



AMERICAS—A CLOSER LOOK

The Pacific Alliance: An Example of Lessons Learned

By Carlo Dade and Carl Meacham | July 11, 2013

With many economies in the industrialized world struggling since the 2008–09 global recession, many countries in the European Union continue to post negative growth rates, while U.S. growth remains sluggish. In this context, considerable attention has been paid to many Latin American economies' ability to successfully endure challenging circumstances.

Even as skepticism for the prospects for Europe's integration increases, a recent initiative in Latin America appears to be opening a new, more pragmatic route to economic integration. The booming economies of Latin America's newest trade bloc may offer guidance on future regional integration efforts, as well as offering a lesson or two for their former American and European "teachers."

In June 2012, the presidents of Chile, Colombia, Peru, and Mexico signed an unprecedented agreement establishing a framework for a new trade and economic integration bloc: the Pacific Alliance or Alianza del Pacífico

(AP), an initiative to seamlessly link their economies to better trade with each other and Asia.

The Alliance grew out of the growing frustration of the region's most open and dynamic economies with the failures of earlier hemispheric integration efforts. The Alliance is, in short, the pragmatic application of the lessons of those failures. In a region where trade and integration agreements seem based on any and every criteria except actually advancing trade and integration, the Pacific Alliance stands apart.

This new group encompasses Latin America's fastest-growing economies, accounting for over 50 percent of the region's external trade and 35 percent of its gross domestic product (GDP). These countries have a combined GDP of just under US\$3 trillion, average per capita GDP at purchasing power parity above US\$13,000, and average over 5 percent annual growth—compared to 1.7 percent in the United States and negative rates in much of Europe.¹ The bloc has over one-third of Latin America's population and, in the aggregate, is the world's ninth-largest economy.

1. Per capita GDP figures based on authors' calculations.

Pacific Alliance countries are among the region's most attractive markets for foreign trade investment, with sound macroeconomic fundamentals, mature democracies, and rankings in the top 25 percentile of the World Bank's Ease of Doing Business index. Chile and Mexico are members of the Organization for Economic Cooperation and Development (OECD), while Colombia is expected to join shortly. As the European Union (EU), Mercosur, and the North American Free Trade Agreement (NAFTA) have lost momentum, the Pacific Alliance has surged forward, aided by its pragmatic focus on competitiveness, not politics. The bloc is implementing a "platinum standard" agenda of regulatory reforms and economic liberalization that should make it among the most competitive trading areas globally.

In the two years since the project's conception, the group has already established an impressive list of accomplishments surpassing Mercosur and even NAFTA in some important indicators of integration. The Pacific Alliance countries have adopted a "harvest" approach to forging agreements. In short, the approach allows for coming to agreements piecemeal, rather than once all issues have been agreed upon. The AP is above all else pragmatic—not, as with many similar groups, an ideological or deeply strategic undertaking. It was created to resolve specific issues that hinder the countries' abilities to both position themselves with respect to trade and negotiate with Asia through collective action.

This approach quickly has gotten the attention of the Association of Southeast Asian Nations (ASEAN) and of China, both of whom have expressed interest in the new bloc. The AP has distinct advantages over other integration groupings, including the Trans-Pacific Partnership (TPP), to respond quickly to this interest. Accordingly, it may well become the principal driver and platform for trans-Pacific or Pacific Rim trade.

The History and Origins of the Pacific Alliance

To understand the Pacific Alliance, it is first necessary to understand its earlier iteration, the Arc of the Pacific. What follows is a brief review of the key features and elements of the history of the Arc, intended to inform the Pacific Alliance and, given the confusion in the popular press and media, to distinguish between the two initiatives.²

The Arc of the Pacific

The Arc of the Pacific, officially the Foro sobre la Iniciativa de la Cuenca del Pacífico Latinoamericano, or more simply the Arco del Pacífico, was officially launched in January 2007 in Cali, Colombia, and included 11 countries: Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. The Arc of the Pacific sought to convene Latin American countries along the Pacific Coast to enhance cooperation among members and improve trade with Asia. The Arc was envisioned as a mechanism for consultation and joint action, with flexible criteria and the participation of both presidents and foreign and trade ministers.

