

The Pacific Alliance Casts Its Cloud over Latin America¹



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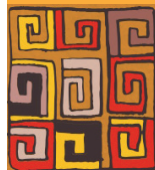


In a joint declaration on 8 October 2013, the presidents of the Pacific Alliance (PA) —an organisation legally constituted in 2012 that is comprised of Chile, Colombia, Peru and Mexico— announced the conclusion of trade negotiations to remove all tariff barriers between its member states, thus making it the eighth largest economy in the world. This new free trade agreement (FTA) has attracted the interest of states and business sectors around the world, including the German Business Association for Latin America, which will dedicate its Latin American Day conference in November 2013 to this new group.

Analysis

The PA will remove 92 percent of all trade tariffs by the end of 2013 and progressively lift the remaining 8 percent. Whereas financial markets and some of its protagonists depict the PA as the new star in Latin America, the Bolivarian Alliance for the Peoples of Our Americas (ALBA) and most of the countries of the Southern Common Market (Mercado Común del Sur —Mercosur) see the PA as a new attempt by the United States to undermine alternative patterns of regional integration in the Americas.

- The PA is an economic alliance that revives the open regionalist model of the early 1990s in Latin America in that it seeks to increase intratrade and extraregional trade relationships with Asia, the United States and Europe; the PA states already have FTAs with the United States and the European Union.
- The positive view of the PA in Latin America and abroad is based on its economic potential. In fact, Australia, Canada, China, the Dominican Republic, Ecuador, El Salvador, France, Guatemala, Honduras, Japan, New Zealand, Portugal, Paraguay, South Korea, Spain, Turkey, the United States and Uruguay have already applied for and been granted observer status. Moreover, Costa Rica and Panama are on their way to becoming full members.
- At the political level, however, the PA has created friction in the region as it brings Mexico into South America —an area seen by Brazil as its sphere of influence. Moreover, the PA countries have good relations with the United States and are in line with its FTA agenda.



From the Pacific Arch to the Pacific Alliance

The idea to create the PA —initially branded as the Pacific Arch— was first promoted by the then president of Peru, Alan Garcia, in 2006. At that time, Peru found itself isolated as Venezuela had left the Andean Community (CAN) and both Bolivia and Ecuador (two CAN members) were showing more of a vocation for ALBA than for the former group. Moreover, Peru oriented its economic efforts to the Asia-Pacific region as a key market, as did Chile, Colombia and Mexico. Five years later, in April 2011, these four states came together and formally agreed to launch the PA. The constitutive treaty was signed in Antofagasta, Chile, on 6 June 2012.

As outlined in the various PA declarations, the primary goal of this new regional group is to build a zone of deep economic integration and progress toward the free circulation of goods, services, capital and people. The group aspires to achieve sustainable economic growth and competitiveness by increasing intra- and extraregional trade. The PA was also created with the objective of becoming a platform of political coordination and projection to the rest of the world, especially the Asia-Pacific region (see <<http://alianzapacifico.net>>).

During the PA's fifth presidential meeting in November 2012, a consensus was reached to establish an FTA that lifts tariff barriers on most goods and introduces a phase-out period for sensitive products over the course of 2013. At the EU–Community of Latin American and Caribbean States (CELAC) summit in January 2013 in Santiago de Chile, the presidents further reinforced their ambition with the prompt conclusion of negotiations on all remaining issues —such as rules of origin, public procurement, services and capital (including Mexico's financial integration of its stock markets with those of Chile, Colombia and Peru under the Latin American Integrated Market), customs cooperation, sanitary and phytosanitary measures, and technical barriers to trade. During the PA summit in May 2013 in Cali, Colombia, the four presidents once again stressed the need to have a full-fledged FTA in place in the shortest possible time. The successful completion of the negotiations was announced on 8 October 2013 in *El País*.

Back to Open Regionalism in Latin America

Latin America has experienced a proliferation of regional organizations in the last two decades. Newcomers such as Mercosur (1991), the Association of Caribbean States (ACS, 1994), ALBA (2004),

Union of South American Nations (UNASUR, 2008), CELAC (2010) and the PA joined old regional groups that had reshaped and repacked their goals and rebranded themselves to adopt the premises and purposes of the new regionalism that predominated in the 1990s—such as the Andean Pact (now Andean Community) and the Common Central American Market (SICA). Thus, Latin America offers a broad spectrum of regional organizations that prioritize different issue areas and reflect different types of integration and/or cooperation. Furthermore, they represent divergent models of regional cooperation spanning from the promotion of free trade to socialist-driven projects.

