

# THE PACIFIC ALLIANCE

WHY IT'S (STILL) IMPORTANT FOR WESTERN CANADA



CANADAWEST  
FOUNDATION

TRADE  
& INVESTMENT  
CENTRE

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This document has been prepared by Naomi Christensen, Senior Policy Analyst and Carlo Dade, Director of the Trade & Investment Centre. This document is an update to the Foundation's November 2014 publication, *The Pacific Alliance: Why it's important for western Canada*. Any errors or omissions are the responsibility of the authors. The opinions expressed in this document are those of the authors and do not necessarily reflect those of the Canada West Foundation's Board of Directors, donors or advisers. More information on the Canada West Foundation can be found at *cwf.ca*.

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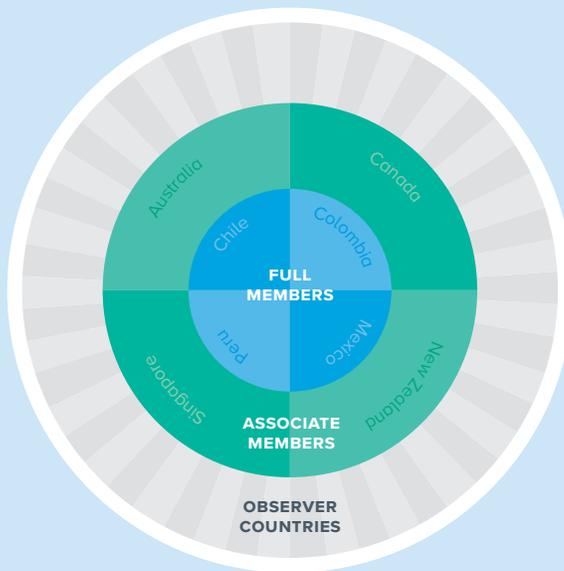
As of the fall of 2017, Canada has three active trade negotiations underway. Uncertainty and doubt are dampening expectations of success from two of these negotiations, the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership Agreement without the U.S. (TPP11). The third and less-known negotiation, with the Pacific Alliance trade integration group, is now even more critical if Canada is to have any chance to diversify trade in the near term.

## CANADA IS NOW AN ASSOCIATE MEMBER OF THE PACIFIC ALLIANCE

In June 2017, the Pacific Alliance, faced with an unwieldy and growing number of observer countries, invited four observer states – Canada, Australia, New Zealand and Singapore – to become associate members. These four associate members form a new category between the full members and the more than 50 observer countries.

**A requirement of being an associate member is the negotiation of a comprehensive free trade agreement with the bloc.**<sup>1</sup> In October 2017, the first round of negotiations between Canada and the Pacific Alliance were held in Cali, Colombia.<sup>2</sup>

PACIFIC ALLIANCE CATEGORIES



## A TRADE DEAL WITH THE BLOC WILL BRING BENEFITS BEYOND OUR BILATERAL DEALS

Canada already has individual free trade agreements with all four Pacific Alliance countries. But, so do our main competitors in the region – we compete with Spain in banking, Australia in mining and mining equipment, and the U.S. in everything. Signing a trade agreement with the bloc as a whole will give Canadian companies advantages over their competitors beyond simple tariff reduction. It will give them access to special arrangements for customs, labour mobility, digital trade and help deal with other frictions to trade.

In addition, two of the four Alliance members already have trade agreements with China (Peru and Chile). Joining the Alliance may give Canadian companies advantages in trading with China and learning from their experience in negotiating, implementing and managing agreements with China may be beneficial.

A trade deal is expected to build on both our existing bilateral deals and the strategic partnership Canada signed with the Pacific Alliance in June 2016. The partnership identifies six areas for increasing co-operation: trade facilitation and promotion; education and training; small and medium-sized enterprises; science, technology and innovation; and, responsible natural resource development and the environment. Canada was the first, and remains the only, Alliance observer country to sign this type of partnership with the Alliance.

<sup>1</sup> Canada Gazette, Vol. 151, No. 32 — August 12, 2017, <http://www.gazette.gc.ca/rp-pr/p1/2017/2017-08-12/html/notice-avis-eng.php>.

