



UNITED NATIONS

ECLAC

# Regional Integration in Latin America and the Caribbean: The role of the Pacific Alliance

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# Summary

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- **Global and regional perspectives.** Trade tensions worsen and regional trade falls.
- **Regional Integration.** Current status and the role of the Pacific Alliance.
- **Regional Integration Challenges in Latin America.** Implications for LAC-Korea cooperation



# Global and regional perspectives

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# The slowdown of global trade has worsened due to the build-up of trade barriers

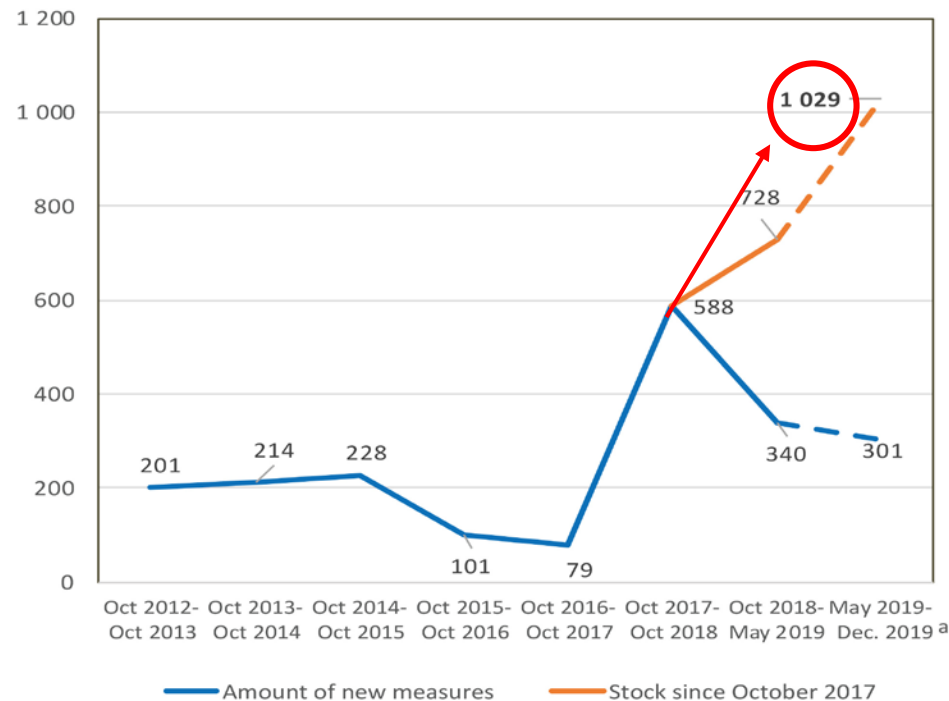


**Year-on-year change in the volume of global merchandise trade, January 2012–July 2019**  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] <https://www.cpb.nl/en/worldtrademonitor>.

**Coverage of import restriction measures, October 2012–December 2019**  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *Report of the TPRB from the Director-General on Trade-Related Developments (mid-October 2018 to mid-May 2019)*, (WT/TPR/OV/W/13), Geneva, 2019, and ECLAC estimates for the period 16 May to 31 December 2019.

<sup>a</sup> This estimation considers only measures implemented and those officially announced up to 1 September 2019.

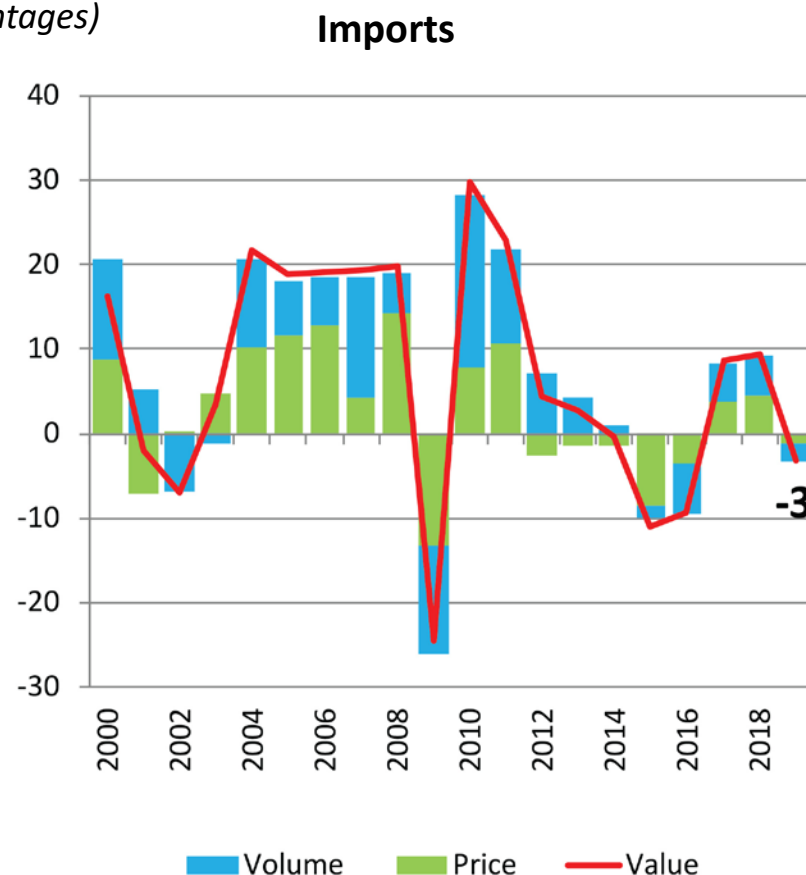
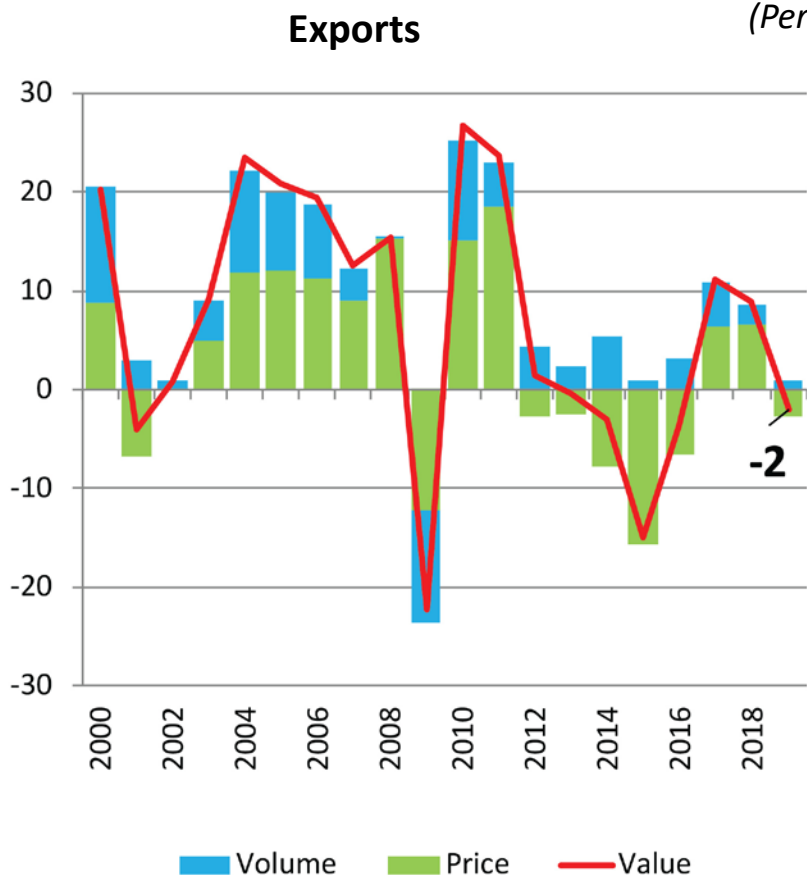
# In 2019, the value of regional trade is projected to fall for both exports and imports



