LATIN AMERICA: New bloc aims for 'open regionalism'

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Abstract (summary)

The presidents of the Pacific Alliance -- Latin America's latest integration project, drawing together Chile, Colombia, Mexico and Peru -- will begin a summit in Cali today.

The new integration project is still very much a work in progress but it already has a strong selling point: it has been labelled as 'the other Brazil'.

Full text

EVENT: The presidents of the Pacific Alliance -- Latin America's latest integration project, drawing together Chile, Colombia, Mexico and Peru -- will begin a summit in Cali today.

SIGNIFICANCE: The new integration project is still very much a work in progress but it already has a strong selling point: it has been labelled as 'the other Brazil'.

ANALYSIS: Impacts.

Given Latin America's history of failed integration projects, there is no guarantee of the Pacific Alliance reaching its goal.

The countries of the Pacific Alliance are unlikely to become a single market in any foreseeable future.

However, they share a commitment to free trade that sets them apart from South American neighbours' increasingly protectionist policies.

Established in June 2012 by the then-presidents of Chile, Colombia, Mexico and Peru, the Pacific Alliance has as its main goal promotion of the free circulation of goods, services, capital and people among the member countries. However, there is no clear road map to achieve this ambitious goal. Moreover, the Pacific Alliance does not have a core permanent administrative structure. Its first practical steps have been modest:

Visa requirements among the member countries have been eliminated.

Since 2010, the stock exchanges of Chile, Colombia and Peru have been electronically integrated through the mechanism of the Integrated Latin American Market (MILA), which Mexico is set to join in 2014 (*see LATIN AMERICA: Market integration brings cheap capital - November 22, 2010*).

There are some initiatives to facilitate student exchanges and make doing business easier among the member countries.

The course towards economic integration has begun with small, pragmatic, measures rather than with grand designs and heavy institutional engineering. If treaties, declarations and presidential summits were the drivers of regional integration, Latin America would be the most integrated region in the world -- yet this is far from the case. Intra-regional trade has grown more slowly than extra-regional trade over the last decade. Furthermore, the new bloc has important barriers to overcome:

Mexico is already deeply integrated with the United States and Canada through NAFTA and geographical distance form the countries of the Pacific coast of South America, combined with transport costs, make it difficult to promote productive supply chains and other forms of deeper economic integration.

There is little natural complementarity between the economies of Chile, Colombia and Peru, which remain commodity exporter countries whose main markets are outside the region.

While looking across the Pacific to Asia, the Pacific Alliance does not have legal powers to sign free trade agreements with China or any other country.

The 'other Brazil?'.

Collectively, the economies of the Pacific Alliance rival that of Brazil:

	Billion dollars
Brazil	242.6
Venezuela	97.3
Argentina	81.2
Uruguay	8.7
Paraguay	5.1
Total Mercosur	434.9
Mexico	370.9
Chile	78.3
Colombia	60.2
Peru	45.6
Total Pacific Alliance	555.7

Exports, 2012 (preliminary)
Source: ECLAC

They have a joint population of around 215 million compared to Brazil's 2013 estimate of 201 million.

Taken as a single economy, the Pacific Alliance is Latin America's second biggest and richest (after Brazil).

According to figures from the UN Economic Commission for Latin America and the Caribbean (ECLAC), in 2012 exports from Chile, Colombia, Peru and Mexico amounted to 556 billion dollars, significantly more than the joint exports of the countries of Mercosur (435 billion). Moreover, the countries of the Pacific Alliance were among the fastest growing economies in Latin America in 2012 (*see LATIN AMERICA: ECLAC cuts 2013 growth forecast - May 6, 2013*), attracting 70 billion dollars in foreign direct investment (FDI) (*see LATIN AMERICA: Record FDI is balance-of-payments risk - May 16, 2013*).

The countries of the Pacific Alliance are not just another Brazil but also potentially 'the other Mercosur'. 'Other' in this context means not so much that they are comparable to the countries of Mercosur in terms of wealth and population, but that they are fundamentally different from the Mercosur countries in their approaches to free trade and economics: while Mercosur has become increasingly inward-oriented, politicised and protectionist, the countries of the Pacific Alliance are among the most open economies in the region.

In contrast with Mercosur, the countries of the Pacific Alliance are parties to a large number of free trade agreements. Moreover, while the countries of Mercosur increasingly impose non-tariff barriers to internal trade in violation of the sub-regional market's rules, the countries in the new bloc are committed to abolish tariffs on 90% of their trade.

It is possible to perceive the countries of the Pacific Alliance as representing an alternative to the rise of leftist governments in the region and to Brazil's aspirations to regional leadership. For much of the past decade, Latin America witnessed the spread of left and left-of-centre governments. While these represent different strands of the left, in common their leaders have denounced neoliberalism, of which free trade is one of the main policy components. The failures and shortcomings of the free market reforms of the 1990s put orthodox economics on the defensive in Latin America while the commodities boom of the 2000s contributed to high economic growth throughout the region, including in countries such as Venezuela and Argentina. Now, the increasing economic problems of these countries and the low economic growth of Brazil stand in contrast with the booming economies of the largely free market countries of the Pacific Alliance.

High expectations.

The countries of the Pacific Alliance have made clear that they do not see their project as an alternative to Mercosur or as a challenge to Brazil's project of integration represented by the South American Union (UNASUR). Moreover, comparisons between the economies of the new bloc and that of Brazil are misleading: Brazil is a single market and an integrated economy while the countries of the Pacific Alliance are not and are unlikely to become so in the foreseeable future. Arguably, compared to the reality of the Brazilian economy the Pacific Alliance is currently little more than a brand. However, brands can be powerful tools to sell products -- and the new bloc's brand has already raised expectations in business and government circles within and outside Latin America. According to its organisers, the summit set to start today in Colombia is expected to be attended by around 300 business representatives from global companies, by the prime ministers of Canada and Spain, the presidents of Costa Rica, Guatemala and Panama, and delegations from Uruguay, Australia, Japan and New Zealand, all of which already have observer status in the new organisation.

CONCLUSION: The Pacific Alliance is not just another Brazil but 'the other Mercosur', arguably closer to what this grouping was intended to be when it was set up in the 1990s and has long ceased to be: a project of 'open regionalism,' including trade liberalisation. The new bloc, however, faces significant obstacles on the road to deeper integration.

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