The Arc's formation was a response to pressures felt in Peru, Chile, and Colombia following a number of regional developments—and most notably the failure of the Free Trade Area of the Americas initiative and the implosion of the decades-old Andean Community in 2006. As Alfredo Valladão noted:

The necessary reorganization of the Andean Community without Venezuela opened the Pandora box of the old debate about the merits of its Common External Tariff, which was already wearing away under the stress of bilateral trade preferences and the fact that Peru and Bolivia never applied it. In fact, the reopening of this discussion, coupled with Chile's return to the bloc, is tipping the scales in favour of those who advocate a "downgrading" of the bloc's ambitions, from a Customs Union to a Free Trade Area.³

2. David Gacs, "Pacific Arc Deepens Integration between Chile, Colombia, Mexico, Peru," News Analysis (The Americas Society, April 25, 2011), <http://www.as-coa.org/articles/pacific-arc-deepens-integration-between-chile-colombia-mexico-peru>.

3. Alfredo Valladão, "The new Tordesillas line: The present great Latin America East-West divide," Washington, DC: Inter-American Development Bank, 2009.

The Andean Community took a further hit with the growing split within the group—with Ecuador and Bolivia on one side and Colombia and Chile on the other—over the pace and direction of trade liberalization and openness. Ecuador and Bolivia, which are also members of the Bolivarian Alliance for the Peoples of Our Americas (ALBA), have favored rejection of standard trade liberalization endorsed by Chile and Colombia. Chile and Colombia, in contrast, negotiated and implemented trade agreements with the United States, while Bolivia and Ecuador have not.

The idea for a new trade and integration bloc also had built momentum from the ongoing failure of the Summits of the Americas to produce any tangible movement on the hemispheric trade and integration front. Indeed, if smaller groupings of countries in the region were unsuccessful, it is hard to imagine that bringing all the countries of the hemisphere to the table would make things easier. And clearly, at the Summit of the Americas in Port-of-Spain in 2009 and Cartagena in 2012, dysfunction and disagreement were the rule of the day, with the split within the Andean community amplified by the presence of the full contingent of ALBA countries on the one side and the polarizing presence of the United States on the other.

Unofficially, then, the Arc of the Pacific had a second goal, or aspiration, on the part of Peru. The Arc was seen by Peru as a means to counteract the isolation that Chile, Peru, and Colombia faced as moderate, centrist governments in Latin America. The logic of fostering a new trade and integration grouping to focus on trade with Asia by countries along the Pacific coast also lent itself to rigging the group's membership. By excluding Bolivia and Venezuela, limiting the potential spoilers in the group to Ecuador and Nicaragua, and reaching north to include Mexico, the Arc should have a pro-democratic, pro-free market, and "open" orientation. This, coupled with the prospect of increased trade with Asia, was viewed as

enough to give the group a fighting chance to remain focused on positive discussions on topics such as trade, investment, and economic integration, while avoiding the more ideological debates that sidetracked other initiatives.

From 2007 until 2010 the Arc appeared to manage little beyond holding a series of ministerial summits that produced scant concrete actions.⁴ The Arc's official website gives the distinct impression that the group is no longer active.⁵ And the last meeting at any level was scheduled in Cusco, Peru, in October 2010.

While concrete action was lacking, the plethora of detailed feasibility studies and analysis done by the Inter-American Development Bank, the Latin American Economic System, and the U.N. Economic Commission for Latin America and the Caribbean identified opportunities and laid out a roadmap for deep integration. Even though the full membership of the Arc proved unable to take advantage of any of these opportunities, its successor, the Alliance, has done just that.

The Alliance of the Pacific

The decision to create the Pacific Alliance was forged at a meeting of Presidents Alan García of Peru, Sebastián Piñera of Chile, Felipe Calderón of Mexico, and Juan Manuel Santos of Colombia during the December 2010 Mar del Plata Ibero-american Summit. The four agreed to begin work on drafting a new accord and arranged to meet on April 28, 2011, in Lima, Peru, where they were joined by a representative of Panama.

