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Canada and the Pacific Alliance

The Pacific Alliance is an economic union between Mexico, Colombia, Peru, and Chile - all of which have coastlines on the Pacific Ocean- launched on June 6, 2012. Canada currently has observer status in the Alliance, but the Stephen Harper administration is considering joining it as a full member in the short term. This new initiative is meant to enable the member countries to act as a bloc on issues of trade and investment, especially with Asia, and to pursue other goals such as further liberalizing the movement of capital and labour, beyond the more usual one of freer trade in goods and services.

This policy brief focuses on the Pacific Alliance, addressing its goals, scope, and what they mean for Canada. Research for this publication was funded by the Social Sciences and Humanities Research Council (SSHRC).

The Pacific Alliance is best seen as a platform for economic and trade integration between the Americas and other nations around the Pacific Rim. It seeks to maximize the member countries' negotiating capacities and economic relations with Asian countries, the 10-member Association of Southeast Asian Nations (ASEAN), and even considers engaging in specific initiatives with the largest Asian multinational firms. Since the Asian market is exceedingly complex for most countries to access it individually, the Pacific Alliance has emerged as a way of unifying strategies and simplifying trade regulations between its members and Asia, as well as fostering a collective environment to make it easier for multinational firms from the member countries to invest and trade in Asia.

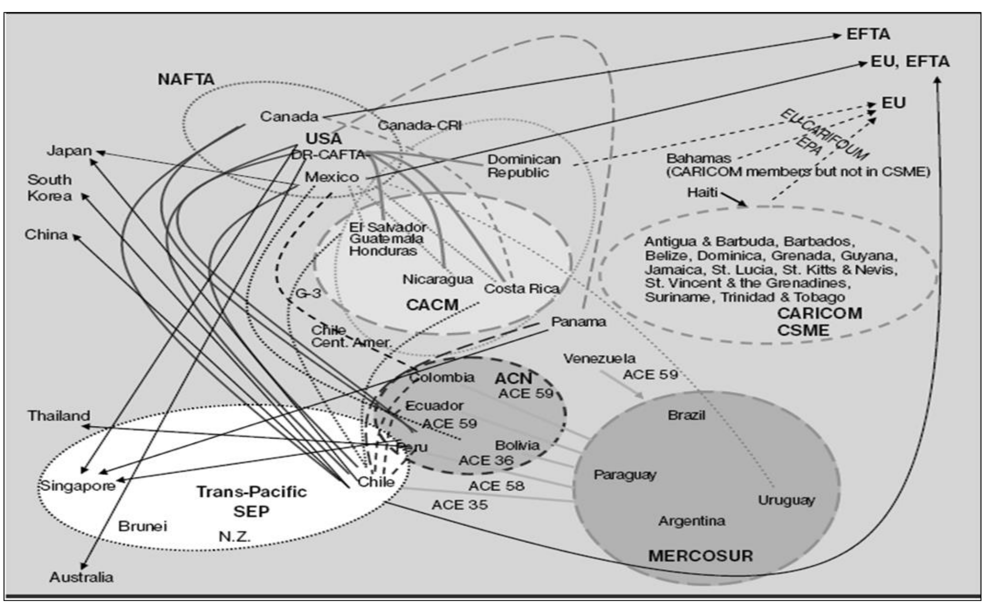
In addition to pursuing concrete cross-Pacific trade and investment goals, the initiative also sends an important signal to Latin America and the rest of the world. The coming together of these four countries indicates that they see complementarities amongst themselves, are similarly oriented towards free trade, are determined to increase their relationship with Asia, and want to continue liberalizing (unlike other countries in the region).

This initiative has some similarities with the Trans-Pacific Partnership Agreement (TPP), a proposed trade and investment pact between the United States, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam; in the sense that both agreements seek economic integration across the Pacific-Rim region. However, although the TPP would eliminate most tariffs on manufactured goods and agricultural products, expand market access for services, and provide broad protection for foreign investment among other measures, it does not include some of the deeper forms of policy harmonization to which the Pacific Alliance is committed.

