



Select Committee on International Relations

Uncorrected oral evidence: The Pacific Alliance

Wednesday 1 May 2019

10.45 am

Watch the meeting

Members present: Lord Howell of Guildford (The Chairman); Baroness Anelay of St Johns; Baroness Coussins; Lord Grocott; Lord Hannay of Chiswick; Baroness Helic; Baroness Hilton of Eggardon; Lord Purvis of Tweed; Baroness Smith of Newnham; Lord Wood of Anfield.

Evidence Session No. 1

Heard in Public

Questions 1 - 11

Witness

I: Professor Gian Luca Gardini, Professor of International Relations and Latin American Politics, University Erlangen-Nuremberg, Friedrich-Alexander Universität Erlangen-Nürnberg.

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Examination of witness

Professor Gian Luca Gardini.

Q1 The Chairman: Professor Gardini, good morning, and thank you for being with us. We appreciate it very much. This is now a public session. A transcript will be available afterwards, which you can change and adjust in any way you wish. You are looking at the International Relations Committee of the House of Lords. Our preoccupation and interest this morning is very much in sharing your wisdom and understanding on the Pacific Alliance.

I will ask the first question. We want to learn about some of the basic issues and characters of the Pacific Alliance. I observe in starting that the United Kingdom in the past has had considerable interests and influence in the Latin American region and the countries involved in the Pacific Alliance. Today we sense that our interest has declined somewhat, although perhaps with Brexit, which we will come on to, a new focus and interest will be aroused in the policymakers' minds in the United Kingdom. In the meantime, I will start, as I say, with the basics.

How much does membership influence the economic policies of each of these countries? How does it all work? We also want to know from you how the Pacific Alliance fits in with all the other alliances and arrangements which have developed over the years, including Mercosur and what happened to that, the Lima Group, which I believe is meeting today, the Organization of American States, Caricom and so on. How do you fit together the jigsaw of all these things? Please tell us.

Professor Gian Luca Gardini: Absolutely. Thank you very much for the invitation. It is a pleasure to have an opportunity to share my views on the Pacific Alliance with such a distinguished committee. I also feel I owe something to the United Kingdom as the country which hosted me for about 12 years and in which I started my academic career.

To start with the basics, the Pacific Alliance was launched in 2011 and became effective from 2012. It was an initiative of four countries: Chile, Peru, Colombia and Mexico. It is a very peculiar attempt at regional integration, different from past attempts in that when it was created in 2011 the predominant mood was slightly anti-capitalist, anti-free trade and anti-open economies. When the countries that pursued open economies and free trade, such as Chile, Mexico and, to an extent, Peru and Colombia, decided to create this alliance, it was seen as new, a bit strange and different from what we were used to.

By now, I would say that the Pacific Alliance is possibly the most effective regional integration scheme in Latin America, although it remains a *sui generis* attempt, because regional integration means integrating economies inside the trade zone. One of the major objectives of the Pacific Alliance is to integrate the four countries with the external world—to promote trade especially with Asia Pacific—and with resources so created then to invest in the improvement of the economic and social conditions of their people.

You asked me how it works. A major point of strength of the Pacific Alliance, and perhaps also one of its major weaknesses at the same time, is its extremely basic and minimalist approach to integration. The institutional structure is extremely simple: the Presidents take most of the decisions and determine the political directions. Then there is the Council of Ministers—Ministers of Foreign Affairs and of Foreign Trade—who decide how to implement those political directions. Then there is a High-Level Group composed of other Ministers and Vice-Ministers who implement the technical provisions. They are helped in this respect by a number of technical groups, in which high officials of the specific ministries in the four member countries elaborate proposals, rules and plans to pursue the Pacific Alliance objectives. In a nutshell, that is how the institutional structure works.

There are different ways of measuring its achievements so far. The first is by comparison, looking at what the Pacific Alliance has achieved compared to other regional organisations in Latin America. In this sense I would say that the Pacific Alliance has been quite successful, in a relatively short time—eight years this year—achieving a number of objectives not only in the economic field but in the social field.

The other way to measure success and achievement is to test them against the set objectives. If we consider that among the Pacific Alliance's set objectives is the integration of the economies of the four countries, the creation of an efficient free trade area among the four countries and an effective platform for international insertion of the four countries, especially towards Asia Pacific, the organisation has been quite successful so far.

Let me give you a couple of tangible, concrete examples of why I believe the Pacific Alliance is a successful organisation. In the first instance, the free trade area is now in place and has been in force since 2016. About 92% of the goods have been liberalised, and there is a clear chronogram for liberalising the remaining 8%.