The group of leaders from the four countries have since met roughly every six months, demonstrating their commitment to regular, substantive discussions. Indeed, this is not a trivial point—particularly in contrast to other regional efforts and cooperation and integration, which

4. In the 2010 ministerial in Peru the accomplishments to date were noted as the creation of a network of national competitiveness institutes and the compilation of a database of maritime rules and regulations in each country. But the majority of the declaration from the 2010 meeting, over 20 references, simply referenced studies that had been completed or called for additional studies, exchanges, etc.

5. WARNING: The official website for the Arc of the Pacific, www-dot-arcodelpacifico-dot-org, triggers a "do not visit due to infection by malware" warning from Google. The site was viewed using an iPad. The website address has been altered here to prevent inadvertent clicking on an active link.

has often been plagued by lackluster commitment and canceled summits. The frequency and consistency of meetings by the heads of state and responsible ministers of the Alliance countries is a significant indicator of the seriousness of the political elite in all member countries.

The origins of the Alliance can be traced back to the Arc of the Pacific. In essence, the Pacific Alliance grew out of Arc leaders' (Chile, Colombia, Peru, and Mexico) decision that they had had enough with the stalling and inaction of their fellow Arc members, instead choosing to cut their losses and move forward without them. Of course, the language in the official declara-

Arc of the Pacific	Pacific Alliance
Rationale	
Democracy and rule of law, improving living conditions through trade;	Progress in development and inclusive economic growth, job creation, poverty reduction and strengthening democracy;
the Pacific Rim Forum is an instance of Latin American political and economic articulation, and an area of convergence, cooperation and integration within Latin America;	Latin American Pacific Basin as an area of agreement and convergence as well as a mechanism for political dialogue and outreach to Asia Pacific region;
need to respond to global financial crisis;	
	favor integration as effective tool to improve economic and social development;
	free trade agreements between countries provide an excellent basis for integration of economies and future agreements achieved through the Alliance should strengthen and deepen other agreements already signed;
the Arc is the only instance of contact with the Asia Pacific region open to all Latin American states bordering the Pacific;	the process is open to the participation of those countries in the region who share the desire to achieve the goals of this Alliance.
the Arc is a common approach of Latin American countries bordering the Pacific to advance the institutionalization of economic convergence and political coordination in Latin America toward the Pacific Rim;	
the Latin American Pacific Arc is based on the principles of voluntary participation, flexibility, openness, and consensus in its decisions;	
being located on the American coast of the Pacific Ocean is strategic advantage that must be used to boost competitiveness and advance development.	
Specific Actions	
Set at the highest level forum of Latin American Pacific Rim by promoting its institutionalization based on the structure agreed at the Ministerial Meeting in Santiago de Chile and the annual meetings at the Presidential level;	To instruct our ministers of Foreign Affairs and Foreign Trade to prepare a draft Framework Agreement on the basis of approval for the existing free trade agreements, which must be submitted for consideration by the Presidents in December 2011;
continue advances in the working groups on Trade Convergence and Integration, Trade Facilitation, Infrastructure and Logistics, Promotion and Protection of Investment, and Economic and Technical Cooperation for Competitiveness, including concrete actions for the benefit of micro, small and medium enterprises;	set up a High Level Group at deputy minister level including Foreign Affairs and Foreign Trade, to oversee progress of the technical groups, evaluate new areas in which to move forward and prepare a proposal for planning and external relations with other bodies or regional groups, particularly the Asia Pacific;

endeavouring to advance the trade negotiation process currently underway between the countries of the region and the Asia Pacific;	move progressively towards achieving free movement of goods, services, capital and people. Prioritizing: movement of business persons and facilitating migration, including police cooperation, trade and integration, including trade facilitation and customs cooperation, services and capital, including the possibility of integration of stock exchanges, and cooperation and dispute settlement mechanisms, and create technical groups for each of these areas;
	promote parallel processes of physical and electrical interconnection, through bilateral working groups, open to countries willing to join that effort;
deepening the technical work in field of trade convergence and integration so that, at the next meeting in March 2009 in Panama City, Ministers assess and promote the steps in this matter including an accumulation scheme rules between countries to facilitate and optimize trade and allow the development of productive chains;	
exchanging experiences in capacity building for development, particularly in regard to the identification of priorities in public policy and promoting transparency and good governance;	
promote contacts and exchange of experiences among the Latin American Pacific Basin Initiative and other regional and sub-regional actors.	welcome offer by agencies such as the IDB, ECLAC, OAS, CAF and World Bank to support work being undertaken within this initiative.

tions and public statements of AP heads of state go to great length to ensure that this was not the case—that the Alliance was simply a means of furthering the goals of the Arc. But their exclusion of other members of the Arc speaks for itself.

