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The Pacific Alliance: A Trade Integration Initiative in Latin America

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Summary

The Pacific Alliance is a regional integration initiative formed by Chile, Colombia, Mexico, and Peru on April 28, 2011. Its main purpose is for members to form a regional trading bloc and forge stronger economic ties with the Asia-Pacific region. Costa Rica and Panama are candidates to become full members once they meet certain requirements. The United States joined the Alliance as an observer on July 18, 2013. The United States has free trade agreements with all four countries and has significant trade and foreign policy ties with the region. The Pacific Alliance is of interest to Congress because of the role of the United States as an observer country and also because of the strong linkages between the United States and the member countries. It may also be of interest to Congress in the context of the proposed Trans-Pacific Partnership (TPP) agreement. Three of the four Pacific Alliance member countries are parties to the TPP.

The Alliance was officially created when the heads of state of Chile, Colombia, Mexico, and Peru signed a *Presidential Declaration for the Pacific Alliance*, now known as the Lima Declaration. The objectives are to build an area of deep economic integration; to move gradually toward the free circulation of goods, services, capital, and persons; to promote economic development, regional competiveness, and greater social welfare; and to become a platform for trade integration with the rest of the world, with a special emphasis on the Asia-Pacific region. One of the requirements for membership is that a country must have free trade agreements with all other member countries.

The four member countries have embraced free trade as far back as the 1980s and have multiple free trade agreements with many countries, including the United States, Canada, China, and the European Union. They represent 37% of Latin America's population, 35% of its total GDP; 46% of its exports, and 50% of its imports. Mexico accounts for much of the economic strength of the group, representing 61% of the combined gross domestic product.

Observer countries play an important role within the Alliance. Being an observer country may help a country better understand the issues being negotiated and also provides opportunities for participation in activities such as trade forums and educational seminars. The Alliance has 42 observer countries, including the United States, Australia, Canada, China, several Central and South American countries, numerous European countries, Israel, Japan, Turkey, and others.

The Alliance's approach to trade integration is often looked upon as a pragmatic way of deepening economic ties. It is more outward focused than other regional initiatives such as the Common Market of the South (Mercosur). Another unique characteristic is that the four member countries share similar economic and political ideals and are moving forward quickly to accomplish their goals. Member countries have signed various agreements to share use of their facilities or embassies and consulates to further advance the objectives of the integration process. In February 2014, Presidents of Pacific Alliance countries signed the Additional Protocol of the Framework Agreement, which immediately eliminated 92% of tariffs among members. Some analysts see the Pacific Alliance as a potential rival to Mercosur and have noted that it could put pressure on other Latin American countries to pursue more market-opening policies. The Alliance has a larger scope than free trade agreements, such the proposed TPP, since the Alliance involves the free movement of people and includes measures to integrate the stock markets of member countries.

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Introduction

The Pacific Alliance is a regional integration initiative comprised of Chile, Colombia, Mexico, and Peru.[1] Costa Rica and Panama are candidates for becoming full members. The Alliance was created on April 28, 2011, in Lima, Peru, when the heads of state of Chile, Colombia, Mexico, and Peru signed a *Presidential Declaration for the Pacific Alliance*, now known as the Lima Declaration, to facilitate the free flow of goods, services, capital, and people. The United States officially joined the Alliance as an observer on July 18, 2013. The project was an initiative of then-Peruvian President Alan Garcia, who extended the invitation to his counterparts in Chile, Colombia, and Mexico, with the purpose of deepening the integration of these economies. [2]

The initiative was developed as a way to supplement existing trade agreements among the four countries. The goal is for the four countries to act as a unified economic bloc to negotiate and trade with other countries. The Alliance is making efforts to liberalize trade in goods and services, open foreign investment, integrate securities markets, and allow the free movement of people among member countries. It has shared values in regard to the respect for rule of law, democracy, and protection of human rights, though the current focus is on liberalizing and increasing trade and investment. Member governments have committed to open markets, free trade policies, fiscal stability, openness to foreign investment, and strengthening trade relations with the Asia-Pacific region.

Objectives

Pacific Alliance members are aiming to form deeper integration that boosts economic growth, development, and competitiveness of their economies by progressively seeking free movement of goods, services, capital, and people. Another key goal is for the Alliance to become a platform for economic and trade integration with a clear focus on the Asia-Pacific region.[3]

The stated objectives of the Pacific Alliance consist of the following:[4]

- Build, in a participatory and consensual manner, an area of deep economic integration and to move gradually toward the free circulation of goods, services, capital, and people.
- Promote the growth, development and competitiveness of the Parties' economies, aiming at achieving greater welfare, overcoming socioeconomic inequalities, and achieving greater social inclusion of their residents.
- Become a platform for political articulation, and economic and trade integration, while projecting these strengths to the rest of the world, particularly the Asia-Pacific region.[5]

[1] Regional trade agreements or arrangements (RTAs) are those in which member-countries grant each other preferential treatment in trade. RTAs may be categorized as bilateral, plurilateral, or sub-regional. With no formal definitions, these terms are sometimes used loosely to describe various groupings. A free trade agreement is a type of RTA and is usually an agreement between two or more countries to reduce and eliminate tariffs and other trade barriers on a reciprocal basis. Free trade agreements establish enhanced rules and disciplines to govern trade relationships.

[2] See Pacific Alliance website at http://alianzapacifico.net.

[3] Ibid.

[4] *The Pacific Alliance and its Objectives,* at http://alianzapacifico.net.

[5] Ibid.