The Latin American Integrated Market (MILA) has also been created and is in place. It is a common platform for stock exchange markets where you can trade equities and titles from any of the four stock exchanges of the member countries in any other country using local currency. That results in considerable savings.

There are also a number of perhaps less catchy provisions that are equally effective. Particularly in the area of trade facilitation, we have mechanisms such as the interoperability of the foreign trade window whereby you can exchange export documents online, which greatly facilitates export among the four countries. An entrepreneur capital fund was established to foster entrepreneurship. There is also a system in place to simplify the obtaining of patents in the four countries. There is now a digital system for the homologation of the certificates of origin. You may wonder whether these are only minor measures. They might be minor but their effect is amplified in trade facilitation.

There is another aspect that I consider to be very successful: the inclusion of the business sector. The EU was very successful in the involvement of its own business sector, whereas other Latin American integration schemes were less successful. There is also a social aspect to the Pacific Alliance, whose goal after all is to promote the well-being of the people of the Pacific Alliance. Progress has been made in this respect. For instance, tourist and business visas are no longer required among the four countries, and there is a common platform in the area of education which has already awarded 1,400 scholarships in the last few years.

In terms of global projection, especially towards Asia Pacific, the Pacific Alliance countries have opened seven shared embassies and two joint trade offices. They have raised considerable international attention, to the point where the alliance now counts on 55 observer states and there are joint events such as participation in international trade fairs and regular gastronomic events.

Last but not least, in my opinion there is a very important aspect that characterises the success so far of this organisation: the will to tackle criticism and sensitive points. I will give you two examples. First, there was concern about the role of the observer states, which was not very clear. Just last week the Pacific Alliance launched the first forum with the observer countries, and a portfolio of potential areas of co-operation is now available. In addition, there is an agenda for youth. So not only is there the scholarship and education initiative that I already mentioned but a shared volunteering scheme in the four countries.

Bringing this all together, my assessment is that the Pacific Alliance so far has performed successfully not only against its stated objectives but in comparison to other regional integration schemes. That said, not everything that is presented as a success is actually a success, and there are a number of challenges ahead that I would be delighted to expand on.

Q2 The Chairman: Professor Gardini, thank you very much for that comprehensive overview. I know that my colleagues are eager to ask you a number of further questions, and I will put in two brief ones before they do. First, what about political integration? How much subordination of national laws to higher political authority is involved in your description? Secondly, as a sub-clause of that, what about a single currency? Is there any move in that direction?

Professor Gian Luca Gardini: There is no movement yet towards a single currency, as far as I know. That is probably too ambitious compared with the alliance's current objectives, and I would see such a move as problematic. Other regional integration schemes have tried that before but decided to abandon it. I am not aware of any specific, concrete projects towards a single currency. Would you mind repeating the first question, please? The signal went quite bad again.

The Chairman: I asked about political integration. How much of a supranational element is involved in the scheme, and to what extent are

national laws required to be subordinated to some pattern of higher law?

Professor Gian Luca Gardini: The very simple answer is that there is no supranationality whatever; this is a purely intergovernmental organisation. As I said before, this basic approach to integration and the institutional structure has until now been one of the big advantages of the organisation, so there are no cumbersome procedures and no temptation of cessation of sovereignty.

The institutional structure is extremely slim and quick. There was even a videoconference summit to save money, trouble and time. So there is no supranational structure but very easy and direct decision-making based on consensus.

The Chairman: Thank you. Lord Hannay has a question.

Q3 Lord Hannay of Chiswick: Could I ask you about trade policy? Does this bloc negotiate trade policy as a group, or does each of the four members have its own trade policy towards third countries? It would be useful to know that, because from what you are describing it sounds a little like EFTA¹ in Europe rather than like the EU.

Professor Gian Luca Gardini: That might be a daring comparison, but it might also be the right one in the sense that the Pacific Alliance does not have a juridical personality. The alliance as such cannot sign international agreements; they are signed by individual member states. Of course they do it at the same time and they can negotiate as a bloc, but each member state is represented individually and we do not have such a thing as the European Commission, so in that sense you are right.

To what extent do they share common economic and trade policy? My sense is that each country has its own trade policy and its own views, but there is a very clear convergence in those policies: that is, all the members have a preference for free trade, open economies and the liberal economic order, and they share access to the Pacific. That makes the Asia Pacific probably the main target for these countries' trade policies. That does not mean that the organisation has no coherent strategy for the four countries.

Let me give you some examples. Among the many technical groups established by the organisation, there is one for external relations that co-ordinates trade policy initiatives and the members' positions and initiatives towards the observer countries. This group has so far been quite active.