Latin America and the Caribbean: annual variation in merchandise trade by price, value and volume, 2000–2019<sup>a</sup>

2000–2019<sup>a</sup>

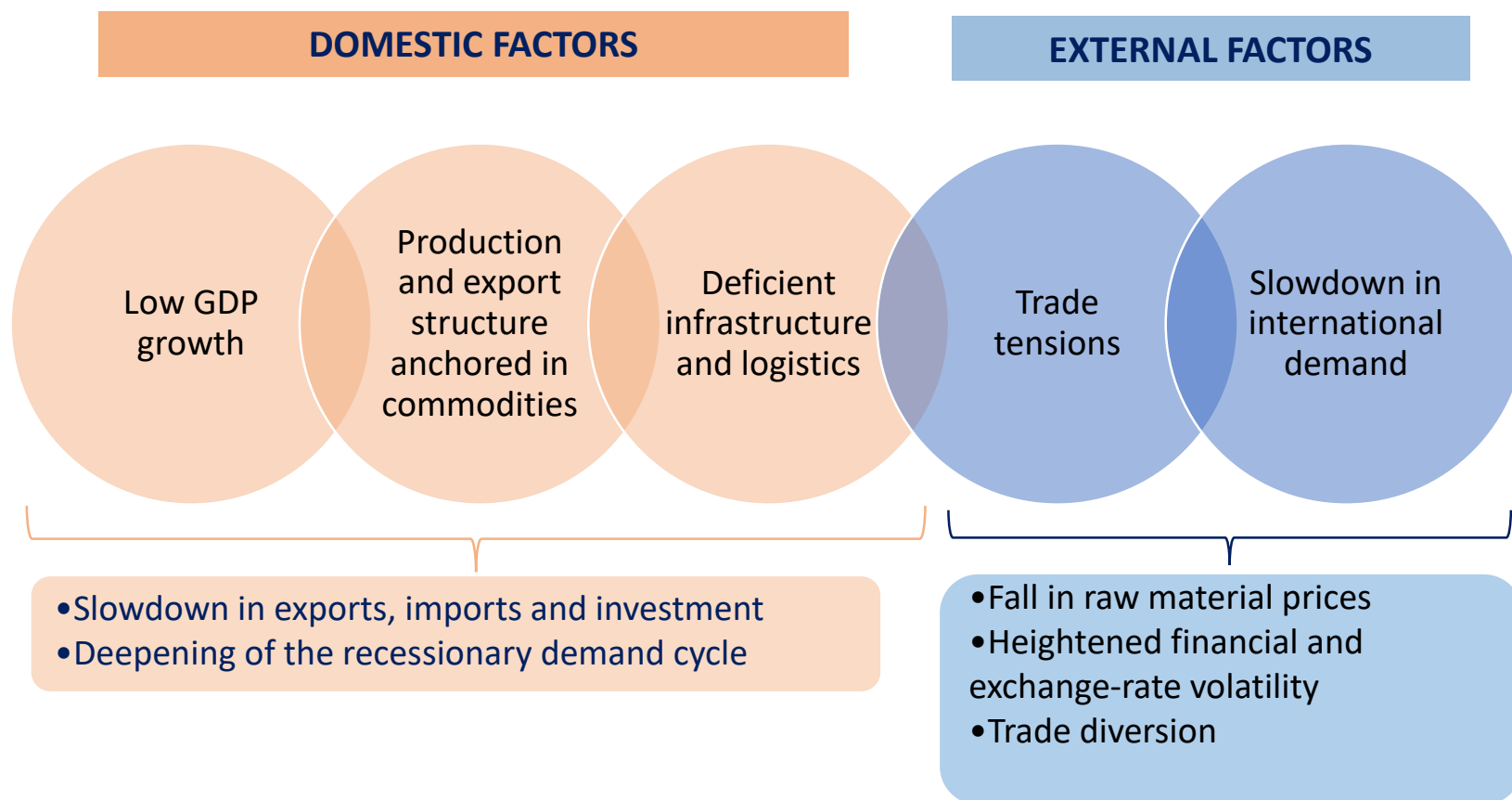
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from customs offices, statistical institutes and central banks of the countries.

<sup>a</sup> The figures for 2019 are projections.

# Internal and external factors constrain the region's export performance



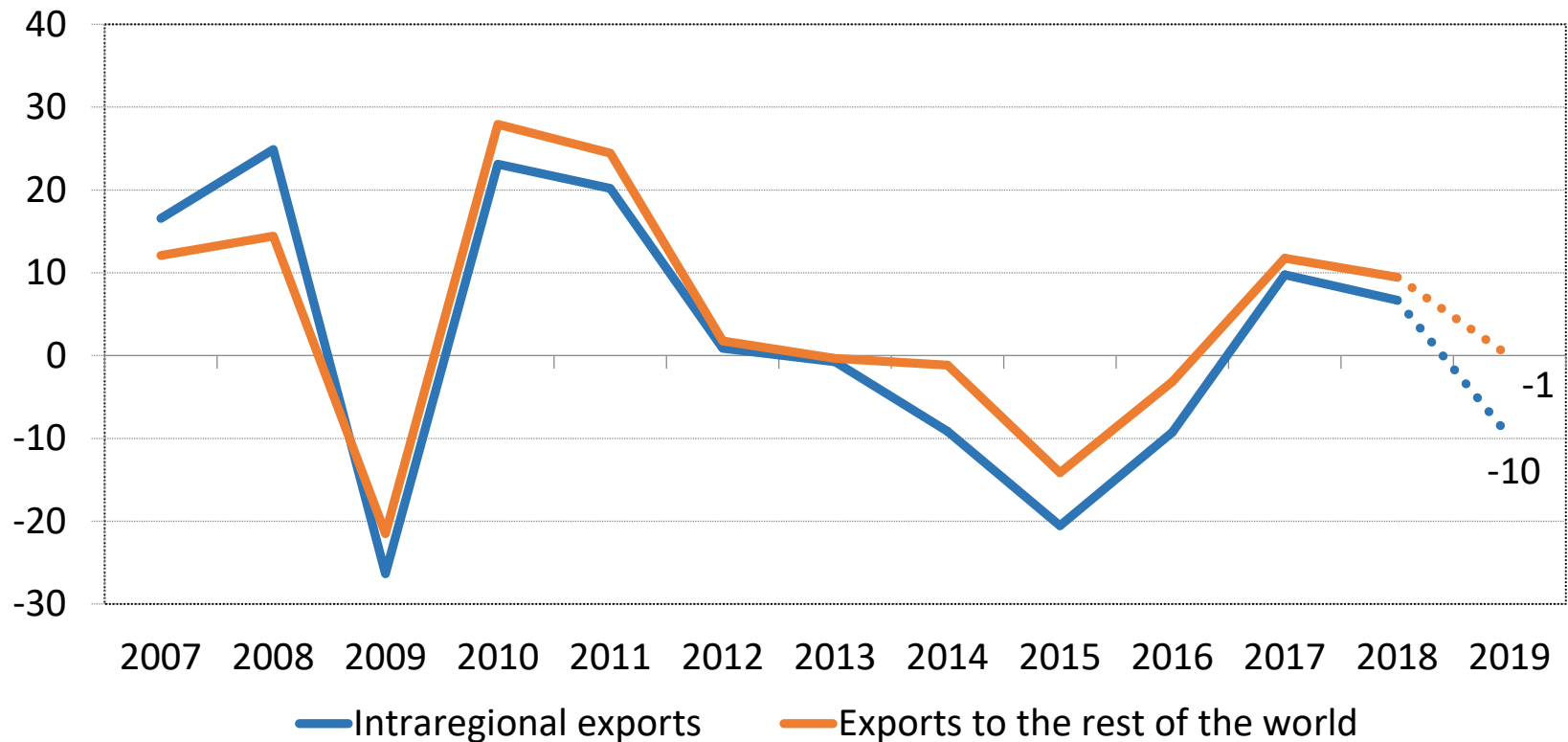
Source: Economic Commission for Latin America and the Caribbean (ECLAC)

