



Latin America and Asia Pacific Observatory

Ignacio Bartesaghi (Ph.D.) – Coordinator

“Latin American regional integration at a crossroads? : the Pacific Alliance and the Mercosur”

Latin American and the Caribbean Studies (ILAC)
& Japan Association of Latin America and the Caribbean (JALAC),
March 12
Tokyo, Japan



Creation of the Latin America – Asia Pacific Observatory

In July 2012, three renowned international entities decided to include the significance of relations between Latin America and Asia Pacific as part of their agendas.



Purpose of the Observatory



To create a debate **forum** for analyzing strategic aspects of the economic relations between the two regions.



To prepare and disseminate **studies** with bases to contribute in the design and application of policies aimed at strengthening the relations that exist between the regions.



To build **instruments** for systematizing information regarding trade of goods, investments, agreements and negotiations, among other aspects, in a clear and simple manner.



The Observatory's agenda (1)

- Release of the book entitled “Building Networks. Strategies of Asian transnational companies in Latin America”.
- Seminar: “Relations between the ASEAN and Japan, and Latin America”.
- Introduction of the Web Portal of the Latin America – Asia Pacific Observatory.
- Distribution of Publications: Half-yearly Statistical Bulletin, special studies by the ECLAC, and monthly bulletin.
- Institutional representation at specialized events.
- Academic Seminar “Trade relations between Latin America and Asia Pacific: challenges and opportunities”.



The Observatory's agenda (2)

- Creation of the Observatory's Academic Forum.
- Publication of book: "Trade relations between Latin America and Asia-Pacific: challenges and opportunities".
- Seminar: "India: a partner for Latin America".
- Visit to some member countries of ASEAN.
- Seminar: "The TPP and Latin American integration".
- New reports: news bulletins.



The Observatory's agenda - 2015

- Publication and release of the book entitled “Global Crisis, National Responses, the Great Recession in Latin America and Asia Pacific”.
- Publication and presentation of Essay Contest.
- Second Academic Seminar, on July 8th and 9th, 2015; and publication of articles submitted.
- Inclusion of the issue regarding physical connectivity and infrastructure between the two regions.
- Creation of an Entrepreneurial Forum.



Academic Forum

- Creation of an Expert Network (with over 100 experts from both regions).
- Seminars, contests, calls for presentations, workshops and closed debates.
- Definition of lines for research.
- Opening of new academic departments on Latin America and Asia Pacific at universities in the two regions.
- Dissemination of publications.
- Promotion of student and expert exchanges.



**Alianza del
Pacífico**



“Latin American regional integration at a crossroads? : the Pacific Alliance and the Mercosur”

Note: opinions by the Coordinator of the Latin America – Asia Pacific Observatory do not necessarily reflect, nor compromise, the positions of LAIA, CAF and ECLAC.



Plan for the presentation

- Possible viewpoints to approach the issue.
- New international context.
- Current state of the MERCOSUR.
- Pacific Alliance: a new way of integration?
- MERCOSUR and the Pacific Alliance: at a crossroads?
- Some conclusions.



Possible viewpoints to approach the issue

- Latin American unity: relations between Brazil and Mexico and relations between the region and Asia Pacific.
- The MERCOSUR and the Pacific Alliance at the light of changes occurred in international trade during the past decade.
- The success of integration processes in Latin America: the South American external agenda.
- Differences and similarities existing between the two blocks.



