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Version of “Open Regionalism”
in Practice***

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**Pacific Alliance: A Latin American Version of “Open Regionalism”
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ABSTRACT

This paper will argue that the favorable balance and world appraisal of the eight years of existence of the Pacific Alliance (PA) owes to its pragmatic, progressive, participatory, and consensual approach of regional integration based on “Open Regionalism” (OR). The OR concept of the PA has been renovated and accommodated by new challenges and opportunities that arise from the international economy, taking into consideration the specificities of Latin America. The PA’s version of OR emphasizes not only liberalization, trade facilitation, and economic and technical cooperation, as in the conventional OR concept, but also the building of regional capacity to respond to the needs of next-generation trade and investment issues. These issues include firms’ participation in GVCs (especially of SMEs), market-driven innovation policies, new forms of trade facilitation, and “quality” infrastructure, among others. The PA has been seeking integration modalities and instruments conducive to enhancing the synergy between the “market-led” and “policy-led integration. The four member states of the PA share a vision of a development model characterized by OR and a conviction that economic liberalization should be complemented by cooperation efforts on many fronts, which would result in enhanced productivity, competitiveness, and social inclusion. Therefore, these countries have sought to set themselves apart from other regional schemes that have been categorized as ideological such as UNASUR, Mercosur, and ALBA. The PA has been trying to streamline trade and investment relations with Mercosur, embarking on joint efforts aimed at creating a more unified and connected market in Latin America.

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I. Changing Nature of Open Regionalism and its implications for Latin America

Despite considerable confusion and ambiguity, or even the questioning of relevance regarding the concept of “open regionalism” (hereafter abbreviated as OR) (Kuwayama 1999), a consensus among trade specialists in Latin America is that OR provides a useful policy guideline for regional integration suitable for developing countries in the globalizing world economy (Gonzalez-Perez et al. 2015, Ramírez-Montañez y González-Sarmiento 2016). Though considered vintage, the OR concept defined by the Economic Commission for Latin America and the Caribbean (ECLAC) back in 1994 remains very relevant in the 21st century for understanding the modalities of regional integration; ECLAC defines OR as “an effective “process of growing economic interdependence at the regional level, promoted both by preferential integration agreements and by other policies in a context of liberalization and deregulation, geared towards enhancing the competitiveness of the countries of the region and, in so far as possible, constituting the building blocks for a more open and transparent international economy.” (1994, p.8).

This paper will argue that the favorable balance and world appraisal of the eight years of existence of the Pacific Alliance (hereafter abbreviated as the PA) owes to its pragmatic, progressive, participatory, and consensual approach of regional integration based on OR. The foundational and operational principle of the PA is precisely ‘OR’, a concept original to the Asia-Pacific Economic Cooperation Forum (APEC).¹ As stated in the Preamble of the Pacific Alliance Framework Agreement signed in Paranál, Chile, in June 2012, the PA is “determined to strengthen the different integration schemes in Latin America, as a forum for concertation and convergence, aimed at fostering *open regionalism* (italics added by the author), which will engage the parties efficiently in the globalized world and link them to other regionalization initiatives” (the author’s translation).

As in the proper APEC forum, the OR concept by the PA has been renovated and accommodated following the changing nature of the world economy and new challenges and opportunities that have arisen from those changes, while taking into consideration the traits of the Latin American region. Oyarzún (2017) points out that the founding of the PA has signaled “a return to open regionalism in Latin America, in which the four

¹ The term, OR, has been used to describe the development strategy promoted in the Asia-Pacific region since the late 1980s based on the following three pillars: 1) trade liberalization, 2) trade facilitation, and 3) economic cooperation. As is well known, the foundational and operational philosophy of the Asia-Pacific Economic Cooperation Forum (APEC) is precisely this concept. According to the APEC basic principles launched at the 1st APEC Ministerial Conference in Australia in 1989, for example, the idea of OR underlines an integration strategy to support the multilateral trading system centered on GATT/WTO and to promote regional cooperation in specific areas, taking into consideration the diversity of the APEC region such as differences in the socioeconomic regimes and the development stage of the economy, which is based on consensus among the member countries, emphasizing equal participation and mutual benefits, and not aiming at forming trading blocks.

member states seek to strengthen a type of governance aligned with the current rules of the world and dominant ideas about trade without questioning the institutions that govern globalization” (p.154). The PA’s version of OR emphasizes not only liberalization, trade facilitation, and economic and technical cooperation, as in the conventional APEC’s understanding of OR, but also the building of regional capacity responding to the needs of next-generation trade and investment issues. These issues include the participation in global value chains (GVCs) and regional value-chains (RVCs), small- and medium-sized enterprises’ (SMEs) participation in value-chains, market-driven innovation policies, trade facilitation, and “quality” infrastructure, among others. As the paper shows, a mediocre trade performance of Latin America results in most part from the deficits in these areas when compared with the experiences of the East and Southeast Asia. These deficiencies are systemic across the whole region; therefore, regional integration is better suited for providing practical solutions.

A straightforward definition differentiates “open” regional integration from a “closed” one. The usual criterion for such distinction is a clear shift from an “inward-looking”, “import-substituting” focus, prevalent in the regional integration movements of the earlier decades, to a greater emphasis on “outward-oriented” and “export-competitiveness”. A principal objective of OR is to make integration a building block of a more open, competitive, and transparent international economy, instead of turning it into an obstacle toward achieving that goal. Integration agreements, therefore, should eliminate the barriers applicable to most trade in goods and services among the signatories in line with their trade liberalization policies towards third parties, while at the same time making it easier for new members to accede to the agreements. The term, “open”, implies that the parties to a trade agreement are committed to applying liberalization measures not only to intra-regional members but to the extra-regional ones, though may not be simultaneously, or of the same magnitude.

With economic cooperation being its core objective, APEC does not focus on legally binding trade and investment liberalization. The APEC’s Osaka Action Agenda adopted in 1995 identifies the following three areas as the pillars of action, namely 1) trade and investment liberalization, 2) business facilitation and sectoral activities, and 3) economic and technical cooperation. The inclusion of trade facilitation through non-tariff and non-border reforms come to constitute a pillar of APEC’s OR. The systemic approach of APEC took a more concrete form in the Trade Minister’s meeting held in 2011, Hawaii, USA. At this meeting, the member countries agreed that the following issues should be included in APEC’s deliberations: 1) the framework action plan of "APEC supply chain-connectivity", promoted by the development of GVCs; 2) promotion of SMEs' participation in GVCs; 3) promotion of effective and market-driven innovation policies; 4) standardization and harmonization of customs procedures; and 5) Green Growth (Statement, the 23rd APEC Ministers Meeting, Honolulu, Hawaii November 11, 2011).

It should be noted that in Honolulu, the United States government was also seeking substantial progress with the Trans-Pacific Partnership (TPP) agreement, considered by the U.S. government as a 21st-century agreement that would tackle pressing trade concerns in new ways and address the cross-cutting issues previously not included in trade agreements.

In the above respect, an important, but often not fully appreciated, feature of the TPP is that it adopts a holistic approach to the development-related issues, designed especially for developing member countries by including the so-called “horizontal” or “cross-sectional” issues (Fergusson et al. 2013).² What distinguishes the TPP from other conventional mega FTAs is that the TPP incorporates, from the outset, development dimensions into trade negotiations. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as TPP11, which went into force on December 30, 2018 among the eleven member countries³ without the United States, is called ‘Progressive’ because it includes overarching issues previously not addressed in trade agreements, such as how to make compatible the regulatory systems of the TPP nations to support innovation and quality job creation, principally in SMEs.⁴ These chapters are designed to be fine-tuned by the needs and interests of developing member countries.

In short, the OR concept does not aim for the formation of trade blocks but rather a strategy to maximize the benefits of liberalization at the regional level without jeopardizing the continued vitality of multilateral negotiations centered on the WTO. The characteristics of OR are conducive to generating the complementarity with multilateralism and globalization because the rules and disciplines agreed at the regional or sub-regional levels can be later incorporated into a broader process of integration within the world economy. From its inception, one of the underlying principles behind the PA is to exert a strong, positive influence on the future evolution of regional integration and the global trading system by pursuing liberalization and cooperation efforts within the PA region on a WTO consistent basis, not to the detriment of others. All proposals adopted at the PA level can be “multilateralized” in future WTO or other mega trade negotiations. Another significance of the term “open” is that each State can belong to several integration forums whose foundational concept is OR, as in the case of Chile, Mexico, and Peru, who are members of the APEC forum and at the same time the

² The TPP agreement has four chapters on cooperation: Cooperation and Capacity Building (Chapter 21), Competitiveness and Business Facilitation (Chapter 22), Development (Chapter 23), and Small and Medium-Sized Enterprises (Chapter 24).

³ The eleven countries are the following Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

⁴ Admittedly, in the TPP agreement, no Party shall have recourse to dispute settlement under the Dispute Settlement (Chapter 28) for any matter arising under these chapters.

PA, and, more recently, the TPP. Being a member of integration schemes founded on the OR concept should facilitate the multilateralization of trade rules at a global level.

In this regard, it is important to note that the PA has consolidated its open integration modality through the different FTAs that its member countries have signed with intra- and extra-regional trading partners, which might be considered a preliminary step toward greater global openness. According to Briceño-Ruiz (2013), the foundational base of the PA was laid in the 1990's when the countries such as Chile and Mexico started to negotiate FTAs with the North (e.g., the United States, Canada, and the EU), of a “deep integration” scope, with the “WTO-plus” commitments.⁵ Disappointing outcomes of the FTAs with the North have led the countries of the region to realize that without appropriate public measures to accompany trade liberalization, the FTAs with the North would not necessarily bring about the restructuring of the economy as initially expected; they might reinforce the trade structures based on static comparative advantages instead of creating new competitive advantages (Rosales y Sáez 2010). The countries of the region realized that integration initiatives, with the North and the South (intra- and extra-regional developing countries) alike, should be reformulated in such a way to accommodate the developmental dimensions, such as productivity, competitiveness, innovation, value-chain development, and infrastructure building.

