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## CANADA AND ASSOCIATE MEMBERSHIP IN THE PACIFIC ALLIANCE: AN IMPORTANT PART OF A GLOBAL TRADE STRATEGY

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### SUMMARY

There has been considerable coverage lately of Canada's ongoing efforts to secure preferential access to overseas markets in Asia, while trying to save NAFTA and promote its "progressive" trade agenda. The "progressive" trade agenda hit a few recent road bumps, first in Vietnam in November when a planned announcement of an "agreement in principle" on the "TPP 11 Agreement" was postponed at the last minute, and in December in Beijing when Chinese authorities balked at including additional "progressive" chapters in a free trade agreement, the negotiation of which many expected would be announced during Mr. Trudeau's visit. Although a breakthrough on the TPP11, now known as the Comprehensive and Progressive Trans-Pacific Partnership, was announced on January 23, NAFTA negotiations continue to be difficult. One area that has been overlooked in all the coverage of recent events, and which holds potential for advancing Canadian trade interests in both Latin America and the Asia Pacific, is the Pacific Alliance and Canada's pursuit of associate member status.

The PA trade pact, comprising Chile, Colombia, Mexico and Peru, is currently in the process of discussing with several countries, including Canada, the possibility of becoming "associate members." Associate member status is novel, thus it is not clear what precisely it will entail or when it will come into effect. However, the possibility of Canada moving from its current "observer" status to becoming a more active part of the PA (or possibly an expanded version of the Alliance), offers significant benefit for Canada.

For all the focus on the TPP and the NAFTA renegotiations, not to mention Canada's recently concluded economic partnership agreement with the EU and potential free-trade negotiations with China, very little attention has been paid in Canada to the developments with the PA. And yet, this is one trade bloc that holds some of the greatest promise for Canada. All four founding countries are historic allies of Canada with likeminded systems of values of trade openness.

Canada already enjoys strong bilateral relations with each of the PA members, but a multilateral agreement could offer Canada far more in terms of market integration. The PA also happens to offer Canadian exporters a very attractive market, with a population of 219 million, a very young average age (29.8 years) and a GDP per capita, at US\$17,500, higher than that of China's US\$14,600. The PA nations are all also ranked among the most hospitable places to do business in South America.

Meanwhile, as the Regional Comprehensive Economic Partnership (RCEP) involving 16 Asia Pacific nations moves closer to reality, there are suggestions that it could someday merge with the PA, possibly opening the door for Canada to yet more opportunity comprising half the world's population and 40 per cent of its GDP. First Canada has to make the most of its opportunity to become an associate member of the PA. With the NAFTA negotiation crisis occupying so much bandwidth in Ottawa, there is a risk that the PA opportunity might not get the attention it deserves. Canadians should hope that it does. Because if NAFTA ends up failing, the PA could provide some of the new trade opportunities Canada will desperately need.

Last updated: January 2018

## **INTRODUCTION**

Amid widespread coverage of the ongoing rounds of the NAFTA renegotiation, the coming into force of Canada's CETA trade pact with Europe, and the just announced conclusion of the revised Trans-Pacific Partnership (TPP) (without U.S. participation), many people may have missed an important announcement regarding Canada's trade relations with Central and South America. Canada, along with TPP partners Australia, New Zealand and Singapore, has accepted an invitation to negotiate with the Pacific Alliance to become an associate member of that bloc. Negotiations began on Oct. 23, 2017.

The Pacific Alliance gathers a group of like-minded nations that share a common vision on international trade and regional integration and co-operation. The alliance was formed by Peru, Mexico, Chile and Colombia, the four most progressive nations with regard to business and trade in Latin America. At a time when Canada has many trade initiatives underway, it is worth asking: What are the advantages for Canada in partnering with these four nations in the Pacific Alliance? What does "associate membership" mean in practical terms? And how will this impact Canada's future trade strategy?

During this time of economic uncertainty worldwide, the invitation from the Pacific Alliance represents an excellent opportunity for Canada to further diversify its trading partners and facilitate commerce through multilateral engagement, in the process deepening its trading partnerships with top Latin American and Asia-Pacific countries. It's no coincidence that 52 nations have observer status in the PA, including 14 nations from the Americas, 25 from Europe, nine from Asia, two from Africa and two from Oceania. Canada's enhanced participation as an associate member will have a positive impact on Canada's trade strategy moving forward and is well aligned with Canada's multi-pronged strategy to develop relations with current and new partners at a time of growing protectionism in the U.S. Moreover, Canada's eventual participation in the Pacific Alliance will promote social and economic growth, well-being and prosperity both for Canadians and for citizens of the nations involved in this dynamic trade initiative.

