

# World Economic Situation and Prospects

## Weekly Highlights

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26 June 2013

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### Promoting integration in Latin America with an eye to Asia-Pacific

The Pacific Alliance is a regional integration initiative in Latin America conformed to by Chile, Colombia, Mexico and Peru. The initiative has two main objectives: to promote regional economic and trade integration and to establish a political and economic platform to strengthen the trade integration with the Asia-Pacific region. In May 2013, the VII Pacific Alliance Summit was held in Cali, Colombia. At the Summit, the presidents of the four member states signed an agreement for removing the tariffs on 90 percent of their merchandise trade from July 2013, paving the way for full tariff elimination, trade harmonization mechanisms and measures to foster and protect investments.

This initiative is one of the most relevant integration efforts in Latin America in recent years, and it is attracting increasing international attention from other countries. Recently, Costa Rica received the official approval to become a member of the Pacific Alliance. By now, the four members, with a combined population of more than 200 million, represent more than 35 percent of regional gross domestic product (more than \$2 trillion) and 50 per cent of total exports. The member countries have large space to increase their trade and productive linkages, which are still low. On average, only 6 per cent of exports of the member countries are within the Pacific Alliance. Thus, the Pacific Alliance might open trade opportunities within the trade bloc, though the productive specialization of the member countries might deter large export increments. The initiative is also likely to further promote private investments among countries, which in recent years has already increased substantially.

The Pacific Alliance also seeks to strengthen the trade linkages with Asia-Pacific with a regional approach, in order to develop a roadmap for future trade agreements. The collective approach towards Asia-Pacific, while establishing regional free trade among the members, is founded on the idea that trade openness is more advantageous if combined with larger regional markets, and is a mechanism to benefit from higher economies of scale. The potential gains of strengthening trade integration with Asia-Pacific are substantial, given production complementarities and that this is still an unexploited export market for some countries. In 2012, exports from Mexico to China were less than 2 per cent of total exports, and the Mexican trade deficit with China surpassed \$50 billion. Prospective gains from increasing export diversification are also relevant for Chile, Colombia and Peru. For example, more than 80 per cent of total Chilean exports to China are related to copper products.