Therefore, today's interpretation of OR is more systemic and goes much further than conventional trade liberalization. An “OR” suitable for today's globalized international economy should help cut down on factors that make transactions more difficult or costly, which, in addition to tariff and non-tariff trade barriers, increase costs to intra- and extra-regional suppliers and effectively obstruct reciprocal trade. Reducing these transaction costs involves building infrastructure to link countries together, eliminating or harmonizing rules and regulations, and implementing institutional reforms that make it easier for incomplete or fragmented markets to become integrated. The renovated OR emphasizes the reduction of “transaction costs” as a measure to enhance productivity and international competitiveness, the promotion of GVCs and RVCs, and social inclusion and equity by way of trade facilitation measures and the building of infrastructure (hard and soft alike). In this way, the success of integration should be evaluated from a series of cooperative efforts that go beyond the reduction of tariff barriers directed toward the

⁵ A “deep” FTA means that it includes not only tariff elimination/reduction, trade remedy measures, and conventional non-tariff trade restrictions, but also trade in services, investment, competition policy, government procurement, intellectual property rights (IPRs), and dispute settlement mechanisms (especially, Investor-State Dispute Settlement: ISDS), among others. In turn, the “WTO-plus” obligations mean that in a specific theme, commitments in an FTA go beyond the scope of the ones included in the WTO agreements; an FTA with a Northern country typically involves IPR provisions that go beyond those established in the WTO's TRIPs (Agreement on Trade-Related Aspects of Intellectual Property Rights). The provisions on trade in services and movement of persons go above and beyond the WTO's GATS (General Agreement on Trade in Services) agreements. Investment provisions in an FTA are usually deeper than those in the WTO's TRIMs (Agreement on Trade-Related Investment Measures).

reduction of transaction costs within the region, as postulated by Baldwin (2011) and Kimura (2012).

Trade within the LAC region is dominated by finished goods, and this contrasts with the case of East and Southeast Asia's intra-regional trade centered on the transaction of parts and components. In this regard, LAC's current trade pattern does not conform to mainstream global industrial organization centered around the GVCs and RVCs. For Latin American countries to actively participate in this new international division of labor, which Baldwin (2011) has named the "Second Unbundling",⁶ it is necessary to incorporate in the integration agendas "Trade Facilitation" measures. In addition to trade and investment liberalization, measures include trade-related logistics and infrastructure (ports and the customs), harmonization and/or mutual recognition of the Sanitary and phytosanitary (SPS) measures and the Technical Barriers to Trade (TBT), and the promotion of "supporting services" for manufacturing industries such as trade finance, unification of Rules of Origin and their "cumulation". One of the causes that have slowed down the development of GVCs and RVCs in the LAC region might lie in the complexity of rules of origin; it is necessary to provide uniformity among the 33 agreements that include 44 different types of rules of origin (INTAL 2018). The "Second Unbundling" process has increasingly called for a new international policy framework and discipline (Kimura 2012).

There has been an increasing awareness among trade officials in Latin America that the remarkable development of GVCs and RVCs in East and Southeast Asia, characterized by the "market-led" (*de facto*) integration with the "intra-industry trade" and the "intra-firm trade" as its engine of growth, has been complemented by the "policy-led" (*de jure*) integration through regional integration agreements. The proliferation of GVCs and RVCs in Asia was made possible by horizontal productive complementarities between the countries in that region and the increase in productivity and competitiveness of the whole region, which, in turn, enhances the "quality" of intra-regional trade, making it possible to conquer "quality" extra-regional markets.

OR postulates there should be synergy effects between the "market-driven" integration, which is common in Asia, and the "policy-led" or "institution-led" integration, exemplified by the European style of regional integration (Kuwayama 1999, Gonzalez-Perez et al. 2015). The impressive expansion of trade and investment and deepening

⁶ When transport costs were high, few items could have been profitably shipped internationally. This forced the geographical bundling of production and consumption. The "First Unbundling" occurred when railroads and steamships made it feasible to spatially separate production and consumption. However, cheap transport favored large-scale production and called for closer physical proximity, which lowered the cost of coordination. Thanks to the information and communication technology (ICT) revolution, it became increasingly economical to geographically separate manufacturing stages to unbundle the factories. The "Second Unbundling" refers to the process where production stages previously performed in proximity were dispersed to reduce production costs (Baldwin 2011).

integration among Asia Pacific economies was driven by market forces once individual governments had liberalized external trade on a unilateral basis. Regional intergovernmental agreements and institutions and formal trade discrimination made little contribution in the Asia-Pacific region (Garnaut 2004). In this sense, OR means a process that results from reconciling the two phenomena described above: the interdependence that stems from special, preferential agreements arising from the market signals that are produced by trade liberalization. Regional integration has a long history in Latin America, but its mediocre record owes in part to resorting to the European “policy-led” integration modality without giving due consideration on the role of market forces in regional integration.

The Latin American regional integration entities, such as the PA, have been seeking integration schemes and instruments that are compatible with and conducive to the enhancement of the synergy between the two modalities of integration. Also, to enhance the synergy effects between the two, the PA considers it necessary to have active engagement of the private sector in the regional integration process (consequent rises in real wages) and active engagement of small business entities and civil society in that process. In short, the OR concept serves to fill the gap between the two different integration routes, performing a reconciliation role between the two to strengthen the public-private partnership (PPP) and complementing the development strategy of the government.

As in the case of the APEC forums, where the deliberations are not legally binding and of a voluntary nature, the PA also stresses a participatory and consensual approach to achieving “deep” integration. One of the three objectives of the PA is to “build in a participatory and consensual way an area of deep integration to move progressively towards the free mobility of goods, services, resources and people” (downloaded from the official site of the Pacific Alliance, January 18, 2019). In this respect, the PA is less “structured” and “institutionalized” compared with the Southern Common Market (Mercosur), Andean Community of Nations (CAN), Central American Common Market (CACM), and the Caribbean Community (CARICOM). The PA’s immediate goal is to create a “Free Trade Area” while that of the other integration groups is the creation of a “Common Market”. Besides, the PA’s decision-making structure is intergovernmental in character, and it does not have a dispute settlement body or a General Secretariat.

The four member states of the PA share a vision of a development model characterized by OR and a conviction that economic liberalization should be complemented by cooperation efforts on many fronts that would result in enhanced productivity, competitiveness, and social inclusion. These countries hope to confront the challenges of the international economy with a pragmatic approach and a political will. Consequently, these countries have sought to set themselves apart from other regional

entities that have been categorized as ideological, such as the Union of South American Nations (UNASUR), Mercosur, and the Bolivarian Alliance for the Peoples of Our America (ALBA).

II. Positive and negative legacies of LAC's regional integration

Latin American countries are increasingly aware of the difficulties in overcoming their economic structural shortcomings. The region has not been able to reduce its productivity gaps with the industrialized economies or ones that exist between the most modern sectors and the least advanced ones in the national economies. The countries of the region have not addressed the “quality” of their participation in the international markets. Therefore, the countries of the region are aware of the urgent need to: 1) add more value and incorporate knowledge-contents in the trade-related sectors, and promote productive linkages (forward and backward) within the economy; 2) encourage the internationalization of the corporate sector and their participation in GVCs and RVCs; and 3) establish new links between trade, innovation, and competitiveness, by strengthening the synergy between trade and investment. Given the new patterns of growth of the world economy, regional integration is called upon to play a more protagonist role in tackling these structural problems that the countries of the region face (Kuwayama 2018; ECLAC 2014b, 2012, 2010).

A. Low “quality” of participation in international markets

The LAC region has not been able to increase its share in world goods and services exports over the past 30 years. The LAC region's share of world goods exports accounted for only 5.7% on average for the 2005-2016 period. As in goods, LAC's share in world services exports stands at a low rate of 3.5% on average during the same period. Both figures are lower than the LAC's share in world GDP. Although China's strong primary commodity demand has been a boost to commodity exports, LAC's share in world goods exports hardly increased over the years. Despite trade liberalization over the last three decades have led to greater openness of the LAC economies (the ratio of combined exports and imports to the regional GDP), trade liberalization has not resulted in a sustained increase of LAC participation in the world market (Kuwayama 2018, ECLAC 2017).

This pessimistic observation is related in part to the emergence of two different trade-specialization patterns. The first refers to South American countries who have specialized in exporting primary products and processed goods to Asia while importing a wide range of manufactured goods. This "inter-industry" trade pattern is known to be little conducive to quality employment and the engagement of Latin American companies in GVCs and

RVCs. The other is the case of Mexico and Central American countries specializing in exporting manufactured goods destined to the United States. This trade specialization is primarily based on the comparative advantage of non-skilled workers in industries such as textiles and apparels and assembly operations in the electric and electronics sectors. The common feature of these two patterns is that trade specialization is based on static comparative advantage that depends either on abundant natural resources or unskilled labor with limited domestic value-added and technology-knowledge content (Rosales and Kuwayama 2012). Trade relations between Central America and the United States might be mistakenly categorized as successful "intra-industry"-type operations where Latin American firms engage in a variety of GVCs and RVCs with the North American counterparts. However, to carry out these maquiladora-type operations, it is necessary to import large amounts of intermediate goods, which results in low domestic value-added and limited foreign exchange earnings (Kuwayama 2017).

Also, LAC has a significant catch-up on improving the “quantity” and “quality” of services trade. Services exports, which account for 15% to 20% of the total LAC export values (goods and services combined) of Latin American countries, remain stagnant. The LAC’s share in the traditional export categories such as “tourism” and “transport”, in which LAC is considered to have competitive advantages, has been stagnant, while the region's participation in the category of “Other Services”, which include the fastest growing knowledge-intensive services activities, has been declining (Kuwayama 2018, ECLAC 2017).

The backwardness in the production and exports of LAC's service industries, directly and indirectly, affects the export performance and international competitiveness of the whole productive structure as well as the engagement of Latin American firms in GVCs and RVCs. Many services are traded indirectly through their incorporation as intermediate inputs in exports of goods, a process called the “servicification” of goods (Kuwayama 2017, ECLAC 2017). The existence of competitive services is a critical determinant of competitiveness. In some cases, this factor is as influential as, or more important than, foreign exchange fluctuations or tariff/non-tariff barriers (USITC 2013). To promote RVCs within the LAC region and GVCs outside the region, strengthening the “supporting services” beyond their national boundaries is essential. It is often the case that services are the primary promoters of GVCs of manufacturing products.