## **HISTORY AND DESCRIPTION OF THE PACIFIC ALLIANCE**

The presidents of the founding nations, Peru, Mexico, Chile and Colombia, first met in Peru on April 28, 2011 to form The Pacific Alliance (PA). In the Lima Declaration, they established the goals and path this trade pact would follow. PA nations expressed their willingness to contribute to consolidating the Latin American-Pacific Arc region as a space for trade dialogue and economic convergence, with special emphasis on the Asia-Pacific region. Through the Lima Declaration, the presidents created a regional integration initiative with the objective to gradually move towards the free circulation of goods, services, capital and people. This declaration laid the foundation to develop an agreement that encompassed traditional regional economic trade topics, but also included strategic themes to boost competitiveness and prosperity. Since 2011, there have been 12 presidential summits, with the last held in Colombia at the end of June 2017.

#### PACIFIC ALLIANCE IMPORTANT DATES:

April 28, 2011	Summit I: Lima Declaration, creation of the alliance
June 6, 2012	Summit IV: Paranal Declaration, signing of the framework agreement
Feb. 10, 2014	Summit VIII: Cartagena Declaration, signing of the commercial protocol
July 20, 2015	Entry into force of the framework agreement
May 1, 2016	Entry into force of the commercial protocol: Elimination of 92 per cent of tariffs on traded goods and services
June 30, 2017	Summit XII: Cali Declaration, announcement of the start of negotiations with four nations, including Canada, to become associate states

Jim Yong Kim, President of the World Bank, stated that “the Pacific Alliance is truly the next generation agreement.” PA is more than a commercial agreement and includes in its agenda themes such as: small and medium-sized enterprises (SMEs), education, tourism, movement of persons and transit facilitation of migration, intellectual property, innovation, gender, regulatory improvement, a digital agenda, promotional agencies, services and capital, mining and energy development, public procurement, international fiscal transparency, and trade facilitation. One of the main strengths of the PA is that it is composed of like-minded nations that agree on a vision of integration and collaboration for trade agreements. Many free-trade agreements (FTAs) have been created for geographical and economic reasons, but the Pacific Alliance goes further with a pragmatic and flexible approach.

The operation of the PA is led by a pro tempore presidency that is exercised by each member country in alphabetical order for annual periods. There are four methods for the PA to achieve its goals. These are:

- *Presidential summits* occur when all four state presidents attend the summit.
- *The Council of Ministers* is composed of the ministers of international trade and foreign affairs of the PA member nations and is accountable for developing and implementing actions that reach the objectives stated in the framework agreement.
- *The High-Level Group (HLG)* is formed by the vice-ministers of international trade and foreign affairs of PA member nations, and is responsible for monitoring the progress of the projects, assessing potential areas to discuss, and creating proposals to approach other regional organizations or groups, especially in the Asia-Pacific region.
- *The technical groups and subgroups* are composed of public officials of the PA member nations and their role is to negotiate terms related to the 20 strategic themes of mutual interest.

## TRADE AGREEMENTS OF THE PACIFIC ALLIANCE

As members of the World Trade Organization since 1995, PA members have been firm in upholding the importance of free trade, rejecting all forms of protectionism, and have been part of the international effort to liberalize trade. All four PA nations have FTAs with Canada, the United States, and the European Union, and they have a vast number of trade agreements that allow their companies access to different markets (Table 1). Chile has 25 trade agreements that give access to 64 nations, Colombia has 13 trade agreements with 62 nations, Mexico has 20 trade agreements with 53 countries and Peru has 20 trade agreements with 52 countries.

**TABLE 1 TRADE AGREEMENTS OF PA MEMBERS AND CANADA WITH SELECTED ECONOMIES**

	Chile	Colombia	Mexico	Peru	Canada
Canada	FTA (1997)	FTA (2011)	NAFTA (1994)	FTA (2009)	N/A
Chile	N/A	FTA (2009)	FTA (1999)	FTA (2009)	FTA (1997)
Colombia	FTA (2009)	N/A	FTA (1995)	CU(1969)	FTA (2011)
Mexico	FTA (1999)	FTA (1995)	N/A	FTA (2012)	NAFTA (1994)
Peru	FTA (2009)	CU (1969)	FTA (2012)	N/A	FTA (2009)
The United States	FTA (2004)	FTA (2012)	NAFTA (1994)	FTA (2009)	NAFTA (1994)
European Union (EU)	FTA (2003)	FTA (2013)	FTA (2000)	FTA (2013)	FTA (2016) signed
Japan	EPA (2007) TPP (2016) signed	EPA (Negotiations)	EPA (2005) TPP (2016) signed	FTA (2012) TPP (2016) signed	EPA (Negotiations) TPP (2016) signed
China	FTA (2006)	-	FIPA (2009)	FTA (2010)	FIPA (2014)

EPA: Economic Partnership Agreement; FIPA: Foreign Investment Promotion and Protection Agreement; NAFTA: North America Free Trade Agreement; TPP: Trans-Pacific Partnership; and CU: Custom Union through Andean Community.

