



The convergence of the Pacific Alliance and MERCOSUR, and its effects on agricultural trade: elements for IICA cooperation¹

In response to the convergence between the countries of the Southern Common Market (MERCOSUR) and those of the Pacific Alliance, and its effects on agricultural trade, this technical note, addressed to the ministers of agriculture of the Americas, considers the contribution that the Inter-American Institute for Cooperation on Agriculture (IICA) could make through the technical cooperation it provides to the countries of the region under its Hemispheric Program on International Trade and Regional Integration.

Specifically, this paper focuses on the potential impact on the aforementioned

convergence of an important new development: the announcement that MERCOSUR and the European Union (EU) have struck a political agreement aimed at concluding the negotiations and implementing a preferential bi-regional agreement.

It will be vital to monitor the progress of the activities aimed at completing the approval and effective implementation of that agreement, with a view to identifying concrete actions related to trade in agricultural and agribusiness goods and services that could be promoted with IICA technical cooperation, in particular for the development of the convergence of the

1. Prepared by Félix Peña, member of the advisory group of IICA's International Trade and Regional Integration Hemispheric Program.

Pacific Alliance and MERCOSUR within the network of bi-regional agreements with the European Union.

The convergence between the Pacific Alliance and MERCOSUR

Close links between MERCOSUR and the Pacific Alliance are recognized as being one of the priorities of both regional integration groups. This does not necessarily mean the fusion of two integration processes undertaken in response to different situations which, at present, use dissimilar methodologies. But it does mean making progress with the many steps that have already been agreed to increase the connectivity and convergence of the economic and production systems of the member countries, with the consequent positive impact on regional governance. Steps in that direction were included in the “joint action plan” approved at the Thirteenth Presidential Summit of the Pacific Alliance, held in Puerto Vallarta, Mexico, on 24 July 2018.

The countries currently involved in the two integration efforts have a long history of working together. It should be remembered that they were, together with Bolivia, Ecuador and Venezuela, the same countries that in 1960 promoted the Latin American Free Trade Association (ALALC)

and then the Latin American Integration Association (ALADI).

They are also bound to be at the heart of any initiative for joint action aimed at addressing the situation in Latin America, especially in view of their importance to the region as a whole, accounting as they do for 81% of the population, 86% of gross product, 89% of foreign trade, and 81% of investment flows from overseas. Without these countries, it is hard to imagine any initiative for economic integration in Latin America, a region characterized by fragmentation, having an effective impact at the regional level and, therefore, a reasonable global projection.

Hence the interest, within and beyond the region, in the actions aimed at intensifying the links between the set of countries that make up the Pacific Alliance and MERCOSUR (Grupo MAP). As in the case of other groups of countries that are important for understanding contemporary international relations (for example, the Group of 7 and the Group of 20), they are recognized for their ability to take the initiative on issues that facilitate international, global and regional governance and can have an effective impact on current conditions. In acting as a group, they are perceived, in their respective spheres of action, as important stakeholders that must be taken into account.

Going forward, two areas of joint action can be foreseen for the Grupo MAP. The

first concerns the issues incorporated into the aforementioned joint action plan approved at the Puerto Vallarta Summit, which calls for the implementation of various institutional and regulatory actions. The second refers to joint initiatives that this group of countries could promote in order to impact issues that are important for their respective interests, be they global or regional in scope. They may come to think it desirable to undertake joint initiatives on three issues that are especially important for their respective international trade relation agendas.

The first important issue for joint action by this group of countries is the question of the reforms needed at the World Trade Organization (WTO). What are the reforms of the WTO that could, or should, be of greatest interest to the MERCOSUR and Pacific Alliance countries? What concrete proposals could this group of countries present? What position might the Grupo MAP countries take in response to the proposals that other countries or groups of countries, such as the United States, the EU, China, the Group of 7, etc., may be interested in introducing? One issue that would warrant special attention are the standards that affect the harmonization of the preferential agreements that developing countries negotiate with the commitments assumed in the multilateral trading system. In fact, the predominant interpretations that have predominated with regard to Article XXIX of the 1994 General Agreement on Tariffs and Trade (GATT) have generated restrictions that

are not necessarily based on what is established explicitly in the text.

A second important issue is the need to strengthen and make full use of the opportunities provided by ALADI, especially through the mechanism of partial scope agreements envisaged in the 1980 Treaty of Montevideo and Resolution No. 2 of the Council of Ministers. This is a very practical and functional instrument that allows two or more member countries to develop strategies aimed at promoting many different kinds of transnational productive linkages, intended to be regional in scope and have a global projection.

A third issue is the development of bi-regional preferential trade agreements involving Pacific Alliance and MERCOSUR countries. Some examples are the bi-regional agreements with the EU, the United States and China, although others are perfectly possible.

The conclusion of the negotiations of the bi-regional agreement between MERCOSUR and the EU will open the way to the connection with the agreements that the EU has signed with the Pacific Alliance countries, as proposed previously by Ricardo Lagos and Osvaldo Rosales. This could lead to a very functional network of bi-regional agreements for the promotion of joint investments involving businesses from both regions. The same thing could result from a network of bi-regional agreements between the Grupo MAP and other countries.

The bi-regional negotiations between the EU and MERCOSUR

The negotiations between MERCOSUR and the EU have taken 20 years to complete, while it is 28 years since the political decision was taken to embark on a journey that was never expected to take such a long time. The 28 June announcement of the signing of the bi-regional political agreement marked the start of a new phase which, if successful, will result in the full entry into force of the agreement and, even more importantly, produce the desired effects in terms of trade and productive investment.

Throughout the years of negotiations with the EU, the idea was endorsed by the various governments of the MERCOSUR countries. Now they have embarked on the final phase, which could take another two to three years. Then the agreement will be totally concluded, and its effects felt in both regions.

This bi-regional agreement will create opportunities and pose challenges. If the opportunities are tapped correctly, they will translate into investments, trade flows and the creation of jobs. They will also enhance the image, and ultimately the prestige, of both regions, benefitting their policies aimed at further integration into international trade. The challenges will be related to the capacity of governments, business and society as a whole to

overcome the practical difficulties that could arise in the future and affect the necessary balances of the agreement. Talent, political will and organizational technology will be required to address those challenges.

What are some of the steps that each MERCOSUR country will have to take for the bi-regional agreement to be concluded and enter in force? Some steps have to be taken simultaneously. Based on what has been observed in other specific cases of agreements of this kind with the EU, four main steps will be required, plus other possible complementary ones.

The first step will be to disseminate details of the “small print” of the agreement. To be in a position to talk about what exactly has been agreed, it will be necessary to read all the texts carefully from the perspective of the different sectors involved, both at the national level and in the different regions of each country, and in terms of the dynamics of trade and future investments. Attention will have to be paid to mechanisms that, explicitly or implicitly, would make it possible to activate different types of “escape valves” and others designed to enable SMEs to make an “assisted transition” and modernize their operations for the new expanded market. The EU employed mechanisms of this kind to facilitate the incorporation of Eastern European countries.

A second step will be for the countries to begin to reach the domestic consensus

required for their legislatures to approve the agreement. This means explaining its contents in terms of the possible effects on each sector and region of each country and, especially, making it clear what the effects would be if a given MERCOSUR member country were to be unable to secure parliamentary approval.

A third step will be for each country to make the preparations necessary to take advantage of the agreement effectively. Businesses and institutions will have to get ready to compete effectively in the European market, especially in niches of goods and services in which, for various reasons, they may have significant advantages. The internationalization of niches of competitiveness will, therefore, be one of the main advantages to be exploited in relation to the growing demand from the emerging middle classes in numerous developing countries. It will also call for the training of good specialists to help stakeholders better understand how to operate successfully in the European market, tapping the advantages offered by the bi-regional agreement. This will also be a priority sphere of action for academic institutions, which would benefit from becoming involved in networks for training specialists within the bi-regional framework.