# The region's weak growth mirrors the sharp contraction in intraregional trade



## Latin America and the Caribbean: annual variation in the value of intraregional exports and exports to the rest of the world, 2007–2019<sup>a</sup>

(Percentages)



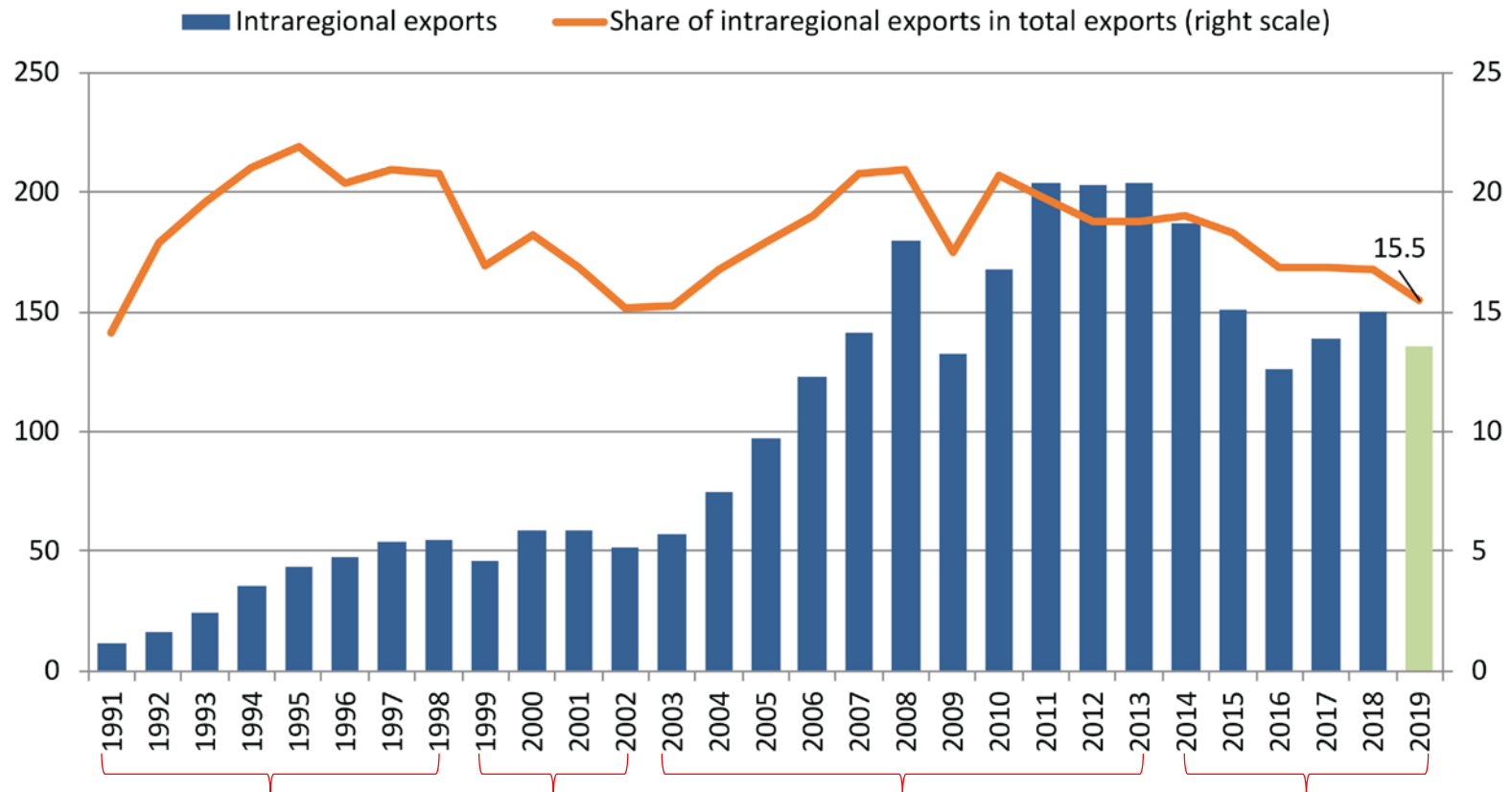
Source: ECLAC, on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

<sup>a</sup> Figures for 2019 are projections.

# Intraregional trade remains well below its maximum levels registered in 2011–2013



**Latin America and the Caribbean: intraregional exports of goods, 1991–2019<sup>a</sup>**  
*(Billions of dollars and percentages of total goods exports)*



MERCOSUR creation, Andean Community relaunch

Crises

Commodity supercycle

Economic slowdown

Source: ECLAC, on the basis of official information from countries of the region, the Andean Community and the Central American Common Market.

<sup>a</sup> Figures for 2019 are projections.