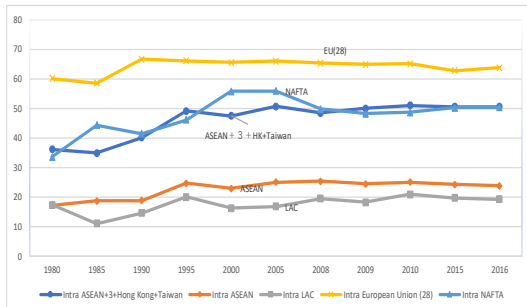
B. LAC's intra-regional trade in standstill

The performance of LAC’s intra-regional trade has been lackluster compared to that of other regions. LAC’s intra-regional exports increased by three times from US47 billion to US146 billion during 1995-2016, but the intra-regional trade coefficient (intra-regional exports as a percentage of LAC exports to the world) never reached 20% and has been

declining since 2010. In comparison, the EU’s intra-regional trade coefficient has exceeded 60% over the same period, while that of NAFTA has maintained a 45 to 50% range. Despite a temporary decrease due to the Asian financial crisis in 1998, Asia’s intra-regional trade between ASEAN (10), China, Japan, Republic of Korea, Hong Kong, and Taiwan has loomed over a 50% range. The same coefficient of the ASEAN countries, which is nearly \$10 billion more than the LAC's intra-regional exports, has always exceeded that of LAC from 1995 to 2016 (see Figure 1). The expansion of intra-Asian trade has been driven partly by the robust growth of intra-firm and intra-industry trade, thanks to the construction of a complex network of GVCs and RVCs (Rosales and Kuwayama 2012).

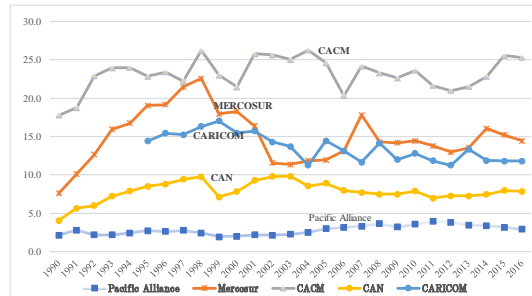
Looking at the trends in LAC’s intra-regional trade of major integration groups, it becomes clear that, except for the CACM, whose intra-zonal coefficient has consistently exceeded a 25% level over the past ten years (Figure 2), the respective coefficients of Mercosur, CAN and the PA remain standstill at a low level. The CAN has never exceeded 10% over the past 25 years. The coefficient of the PA is notably below 3%, which suggests limited potential as a “Free Trade Area”. Mercosur's coefficient grew steadily until 1998 but later started to recede, impacted by the Asian economic and financial crisis and the Russian financial crisis. The recovery continued until 2007 with the onset of the Lehman Brothers crisis, but it has been stagnant ever since. ECLAC (2015a, 2016) notes that intra-regional trade in the LAC region is more sensitive to the downward trends of the world economy than that with third countries/regions, such as the Asia-Pacific, the United States, and the EU. In this sense, LAC’s intra-regional trade has not yet transformed into a “buffer” that cushions external shocks.

Figure 1: LAC’s intra-regional trade coefficients, compared with EU (28), NAFTA, ASEAN, ASEAN/China/Japan/ Korea 1995-2016 (intra-regional exports as a percentage of LAC exports to the world, %)



Notes: 1) The group of the ASEAN +3+HK+Taiwan consists of ASEAN (10) countries, China, Japan, the Republic of Korea, Hong Kong Province of China, and Taiwan Province of China. 2) ASEAN(10) includes Brunei Darussalam, Cambodia, Indonesia, Lao People's Dem. Rep., Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam
Source: The author’s elaboration based on the UNCTAD trade database.

Figure 2: Intra-regional trade coefficients of LAC sub-regional integration groups 1990-2016 (intra-regional exports as a percentage of LAC exports to the world, %)

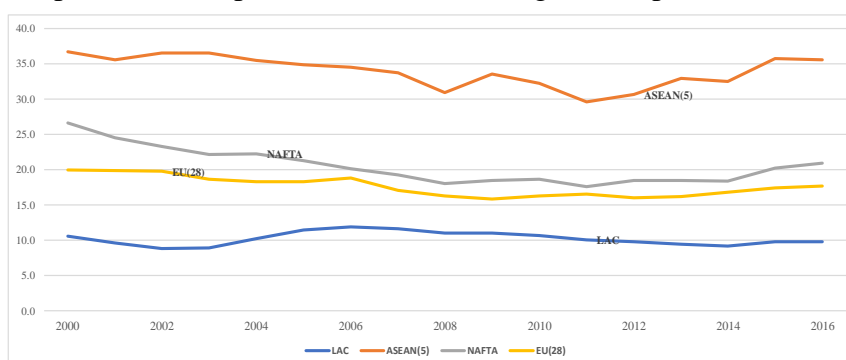


Notes: 1) The Pacific Alliance consists of Chile, Colombia, Mexico, and Peru. 2) Mercosur is composed of Argentina, Brazil, Paraguay, Uruguay, and Venezuela. Venezuela's figures for 2007, 2014 to 2016 are not included. 3) The CACM values are based on Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, and Panama. 4) The Andean Community (CAN) is based on the values from Bolivia, Colombia, Ecuador, and Peru. Venezuela, which withdrew in 2006, is not included. 5) CARICOM figures cover the 1995-2016 period.
Source: Author’s calculations based on figures from the UN COMTRADE database. CARICOM data were calculated from the database of UNCTAD.

As shown above, the behavioral patterns of LAC's intra-regional trade contrasts with that of Southeast Asia in that the latter is increasingly characterized by "intra-industry" trade focused on the transaction of intermediate goods, such as parts and components, but LAC intra-regional trade is the processing of primary products and finished manufactured goods (Kuwayama 2018). In the former, the proportion of parts and components in intra-regional trade is 9.8% in 2016. In contrast, in the case of ASEAN (5), this ratio goes up to 35.6%. The share of these products in LAC intra-regional trade is markedly lower than that of the EU or NAFTA (Figure 3).

Figure 3: LAC's parts and components in intra-regional trade, compared with ASEAN5, NAFTA and EU 2000-2016

(share of parts and components in total intra-regional exports of each bloc, %)



Note: The definition of parts and components is based on Fung, Garcia-Herrero, and Siu (2009). According to this definition, parts and components consists of items included as "parts and others" in the International Classification (SITC Revision 2), plus inputs of: textile products (chapter 61 and chapter 65); machinery and transport equipment (chapter 7); metal products (Chapter 69); and other manufactured products (Chapter 8).

ASEAN (5) is composed of five countries: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Source: Author's calculations based on UN: COMTRADE.

Therefore, the current trade pattern of LAC, regrettably, does not conform to the mainstream of world trade dynamics. The tariffs levied on parts and components are known to be low; countries dependent on manufactured goods exports are likely to apply low duties on intermediate goods, particularly parts and components, to maintain price competitiveness of the final manufactured goods destined for exports. The incipient development stage of GVCs and RVCs of the Latin American region is related more to the lack of productive "horizontal" complementarities among the countries in the region and the backwardness in the region's systemic competitiveness in which infrastructure (hard and soft alike) has a significant role to play. The development of value chains, not tariff elimination, is the most pressing issue.

C. LAC's intra-regional trade with a high technological intensity

It is not of common knowledge among trade specialists that LAC intra-regional trade consists of non-traditional and differentiated manufactured products, with high value-

added and relatively knowledge-intensive manufactured goods (Kuwayama 2018, Devlin and French-Davis 1999). In contrast to LAC's exports to the United States, which shows a relatively high 'intra-industry' component, LAC's exports to Asia, particularly to China and Japan, consists of primary products and their processed products accounting for over 70% of total regional exports. LAC's exports to the EU also show a relatively high share of primary products. This overall trade structure contrasts to the case of the Asia-Pacific region, in which the manufactured goods account for the majority regardless of their export destinations.

The relatively high content of manufactured exports in LAC intra-regional trade has led some institutions like ECLAC (1994) to argue that LAC's intra-regional trade can be an excellent training platform for overseas market development of technologically more sophisticated export products to extra-regional markets, laying a foundation for the development of GVCs and RVCs, especially for SMEs. The relatively high value in the Grubel and Lloyd index (GLIs), one of the representative indicators to measure the degree of "intra-industry" trade,⁷ suggests not only intra-regional markets are major export destinations for manufactured products and as export platforms for these products to third countries, but that there exists a high potential for enhancing GVCs and RVCs with intra- and extra-regional markets (Kuwayama 2018, ECLAC 2014a).

A distinctive feature of LAC's intra-regional trade is that, despite its relatively sophisticated product composition, the majority are finished products regardless of whether they are manufactured goods or primary products and do not involve parts and components necessary for the production of autos, electric machinery, equipment, instruments, and appliances that facilitate the construction of GVCs and RVCs. The low trade value of parts and components not only restricts the expansion of "intra-industry" trade but also invites protectionist measures by trading partners. Also, by promoting "intra-industry" trade in its proper region, cross-industry value chains between the primary, manufacturing, and services sectors will be promoted. In that sense, as discussed later in this paper, the PA can deepen its relationship with the Asia-Pacific region by using the complementarity with the strong manufacturing sectors of the Mercosur member countries. Meanwhile, the Mercosur countries will be able to actively participate in the value chain networks in Asia, using the PA countries as their "gateway" to and from Asian markets.

⁷ The intra-regional trade shows relatively high GLI coefficients. GLIs takes a value between 0 and 1. The higher the value of the index, the larger the degree of intra-industry trade in total trade. To capture larger increases and differentiate the degree of depth in intra-industry relations, three levels are defined: 1) level 1, $GLI > 0.33$ (with intra-industry trade); level 2, $0.10 > GLI < 0.33$ (with potential intra-industry trade); and level 3, $GLI < 0.10$ (inter-industry trade). The GLI within LAC's intra-regional trade GLI in 2016 is 0.24, with a rising trend since the 1990s. On the other hand, the trade structure with the Asia-Pacific region is of an "inter-industry" nature (the GLI is 0.07). The LAC's trade with the EU also shows the characteristics of "inter-industry" trade (GLI 0.13). The GLI between LAC and the US is high (GLI is 0.39), influenced by Mexico's trade with the United States based on manufactures. In the intra-Asia Pacific trade, the GLI is high as 0.33, revealing an advanced stage of "intra-industry" trade characterized often by GVCs and RVCs.

