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

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Summary

• **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
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)


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.

a 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

(Percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>Price</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>20</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>2002</td>
<td>15</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>2004</td>
<td>10</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>2006</td>
<td>5</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>-1</td>
<td>-10</td>
</tr>
<tr>
<td>2010</td>
<td>-2</td>
<td>-2</td>
<td>-20</td>
</tr>
<tr>
<td>2012</td>
<td>-3</td>
<td>-3</td>
<td>-30</td>
</tr>
<tr>
<td>2014</td>
<td>-4</td>
<td>-4</td>
<td>-40</td>
</tr>
<tr>
<td>2016</td>
<td>-5</td>
<td>-5</td>
<td>-50</td>
</tr>
<tr>
<td>2018</td>
<td>-6</td>
<td>-6</td>
<td>-60</td>
</tr>
</tbody>
</table>

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.

a The figures for 2019 are projections.
Internal and external factors constrain the region’s export performance

**DOMESTIC FACTORS**

- Low GDP growth
- Production and export structure anchored in commodities
- Deficient infrastructure and logistics

**EXTERNAL FACTORS**

- Trade tensions
- Slowdown in international demand

• Slowdown in exports, imports and investment
• Deepening of the recessionary demand cycle

• Fall in raw material prices
• Heightened financial and exchange-rate volatility
• Trade diversion

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

(Percentages)

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

* 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

(Billions of dollars and percentages of total goods exports)

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

a Figures for 2019 are projections.
Regional Integration
Latin America and the Caribbean are 3 sub-regions in one, and with different export patterns:

- Mexico & Central America
- South America
- Caribbean

Total area: approx. 20.5 million km²

EU (28) and ASEAN: 4.5 million km² each
The architecture of regional integration in LAC is very complex.
Traditional Regional Integration schemes in LAC

- Central American Common Market (1960)
- Andean Community (1969)
- Caribbean Community (1973)
- MERCOSUR (1991)
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 8th 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

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?

- 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)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Chile</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Peru</th>
<th>Pacific Alliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>98</td>
<td>98</td>
<td>99</td>
<td>95</td>
<td>94</td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td>97</td>
<td>97.6</td>
<td>95</td>
<td>97</td>
</tr>
<tr>
<td>2030</td>
<td></td>
<td>97</td>
<td>99</td>
<td>96</td>
<td>98</td>
</tr>
</tbody>
</table>

**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\textsuperscript{a}  
(percentages of total goods exports)

- European Union: 64\%  
- USMCA: 50\%  
- ASEAN+5: 49\%  
- CACM: 27\%  
- LAC: 16\%  
- CARICOM: 13\%  
- MERCOSUR: 12\%  
- Andean Community: 7\%  
- Pacific Alliance: 3\%  

Source: ECLAC with data from UN COMTRADE database.  
In the case of ASEAN+5, the figure is from 2016.  
\textsuperscript{a} average
Intra-PA economic interdependency is larger in services and FDI

• 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%).

Source: Duran Lima and Cracau (2016)
Regional Integration Challenges in Latin America
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

(in percentages)

Source: 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 (%)

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)

Source: ECLAC based on data from UN Comtrade.
LAC is more connected with itself than with Asia Pacific, and 6 countries concentrate trade links.
At a regional level, the economic relevance of the Pacific Alliance plus MERCOSUR is substantial

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

<table>
<thead>
<tr>
<th>Integration Scheme</th>
<th>GDP (current USD trillions)</th>
<th>Population (millions) 🅆</th>
<th>Exports (USD billions)</th>
<th>Inward FDI (USD billions) 🅅</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific Alliance</td>
<td>1,8</td>
<td>231</td>
<td>627</td>
<td>66</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>3,7</td>
<td>264</td>
<td>285</td>
<td>69</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>6,3</td>
<td>649</td>
<td>1,085</td>
<td>146</td>
</tr>
</tbody>
</table>

| % Pacific Alliance | 28% | 36% | 58% | 45% |
| % MERCOSUR        | 60% | 41% | 26% | 48% |
| % PA + MERCOSUR   | 88% | 76% | 84% | 93% |

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

* a Population data from mid-2018. b FDI data doesn’t include Caribbean financial centers.
Conclusions

• 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

• 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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