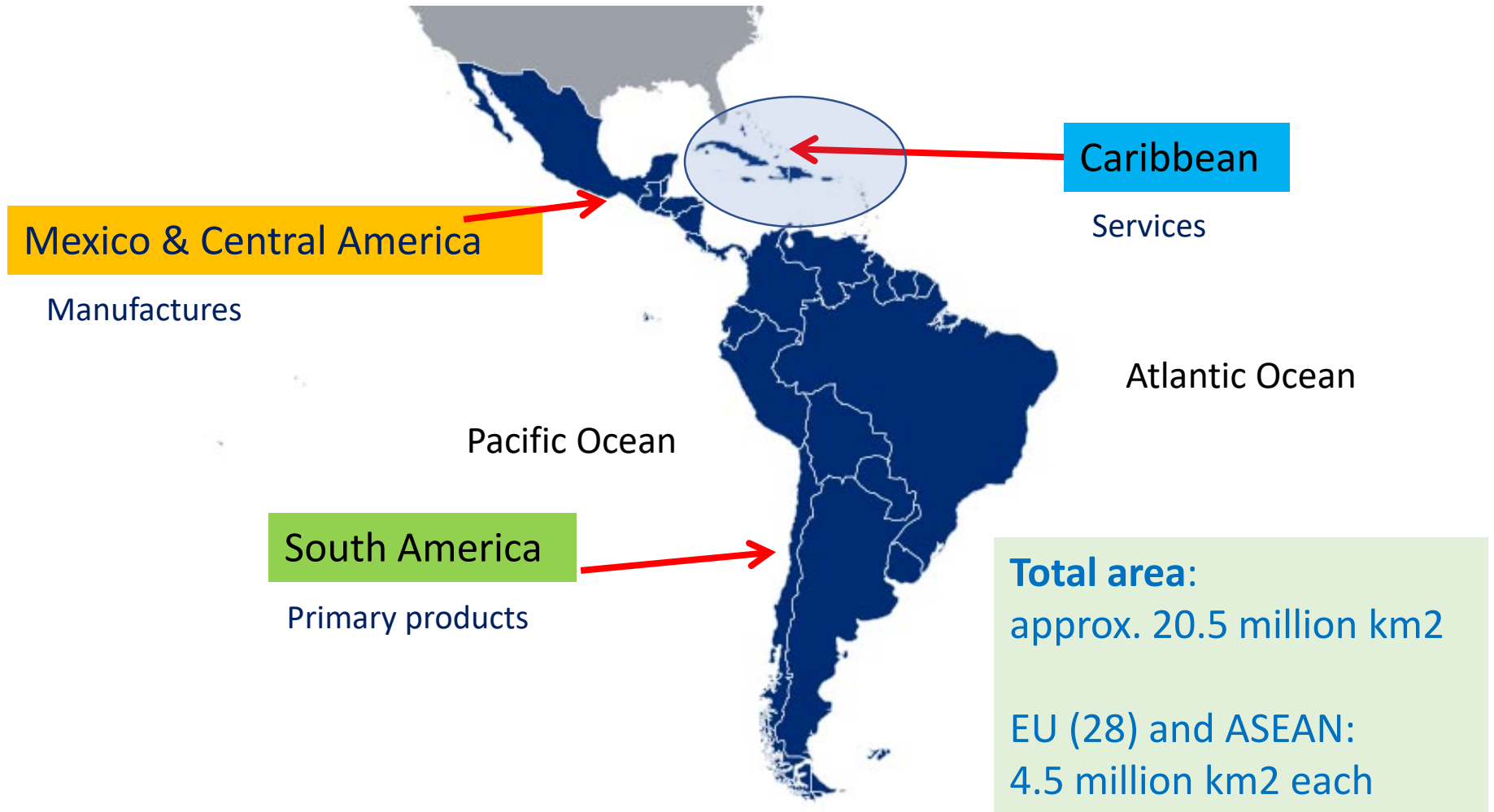




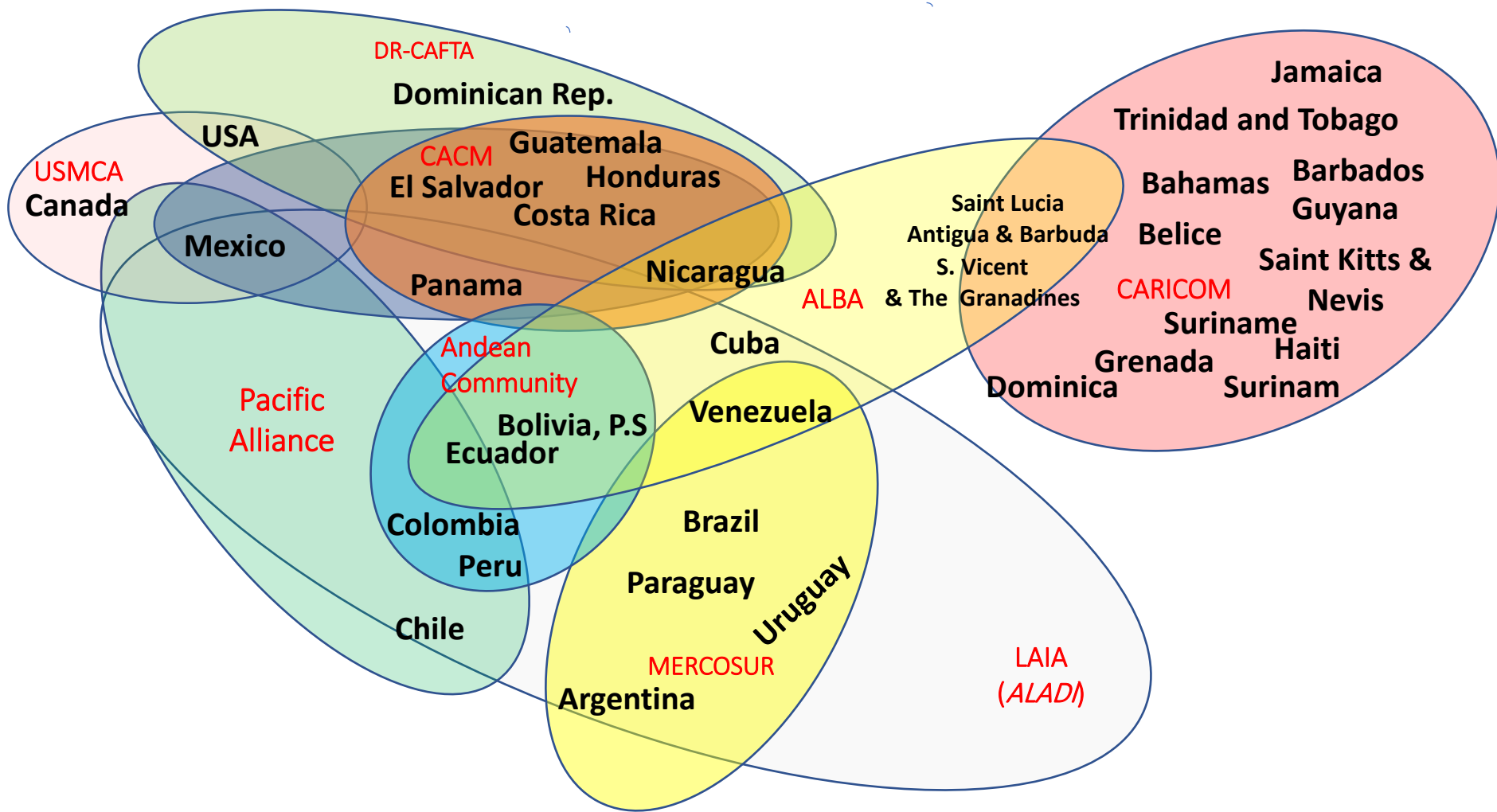
# Regional Integration

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# Latin America and the Caribbean are 3 sub-regions in one, and with different export patterns



# The architecture of regional integration in LAC is very complex



# Traditional Regional Integration schemes in LAC





# The Pacific Alliance (PA) – Overview (2018)

- Created in 2011
- Member countries: Chile, Colombia, Mexico and Peru
- Population: 231 million inhabitants
  - 36% of LAC's population
- GDP: US\$ 2.7 trillion
  - World's 8<sup>th</sup> biggest economy
  - 36% of LAC's GDP
  - GDP per capita: US\$ 18,921
- Foreign Direct Investment: US\$ 60.8 billion
  - 33% of total LAC FDI inflow
- PA members have signed 40 Free Trade Agreements with 80 different countries



# Objectives of the Framework Agreement of the Pacific Alliance

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- 1 - Build a deep integration area
  - advance progressively towards the free circulation of goods, services, capital and persons
  
- 2 - Boost growth, development and competitiveness of member states' economies
  - improve welfare, reduce inequalities and enhance social inclusion
  
- 3 - Become a platform for political articulation, economic and political integration and projection to world
  - emphasis on the *Asia Pacific* region