One can characterize this constellation of different regional groups with different trajectories as “modular regionalism” (Gardini 2013) or as “variable geometry.” This variable geometry implies that member states have the option to cooperate with different partners in the realization of common objectives while still enjoying exit options. These opt-out possibilities are to be used when one group (or one measure within a group) becomes too costly for a member state. Although these exit options trigger forum shopping among members of regional groups, they also minimize the risk of zero-sum politics and thus consolidate a regime of cooperative regional governance. In addition, exit options reduce the chances for veto-players to block the advancement of regional projects.

From this perspective, each Latin American country can choose the mix of regional organizations or cooperation structures that best fits its interests. Like-minded states join forces to foster their common interests. Taking the issue of free trade and open markets as an example, it is possible to differentiate between the interests of the countries of the PA, Mercosur and ALBA. The countries that form part of these groupings have different average most-favored-nation (MFN) tariffs and different numbers of FTA partners (see Figures 1 and 2). The Chilean president, Sebastián Piñera, has indicated that states and their views “have to learn to live together in diversity” (*El Tiempo* 2012), thereby acknowledging the existence of different views and interests regarding the purpose of regional integration.

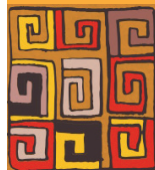
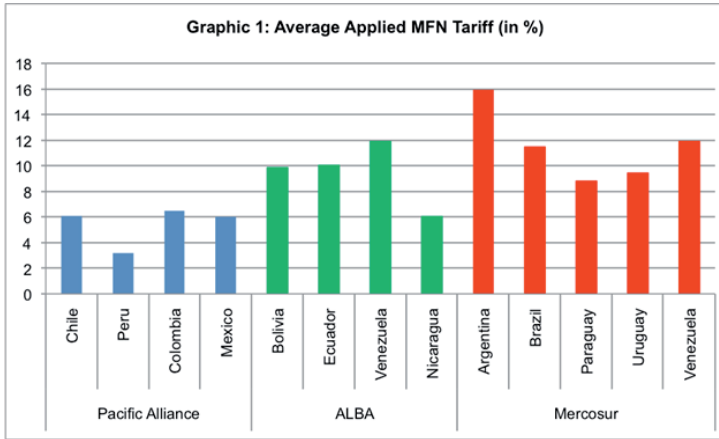
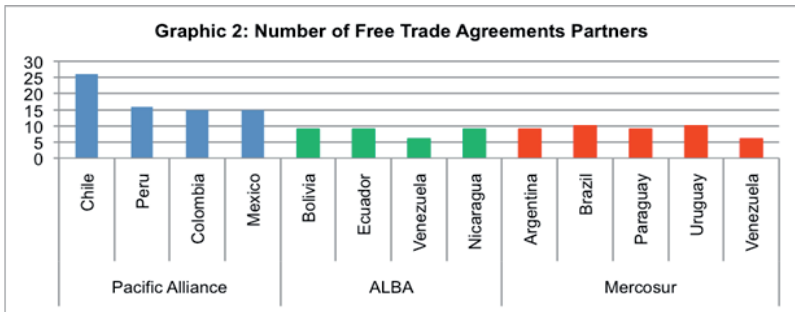


Figure 1:
Average Applied MFN Tariff (in %)



Source: IDB 2012.

Figure 2:
Number of Free Trade Agreements Partners



Source: IDB 2012.

In the 1990s, Latin American regionalism was associated with the premise of open regionalism, which aimed to promote markets of scale and efficiency through regional trade liberalization. The ultimate objective of this open regionalist model was successful integration into the global economy. However, since the turn of the century, Latin American regionalism has become less focused

on economic liberalization and more political in its orientation. This change was the result of voter disappointment with economic globalization at the national level and a shift to left-oriented governments. The new regionalism projects sought political consensus building, the promotion of regional independencies and an increase in cooperation in nontrade issues (e.g., energy, infrastructure, finance and regional security). It should be noted, however, that older regional organizations and projects did not disappear. Instead, they coexisted in an overlap of older and newer organizations, resulting in the current mosaic of Latin American regionalism.

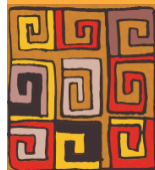
In fact, it is possible to identify three types of regional projects in Latin America: (1) projects with a strong emphasis on trade-driven integration (NAFTA, PA); (2) hybrid projects combining trade (sometimes with new elements), doses of state intervention and political posttrade objectives (UNASUR, SICA, Mercosur, CAN); and (3) a project that emphasizes political and social aspects of integration and is driven by socialist ideas and thus strong state intervention in the economy (ALBA) (Riggiozzi and Tussie 2012: 11).