In addition, the LAC intra-regional market is the main export market for SMEs in the region (ECLAC 2014a). In fact, except for Mexico, where exporting firms ship most of their merchandise to the U.S. market, LAC's exporting firms export more, in relative terms, to intra-regional markets. The tendency of exporting firms to concentrate on the intra-regional markets is more pronounced for small- and medium-sized export-oriented enterprises. As mentioned above, the intra-regional market is high value-added and knowledge content and employment-intensive. In this regard, the "development strategy" that emphasizes the participation of SMEs in GVCs and RVCs has profound implications for sustainable development and social inclusion.

D. Complex interlaces of trade agreement networks

LAC countries have undertaken bold and rapid trade liberalization since the 1980s. As a result, tariffs and other trade barriers in the region have drastically decreased in the last 30 years. The average values of the Most Favored Nations (MFN) rates fell from 40% in the 1980s to 10% in the early 21st century. Also, due to the spread of FTAs, the tariff barriers within the LAC region have come down substantially over the years. This owes in part, in addition to the unilateral liberalization promoted by several countries, to renewed liberalization efforts by various sub-regional integration groups (CAN, Mercosur, CACM) in the 1990s, the ALADI framework of "Economic Complementation Agreements" (Acuerdos de Complementación Económica: ACE), and the "Partial Coverage Agreements" (Acuerdos de Alcances Parciales: AAP) signed among the countries. Due to these efforts, the elimination and reduction of tariffs ceased to be a negotiation matter of top priority in trade agreements that LAC countries sign in the region. As Table 1 shows, non-tariff measures and administrative barriers, measured by Ad-Valorem Equivalents (AVEs), have become the main factors impeding trade expansion within the region.

Table-1: Tariff, non-tariff measures, administrative costs as trade barriers of LAC's intra-regional trade, by integration bloc, 2002-2011

(Average Ad. Valorem Equivalents: AVEs)

| | Applied tariffs | Non-Tariff Barriers: AVEs | Tariffs +AVEs | Administrative barriers: AVEs |
|------------------|-----------------|------------------------------|-----------------|----------------------------------|
| | (1) | (2) | (3) = (1) + (2) | (4) |
| CAN | 0.8 | 58.1 | 58.9 | 19.4 |
| Mercosur | 2.5 | 53.8 | 56.3 | 21.3 |
| CACM | 1.4 | 0.3 | 1.7 | 20.1 |
| Pacific Alliance | 1.4 | 5.1 | 6.5 | 17.7 |
| CARICOM | 5.0 | 35.0 | 40.0 | 23.0 |
| Mexico | 5.3 | 13.8 | 19.1 | 17.2 |
| LAC | 2.9 | 25.3 | 28.2 | 20.0 |

Notes: a/ The figures are weighted by intra-regional import values. / AVEs: Average Ad. Valorem Equivalents.
Source: Durán (2018). Original data are from the WTO "Tariff" database. The methodology is based on Grübler, M. Ghodsi y R. Stehrer, "Estimating importer-specific ad valorem equivalents of non-tariff measures", Working Paper, N° 129, Vienna, Vienna Institute for International Economic Studies, September 2016.

One of the merits of LAC integration may be that the region is equipped with a myriad of trade agreements, which later becomes an impediment to the deepening of LAC's regional integration processes. In the framework of ALADI, there exist 77 trade agreements in total (Leroux 2018).⁸ The crisscrossing of multi-layered trade agreements of different scope and disciplines among a variety of memberships has resulted in non-uniformity of trade and investment rules, which in turn has become a limiting factor for LAC's intra-regional trade (Kuwayama 2018). In short, the complex networks of trade agreements signed between the countries in the region has not translated into dynamic intra-regional trade. Despite a complex network of trade agreements, only 19% of the LAC's total trade takes place within the region. As argued later in this paper, the PA proposes achieving the convergence of existing trade agreements in a regional block that would then lead to a joint action to influence the political-economic dynamics of the region.

There is an urgent need to generate a convergence process between these agreements. However, it is known that harmonizing the trade and investment rules among different integration schemes is complex and time-consuming. To maximize the synergy between existing trade agreements and to minimize the effects of segmentation, it is essential to provide the private sector a clear signal toward the harmonization of rules between the preferential agreements. In proceeding with such task, priority should be given to 1) harmonization of different tariff elimination schedules of existing trade agreements in the region, 2) upgrading of trade and investment rules during that very harmonization process, and 3) introduction of "cumulative" rule of origin rules to incentivize GVCs and RVCs.

E. Insufficient Trade Facilitation measures

The importance of "Trade Facilitation " as a trade policy instrument has increasingly become evident amid the development of GVCs and the conclusion of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) in December 2013. Enhancement of trade facilitation is equally, if not more, important as benefits that might accrue from tariff reductions in lowering trade costs (OECD 2015, INTAL 2018).⁹ The WTO defines trade facilitation as "simplification and harmonization of international trade procedures", i.e. "the activities, practices, and formalities involved in collecting,

⁸ Looking at its breakdown, 37 of the 70 AAPs are of ACEs, while 28 are non-preferential agreements (2 are AARs and 26 are AAPs). In addition, there are 49 preferential agreements (5 AARs and 44 AAPs). Among these 49 agreements, 29 are of limited scope focusing mainly on tariff reductions, and other 20 agreements are of a comprehensive nature, including trade and investment rules in addition to a wide range of tariff reduction commitments. In addition, there exist 20 free trade agreements (including FTAs and AAPs) in the ALADI repository as of 2016 (Leroux 2018).

⁹ Estimates by the OECD suggest that full implementation of the TFA has the potential to reduce trade costs by an average of 14.3% and that these measures are particularly important for developing countries (OECD 2015), increasing the opportunity for developing countries to integrate into GVCs. In Brazil, it took 13 days to export and 17 days to import a product in 2014. These customs delays amount to a tariff of 13.0% on exports and 14.2% on imports, higher than the average tariff of 7.8% (INTAL 2018).

presenting, communicating and processing data, and other information required for the movement of goods in international trade”. Measures for the facilitation of trade are grouped into five categories: transparency, formalities, institutional arrangements and cooperation, paperless trade, and transit movement. As of January 2019, 141 countries at the world level and 23 countries of the LAC region have ratified the TFA agreement; Colombia, a member of PA, has not done it.¹⁰

Within the universe of actions foreseen by the TFA agreement, Article 10.4 provides for the establishment of a single entry-point for documentation and information of foreign trade operations. This "single window" is a uniquely suitable instrument for redesigning and optimizing processes, automating them and managing data electronically. Most of the countries of the LAC region are engaged in processes of implementation or strengthening of the “Foreign Trade Single Window” (Ventanillas Únicas para el Comercio Exterior: VUCE), unlocking bureaucratic opacities and boosting the international insertion of companies. In countries such as Chile and Costa Rica, the VUCE managed to reduce to 50% the time necessary to import or export and the costs associated with these operations (INTAL 2018).

According to a survey conducted by ECLAC (2015), although the results are better for LAC than other developing regions like sub-Saharan Africa and South and Central Asia, the LAC region still faces enormous challenges in reducing non-tariff costs and the time required to execute foreign trade transactions. The region’s transport infrastructure deficit, inefficient administrative procedures, and deficiencies in distribution services and logistics, translate into high non-tariff costs for trade. In addition, for LAC’s three sub-regions, the cost of trade transactions with the United States is known to be lower than the cost of transactions within each sub-region. Such costs discourage not only productive integration between the region’s economies but also the development of GVCs and RVCs.

Advancing the trade facilitation agenda is important for various reasons. Promoting a faster cross border flows of goods and services between countries in the region will help to expand both intra-and extra-regional trade. Moreover, since inefficiencies in border procedures disproportionately affect SMEs (the vast majority of which do not export), trade facilitation may promote their internationalization. Facilitation, in turn, may encourage export diversification and reduce the region’s dependence on raw material exports, in particular South America’s countries. High costs of inefficiencies at the borders affect the price and competitiveness. Such inefficiencies are most evident for the trade of parts and components, and other intermediate goods, as GVCs further extend

¹⁰ As of January, 2019, The LAC countries that have ratified the TFA are the following in chronological order: Trinidad and Tobago, Nicaragua, Belize, Panama, Jamaica, Paraguay, Brazil, Saint Kitts and Nevis, El Salvador, Honduras, Mexico, Peru, Uruguay, Chile, Dominica, Saint Vincent and the Grenadines, Dominican Republic, Costa Rica, Antigua and Barbuda, Argentina, Bolivia, Cuba, and Ecuador (WTO website, accessed on February 2019).

across national borders.

The results of the ECLAC survey show significant progress made in many countries in the region, but further adjustments are needed at least at the sub-regional level. The impact of trade facilitation will be even more significant if, for example, several countries agree among themselves on the criteria that a firm must meet to be considered an authorized operator, or on the content of advance rulings (INTAL 2018). As shown later, the PA has made significant headways in this respect. In addition, full interoperability of national single windows for foreign trade at the regional or sub-regional level will be a big asset for the enhancement of GVCs and RVCs. Ongoing projects on trade facilitation between the PA and Mercosur have great potential to boost trade and productive integration throughout the region.

F. Deficiencies in infrastructure

LAC is a region that is backward in infrastructure compared to other developing regions. Economic infrastructure investment shows a steady decline over the past 30 years and infrastructure investment/GDP ratio lowered from approximately 4% in 1980-1985 to 2% in 2007-2008. Particularly in the transport infrastructure (roads, ports, airports, railways) sectors, the ratio was lower than the world average in most countries of the region, and the regional average was less than the average of the Southeast Asia (IDB/ECLAC/World Bank 2011). ECLAC estimates that the LAC region needs to invest in infrastructure development equivalent to 5.2% of regional GDP every year from 2006 to 2020 to meet its growth forecast. More recent studies suggest that long-term investment of about 5.0% to 6.5% of regional GDP is necessary for infrastructure development to fill the infrastructure gap in the LAC region (Serebrisky et al. 2015).¹¹

The inadequacy of infrastructure impedes not only greater participation of LAC countries in international markets, but also regional and territorial development and social cohesion (ECLAC 2010). The logistics cost of the LAC countries is four times higher than that of the OECD member countries. If the logistics system in the region had been more complete, the commodity boom of 2003-2011 could have been better taken advantage of to contribute to economic development. During the same period, the natural resource-related transport demand in the LAC region increased by 56%, but limitations on transport became a bottleneck (Altomonte y Sanchez 2016).¹² There is a growing

¹¹ According to an Inter-American Development Bank study (Serebrisky et al. 2014), the region needs to increase its investment in infrastructure by at least 2% of its GDP over an extended period in order to go from US\$150 billion to US\$250 billion per year.

