

NSI Presentation to the Standing Committee on International Trade

*Monday, April 15, 2013*

## **Benefits for Canada in Joining the Pacific Alliance as a Full Member**

Dear Honourable Members, good afternoon and my warmest thanks for giving me the opportunity to speak with you today about the Pacific Alliance.

My field of work at The North South Institute is on international trade and investment, particularly on aspects that relate to Canada and Latin America. Before coming to Canada, I worked as a researcher for the Latin American Trade network in Argentina, providing policy advice and research to various Latin American governments on economic integration issues.

My presentation will focus on what it might mean for Canada to join the Pacific Alliance, emphasizing the main aspects of this initiative in the context of Latin American regionalism. I will draw my arguments from my knowledge of how those topics are being discussed there today and discuss what that might mean for Canada.

Economic integration schemes follow a pattern of increasing levels of intensity, such as free trade agreements, custom unions and economic unions. The Pacific Alliance claims to move to the highest one but retains the discourse of something much less ambitious, namely, of being a negotiation platform to bargain better with Asian countries and even large Asian firms.

That discourse is most important for Canada to listen to in order to decide whether to join or not. In terms of the reasons why countries choose these different paths for economic integration, we know they get together for basically three types of grounds: signaling, investment seeking, and market enlargement.

The first, signaling, matches most closely what we have seen so far from the Pacific Alliance, as these 4 countries are signaling that they want to continue liberalizing (unlike others in the region), are determined to increase their relationship with Asia, see complementarities among them to do that, and will not wait for others if a slower pace is preferred.

That is an entirely accepted practice in Latin America, where countries follow what is called there variable geometry in their integration efforts. That means they join with like-minded countries depending on the issue at hand in a pragmatic manner. The signaling shouldn't be seen as anything deeper than that, regardless of the other comments you might have received before.

The second reason, investment seeking, applies relatively so as they desire more investment from Asia but are aware that can also come from other parts of the world even when Asia is the market for that production. Still, stated goals of labour mobility, education equivalencies, integrated financial markets and freer movement of capital are very clear indicatives of that approach.

Market enlargement for their own domestic firms has however only a cursory interest for them, perhaps in the area of services, and that reflects the fact that most large local firms in those 4 countries don't see the other three as very significant markets. In fact, most large firms in those countries are not focused on their own domestic markets (except in Mexico) but are exporters of commodities to the world, especially to Asia.

Now, let me mention something about the claims already made in front of this committee by previous witnesses indicating that up to 90% of all trade in the Pacific Alliance was or would be free of duties immediately. That is something of only relative importance in today's world, where most tariffs are already extremely low, ranging in most emerging economies around 5% and 3% in industrialized ones. In comparison, transportation and customs costs are between 10 and 15% for most goods, except services and electronics. And currency fluctuations in commodity exporting nations such as these, and also Canada, have represented increases in domestic prices measured in US dollars of up to 30%. Therefore, whether you liberalize trade by lowering a tariff to 0 from 3 or 5 means pretty much nothing of significant value to most businesses across the economy.

However, there are certain industries where those tariffs might mean something significant, as is the case of traditionally protected pockets, such as cereals in Chile and Peru, certain manufactures in Colombia and Mexico, and poultry and dairies in Canada. In most cases, those tariffs are within the lines that are exempted from liberalization and therefore, are left alone. It seems that the Pacific Alliance will do just that among its four members by saying that 90% of tariff lines will be brought down to zero and the others will be negotiated later. I must remind you that most of these four countries already have bilateral FTAs among them, so for them, it is not a big deal to say that they will be liberalizing 90% of their trade almost immediately.

In trade economics, we know very well that when governments say 90% of trade is liberalized, it is because they managed to group the actually relevant stuff into 10% of the tariff lines. We do understand politics and know the difficulties around reaching any 100% of free trade.

If you wanted to increase trade with the Pacific Alliance and actually Asia, as that is what they really want most, the work to be done is in trade facilitation, harmonization of standards and liberalization of trade in services, particularly of professional services. Liberalization in the movement of people, as they are doing, is another key element. Those are things economists and policy makers have more recently found out and now that tariffs and other simple border measures are effectively down, the issue becomes those other ones.

Here, I would like you to think carefully what Canada actually wants to do. The Pacific Alliance has clearly said they will be doing just that, harmonizing their production and even health standards, establishing a quick and easy system of academic and professional equivalencies, and liberalizing movement of labor, meaning migration. These countries have roughly the same levels of income per capita, educational attainment and other relevant indicators, so that approach is most sensible for them. And that will be in my opinion an effective manner to increase economic integration among them.

But will Canada be ready to do likewise? As a recent immigrant to Canada, I respectfully share with you my skepticism, and as someone who frequently travels to other provinces and speaks with Canadians trying to provide professional services across provincial borders, I am even more skeptical.

I am not saying this approach to increase attractiveness to foreign investment, in this case from Asia, or be more successful in trade with other countries there, will not succeed for the Pacific Alliance members, it might very well do so. It might even be very successful for Canada if it were to adopt them. But will Canada do it with the Pacific Alliance and for the goal of negotiating together with those countries in Asia? I am frankly in doubt but that is the real issue here for you to decide.

Finally, I would like to give you an alternative perspective on the value of trade negotiations. Just like those in business or even in domestic politics, international trade negotiations are more often than not left unfinished and that is not necessarily seen by practitioners as a failure but as a way of learning about others, of socializing internationally, of fixing other countries' diplomatic assets in one's country for a certain period of time, etc. In fact, there are many other reasons to sit to negotiate other than to actually sign something. Many in Latin America believe the US is clearly doing this with the TPP negotiations, not negotiating to sign but to signal, to engage and to lock their partners' diplomatic assets and to learn from what others are doing.

And you should know that three of these four countries in the Pacific Alliance are just as experienced as the US in negotiating and signing FTAs (except for Colombia). So, their diplomats know exactly what they are doing when supposedly duplicating efforts from the TPP negotiations in this other initiative. In fact, they are creating their own platform to engage Asia as the TPP has basically become the US's platform and that of the other bigger players and these Latin American countries would rather develop one concurrent to it.

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