Source: Compiled by authors from information from the Organization of American States, Global Affairs Canada, the Mexican Ministry of Economy and Foreign Affairs Colombia.

## CURRENT MEANING AND DEFINITION OF “ASSOCIATE MEMBERSHIP”

At a meeting of the Council of Ministers and the High-Level Dialogue on Integration Initiatives in the Asia Pacific: Challenges and Opportunities held in March 2017 in Chile, the Council of Ministers developed the guidelines applicable to “Associated States of the Alliance.” These guidelines, announced in June 2017 and covering seven points establishing basic principles regarding the procedure to become an associate member,<sup>1</sup> first defined the meaning of associate membership as bringing into force “a binding agreement of high commercial and economic standards that contributes to the achievement of the objectives of the Pacific Alliance Framework Agreement.” Even though these guidelines are somewhat vague, they provide a flexible base from which to start negotiations.

These guidelines establish that the process to become an associate state begins with a written request by the interested nation, or through an invitation extended from the parties to the Pacific Alliance framework agreement. This invitation is extended through the pro tempore presidency, with the consent and support of all four PA nations. If the invitation or the application is approved, the PA member nations enter negotiations with the invited or applicant state by submitting the terms of reference for the negotiation and the corresponding schedule for its consideration. The terms of reference of the negotiation consider commercial and economic matters that favour market openness and integration, including, but not limited to, trade in goods and services, and investments. Point six of the guidelines establishes that the negotiation process shall last for a short period of time and be overseen by the ministers responsible for international trade, or their appointees. The invitation to Canada to start negotiations to become an associate member is consistent with these guidelines.

## OBSERVERS TO THE PACIFIC ALLIANCE

Observer states may only be admitted with the unanimous approval of the Council of Ministers, according to Article 10 of the framework agreement. When granting the status of observer state, the Council of Ministers defines the conditions of that nation’s participation. To advance the

<sup>1</sup> <https://alianzapacifico.net/wp-content/uploads/2017/06/ANEXO-LINEAMIENTOS-ESTADO-ASOCIADO-2.pdf>

achievement of its objectives, PA member parties may agree to develop projects incrementally with the observer nations. In the framework agreement signed on June 6<sup>th</sup>, 2012, Panama and Costa Rica were included as the first two observer states of the PA.

Canada became the first non-Latin American observer of the PA trade agreement in 2012. In June 2016, Canada became the only observer state to sign a Joint Declaration on Partnership with the PA that identified six areas of co-operation: SMEs; education and training; environment and climate change; trade facilitation and promotion; science, technology and innovation; responsible natural resource development and corporate social responsibility.

The Pacific Alliance has captured the interest of countries with strong and dynamic economies from around the globe and to date there are 52 nations from different regions that have been accepted as observer states (Table 2). In addition to Canada, some prominent observer states include the United States, Japan, China, Germany, France, the United Kingdom, India, New Zealand, Thailand, the Republic of Korea and Singapore.

**TABLE 2 OBSERVER STATES OF THE PACIFIC ALLIANCE**

America	Europe	Asia Pacific
Canada	Germany	China
United States	Belgium	Korea
Paraguay	Spain	Japan
Dominican Republic	Finland	Singapore
Trinidad and Tobago	France	Indonesia
Costa Rica	Italy	Thailand
El Salvador	Netherlands	
Guatemala	Portugal	Other Asian Countries
Panama	United Kingdom	India
Honduras	Switzerland	Israel
Haiti	Croatia	Turkey
Ecuador	Slovenia	
Uruguay	Norway	Africa
Argentina	Czech Republic	Morocco
Europe	Poland	Egypt
Sweden	Georgia	
Greece	Lithuania	Oceania
Romania	Ukraine	Australia
Denmark	Hungary	New Zealand
Slovakia	Austria	

Source: Information from <http://www.alianzapacifico.net/>, compiled by the authors.

## **CANADA'S EXISTING LINKS WITH MEXICO, CHILE, PERU AND COLOMBIA**

Canada's desire to strengthen its commercial relationships with all four Pacific Alliance nation members, has resulted in comprehensive FTAs and several joint initiatives in a variety of fields, from education, culture, justice and human rights to immigration, trade, economic development and sustainability. Canada has collaborated with PA member nations on several initiatives: labour co-operation and environmental agreements with both Colombia and Chile; the Canada-Mexico Partnership (CMP) that has built bridges between the public and business sectors; and the bilateral

development program with Peru to reduce poverty and to promote social inclusion. In June 2016, Canada announced in a Joint Declaration on Partnership with the Pacific Alliance the establishment of three co-operative projects valued at more than \$21 million over five years.