¹² For example, if the connectivity of the railway networks in the region is improved, more exports are possible, and the distribution system of the LAC region, which is concentrated on road transportation means and cannot fully utilize the potential of railways and river transports, can be improved accordingly. For example, river transport is a low-cost means of transportation in Bolivia and Paraguay, but road transport is more frequently used due to problems associated with the use of navigable rivers. Reducing logistics cost will also promote regional integration by improving tourism

awareness that appropriate logistics are needed for both natural-resource development and export expansion of manufacturing industries, especially for engaging in GVCs and RVCs. Such need, in turn, calls for “quality” infrastructure within the region (Estevadeordal y Blyde 2016).

One of the fundamental challenges surrounding regional/sub-regional cooperation is the reduction of the infrastructure gap. The promotion of cross-border development axes, such as ‘bioceanic corridors’ that help enhance region’s competitiveness, improves transport times and costs for extra-regional trade and connects the coastal areas of the Pacific and Atlantic Oceans (ECLAC 2010). They also create new production and urban planning opportunities, improving the geographical (between coastal areas and uplands) and social balances, and raising living standards for poor and backward communities, which tend to be in the interior of the sub-regions. The PA may become a “gateway” for Mercosur countries, and vice versa; this will have important implications for production and trade structure as well as for territorial development.

III. Pacific Alliance: Practitioner of Open Regionalism in Latin America

The PA represents the latest development in the landscape of regional integration in Latin America (Briceño-Ruiz 2014). The integrationist movement, which began in the 1960s under the aegis of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), have experienced at least three waves since the 1990s. The reformist character of Mercosur, which includes provisions for strengthening social dimensions and production processes, represented the first wave, although its policy-focus continues trade liberalization. The second wave has been represented by the UNASUR, CELAC, and ALBA, proposing a non-capitalist integration characterized by South-South cooperation, with institutional and political parameters centered on regional thematic agendas such as peace and security, energy security, infrastructure or financial architecture (Leví y Reggiardo 2016, Briceño-Ruiz 2013). The PA marks a return of the trade liberalism prevalent in the 1990s, with a strong dose of facilitation and cooperation. The PA has been the first multilateral free trade initiative in the Americas after the failure of the Free Trade Area of the Americas (FTAA) to counteract the expansion of the integration initiatives led by the once region’s leftist group of countries (e.g., Brazil, Venezuela, and Argentina) (Gonzalez-Perez et al. 2015).

The reason the South-South trade agreements within the proper region lost their

development and connectivity within the LAC region. If infrastructure integration with neighboring countries is promoted, the financial investment needs required to fill the gap will be greatly reduced.

importance during the last two decades owes not only to the proliferation of bilateral/plurilateral FTAs which promoted “deep integration” with the North (the United States, the EU, EFTA, Japan, etc.), which has not brought about positive effects as expected, but also to the realization on the part of many countries in the region that the failure of integration movements has more to do with the 1) difficulty in completing the “Customs Union” process among the countries of different stages of economic and social development; 2) persistence of numerous non-tariff barriers, arbitrary and discretionary applications of “exemption” and frequent abuse of trade remedy measures; 3) policy mismatches in areas such as macroeconomic policy, sectoral-development policy, and competition policy; 4) deficiency in infrastructure (land and air transport, shipping and ports, energy-resource connectivity, telecommunications, etc.); and 5) shortcoming in “trade facilitation” measures (customs procedures, interoperability of single window systems, etc.) at the regional level (Kuwayama 2018). Most importantly, the regional integration entities became forums of political coalition, rather than of economic alliance and cooperation (AECID 2015).

A. Features and Development Path of the Pacific Alliance

Among the eleven countries of the PA’s predecessor, the “Pacific Alliance Basin” initiative (Arco del Pacífico Latinoamericano),¹³ the Presidents of four countries (Mexico, Colombia, Peru and Chile), followers of the OR philosophy, and practitioners of liberalization with intra- and extra-regional trading partners over the years, signed the “Lima Declaration” in April 2011 to create the PA (Oyarzún 2017). These are four countries in the LAC region that have maintained political and economic affinities based on stable democratic political systems, macroeconomic stability and export-oriented strategy, and shared interests in strengthening relations with the Asia-Pacific region, while sharing the idea that the globalization process should support economic growth, quality employment, and innovation, instead of being an impediment to these goals.

Thus, the PA’s OR is a renewed version of the conventional OR that maintains an outward-oriented and internationally competitive approach prevalent in the 1990s, although now complemented by a set of policies, regulatory coordination, and cooperation agendas that would lead to inclusive and sustainable development of the region with an acceptance of new members who are willing to abide by these principles and for the association with extra-regional partners (Kuwayama 2018). In that respect,

¹³ The Pacific Alliance was built on the initiative called “Foro sobre la Iniciativa de la Cuenca del Pacífico Latinoamericano) launched on January 2007 in Cali-Colombia, with the participation of Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. The main objective of the Arch of the Pacific was to enhance competitiveness through commercial and economic cooperation among members and stimulate trade with the Asia-Pacific region. However, given discrepancies of the opinions on the depth of commitments among the countries, especially between the four PA member countries and the rest, coupled with passive participation of Central American countries, nothing concrete resulted from this initiative.

the PA has explicitly differentiated itself from other regional initiatives (including Mercosur) in which integration with extra-regional partners has been either neglected or openly rejected. The PA has emerged as a response to the disappointing experiences of regional integration efforts in the region and to “promote OR, seeking to advance the process of economic integration among them as well as their global outreach, overcoming the ideological divergence found within other regional groups” (Gonzalez-Perez et al. 2015). The PA has created a dynamic integration mechanism based on mutual trust without getting bogged down to political and ideological differences in the Americas.¹⁴

The PA focuses on economic and trade issues within a renewed framework of Latin American regionalism founded on the OR principles. These countries pursue “deep integration” based on the network of FTAs that the four members had subscribed among themselves and with the most important economic blocks in the world (the United States, the EU, and the Asia-Pacific). In this respect, the participation in the PA has not meant extra costs for each country because the OR strategy assures the continuity of their international insertion strategies based on OR and provides opportunities to upgrade their FTA modality of the 1990s by incorporating additional measures to further deepen their integration. In short, the PA is not a sudden development for the four countries involved: All four countries had already been connected by bilateral FTAs between themselves; therefore, this initiative was a natural outcome on their part to consolidate and further advance both their economic and political affinities (Kuwayama 2018).

As evidenced throughout the different regionalism waves in the LAC region, political factors have often been prioritized over economic benefits among the Member States (AECID 2015). Rather than insisting on the solidarity and ideals among members, integration had been used as a tool for power relations and political bargaining, influenced by the “presidential dynamics” of LAC countries over supranationalism (Sanjuan 2018). The creation of SICA, Mercosur, and CAN, was inspired by the European model, but even after a long period of trials and errors, these regional integration initiatives do not match the institutional and organizational capabilities of the integration entities in the North. In addition to the inability to overcome institutional vulnerabilities, the ‘sense of exhaustion’ felt by national leaders over regional integration intensified, and the private sector’s confidence in regional integration was also on a clear decline. Against this background, more pragmatic integration initiatives like the PA that emphasize trade promotion, economic cooperation, and public and private partnership (PPP) have gained force.

Although the political agenda and the social dimensions also figure in the renewed

¹⁴ In this respect, it is interesting to note due to the differences between the governments of the member countries, the governments of Argentina, Brazil, Chile, Colombia, Peru, and Paraguay suspended their membership in UNASUR, in April 2018. In August, Colombia notified UNASUR of its decision to withdraw over the Venezuela crisis.

OR of the PA, they are not the key issues that will deepen the process of regional integration. It is the economic and trade-related objectives that guide the deepening of integration (Gonzalez-Perez et al. 2015). The PA, as a promoter of “deep integration”, establishes cooperation mechanisms that are complementary to those of trade liberalization, via deliberations by the ‘High Level Group’ and technical committees¹⁵ on matters of migratory facilitation, higher-education, academic exchanges, and promotion of SMEs, among others.

Nonetheless, the emergence of the PA also has meant a potential political rebalance in Latin America. During the last decade, Brazil has sought to become both a regional power and a prominent global player, while Mexico had been rather distanced from regional affairs as it deepened its integration with the United States through the North American Free Trade Agreement (NAFTA) (Briceño-Ruiz 2013, Oyarzún 2017). Mexico’s inclusion in the PA has represented its formal comeback into the dynamics of regional integration in Latin America. It has also represented a shift of Mexico’s mindset regarding its productive integration with Asia. Apart from Japan, Mexico had kept a distance from the Asia-Pacific partners, as it regarded developing nations in that region, particularly China, as competitors to the U.S. markets. As a member of the PA, Mexico has become an active participant of the TPP initiative. In sum, Mercosur, in which Brazil has been a protagonist, differs from the PA in that the former has promoted a revisionist, post-hegemonic, and autonomist type of regional integration, with a focus on political and social coalitions (Briceño-Ruiz 2014). By contrast, the PA allows Mexico to project itself as a platform of economic and trade integration toward the Asia-Pacific region.

The PA leaves aside the post-liberal or post-hegemonic tendencies that once shaped South American regionalism, with a modified version of OR by its proper objectives and needs as a block in Latin America. This route of integration well accommodates the OR of the Asia-Pacific region, with which the PA has particular interest to interact. In this way, the PA abandons the formal European integration arrangement, unlike the regional integration groups such as CAN, SICA, and Mercosur. The renovated OR strategy has provided the PA its proper “pathfinder” for its unique integration approach of an intergovernmental character, founded on mutual interests and interaction among the States. The block is constituted by the sum of countries and their national policies with a transnational orientation, but supranational initiatives are of limited scope (Leví y Reggiardo 2016).