The similarities between the Arc and the Alliance are best seen by comparing the key points from the respective declarations from the first meeting of each group.

In simplest terms, the Alliance is little more than a zone of deeper integration within the existing Arc framework. This makes some sense, as the four founding members already had extensive trade agreements with one another. This also explains why Panama and Costa Rica are observers and why Costa Rica, which has agreements with Chile and Mexico, signed a bilateral FTA with Colombia in May of this year.

Trade agreements and customs unions between Latin American countries, especially countries in close geographic proximity, have not proved sufficient impetus for deep integration, and certainly have not been a boon to global open-

ness. A further advantage that Alliance members share is their degree of openness, especially toward Asia.

Indeed, much time and effort has been expended on examining, or more correctly searching for, an ideological basis for the rise of the Alliance. This misses the point that the Alliance is truly a pragmatic response to economic circumstances and, as a result, to the political forces that guide and reinforce these realities. The Alliance, quite simply, is four countries whose temperaments, priorities, desires, and capacity to work together have uniquely positioned them to integrate and achieve their common goals.

The maps below illustrate this point. Rather than looking at the split in the region through an ideological lens, the maps show the impact of policy decisions based on various competitiveness measurements. Each map shows the ranking of Latin American countries according to four different measures of economic competitiveness: the World Economic Forum's Global Com-

petitive and Enabling Trade Indices; the World Bank’s Ease of Doing Business Index; and the Wall Street Journal-Heritage Foundation’s Economic Freedom Index. The key takeaway from these maps is to add graphical weight to recent calls by the vice president of Uruguay for his country to seek full membership in the Pacific Alliance.⁶

The Competitiveness Split within Latin America



The Alliance So Far

The success of the Alliance lies in its pragmatic, “early harvest” approach. Rather than a single undertaking approach where a full range of issues is decided, negotiated, ratified, and implemented, with the “early harvest” model the easiest issues are tackled first to build momentum and confidence. This strategy, coupled with the like-mindedness of the participants, has allowed the bloc to move with a rapidity that has surprised skeptics and supporters alike.

The “early harvest” approach also appears to have two other advantages. It has quickly established a set of facts on the ground that, given the general inertia of such groups, gives the initiative weight, commands attention from bureaucracies, and makes ignoring the undertaking much more difficult. It also appears that this strategy has kept most of the minutiae out of the national assemblies. Dealing with issues separately also tends to keep opposition to the initiative siloed, preventing the formation of coalitions—so far no single issue has attracted a critical mass of protests. Per-

6. See “Uruguay busca ser miembro de Alianza del Pacífico,” *El País*, <http://www.elpais.com.uy/economia/noticias/uruguay-busca-miembro-de-alianza.html>; and “Guiño de Uruguay a la Alianza del Pacífico y críticas al Mercosur,” *La Voz Política*, March 6, 2013, <http://www.lavoz.com.ar/noticias/politica/guino-uruguay-alianza-pacifico-criticas-al-mercosur>.

haps, then, the greatest success of the Alliance has been its non-model model.

The most notable achievement to date has been the linking of the stock markets of Chile, Colombia, and Peru in the *Mercado Integrado Latinoamericano* (MILA), or Integrated Latin American Market. Mexico, originally scheduled to join at the end of 2012, now appears more likely to join in 2014 as the government reviews prerequisite legislation. MILA, which went into effect in May 2011 and predates the Pacific Alliance, is in reality a precursor to what was to come from the bloc members. Exchange integration is planned as a two-stage process. Currently it facilitates foreign intermediary electronic access to each market and transaction settlements. Eventually, intermediaries will be able to access the market directly under standardized rules that define cross-border settlement procedures. With the inclusion of the Mexican market, MILA will be the largest stock exchange in Latin America.