Alliance Framework

The Alliance was formally established in a Framework Agreement on June 6, 2012, during a presidential summit in Antofagasta, Chile. This agreement is the legal instrument that creates the institutional basis of the regional integration initiative. It also defines the objectives of the alliance and establishes the requirements for the future participation of other countries.[6] The four members already have in place bilateral free trade agreements amongst each other and have agreed to coordinate efforts regarding development agencies, electronic trade, services, and tourism. The Pacific Alliance is the first major trade integration effort in the region since the creation of the Southern Common Market (Mercosur) over 20 years ago.[7]

The framework agreement contains the parameters, institutional architecture, and rules that govern the Alliance. It establishes certain requirements for a country to be a member of the Alliance. These requirements state that Alliance members must be democracies; practice the separation of the powers of state; and protect, promote, and guarantee human rights and fundamental liberties.[8] A key requirement is that member countries must have existing bilateral trade agreements with all other member countries.

Member Countries

As shown in **Figure 1**, current members of the Pacific Alliance are Chile, Colombia, Mexico, and Peru. The economies of the four countries are among the most liberalized in the world. Chile has 22 free trade agreements[9] linking it to 60 countries, including the European Union (EU), the United States, China, Japan, and South Korea.[10] Colombia has 12 free trade agreements (FTAs) involving 30 countries, while Mexico has 12 FTAs with 44 countries, including the United States, China, and the EU. Peru has 15 FTAs with 50 countries.[11] Pacific Alliance countries have a total of 15 FTAs with countries in the Asia-Pacific region. In comparison, Mercosur has four FTAs. Both Mexico and Chile are also members of the Organization for Economic Cooperation and Development (OECD), and Colombia has applied for membership. The coming together of these four countries indicates that they have similar political and economic objectives, recognize their commitment to free trade, and are interested in increasing trade ties with the Asia-Pacific region.

Costa Rica is a candidate to become the Alliance's first new member. In February 2014, Costa Rica signed a Declaration on the Intent to the Framework Agreement, which establishes the roadmap for Costa Rica to become a full member of the Alliance. It must comply with the

[6] *VII Summit: The Pacific Alliance,* available in the website of the Pacific Alliance, at http://alianzapacifico.net.

[7] Mercosur is the "Common Market of the South" established by Brazil, Argentina, Uruguay, and Paraguay in 1991 to promote economic integration and political cooperation among the four countries. It now also includes Venezuela. It is a customs union with a common external tariff. Mercosur has struggled to achieve deep economic integration, but has maintained a cooperative economic and political framework, which has served in the past as an influential voice in determining the fate of the hemisphere's multilateral integration initiatives. In particular, the U.S. vision for hemispheric integration under the proposed Free Trade Area of the Americas (FTAA) stalled largely because of opposition from Mercosur.

[8] Framework Agreement of the Pacific Alliance, available at http://alianzapacific.net.

[9] Many of the free trade agreements (FTAs) negotiated by Latin American countries are not as comprehensive as the ones negotiated with the United States, which usually bring tariff barriers down to zero. FTAs negotiated by Latin American countries with other countries often maintain certain tariff barriers.

[10] "Pacific Alliance Showing Clout," *The Japan Times*, January 28, 2013.

[11] *VII Summit: The Pacific Alliance,* available at http://alianzapacifico.net.

requirement to have FTAs with each of the member countries.[12] Costa Rican President Solís has said he supports enrollment, but has asked several agencies for input in evaluating the possible effects of becoming a full member country.[13] Costa Rica currently has trade agreements in force with Chile, Mexico, and Peru, and has signed an FTA with Colombia that is awaiting approval.

Panama is also a candidate for joining once it complies with all the requirements. It has free trade agreements in force with Chile and Peru, and has an agreement with Colombia that was signed in September 2013 and is awaiting approval. Panama has also initiated FTA negotiations with Mexico.[14] Panama and Costa Rica have an FTA that entered into force on November 23, 2008.[15]

Observer Countries

The Pacific Alliance has 42 observer countries: the United States, Australia, Austria, Belgium, Canada, China, Costa Rica, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Georgia, Germany, Greece, Guatemala, Haiti, Honduras, Hungary, India, Indonesia, Israel, Italy, Japan, Morocco, Netherlands, New Zealand, Panama, Paraguay, Poland, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United Kingdom, and Uruguay. Under Article 10 of the Framework Agreement, countries that have FTAs with at least half of the member countries may apply for observer status to the Pacific Alliance. Their status as observer countries will be approved only upon unanimous consent of the Council of Ministers. The Council of Ministers is responsible for defining the conditions under which a country may participate as an observer.[16]

While their role is limited, observer countries are able to build relationships with Alliance members and other observer countries through ongoing activities and programs related to trade, market access to Asian and other global markets, small and medium enterprises, science and technology, education and other trade promotional opportunities.[17] Some analysts state that observers to the Alliance may benefit from gaining increased access to Asia Pacific trade links.[18] Observer status may help countries better understand the issues being negotiated in the Alliance and could help a country ultimately decide if wants to join as a member. One of the goals in the case of Australia, for example, would be to diversify trade by going beyond supplying the energy and minerals that have dominated its trade with Asia. While that particular trade pattern has led to a substantial increase in Australia's gross domestic product, it has not resulted in higher productivity, which would be necessary to raise living standards.[19] In the case of Spain, Spanish Prime Minister Mariano Rajoy stated that the alliance could be a gateway to the booming Asia-Pacific region. Other European leaders have made similar statements.[20]

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[12] The Pacific Alliance, *Costa Rica to Join the Pacific Alliance,* February 14, 2014. at http://alianzapacific.net.