<sup>2</sup> Global Affairs Canada, "Canada launches negotiations toward deepening its trade partnership with the Pacific Alliance," [https://www.canada.ca/en/global-affairs/news/2017/10/canada\\_launches\\_negotiationstowarddeepeningitstradepartnershipwi.html](https://www.canada.ca/en/global-affairs/news/2017/10/canada_launches_negotiationstowarddeepeningitstradepartnershipwi.html), last modified Oct 23, 2017.

## PACIFIC ALLIANCE HIGHLIGHTS



## The Pacific Alliance

The Pacific Alliance consists of Chile, Colombia, Mexico and Peru. It formed in 2011 in an effort to seamlessly link the members' economies to better trade with each other and with Asia. The goal is to make the entire group more competitive on the global stage and specifically to trade with Asia. The Alliance grew out of concern among Latin American members of the Asia-Pacific Economic Cooperation (APEC) group about falling behind the Asian members of the forum. The Alliance countries all have trade agreements with each other, and a requirement to fully join the bloc is to have trade agreements with all its members.<sup>3</sup>

The Alliance is a trade integration bloc where members seek to go beyond what can be achieved through trade agreements by co-operation in a variety of areas, such as integrating regulation (including financial integration) and by addressing next generation issues such as the digital economy. In many ways, the Alliance resembles the New West Partnership integration initiative between British Columbia, Alberta, Saskatchewan and Manitoba. This western Canadian initiative is focused on making the western

Canadian economy more competitive on global trade, specifically in terms of increasing trade with Asia.

If the existing Pacific Alliance was a single country, it would be the world's 8<sup>th</sup> largest economy – just ahead of Canada. Its members account for almost 40 per cent of Latin America's gross domestic product (GDP). Combined, the four countries have a GDP of nearly US\$2 trillion, with Mexico making up about half.<sup>4</sup> The Alliance countries contain more than one-third of Latin America's population.

The Alliance countries have created a regional stock market indexed as MILA-SP40, eliminated visas for travel for their citizens, and are exploring creating a common visa for Alliance citizens. The trade integration bloc is working on one-stop-shop initiatives for foreigners looking to do business in the Alliance and implementing flexible rules-of-origin to incentivize business opportunities and regional value chains. These initiatives make it easier for Canadian businesses to trade with and invest in all Alliance countries, essentially giving us “four for the price of one.”

<sup>3</sup> Pacific Alliance Framework Agreement, Article 11.

<sup>4</sup> The World Bank, GDP ranking, <https://data.worldbank.org/data-catalog/GDP-ranking-table>, last modified July 1, 2017.

## CANADA TRADES MORE WITH THE PACIFIC ALLIANCE THAN OTHER TRADE BLOCS WITH WHICH WE ARE CONSIDERING TRADE DEALS

Canada has strong trade links with the Pacific Alliance; more than 75 per cent of our two-way merchandise trade with Latin America is with Alliance countries.<sup>5</sup> Securing a trade deal with the bloc would strengthen these ties. While all Canadian trade numbers outside of trade with the U.S. are small, Figure 1<sup>6</sup> illustrates Canada's two-way trade in goods is significantly greater with the Pacific Alliance than with other trade blocs Canada is considering negotiating trade deals with – Association of Southeast Asian Nations (ASEAN)<sup>\*</sup> and Mercosur.<sup>\*\*</sup>

Figure 2 gives an idea of Canada's trade in services. Canada conducts nearly as much two-way trade in services with the Pacific Alliance as it does with China and ASEAN. Canada's service trade with the Pacific Alliance is more than double its service trade with Mercosur.

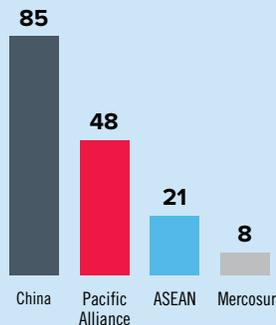
## TRADE WITH THE PACIFIC ALLIANCE IS IMPORTANT FOR WESTERN CANADA

As with Canada as a whole, the Pacific Alliance is an important trading partner for western Canada when compared to other trade blocs such as ASEAN and Mercosur. Both the Pacific Alliance countries and western Canada are serious about trade in general and trade with Asia in particular. Both also share a desire to move away from over-dependence on trade with the U.S., making increased trade with each other appealing.

The top three product categories exported to the Pacific Alliance from western Canada are wheat and rapeseed, swine and bovine cuts and machinery.