In addition to this, the TPP talks appear to be enormously complex and moving at a very slow pace, with some members' proposals, such as US suggestions to include investor-state arbitration and stronger disciplines for state-owned enterprises meeting resistance from other parties. In addition to this, the TPP must also be passed by the US Senate, a process that can be extremely lengthy. Hence, the Alliance can be seen as an attempt by the four Latin American countries to create their own platform to engage Asia and develop an initiative parallel to the TPP among similar countries with common goals that would move at a much faster pace.

Is the Pacific Alliance more than a Free Trade Agreement?

The Alliance is, essentially, a negotiation platform seeking to maximize the competitiveness of the member countries in order to increase their trade with Asia and attract investments. That said, the initiative deepens the existing ties among the four countries and is also working to address issues outside of the usual realm of trade talks, such as labour mobility, education equivalencies, integrated financial markets and freer movement of capital. As shown in the following picture, which evidences the high proliferation of regional and bilateral trade agreements amongst Latin American countries and other countries outside of the region, the Pacific Alliance already has full inter-member bilateral trade agreements in place. The PA assumes the commitments of those existing trade agreements as the basis of this new initiative.



Source: Inter-American Development Bank 2009

Now that they have reduced tariffs and other simple border measures through free trade deals, member countries are working on trade facilitation, harmonization of standards and regulations, and liberalization of trade in services, particularly professional services in engineering, architecture, accounting, management, etc.

The liberalization of the movement of people is another key element, aimed at allowing greater migratory transit for tourism and businesses, and better cooperation among immigration and consular authorities. The Pacific Alliance would also include a system of academic and professional equivalencies. The implementation of this system would mean that a university degree obtained in one of the four countries will be automatically or expediently recognized by the others. In the long run, the free flow of specialized personnel among Chile, Colombia, Mexico and Peru could have the potential to fill technical capacity gaps in these countries and function as a strong attraction to get more foreign direct investment.

Pacific Alliance members have also taken the necessary steps to link their stock markets in the short term. The joint stock exchange, called Mercado Integrado Latinoamericano (MILA), is already operating with the integrated stock markets of Chile, Colombia and Peru since May 2011. The aim is to provide investors with more options and businesses with greater access to capital. The three smaller countries merged their markets early on in the negotiations to form the Pacific Alliance; hence, the initiative has created the impetus for Mexico's stock exchange to also join MILA in the coming months. The addition of the Mexican stock exchange, the second largest in the region, would significantly boost MILA's operations and make it competitive with the Brazilian and Canadian stock markets in terms of capitalization and turn-over (Luchine, 2012). Just like these two other bourses, MILA will also carry significant weight as a funding vehicle for extractive industries such as oil and gas, and mining.

That financial integration will be further buttressed by the fact that the combined economies of the member countries amount to the ninth largest economy in the world, 36 percent of the region's GDP, with exports representing 55 percent of Latin America's in 2012 (Wilhelmy, 2013). In comparison to Canada, the four PA members will form an economic unit almost 50% larger and trading 30% more.

In addition to those already mentioned, other areas in which Pacific Alliance members seek to cooperate include: rules of origin, phytosanitary and sanitary measures, customs cooperation, marine transportation, telecommunications, air services, public procurement, the building of joint infrastructure projects, and the creation of a supranational joint dispute resolution system, which would give higher security to companies investing in any member country.

The Alliance's efforts on trade facilitation and liberalization clearly signal to other countries in the region and elsewhere that the members are committed to advancing free trade, that they share an outward looking economic perspective, and have an enormous interest in closer trade ties with Asia. This important signaling takes place at a time when several other Latin American countries such as, MERCOSUR's Brazil, Argentina and Venezuela are engaged in policies that prioritize their domestic industries and markets, and that domestic focus can therefore set the Pacific Alliance apart from them in the eyes of investors and potential partners.

Hence, the Alliance can also be seen as counterbalancing other regional initiatives, such as CELAC and UNASUR, in terms of agenda and future common goals, since Mexico, Colombia, Peru and Chile are also members of both of these organizations.

Canada within the Pacific Alliance

Canada acquired observer status in the Alliance in November 2012 and is currently considering the possibility of taking the next step to becoming a full member. During his trip to the region in May 2013, however, Prime Minister Stephen Harper deferred the decision to join to a later, unspecified time.