# Which is the value added of the PA's Commercial Protocol?

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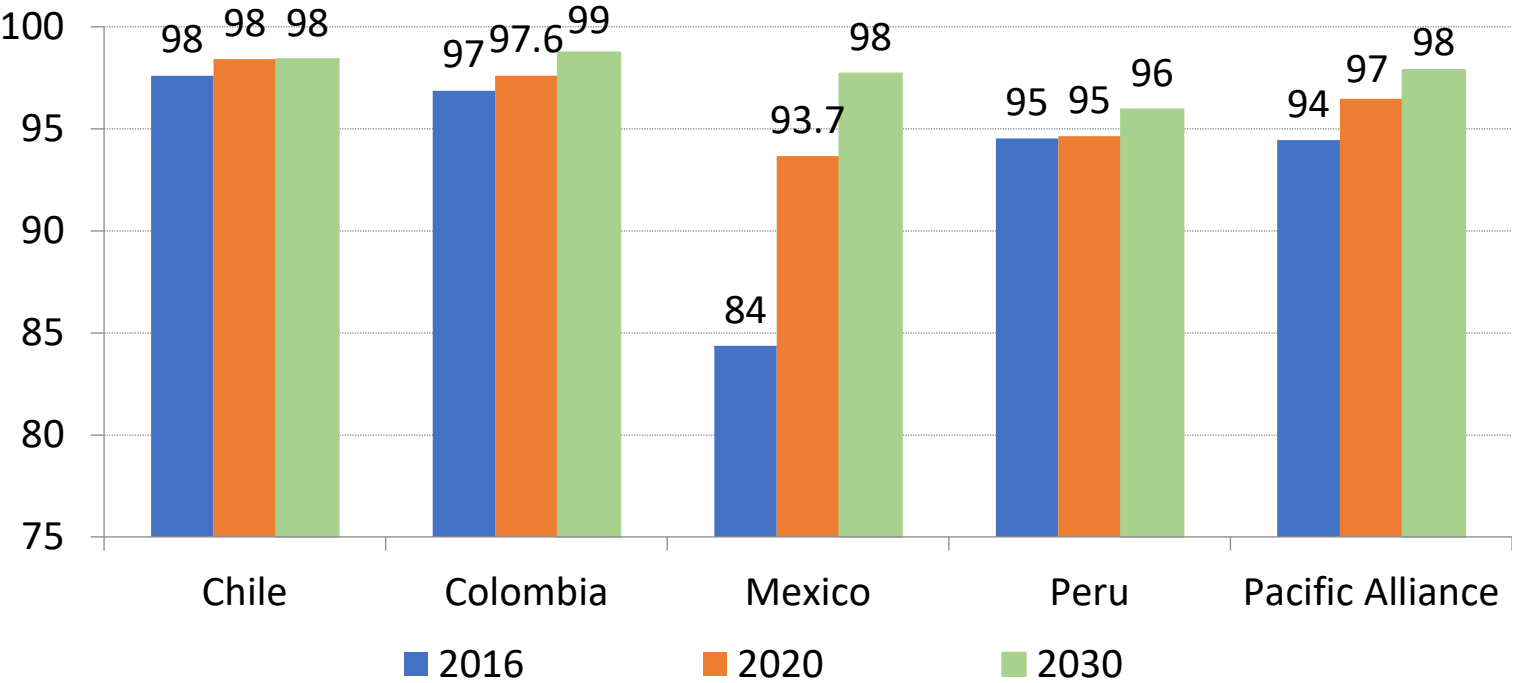
- Wide coverage comprising, among others:
  - trade in goods;
  - services;
  - investment;
  - government procurement;
  - trade facilitation (Single Window System);
  - maritime transport;
  - telecommunications;
  - financial services;
  - electronic commerce.
  - cumulation of origin
- Creation of the Business Advisory Council (*CEAP* in Spanish)

# Market access: liberalization is already a reality that will accelerate in the coming years.



- Approximately 88% of intra-PA trade (2014) ; 97% in 2020
- Intra-PA average applied tariff: 0.45%

**Pacific Alliance: Share of duty free imports in intra Pacific Alliance trade**  
*(In percentages of total imports)*



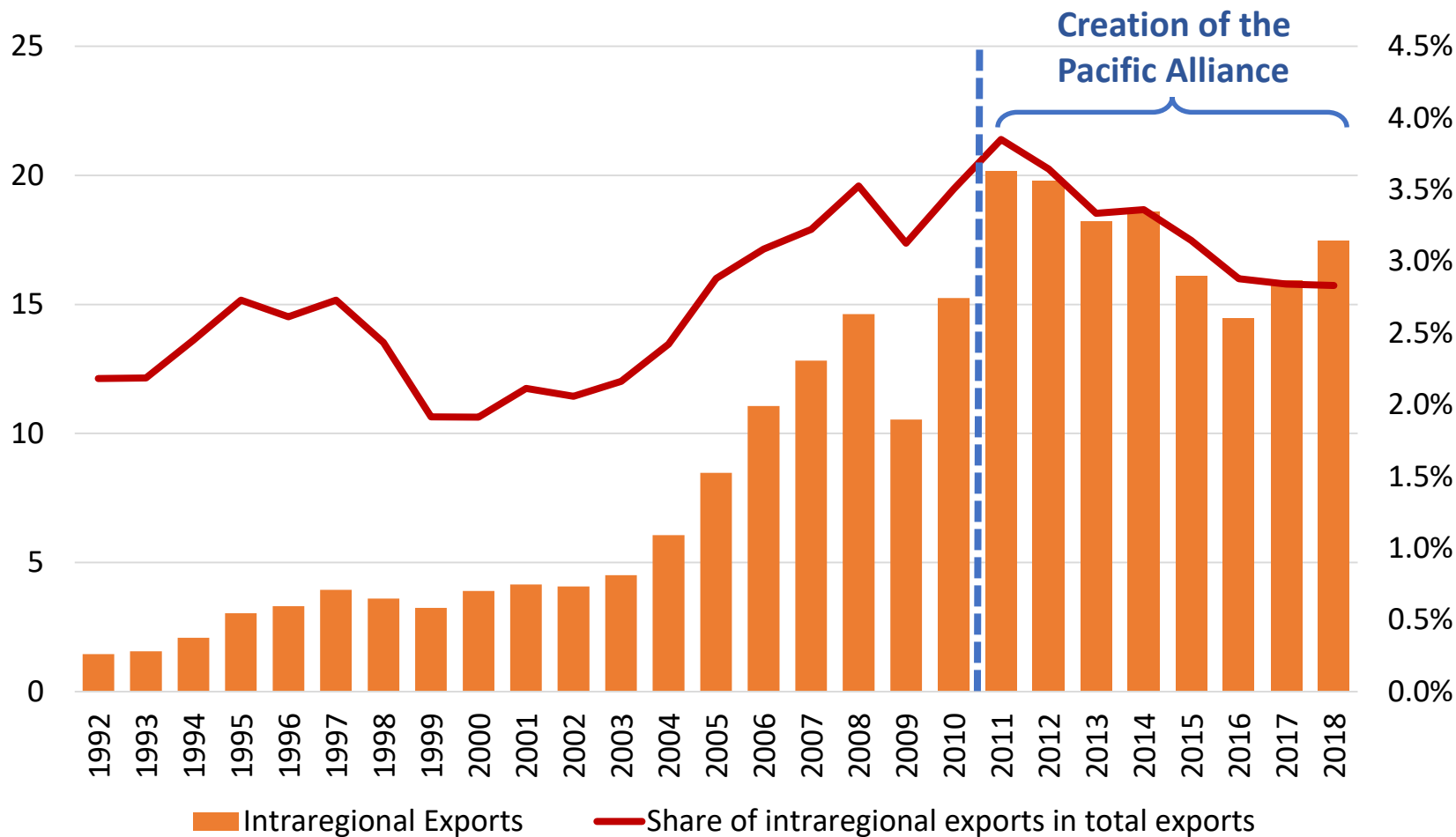
Source: Duran and Cracau (2016) .Information from COMTRADE database and tax relief schedules of the Additional Protocol to the Framework Agreement