New international context

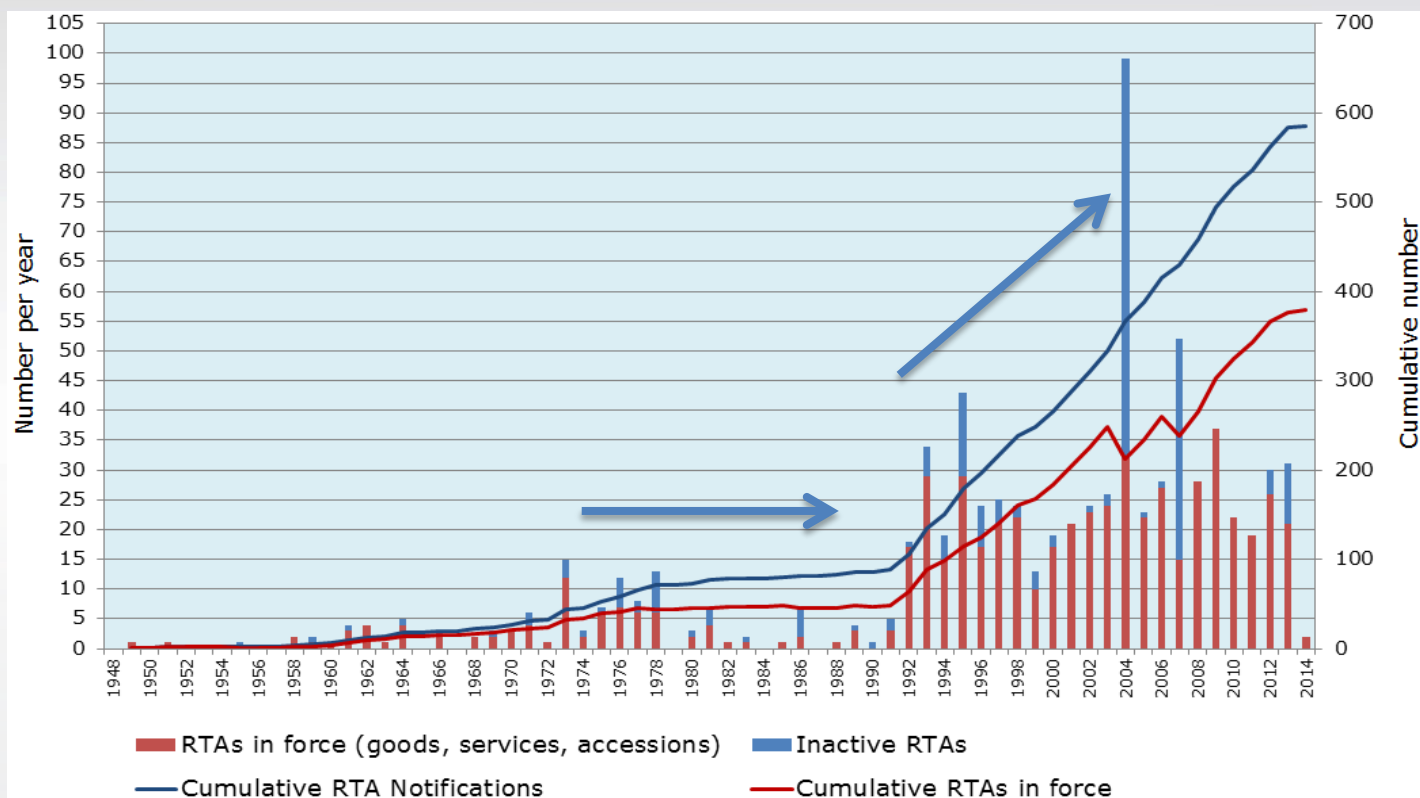
- Significance of China and Asia Pacific.
- Investment relocation.
- Trade liberalization.
- Growth in foreign trade.
- Services in added value.
- New trade topics.
- Technological leaps in communications and transportation.
- Changes in international production.

What is the position of different Latin American countries regarding this phenomenon?

Is Latin America implementing the reforms required by the new international context?



International Agreements (1)



Boom of
trade
agreements
since the
1990s.

Source: WTO.



International Agreements (2)

Type of the agreement	Enabling clause	GATS Art. V	GATT Art. XXIV	Grand total
Customs Union	8		10	18
Customs Union - Accession	1		7	8
Economic Integration Agreement		125		125
Economic Integration Agreement - Accession		4		4
Free Trade Agreement	13		218	231
Free Trade Agreement - Accession	0		1	1
Partial Scope Agreement	14			14
Partial Scope Agreement - Accession	1			1
Grand total	37	129	236	402

Source: WTO.

What are the type of agreements subscribed, and why?



International Agreements (3)

Regional trade agreements notified to the GATT/WTO and in forceBy date of entry into force	
RTA Name	Date of entry into force
Japan - Australia	15-Jan-2015
Canada - Rep. of Korea	01-Jan-2015
EFTA - Bosnia and Herzegovina	01-Jan-2015
Eurasian Economic Union (EAEU)	01-Jan-2015
Korea, Republic of - Australia	12-Dec-2014
Hong Kong, China - Chile	09-oct-14
EU - Georgia	01-sep-14
EU - Rep. of Moldova	01-sep-14
EFTA - Central America (Costa Rica and Panama)	19-Aug-2014
EU - Cameroon	04-Aug-2014
Iceland - China	01-jul-14
Switzerland - China	01-jul-14
Singapore - Chinese Taipei	19-Apr-2014
New Zealand - Chinese Taipei	01-Dec-2013
EU - Central America	01-Aug-2013
Costa Rica - Singapore	01-jul-13
EU (28) Enlargement	01-jul-13
Costa Rica - Peru	01-jun-13
Turkey - Mauritius	01-jun-13
Korea, Republic of - Turkey	01-may-13
Canada - Panama	01-Apr-2013
EU - Colombia and Peru	01-mar-13
Malaysia - Australia	01-Jan-2013
Ukraine - Montenegro	01-Jan-2013