[13] L. Arias, "Costa Rica's Agriculture Sector Opposes Joining the Pacific Alliance," *The Tico Times,* March 11, 2016.

[14] Organization of American States, Foreign Trade Information System (SICE), *Pacific Alliance,* at http://www.sice.oas/org.

[15] SICE, *Central America–Panama,* at http://www.sice.oas/org.

[16] Framework Agreement of the Pacific Alliance, available at http://alianzapacific.net.

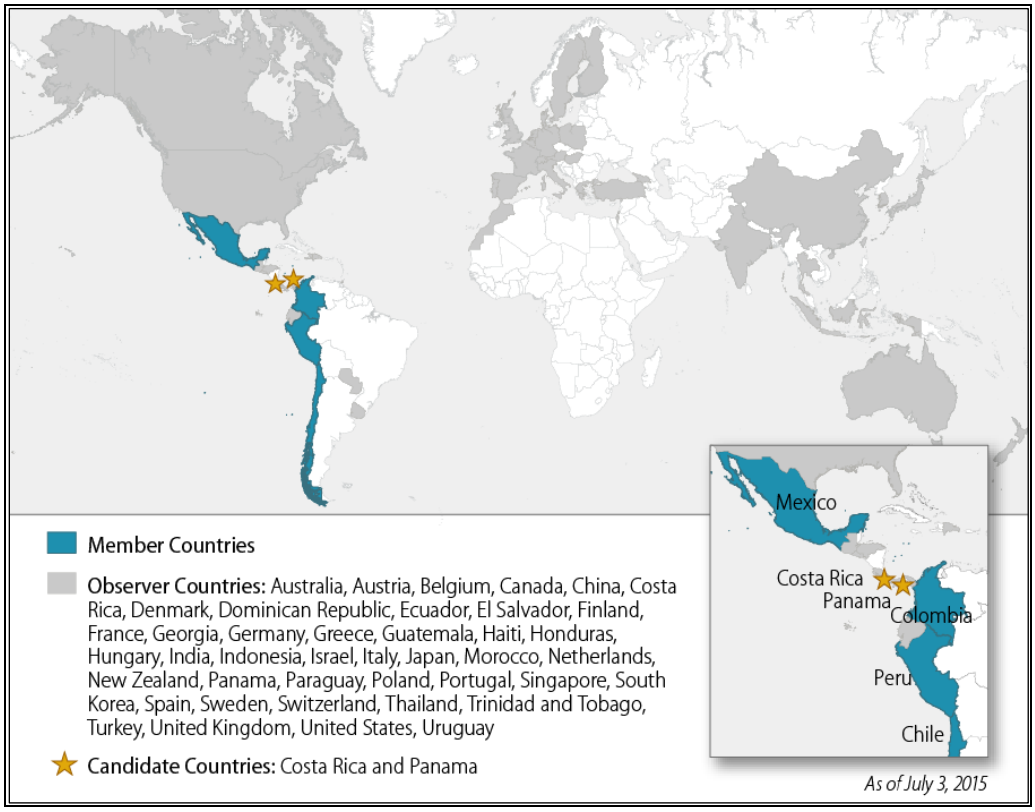
[17] "The Pacific Alliance: History, Goals, Relations with Observer States, Achievements," *Russian International Affairs Council,* November 10, 2014.

[18] Nneka Etoniru, "Explainer: What is the Pacific Alliance?," Americas Society and Council of the Americas, May 17, 2013.

[19] "Australia to Seek Pacific Alliance Observer Status as Part of Regional Push," *World Trade Online,* November 9, 2012.

[20] *The Japan Times,* January 28, 2013.

Figure 1. Pacific Alliance Members and Observer Countries



Source: Congressional Research Service (CRS) using information provided by the Pacific Alliance at http://alianzapacifico.net/en/.

Notes: Costa Rica and Panama have asked to join the Pacific Alliance as full members and are candidates to join once they meet the requirements.

Organizational Institutions[21]

The Presidents of the four countries make up the final decision-making body of the Alliance. They meet at formal presidential summits in different locations. In addition, there are several organizational institutions that are responsible for overseeing the objectives and technical aspects of the Alliance.

Council of Ministers

The Council of Ministers is comprised of the foreign affairs and economic ministers of member countries. The council is responsible for making major decisions related to the objectives of the alliance; evaluating progress and results; approving programs and activities; defining the political guidelines related to the integration process; and other related activities.

High Level Group

The High Level Group consists of member countries' vice-ministers of foreign affairs, commerce, and trade. It is charged with assessing the progress made by the technical working groups;

[21] Information in this section came from the Pacific Alliance website at http://alianzapacifico.net.

identifying new areas in which the Alliance can further its objectives; and preparing proposals for interacting or cooperating with other entities or regional groups.