# Intra-PA trade accounts for less than 3% of PA's total exports of goods



**Pacific Alliance: intraregional exports of goods, 1992–2018**  
*(Millions of dollars and percentages of total goods exports)*

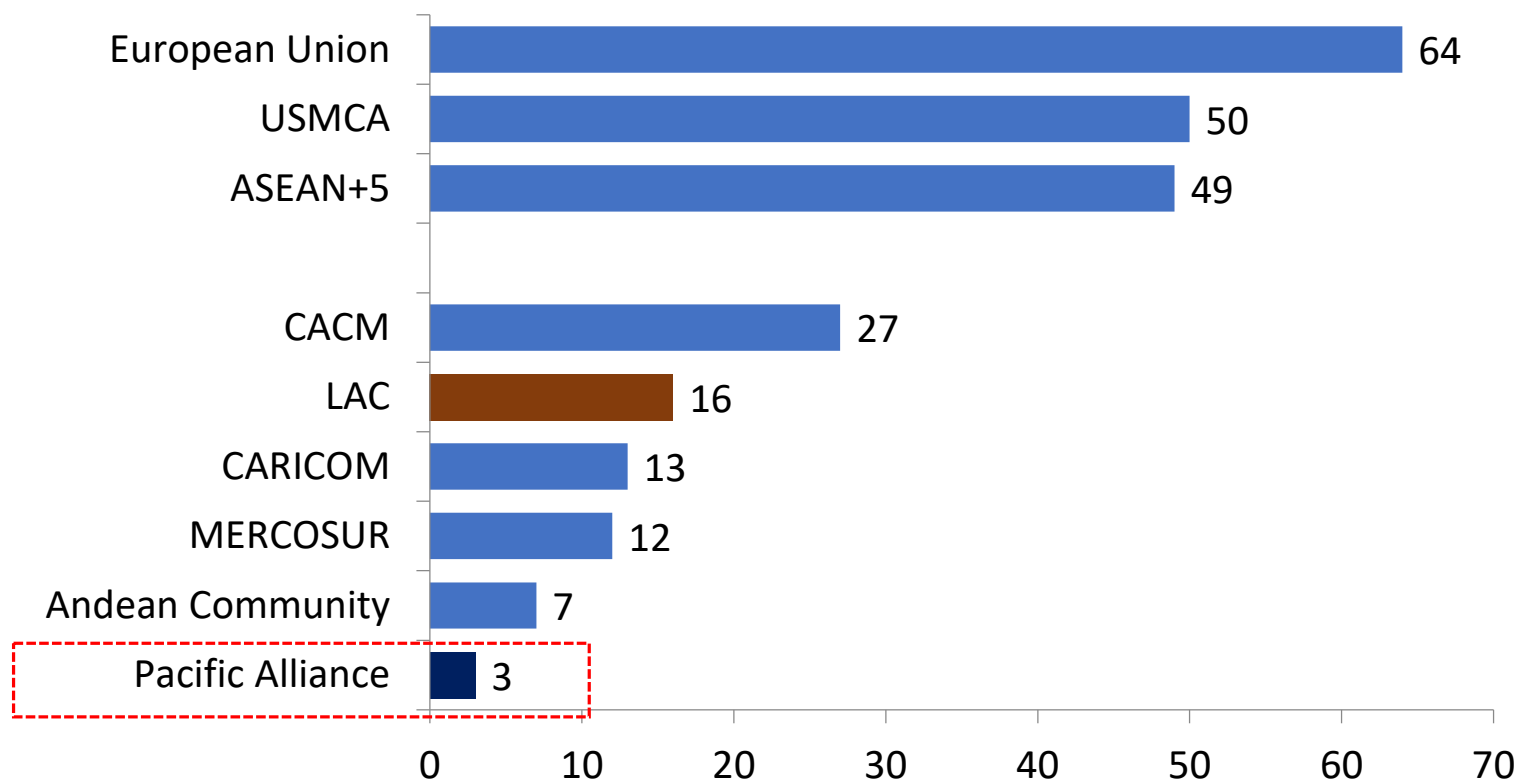


Source: ECLAC based on COMTRADE data

# The share of intra-bloc trade in the PA is lower than in all other economic integration groups



**Intraregional exports of goods, 2017-2018<sup>a</sup>**  
*(percentages of total goods exports)*



**Source:** ECLAC with data from UN COMTRADE database.

In the case of ASEAN+5, the figure is from 2016.

<sup>a</sup> average

# Intra-PA economic interdependency is larger in services and FDI

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- **Intraregional FDI flows represent 12% of total outflows.**
  - Chile and Mexico are the main destinations.
  - An important portion of the FDI goes to the service sector (retail, construction, communications, finance)
  - Relevant firms based in Pacific Alliance countries: America Movil (Mexico); LATAM (Chile); AVIANCA (Colombia);
- **Intraregional trade in services represents 11% of total trade in services. That share increases to 17% if Mexico is excluded.**
  - 28% for Peru; 17% for Colombia; 10% for Chile and 4,5% for Mexico.
  - In the business services sector, intra-PA share is larger (between 12% and 30%).

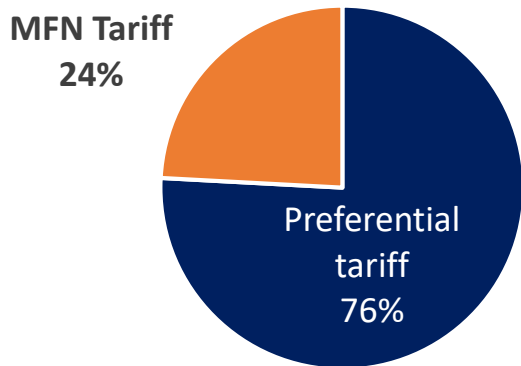


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# Regional Integration Challenges in Latin America

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# 76% of total intra-LAC trade receives preferential tariffs