Who subscribe trade agreements, members of the MERCOSUR or members of the Pacific Alliance?

Source: WTO.



Current state of the MERCOSUR





Some history (1)

Integration of Latin America and the Caribbean. Some history:

- LAFTA (currently LAIA).
- Central American Common Market, currently CAIS.
- Andean Pact, currently the Andean Community.
- Caribbean Common Market.
- MERCOSUR.

Agreements following the European integration model, including the MERCOSUR, incorporated during the change of the integration paradigm (1990s).



Some history (2)

- ALBA (Bolivarian Alternative for the Americas).
- The Pacific Alliance.

A new integration mode?
Geopolitical significance of
agreements.

The UNASUR, the SELA and the CELAC are, among others, contexts with a political profile, as opposed to the economic and trade contexts referred above.



A few advances (1)

- A free trade zone and a partial Customs union were created in addition to a common external tariff.
- There was a significant growth of intra-regional trade.
- The most important intra-regional in South America is the one between Argentina and Brazil, with an outstanding intra-industrial aspect of significant multiplying effects.
- The institutional conditions continue in place, and have become stronger in some cases.



A few advances (2)

- The block has advances in its political representation at the international level, as with forums (an aspect particularly significant for Brazil).
- The FOCEM was created to consider asymmetries.
- There were different instances aimed at strengthening unified Customs, such as the 2010 San Juan Summit.
- Negotiations between MERCOSUR and the EU were resumed.
- The block has included new members.



Certain concerns (1)

- Protectionist measures applied by members.
- The united Customs have not been perfected, and the common external tariff includes very significant exceptions.
- No advances have been reached in creating a common market.
- Advances in productive integration have been scarce.
- The block's internal agenda has not made any progress (services, governmental acquisitions, investments, policy of competitors, intellectual property, environmental regulations, labor regulations, and so on).



Certain concerns (2)

- Non-observance of awards resulting from the MERCOSUR's Dispute Settlement System.
- Failure to negotiate trade agreements with developed countries and scarce significance of the current external agenda in relation to economic terms.
- Institutional aspects not efficient for the purposes of the integration process.
- Inappropriate administration of the process relative to the inclusion of Venezuela in the MERCOSUR.
- Excessive politicization of the block.
- Prioritization of the bilateral agenda in relation to the regional agenda.



Possible challenges (1)

- Observing treaties (such as lifting trade barriers).
- Advancing towards united Customs and common market.
- Promoting production chains.
- Complying with arbitration awards.
- Complying with legal provisions for the inclusion of new members (Venezuela, Bolivia, and possibly Ecuador).
- Institutional Reform (supra-nationality).



Possible challenges (2)

- Strengthening the FOCEM (fund for considering asymmetries).
- Extending the internal agenda (environment, intellectual property, governmental acquisitions, investments).
- Approving policies in common (infrastructure, energy, innovation, scientific cooperation, product promotions abroad, coordination and exchange of macro-economic information, and exports systems, among others).
- Advancing in the MERCOSUR's external agenda.
- Defining regional leaderships.



MERCOSUR's external agenda (1)

Signatories	Suspension date	Category of agreement
Mercosur - Chile	1996	Economic integration agreement
Mercosur Bolivia	1996	Economic integration agreement
Mercosur - Andean Community	2004	Economic integration agreement
Mercosur - India	2004	Fixed preference agreement
Mercosur - Peru	2005	Economic integration agreement
Mercosur - Israel	2007	Free Trade Agreement
Mercosur - SACU	2008	Fixed preference agreement
Mercosur Egypt	2010	Free Trade Agreement
Mercosur - Palestine	2011	Free Trade Agreement

Source: drawn based on data from the MERCOSUR's Secretary's Office.

What agreements has the MERCOSUR subscribed and with whom?