Technical Groups

The Pacific Alliance countries established numerous working groups to address specific aspects of the negotiations and internal matters. Some of these issues, such as government procurement and regulatory cooperation, are related to provisions that are covered in existing FTAs and to ongoing discussions in the TPP negotiations. Working groups include the following:

- **Institutional Affairs.** This working group was created to focus on commitments made by the High Level Group with regard to issues such as institutions, conflict resolution, rules and guidelines, and legal affairs. The group is also charged with writing pertinent procedural guidelines for the Alliance's internal organizations and groups.
- **Regulatory Coherence.** This group aims to establish tools for the implementation of policies for greater transparency, public consultation, regulatory impact, and simplification of government regulations.
- **Trade and Integration Group.** This group focuses on the trade integration of Pacific Alliance members. The goal is to move progressively closer to the free movement of goods and services and generate a greater dynamism in the flow of trade between countries. The group is active in negotiating provisions on tariff elimination, rules of origin, technical barriers to trade, sanitary and phytosanitary measures, trade facilitation, and customs cooperation.
- **Business Council Committee of Experts.** This group was created to represent business interests and to analyze topics recommended by member country business sectors. The business committee serves as a coordinating body and liaison between private sector interests and proposals and the Pacific Alliance.
- **Public Purchasing/Government Procurement.** This group focuses on establishing commitments on government procurement opportunities for Pacific Alliance countries.
- **Technical Cooperation.** This group helps to promote broad cooperation among member countries with a special focus on the environment and climate change, innovation, science and technology, social development, academic and student exchange, and tourism.
- **Communication strategy.** This working group designs and implements communication strategies to help the Pacific Alliance achieve worldwide recognition as a model for integration, economic and commercial development, competitiveness, and effective cooperation among its members in the global economy.
- **Movement of Business People and Facilitation of Migration.** One of the priorities of the Pacific Alliance is the free movement of business people and the facilitation of migration transit, including cooperation with immigration officials and the consular police. This group focuses on migratory movement and the free flow of business people, consular cooperation and work-study programs for students, as well as cooperation and information exchange on migration flows.

- **Intellectual Property.** This working group focuses on exploring methods for closer cooperation among member countries in order to strengthen intellectual property rights protection in the region.
- **Small and Medium-Sized Enterprises (SMEs).** This technical group was designed to deepen the coordination of best public policy practices that support, strengthen, and modernize small and medium-sized enterprises.
- **Services and Capital.** This group focuses on services trade, including e-commerce, investment negotiations, cross-border trade in services, financial services, telecommunications, air and maritime transport, and professional engineering services. This group also works on the integrated stock exchanges among member countries.
- **External Relations Group.** The purpose of this group is to design a strategy for external relations with observer countries and third parties to help promote the objectives of the Alliance.
- **Fiscal Transparency.** The governments of Pacific Alliance countries are committed to fiscal transparency and the fight against tax evasion. They agreed to incorporate high standard tax information exchange policies. This technical group is working on concluding a Pacific Alliance tax information exchange agreement.[22]

Summits

Leaders of the member countries of the Pacific Alliance have held numerous presidential summits. These include the following:

I. **Lima, Peru, April 28, 2011.** The Heads of State of Chile, Colombia, Mexico, and Peru agreed on the Declaration of Lima establishing the Pacific Alliance with the goal of advancing towards the free flow of goods, service, capital, and people. Panama was invited to participate in the process as an observer.

II. **Merida, Mexico, December 4, 2011.** The Presidents of the four Pacific Alliance countries agreed to sign a Pacific Alliance Treaty within six months.

III. **Cartagena, Colombia, March 15, 2012** (vía teleconference). During this conference, Costa Rica was included as an observer.

IV. **Antofagasta, Chile, June 6, 2012**. The four countries formally entered into a Framework Agreement establishing the Pacific Alliance. The Framework Agreement is a legal instrument creating the institutional basis of the initiative, defining its objectives, and establishing the requirements for future negotiations and participation of other countries in the region.[23]

V. **Cádiz, Spain, November 17, 2012**. Mexico announced the exemption of visa requirements for Colombians and Peruvians for up to 180 days. Australia, Canada, Spain, New Zealand and Uruguay were welcomed as observers.

VI. **Santiago, Chile, January 26, 2013.** The four Heads of State agreed that the negotiations that were underway at the time would be concluded by June 30, 2013.

[22] For more information on Pacific Alliance working groups, see http://alianzapacifico.net/en.

[23] *The Pacific Alliance Timeline*, available at http://alianzapacifico.net.

VII. **Cali, Colombia, May 23, 2013.** The four countries invited Costa Rica to become the Alliance's first new member. The Alliance also announced an agreement to remove tariffs on 90% of the goods traded within the bloc and completed negotiations on trade facilitation and customs cooperation provisions. Over 450 business representatives from 14 countries attended the summit.[24]

VIII. **Cartagena, Colombia, February 10, 2014**. Presidents of Pacific Alliance countries signed the Additional Protocol of the Framework Agreement for the Pacific Alliance. The Additional Protocol immediately eliminated 92% of tariffs between members, and gradually will phase out the remaining 8% of tariffs over a seven-year period.

IX. **Punta Mita, Mexico, June 19 -20, 2014**. The four presidents signed the Declaration of Punta Mita, by which they seek to strengthen the objectives and guidelines of the Alliance, including the free movement of goods and services, capital and people. They announced the approval to incorporate the Mexican Stock Exchange into the common stock exchange, the Latin American Integrated Market, or the *Mercado Integrado Latinoamericano* (MILA), which is expected in the fourth quarter of 2014. Other highlights of the summit included the signing of an Inter-institutional Agreement for a Work and Holiday Program, the launch of a scholarship program, and the announcement of a plan for promoting small businesses through financing, investment, and support networks. Two new countries were admitted as observers: Belgium and Trinidad and Tobago.

X. **Paracas, Peru, July 1-3, 2015**. Mexico handed over the pro tempore presidency of the Pacific Alliance to Peru. The four presidents reaffirmed their commitment to the principles included in the Framework Agreement and to continuing their cooperative efforts to achieve higher economic growth, promote economic development, increase competitiveness, and diversify trade flows to the Asia-Pacific region. They also expressed their willingness to continue strengthening cooperation with observer states. During this Summit 10 new countries were admitted as observers: Austria, Denmark, Georgia, Greece, Haiti, Hungary, Indonesia, Poland, Sweden and Thailand.