I will give you some tangible examples. One is the organisation of two ministerial meetings with the ASEAN countries and the preparation of a common document for co-operation with the ASEAN countries which establishes a number of priority areas, in particular the economy, education, sustainable development and science and technology. Two presidential meetings were also organised with the APEC countries.

¹ The European Free Trade Association

Again, priorities are very much connected to trade policy. We are talking about trade facilitation and the internationalisation of small and medium-sized enterprises.

As for relations with Mercosur, there have been a number of initiatives to co-ordinate policy. This is what the former President of Chile, Mrs Bachelet, called convergence between Mercosur and the Pacific Alliance, although this could be quite problematic. The four countries have also started a dialogue with the European Union focusing on trade facilitation, investment, free movement of goods and the Erasmus+ programme.

In addition, another technical group brings together the promotion agencies of the four countries. This is quite important, especially from a third-party perspective, because there are three types of agency: agencies for the promotion of trade, agencies for the attraction of investment, and tourism agencies. The fact that there is a technical group and these four states can send representatives of these different agencies ensures a significant degree of policy co-ordination.

To sum up, there is no common fixed trade policy, but there is a convergence in the interests and approach of the four countries that results in quite coherent and effective common and shared initiatives.

Q4 **Baroness Coussins:** Good morning, professor. Given that one of the stated characteristics of the Pacific Alliance member states is the rule of law, is there any risk of the success or integrity of the Pacific Alliance being undermined by rule of law challenges in the member states, such as the extent of corruption in Peru or the fragility of the peace process in Colombia? Does the Pacific Alliance take a stance on issues such as this?

Professor Gian Luca Gardini: I very much appreciate the points about the risks, the political risks and the rule of law. Countries such as Chile have a strong legal tradition. In this sense we should distinguish between member states. As you correctly point out, issues of corruption are more acute in certain countries than in others. I am not aware of specific anti-corruption initiatives by the Pacific Alliance. That might be possible. I confess that this is not my specific area of expertise, but I am not aware of joint anti-corruption initiatives.

As for the peace process, the Pacific Alliance started before the conclusion of the peace agreement in Colombia, which in a way is promising. I do not think that troubles relating to the peace process in Colombia will have a direct impact on the Pacific Alliance or its functioning. Of course, there might be indirect consequences if the other members doubt Colombia's commitment to the rule of law and the respect of human rights—that is a possibility—but it is quite unlikely, in my view. I do not see corruption or the peace process in Colombia as potential threats to the normal working and initiatives of the Pacific Alliance.

To build on your question, I see other political challenges as perhaps a little more significant. I resume my point that this very basic, no-frills

approach may be a point of strength but also of weakness, because in this phase there is one risk: the lack of leadership and will to take this project forward. If you think of the political situation in Mexico, for instance, the current Administration have a relatively different orientation from that of the other member countries.

The situation in Peru is really problematic, as you said, and not only because of corruption issues. Because of corruption issues, we now have a President who was the Vice-President and whose political capital may not be infinite. At the same time, Chile, and I would say Colombia, have a little more continuity in their political trajectory, but do they have the credentials and political strength to lead this organisation somewhere? I am not quite sure that we can expect major steps forward. We can expect routine progress in the next few years.

Q5 Lord Grocott: I do not know whether I am trespassing on questions that might come later. On the structure, a statistic that immediately hits anyone reading it for the first time is that there are four members, four associate members and 52 observer states. Can you elaborate a little on what observer status means in practice? Do representatives of all these states have some sort of representation at meetings of the Pacific Alliance? Is it assumed that observer status might lead to anything else? Putting it very bluntly, what is in it for Britain?

Professor Gian Luca Gardini: Absolutely. Fair enough. There is a lack of clarity about the status of third parties to the Pacific Alliance. If my data is correct, for the time being there are 55 observer states. In terms of legal status, that is all. Four countries are trying to become associate members but negotiations have not been completed, according to sources from the Peruvian Foreign Ministry I consulted yesterday.

What is in it for observer members? They have the right to participate in meetings of the Pacific Alliance to which they are invited. It is not an automatic right; they can be invited to participate and have the right to express a voice. They do not vote but can express their voice and their concern.

In the case of associate members, if and when the negotiations are finalised, there will be the signing of a binding treaty characterised by high standards in the economic and trade field. What that means exactly is not known to me. This is why negotiations are taking a long time. Britain is already an observer member—

The Chairman: I interrupt you there, professor, because we will move on to the British interest specifically in a moment. Let us keep to general issues until then. There is one more question on the overall structure from Baroness Anelay, and we will come to Britain after that.