The strong ties that Canada has forged with each of the PA member nations have produced positive commercial outputs for all parties. The bilateral merchandise trade between Canada and Chile has more than tripled since their FTA came into force in 1997. Chile is Canada's top direct investment destination in Central and South America, excluding Mexico, with over \$16.5 billion in trade (Table 3). Peru is the third-largest destination for Canadian direct Investment and Canada's second-largest bilateral trading partner in the region. Canada and Mexico are each other's third-largest trading partners with total merchandise trade reaching over \$40.8 billion in 2016 (Table 4). NAFTA has strengthened Canada-Mexico trade relations for more than 20 years, giving a tremendous boost to both countries' industries and integrating them into global supply chains. Finally, the Canada-Colombia trade relationship has made Colombia the fifth-largest bilateral trading partner of Canada in South America and Canada's fourth-largest product export destination in this region, with Canadian merchandise exports totalling \$783.7 million in 2016.

Because of Canada's solid links with each of the PA states, the overall Canadian trade and investment with the Pacific Alliance has been growing. Canadian direct investment in the PA grew from \$24.6 billion in 2010 to \$49.6 billion in 2016 (Table 3). Similarly, Canada's total merchandise trade with the PA increased from \$39.1 billion in 2012 to \$48 billion in 2016 (Table 4), representing more than 75 per cent of Canada's two-way trade with the Latin American region. According to Global Affairs Canada, one of the most important sectors for Canada in the PA region is the extractive sector, with \$52.2 billion of Canadian mining assets in 2014, valued at 30 per cent of all Canadian mining assets abroad.

**TABLE 3 CANADIAN DIRECT INVESTMENT IN PACIFIC ALLIANCE (CAD MILLION)**

Country	2000	2010	2011	2012	2013	2014	2015	2016
Mexico	3,857	4,902	9,583	10,109	13,061	13,762	18,388	16,780
Chile	5,421	12,037	10,376	17,079	18,221	18,762	15,285	16,496
Colombia	898	925	1,227	2,961	3,644	2,142	3,676	3,687
Peru	1,925	6,786	5,994	6,468	8,813	11,777	12,539	12,663
<b>Total Pacific Alliance</b>	<b>12,101</b>	<b>24,650</b>	<b>27,180</b>	<b>36,617</b>	<b>43,739</b>	<b>46,443</b>	<b>49,888</b>	<b>49,626</b>

Source: Compiled by Authors based on information from Statistics Canada.

**TABLE 4 TOTAL MERCHANDISE TRADE: CANADA WITH PACIFIC ALLIANCE (CAD MILLION)**

Country	2012	2013	2014	2015	2016
Chile	2,467	2,557	2,860	2,643	2,413
Peru	4,220	3,682	3,824	4,118	3,223
Colombia	1,493	1,403	1,828	1,612	1,572
Mexico	30,910	32,163	34,485	37,848	40,814
<b>Total Pacific Alliance</b>	<b>39,090</b>	<b>39,805</b>	<b>42,997</b>	<b>46,222</b>	<b>48,022</b>

Source: Compiled by authors with information from <http://www.canadainternational.gc.ca>.

Based on the Harmonized System (HS), the international nomenclature for the classification of products, the main items that Canada exports to the PA are: machinery and mechanical appliances; electrical equipment and parts; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories; vehicles, aircrafts, vessels and associated transport equipment; and vegetable products (Table 5). The main import products from the PA to Canada are vegetable products, prepared foodstuffs, beverages, spirits and vinegar; tobacco and



manufactured tobacco substitutes; and natural or cultured pearls, precious or semi-precious stones, and precious metals. Two of the most valuable products that Canada imports from the PA, as part of sections 16 and 17 in Table 6 below, are supplied only by Mexico.

**TABLE 5 FIVE MAIN EXPORT PRODUCTS FROM CANADA TO PACIFIC ALLIANCE COUNTRIES  
21 HARMONIZED SYSTEM SECTIONS (CAD MILLION)**

Section Peru		Section Colombia		Section Mexico		Section Chile	
02 Veg. Prod.	375	02 Veg. Prod.	436	17 Vehicles and Equip.	1,754	16 Mach. Mech. Elec. Prod.	169
16 Mach. Mech. Elec. Prod.	104	06 Chemical Prod.	97	16 Mach. Mech. Elec. Prod.	1,369	06 Chemical Prod.	132
17 Vehicles and Equip.	78	16 Mach. Mech. Elec. Prod.	79	02 Veg. Prod.	1,209	02 Veg. Prod.	95
05 Mineral Prod.	59	10 Paper Prod.	54	15 Base Metal Prod.	1,108	05 Mineral Prod.	85
10 Paper Prod.	41	17 Vehicles and Equip.	15	07 Plastics, Rubber Prod.	559	01 Animal & Prod.	41

Source: Compiled by authors with information from <http://www.canadainternational.gc.ca>.

