can be found in the mining and wood sector, where exports to regions outside the PA slightly decrease. The explanation lies in other PA members like Peru which are more competitive in these sectors that incorporate a high degree of raw materials.

Looking at the imports side, the picture obtained is more diverse. Here, a first effect is that imports from the PA countries are estimated to increase across all sectors. Again, the largest increases are found in the clothing sector and in chemicals. However, the vast majority of sectors register decreases in the imports from trade partners outside the PA. This substitution effect is especially large for trade with the European Union. Taking into account these mixed effects, the overall value of imports is expected to drop with the largest declines in the clothing sector and the chemical industry. Again, it should be noted that the drop in total imports stems mainly from the substitution of purchases from

outside the PA to imports from PA members due to the tariff benefits that Costa Rica faces once it is established as a PA full member.

Entering the PA would also mean positive news for certain sectors in terms of value added. The largest absolute gains are found in the agricultural sector, business services, clothing industry and machinery. With respect to relative gains, the metal industry, the automotive sector and also the clothing industry would reap the greatest benefits. Significant losses are only registered in the paper and wood industry and in the metal products sector.

Overall, joining the PA gives Costa Rica a positive economic outlook. It will be interesting to take track of the ambitions of further Latin American countries, especially Central American ones, to follow the example of Costa Rica and approach the PA. At the moment, Panama is undertaking a first step towards that direction and initiated negotiations on a bilateral FTA with Mexico, which comes as one of the prerequisites of joining the Alliance (OAS, 2016).

B. The future of the Pacific Alliance in Asia Pacific

After the ratification of the Additional Protocol to the Framework Agreement by all the four member countries, the process of its enforcement began and finally took place in early May.¹⁵ The four countries will begin to give life to the different chapters of the treaty. This will undoubtedly boost intraregional trade in the future. Still, the countries find themselves in the position to move in the challenge of designing a strategy to link with the countries in Asia Pacific. To address this aspect and the possibilities in the interregional field, we will analyze the trade pattern of the countries of the Alliance with the countries of that region of the world.

A natural starting point for designing a strategy of linkage between the PA and Asia Pacific is to examine trade links between the two groups. In this regard, and as evidenced in the Introduction, there is no common pattern. Asia Pacific accounts for almost half of Chile's exports and nearly a third of Peru, but only 15% of those in Colombia and only 4% of those in Mexico (see figure 12). The Chilean and Peruvian export baskets are complementary with those of China, Japan and the Republic of Korea, which is expressed in an exchange of minerals and metals for industrial products. By contrast, Mexico competes directly with Asian manufactures (especially Chinese ones) in its own market and in the US (see Dussel Peters and Gallagher, 2013). Colombia is in an intermediate position, but closer to Chile and Peru. Meanwhile, Asia Pacific is an important supplier of imports (mainly industrial) for all members of the PA. In aggregate terms, Chile has a trade surplus with Asia Pacific. The other three members of the PA have deficits, with an extremely high one in the case of Mexico.

An outstanding element is that the member countries of the PA have been very active in signing trade agreements with Asian economies. In fact, almost all FTAs that exist between Latin America and Asia Pacific involve members of the PA.¹⁶ Of the four countries, Chile is the one having signed most free trade agreements with Asia Pacific, followed by Peru and Mexico. Colombia has just signed one FTA with the Republic of Korea (see table 21). In addition, three members of the Alliance (Chile, Mexico and Peru) participated in the negotiations on the Trans-Pacific Partnership (TPP), which have come to end in November 2015. In January 2016, the 12 countries negotiating the TPP finally signed the agreement in Auckland, New Zealand. In the past, Colombia also has expressed interest in joining them. The key question is then whether the creation of the PA will result in a more coordinated approach of its members to the Asia Pacific.