The creation of the joint market had been discussed under the Arc of the Pacific but was pursued only by Chile, Colombia, and Peru, largely to offer an alternative to investing in the Brazilian Bovespa.⁷ MILA provides investors with a more diversified market, as country-specific markets tend to be dominated by particular sectors: mining companies represent over half of the market capitalization in Peru, industrial issues are over three-quarters of the Colombian market, and the service sector is almost a third of Chile's. According to Reuters, the total value of the new exchange, including Mexico, is nearly US\$800 billion, surpassing Bovespa's US\$627 billion.⁸ Though initial trading volumes have been low, the merge appears to be facilitating cross-border expansions of financial-services firms.

The Alliance announced its second major achievement at the June 2012 Summit in Chile: the elimination of visas for all travel between member countries by the end of 2012.

This is accompanied by increased real-time sharing of information among security and immigration authorities. The elimination of visas puts the bloc on par with Mercosur and ahead of NAFTA, which has regressed in the liberalisation of the movement of people. Eliminating visas for travel within the Alliance and aggressively moving to integrate migration systems and information sharing positions the bloc to adopt a common "Alliance visa" for foreigners that could easily be included in future trade agreements between the Alliance and its Asian partners. This would give the Alliance a huge advantage in air routes and linkages with Asia, as it would also allow travelers to avoid the United States—as well as Canada and its increasingly U.S.-aligned entrance policies and procedures. Mexico City and Panama City would be the likely beneficiaries in lieu of Vancouver and Miami.

At the May 2013 Summit in Cali, it was quietly announced that the Alliance would soon develop a single entry visa for select countries, allowing business travelers to clear immigration for all countries at their first port of entry into an Alliance country.⁹

The Alliance's third major accomplishment is its survival of changes of heads of state in each country. When the agreement to establish the Alliance was first announced, many regional analysts were skeptical that either of the two candidates to replace Peruvian president Alan García would continue the country's participation—let alone do so with García's enthusiasm. Instead, García wisely invited the two principal candidates to attend the Alliance Summit held in Peru in 2011, which likely helped push current Peruvian president Ollanta Humala to maintain Peru's commitment to the bloc.

Additional achievements by the bloc included the adoption of a single electronic certificate of origin, the completion of joint trade promotion tours in Asia, the opening of a shared

7. Blake Schmidt, "Andean Market Struggles to Lift Stock Trading Dwarfed by Brazil's Volume," Bloomberg, September 22, 2011, <http://www.bloomberg.com/news/2011-09-22/andean-market-struggles-to-lift-stock-trading-dwarfed-by-brazil.html>.

8. Daniel Bases and Herbert Lash, "Growing Pains for Latin America's Integrated Stock Market," Reuters, June 24, 2013, <http://www.reuters.com/article/2013/06/25/latam-exchanges-mila-idUSL2NoF018120130625>.

9. "Pacta Alianza del Pacífico visa común," Reforma.com, May 23, 2013, <http://www.reforma.com/nacional/articulo/701/1400436/>.

trade promotion office in Ghana (with a second planned for Vietnam), and the removal of obstacles to cross-border university study and matriculation. And at the Cali Summit, the countries agreed to remove 90 percent of tariffs on merchandise trade.

Counterbalance or Alternative to TPP?

The relationship between the Pacific Alliance and the TPP is one of the most fascinating elements of the evolving global trade agenda. Given the overlap of participating countries and the similar ambitions of the two initiatives, there is a tendency to dismiss or diminish the importance of the Pacific Alliance.

This is a mistake, for four reasons.

First, the TPP is generally given more attention because it is a larger initiative. The inclusion of the United States in negotiations with 10 countries spanning the Pacific has the potential to create the world's largest regional trading bloc—but it has the more immediate possibility of leading to difficult, drawn-out negotiations that the U.S. Senate will be unable to ratify. Most analysis of the TPP focuses on the potential scope of a deal, but few writers have focused much attention on the politics of ratification.