The PA has revived the debate on these different types of regional cooperation and groupings because it has returned the open regionalism model to Latin America. Indeed, the four PA members are fully committed to the rules of the game of economic globalization and are also countries that enjoy FTAs with each other. The PA is thus an effort to harmonize and expand these existing FTAs and develop a free trade area. Moreover, new full memberships will only be accepted by the PA on the condition that candidates already have an FTA in place with each member of the group.

The New Darling of the Economist(s)

For Felipe Larraín, Chile's finance minister, the PA is "the most exciting thing going on today in Latin America" (*The Economist*, 29 April 2013). A recent Deutsche Bank Research publication (2013) championed the PA countries as "Latin America's new stars," while the *Economist* called on other Latin American countries to "join the club" (29 April 2013). In a self-promoting event, the four presidents of the PA declared that their trade agreement constitutes "a robust institutional and judicial framework that creates certainty for investments and free trade" (*El País*, 8 October 2013).

Business associations and financial markets are supportive of the new organization. Since it accounts for 35.6 percent of the Latin American



population, the accumulated GDP would make it the eighth most important economy in the world—though this was still smaller than Brazil's GDP in 2012. The PA received 41 percent of the investments in the region and accounted for 50 percent of Latin American and Caribbean exports and imports in 2012—a much higher share than the Mercosur (Table 1). Moreover, recent average GDP growth rates for some PA countries have been higher than those for Mercosur and ALBA countries (ECLAC 2013a).

Table 1:
Share in Latin American and Caribbean
Trade of PA and Mercosur (in %)

	Exports	Imports
	2012	2012
PA/LAC	50	50
EPA/LAC	52	54
Mercosur/LAC	39	35

Note: EPA – Enlarged PA (including Costa Rica and Panama).

Source: SELA 2013: 23.

Two Economic Models

While some economists are excited by the creation of the PA, the Latin American Left sees it as a US tool to subvert regional integration and promote its normative views on trade issues in South America. In the final declaration (6 August 2013) of its 19th meeting, the Foro de São Paulo—a grouping of leftist parties and organizations—reproved “the attempts inspired by extraregional powers with the objective to fracture and sabotage regional integration as in the case of the so called Pacific Alliance—which not by accident is composed of countries which have free trade agreements with the United States—and the tireless efforts to generate crisis and inspire divisions within the Mercosur” (<<http://forodesaopaulo.org/?p=3030>>, authors' own translation).

The framing of the PA as an instrument of US hegemony is also shared by various intellectuals and officials from the center-left in Latin America. For example, the Argentinian intellectual Atilio Borón (2013a; 2013b) depicts the PA as “the most important piece of the imperialist counterattack, which is seeking to implement the Free

Trade Area of the Americas (FTAA) under another name” and it is “basically a political-military alliance, even though it tries to present itself as merely an economic alliance. Its main objective is to erode the bloc of South American countries and especially UNASUR” (authors’ own translations). Similarly, in his commentary during the ALBA’s last meeting in Ecuador, the Bolivian minister of the presidency, Juan Ramón Quintana, revealed the group’s fears that “the strategy of the Pacific Alliance is not just commercial, it is a political and military strategy [seeking] to reinstall the Washington Consensus and the FTAA [Free Trade Area of the Americas]” (LAWR-13-31, 8 August 2013).

Such statements by official state representatives and intellectuals reflect a left-right cleavage and diverging opinions about cooperation projects at the regional level, which are based on different norms and values. These differences are also corroborated by statements by official representatives of the competing integration projects.

In an interview with Colombian newspaper *El Tiempo* (2012), Chilean president Sebastián Piñera declared that there are two different visions and models in the region and that the countries of the PA share a common vision of economic development that consists of “a social market economy, of entrepreneurship, innovation, private initiative and integration into the world” (authors’ translation). This view is substantiated by the *Index of Economic Freedom* of the Heritage Foundation and the *Wall Street Journal*, which ranks the PA countries much higher than the ALBA and Mercosur countries – excluding the two Mercosur countries with observer status in the PA (see Table 2).

During his country’s hosting of an ALBA meeting in Guayaquil on 31 July 2013, Ecuador president Rafael Correa differentiated between “two opposing visions of the world: neoliberalism and free trade versus those that believe in socialism and the guarantee of rights; those that believe not in free trade zones but zones free of hunger and free of poverty” (LAWR-13-31, 8 August 2013).