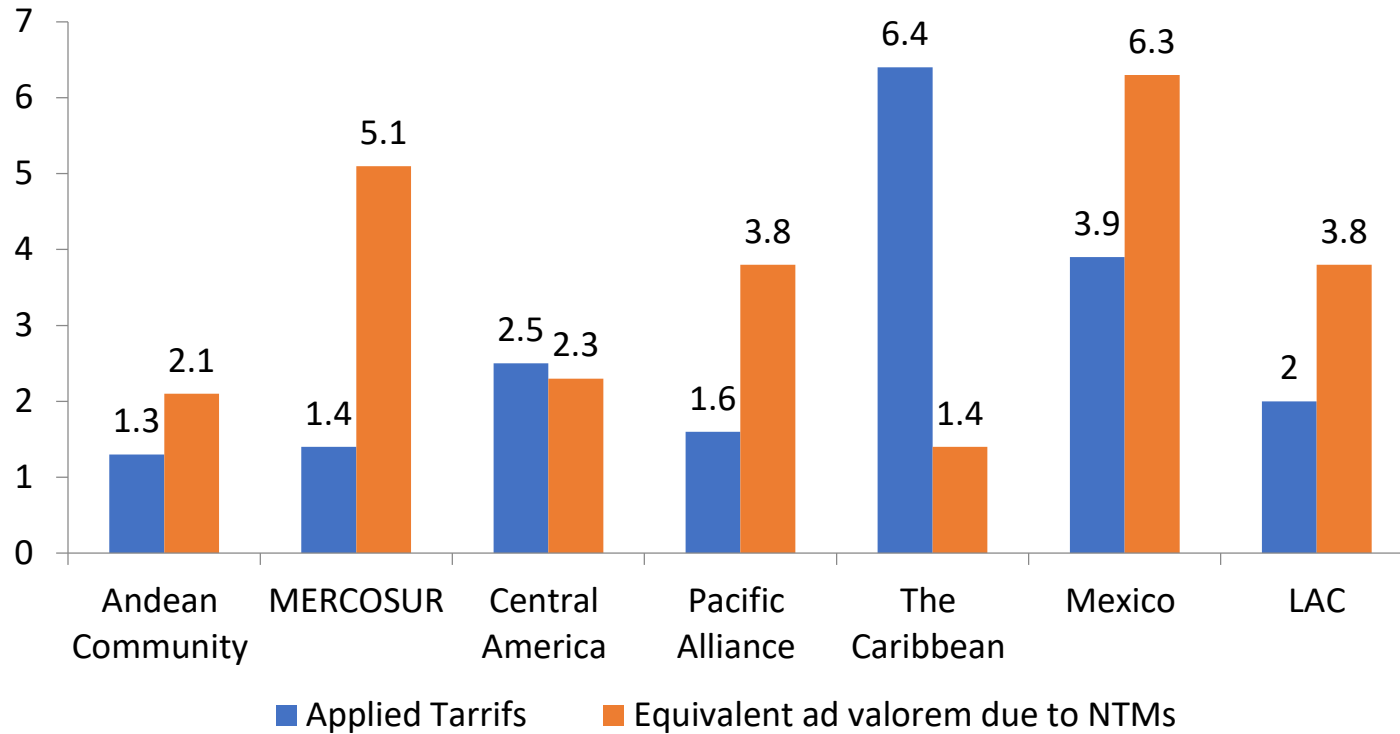
## Room for further integration

- Further Tariff reduction
- Agreements for harmonization/streamlining of rules and standards
- Tackling infrastructure and Trade Facilitation issues (reduction of procedural costs)

# Trade costs of Non-tariff measures (NTMs) are larger than ordinary customs tariffs



Latin America and the Caribbean: tariff and non-tariff protection in intra-regional trade, 2015 <sup>a</sup>  
(in percentages)

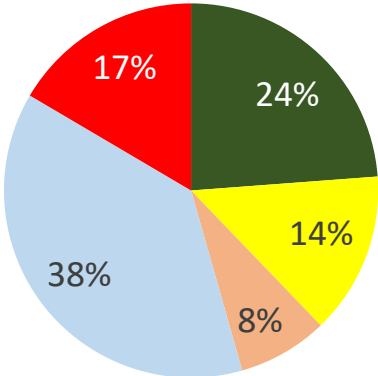


Source: <sup>a</sup> AVE estimations for NTMs were retrieved from Dolabella & Durán Lima (2020)

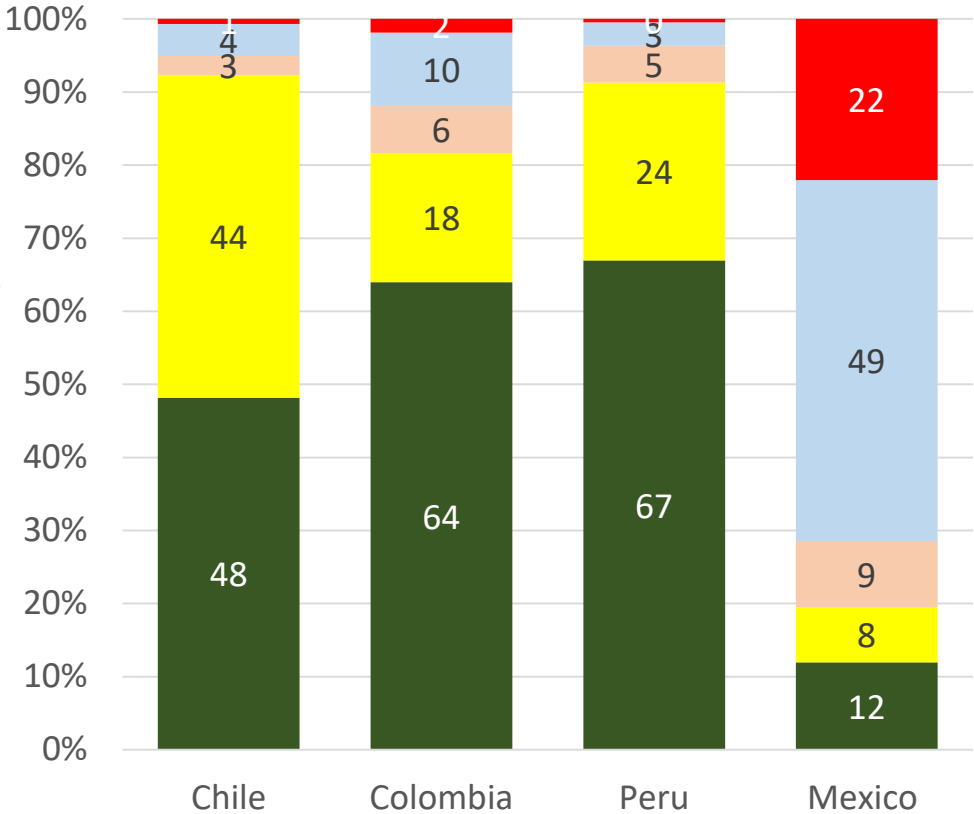
# Low level of intra-regional trade might be partially attributed to the low level of complementarity in the region's economies



**Breakdown of total PA merchandise exports by technology intensity, 2018 (%)**



- Primary goods
- Natural resource-based manufactures
- Low-tech manufactures
- Medium-tech manufactures
- Hi-tech manufactures



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

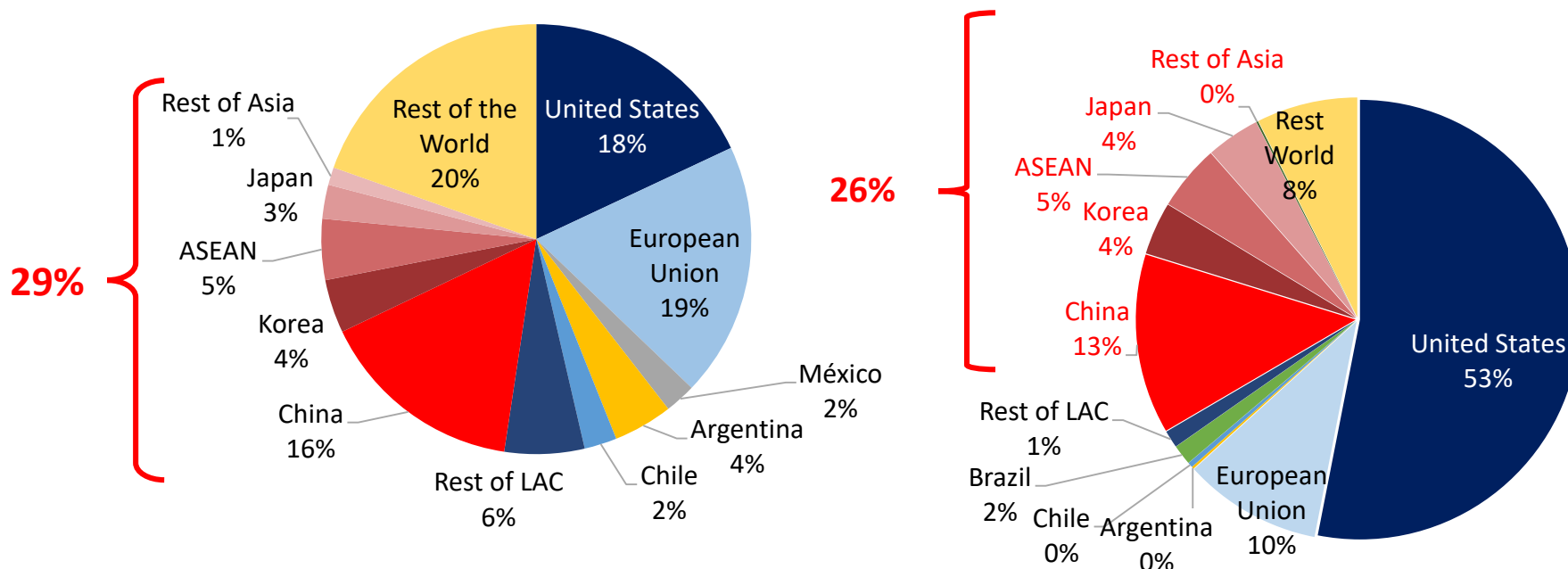
# Brazil and Mexico import more industrial intermediate goods from the rest of the world than from the rest of LAC