In the apparent logic of the Canadian government and other observer countries, the Pacific Alliance is still an evolving initiative and differences between members and observers in terms of participation in the bargaining process have not been clearly set out yet. However, the Alliance is quickly adding new members. Costa Rica effectively joined in May 2013, and Guatemala and Panama have already confirmed their condition as candidates to later become full members. Other Latin American countries that currently have "observer" or "associate" status in the PA are Honduras, El Salvador, and the Dominican Republic. Negotiations for membership are expected to last one year approximately and are followed by a decision by the council of ministers.

Pacific Alliance and Mercosur Membership

A possible obstacle for Canada's full entrance into the Alliance could be posed by its visa requirements for Latin American citizens. The issue of free movement of people is an important one within the initiative and Mexico, which required visas from Peru and Colombia, has already removed them. Canada currently requires visas from people travelling from Colombia, Chile, Peru, and Mexico. If it intends to pursue full membership, Canada will have to consider facilitating the movement of individuals coming from these countries.

"Behind the border" measures, also known as non-tariff barriers to trade (NTBs), are another issue worth considering. Given that Canada already has free trade agreements in force with the four member countries, most tariffs and other border measures are fairly low. Hence, the work to be done in joining the Alliance is in trade facilitation and harmonization of technical standards, which requires the elimination of barriers that restrict imports but are not in the usual form of a tariff. That would imply substantial changes to Canadian legislation, such as accepting the mutual recognition of standards and regulatory requirements with the Alliance's member countries. It would also imply Canadian willingness to address issues that might hamper the flow of goods such as inter-provincial barriers to trade, import licenses and regulations, sanitary and phytosanitary conditions, bureaucratic delays at customs, and in the case of food redundant safety, labeling and inspection requirements.

These areas, along with labour mobility, integrated financial markets and other trade facilitation measures, are the central issues in which the Alliance members are cooperating in order to increase their own competitiveness and pursue trade with Asia. In the sense that the four countries have roughly the same levels of income per capita, educational attainment, and other relevant indicators, that approach seems useful for them. Canada needs to evaluate whether it is willing to do the same, and if the approach employed by the Alliance is the most convenient for Canada to forge stronger trade and investment links with Asia.

Preliminary conclusions

Prime Minister Stephen Harper indicated while attending the last summit of the Pacific Alliance in May 2013 that Canada will not yet sign on as a full member but will continue to be an observer. He indicated, however, that his government might choose to become a member later on, once the process of integration of the Alliance is further along.

In view of that, these preliminary conclusions need consideration:

Regardless of whether Canada joins now or later, the type of integration being proposed and implemented by the PA members will amount to very significant changes in domestic Canadian policies regarding NTBs, technical standards, product controls, trade in services, interprovincial commerce, and professional regulations to facilitate citizens and firms from other PA countries doing business in Canada. Issues of immigration will also matter greatly as the PA countries have the clear intention of facilitating the movement of labour among the members.

Canada must not expect any flexibility from the current PA members as the central idea for the existence of the Alliance is to fast track deregulation of trade-related issues in order to signal to others their commitment to receiving more foreign investment and trade.

Remaining as an observer still provides Canada with significant insights into the evolving desirability of joining the PA thereby allowing Canada to maintain both its global competitiveness and regional interests in Latin America and Asia, also supported by Canada's existing membership in the TPP negotiation table.

In finance, the Pacific Alliance's key initiative of creating a regional stock market represents a clear challenge to the competitiveness of Canada's TSX in attracting extractive industries. Canada needs therefore to differentiate its financial markets with higher standards of transparency for firms listed on the TSX, and regulations that support ethical investing, conditions attuned to a more mature investment environment.

In terms of avoiding a possible diversion of Asian foreign direct investment to the Pacific Alliance countries, Canada needs to carefully shadow what regulatory changes the PA adopts in order to maintain its competitiveness as a host country. For example, if the PA countries take a common view that welcomes FDI from state-owned Asian multinationals, then Canada would have to review its recent policy or lose a competitive edge in that regard.

If Canada wants to advance trade with the rest of Latin America, it would be wise to remain an observer rather than joining the PA. Tensions within the region could increase and therefore preclude any future attempts to foster more conventional agreements with countries like Brazil that are not members of the PA but are significant economic partners for Canada. That would imply negotiating with the MERCOSUR countries, which are less interested in movement of labour, facilitation of foreign investment in extractives, and financial integration, but remain keen to advance their exports of goods and services.

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