Accomplishments to Date

The four countries have taken numerous steps to accomplish their objectives. In addition to eliminating tariffs between member countries, they are organizing trade promotion activities; facilitating the movement of tourists and business people among member countries; liberalizing services trade; integrating their stock markets; and opening joint embassies in various countries.

Trade Liberalization

Alliance members have embraced open trade since the 1980s and 1990s, either through unilateral trade liberalization or through FTAs. They signed an agreement in 2013 to eliminate tariffs on 92% of merchandise trade, with the remainder to be freed by 2020. The parliaments of all four countries have approved the agreement and it is expected to take effect in the first half of 2016.[25]

[24] Susan Schmidt and Gabrielle Doyle, "The Pacific Alliance: Will Latin America's Newest Regional Initiative Be Able to Keep its Eyes on the Prize?," *Bloomberg BNA International Trade Daily,* June 14, 2013.

[25] Anthony Esposito, "Pacific Alliance Trade Bloc to Liberalize Trade after Chile Approval," *Reuters,* January 6, 2016.

Members have actively participated in bilateral and multilateral trade liberalization and have aligned with countries that are also seeking to accomplish, bilaterally and regionally, what has not been possible to accomplish through the World Trade Organization (WTO).[26] They have entered into FTAs with all other Alliance countries and also with the United States, Canada, and the EU. They all have trade linkages with Asian countries through regional trade agreements or by other means. China, Japan, South Korea, and Singapore, and India have all concluded agreements with at least two Pacific Alliance members.[27] While these agreements may have significantly liberalized trade, some are more comprehensive than others and not all have brought tariff levels down to zero.

Trade Promotion Activities

The trade promotion agencies of Chile, Colombia, Mexico, and Peru (ProChile, Proexport Colombia, ProMexico, and PromPeru) are combining their efforts to promote exports, attract foreign direct investment, and promote tourism in the Alliance countries. They have worked together to program activities in 18 countries, including Australia, Canada, China, Colombia, France, Germany, India, Japan, Mexico, the Netherlands, Peru, Russia, South Korea, Spain, Switzerland, Taiwan, Turkey, and the United Arab Emirates. These activities include major business forums for entrepreneurship and innovation, meetings of tourism operators for the design of products and packages, educational seminars, trade fairs with emphasis on agribusiness, and other trade promotion activities, many of which involve small and medium-sized businesses.[28]

Movement of Persons

The Declaration of Lima established that the Alliance would prioritize the movement of business people and the facilitation of migration transit.[29] This provision is intended to facilitate not only the movement of business people, but also tourists and those in transit between the member countries. Alliance members view the free movement of people as a tool for achieving deeper integration, growth, and competitiveness.[30]

In November 2012, Mexico announced the elimination of visas for nationals from Colombia and Peru for stays of up to 180 days. Chilean nationals were already able to travel to Mexico without visas. Mexico's removal of visa requirements includes any activities for which travelers have received no income, such as tourism, transit, or business travel. In May 2013, Peru announced the elimination of visas for business people from Chile, Colombia, and Mexico for up to 183 days, provided that they carry out an unpaid activity in the country. Member countries also adopted measures for greater mobility of people from member countries for periods up to six months, provided that the activities they carry out are unpaid. Alliance members are currently working on expanded facilitation measures for migration transit, agreements for the greater mobility of young people to travel and work, and mechanisms for consular cooperation.[31]

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[26] Samuel George, *The Pacific Pumas, An Emerging Model for Emerging Markets*, Bertelsmann Foundation, March 12, 2014, p. 20.

[27] Ibid., P. 21.

[28] The Pacific Alliance, *Promotion Entities of the Pacific Alliance*, https://alianzapacifico.net/en/negocios-e-inversion/#promotion-entities.

[29] The Pacific Alliance, *Movement of People*, http://alianzapacifico.net.

[30] Ibid.

[31] Ibid.

Financial Integration

The Alliance seeks to achieve the free movement of services and capital between its members, basing its work on two major goals: 1) to position itself as an attractive destination for investment and trade in services, and 2) to increase investment flows and trade in services among its members and with the rest of the world. It established a joint committee to improve the investment climate and boost services trade. The Pacific Alliance's Group of Services and Capital is working to establish conditions that will facilitate and promote trade in services and intra-regional investment. It completed negotiations on chapters on services trade, investment, electronic commerce, maritime services, and telecommunications.

In 2011, Chile, Colombia, and Peru integrated their stock exchanges through the formation of the Latin American Integrated Market, or the MILA. On July 24, 2014, S&P Dow Jones Indices, a provider of financial market indices, announced the launch of the S&P MILA Pacific Alliance Indices.[32]Mexico's stock exchange carried out its first operation as a member of the MILA on December 2, 2014.[33]

Shared Diplomatic Missions

Member countries have signed various agreements to share use of their facilities or embassies and consulates to further advance the objectives of the integration process. As part of these agreements, joint embassies are now in operation in Ghana (Chile, Colombia, Mexico, and Peru), Vietnam (Colombia and Peru), Morocco (Chile and Colombia), Algeria (Chile and Colombia), Azerbaijan (Chile and Colombia), and a diplomatic mission to the Organization for Cooperation and Economic Development (Chile and Colombia). In addition, Mexico and Colombia are to open an embassy in Singapore. The Alliance expects that by having joint embassies, they can strengthen their presence around the world and reduce the operation costs of these missions.[34]

Economic Significance of the Pacific Alliance Group

Up until 2013, Pacific Alliance members had some of the fastest-growing economies in the region. In 2013, Peru had the highest percentage change in real GDP at 5.7%, compared to 2.9% for the entire Latin American region. In 2015, GDP growth was 0.0% for all of Latin America and less than 3% for each of the Pacific Alliance countries (see **Table 1**).[35] The four Latin American countries account for 37% of Latin America's population, 35% of Latin America's nominal GDP, 46% of exports and 50% of total imports. Mexico, however, accounts for much of the economic strength of the group. It represents 57% of the Alliance's population, 61% of the GDP, and 70% of exports as shown in **Table 1**.