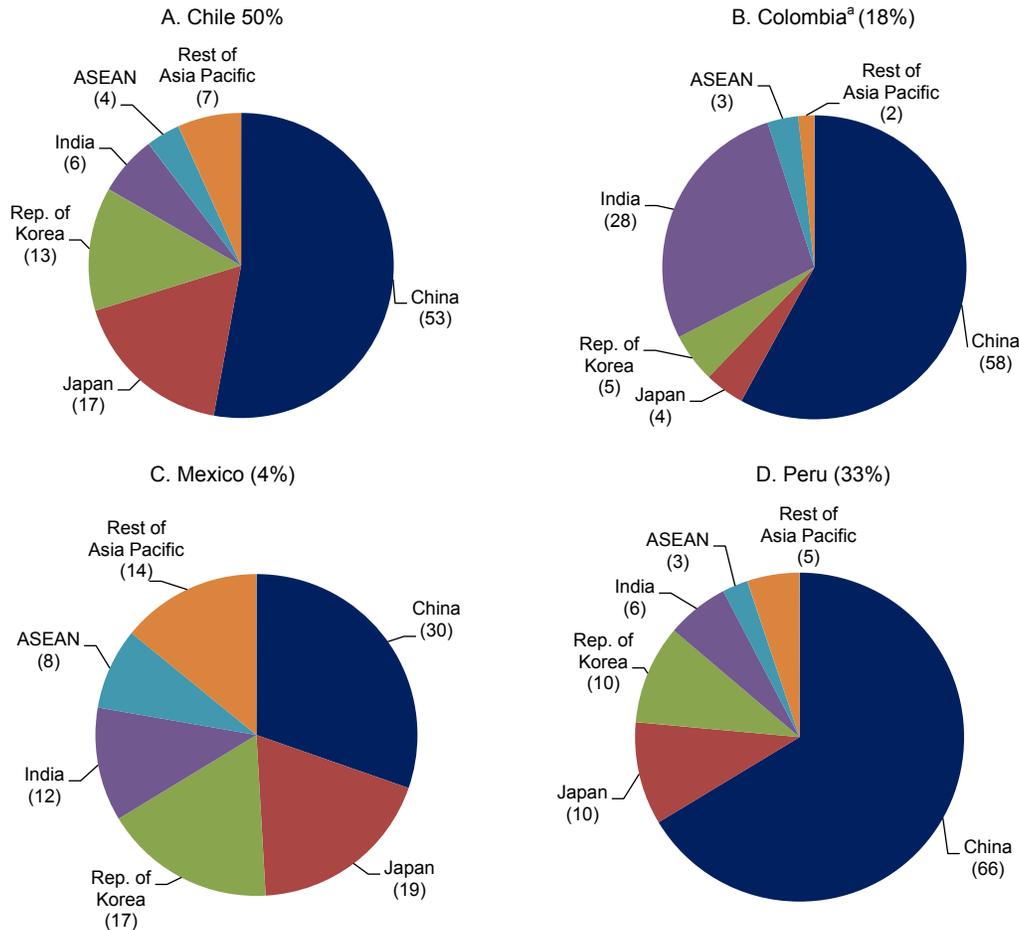
To date, members of the PA continue to conduct its trade negotiations with Asia individually. After the signing of the Framework Agreement of the PA in June 2012, Colombia began negotiations for

¹⁵ At November 25, 2015, the Congress of Peru ratified the agreement; Colombia ratified it in the end of 2015; at December 14, 2015, the Senate of Mexico ratified it; finally, at January 5, 2016, the Chilean Senate ratified it.

¹⁶ It should be noted, however, that Brazil is the largest Latin American trading partner of China, Japan and the Republic of Korea. In fact, in 2013 China imported 54,300 million dollars from Brazil compared to 43,975 million dollars imported from all the Latin American PA members together.

an FTA with Japan in December of that year, while Chile did the same with Indonesia in May 2014. In fact, members of the PA have not signaled any interest—at least not publicly—in jointly negotiating trade agreements with Asian partners (or partners of other regions). In any case, doing so would be very difficult, for several reasons.

Figure 12
Pacific Alliance: exports to Asia Pacific region, 2015
(Percentages)



Source: Authors, based on COMTRADE database.

^a Figures are for 2014.

First, as has been shown, trade patterns with Asia vary widely among members of the PA. Therefore, defining common negotiation positions that would accommodate the offensive and defensive interests of all its members would be a very complex exercise. Second, Chile and Peru already have FTAs in force with most major Asian economies. Third, the PA is based on the premise that its members maintain total freedom to conduct its trade policy towards third party countries. Taking all of the above said for granted, the existence of some synergies of the Pacific Alliance in its relations with Asia Pacific is recognized, especially the fact that the progress in the negotiations on the Additional Protocol to the Framework Agreement provided support to the negotiators of the TPP by granting them a floor for their talks there. As an example, the case of public procurement can be cited, because the Additional Protocol harmonized standards and included Peru in the mechanism. Also, the rules of accumulation of origin paved the way in this area. All these advances, in turn, stimulated the dialogue to address other sensitive issues such as intellectual property and the environment.