Second, even though the TPP is billed as a “next century” agreement on services, intellectual property, and government procurement, more traditional free-trade measures remain on the chopping block. As should be obvious, these are not measures that were missed in earlier agreements because of their insignificance. Rather, these are the measures that were able to mount the most vigorous and effective protectionist political campaigns. As noted in a recent analysis by the East Asia Forum:

On sugar, the United States has adamantly opposed curbing a protectionist regime that uses price supports, combined with quotas and sky-high tariffs, to keep out competitors and force US consumers to pay on average

twice the world price for the commodity. Similarly, for dairy products, a combination of subsidies, quotas and tariffs “milk” US consumers and keep out foreign competitors. But cotton is the real mindblower: currently US taxpayers are shelling out US\$147 million per year to buy off Brazilian cotton magnates who quite rightly won a case against US subsidy programs in the WTO.

U.S. intransigence on a number of free-trade issues is just one indicator of the impending political battle in the United States. And these political conflicts will only grow, as charges of poor labor, environmental, and human rights conditions in the TPP's Asian members (and aspirant members) will be levied from all sides—both within and outside the United States. The (il)legitimacy of these concerns will likely be irrelevant to their impact on public opinion.¹⁰

A third complication for the TPP is the shifting mood within the United States on trade. One of the startling findings from a 2010 Pew Research Center poll on attitudes toward trade found that support for “free trade agreements like NAFTA [and the] policies of WTO” has continually declined over recent years. And support for trade agreements is even weaker among Tea Party supporters. While 54 percent of those who identified as Republican said that free-trade agreements were bad for the United States (a 15-percentage-point increase from the year before), that number shot up to 63 percent for people who identified as Tea Party supporters. The poll also found that opposition was strongest regarding trade agreements with China and South Korea, though it was high for Canada (76 percent), Japan (60 percent), and Brazil (53 percent) and Mexico (42 percent) as well.¹¹

These developments are reflected in the U.S. Senate. Even though the Senate voted in 2012 to pass three long-stalled trade agreements with South Korea, Panama, and Colombia, the votes themselves were not encouraging; 83–15 for the South Korea agreement, 77–22 for Panama, and 66–33

10. Claude Barfield, “Mexican tomatoes and the US TPP negotiations,” East Asia Forum, March 14, 2013, <http://www.eastasiaforum.org/2013/03/14/mexican-tomatoes-and-the-us-tpp-negotiations/>.

11. Pew Research Center, “Public Support for Increased Trade, Except With South Korea and China, Fewer See Benefits from Free Trade Agreements,” November 9, 2010, <http://www.people-press.org/2010/11/09/public-support-for-increased-trade-except-with-south-korea-and-china/>.

for Colombia. The bottom line is that the TPP's passage will be a bumpy ride, if it passes at all.

Fourth, on a strategic level, the U.S. government does not view the Alliance as a threat to the TPP. Then-Secretary of State Hillary Clinton made a point of meeting with the heads of state of the Alliance at the Cartagena Summit in 2012. The administration, while publicly optimistic about negotiation and passage of the TPP, may also be looking to hedge its bets. An Alliance deal with China or ASEAN would be a powerful incentive to rush TPP ratification through the U.S. Senate.

The Future: The Americas and Asia

At the May 2013 Pacific Alliance Summit in Cali, the group admitted Costa Rica as a full member. The Alliance is currently believed to be entertaining similar requests by Guatemala and Spain. Panama remains an observer-candidate, expected to gain full membership if and when it and signs trade agreements with Colombia and Mexico.

At this most recent Summit, the number of observer countries doubled, with Australia, Canada, Guatemala, Japan, New Zealand, Spain, and Uruguay joined by the Dominican Republic, Ecuador, El Salvador, France, Honduras, Paraguay, and Portugal. Reports have circulated that Indonesia and China are also considering applying for observer status, and Guatemala has indicated its desire to move from observer status and join Panama as an observer-candidate on its way to full membership. And since the Summit's conclusion, South Korea has applied for observer status.

At this point, however, few countries appear to be viable candidates for full membership. Though Guatemala has extensive trade agreements with all current Alliance members, the country lacks the perceived degree of political stability AP states enjoy. Uruguay and Paraguay are members of Mercosur, whose rules limit their ability to join the

Alliance without first withdrawing from Mercosur—an unlikely development.