Professor Gian Luca Gardini: Okay. Sure.

Q6 Baroness Anelay of St Johns: Good morning, professor. My question builds in part upon what Lord Grocott has just said, but I will not ask it with regard to the UK specifically. A little while ago you mentioned that

information had been published by the Pacific Alliance showing the level of participation possible by observer states. In that document, do you see any level of participation having success in the short term, or would the actions offered by the Pacific Alliance actions require a long-term commitment before any success could be shown? Could you give me a flavour of what you think would work and what would not?

Professor Gian Luca Gardini: Thank you. That is a very good question about specific opportunities for co-operation, as you suggest, in the short, medium and long run. The document that was presented last week lists a number of offers and demands for co-operation. It is basically a collection of demands for co-operation that each technical group of the Pacific Alliance has formulated. That means that it is up to the observer states to pick up on those demands and make some offers that match them. Conversely, two technical groups have made offers: that is, areas in which the Pacific Alliance may offer possibilities for co-operation to those observer states that are interested. This is for the short term, but it is really in the hands of the observer members.

You said that your question was not with specific reference to the UK but was more about what other members can do or how they have reacted. The most active among the observer members are of course those whose final objective is to become associate members. That means especially Canada, Australia, New Zealand and South Korea; they are definitely among the most active. Japan has also been quite active and Germany has recently shown significant interest.

One thing that can be done is to stimulate interest in the national business sector and the academic sector. I will give you a tangible example of what we have done here in Germany. With colleagues in Sweden, Denmark and of course Germany, we organised a number of seminars in Denmark, Sweden and Germany between 2017 and 2018 to raise awareness of the Pacific Alliance and the opportunities that it offers, with the specific involvement of the Danish industry association, the Swedish industry association and the confederation of German industry.

Leaving aside the UK for the moment, this kind of approach is very important for raising awareness of the opportunities and to arouse somehow the desire among businesses to co-operate with businesses and Governments in the Pacific Alliance.

The Chairman: Thank you. Let us move on to British interests specifically.

Q7 **Baroness Coussins:** Do you know any details of how the UK has been engaging with the discussions that have been going on for some time in the Pacific Alliance about developing the role of associate and observer states? You referred earlier to the recent launch of a portfolio of areas of co-operation. Has the UK been involved in the development of that portfolio or been proactive at all?

What areas have been expressed as our particular interests, and what could or should they be, especially given the parallel work that the UK is

engaged in in looking towards a post-Brexit situation where we are negotiating continuity agreements with the Latin American countries that we are currently in a free trade agreement with through the EU? I know that one has been negotiated with Chile, but there are other Pacific Alliance countries that we should perhaps be looking to achieve a similar agreement with. Could that come collectively through the Pacific Alliance, or is it just a bilateral issue?

Professor Gian Luca Gardini: First, the UK should decide whether it wants to engage more with these countries. That implies a significant political will and a significant display of resources. The first step is the country deciding to engage more with those countries.

I will start with the way to do that and then move to the why and which areas. The first step is to look at what other countries do. A very good example is what South Korea has been doing in the last few years. It has opened a number of representative offices in Pacific Alliance countries in addition to the embassies. These are specifically for business and co-operation opportunities, and there is a quite effective one in Lima.

The second thing that could signal to the Pacific Alliance countries the significant and serious interest of the UK would be to send higher-level representatives from the UK to all or a majority of Pacific Alliance meetings. Of course, if you send the second or third rank from the embassy, that does not signal serious engagement. If you send an ambassador, an Under-Secretary, a Minister or a Deputy Minister, that sends a much stronger signal. In cultural terms, this is very appreciated in Latin America. Status is still a key concept if you want good relations or to do business with Latin America.

Another opportunity is to interact more with the Pacific Alliance via the OECD, the Organisation for Economic Co-operation and Development. The UK is a forerunner in this respect; it has already put into practice specific intense co-operation with Brazil through the OECD, so the case of UK-Brazil relations could work at least as an inspirational model for how to improve relations with the Pacific Alliance. I also stress the role of the British Council.

That gives me a link to your other question about whether the UK has been proactive and how it has engaged so far. Last week in Lima there were, I think, four representatives from the UK. They were engaged in a number of discussions and bilateral meetings, and sources from the Peruvian foreign ministry tell me that representatives from the British Council were particularly active. That was very much appreciated.

Why should the UK pay attention to the Pacific Alliance? The obvious answer is that it is a potential market of 225 million people. It represents over 37% of the gross domestic product of the entirety of Latin America, 52% of the entire foreign trade of Latin America and about 45% of the foreign direct investment inflow into Latin America. So that is already quite interesting in itself. Considering the strength of the British financial system, I would also consider that MILA, the integrated market of Latin

America, a platform for the joint management of the four stock exchanges, also offers the UK interesting opportunities.