[32] "S&P Pacific Alliance Indices Launched by S&P Dow Jones Indices," *Market Watch*, July 24, 2014.

[33] "Pacific Alliance Integrated Stock Markets, MILA, Begins Operations from Mexico," *MercoPress*, December 4, 2016.

[34] The Pacific Alliance, "Colombia and Chile Signed an Agreement to Share an Embassy in Baku, Azerbaijan, and a Diplomatic Mission to the OECD in Paris, France," press release, February 8, 2014, http://alianzapacifico.net.

[35] The Economist Intelligence Unit Country Data online database.

Table 1. Key Economic Indicators for Pacific Alliance (PA) Countries in 2015

	Chile	Colombia	Mexico	Peru	Total PA	Latin America (LA)	PA as % of LA
Population (millions)	18	48	127	31	224	611	37%
Nominal GDP (US$ billions)[a]	241	287	1,144	189	1,861	5,361	35%
Nominal GDP (US$ billions at PPP)[b]	411	666	2,202	349	3,628	9.605	38%
Per capita GDP (PPP)[b]	22,870	13,800	17,340	11,210	n.a.	n.a.	n.a.
Exports of Goods & Services (US$ billions)	72	40	373	41	526	1,148	46%
Imports of Goods & Services (US$ billions)	68	67	428	46	609	1,212	50%

Source: Compiled by CRS based on data from Economist Intelligence Unit (EIU) online database.

Notes: n.a. = not applicable.

a. Nominal GDP is calculated by EIU based on figures from the World Bank and World Development Indicators.

b. PPP refers to purchasing power parity, which reflects the purchasing power of foreign currencies in U.S. dollars.

Table 2. Foreign Direct Investment Flows to Pacific Alliance Countries: 2009-2014

(in millions of U.S. dollars)

	2009	2010	2011	2012	2013	2014
Chile	13,392	15,510	23,309	28,457	19,264	22,002
Colombia	8,035	6,430	14,648	15,039	16,199	16,054
Mexico	17,644	25,962	23,560	18,998	44,627	22,795
Peru	6,431	8,455	7,665	11,918	9,298	7,607
Total PA	**45,502**	**56,357**	**69,182**	**74,412**	**89,388**	**68,458**
Latin America & Caribbean (LAC)	**86,561**	**131,746**	**172,190**	**183,047**	**189,951**	**158,803**
PA as % of LAC	**53%**	**43%**	**40%**	**41%**	**47%**	**43%**

Source: United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean: 2015*.

Notes: ECLAC data on the basis of estimates and official figures as of May 2015.

In 2014, foreign direct investment (FDI) flows into Latin America and the Caribbean (LAC) fell by about 16% to $158.8 billion. Inflows to Pacific Alliance countries also decreased, by 23% to $68.5 billion (see **Table 2**). In 2013, inflows reached a record high of $190.0 billion. This was 4% above the 2012 level and continued an upward trend beginning in 2009.[36] The recent decline in FDI inflows and outflows were likely driven by the decline of prices in export commodities and

[36] ECLAC, *Foreign Direct Investment in Latin America and the Caribbean: 2015.*