MERCOSUR's external agenda (2)

- There are no trade agreements in place with developed countries, except for the case of Israel.
- For instance, the block did not negotiate a FTA with the United States of America (failures of the 4+1 and opposition to the ALCA), and impossibility of closing negotiations with the European Union since 1999.
- No agreements subscribed with Asian giants such as Japan, China or the Republic of Korea, or with other Asian economies like the ASEAN's members.
- The MERCOSUR's average tariff (non-weighted) is not more than 10%, and protectionist measures continue to restrict foreign trade.



MERCOSUR's external agenda (3)

- The subscription of regional agreements is limited to free trade zones relative to goods with few examples for strengthening. Such agreements are limited to those signed within the LAIA's framework.
- There isn't an in-depth agreement with Mexico (except for the case of Uruguay).
- The external agenda has been promoted by Brazil, based on interests rather political than economic.
- There are no negotiations subject to any Mega Trade Agreement.



Tensions regarding the external agenda?

- Uruguay's demand to negotiate bilaterally in advance, or independently from the rest of the MERCOSUR's members (suggested by Uruguay and the U.S.A. on two occasions).
- Inclusion of Uruguay and Paraguay in the Pacific Alliance, as Observer countries (reaction by Brazil).
- Possible breach in negotiations with the European Union (Argentina not negotiating).
- Pressures from the Brazilian private sector for subscribing trade agreements.
- Interest by Uruguay and Paraguay in trade negotiations with Asian countries, including China.



Pacific Alliance: a new way of integration?





A few keys of the Pacific Alliance

- Context: dismemberment of the Andean Community: separation of Venezuela and entry in the MERCOSUR, creation of the ALBA, the Arco del Pacifico (Latin American Pacific Basin initiative), and others.
- Agreement with new features. “Profound integration”.
- Initial idea of Peru supported by Chile and Colombia. Mexico showed belated interest, but after joining, the agreement changed in geopolitical terms, generating contrasts between the two integration processes.
- Impact of the Pacific Alliance on the media, and surprising international interest in the initiative (observer countries).
- Aims at the liberalization of goods, services, capital and individuals, which could relate to a common market.



Observer countries



Source: Pacific Alliance official website.



A few advances of the Alliance

- Regular meetings at the highest levels.
- Elimination of visas.
- Integration of stock exchanges (MILA-Latin American Integration Market).
- Definition of joint centers for external promotion (at embassies).
- Negotiations of tariffs, exceptions and cumulation of original regime.



Possible contradictions and challenges (1)

- The objectives set forth have already been defined in other integration processes, or the agreements defined involve members of the Alliance.
- The idea of reaching an “in-depth agreement” is not supported by the institutional aspects required.
- Maintaining the obvious affinities in economic, trade and international inclusion policies, beyond short terms, due to political affinity (changes in governments).
- Complying with the initial expectations generated by the process (currently in progress) and avoiding possible breaches with the rest of Latin America and the Caribbean.



Possible contradictions and challenges (2)

- How to increase regional trade flows and investments (some Alliance countries have more trade with MERCOSUR than with the integration process itself).
- It is possible to promote structural changes in the block, for which it will be necessary to cease the re-primarization cause by the exports of commodities to the extrazone.
- Will the block favor improvements in the physical (logistic) infrastructure?
- Will the generation of clusters be promoted?
- Will there be regional policies favoring enhanced quality and qualified manpower in the subregion?



MERCOSUR and the Pacific Alliance: at a crossroads?