If the UK is also looking into new trade strategy in a post-Brexit scenario, Asia and Asia Pacific are of course interesting targets, but so too is Latin America, not only in itself but in terms of UK insertion into regional and global value chains aiming at the Asian market. Asia Pacific is certainly a good target in this respect, and the Pacific Alliance might be a very good platform as a number of mechanisms to facilitate insertion into global value chains are already in place there.

The UK has a number of competitive advantages in several specific sectors, but I would like to mention two or three that are probably still under-explored. The first is academic co-operation, which is part of a broader cultural diplomacy in which the UK is already very strong at the global level. The other sector I would recommend is cosmetics. Do not forget that the UK is quite strong in this sector, and the Pacific Alliance has a young population at middle-income level. That kind of industry is also potentially attractive. I will not dive into the usual manufacturing sector or the financial sector, as already mentioned. I hope I have answered your questions.

Lord Hannay of Chiswick: I am still struggling a little to understand the trade advantages, given that the European Union, if I remember rightly, has a free trade agreement with Mexico which has recently been updated. It has one with Colombia. It has one with Chile. I am not too clear about Peru. If Britain leaves the European Union, what, beyond the terms of the agreements being replicated bilaterally between Britain and the four members of the Pacific Alliance, is there to be achieved?

Professor Gian Luca Gardini: This is quite an interesting question. If you replicate those agreements, you may also replicate their mistakes. They are not mistakes in the agreement itself but in its promotion. There is consensus, especially in the Pacific Alliance countries—I speak specifically about Mexico but also about Chile—over a certain dissatisfaction with how that free trade agreement is actually working. I do not think that the problem is with the trade agreement itself but with the promotion of that agreement. To what extent can we promote the opportunities offered by that trade agreement in the UK and in the Pacific Alliance?

There is also a potential political advantage, as the political alliance shares a number of views with the UK. We have already mentioned a preference for free trade and open economies, but those countries are also quite wary of supranational commitments and the burden that an excessively bureaucratic structure may imply. In this respect, the UK could find in the Pacific Alliance countries a significant political partner in global forums and issues.

What more is to be achieved in trade? I am not sure how a new UK free trade agreement with Pacific Alliance countries can be much more advantageous than the existing EU-Mexico, EU-Colombia or EU-Peru free

trade agreements, if the provisions are basically the same. I am not a quantitative economist and cannot give you an exact projection, but if the UK is aiming at a global strategy, Latin America is certainly an interesting place. The Pacific Alliance is very business-friendly and has good connections with Asia Pacific. Establishing connections with that area of the world may have significant advantages. I am not saying they are super big, but they may not be negligible if the UK decides to restructure and reshape its global trade policy.

The Chairman: Are there any more questions on the British dimension? If not, I think Lord Hannay wanted to expand on to China, America and other wider relationships.

Q8 Lord Hannay of Chiswick: Thank you, Professor. To switch for a moment to the foreign policy of the four countries of the Pacific Alliance, this may be a rather short discussion, because if I have understood you rightly it does not exist. The four countries have no common foreign policy.

Perhaps it is irrelevant, but could you tell us a bit about how those four countries handle their external foreign policy relations, both with the countries of Asia—China, Japan, India, and so on—and with the countries of their own sub-continent, Latin America, where for example there is currently a very difficult situation in Venezuela?

Does the Pacific Alliance have any role in that, or is it all handled by other groups? Does the Pacific Alliance have any longer-term aspiration to be involved in this area, as the European Union has for many years, although it has not achieved to the extent that many would have hoped? Could you give us a bit of a feel for the foreign policy aspects of the Pacific Alliance?

Professor Gian Luca Gardini: You are absolutely right that there is no common foreign policy. Each country runs its foreign policy independently, but to the extent that it is possible in a co-ordinated way, especially in priority areas for the Pacific Alliance: trade facilitation, promotion towards target markets such as the United States and Asia Pacific, and so on. However, it is very difficult in my view to distinguish in the four countries between pure foreign policy, such as high politics, and trade policy. This is where the differences are in the way the four countries of the Pacific Alliance relate to other countries.

I will give you a couple of examples. It is true that all four countries target Asia Pacific in their foreign and trade relations. However, look at the differences. Chile now has about 23 free trade areas in place involving some 60 different countries. Only three are in Asia—China, Japan and South Korea. Colombia has about a dozen free trade areas, but in Asia only with South Korea at present. Peru has 17 free trade areas overall; in Asia it has free trade areas with China, Japan, South Korea, Singapore and Thailand. Mexico has 11 free trade areas with 46 countries overall, but in Asia only with Japan currently.

