The issue here is moving forward; what next to do by building on NAFTA, extending it into the trade and related regimes more broadly for the benefits of the countries involved. So, Barbara, we’ll turn to you and then to Jeff. And then we’ll go upfront to answer questions from the group.

My presentation, which hopefully will come up in just a second, is on the Pacific Alliance, which has been mentioned a couple of times in earlier panels. Although, this is not as large as the mega-regional that Jeff is going to be talking about, it’s an interesting initiative in which Mexico is participating and we can look at it as sort of next phase of NAFTA.

So if we had the slide up, you’d see that the Pacific Alliance membership, which has already been mentioned as Chile, Colombia, Mexico, Peru, and now Costa Rica, is in the process of joining in is our knitting together preexisting trade arrangements in a deepening integration arrangement. If we look at the Pacific Alliance, this is a relatively significant chunk of Latin America. So the Pacific Alliance represents over 40% of Latin America’s GDP. It represents about 37% of the population.

In terms of the share in world trade that should be 6.8% or 68% of Latin America’s share of world trade. So it’s overstated its role in the world trade relative to the other indicators and represents about 40% of FTI inflows into Latin America. So it’s a relatively big deal. It’s also a big deal because of the signals that it sends in terms of Latin America trade.
For Mexico, these are countries with which it already has free trade agreements. These countries all have free trade agreements with one another. They also all have free trade agreements with the US and with Canada. And so even though NAFTA is not a member of the Pacific Alliance, both NAFTA partners are observers in the Pacific Alliance and NAFTA is there in terms of the joint free trade agreements and the US free trade agreements are all based on NAFTA and evolving NAFTA disciplines.

Now, an interesting element of the Pacific Alliance also is the attention that it has gained. If you follow these things, which probably in this audience more of you do than in the general population, but the Pacific Alliance is the next big thing. There’s been an awful lot of press attention paid to this because this is a show of Latin America actually moving forward, increasing its liberalization, showing signs of wanting to go forward. All of these countries are countries that were pro-progress in the free trade area of the America’s negotiations.

Chile, Mexico, and Peru are also TPP negotiating parties. Columbia and Costa Rica by virtue of the fact that they are not yet APEC members are not. But there is a common base in terms of relationship with Asia and the Pacific. All of them also have increasing trade agreements and bilateral investment treaties with countries in the Asia Pacific region.

If you look at the bottom, probably you can’t read that, but there’s a lot of text. These are the observer countries. So this is another signal of the increasing interest in the Pacific Alliance. Observers include countries from Latin America that would like to join, like Panama and Guatemala. And countries in Europe, NAFTA countries are there. Countries in the Middle East and Asian countries, China, the United States, India—well, significant countries are observer countries in the Pacific Alliance.

Why do we care about the Pacific Alliance? What makes the Pacific Alliance so interesting? Well, the objectives, these are the stated objectives: To construct an area of deep integration to liberalize the circulation of goods, services, capital, and persons; to increase the growth, development, and competitiveness of the member countries; and to become a political platform for greater economic and trade integration with an emphasis on the Asia Pacific region.

So basically what the Pacific Alliance is trying to do is a couple of things. One, what the FTAA should have done but was unable to do, which is iron out some of the wrinkles in the America’s spaghetti bowl by harmonizing some of the rules and administrative procedure’s rules of origin in existing bilateral free trade agreements.
Second is to send a signal of investment and also to create a larger area for investment. This has drawn a lot of attention from investors inside of the region who see this as a potentially very interesting platform for investment in the greater Latin America region.

And third is to bolster regional value chains with an aim of exporting more to Asia and becoming a greater part of the Asia Pacific value chain. So these are very ambitious objectives.

What has been done to date? The Pacific Alliance in February of this year, the trade agreement was signed and it's starting to come into effect. The countries have harmonized their bilateral FTAs and they’ve published their tariff schedules. We’ve been taking a look at the tariff schedules and it does seem that even though the trade impact of the Pacific Alliance, of the joining together of these countries, is not huge. The triangles are relatively small and that’s because these countries already had free trade pacts with one another.

What the impact will be of merging those pacts will be a little bit bigger. So there are some much bigger impacts of the Pacific Alliance than the elimination of tariffs and trade and investment barriers among these countries. One is the potential of, at some point, knitting together some of their other common FTAs. One could anticipate the Pacific Alliance countries getting together and proposing some harmonizations within their FTAs with the United States with Canada. The mega-regionals, TPP and TTIP, loom large and so this could be a good strategy for these countries of integrating into these mega-regional swaths of 21st century trade rules.