Section I: Live animals; animal products; Section II: Vegetable products; Section V: Mineral products; Section VI: Products of the chemical or allied industries; Section VII: Plastics and articles thereof; rubber and articles thereof; Section X: Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard and articles thereof; Section XV: Base metal and articles of base metal; Section XVI: Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles; Section XVII: Vehicles, aircraft, vessels and associated transport equipment.

**TABLE 6 FIVE MAIN IMPORT PRODUCTS FROM PACIFIC ALLIANCE COUNTRIES TO CANADA  
21 HS SECTIONS (CANADIAN DOLLARS)**

Section Peru		Section Colombia		Section Mexico		Section Chile	
14 Precious Metals/stones	1,411	02 Veg. Prod.	407	17 Vehicles and Equip.	10,711	14 Precious Metals/stones	520
05 Mineral Prod.	504	05 Mineral Prod.	264	16 Mach. Mech. Elec. Prod.	12,073	02 Veg. Prod.	464
02 Veg. Prod.	280	04 Food Prod.	30	02 Veg. Prod.	1,867	15 Base Metal Prod.	208
03 Fats, Oils & Waxes Prod.	74	06 Chemical Prod.	23	15 Base Metal Prod.	780	04 Food Prod.	197
04 Food Prod.	62	07 Plastics, Rubber Prod.	14	07 Plastics, Rubber Prod.	614	01 Animal & Prod.	126

Source: Compiled by authors with information from <http://www.canadainternational.gc.ca>.

Section I: Live animals; animal products, Section II: Vegetable products, Section III: Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes, Section IV: Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes, Section V: Mineral products, Section VI: Products of the chemical or allied industries, Section VII: Plastics and articles thereof; rubber and articles thereof, Section XIV: Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewelry; coin, Section XV: Base metal and articles of base metal, Section XVI: Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles, Section XVII: Vehicles, aircraft, vessels and associated transport equipment.



## **ADVANTAGES FOR CANADA**

There are five important advantages for Canada in joining the PA as an associate member: deepening ties with Latin America, joining trade-liberalization efforts in Asia Pacific, strengthening the Canadian presence in a growing and attractive market, participating in a dynamic trade agreement with like-minded nations, and assuming a leadership role worldwide.

### **Deepening ties with Latin America**

Although Canada has traded with Latin America for years, the PA offers a unique opportunity for Canada to contribute and collaborate with this region so full of contrasts. The founding countries of the PA have been allies of Canada historically, and this invitation is an excellent opportunity to deepen the longstanding relationships and to look to the future, building capacity together with Peru, Chile, Colombia and Mexico. The PA and Mercosur (the Common Market of the Southern Cone) have already begun dialogue and they have established a road map with the goal to contribute to Latin American integration. This is a milestone event that seemed impossible a few years ago, but today it is happening thanks to the willingness of authorities from both trade pacts to contribute to regional integration in Latin America. Canada is poised to be a part of this important, nascent process. The work agenda between the PA and Mercosur include issues of common interest, such as trade facilitation, customs co-operation, trade and services promotion, elimination of non-tariff barriers and support to small and medium-sized enterprises.

### **Joining efforts in the Asia Pacific**

Chile, Colombia, Mexico and Peru have similar priorities to Canada to strengthen and expand their ties with the Asia-Pacific region. One of the main goals of the PA is to integrate member economies and supply chains more closely with this region. As an associate member, Canada can benefit from this goal and contribute to it. The PA has engaged with Asia-Pacific countries through political dialogue with two of the key stakeholders in that region, the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation Forum (APEC). In addition, the possibility of a merger between the PA and the Regional Comprehensive Economic Partnership (RCEP) offers another reason for Canada's participation in the PA. And let's not forget the recent trade deal reached by eleven nations (including Canada and three Pacific Alliance Members) to create the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, popularly known as the TPP-11, after the exit of the USA one year ago.

With regard to ASEAN, the PA has held four strategic meetings with this grouping, and a working agenda for co-operation has been negotiated in four main areas: economics; education; sustainable development; and innovation, science and technology. During the IV Ministerial Meeting between both blocs, held in New York this year on September 22<sup>nd</sup>, the 2017–18 Work Plan was defined, outlining specific joint initiatives in the four strategic areas. The overall objective is to stimulate the exchange of goods, practices and experiences related to trade promotion and facilitation, global value chains, investments and the integration of regional capital markets, entrepreneurship and creative industries. As well, the agenda proposes conducting joint research projects, organizing academic seminars, promoting academic and student exchanges, and encouraging co-operation agreements between universities. As for APEC, the PA member nations have had two informal dialogues with this organization. These have been carried out during APEC's annual meetings in 2015 and 2016, although there is no formal agreement or agenda between both groups of nations. Although Canada already has its own linkages with ASEAN and is part of APEC, associate membership in the PA will give Canada an additional dimension to these relationships.

Regarding the final agreement reached to move forward with the TPP-11 announced on January 23 during the World Economic Forum in Davos, the participation of Canada and the three PA nations will be fundamental to link more countries into a potential mega regional agreement in the Asia-Pacific region. The TPP11 nations are expected to sign an amended agreement on March 8 in Chile.