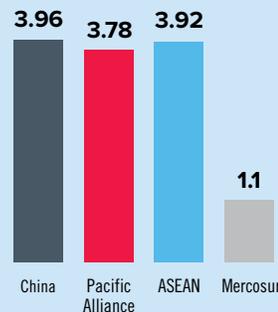
The Alliance also presents an opportunity for trade in services for the western provinces. For example, greater exports of Alberta's oil and gas technologies and expertise to Colombia, considered one of the best South American economies for oil firm investment. Other service opportunities include establishing regional supply chains to trade with Asia and for natural resource development.<sup>7</sup>

**FIGURE 1: CANADA TOTAL TWO-WAY MERCHANDISE TRADE WITH SELECTED PARTNERS, 2016 (IN C\$ BILLIONS)**



Source: Statistics Canada: Canadian International Merchandise Trade Database. Notes: Re-exports not included. Pacific Alliance includes Costa Rica and Panama

**FIGURE 2: CANADA TOTAL TWO-WAY SERVICES TRADE WITH SELECTED PARTNERS, 2015 (IN USD BILLIONS)**



Source: UN Comtrade Database. Note: Total for ASEAN excludes Myanmar, Brunei, Laos and Cambodia; total for Pacific Alliance excludes Peru and Panama; total for Mercosur excludes Paraguay, Uruguay and Bolivia (no data available for these countries)

**FIGURE 3: WESTERN CANADA TOTAL TWO-WAY MERCHANDISE TRADE WITH SELECTED PARTNERS, 2016 (IN C\$ BILLIONS)**



Source: Statistics Canada: Canadian International Merchandise Trade Database. Notes: Re-exports not included. Pacific Alliance includes Costa Rica and Panama

<sup>5</sup> Government of Canada, Pacific-Alliance – Background, <http://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/pacific-alliance-pacifique/background-contexte.aspx?lang=eng>, last modified August 14, 2017.

<sup>6</sup> In Figures 1 through 3, data for the Pacific Alliance includes Costa Rica and Panama, two countries in the process of becoming full members of the Alliance.

<sup>7</sup> Note: trade in services data is not available at the provincial level.

<sup>\*</sup> ASEAN (Indonesia, the Philippines, Thailand, Singapore, Vietnam, Malaysia, Myanmar, Cambodia, Laos and Brunei).

<sup>\*\*</sup> Mercosur (Argentina, Brazil, Paraguay, and Uruguay).

**THE PACIFIC ALLIANCE SHARES  
CANADA'S DEMOCRATIC  
AND ECONOMIC VALUES**

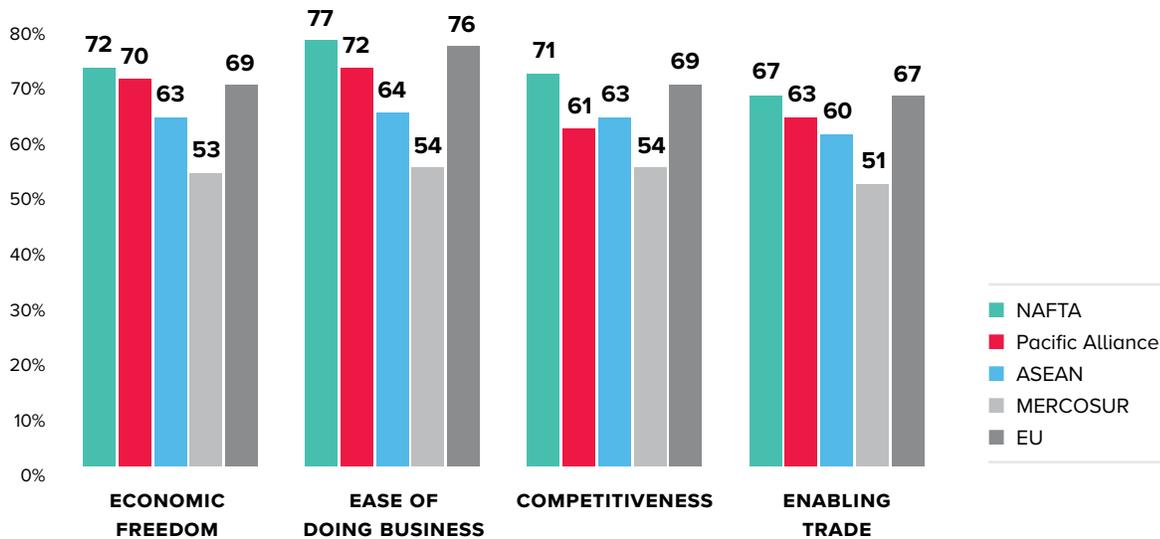
The Pacific Alliance is an attractive market for Canada because its member countries are mature and stable democracies, pro-trade, and have sound macro-economic fundamentals. All rank in the top third of the World Bank's Ease of Doing Business Index.<sup>8</sup> Chile and Mexico are members of the OECD and Colombia is in discussions to join. While other trade blocs such as the European Union (EU), Mercosur and even NAFTA have faltered or gone backwards, the Pacific Alliance has progressed because of its members' pragmatic focus on competitiveness issues over politics.