To date, the Alliance has been driven by economic and competitiveness criteria. A decision on Guatemala will be the clearest indicator of whether this rigor can persist moving forward. A new set of presidents in the Alliance countries who did not experience firsthand the problems with the Arc of the Pacific may be tempted to allow political considerations to play a larger role in Alliance decisions. Alternatively, future presidents may not share the same views on free trade that current presidents do—as has happened with Mercosur—and the bloc may find itself increasingly politicized. Given that the Alliance is still in its infancy, it has yet to face these obstacles.

As for Asia, the Alliance countries already have more trade agreements with Asia than the rest of the Americas combined. This preexisting base will make negotiation of Alliance-ASEAN or other Alliance-Asian agreements easier—and giving the group a clear advantage over the TPP.

An indication of the interest by countries in Asia in the Alliance was seen in the call by Indonesia at the 2012 ASEAN-Latin Business Forum for ASEAN to begin negotiations with the Alliance.¹² In addition, China has formally requested observer status with the group and China, Japan, and South Korea have already concluded extensive trade agreements with half of the Alliance countries.¹³ These countries' admission as observers, which appears to be underway with the recent South Korean request, seems a natural next step. And beyond this, the basis and conditions are already in place for concluding broader agreements.

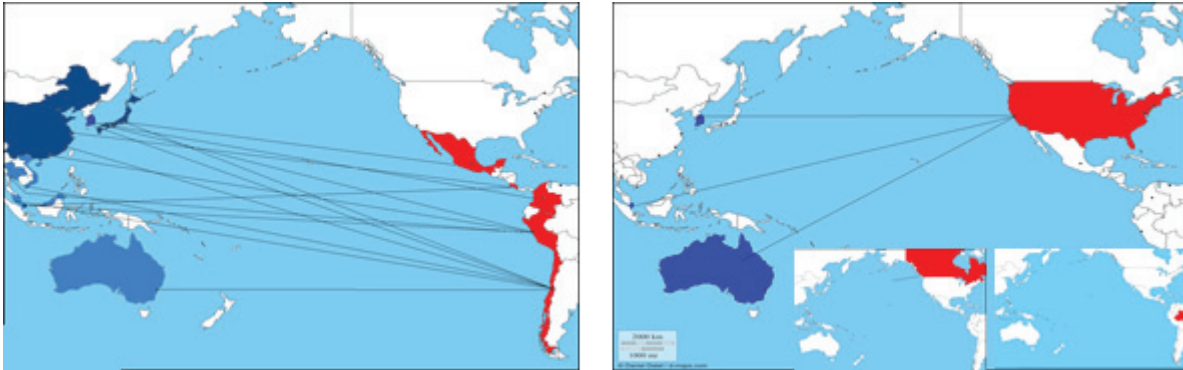
Should China and South Korea join Japan as observers in the Alliance, an interesting dynamic would begin to emerge in trans-Pacific trade. The maps below show the

12. "Indonesia wants ASEAN to court Pacific Alliance (Mexico, Peru, Chile and Colombia)," *China News Asia*, July 12, 2012.

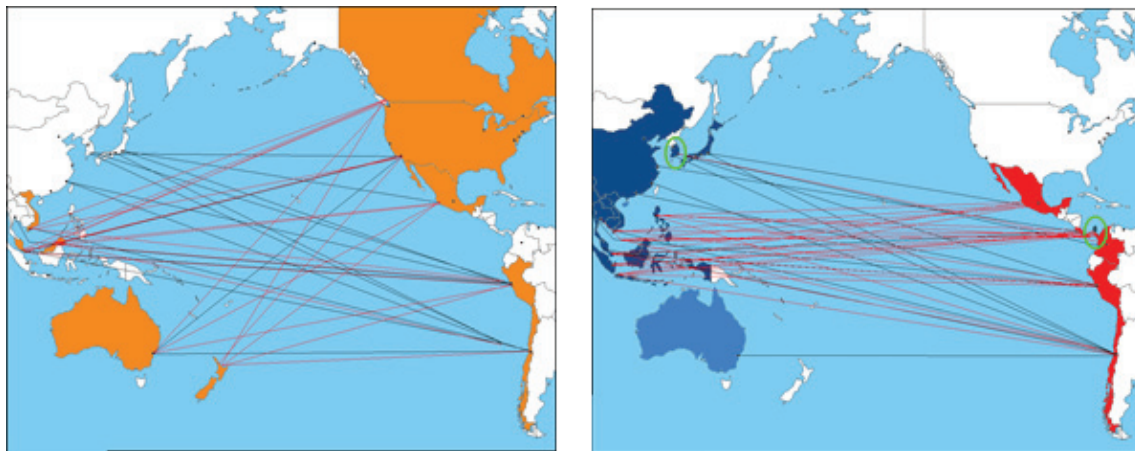
13. Ivette Saldaña, "Interés de China por la Alianza del Pacífico," *El Financiero*, April 3, 2013, <http://www.elfinanciero.com.mx/component/content/article/44/9822.html>.