That gives quite a composite picture, meaning that Chile and Peru are definitely ahead of the others. However, there are also differences in the productive structure of these countries that have an impact on their foreign policy. Mexico, for instance, has a preponderant role in the Pacific Alliance. We have already said that export is important, but Mexico makes up 74% of the entire export portfolio of the Pacific Alliance, and 50% of Pacific Alliance exports are just Mexican exports to the US.

It is not difficult to imagine what this means for foreign policy. The four countries have different understandings of the Pacific Alliance. Mexico is perhaps the only country that has a clear political view of it. For Mexico, it is a wonderful tool to reinsert itself into Latin America after years and years of foreign policy that privileged the US and trade policy that largely privileged the US market. It is an opportunity to be present in Latin America and at the same time to rebalance Brazil, which was growing very significantly in economic and political terms until the recession, and now we have uncertainty.

For the other three members, the meaning of the Pacific Alliance is essentially economic. That means a diversification of their export portfolio in terms of products by insertion in global value chains and by using the Pacific Alliance as a springboard to different Asian destinations.

What remains for foreign policy in the traditional sense? If you look at the continent of Latin America, these four countries share a preference for good relations with the United States, having at least diplomatic clashes and skirmishes with the most radical countries in Latin America that are still quite critical of the United States, free trade and open economies. That said, the four countries maintain quite good and cordial relations with virtually all other countries in Latin America. Even border frictions between Bolivia and Chile seem now to be resolved after the pronouncement of the International Court of Justice.

What about the aspirations of the Pacific Alliance itself? As far as I am aware, there is no aspiration for the time being to turn the Pacific Alliance into a customs union or a common market. Do you want to know anything more specific about other countries such as the US or China?

Lord Hannay of Chiswick: No, thank you professor, that covers the picture very well.

Q9 Lord Jopling: Thank you, professor. I will follow up Lord Hannay's question by trying to ask a question on what you just said.

To what extent has the creation of the Pacific Alliance created tensions with countries nearer home to the four members? I know that Ecuador is applying to join. One is rather surprised that Ecuador was not an original member of the alliance. I wonder why. Could it have suffered some economic disadvantages from the creation of the alliance, which has now caused it to want to join in?

That also goes for the other countries; I think you mentioned Panama and Costa Rica, which are also expressing some interest. You also

mentioned Bolivia some moments ago. I realise that Bolivia has no Pacific seaboard, but as you said it relies very much on its external trade with Chile and Peru, and I know there have been many tensions in the past.

What is the position of Bolivia? You mentioned some of the arrangements that are being discussed at the moment, but did Bolivia suffer economic disadvantage through the creation of the alliance? Could you tell us a little more about the relationships with adjoining countries to the four?

Professor Gian Luca Gardini: Sure. The picture of Latin American regionalism is extremely complex, and we can understand the impact of the Pacific Alliance only in this complex context. We have a number of organisations. In Europe, for instance, we generally have one or two, maybe three, organisations competing for regional unity, but these organisations are, generally speaking, compatible in their objectives and values. That is not necessarily the case in Latin America. We have an extremely varied landscape. For instance, the Pacific Alliance is in favour of free trade, very good relations with the Asia-Pacific countries and cordial relations with the United States.

Another regional agreement, the Bolivarian Alliance for the Peoples of Our America, which is now basically dormant because of the crisis in Venezuela, had completely different objectives. It was, at least in principle, against capitalism and the US presence and influence in Latin America, and, I would say, even against the Latin American countries that, on the contrary, would favour relations with the US based on free trade and free economy.

If you look at the picture, there are a number of political organisations, such as CELAC, the Community of Latin American and Caribbean States, which is only political. That means that its objective is to give Latin American countries one voice to speak with international partners. Then there is UNASUR, the Union of South American Nations, which is also now in shambles because of contrast and conflict among its members over the Venezuelan case, the rule of law and the respect for human rights, and also because its leader, Brazil, has now lost interest in the organisation.

Then there are economic organisations. We have the Andean Community, which I am sorry to say is probably more effective on paper than in reality. There is also the Pacific Alliance and Mercosur, which in principle is in favour of free trade, but is characterised by growing protectionism in Brazil and Argentina. By the way, the discussion within Mercosur is not to strengthen and deepen it but in fact to dilute it, to make commitments less stringent so that Mercosur countries can somehow copy the model of the Pacific Alliance a little bit. In this complex picture, Latin American regionalism is definitely quite fragmented.

On relations with Ecuador, all logic would suggest, as you pointed out, that it should have been a member of the Pacific Alliance from the very beginning. However, this was a political choice: Chile, Mexico, Colombia and Peru share a preference for capitalism, free trade and open economies. Ecuador, under the Administration of President Correa, had at

least an ambiguous attitude towards these principles. Therefore, it would not make much sense for Ecuador to join the Pacific Alliance—in favour of capitalism, free trade and open economies—when it was actually one of the champions of ALBA,² the Bolivarian alliance based on anti-capitalism, anti-free trade and endogenous rather than exogenous models of development.

I would not say that the Pacific Alliance has caused any prejudice towards Ecuador. One of the paradoxes of the Pacific Alliance is that the intra-regional dimension is extremely limited. The Pacific Alliance countries trade with one another for about 3% of their global foreign trade, and they trade with the rest of Latin America for about 10% to 12% of all their trade. Whatever new trade creation—or, if you want, trade diversion—that may have taken place as a result of the Pacific Alliance has had no significant negative impact on Ecuador, Bolivia or anybody else as far as I know.

Do not forget that the free trade area of the Pacific Alliance accounts for 3% of regional trade. Even if it worked perfectly, and it does not, there is still a lot to do, for instance in the service sector. The 8% of goods that have not been liberalised are the sensitive ones, such as textiles and parts of the agricultural sector, so it is really problematic.

In short, the Pacific Alliance has not caused any major economic problems for neighbouring countries, but it has caused a rethink in neighbouring countries. Most neighbouring countries in Latin America now look at the Pacific Alliance with interest, because it works much better than any of the preceding integration schemes. Brazil, although not an observer member, is interested. Virtually all other South American countries are observer countries. Some intend to take steps to join, although for the time being the only two candidate members are Costa Rica and Panama, and negotiations are stalling now.

Q10 Lord Purvis of Tweed: I have two questions. The first is linked to Lord Jopling's.

You indicated that there was no desire to make the Pacific Alliance a customs union or, I am guessing, a common travel area. Can you explain a little more what the Pacific Alliance members' view on common travel might be? Then there is visa-free travel with other groupings around the world, including the European Union. The UK has a different approach, with visa access linked to service liberalisation and the movement of people who deliver those services. Can you comment on that first?

Professor Gian Luca Gardini: I will try. A word of warning: this is not my specific area of expertise, so you may find my answer a little general, but I will try my best.

For the time being, there has been a lifting of the visa requirement for tourists and for business reasons inside the Pacific Alliance, for the time

² The Bolivarian Alliance for the Peoples of Our America

being there is no common policy or strategy in place towards other countries for visa requirements, migration policies and so on.

Interestingly, however, there is a mechanism in place—I am not sure how it works; you should check with someone much more knowledgeable than I on this topic—to facilitate transit through the Pacific Alliance, a sort of common set of documents that are required. This will be harmonised in the Pacific Alliance countries.

Why do I mention that if I do not know the technicalities? Because my understanding is that a number of airlines are looking at this development and at making Pacific Alliance airports their possible hubs for longer routes. Why do a number of international airlines nowadays use US and Canadian airports as hubs for trips to Asia Pacific, for instance? A much simpler and less strict set of rules for transit and therefore the movement of people across the Pacific Alliance has already caught the interest of a number of airlines, but I am afraid I cannot comment more than that.

Lord Purvis of Tweed: My question is on the Pacific Alliance as an entity and the grouping's relationship with other trading groups or blocs around the world, primarily on international trade policy. You indicated clearly that this is still a grouping of individual trading nations with their own trade policies, but can you explain a little about the Pacific Alliance's relationship with other trade groupings on, for example, WTO reform or e-commerce regulation—some of the big challenges for global trade—and how the Pacific Alliance sees itself linked with the grouping? Three of the four members are signatories to TPP 11 and Colombia has asked to join, so it seems it is becoming integrated, but I am interested in the overall policy approach rather than just the trade facilitation element.

Professor Gian Luca Gardini: As far as I know, there is no specific general co-ordination mechanism, which you seem to be asking about. In this regard, trade policy and actions in global fora remain very much the decision of the individual member states. There is no specific mechanism for the co-ordination of policies—at the WTO, for instance. That said, there is a clear attempt at co-ordination on specific regulatory issues. Most of the technical groups are working towards the harmonisation of regulatory issues that are very important for trade.