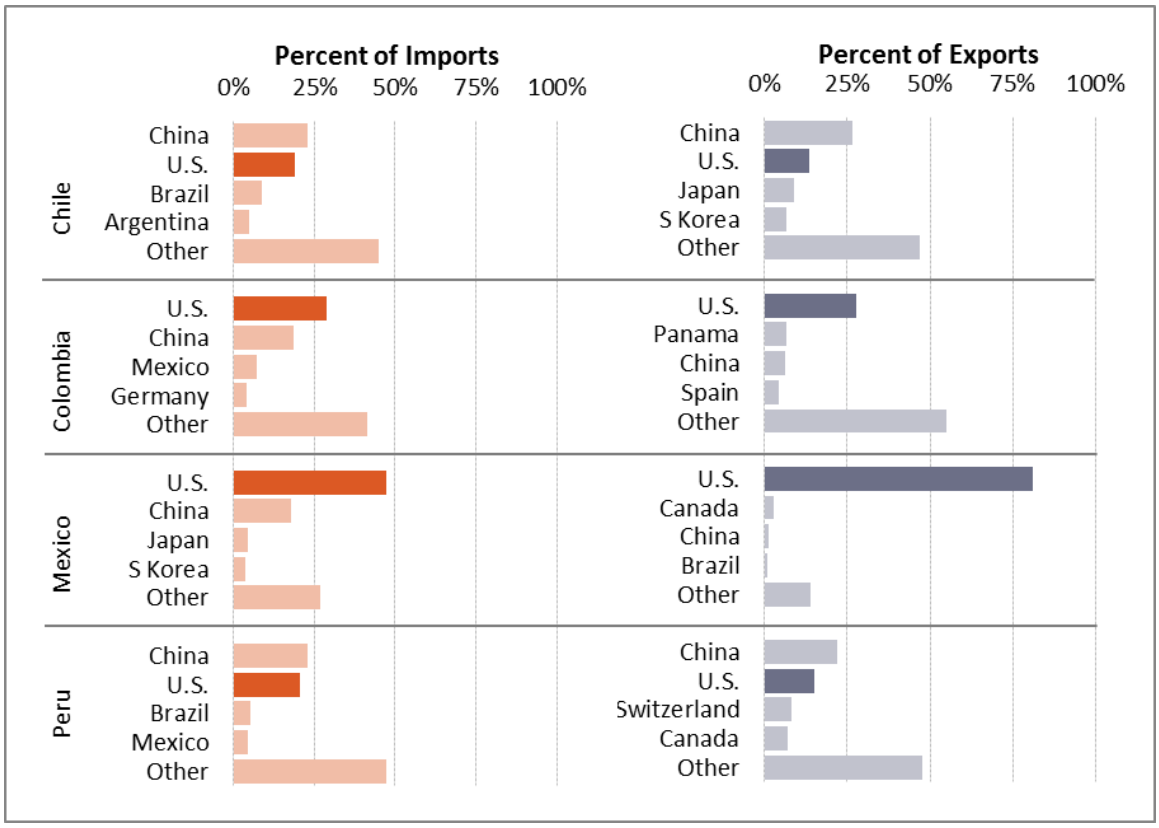
the economic slowdown in the region. FDI remains important for the four economies.[37] Pacific Alliance countries have accounted for over 40% of FDI flows to LAC countries since 2009 as shown in **Table 2**.

Trade Relations with the United States

As shown in **Figure 2**, the United States is a significant trading partner for all four countries. It is by far Mexico's most important trading partner, accounting for 49.1% of Mexico's imports and 78.8% of Mexico's exports in 2013. The United States is the leading supplier of goods imported by all four members. In exports, the United States ranks among the top two destinations for exports from these countries. China also is a significant trading partner for member countries and, in the case of Chile, ranks first among its export markets.

Figure 2. Pacific Alliance Countries' Direction of Trade in Goods: 2013

(imports and exports in percentages)



Source: Congressional Research Service from data as presented in Global Trade Atlas.

U.S. Merchandise Trade with Pacific Alliance Members

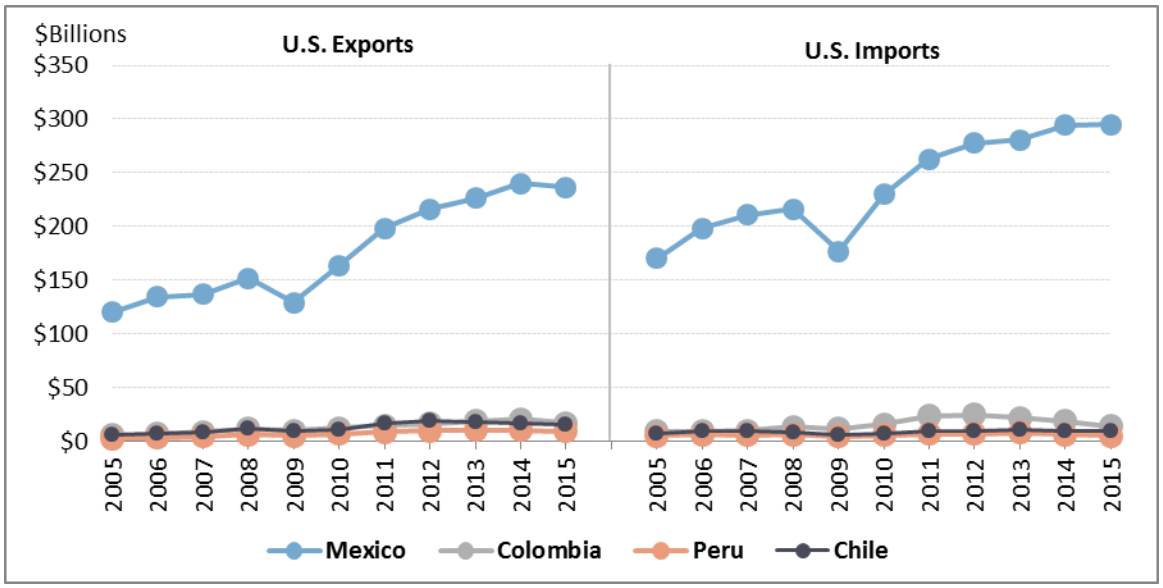
U.S. merchandise imports from Pacific Alliance countries totaled $320.7 billion in 2013, a 1% increase over the 2012 amount of $318.0 billion. U.S. imports from all four countries increased 113% between 2003 and 2013. Mexico supplies 87% of U.S. imports from the Pacific Alliance as shown in **Figure 3**. Exports to Pacific Alliance countries totaled $272.1 billion in 2013, a 5%

[37] Ibid.

increase over the 2012 amount of $260.4 billion. U.S. exports to these countries increased nearly 160% between 2003 and 2013. Mexico accounts for over 80% of U.S. exports to the four countries as shown in **Figure 3**.