Table 21
Pacific Alliance: main partners in FTA network, as of April 2016

Regions	Countries			
	Chile	Colombia	Mexico	Peru
MERCOSUR	X	X	X ^a	X
Andean Community		X		X
Central American Common Market (CACM)	X	X	X	X
Panama	X	X	X	X
Cuba	X	X		X
Caribbean Community (CARICOM)		X		
Canada	X	X	X	X
United States	X	X	X	X
European Union	X	X	X	X
European Free Trade Association (EFTA) ^d	X		X	X
Turkey	X			N ^e
Israel		X	X	
Asia Pacific countries				
Australia	X ^b		X ^c	X ^c
Hong Kong (SAR)	X			
India	X			
Japan	X		X	X
China	X			X
Republic of Korea	X	X		X
Thailand	X			X
India	X			
Malaysia	X		X ^c	X ^c
New Zealand	X ^b		X ^c	X ^c
Singapore	X ^b		X ^c	X ^c
Brunei	X ^b		X ^c	X ^c
Vietnam	X		X ^c	X ^c
Indonesia	N ^e			
APEC	X		X	X
Trans-Pacific Partnership Agreement (TPP)	X		X	X
Asia Pacific countries	13	1	8	11

Sources: Authors, based on OAS (2016), Foreign Trade Information System and others official sources.

^a Mexico has FTAs with Uruguay, and a Partial Complementary Agreement with Brazil.

^b P4 Free Trade Agreement between Chile and Australia, Brunei, Singapore and New Zealand.

^c Pending for ratification.

^d Iceland, Liechtenstein, Norway and Switzerland.

^e Under negotiation.

In light of the above background information, proposals such as the negotiation of an FTA between ASEAN and PA, which did not seem to be viable at all in the past, have started to become imaginable for the future. Still, specifically such an agreement seems to have no real prospects to materialize, at least in the medium term. However, this does not preclude the need for the PA to project a more collective and institutional approach to the Asia Pacific region, particularly to China, Japan, Korea, India and also ASEAN.

Given all the above mentioned, the question remains what type of work schedule the PA can offer its observers, particularly those in Asia Pacific, to encourage them not only to maintain that status, but to actively exercise it. The joint promotion of business opportunities in (or with) the countries of the PA is a promising field that is already being explored in areas such as trade and attracting investment and tourists. A particular priority should be seeking agreements and alliances with Asian partners (both public and private) aimed at diversifying exports from the PA to Asia, which —with the exception of Mexico— show a strong concentration in a few commodities. As observers in the PA are a very diverse group, a common agenda for all should be avoided, if possible. Alternatively, the PA could propose to each of its major Asia Pacific observers creating bilateral forums (AP-China, PA-Japan, PA-India, etc.). These forums, which could meet on an annual basis, would enable both parties to structure their agenda according to their specific needs and interests.

VI. Conclusions

In its four years of existence, the Pacific Alliance has proved to be an initiative which in practice had been strengthened by private initiative. Evidence is provided by the investment relations, trade, and especially commercial services, which have been showing a growing interest in economic relations of the member countries. The entry into force of the Additional Protocol to the Framework Agreement in May 2016 will give the Alliance greater international interest through the incorporation of a set of harmonized disciplines in a single legal body into its legal acquis.

The results achieved in fact, like the full liberalization of trade in goods for 94.5% of imports between the parties, which itself is a laudable achievement for their business sectors, mark a predictable path to be followed up in trade relations until 2030. The proposed tariff relief will undoubtedly boost the integration of the group. However, the set of additional results in other areas will serve as a catalyst of economic relations and investment services.

The disciplines negotiated in the chapter on trade facilitation (harmonization of disciplines, compromise to expedite the transit of goods, approval of AEO, interoperability of the FTSW, especially the certificate of origin and the use of digital signatures) should be highlighted. Putting all these commitments into practice, should help to expedite the cross-border movement of goods between the members of the PA, which in turn is an essential element for the proper functioning of the value chain.

Also worth noting is the updating of investment standards and services and sectoral expansion in new sectors such as telecommunications, media (broadcasting), financial services, maritime, and exchanges of electronic services. Updating of all these rules catalyzes flows of trade, investment and services.