You asked what is beyond trade facilitation. That is true. The Pacific Alliance has been extremely active on e-commerce and digitalisation, for instance. The four members co-ordinate policies in this area, as well as in their relations with the OECD, for instance. It is interesting to note that three of the four Pacific Alliance members are already members of the OECD, and Colombia will join soon; it is waiting for ratification. That means that all the quite high standards that the OECD recommends in a number of areas related to trade policy are being incorporated in the same way by the four countries.

In that sense, there is a significant level of co-ordination and harmonisation, but there is no institutionalised mechanism of policy co-

ordination. There is a largely informal or semi-institutionalised mechanism in the meetings of the Ministers of Foreign Affairs and Foreign Trade and in the technical groups.

The Chairman: Lord Jopling would like a word. Then I will put one final question to you.

Lord Jopling: The one word that has not come up in our discussion this morning is drugs. When many people—I am thinking particularly of the United States—think of some of the countries in the alliance, the problem of drugs comes up fairly highly. Has anyone ever expressed any reservations that the creation of the alliance has facilitated the free flow of illegal drugs?

Professor Gian Luca Gardini: Not formally, as far as I am aware. There may be informal concerns. However, the same happened with NAFTA.³ The Pacific Alliance is about legal, not illegal, trade. Of course, making legal trade easier may have repercussions on and indirectly facilitate illegal trade, but I am not aware of any significant document or declaration expressing this kind of concern, at least at the formal, official level. That said, that concern may well be present at the informal level.

Q11 **The Chairman:** My final question to you, and I am afraid it is a general one, is this. Europe is currently being increasingly affected by the Chinese presence in infrastructure. The Chinese, for instance, are dominating port control throughout Europe. Our impression is that China is also very active in the region covered by the Pacific Alliance and associated countries. Is that correct? Does it worry you? Is there a political reaction to it? Might the rising influence of China correspond to some decline in the United States of America?

Professor Gian Luca Gardini: Yes. China's role in Latin America is not only growing but is extremely pervasive. It is now present in all sectors of Latin American society, not only in the economic sector. To give an example, the Confucius Institute has opened new seats in many Latin American countries. China is also conducting quite an aggressive cultural diplomacy in Latin America. It has become the first trade partner for a number of Latin American countries, including Brazil, Chile, and Peru. Overall in Latin America, after the United States, China is very close.

Of course there are concerns. China is certainly an opportunity, but it is also a challenge. Its economic size and political might are of actual concern, as is the *modus operandi* of China in Latin America. China has not altered the traditional pattern of trade with Latin America: that is, the export of manufactured goods and the import of commodities. In fact, between 80% and 90% of Chinese investment in Latin America is in commodities, energy, mining and agriculture. The *modus operandi* of China is quite interesting. Although it claims that it does not apply any conditions to its loan policy, this is not exactly true. There are no political conditions attached, such as reform of the judicial, the free press or transparency in electoral processes. They are not part of China's strategy.

³ The North American Free Trade Agreement

China has the so-called tied loan approach. That means that the loans China gives to Latin American countries are tied to the fact that those countries use the money to hire Chinese companies. China is so generously sponsoring infrastructure in Latin America not for the sake of Latin American development but to facilitate the transportation of goods from the production or extraction sites to the coast, and from the coast on to China.

Most of the advantages that I and many Latin American countries can see in their relations with China—Chinese investments and exports of commodities to China—are short term. However, we know that in the medium and long term, economic dependency may lead to political dependency. China may ask for something in return at some point.

Chinese industrial products are direct competitors for Latin American products. Many Latin American countries have already suffered crises, for instance in the textile sector, because of Chinese competition. That said, many Latin American countries are perfectly aware of the opportunities and challenges, and a number of voices have been raised to revise Latin American policies towards China a little bit.

Last in chronological order has been the new President of Brazil, Mr Jair Bolsonaro, who has at least suggested that a reshaping of Brazilian relations with China is needed, although I suspect that he will have to face a very serious reality check; by now, China is the first export destination for Brazil, and it may not be so easy to negotiate a different set of trade and investment agreements.

The Chairman: Professor, does that bring you to the end of your comments on China?

Professor Gian Luca Gardini: I would say so, unless there was something more you wanted to know.

The Chairman: No, I just wanted to thank you. What you have said is a warning bell to us all. Perhaps we all need to familiarise ourselves more closely with the doctrines of Confucius.

In the meantime, we are extremely grateful to you for the very extensive knowledge and wisdom which you have shared with us. It has given us much food for thought. We will ponder your evidence and views very carefully. After initial technical difficulties we all got through to each other, and it has been a very interesting session. Professor Gardini, thank you very much from all the committee.

Professor Gian Luca Gardini: My pleasure, thank you for inviting me to participate in this very interesting exercise.