current architecture of trans-Pacific trade, bearing in mind that the integration measures taken by the Alliance are more profound and effective than elsewhere in the hemisphere. It is in many ways reasonable to view the Alliance as a functional single economy for commercial purposes. Thus, an agreement with one Alliance country can, thanks to the goal of seamless movement of people, goods, and capital within the group, be treated as an agreement with the entire bloc.

The first set of maps contrasts trade agreements between the Alliance and Asia and the United States and Asia, while the smaller insets show Canada and Brazil. Canada is in the process of negotiating trade agreements with South Korea and Japan, but far from concluding, let alone signing, agreements with either. Brazil, and by extension Mercosur, has neither full trade agreements nor negotiations with any Asian countries.



The second set of maps shows two possible future scenarios for trans-Pacific trade. The first scenario considers the architecture of trans-Pacific trade under a TPP agreement signed and ratified by members to the negotiating process as of publication of this paper.¹⁴ The second map considers the architecture of trans-Pacific trade under an agreement between ASEAN and the Pacific Alliance, assuming the ratification of the South Korea-Colombia trade agreement and Panama's AP membership. Though such AP-ASEAN negotiations have not begun, and the TPP has stated that after close to a dozen rounds it will conclude negotiations by the end of 2013, it is still not clear which scenario is more likely. Indeed, all indications from recent polling data to the rise of the Tea Party to the multiyear delays in approving recent trade agreements indicate that passage of the TPP is far from certain, especially in the short term.



14. Japan's ascension to the TPP negotiating process, while approved unanimously by all TPP members, will not be ratified by the U.S. Senate until July 23, 2013.

There are reasons to believe that an Alliance-ASEAN agreement could be concluded in the interim. The track record of the Alliance to date and the coherence among its members are promising. In addition, both the AP and ASEAN have, in essence, neutral third-party institutions at their disposal (the ASEAN secretariat and the Trade and Integration units of the Inter-American Development Bank) that could be used to produce both objective analyses of issues and suggested paths toward compromise.

It is worth noting that this is more of a thought exercise than a prediction for future events. On the one hand, it serves to throw some cold water on overly optimistic assumptions about the TPP, and, on the other, it should provoke more creative and dynamic thinking about the implications of the rise of the Pacific Alliance and its potential impact on trans-Pacific trade.

Conclusion

The 2013 Cali Summit was widely viewed as a success. The admission of Costa Rica as a full member and the establishment of a candidate observer status for aspiring members set out clear guidelines for the group's expansion. The doubling of the number of observers was also a clear sign of interest and confidence in the future of the Alliance by countries on both sides of the Pacific.

The greatest challenge for the Pacific Alliance is living up to expectations. Doing so will require the realization of its potential with tangible developments. The upcoming integration of Mexico into MILA and the recent ascension of Costa Rica to full Alliance membership are examples of this. Such successes will also set the stage for the likely admission of Panama as a full member and of the United States as an observer in the near future.

But the Pacific Alliance may be tempted by success to go down erroneous paths—including the expansion of membership to countries that do not share current members' strong institutions or commitment to free markets and the rule of law. Brazil's acceptance of Venezuela into Mercosur serves as an example of what not to do. The Alliance may be also tempted to move beyond its limited objectives, instead

pursuing an unworkable common political-ideological platform. Though its founding members are adamant that this agreement is explicitly apolitical, we have yet to see what challenges are in store as new members are brought into this agreement.

But for now, this positive initiative is simply bringing innovation, unity, and strength to the geography that has been called the “backbone” of Latin America, itself a shining example of the bold initiatives many countries in the region are taking to compete globally. ■

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