## Brazil and Mexico: Distribution of industrial intermediate goods by origin of imports, 2017-2018 (In percentages)

### BRAZIL

### MEXICO



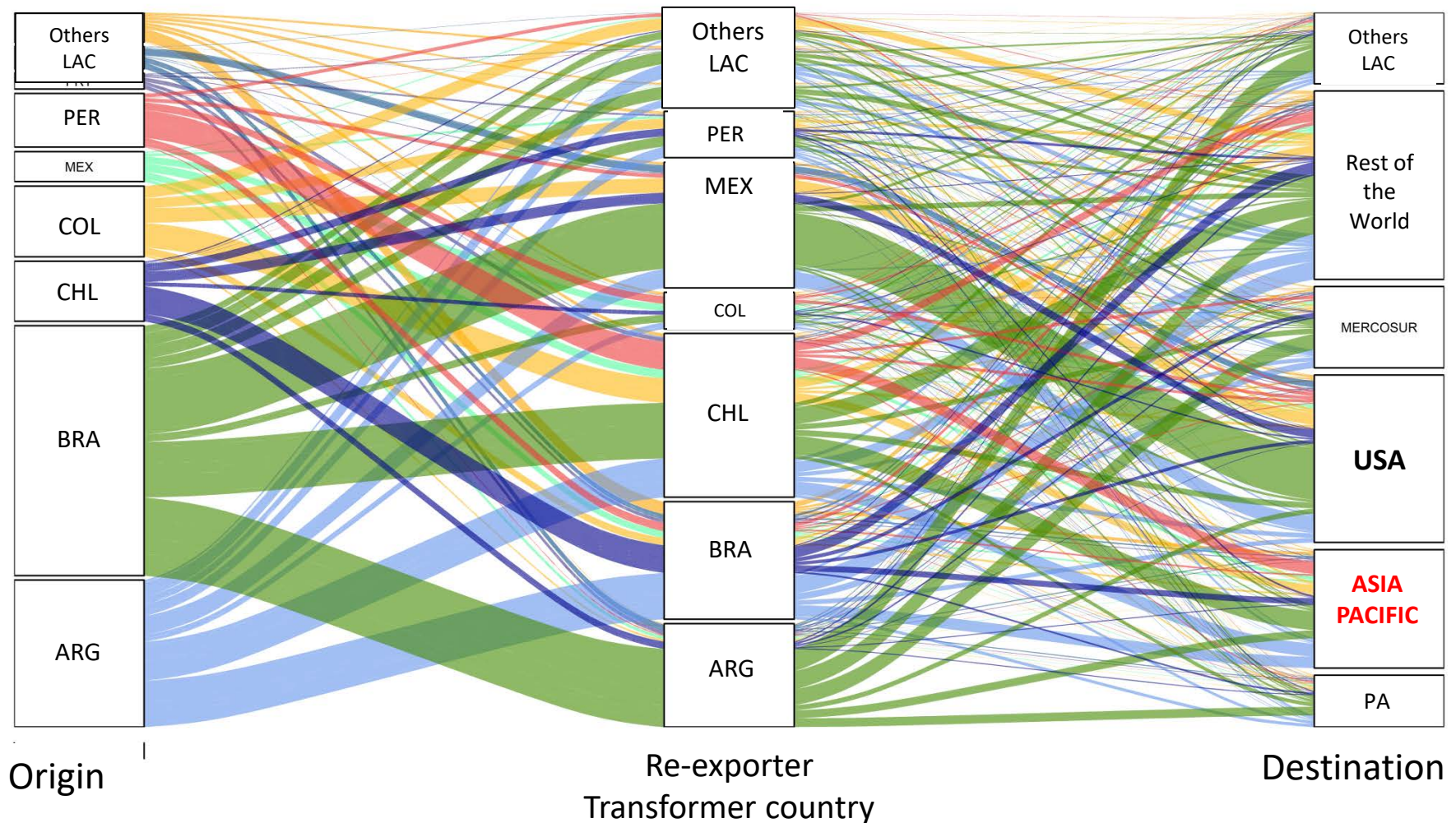
Source: ECLAC based on data from UN Comtrade.



# LAC is more connected with itself than with Asia Pacific, and 6 countries concentrate trade links



Flow of Domestic Value-Added generated in Latin America, All Sectors, 2011



# At a regional level, the economic relevance of the Pacific Alliance plus MERCOSUR is substantial



## Pacific Alliance and MERCOSUR: Selected Indicators (2017-2018)

Integration Scheme	GDP (current USD trillions)	Population (millions) <sup>a</sup>	Exports (USD billions)	Inward FDI (USD billions) <sup>b</sup>
Pacific Alliance	1,8	231	627	66
MERCOSUR	3,7	264	285	69
Latin America and the Caribbean	6,3	649	1,085	146
% Pacific Alliance	28%	36%	58%	45%
% MERCOSUR	60%	41%	26%	48%
<b>% PA + MERCOSUR</b>	<b>88%</b>	<b>76%</b>	<b>84%</b>	<b>93%</b>

Source: UNCTAD (FDI), ECLAC (GDP and exports), World Population Reference (population).

<sup>a</sup> Population data from mid-2018. <sup>b</sup> FDI data doesn't include Caribbean financial centers.

# Conclusions

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- **There is a great potential market in Latin America and the Caribbean**
  - 8.4% of world's population
  - Large supplier of natural resources (especially South America)
- **However convergence between PA and MERCOSUR is crucial for unlocking this potential.**
  - Brazil and Mexico could take the lead
  - Step-by-step approach
- **The large economies of Latin America should follow the steps taken by East Asia to promote productive integration**
- **Challenges to be addressed:**
  - lack in infrastructure investment;
  - increasing transport and digital connectivity and facilitating the business environment;
  - implementing trade and investment facilitation measures;
  - reducing the restrictiveness of ROO;
  - promoting a common digital market.

# Role of Korea-LAC cooperation

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- **Some ideas for on-going and further cooperation**
  - Knowledge sharing on Asian experience: RCEP
  - Exchange of best practices in different fields
    - Promote capacity building among government officials
  - Improve knowledge of both regions
    - Korea-LAC Business Forum; FEALAC Business Forum; Korea-LAC Business Summit.
  - Funding of development projects
    - FEALAC Multi-Donor Trust Fund (MOFA contribution – 3 million USD)
- **ECLAC has been developing a series of projects funded by Korea**
  - Internationalization of SMEs
  - Reducing inequalities in LAC and Asia-Pacific
  - Value chains development for a deeper integration of LAC and Asia-Pacific



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