¹⁵ Regarding the PA’s institutional structure, the Summit of Heads of State and Government make decisions and set the agenda. The Council of Ministers, composed by the member state’s ministers of foreign trade and foreign affairs, is responsible for implementing the objectives set out in the Framework Agreement and the presidential declarations. The task of the High-Level Group, comprised of member countries’ vice ministers of commerce, trade, and foreign affairs, is to accomplish the PA’s goals. Officials also serve as national coordinators and operate in 26 technical groups covering a range of issues, including innovation, labor, mining development, intellectual property, the environment, and culture. Groups hold meetings to evaluate and discuss progress or changes within their areas. The Inter-American Development Bank provides technical assistance to these groups upon request.

In a relatively short period, the PA has developed a new integration model in the context of the Latin American regionalism in pursuit of “deep integration”, with limited institutional and super-national normative commitments, safeguarding the essential links with their national political apparatus. In the case of the PA, political issues, such as the cession of sovereignty, have passed on a second plain due to the preponderance of economic considerations (Rojas y Terán 2016). The PA is not equipped with a Secretariat or a parliament, as often the case of Latin American regional integration entities, the CAN, Mercosur, CACM, UNASUR, etc.

Another characteristic of the PA is its pragmatic approach to regional integration. Although the PA aims for deep integration, the “Additional Protocol of the Pacific Alliance Framework Agreement (the so-called Trade Protocol)” has set the creation of a “Free Trade Area” as its immediate goal. Given the LAC region is still characterized by marked differences in economic and social development stages and acute asymmetries, the four member countries are of the view that the PA should adopt a more realistic and pragmatic approach to create a “Free Trade Area” rather than a “Common Market” with a “Common External Tariff” structure where the free circulation of goods, services, capital, and persons is allowed, as in the case of Mercosur. The intention is to move forward to deepen integration progressively towards the free circulation of goods, services, capital and people, not based solely on trade agreements, but on generating opportunities for social development in participating countries.

The PA, with an OR focus, has emphasized active involvement of the private sector in the support and development of its proper integration process so that the governmental impulses invite the entrepreneurs to act as protagonists in that process (Rojas y Terán 2016). The style of integration sought by the PA strengthens the synergy between the “market-led” and “policy-led” integration modalities. In this sense, OR differs from ‘Strategic Regionalism’.¹⁶ The geostrategic significance of the PA in Latin American integration process, together with its consolidated relationship with the private sector, will allow the PA to act as a “gateway” between Latin America and the Asia-Pacific and as a promoter of GVCs and RVCs with higher value-added (Ramírez-Montañez y González-Sarmiento 2016).

¹⁶ Though it looks similar, the objective of ‘strategic regionalism’ differs from that of OR in that the former calls for a set of policies that the FTA signatory countries can confront global competition by giving their companies a privileged position in the world economy. In this regard, it is important to highlight that, although in the strategic regionalism, the State plays a central role in the formulation and execution of policies that facilitate this type of regionalism, companies also play a decisive role in the design and implementation of these policies (Briceño-Ruiz 2013). In the case of OR, though the active participation of the private sector is crucial for a successful functioning of regional integration, its influence on the course of the integration scheme in question is of a supplementary nature.

B. Main Achievements of the Pacific Alliance

The "Trade Protocol " (signed on February 10, 2014 and entered into effect on May 1, 2016) includes provisions on market access, services, investment, government procurement, rules of origin, trade facilitation and customs cooperation, SPS, TBT, trade dispute settlement mechanism, and transparency. Provisions on trade in services include not only cross-border services but also financial services, marine transport services, e-commerce, telecommunications, among others, thereby assuming features of a comprehensive FTA. In addition, the "cross-sectoral issues" included in the TPP agreement, such as the promotion of utilization of trade agreements by SMEs, enhancement of competitiveness, achievement of "scale economy" within the region, value chain development, are also identified as the PA's goals.

Another achievement is that the PA has in effect "cumulative" rules of origin for goods produced by all four members, which will encourage more companies to join GVCs and RVCs. Thus, this comprehensive nature of the trade protocol makes it a "deep" FTA, based on the OR suitable for the 21st century, which has similarities with the high TPP standards. All of this is with a view to realize the goals set in the "Pacific Alliance Framework Agreement" (signed in June 2012 and went into effect 3 years later in July 2015), aimed at accelerating the internationalization of companies, especially SMEs, promoting the development of GVCs and RVCs, investment, tourism, and facilitating trade.

The trade protocol officializes the liberalization schedules among the four countries. This FTA provides for the lifting of duties on 92% of goods traded between its member countries. The remainder will be gradually reduced under the liberalization schedules until 2030, whereas the TPP agreement among the 12 countries where roughly 96% of goods are subject to immediate tariff elimination. Thus, in the PA's case, tariff eliminations are of a more gradual and practical nature, taking into account of domestic circumstances of the signatory countries. In addition, because these four countries had already been connected by bilateral FTAs and tariffs for many products have already been eliminated or can be imported with low tariffs, the benefits accruing from tariff elimination/reduction might be limited. In this sense, "trade creation" opportunities by the elimination of tariffs within the PA region might be moderate, if not limited. To expand trade and investment on a sustainable basis, expanding the PA's membership is desirable, with new accession by intra- and extra-regional trading partner countries/regions (Kuwayama 2018).

The PA is a business-oriented integration project aimed at reducing trade barriers and enhancing competitiveness among the four countries. However, it is important to note that this economic focus has been supplemented by programs and initiatives designed to

overcome socioeconomic inequality and enhance social inclusion, especially from a perspective of employment creation, technological innovation, and SME participation in GVCs and RVCs. Despite the PA being established with the mandates to promote trade and investment, their realm of action has been extended to cover a wide range of areas in cooperation ranging from immigration, public-private partnership, cultural promotion, academic and student mobility,¹⁷ consular cooperation, the sharing of diplomatic and commercial offices, and the establishment of a cooperation fund.

The high acclaims received so far by the PA result in part from the achievements made even before the Trade Protocol entered into effect in May 2016. Specifically, the following joint efforts stand out: 1) elimination of tourist visa requirements for travel between the four countries, 2) sharing of embassies and offices of representation overseas,¹⁸ 3) reduction of the time required for customs clearance of goods through adoption of international standards and information digitalization, 4) adoption of criteria for "mutual recognition" among its members, 5) integration of the respective stock exchanges (MILA Initiative); 6) enhancement of public-private partnership (establishment of Consejo Empresarial de la Alianza del Pacífico: CEAP), 7) Economic and Finance Ministerial Meetings and periodic meetings of parliamentarians, and 8) promotion of cooperation (e.g., education, academia, science, financial sector, business, SMEs). In this way, the PA had made significant headways in improving the region's competitiveness and productivity through concrete collaborative actions even before the trade liberalization schedules stipulated in the Trade Protocol came into effect. These achievements reflect the programmatic and consensual approach of the PA.

Over the eight years of existence, the PA has prioritized the area of trade facilitation and customs cooperation with an aim to making customs procedures more agile, effective, simplified, and more interconnected, with streamlined methods and processes based on risk management. With the objective of providing agility in the clearance of goods, the PA has been promoting interoperability of the "Foreign Trade Single Window" (VUCE), a digital platform to promote customs clearance. As a first step, the following concrete initiatives have been taken: 1) the issuance of SPS certificate and certificates of origin, 2) the implementation of "Authorized Economic Operator" programs,¹⁹ and 3) cooperation and mutual assistance for the exchange of information among the respective customs

¹⁷ The Alliance also has an academic exchange platform (Plataforma de Movilidad Académico y Estudiantil) that has benefited over 1,800 students. Besides, there exists a system of free online courses among educational institutions in each country. A scientific research network on climate change was also established.

¹⁸ In African and Asian countries, where diplomatic relations are not as strong as desired, the four countries are sharing embassies. Indeed, there are seven shared embassies, while the countries are sharing offices in OECD's representative department and two commercial establishments.

¹⁹ The four countries signed the Mutual Recognition Arrangement in the area of Authorized Economic Operator (AEO) in 2017 to "facilitate commercial operations among operators that meet minimum security standards in their logistic chain, thus contributing to a region with a more agile trade and facilitating the participation of the companies of the Pacific Alliance in the global context" (the Alliance official website, downloaded January 19, 2019).

administrations (INTAL 2018). All these initiatives will make the PA a regional block with high levels of interoperability. In the area of mutual recognition, the Technical Group on Services and Investment has been working on the launch of the “Operating Framework of the Registry of Professional Services” to promote the negotiation of “License Recognition Agreements in the Pacific Alliance”. A similar project has started with the engineering profession, and negotiations has started between colleges and professional engineering councils.

In addition, the PA’s SME Technical Group has a mandate to “launch the Network of Business Development Centers of the Pacific Alliance” and “fully implement the Easy Export stamp in the four countries as a regional identification mechanism that facilitates logistics, reduces delivery times, and links customs services and postal services. Besides, the “Pacific Alliance Venture Capital Fund” by IDB (BIDFOMIN) will facilitate financing and investment for SMEs and their business models. “Regional Observatory SME and Entrepreneurship” (Observatorio Regional PYME) was established as a virtual platform to organize and disseminate the current status of entrepreneurs' ecosystem and related research on the development of SMEs.²⁰ In addition, work in fields such as consumer protection, best practices for attracting investment, identification of investment barriers and investment opportunities, are underway.

Other achievements include cooperation in the stock market. Since 2014, the four countries have integrated the stock market through the creation of the Latin American Integrated Market (MILA), which aims to promote the financial integration of the stock exchanges of the four countries and is now the second-largest stock market in Latin America after the Sao Paulo Stock Exchange. In the financial sphere, the signing of the “Convention for the Standardization of the Tax Treatment” is also noteworthy, aimed at harmonizing the applicable tax treatment on certain interest income and capital gains to avoid double taxation across the four member countries and the establishment of a private investment infrastructure pre-feasibility analysis fund (Fondo de Inversión en Infraestructura de la Alianza del Pacífico: FIAP) to promote investment in infrastructure.²¹ In addition, the joint catastrophe bond was launched earlier in 2018²² (Cibrián 2018).