Finally, Canada, as an associate member of the PA, would benefit from the possible merger between the Regional Comprehensive Economic Partnership (RCEP) and the PA. The RCEP member nations are making progress in their negotiations. The RCEP comprises 16 nations encompassing almost half the world's population and representing around 40 per cent of world's GDP. The 16 RCEP nations include the 10 member states of ASEAN and the six states that have FTAs with ASEAN: Australia, China, India, Japan, South Korea and New Zealand. A merger of the PA and RCEP would form an Asia-Pacific regional free-trade area, and Canada, an associate member of the PA, could potentially enjoy some of the benefits. Members of both trading groups share similar values about opening trade opportunities instead of raising barriers.

### Pacific Alliance a very attractive market

Canada's participation in the agreement would also strengthen its presence in a growing market that offers macroeconomic stability and a very attractive business environment in which to invest. The PA represents the seventh-largest economy in the world, the seventh-largest world exporter and has 39 per cent of the total GDP of the Latin America and the Caribbean (LAC) area. In addition, the PA has 50 per cent of regional trade and 44 per cent of total foreign direct investment flows in the LAC. A report from the Bertelsmann Foundation pointed out that economic growth of the PA "has been strong and consistent, averaging 4.69 percent annual growth since 2005. Setting aside 2009 ... growth nudges above 5.5 percent." In addition, the PA is a great market for its size and its growing middle class, with a good purchasing power. The population of the PA is around 219 million with an average age of 29.8 years; 25 per cent of people are 14 years old or younger (Table 7).

The middle class of countries in the PA has been growing strongly in recent years. The Bertelsmann Foundation noted that "The Colombian, Chilean and Peruvian middle classes each expanded by more than 10 percent between 2000 and 2010, while some estimate that the Mexican middle class already accounts for more than half the population." With respect to purchasing power, the average per capita GDP of the PA is US\$17,500, more than China's US\$14,600. These figures offer certainty to investors, and an attractive market to invest or to partner with for Canadian companies.

**TABLE 7 POPULATION AND GDP PER CAPITA**

	Total population (July 2016 est.)	Population aged 0-14	Median age (years)	GDP per capita (PPP) (2016 est.)
Chile	17,650,114	20%	34.0	\$24,000
Colombia	47,220,856	25%	29.6	\$14,100
Mexico	123,166,759	27%	28.0	\$18,900
Peru	30,741,062	27%	27.7	\$13,000
Pacific Alliance	218,778,791	25%	29.8	\$17,500
Canada	35,362,905	15%	42.0	\$46,200
China	1,373,541,278	17%	37.1	\$14,600

Source: Compiled by authors with information from The World Fact Book (CIA).

The PA is attractive for foreign investors, with the Doing Business report grading these four nations as the top four in which to do business in the region for the last few years. According to the ranking of the most recent 2017 Doing Business report, the PA nations offer the best conditions for doing business in Latin America: Mexico ranks first (47<sup>th</sup> globally), Colombia

ranks second (53<sup>rd</sup> globally), Peru places third (54<sup>th</sup> globally) and Chile ranks fourth (57<sup>th</sup> globally) (Table 8). Canada is in 22<sup>nd</sup> position out of 190 nations. Moreover, the last release of the Global Competitiveness Index issued by the World Economic Forum ranks PA nations as among the best nations for this indicator in the region (Table 8): Chile is placed first (33<sup>rd</sup> globally), Mexico is third (51<sup>st</sup> globally), Colombia is fifth (61<sup>st</sup> globally), and Peru sixth (67<sup>th</sup> globally). Canada placed 15<sup>th</sup> out of 138 countries. An obvious advantage to Canada of joining the PA agreement would be expanded opportunities to do business in countries offering a good business environment for investment.

**TABLE 8 DOING BUSINESS REPORT AND GLOBAL COMPETITIVENESS INDEX  
PACIFIC ALLIANCE COUNTRIES IN LATIN AMERICA RANKING**

	Doing Business report Latin America rank			The Global Competitiveness Index Latin American rank
	2015	2016	2017	2016-17
Chile	4	2	4	1
Peru	2	3	3	6
Colombia	1	4	2	5
Mexico	3	1	1	3

Source: Compiled by authors.

Among the opportunities for Canadian businesses in the PA market are several sectors in which Canadian companies might find business partners, clients and suppliers to build capacity together: agriculture, agri-food, green tech, automotive, education, telecom and service sectors.