The expected positive effect of the accumulation of origin on productive integration would be strengthened if, as is already happening in some sectors (specifically cosmetics and medicines), members of the PA move towards harmonization or mutual recognition of national technical regulations. Indeed, thereby the costs of having to modify the specifications of a product to commercialize it in different markets would be reduced. The sectoral review of the still low productive integration gives evidence to spaces for the creation of regional value chains in sectors such as plastics, food, paper and cardboard, chemicals and pharmaceuticals, among others. Accumulation of origin opens an important space to advance the formation of such value chains.

It is important to highlight the importance of the simultaneous operation of these three components (trade facilitation, harmonization of standards and accumulation of origin). Indeed, the absence of any of them can seriously affect the dynamics of intra-PA trade, even in the presence of full tariff liberalization. For all of the above mentioned, the Pacific Alliance is leaving its status as a *sui generis* initiative and begins to form in an initiative with concrete and specific content.

Next to being the only Latin American integration mechanism (apart from its predecessor, the Pacific Rim) which explicitly includes among its objectives the strengthening of ties with another region (Asia Pacific), the Alliance aims to form a “deep integration area”, while at the same time the establishment of a customs union is discarded. In this sense, it moves away from traditional notions according to which the deeper forms of integration are generally preceded by tariff harmonization and the establishment of a common trade policy towards third parties.

Apparently, the PA members conduct their economic and trade relations with Asia lacking coordination. This in turn could end up undermining the effectiveness of the Alliance itself as a mechanism for linking with this region. Indeed, its creation responds, at least in part, to the governments of Chile, Colombia, Mexico and Peru recognizing the need to join forces to better exploit the opportunities offered by the dynamism of Asia Pacific. Because of this, it can be expected that members of the Alliance act in a coordinated manner when interacting with their Asian counterparts. However, this does not seem to be happening, apart from specific actions such as joint participation in trade or tourism fairs, or the arrangement to share embassies or trade offices in some Asian countries. While all these initiatives are positive, they do not replace a comprehensive strategy for the Alliance with respect to Asia, or at least with respect to its main economies. Progressing in the definition of this strategy is therefore an inescapable challenge to give substantive content to the idea of making the Alliance the main bridge between Latin America and Asia.

The trade agreements of the Pacific Alliance (i.e. the Additional Protocol to the Framework Agreement and the previously existing bilateral agreements) are characterized by the depth and scope of its commitments. This places the Alliance at the forefront of efforts to liberalize trade and investment in the Latin American context. However, the economic and especially the trade interdependence among members of the Alliance are still fairly limited, especially between Mexico and the three South American members. This limits the attractiveness of the Alliance as a market and raises the question of how to sustain in the medium term the dynamism that was observed in its first years of existence. This is a second key challenge for the Alliance. In this regard, the appeal of the PA in the coming years will depend crucially on whether it can position itself as a privileged platform from which to do business with the rest of Latin America. This in turn inevitably requires an approach to MERCOSUR, given the size of its market and the fact that Brazil is the largest Latin American trading partner of China, Japan and the Republic of Korea.

It is not possible to ignore the tremendous political and technical difficulties involved in defining a joint agenda between the Pacific Alliance and MERCOSUR and subsequently make concrete progress on it. Indeed, the guidelines that currently characterize both groups are very different. However, it is an effort that it is worth persevering. To the extent that the Alliance achieves involving the MERCOSUR in a productive agenda (including topics such as trade facilitation, mobility of people or infrastructure projects connecting countries of both groups), it will increase its attractiveness to the Asian Pacific economies. The widespread notion that Latin America is divided between a “liberal” Pacific and a “protectionist” Atlantic (see, for example, The Economist 2013) is not in the long term interest of the Pacific Alliance, even if it could mean some benefits in the short term.

A third challenge for the Pacific Alliance is how to handle relations with other economic integration initiatives in which some of its members participate. The most obvious cases are the Andean Community and the Trans-Pacific Partnership Agreement (TPP). In the case of the Andean Community, Colombia and Peru are full members of both this and the Alliance. Since there is a large overlap between the issues regulated by both initiatives, there also exists, at least in principle, room for possible inconsistencies or other complex situations. One example is how eventual cases will be handled where

any concessions granted by Colombia or Peru to the other members of the Alliance are more favorable than those extended to other members of the Andean Community.