²⁰ The role of the Pacific Alliance Innovation Ecosystem (EIAP, by its acronym in Spanish) is to interact with each country’s own system in order to increase the individual and joint results of the countries regarding business innovation and innovative entrepreneurship. The main objective of the EIAP is to develop strategies, programs, and instruments that accelerate and boost innovation in the member countries.

²¹ The fund will receive investments both from private entities and from multilateral institutions, such as the World Bank, the Inter-American Development Bank (IDB), and the Development Bank of Latin America (CAF). Authorities have estimated that the initiative could mobilize more than US\$100 billion.

²² The joint catastrophe bond program was launched with a combined funding of \$1.36 billion in total coverage in early 2018, aimed at funding the reconstruction of buildings and infrastructure in the case of an earthquake for all four countries and additionally in the case of a hurricane in Mexico (Fitch Solutions 2018).

As mentioned earlier, the active participation of the private sector of the four countries is one of the pillars of the PA. For this reason, each PA member country has made efforts to build a close relationship with the respective Chamber of Commerce and Industry and the trade promotion organizations. Under the PA's sponsorship, "Business Matchmaking Forums" (macrorruedas de negocios) have been organized as a joint project by trade and investment promotion agencies. Also, the Pacific Alliance Business Council (CEAP)²³ has been established, a similar setup as in the APEC Business Advisory Committee (ABAC) of APEC. The CEAP plays an important role because the participation of the private sector is vital if the PA were to continue implementing initiatives that benefit entrepreneurs and exporters.

The PA has incited global interest, as evidenced by that as of January 2019, there are 55 observer states of which two are candidate countries (Costa Rica and Panama) in the process of full membership. Recently, Ecuador has applied for full membership. The PA adopts an "open" stance on its membership, with the explicit requirement that the candidate country has in vigor trade agreements with all the four original member countries and with the implicit one that the candidate country shares the principles and objectives of OR, as mentioned in the Preamble of the Framework Agreement (Leví y Reggiardo 2016). To be qualified as an "Observer Country", the candidate country has free trade agreements with at least half of the member states.

The PA member countries agreed to establish a new "Associated State" membership category at the March 2017 Ministerial Meeting. In June of the same year, the PA admitted four "Observer" countries (i.e., Australia, Canada, New Zealand, and Singapore) as its first "Associated Member States" candidates; these four countries are also participating in TPP11, and the signatory countries of the PA are also participating in TPP11, except for Colombia that had once expressed interest in joining TPP11. Later, the PA started negotiations on a trade deal with these four "candidate" countries. This process, currently underway, marks a significant milestone for the PA, since it constitutes the first FTA negotiation with non-original signatory countries.²⁴

The liberalization schedule with the PA member countries are being negotiated between the two countries, but other trade and investment rules are discussed between the eight countries. The membership expansion might mean that the PA can be an alternative avenue for a "high-standard" regional integration²⁵ between Asia-Pacific and Latin

²³ During the 7th Pacific Alliance Summit (May 23, 2013 in Cali, Colombia) the Presidents of the member countries, based on the proposal by the Pacific Alliance Business Council (CEAP), instructed the creation of a Committee of Experts (Committee of Experts-CEAP) to analyze the topics suggested by the business sectors through the CEAP.

²⁴ There have been six rounds of negotiations: the 1st in Cali, Colombia (October 23-27, 2017); 2nd in Gold Coast, Australia (January 29-February 2, 2018); 3rd in Santiago, Chile (March 3-9, 2018); 4th in Ottawa, Canada (May 12-18, 2018); 5th in Mexico City, Mexico (July 7-14, 2018); and 6th in Oakland, New Zealand (September 22-28). The 7th round meeting was held on November 15-25, in Lima, Peru.

²⁵ The negotiations with the candidates of "Associated States" will include goods market access, investment,

America to the TPP route. The Republic of Korea has also expressed interest in becoming an “Associated State”. In addition to the “Associated States”, the PA has been forging its relationship with the Association of Southeast Asian Nations (ASEAN), with a work plan and a roadmap to continue building on this relationship.²⁶ The ongoing negotiations with the Associated States and policy dialogues with the ASEAN might pave the way to an Asia-Pacific Free Trade Area, which is one of the goals of the APEC forum.

The PA has already defined its goals and strategies and set 2030 as its deadline, the year when tariff liberalization of 100% of goods between the four countries will be achieved. Its primary objective is to consolidate the PA as the most competitive and influential block in the region and a leading world trading platform, with a solid, dynamic presence in other markets, especially the ones in the Asia-Pacific region. In the years to come, the PA expects to have identified best practices in customs cooperation and risk management, to have implemented the Technological Platforms for Business Formalities, in order to promote the digitalization of and simplification of procedures between the member countries and to have a “Pacific Alliance Innovation Agencies Network” in full operation (Proméxico 2018).

The challenges facing the PA are paramount. Amid increasing protectionism and anti-globalism in certain quarters of the world economy, it will become increasingly difficult to persevere with the policy of economic liberalization and establish the PA an effective platform for regional integration. In addition, the PA should double their efforts on improving connectivity and strengthening links with the digital economy based on know-how, e-commerce, digital services, and the promotion of innovation as a means of boosting productivity and competitiveness. Also, the advent of the digital era has brought afore the need to accommodate integration policies by technological progress instead of integration resulting in the marginalization of sectors. Also, as the free circulation of people is facilitated, there will be a greater need for establishing “equivalence” and/or “mutual recognition” of workers’ qualifications, so that the pension and health insurance benefits are to be forgone (Proméxico 2018). These goals are clear, but the means and venues to accomplish them are not yet quite visible.

environment and labor rules, public procurement, temporary visas for business people and other services-related issues, rules of origin, customs, technical barriers to trade, competition policy, sanitary and phytosanitary measures, gender, and small- and medium-sized enterprises, among others.

²⁶ The PA has been cooperating with ASEAN since 2011 when the delegation of the Colombian Ministry of Foreign Affairs visited the ASEAN Secretariat. Since then, PA-ASEAN cooperation continues primarily through the PA-ASEAN Ministerial Meeting on the sidelines of the UN General Assembly. The 5th Ministerial Meeting of PA and ASEAN took place on the sidelines of the 73rd Session of the UN General Assembly, September 26, 2018, in New York. This meeting had an aim to evaluate the 2017-2018 PA-ASEAN Action plans. So far, both groups have been implementing various areas of cooperation listed in the ASEAN-PA action plans such as encouraging the participation of businessmen in trade and investment promotion activities in both regions, holding seminars on opportunities for PA-ASEAN cooperation, and giving scholarships for young people to learn language and culture in both regions. The areas of cooperation are to be extended to include the fields of science, technology, and innovation and sustainable development.

C. Convergence in trade rules between the Pacific Alliance and Mercosur

The PA has been trying to streamline trade and investment relations with Mercosur, along with the policy guideline first proposed by ex-President Bachelet of Chile in 2014. The Summit between the two blocks, held on the sidelines of the 13th Summit of the Pacific Alliance (July 24, 2018, Puerto Vallarta in Mexico), concluded with the signing of the Declaration in which the two regional blocks reaffirmed their commitment to strengthening their integration and agreed to follow up on the process on a half-yearly basis with a view to reach a FTA framework.

The “Action Plan”, adopted at the Alliance’s Summit, specifies concrete measures and steps to be taken in the areas as planned in the “Roadmap Pacific Alliance and Mercosur,” agreed in May 2016. It is interesting that the issues identified in the Roadmap as priority coincide with the ongoing cooperation initiatives of the proper PA: 1) Regional Value Chains / Cumulation of Origin, 2) Trade Facilitation / Single Windows for Foreign Trade (VUCE), 3) Customs Cooperation, 4) Trade Promotion and SMEs, 5) Non-Tariff Barriers, and 6) Facilitation of Trade in Services. The Working Groups of both groups are established and are executing specific projects in each area (INTAL 2017, 2018).

It should be noted that the countries of Mercosur and those of the PA are connected by the trade agreements in the framework of ALADI, some of which precede the foundation of the PA in 2011, the most recent milestones being the signing of the FTA between Uruguay and Chile in 2016 and between Argentina and Chile in 2017. As a result of trade agreement networks, approximately 70% of Mercosur imports from the PA countries do not pay import duties, either because they are subject to a 0% tariff or because they enjoy a 100% tariff preference. To this, an additional 4% must be implemented in the coming years; only 26% of imports are registered as trade not subject to some form of ALADI preference. For its part, 86% of the imports of the PA countries originating in Mercosur countries do not pay import duties, to which will be added 7% that will shortly enjoy tariff preferences. Only 6% of the bilateral trade flows between both integration entities are not subject to some form of preference (INTAL 2018). As the preceding indicates, although there is still room for tariff reduction, to boost trade and investment between Mercosur and the PA, a more systemic approach involving measures on trade facilitation and infrastructure building is needed.

The negotiations between Mercosur and Mexico involve the two largest Latin American economies (Brazil and Mexico), which, however, trade very little among themselves up to now, incommensurate with their respective market size. In fact, from the perspective of the Latin American FTAs network, lack of an FTA between Mercosur and Mexico is said to be a major “missing link.” In this sense, an agreement of Mercosur with Mexico would be an important milestone on the path towards an integrated regional

economic space. In addition, this will help Mexico reduce its high trade dependence on the United States. Similarly, with a successful conclusion of the negotiations between Mercosur and the EU, a common body of norms and commitments accepted by all members of Mercosur and the PA would be created, which could be later incorporated, with appropriate adjustments, to a later agreement between both groups.

The most persuasive reason why cooperation between the two integration entities is not only desirable but also necessary is that the economic size of the PA as “a Free Trade Area” is limited. The value of intra-zonal trade of the PA is only 10% of total intra-LAC trade. Mercosur’s intra-zonal trade accounts for 27% of the intra-regional trade (Figure 4). Furthermore, the PA's intra-zonal trade ratio (value of intra-zonal trade as a percentage of the total trade value of each group) is only 2.9%, far below Mercosur's 14% (Figure 2 in Chapter II of the present paper). As a matter of fact, among the five LAC integration entities, the intra-zonal trade ratio is the lowest for the PA, a phenomenon heavily influenced by large trade of Mexico with the United States. Therefore, the size of the PA’s intra-zonal trade is minimal compared to that of emerging markets such as ASEAN.