Table 2:
Index of Economic Freedom 2013

Rank	Pacific Alliance	Mercosur	ALBA
7	Chile		
36		Uruguay	
37	Colombia		
44	Peru		
50	Mexico		



67	Costa Rica		
71	Panama		
80		Paraguay	
100		Brazil	
110			Nicaragua
156			Bolivia
159			Ecuador
160		Argentina	
174		Venezuela	Venezuela
176			Cuba

Source: <www.heritage.org/index/ranking>.

It might therefore be interesting to take a look at the social balance sheet of the member countries of both ALBA and the PA. This is not to claim that regional groups reduce or enhance poverty and income distribution levels, but to see whether reality matches the leaders' rhetoric when they defend their economic models and cite the pros of their regional groups (see Table 3).

When looking at the variation of the poverty lines of each country for the period 2002–2011, the balance is not conclusive. The member countries of both organizations have reduced poverty —though this decrease was less pronounced in Mexico. Nevertheless, the poverty level is generally lower in the PA countries (with the exception of Mexico) than in the ALBA countries. However, according to the Gini index —which measures income distribution (1 means total inequality and 0 means total equality)— the reduction of inequality was more pronounced in the ALBA countries. So the effects of the different economic models promoted by the PA and ALBA on poverty reduction and income distribution are mixed at best.

Table 3:
Poverty (National Poverty Lines) and
Income Inequality, 2002–2011

	Poverty (% of population)		Gini Index	
	2002	2011	2002	2011
Mercosur				
□ Argentina	34.9 c	5.7	0.578	0.492
□ Brazil	37.5 b	20.9	0.639 b	0.559
□ Paraguay	61.0 b	49.6	0.558 b	0.546
□ Uruguay	15.4	6.7	0.455	0.402

□ Venezuela	48.6	29.5	0.500	0.397
ALBA				
□ Bolivia	62.4	42.4 e	0.614	0.508 d
□ Ecuador	49.0	32.4	0.513	0.434
□ Nicaragua	69.4 b	58.3 d	0.579 b	0.478 g
□ Venezuela	48.6	29.5	0.500	0.397
Pacific Alliance				
□ Chile	20.2 a	11.0	0.552 f	0.516
□ Colombia	49.7	34.2	0.567	0.545
□ Peru	54.7 b	27.8	0.525 b	0.452
□ Mexico	39.4	36.3 e	0.514	0.481 e
LAC	43.9	29.4		

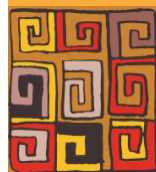
(a) 2000; (b) 2001; (c) 2004; (d) 2009; (e) 2010; (f) 2003; (g) 2005

Source: ECLAC (2013b: 18, 80, 102–103)

Economic and Political-Strategic Implications

While the PA countries share economic interests that are not contingent upon the incumbent government, the same is not true in regard to political strategic issues. Peru and Chile still have pending disputes regarding their maritime borders. Moreover, Chile might soon swing back to a center-left government, which will see less political accord with the other PA governments. Additionally, the member countries are confronted with different domestic security challenges (e.g., armed conflict in Colombia and drug-related crimes in Mexico). Last but not least, these countries' security agendas are determined by the (sub)regional context. Mexico, for instance, is closely linked to the United States, while the South American governments have created their own security architecture with UNASUR and the South American Defense Council at its core.

Hence, the PA is primarily an FTA that has both political and economic consequences. In the economic realm, the PA is about promoting member states' markets and products in the Asia-Pacific region and thus also acts as a coordination forum for common positions and policies in that regard. Putting aside the tensions between the interests of each of the PA members to potentiate its export capacity and foreign direct investment (FDI) attractiveness, they all share the key ambition to position the PA within the Chinese market as part of the group's Asia-Pacific aspirations.



Moreover, three members of the PA are part of the Trans-Pacific Partnership (TPP) initiative—an on-going FTA negotiation process between Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. The only country not included in the TPP is Colombia, which has shown an interest in joining this group as well as the Asia-Pacific Economic Cooperation (APEC) if new admissions are to be considered by both initiatives. Given the number of APEC countries involved in the TPP negotiations, the United States sees the TPP as an alternative way to achieve the unrealized APEC goals set in 1994 at the meeting in Bogor, Indonesia, regarding free and open trade and investment for industrialized countries in 2010 and for developing economies in 2020.