Properly defining the terms in which the Pacific Alliance will interact with the TPP after the ratification of the agreement is an issue of utmost importance. Indeed, the question is what will happen in the future the commitments made under the TPP differ from those already negotiated in the framework of the Alliance on issues regulated in both processes. In principle, convergence between agreements of the Alliance and the future TPP should be facilitated by the fact that both processes generally follow the model of the North American Free Trade Agreement (NAFTA) and the FTAs later signed by the United States. However, the prospect of such convergence in itself raises important questions for the Alliance. If the future evolution of this practice began to depend on what happens in other similar process but outside the region (like the TPP), its existence defined as an autonomous Latin American economic integration project would be compromised.¹⁷ While Villareal (2016, p. 14) argues that “numerous observers have noted that the two could be complementary agreements”, a precise comparison of the actual conclusions reached under the TPP and their relation to the agreements of the Pacific Alliance is pending.

Another challenge is determining whether to expand the agenda of the Alliance beyond its current emphasis, mainly economic, and if so, in which direction such expansion should occur. Most Latin American integration schemes set out with a clear economic and commercial emphasis, but were gradually extending its scope to political, social, cultural and environmental issues, among others. In several cases this has resulted to be less effective, both in terms of the original agenda and the subjects that were incorporated later. The Alliance today faces a similar dilemma, having already gotten involved (albeit still limited) in issues away from its original core. The signing of the Additional Protocol to the Framework Agreement has given oxygen to the group's agenda, since some key issues are to be implemented in favor of the economic agenda. As already noted, the areas of trade facilitation, regulatory harmonization, and the accumulation of origin stand out.

The theme of the breadth of the agenda of the Alliance is directly linked to its institutional dimension. So far, the Alliance works with a very light structure, without a permanent secretariat, and in which the country holding the presidency pro tempore assumes overall coordination for one year. To the extent that the agenda of the Alliance expands in the coming years, this structure may be insufficient to manage a greater number of subjects. To this must be added the burden associated with the administration of the Supplementary Protocol to the Framework Agreement, since it entry into force. For example, the eventual incorporation of Costa Rica, and later Panama, the two partners that are most likely to access the PA, on the one hand, and a strategy of greater closeness of the Alliance towards ASEAN on the other hand, will necessarily drive the group to strengthen its institutions, given the larger agenda to be managed considering more than 4 members countries. In the case of strengthening the link with ASEAN, it will be necessary to apply for an observer status in the forum. In both cases an institutional body is called for that effectively manages the bilateral agendas and the works of the various groups and which at the same time could exploit this opportunity for dialogue with ASEAN, showing the potential of the Alliance there and exploring opportunities for cooperation and business opportunities. Trying to achieve this goal with the current weak institutions without historical memory would not be very useful. Having said that, it is recognized that at the moment the membership density is low, which still allows that the successive presidencies achieve to articulate a monitoring mechanism for initiatives and strategies that go beyond the lifetime of their presidency. However, there remains the latent need for the group to move towards a structural design that goes beyond the current scheme of pro tempore secretariats, providing the process with a technical strength.

As already mentioned, the Pacific Alliance has been accompanied by major business initiatives that have allowed the private sector interest to remain active. That is the main asset of the group. Hence, it is derived that the main challenge of the Pacific Alliance in the coming years is not to disappoint the

¹⁷ In fact, some authors see an explicit link between the PA and the TPP. For example, Rashish (2014) argues that, as a preliminary step to the possible entry of Costa Rica and Panama to TPP, these countries should enter as full members to the PA.

expectations placed on the progress made. For this not to happen, it will require the groups created under the wing of the Additional Protocol to the Framework Protocol to actively work to promote the implementation of the most ambitious programs. As discussed, these are effectively operationalizing the trade facilitation initiatives, approval of procedures, and the full applicability of accumulation of origin.

If the expectations generated by the group are fully realized, sooner rather than later the credibility of the group will be strengthened, and thus the possibility to influence better regional integration of Latin America and the Caribbean as a whole will be greater, and also the possibility of promoting bridges between Latin America and the Caribbean and Asia Pacific.

In short, the main challenge of the Pacific Alliance in the coming years will be to live up to the high expectations generated so far. What seems to be inevitable is a joint effort of the Alliance members to fully turn into reality the achievements proposed in each of the chapters of the Additional Protocol of the Framework Agreement. It will be also challenging for the members to address the question whether the Alliance should maintain its autonomy from other projects of economic and trade integration in which its members participate along with various extra-regional economies.

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