Vehicles and vehicle parts rank first among U.S. imports from the four countries, accounting for 19% of the total; followed by electrical machinery, televisions, parts, and accessories (18%); mineral fuels (16%); nuclear reactors and mechanical appliances (13%); and natural or cultured pearls and imitation jewelry (4%). Leading U.S. export items to all Pacific Alliance countries include nuclear reactors, machinery, and mechanical appliances (17% of total); electrical machinery, televisions, parts, and accessories (15% of total); mineral fuels (14% of total); vehicles (9% of total); and plastics (6% of total).[38]

Figure 3. U.S. Merchandise Trade with Pacific Alliance Countries



Source: Compiled by CRS using data from the U.S. International Trade Commission (UJSITC) Interactive Tariff and Trade DataWeb.

Outlook

A key difference between the Pacific Alliance and other Latin American regional integration initiatives is its overt, outward-oriented focus, whereas historically, Latin American trade pacts have been more inward-oriented, such as the South American trading bloc Mercosur. Some analysts see the Pacific Alliance as a potential rival to Mercosur, the Common Market of the South, which has not yet achieved its goal of a common market. If the Alliance proves successful, it could put pressure on Brazil and other Mercosur countries to adopt more outward-looking and open trade policies.

Some observers view the Pacific Alliance as a "convergence experiment" within a complex web of free trade agreements in Latin America. It is different from other initiatives because it represents a more pragmatic approach to build upon existing FTAs for further economic integration and to serve as an export platform to the Asia-Pacific region. Major strengths of the

[38] These figures were derived from trade data from the U.S. International Trade Commission interactive tariff and trade dataweb at the HTS-2 level.

Alliance are the shared values among member countries, the high level of expertise among the negotiators, and the experience of all four countries in negotiating free trade agreements. All four countries have experienced negotiators who worked on past agreements and are part of the institutions that have been created thus far as part of the Alliance.

Businesses are expressing much interest in the Alliance. They are actively participating in the numerous trade events organized by the Alliance and look upon its numerous accomplishments that have been achieved in such a short period of time as positive signals for trade and investment opportunities. The U.S. Chamber of Commerce supports the establishment of trade ties with Pacific Alliance countries. On October 10, 2013, it hosted a forum with Pacific Alliance finance ministers in Washington, DC.[39] Many U.S. businesses have participated in the two matchmaking forums organized by the Alliance.

As the four countries deepen their efforts and add new members to the group, they may face challenges in sustaining the current dynamism and focus. One of the major challenges is that trade among the partner countries is low and the countries are a long way from exporting goods entirely made within the region. Member countries may have to make considerable efforts and heavily involve the private sector to create supply chains. They may have to focus on developing the appropriate policies to create conditions within the region that would allow for the development of supply chains. There also may be challenges in increasing trade linkages with Asian countries. Attempts to expand trade liberalization measures with other countries may prove difficult because of the potential complexities in coordinating and managing these efforts.[40] Although the Alliance has drawn much international attention, the future of the regional trade initiative is uncertain. According to one Latin America policy expert, there may be a "disconnect to some extent between some of the great projections and expectations and the real continuing deficiencies in key areas like infrastructure."[41]

One of the major strengths of the initiative is that member countries share similar economic goals. These similarities can provide the pragmatic flexibility to move forward together on their objectives. As long as member countries focus on trade and investment, and not politics, the likelihood for deeper integration may be greater. Some observers believe that the Pacific Alliance can serve as a "hub for knitting together FTAs with Latin American partners and linking up to the proposed Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership."[42] Other observers contend that the Alliance may fall victim to past patterns of regional initiatives and lose its momentum. The government of Chilean President Michelle Bachelet expressed concerns about moving ahead with the Pacific Alliance if it meant leaving other countries in the region behind.[43] In June 2014, Chile's former President Ricardo Lagos and Brazil's former President Luiz Inacio Lula da Silva expressed their view that the Alliance would be more effective in achieving its goals by first deepening the trade relationship with Argentina and Brazil.[44] These views may have

[39] Embassy of Colombia, http://www.colombiaemb.org.

[40] Susan Schmidt and Gabrielle Doyle, "The Pacific Alliance: Will Latin America's Newest Regional Initiative Be Able to Keep its Eyes on the Prize?," *International Trade Daily,* June 14, 2013.

[41] Statement by Michael Shifter, President of the Inter-American Dialogue, in a *Miami Herald* article; Jim Wyss, "Costa Rica and Guatemala Move Closer to Joining Pacific Alliance Bloc," *Miami Herald,* May 23, 2012.

[42] Bargara Kotschwar, *The Pacific Alliance's Accomplishments*, Peterson Institute for International Economics, Conference on Mexico and the United States: Building on the Benefits of NAFTA, Washington, DC, July 15, 2014.

[43] Christopher Sabatini, "Meaningless Multilateralism, In International Diplomacy, South America Chooses Quantity Over Quality," *Foreign Affairs,* August 8, 2014.

[44] Luiz Inacio Lula da Silva and Ricardo Lagos, "America Latina: Dos Oceanos, Una Voz," *El Pais*, June 19, 2014.

prompted the Alliance to reach out to representatives from South America's big trade bloc Mercosur.

Three of the four Pacific Alliance members (Chile, Mexico, and Peru) are parties to the Trans-Pacific Partnership agreement, a proposed FTA among 12 countries, including the United States, which aims to liberalize trade in goods and services, remove barriers to foreign investment, and enhance trade rules and disciplines on a range of issues.[45] While the Pacific Alliance has a larger scope than the proposed TPP since it involves the free movement of business people for certain time periods and an integration of the stock markets of member countries, numerous observers have noted that the two could be complementary agreements.

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[45] For more information on the Trans-Pacific Partnership, see CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP): An Overview*, by Brock R. Williams and Ian F. Fergusson; and CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson.