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FCO COUNTRY UPDATES FOR BUSINESS

Chile: Creation of the Pacific Alliance

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Summary

The Pacific Alliance – a free-trade bloc of Chile, Peru, Colombia and Mexico – formally brought into being on 6 June 2012. Panama and Costa Rica likely to join later. Meant as an openly pro-free trade counterweight to the rest of the Latin America region, and as an economic alliance only.

1. On 6 June, Chilean President Sebastian Pinera hosted his Peruvian (Ollanta Humala), Mexican (Felipe Calderon), and Colombian (Manuel Santos) opposite numbers to the fourth summit of the Pacific Alliance at the Paranal astronomic observatory near Antofagasta in the desert north. The main order of business was to sign the formal founding act of the new organisation. All four heads of state briefly also met with the King of Spain who was completing a two-day and predominantly commercially focussed separate bilateral visit.

Panama and Costa Rica – the most likely next members of the Alliance – were also invited to the meeting, as were Australia, Canada and Japan as observers.

2. President Pinera made clear that participants were witnessing the birth of a new and important free-trade bloc, already the world's ninth largest at its inception. The four founder members accounted for over 35% of Latin American GDP, a market of 215 million people, and over 50% of Latin America's exports to the rest of the world. They shared a firm belief in free trade, particularly in the Asia-Pacific region, and anti-protectionism, and wanted now to work towards the complete free movement of goods, services, foreign investment, capital and people between them. Other subjects the new bloc could jointly focus on in time included poverty elimination, scientific research and fighting climate change.

3. President Santos said that the new bloc offered its participants "common protection in the face of a global crisis" and would be much more open than any other bloc in the region (ie Mercosur). President Calderon said that this was "Latin America's decade" for those prepared to seize the opportunity in a globalised world.

4. The Alliance can be seen as indicative of a wider trend. Private sector integration amongst the four economies has surged over the past few years. Chilean retailers have expanded to Colombia and Peru; Colombian utilities are strong in Peru; and LAN, the Chilean airline, is omnipresent. The Integrated Latin American Market (MILA), launched last year, links the stock exchanges of Chile, Colombia and Peru, allowing traders to easily buy and sell shares on all three exchanges.

Comment

5. The four founding members of the Pacific Alliance already have FTAs with each other and hope that this new arrangement will help to project these prospering emerging economies collectively on the international stage. Arguably, the last thing the Latin American region needs is yet another regional organisation, but this one is designed as a purely economic proposition to the genuine mutual benefit of its members, not another one that will only issue political communiqués. Greater integration along the 'Pacific Spine' of Latin America

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could also make it easier for UK companies to use one of the Alliance countries as a springboard to others.

6. The underlying wider political message is, however, obvious in contrasting this group of pro-free trade, open economies with the rest of the region, in which they view growing protectionism as an increasing problem, and where the other main trading bloc, Mercosur, looks stalled and unambitious by comparison. For some commentators here, the other undeclared aim of this new economic alliance is to be a counterweight to Brazilian influence in the region.

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