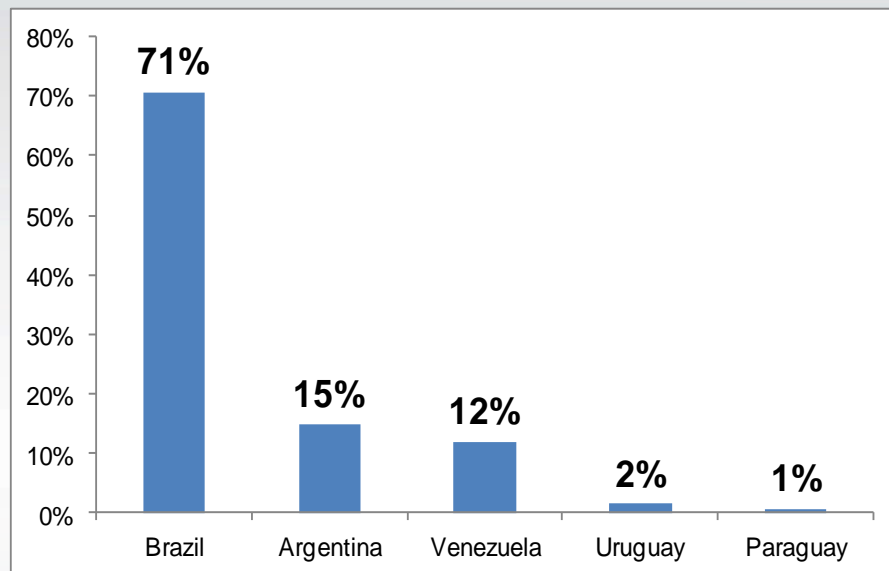
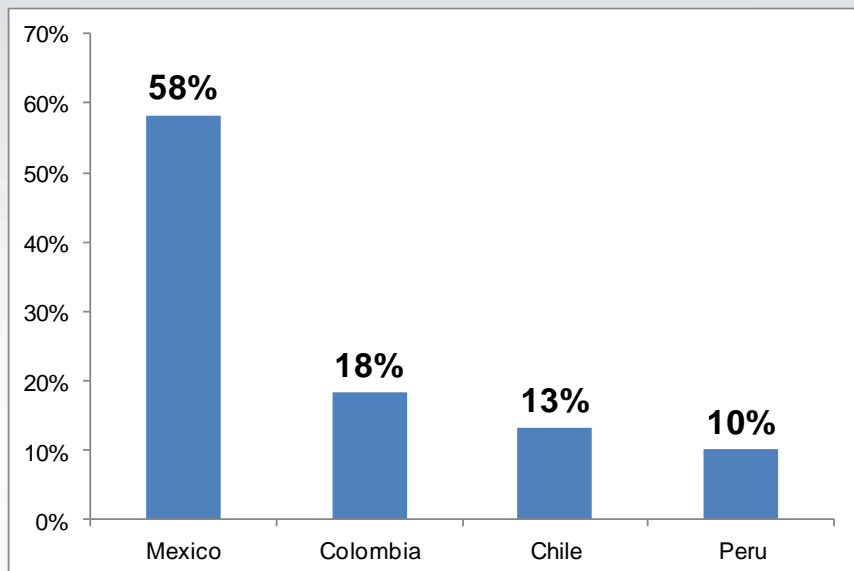


MERCOSUR and the Alliance: at a crossroads?

- The first thing to acknowledge is that these are two integration processes that are naturally different, though they also show similarities.
- Asymmetries between members.
- Differences in business constitution.
- Tariff levels and trade defense measures.
- Number of trade agreements.
- Facilitated trade.



Asymmetries

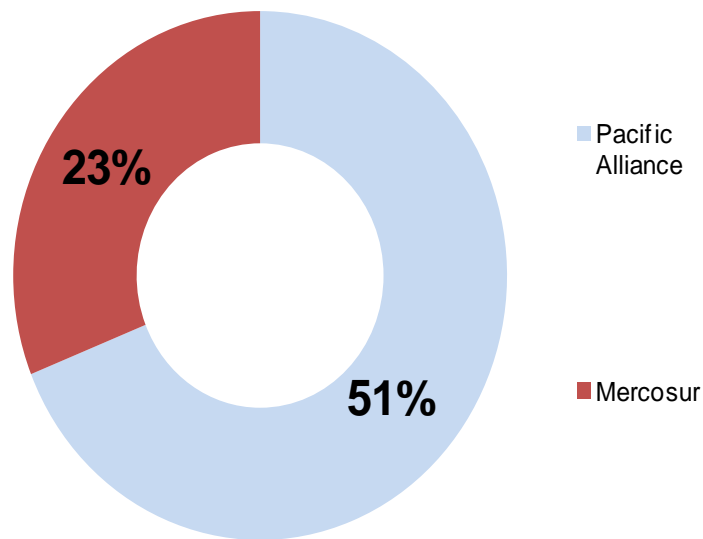


The significance of Mexico in the Pacific Alliance, and of Brazil in the MERCOSUR, indicates the relation between the two integration processes.

Source: drawn based on ECLAC's data.

