

The Pacific Alliance and South Korea as an Associate Member of the Alliance



Sungwoo Hong

Ph.D., Associate Research Fellow, Americas and Europe Team
Korea Institute for International Economic Policy

In July 2019, the Ministry of Trade, Industry and Energy of South Korea issued a statement that South Korea and the Pacific Alliance (PA) would be initiating negotiations in September 2019 for the country to become an associate member of the PA. Such an agreement could be attributed to steady efforts on the part of the Korean government in multiple directions; at the Korea-Chile summit and Korea-Colombia meeting in 2019, for example, President Moon Jae-in and Prime Minister Lee Nak-yeon made requests for Chilean and Colombian cooperation in initiating the negotiation, respectively.

What is the PA and why is South Korea looking forward to the negotiations?

The PA is a trade and economic bloc that was officially established in April 2011 and comprises four countries in Latin America: Chile, Colombia, Mexico, and Peru. At the time of its establishment, the PA declared its primary objectives as follows: 1) achieving a regional integration that allows free mobility of goods, services, resources, and labor among members, 2) driving economic growth within the PA by overcoming inequality and promoting social integration in each country, and 3) serving as an economic and commercial platform to the Asia-Pacific region.

With regard to size of economy, meanwhile, the PA is comparable with Mercosur, which is the largest trade bloc among Latin and Caribbean countries (LAC). According to the World Bank, the PA's GDP accounts for 36 percent of the LAC's GDP, whereas Mercosur represents 43 percent. Furthermore, other figures such as population and foreign direct investment are comparable between the two trade blocs. These figures indicate that the PA could be an attractive market to other countries including South Korea; the fact that the PA has 59 observer countries as of October 2019 illustrates how a number of countries are showing interest in the PA's potential.

Indeed, South Korea has already concluded FTAs with three PA members—Chile, Peru, and Colombia. If so, why is the Korean government making such efforts to become an associate member of the PA? The negotiations to join the PA as an associate member would provide South Korea with significant opportunities in three aspects.

First, joining the PA as an associate member could result in an equivalent state to signing an FTA between South Korea and Mexico. Indeed, negotiations for this FTA have failed to progress any further since June 2008. It is clarified in the Guidelines Applicable to the Associated States to the Pacific Alliance that the PA and a candidate country for associate membership should discuss terms of reference and various agendas during the negotiation process. In practice, in March 2018 the PA and four candidate associate members—Australia, New Zealand, Singapore, and Canada—discussed a number of agendas such as access to agricultural and manufacturing products, rules of origin, non-tariff barriers, small and medium sized enterprises (SMEs), and so on. Therefore, becoming an associate member could lead to South Korea enjoying comparable conditions to concluding an FTA with Mexico.

Second, South Korea would have an opportunity to improve its FTAs already concluded with Chile, Colombia, and Peru. As stated above, the PA and a candidate country for associate member status will discuss emerging agendas during the negotiation process, creating an opportunity for South Korea to complement or improve the three existing FTAs. In October 2019, the third negotiation to improve the FTA between South Korea and Chile proceeded by discussing the emerging agendas such as access to goods, intellectual property rights, labor, gender equality, and so on.

Third, South Korea could understand the primary and specific issues at the PA and help entrepreneurs expand to the region of the alliance by attending the PA summits and ministerial

meetings. For example, Jarrin et al. (2018) suggest precise agendas in which the PA and observer countries could cooperate as follows: 1) digitalization in which creating a single digital market for PA is included, 2) entrepreneurship and SMEs that involve improving the financial system for SMEs and stimulating efficient usage of energy, and 3) vocational education and training in which improving quality of teachers and materials is included. South Korea could also explore diverse agendas for cooperation with the PA as it participates in negotiations as a candidate of associate member of the PA, and these efforts would be conducive to the expansion of firms in related fields to the agendas.

Although it is certainly beneficial to become an associate member of the PA, the opportunities above might not be realized until challenges that the PA currently struggles with are solved. One of the challenges is how the PA makes other trade agreements to coexist with negotiations between the alliance and a candidate country for associate membership. Chile, Mexico, and Peru signed the revised Trans-Pacific Partnership (TPP), called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); Mexico also signed an agreement between the United States, Mexico, and Canada (USMCA). These different trade agreements could cause the rules of origin to become complicated, which may lead to difficulties in negotiating an agreement between the PA and a candidate country for associate member status.

Another challenge that the PA currently faces is the low amount of regional trade within the alliance; the ratio of the regional trade amount within the PA to the total trade amount of the PA to the world is approximately 3 percent. This low figure suggests that building a single market, in which free movement of goods, service, and people are guaranteed, was not successful within the PA. Such a concern may curtail the benefits of becoming an associate member of the PA.

Under these challenges for the PA, it would be interesting to pay attention to how negotiations between Korea and the PA as well as distinct negotiations among the alliance are going to progress. **KIEP**

Reference

Jarrin, M.T., G.L. Gardini, and J. Ramirez. 2018. "Pacific Alliance and Observer Countries: An Agenda for Cooperation", Global Policy Perspective Report.