In the political realm, Colombian president Juan Manuel Santos stated during the presidential meeting in Antofagasta, Chile (6 June 2012), that “the Pacific Alliance was not positioned against anyone or any state in particular.” However, the PA has generated a new dynamic of soft balancing in Latin America. While the PA excludes Brazil (though this regional power has no interest in joining the endeavor), it has brought Mexico into South America. Mexico had lost its influence in the region in the early 1990s when it shifted its foreign policy priorities to NAFTA. Although Mexico has emphasized the commercial dimension of the PA, it is at the same time perceived by countries such as Chile and Colombia as an opportunity to soft balance Brazil’s influence in South America.

As secondary powers, Chile and Colombia are not against Brazil’s rise per se—though they do want to create options for themselves to reduce the asymmetric political dependence on Brazil as the regional power. Meanwhile, the Brazilian leadership has been trying to downplay the importance of the PA (Malamud 2013). For instance, Marco Aurélio Garcia, foreign policy advisor to the president, stated that the PA was no challenge to the South American integration project of UNASUR (*La Segunda online* 2012). Similarly, the foreign minister, Antonio Patriota, declared in a June 2013 Senate hearing that the PA was mainly a marketing strategy that sought to repackage what was already in place (e.g., existing FTAs between PA members) rather than some new innovation. In spite of the Brazilian government’s attempts to diminish the role of the PA, neighboring Paraguay and Uruguay still applied for observer status; this might be a first step in allowing individual Mercosur member states to negotiate bilateral FTAs with third parties as the integration project shows signs of exhaustion and fragmentation (*Latin America Brazil & Southern Cone Report*, 16 September 2013).

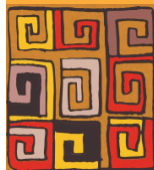
In short, the PA not only affects Brazil's regional power projection, it also has an impact on the regional integration and cooperation dynamics of both ALBA and Mercosur. Furthermore, it offers the US government new options to promote its free trade agenda in Latin America at a time when Washington is showing renewed interest in Latin America. During President Obama's first term, the region was a low priority and the general balance of US policy on Latin America was disappointing (Whitehead and Nolte 2012). However, this appeared to change during Obama's second term with his visit to Mexico and Costa Rica and Vice President Biden's trip to Colombia, Brazil and Trinidad and Tobago in May 2013, where both actors emphasized the need to revitalize the United States' ties with Latin America though such steps have not yet resulted in any tangible change.

The PA and Europe

The PA is also of interest to the European Union and European investors. During the 7th EU–Latin America and Caribbean Summit in Santiago de Chile (26–27 January 2013), the governments of the PA took the opportunity to promote their new alliance and to court European investors with the promise of open markets and legal certainty.

The PA's advances were well received by the president of the European Council, Herman van Rompuy, who described the PA "as a very promising initiative that brings together countries which share the EU's views on open markets and modern economic policies, and which aims at creating an economic space similar to our own, based on the four freedoms of circulation of goods, capital, services, and persons." He went on to say that "it is no coincidence that free trade agreements link the EU to all of the Alliance's founding members [...] it will allow us to team up at the multilateral level to promote our common vision on trade and economic cooperation."

The PA therefore provides the European Union with both a new and alternative partner in Latin America that shares its economic position and more options in the occasionally complicated relationship with ALBA and Mercosur —especially when relaunched FTA negotiations with the latter have not brought results. The PA might put pressure on countries without FTAs with the European Union (such as Brazil), especially if EU–US negotiations over a future transatlantic trade and investment partnership (TTIP) advance. Such an agreement might benefit the PA countries as they already have FTAs with both the European Union and the United States.



Conclusions

Although the PA has stressed that it is more than just another FTA, it has received most of its international attention and support for its economic achievements and trade focus on the Asia-Pacific region. However, the PA has also advanced in other niches of cooperation, such as academic exchange, technology and the integration of stock markets. It still needs to be seen whether the existing cooperation will spill over into other issue areas and whether the PA countries will cooperate and define common positions in international forums.

As salient the trade agenda of the PA may be, one cannot ignore the political and strategic side effects of the project. The PA has provoked reactions from regional actors such as Venezuela and the other ALBA countries, as well as from Brazil and some of its Mercosur partners. The former consider the PA to be an alternative, antipodal project to its socialist regional model in Latin America and a US tool with which Washington can reassert its hegemony. For Brazil, its concerns lie with losing control of its own sphere of influence as Mexico tries to get a foothold in the region. Moreover, the PA increases the centrifugal forces in Mercosur. The PA can also be seen as part of the political and economic dynamics that are evolving in the Asia-Pacific region and the great power competition between China and the United States. Likewise, the European Union may obtain more leverage in its relations with Latin America through its potential close cooperation and FTAs with the PA countries.

Notes

1. Published in *GIGA Focus*, no. 8, 2013, pp. 1-7.

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