**NEGOTIATING A TRADE DEAL WITH THE  
PACIFIC ALLIANCE DOES  
NOT DETRACT FROM  
OTHER TRADE TALKS**

Negotiating a trade deal with the Pacific Alliance should not take away resources from other ongoing trade negotiations. Since Canada already has individual trade agreements with each Pacific Alliance member – the 20 year-agreement with Chile was updated earlier this year – much of the hard work has already been done. Canada also recently worked with the Pacific Alliance on our strategic partnership agreement.

The NAFTA renegotiation is well underway and will continue into 2018. While NAFTA is taking a lot of time and attention from trade officials, Canada should be able to work on more than one agreement at the same time.

**FIGURE 4: COMPETITIVENESS INDICES 2016 (%)**



Source: Heritage Foundation Economic Freedom Index; World Economic Forum Competitiveness and Enabling Trade Indices; World Bank Ease of Doing Business Index.

<sup>8</sup> World Bank, Doing Business Economy Rankings, <http://www.doingbusiness.org/rankings>, 2016.

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**ONE OF THE OBJECTIVES OF THE PACIFIC ALLIANCE IS THE FREE MOVEMENT OF PEOPLE BETWEEN THE MEMBER COUNTRIES, ALONG WITH CAPITAL AND TRADE IN GOODS, AND SERVICES.**

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Despite the withdrawal of the U.S. from the Trans-Pacific Partnership (TPP) agreement, the remaining 11 countries are moving forward on implementing a TPP11 agreement.<sup>9</sup> While the TPP11 is a step towards a trade integration group, it is mostly about making it easier for the members of the group to trade more efficiently with each other. The Pacific Alliance is different – it is truly a trade integration group, focused on making the unit as a whole more competitive and effective in trading with the rest of the world. By joining TPP11, Canada will gain better access to multiple Asian markets, including Japan. By signing a trade deal with the Alliance, which requires being an associate member, Canada will be able to benefit from some of the integration advantages of the bloc.

Of the other trade deals Canada is considering – with China and the trade blocs of the Pacific Alliance, ASEAN, and Mercosur – a deal with the Alliance could be concluded in the shortest timeframe, because Canada is now an associate member which requires negotiating a trade deal. Any future trade agreement between Canada and China will take at least a decade to negotiate and implement. Exploratory discussions on a trade deal with ASEAN only started in September 2017. The federal government is still consulting with the public on whether to negotiate a trade deal with Mercosur.

**MOVEMENT OF PEOPLE COULD BE  
A STUMBLING BLOCK**

One of the objectives of the Pacific Alliance is the free movement of people between the member countries, along with capital and trade in goods, services. Members have eliminated visa requirements for each others' citizens, but have not yet tackled labour mobility issues such setting a universal standard for accepting professional credentials.<sup>10</sup>

It is unknown if the Pacific Alliance will push for the same free movement of people in trade deals with its associate members. Associate members will get a certain amount of co-operation with full members and more of a seat at the table than observer countries have. How much of the bloc's integration measures an associate member can take advantage of may depend on how much the associate member agrees to implement itself. For instance, Canada will not accept visa-free travel with all Alliance countries, which could limit our participation in the bloc.