### Participating in a dynamic agreement with like-minded nations

Despite the short period of time that the PA has been in place, it has been an excellent example of how a dynamic agreement with a practical approach, combined with a committed group of like-minded nations in international trade, can produce positive results. If Canada joins the PA, this trade framework will complement other initiatives to develop Canada's full capacity with regard to trade liberalization, integration and co-operation. Some of the main achievements that bear witness to the PA's commitment to liberalization are the elimination of 92 per cent of tariffs on traded goods and services from May 2016, the implementation of the Entrepreneurial Capital Fund, the establishment of a road map for the digital agenda, the implementation of issuance and receipt of digital-origin certificates and electronic phytosanitary certificates, and the exchange of more than 1,400 students from PA nations who have been awarded scholarships to study in the four nations. On October 5th of this year, the PA nations signed a memorandum of understanding through which they created InnovAP, the first regional network of entrepreneurship and innovation agencies.

In addition, these nations have resolved to start working on a regional carbon market, the elimination of travel restrictions, sharing embassies for joint promotion, and the launch of the Latin American Integrated Market (MILA is its acronym in Spanish). This has meant increasing opportunities for funding and capital access and has created the largest stock exchange in the region. To give an idea of the planning and hard work invested in the PA, during the last year of the pro tempore presidency led by Chile, the PA worked on 73 objectives in different areas, such as education, innovation, SMEs, trade facilitation and gender, among others.

Some of these commitments would be difficult for Canada to take on, at least initially, but associate member status will allow Canada to explore where its objectives and the PA are in close alignment.

## Exercising global leadership

A further plus for Canada's participation in this agreement as an associate member is the opportunity for a new platform from which to exercise a global leadership role. In a recent poll of 18,000 respondents across 25 countries by the market research firm Ipsos MORI, Canada was considered the best example of positive influence on world affairs. Most people expect Canada to stand out as an active protagonist of multilateralism in global issues. The PA offers not only an excellent trade deal for Canada, but also a platform to encourage discussion of international trade issues, and Canada's "progressive" trade agenda. Thus, as an associate member, Canada could assume a leadership role, working together with PA member nations, to positively influence the PA observer states and stakeholders, contributing to the fight against protectionism.

## ASSOCIATE MEMBERSHIP: WHAT DOES IT ENTAIL?

After the invitation to become an associate member was issued to Canada by the PA's pro tempore presidency, Minister of International Trade François-Philippe Champagne expressed Canada's interest. Despite the fact that terms of reference and the schedule for negotiations were not shared with the public immediately, the roadmap that will be followed is now clearer. However, questions remain. What will Canada need to do to become a member? How long will the negotiations for PA associate membership take? How is associate member status different from full membership?

To answer the first question, the guidelines to become an associate member establish that in the event that either the invitation or the application is approved, the parties to the Pacific Alliance framework agreement shall enter into negotiations with the invited or applicant state by submitting the terms of reference for the negotiation and the corresponding schedule for its consideration. The guidelines mention that the terms of reference for the negotiations should include high commercial and economic standards that favour market liberalization and integration, including but not limited to trade in goods and services and investments.

To date, two meetings have already been held between PA nations and the four nations invited to become associate members. The first meeting was carried out in Peru on September 8<sup>th</sup>, where chief negotiators discussed the organization of work preparatory to the start of negotiations. The second working meeting took place in Cali, Colombia and represented the official start of negotiations. This first round lasted five days, from October 23<sup>rd</sup> to 27<sup>th</sup>, with delegates presenting initial texts. More than 20 working groups were formed, reaching agreement on topics such as the definition of terms and the calendar for subsequent meetings. The next round will be held in Australia in early 2018. An important factor that confirms the dynamism and proactivity of the PA is that countries have agreed to continue work between rounds in order to advance work prior to the next formal round of negotiations.

The PA guidelines state that negotiations "shall be concluded in the short term" and shall be overseen by the ministers responsible for foreign trade, or those whom they appoint. Thus, the agreement between Canada and the PA should be reached in a reasonable period of time, something that seems possible due to the willingness to create synergies among all the nations involved (although resources on the Canadian side may be constrained by NAFTA commitments) and because of the flexible approach that is a feature of this alliance. At this point, there is no official information outlining the differences between an associate membership and a full membership, but some media reports have suggested that associate membership might be an interim status between observer state and full member, potentially leading to full membership.<sup>2</sup>

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<sup>2</sup> <http://www.andina.com.pe/INgles/noticia-peru-to-host-pa-associate-states-negotiations-in-september-2017-673117.aspx>.

## **CANADA'S COMMITMENTS AND THE PACIFIC ALLIANCE**

During initial negotiations between the founding nations of the PA, the process was relatively smooth and proactive. Nonetheless, there were sensitive topics that received special treatment (such as milk powder and cheese) and PA nations agreed to eliminate tariffs on these things gradually. As well, there were products, such as sugar, that were excluded from preferential treatment. Based on that experience and the practical approach that the PA alliance has implemented since its inception, some exceptions will be allowed, although forward momentum will be necessary. Canada's acceptance to participate in this negotiation process has to be based on this understanding. Canada needs to be very pragmatic and should propose which topics it wants to put on the table, keeping the focus on advancing together with all PA nations and putting aside and/or overcoming sensitive issues.