The fourth step will be to promote concerted action by the MERCOSUR and Pacific Alliance countries to achieve the effective coordination of joint projects, related to both the production of goods

and the delivery of services, to benefit from the network of agreements with the EU, taking into account those already agreed upon with the Pacific Alliance countries.

The bi-regional negotiations with the European Union

The following are some of the main questions that need to be considered with respect to the bi-regional negotiations and their potential impact on the convergence of the Pacific Alliance and MERCOSUR:

- How could the agreement that MERCOSUR and the EU may sign be integrated into the network of different kinds of preferential agreements that the EU has already concluded with the Pacific Alliance countries, or with the countries engaged in the process of modernization?
- What will be the effects of the negotiation and, in particular, the effective implementation of the bi-regional agreement of MERCOSUR with the EU on future interaction in the field of foreign trade in both agricultural goods and services, in the Alliance and MERCOSUR countries? And, especially, what prospects are opening up for future collaboration between the countries of the two subregions, and with the other

countries of the region, bearing in mind the preferential agreements that already exist with the EU?

- What effects would the network expanded by the MERCOSUR-EU agreement have on cooperation between businesses in the MERCOSUR and Pacific Alliance countries —with the possible participation of European businesses— and on their joint investments in third countries, including those of the EU? And, if that were the case, what would be some of the priority spheres of action for facilitating such cooperation? In other words, with regard to competitive intelligence; types of joint action between companies; options in the areas of financing for trade, technical assistance, technological cooperation, and productive investments; and analysis of specific cases of cooperation between companies, both in the region itself and in Europe and other developing countries, especially in Asia and Africa?
- How useful could ALADI's institutional framework be for the development of the actions to be implemented? In that regard, what role could be played by partial scope agreements in the different modalities envisaged in the 1980 Treaty of Asunción and in Resolution 2 of the 1980 Council of Ministers? Those rules were some of the main innovations introduced with respect to the institutional framework

carried over from ALALC. They even open up the possibility of sectoral and multisectoral approaches for the gradual construction of opportunities for integration among countries in the region, compatible with the rules of the multilateral trading system applied following approval of the Enabling Clause during the Tokyo Round.

- What impact could successful joint action initiatives involving Alliance and MERCOSUR countries and the EU at the bi-regional level have on future bi-regional agreements —for example, with the United States and China?
- What role could be played by international financial institutions such as the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF) and, ultimately, the European Investment Bank (EIB), to facilitate technical assistance and financing for joint projects involving MERCOSUR and Pacific Alliance companies?

With regard to each of these questions, it is feasible to reach agreement on activities for implementation under different types of technical cooperation promoted by IICA, with the participation of interested countries and other international cooperation agencies, including the EU itself.

Finally, through the Hemispheric Program on International Trade and Regional Integration, IICA could contribute to

the preparation of technical documents analyzing the characteristics of the interregional agricultural and intraregional trade of the Pacific Alliance member countries, and offer technical assistance to help the countries understand and interpret the fine print of the text of the agreement and identify possible trade opportunities that would allow the private

sector to tap and make good use of the trade agreements signed.

For further information, please contact Adriana Campos Azofeifa, Manager of IICA's Hemispheric Program on International Trade and Regional Integration, by email (adriana.campos@iica.int) or phone (506) 2216-0170.



Inter-American Institute for Cooperation on Agriculture

Headquarters. P.O. Box 55-2200.
San José, Vázquez de Coronado, San Isidro 11101 - Costa Rica
Telephone: (+506) 2216 0222 • Fax: (+506) 2216 0233
E-mail: iicahq@iica.int • Web Site: www.iica.int