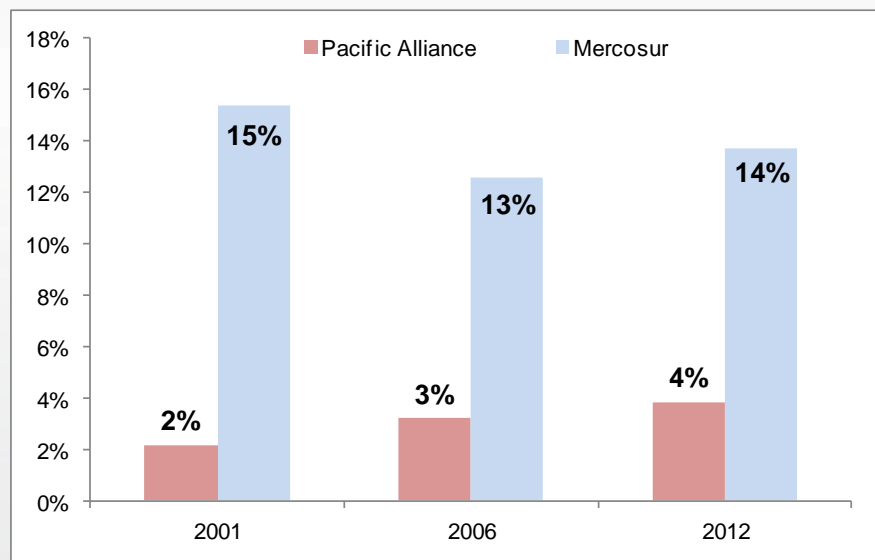


Differences in the composition of trade



MERCOSUR's intra-regional trade, though scarce in international terms, is three times greater than trade in the Pacific Alliance.

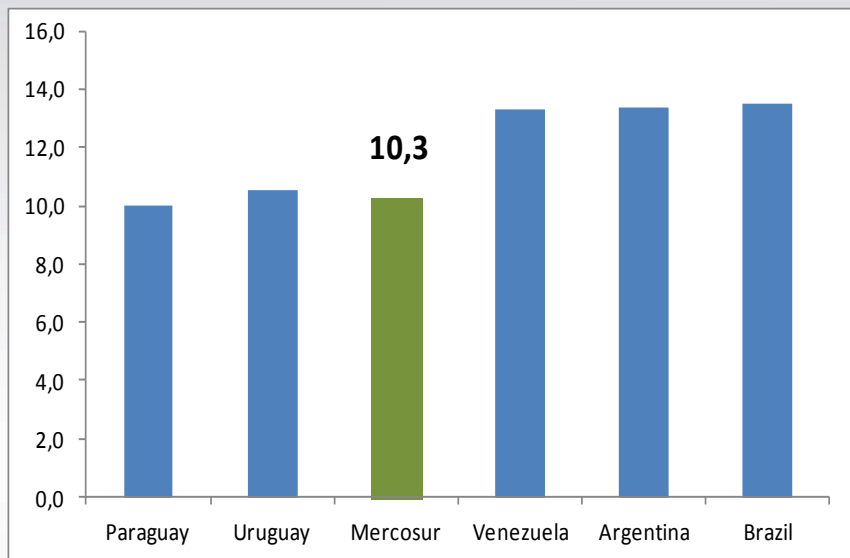
Upon Mexico's initiative, the Alliance has a trade structure with more technological components than the MERCOSUR.



Source: drawn based on ECLAC's data.

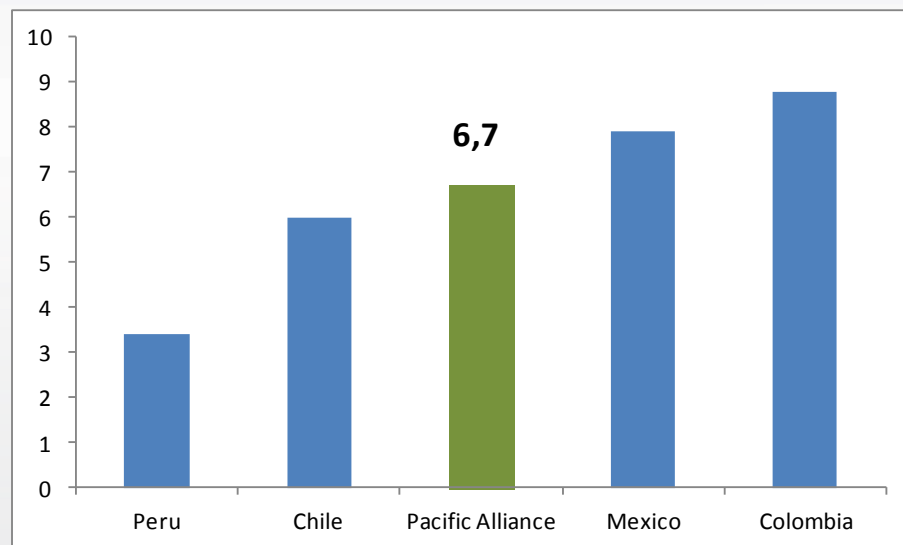


Tariff levels



Tariff levels show differences in processes, which in the case of MERCOSUR relate to exceptions to the common external tariff.