Canada's negotiation with PA nations will likely focus on six areas included in the partnership agreement that has already been signed. These are: education, SMEs, environment, corporate social responsibility, trade facilitation; and science, technology and innovation. The only obligation, according to the published guidelines, is to set and maintain high standards in market liberalization and integration, investments, and trade in goods and services. This means that sensitive topics for Canada, such as migration, might be postponed until Canada is ready to discuss them. Canada has the ability to offer significant value in many of the strategic themes that PA nations are interested in developing.

In education, although many Canadian institutions have partnerships and exchange programs with counterparts in PA nations, there is still room to promote more collaboration through educational joint programs, academic mobility and international education. For instance, according to Global Affairs Canada, Mexico is Canada's 10<sup>th</sup>-largest source nation for international students. There are more than 400 signed agreements among educational institutions from both nations, and Mexico sent more than 5,000 students to Canada in 2015. Thus, Canada could increase its exchanges with Mexico and all the PA nations in education and other trade and non-trade elements of the PA without having to consider immigration as part of the agenda.

## **IMPACT OF ASSOCIATE MEMBERSHIP ON CANADA'S RELATIONS WITH TPP 11 AND NAFTA**

The impact that PA associate membership would have on Canada's relations with the members of the Comprehensive and Progressive TPP and on relations with Mexico through NAFTA would be positive and beneficial. In the case of the CPTPP, the new Trans-Pacific Partnership without U.S. participation, the PA agreement is perfectly aligned with the TPP's original goals to contribute to trade liberalization with an emphasis in the Asia-Pacific region. As well, given the overlap in membership between three of the four PA partners and the CPTPP, the PA offers another channel to strengthen ties in the Asia-Pacific region. Thus, Canada's participation as an associate member in the PA would send a positive message not only to Latin America and the Asia Pacific, but also to the international community about Canadian commitment to collaborate and to create trade synergies with other nations. As well, it would allow Canada to assume an active position to contribute to the goals of both initiatives and a possible merger in the future.

With respect to NAFTA, Canada's associate membership in the PA could contribute to strengthening relations with Mexico. The Canada-Mexico relationship is stronger than ever, and the current position of the U.S. government to renegotiate NAFTA has brought closer collaboration and dialogue between both nations about trade matters. In March of this year, Canada's minister of international trade, during a meeting of the Canadian Chamber of Commerce in Monterrey City, Mexico, stated, "The honest truth is that it's hard to predict what the next few months will bring. But one thing is for sure: Mexico is one of Canada's closest friends and economic partners."



These words summarize the spirit of the current Canada-Mexico relationship and how they will face renegotiation of NAFTA with the U.S. One of the issues that Canada and Mexico could work on together is the resolution of disputes, given the stated U.S. intention to eliminate NAFTA's Chapter 19, "Dispute Settlement in Antidumping and Countervailing Duty Matters." For Canada and Mexico, however, this chapter has proven to be an impartial mechanism for resolving conflicts in cases related to transportation and softwood lumber, where both nations have prevailed in cases involving the United States. Canada's associate membership in the PA would increase the dialogue and co-operation between Mexico and Canada, and if the unthinkable happens and NAFTA is dissolved, Canada's participation in the PA will help to pave the way for post-NAFTA negotiations between the two.

## **CONCLUSION AND NEXT STEPS**

The PA is a successful and imaginative initiative that is an important regional contribution to promoting trade and investment liberalization and fighting protectionism. Its members are the most prosperous and progressive in Latin America. Canada, which already has strong bilateral relations with each of the individual PA members, should pursue the opportunity to become an associate member of the PA, while defining what this will mean for Canada and which obligations Canada is prepared to accept at this time. Even if the integrative efforts of the full PA members go beyond Canada's comfort level at this stage, associate member status offers multiple opportunities to expand relations with the members of the PA while embellishing Canada's linkages with the Asia-Pacific region and demonstrating Canada's commitment to progressive trade policies.

Although the ongoing NAFTA renegotiations are placing a considerable strain on resources, Canada should focus enough human resources to take advantage of this new trade opportunity. While NAFTA clearly has to take priority, Canada should reserve some bandwidth to explore and further define its relationship with the PA as part of its "Plan B" trade agenda in order to give substance and meaning to its acceptance of the invitation to become a PA associate member. The rhetoric is positive and there are good reasons to move ahead.

The Pacific Alliance offers not only an excellent trade deal for Canada to partner with PA nations for increased international trade and market opportunities, but being an associate PA member would also offer a useful platform to further strengthen Canada's presence in the Asia-Pacific region. It makes eminent sense to turn this opportunity into concrete commitments as part of Canada's broader trade policy agenda beyond NAFTA.

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