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Pacific Alliance Prospers while Andean Community Stumbles

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Approved By:

Emiko Purdy

Prepared By:

Gaspar E. Nolte and Mariano J. Beillard

Report Highlights:

The member states of the Pacific Alliance (i.e., Chile, Colombia, Mexico, and Peru) during their February 10, 2014 meeting in Cartagena, Colombia agreed to further economic integration measures. The members aim to eliminate import duty tariffs on 92 percent of their trade within the next 12 months. The Pacific Alliance accounts for roughly 36 percent of Latin America's gross domestic product and around 50 percent of the region's exports. FAS Lima does not anticipate that tariff reduction among the Pacific Alliance membership will negatively affect U.S.-origin food and agricultural exports. We do however foresee the Pacific Alliance potentially eclipsing other Latin American regional free trade agreements in the not too distant future.

General Information:

The member states of the Pacific Alliance (i.e., Chile, Colombia, Mexico, and Peru) during their February 10, 2014 meeting in Cartagena, Colombia agreed to further economic integration measures. The members aim to eliminate import duty tariffs on 92 percent of their trade within the next 12 months. Products excluded from this round of tariff reductions are however largely food and agricultural products (e.g., corn, coffee, bananas, and beans) deemed strategic; these commodities will reportedly be phased out over five-years.

The Pacific Alliance (signed June 6, 2012), unlike most of Latin America's other free-trade regional agreements such as the Andean Community (known as the Andean Pact from 1969-96), the Southern Common Market (MERCOSUR – 1991), and the Central American Integration System (SICA – 1993), is showing better than expected actual progress toward trade liberalization and integration.

Driving the Pacific Alliance forward is the combination of obtainable policy targets along with its membership's embrace of free trade; these factors are enhanced by the member states' own strong economic growth and their market friendly economic policies. The Pacific Alliance accounts for roughly 36 percent of Latin America's gross domestic product and around 50 percent of the region's exports.

To build upon the Cartagena presidential summit's momentum, the Pacific Alliance will hold a follow-up business round in Mexico in June 2014. This meeting will focus on micro-enterprises, aiming to generate no less than $150 million in new business. The Pacific Alliance plans to operate as a unified group in future trade negotiations with other developed economies and trade blocks; its member states are already participating jointly in food and agricultural products related trade fairs (e.g., Fruit Logistica (Berlin), SIAL (Paris), Seoul Food, Food Taipei, and World Food Istanbul).

The Pacific Alliance ultimately aims to become more than a regional free-trade agreement. To facilitate the diffusion of knowledge and skills among its member states, the Pacific Alliance agreement promotes the free movement of people and the elimination of visa requirements.

At the recent Cartagena meeting, Costa Rica was accepted as a full member effective 2015. Other regional actors are actively contemplating formal membership; many are already requesting observer status. The United States is not adversely affected by the Pacific Alliance thanks to its own comprehensive trade agreements with its members. At FAS Lima, we do not anticipate that tariff reduction among the Pacific Alliance membership will negatively affect U.S.-origin food and agricultural exports.

FAS Lima does however foresee the Pacific Alliance potentially eclipsing other Latin American regional free trade agreements in the not too distant future. The Andean Community, along with MERCOSUR and the Union of South American Nations (UNASUR – 1998) are to varying degrees coming up short in delivering measures that spur economic development.

The more dynamic Pacific Alliance has in this sense avoided the pitfalls that have befallen other regional integration attempts by setting less ambitious (political) goals, focusing more narrowly on trade liberalization. The Pacific Alliance subscribing to this formula is moving forward while anti-free trade UNASUR, creation of Venezuela's late Hugo Chávez as a counterbalance to U.S. signed free-trade agreements, is floundering due to its foreign direct investment and market access restrictions.

FAS Lima finds that economic integration in the Andean Community and MERCOSUR is also coming up short. The Andean Community, despite over four decades of existence has yet to establish a common external tariff. It has been hamstrung by Chile's withdrawal in 1996 followed by Venezuela's defection to MERCOSUR in 2006. Ecuador's growing recourse to technical barriers to trade (i.e., certificates of conformity), meant to staunch the flow of dollars out of the country and promote autarkic development, is adversely affecting intra-community trade. While economic integration within MERCOSUR itself is losing momentum due to constant bickering among Argentina and Brazil; its two most import member states.