Tariff levels (non-weighted average) applied are higher in the MERCOSUR than in the Pacific Alliance.



Source: drawn based on WTO data.



Trade defense measures

		ADP	
		I	F
North America	Mexico	<u>23</u>	<u>9</u>
North America Total		<u>23</u>	<u>9</u>
South and Central America and the Caribbean	Argentina	<u>47</u>	<u>33</u>
	Brazil	<u>51</u>	<u>24</u>
	Colombia	<u>29</u>	<u>15</u>
	Peru	<u>4</u>	<u>2</u>
	Uruguay	<u>1</u>	<u>1</u>
South and Central America and the Caribbean Total		<u>132</u>	<u>75</u>
Grand Total		<u>155</u>	<u>84</u>

When considering the antidumping measures imposed by the MERCOSUR countries and the Alliance countries on China in the past ten years, we can see the degree of protection by Brazil and Argentina in relation to the member countries of the Pacific Alliance.

Source: drawn based on WTO data.



Agreements subscribed by the Alliance

(with Asia Pacific)

Pacific Alliance countries	Australia	Brunei	Camboya	China	Rep. of Korea	Philippines	Hong Kong (SAR)	India	Indonesia	Japan	Laos	Malaysia	Myanmar	New Zealand	Singapore	Thailand	Taiwan Prov. of China	Vietnam
Chile																		
Colombia																		
Mexico																		
Peru																		

There is only one agreement in place between MERCOSUR and India.

Pacific Alliance countries	Australia	Brunei	Camboya	China	Rep. of Korea	Philippines	Hong Kong (SAR)	India	Indonesia	Japan	Laos	Malaysia	Myanmar	New Zealand	Singapore	Thailand	Taiwan Prov. of China	Vietnam
Chile																		
Colombia																		
Mexico																		
Peru																		

MERCOSUR is not currently negotiating with any country in Asia Pacific.

Source: drawn based on data from the Latin America – Asia Pacific Observatory.



Competitiveness Indicators (1)

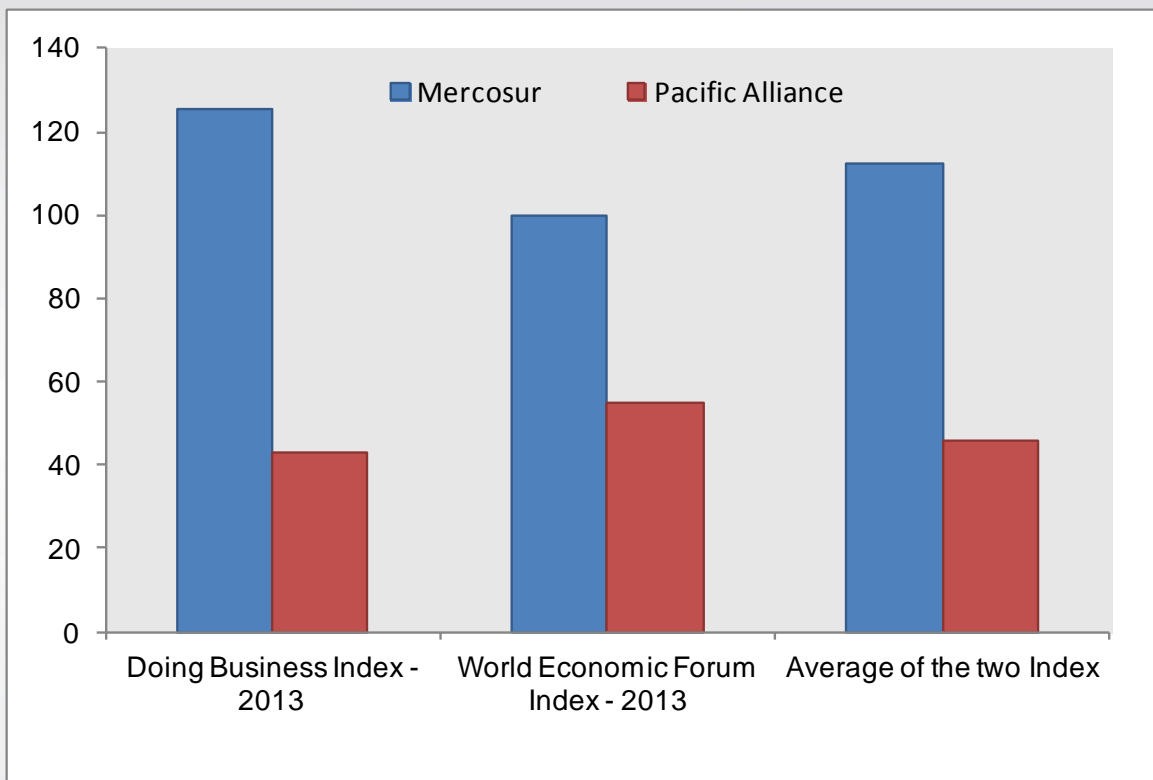
Country	Doing Business Index - 2013	World Economic Forum Index - 2013	Average	Integration process
Chile	37	34	36	Pacific Alliance
Mexico	48	55	52	Pacific Alliance
Peru	43	61	52	Pacific Alliance
Colombia	45	69	57	Pacific Alliance
Uruguay	89	85	87	Mercosur
Brazil	130	56	93	Mercosur
Paraguay	103	119	111	Mercosur
Argentina	124	104	114	Mercosur
Venezuela	180	134	157	Mercosur