Labour mobility is addressed in the bilateral trade agreements Canada has with each individual Pacific Alliance country. If the agreement with the bloc rolls over these rules, it should not be an issue. NAFTA covers Canada-Mexico relations, and Canada's labour mobility provisions with Chile, Peru and Colombia are very similar to those in NAFTA, with a few additions and exceptions. (See Figure 5, p.07)

<sup>9</sup> Government of Canada, "Trans-Pacific Partnership Ministerial Statement," Nov11, 2017, <http://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ppp-tpf/statement-declaration.aspx?lang=eng&ga=2.204301264.1768473774.1510675000-1326138753.1481569946>.

<sup>10</sup> Marczak, Jason and Samuel George, "Pacific Alliance 2.0: Next Steps in Integration," Atlantic Council, <http://publications.atlanticcouncil.org/pacific-alliance/>, May 2016.

**FIGURE 5: LABOUR MOBILITY PROVISIONS IN CANADA'S BILATERAL TRADE DEALS WITH PACIFIC ALLIANCE COUNTRIES**

<b>NAFTA</b> (Canada-Mexico)	<b>CANADA-CHILE</b> Free Trade Agreement	<b>CANADA-PERU</b> Free Trade Agreement	<b>CANADA-COLOMBIA</b> Free Trade Agreement
1994	1997	2009	2011
			
LABOUR MOBILITY PROVISIONS			
<p>Chapter 16 provisions grant temporary entry to business persons, professionals, intra-company transferees and traders and investors who are citizens and removes the need for a Labour Market Impact Assessment and work permit (for business visitors).</p>	<p>Rules for intra-company transferees and Traders/ Investors is the same as NAFTA.</p> <p>Business Visitor category does not provide an exhaustive list but illustrates the types of activities usually carried out by Business Visitors – no new activities compared to NAFTA, but several removed.</p> <p>Professionals identified in the agreement seek entry through pre-arrangement, as a salaried employee under personal contract with a Canadian employer or through a contract with the professional's employer in their home country. Exhaustive list of professionals is the same as in NAFTA.</p>	<p>Temporary Entry for Business Persons is modeled after NAFTA, but applies to permanent residents as well as citizens.</p> <p>Business visitors category similar to NAFTA with additions to general service, an added category of “meetings and consultations,” and the inclusion of after-leasing servicing in addition to after-sales servicing.</p> <p>Professionals are listed as a negative list, technicians are listed using a positive list.</p> <p>Intra-company transferees must be employed continuously for six months (vs. one year under NAFTA); this category includes a new category of “management trainee on professional development.”</p>	<p>Similar provisions as Canada-Peru FTA, also includes open work permits to spouses of Traders/Investors, Intra-company Transferees or Professionals and Technicians (NAFTA does not cover spouses).</p>

Source: Immigration, Refugees and Citizenship Canada. <http://www.cic.gc.ca/english/resources/tools/temp/work/international/index.asp>

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**A TRADE DEAL WITH THE ALLIANCE  
AS A BLOC COULD BRING IMMEDIATE  
BENEFITS TO WESTERN CANADA IN THE  
TRADE OF BOTH GOODS AND SERVICES.**

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## **BOTTOM LINE**

A Canada-Pacific Alliance trade deal can be negotiated and implemented in a relatively short time frame, given Canada's status as an associate member and the commitment of the Alliance members to open trade. A trade deal with the Alliance can also be completed more quickly than other trade deals Canada is considering, like China.

By becoming an associate member of and negotiating a trade deal with the Pacific Alliance, Canada is signalling that – unlike the current U.S. administration – we are serious about trade, and particularly increasing trade with Asia. On this side of the Pacific, the Alliance is the group most aligned with trade with Asia.

A trade deal with the Alliance as a bloc could bring immediate benefits to western Canada in the trade of both goods and services.

## *Further Reading*

### **The Potential of the Pacific Alliance: Will It Rise to the Challenges Ahead?**

Michael A. Matera and David Bahamon  
Center for Strategic & International Studies  
August 2017

### **Pacific Alliance – Finding opportunities south of the U.S.**

Naomi Christensen  
Canada West Foundation  
July 2016

### **The Pacific Alliance: Why it's important for western Canada**

Carlo Dade  
Canada West Foundation  
November 2014

### **The Pacific Alliance: An Example of Lessons Learned**

Carlo Dade and Carl Meacham  
Center for Strategic & International Studies  
July 2013

### **Why Canada Needs the Pacific Alliance**

Carlo Dade  
May 2013

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PROTECTING CANADIAN INTERESTS.