To promote RVCs within the region and to connect with GVCs of the Asia-Pacific, North American, and European origins, it is necessary to create an enlarged and more consolidated regional market in the LAC region. Between countries of both trade blocks, “market-led” integration is underway: There exist substantial trade and investment flows (ECLAC 2014c, 2018; Durán and Cracau 2016; INTAL 2018). Major intra-regional trade flows in LAC take place between the PA and the Mercosur with Brazil as their axes: Trade nexus, Brazil-Chile, Brazil-Colombia, Brazil-Peru, as well as Argentina-Chile figure as the most important trade partners in the LAC region (Figure 5). Now, there is a need to support this process by “government-led” (*de jure*) integration to facilitate LAC’s regional integration.

Figure 4: Intra-LAC trade, by integration groups 2016
(Share of each group in LAC intra-regional total, %)

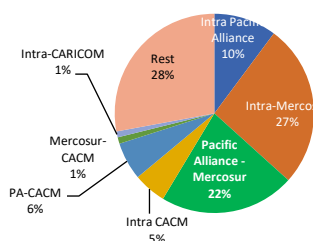
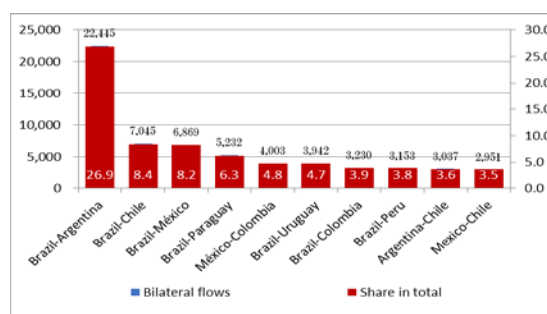


Figure 5: Major Trading Partners in Intra-LAC Trade 2016
(Million U.S. Dollars and %)



Source: Elaboration by the Author based on UN Comtrade
ASEAN5 includes Indonesia, Malaysia, the Philippines, Thailand, and Vietnam
Source: Elaboration by the Author based on the UNCTAD database and UN Comtrade.

Despite its relatively small amount, the commercial exchange between the PA and Mercosur has great potential for export diversification and the generation of productive linkages. The exchange between both groups of countries is characterized by the presence of relevant flows of “intra-industry” trade, especially in the automotive sector (vehicles and their parts) and, to a lesser extent, in the pharmaceutical and plastics sectors. On the other hand, the number of products that the members of both groups export to each other is, in many cases, greater than the number of products destined for their main extra-regional markets, such as the United States, the European Union and China (ECLAC 2018). This difference has an important implication for SMEs’ participation in foreign trade.

The member countries of the PA and Mercosur have recently given clear signals to accelerate and deepen the convergence process. Some even have expressed interest in exploring the possibility of initiating negotiations for an FTA between the two groups, in stark contrast to a more modest idea of initiating the discussions on convergence. Despite this greater political support, the negotiation of a “block by block” agreement is unlikely until other processes of equal importance, in which some members of both groups are immersed, come to a concretion (ECLAC 2018). This has been the case of the USMCA’s approval of the negotiations between Mercosur and Mexico and those carried out by Mercosur with the EU.

Since the tariff rates and trade and investment rules differ greatly between the PA and Mercosur, it might be advisable to proceed with those areas of common interests that can be agreed upon without major difficulties and to seek later the convergence of rules over the medium to long-term without aiming at creating a “Customs Union.” In order for the trade and investment rules between both entities to converge, ECLAC (2018) points to five areas of joint efforts: 1) regulatory cooperation and reduction of technical barriers to trade,²⁷ 2) investment facilitation,²⁸ 3) mutual recognition of National Authorized Economic Operator (AEO) Programs,²⁹ 4) cooperation towards a regional digital market,

²⁷ To date, regulatory cooperation has been taking place in cosmetic products, organic products, medical devices, food supplements, and pharmaceutical products. All these instruments are intended to eliminate unnecessary technical barriers to trade in the respective sectors, safeguarding the legitimate policy objectives pursued by the regulator (for example, the protection of public and consumer health). In this process, there has been an active participation of the business sector of the member countries (ECLAC 2018).

²⁸ The facilitation of investments aims at making formalities and other requirements on foreign investment more transparent, predictable, and consistent. As of 2015, Brazil has assumed clear regional and global leadership in this area, which is reflected in its new model of the Cooperation and Investment Facilitation Agreement (ACFI). Brazil has signed agreements of this type individually with the four members of the PA. In addition, the Intra-Mercosur Investment Cooperation and Facilitation Protocol, signed in April 2017, is also based on the ACFI model. Finally, in February 2018, Brazil presented a detailed draft agreement on investment facilitation within the framework of the WTO. The PA and Mercosur can work together for an agreement on investment facilitation, which could include provisions such as the Ombudsman for Foreign Investment, the Electronic Single Window (VUE), and the mechanisms for prevention of investment disputes. These initiatives would contribute to generating a more attractive environment for FDI, not only intra-regionally but also from the rest of the world (ECLAC 2018).

²⁹ All the members of the PA and the four original members of Mercosur have created national programs of AEOs. However, there exist differences in aspects such as the requirements to obtain the AEO certification, the benefits

³⁰ and 5) cooperation in the development of statistics on trade in services.³¹

IV. Concluding Remarks

In the LAC region, there exists a myriad of FTAs with different coverage and depth, resulting in a so-called “spaghetti bowl” phenomenon. Trade agreements have transformed from "shallow" ones focusing on tariff elimination/reduction on goods to "deep" ones including a wide range of negotiation fields such as services, investment, intellectual property rights, government procurement, competition policy, and dispute resolution mechanism, among others. Therefore, it is an urgent task for the LAC countries to standardize and harmonize different trade and investment rules included in many trade agreements in uniformity with the OR philosophy to promote trade and investment both within and outside the region. The PA can be considered as a major venue for initiating such a harmonization process in the LAC region.

Several options exist to advance the integration process. The creation of a "Common Market" requires adjustment and harmonization of a supranational nature in many policy areas involving many regional institutions and organizations. Although it is possible to move forward in steps toward this objective, it is advisable to adopt a pragmatic and realistic policy oriented toward the creation of a “Free Trade Area” that can generate the synergy between the “market-led” and “policy-led” integration modalities, creating an environment in which the private sector can actively engage in regional integration. Priority should be given to building "bridges" between sub-regional integration groups so that trade rules and disciplines can converge between them with a similar set of development-related policies.

As argued in this paper, though LAC’s intra-regional trade shows a relatively high intra-industry trade component, such trade is characterized by exchanges of final products

associated with it, and the duration of the certification, among others. Therefore, to maximize the impact of these programs on trade and GVCs and RVCs, it is convenient to move towards mechanisms of mutual recognition on the AEOs (ECLAC 2018).

³⁰ Both the PA and Mercosur are in the process of defining their respective digital agendas. In the PA’s “Innovation Technical Group”, there is a subgroup on the Digital Agenda (SGAD), created by presidential mandate in July 2016. In the case of Mercosur, in December 2017, the Common Market Council (CMC) of Mercosur created the Digital Agenda Group (GAD), an auxiliary body in charge of the Action Plan of "Mercosur Digital Agenda". ECLAC (2018) considers it opportune for both groups to coordinate their respective efforts to move toward a regional digital market, such as consumer protection in the digital environment and cybersecurity, among others.

³¹ International competitiveness in the export of services, especially modern services, depends on the existence of a coherent policy framework in aspects such as taxation, training of human resources, and digital infrastructure, among many others. Statistical information on trade in services is a basic input for the design and implementation of such policies. However, both the PA and Mercosur present significant shortcomings in this area: Only Brazil, Chile, and Colombia publish figures by trade partner in some categories of services with very different levels of disaggregation. This makes it difficult to formulate sectoral policies, both at the national level and through joint action, as well as the definition of precise objectives in trade negotiations on services.

rather than parts and components. A larger and more connected regional market will be conducive to promoting GVCs and RVCs within the region. Therefore, the attractiveness of Latin American regional markets will be enhanced when trade and investment rules between the PA and Mercosur are to converge. To promote this type of intra-regional trade, tariffs are not an issue; instead, reduction of non-tariff barriers, bureaucratic red-tapes and other administrative transaction costs, customs procedures, and enhancement of productivity and competitiveness via infrastructure building (hard and soft) should be targeted policy areas.

The PA's version of OR emphasizes not only liberalization, trade facilitation, and economic and technical cooperation as in the conventional concept of the OR, but also the building of regional capacity to respond to the needs of next-generation trade and investment issues, such as the participation in GVCs, SMEs' participation in value-chains, quality infrastructure, and social inclusion, among others. The LAC countries have realized that regional integration helps to enhance the region's systemic competitiveness and credibility. Mercosur seems to be in the process of revitalizing itself with the OR philosophy by strengthening its relationship with the PA. To promote GVCs and RVCs, it is necessary to generate synergy effects between the overall development strategy and sectoral policies to achieve that goal. It is essential to have a cross-cutting policy approach aimed at strengthening international competitiveness. In this respect, regional integration along the line of OR offers a variety of venues and ways to tackle these systemic issues.

The long history of regional integration in the LAC region shows that it is not a process of a smooth journey and that the nature of regional agreements has gone under many transformations through trials and errors. The concept of traditional regional integration, understood as a tool to promote industrialization in regional markets, has been replaced by a new OR concept in recent years. The signing of FTAs is insufficient to address the issues that arise from structural asymmetry. In that sense, regional integration has a major role to play. Taking into consideration that tariff measures are losing its importance as a barrier to promoting trade and investment, the OR approach becomes a more relevant and appealing policy guideline for the government authorities. LAC countries have realized that they should double their efforts to enter GVCs and strengthen trade relations with the Asia-Pacific region, but to achieve this goal, a comprehensive strategy beyond the signing of FTAs is needed. The PA may become a solid base for initiating the convergence process in trade and investment rules between different integration entities and for a platform to tackle the structural problems that countries of the region face.

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