Source: drawn based on data from the World Bank and the World Economic Forum.

The Alliance countries are implementing reforms to favor the business context.



Competitiveness Indicators (2)



In relation to an average of positions occupied by countries of MERCOSUR and of the Alliance, as per Doing Business and World Economic Forum indexes, there exists a clear difference between them.

Source: drawn based on data from the World Bank and the World Economic Forum.



The Alliance's vision

- The Alliance was introduced as a new form of integration (flexible, lacking institutionalization aspects, and apart from the classical models present in the region).
- Liberalized economies, promotion of investments, enhanced business context, and facilitated trade.
- It promoted international interest with observer countries, with a clear focus on achieving greater integration within Asia Pacific.
- Mexico's participation and South American leaderships turned it into a geo-political agreement.

The Alliance's original agreements, as well as the presidents' discourse, were intended to show their differences with the other models in the region.



The MERCOSUR's vision

- Brazil conferred the Alliance geopolitical significance (in relation to Mexico, as well as to Peru and Colombia).
- The consequences of a new integration paradigm for the very politicized and MERCOSUR standing at a standstill.
- Implications of the Alliance on the MERCOSUR's external agenda (pressure by the Brazilian private sector and by the smaller countries).
- MERCOSUR's approach towards this new scenario, which enables options to some members, and to the Brazilian entrepreneurs who call for changes. Additionally, there is the international interest caused by the brand new integration process.



Some conclusions (1)

- There is a new international context, with mega agreements, changes in the forms of production due to technological leaps, global value chains, and geopolitical significance of trade initiatives, among other factors.
- The MERCOSUR has not attained some of its main objectives.
- The Pacific Alliance was presented as a cutting-edge integration process, and aspect still to be ratified, in compliance with the conditions agreed.
- The differences between economic and political models in the region are evident and have become greater in the past few years.



Some conclusions (2)

- Different trade policies, such as their productive structures, applied by each integration process.
- Geopolitical significance of the 21st century's trade agreements, confirmed by the effect of the Alliance on MERCOSUR (reaction by Brazil and Mexico).
- Lack of consistency in MERCOSUR due to the current status of the process, leading to the Alliance becoming part of the former block's internal agenda.
- Uruguay's and Paraguay's interest in the Alliance, based on a stronger connection with the group's economic model, and mainly due to its strategy relative to international inclusion.



Latin America and Asia Pacific Observatory

Ignacio Bartesaghi (Ph.D.) – Coordinator

**“Latin American regional integration at a
crossroads? : the Pacific Alliance and the Mercosur”**

Latin American and the Caribbean Studies (ILAC)
& Japan Association of Latin America and the Caribbean (JALAC),
March 12
Tokyo, Japan