Some of the interesting things already in effect, the Pacific Alliance has, even though the scope on paper looks relatively smaller than did the FTAA proposed text, it's actually been much more ambitious. And so, in terms of services and capital you already have the joining together of three of the four stock exchanges and Mexico has pledged to join in the December of this year. This is a big deal. This will now rival the BOVESPA in terms of magnitude and the potential is great. All of these countries or most of these countries are participating in the TISA negotiations, the multilateral negotiations on trade and services and will continue their services negotiations in the Pacific Alliance.

Importantly, they’ve started to liberalize the movement of persons. So in the original Pacific Alliance agreement, you have the elimination of VISA requirements for Pacific Alliance nationals. So Mexicans can travel to other Pacific Alliance countries without having to pay or take the time to obtain a VISA.
Just recently, they’ve been implemented a work holiday VISA for youth. So Mexicans between 18 and 30 years of age can go to Colombia and find work there and stay there for up to a year. So this is interesting in a region where youth unemployment is an issue, where each of these countries has labor market issues with skill mismatches. And so there’s a greater pool of people moving around to take advantage of opportunities.

Lastly, also interesting, is the formation of institutions. And I don’t mean things like a BRICS bank or a parliament, but a very pragmatic approach to sharing institutions such as shared embassies and trade missions. There are already a number of shared embassies in, for example, Vietnam and Ghana where the trade promotion agencies are working together marketing joint products. And so if you go to Vietnam you can buy Pacific pisco and you won’t necessarily know whether it comes from Chile or Peru. I’m not sure if that’s actually true, but you will have information on the shared—joint promotion of all of these countries.

Now, the Pacific Alliance as I mentioned also, is a political signal that this region is different from the rest of Latin America. Latin America over the last couple of years has become increasingly bifurcated. And by any measure of competitiveness if you plot any of the indicators in, for example, the World Economic Forum Global Competitiveness indicators or other similar indicators, you get a picture that looks much like this with division between the liberalizers and the non-liberalizers or the 21st century socialist versus the 21st century capitalist and it’s always the Pacific Alliance in the fuller area where, in this picture, bigger is better.

So in terms of institutions, infrastructure, macroeconomic environment, efficient use of talent, and goods market efficiency, the Pacific Alliance countries consistently rank above their MERCOSUR and other neighbors in Latin America. The Pacific Alliance recognizes that, builds upon that.

I’m not saying that the Pacific Alliance is trying to further bifurcate the Hemisphere. This is simply plotting data, but it is a signal to investors and has been taken as such. There are often conversations within investors, particularly from Asia, who are really interested in this new block, who before saw some of the bigger Southern Atlantic countries as the reasonable place to locate their production facilities who are now looking at countries like Colombia or Chile, which are smaller, but now have a greater scope.

What does the Pacific Alliance mean to Mexico? In terms of Mexico’s export profile, it’s relatively small. NAFTA is still obviously bigger. But it’s growing. Pacific Alliance markets have been growing at an annual rate of about 18% over the past decade. And what’s important with the
Pacific Alliance is also the growth of exports and some joint exports to the Asia Pacific region.

In terms of future prospects, one of the keys to the Pacific Alliance’s success has been flexible pragmatism. Unlike the FTAA where the single undertaking constrained the ability of countries to move forward, the Pacific Alliance has taken a very different approach. They’ve gone forward in the areas in which they are able to progress and they haven’t let themselves be hung up in areas that might be desirable but are not at the moment feasible. And so this is very important and I think will be important to the continued success of the Pacific Alliance.

Limited size has meant that bigger goals are possible. So the small number of countries which have similar policy objectives has meant that they’re able to engage in this flexibly pragmatic manner. This has helped them undertake things like allowing citizens of each other’s countries to come in and now to work for a certain period of time.

Following that, agreement on the goals increases the chance for success. So, like-minded countries are able to do more and undertake more like-minded initiatives. And then to keeping the endgame in mind, even though this is a political signal and there’s an element of politics and policy, increased trade and investment has been the endgame. And the Pacific Alliance has pursued that in its policy initiatives.

Now, recently, the Pacific Alliance countries has engaged in talks with the MERCOSUR countries which as we saw from our radar diagram have very different types of policies at least in the current situation. Where that will go depends on the desires of both sets of countries. I suspect that the Pacific Alliance will be flexibly pragmatic about this and not get themselves bogged down in Latin American politics and institution building.

Now finally, the Pacific Alliance, particularly for countries like Colombia and Costa Rica, which are not part of the TPP negotiations, can be a potential pathway for Latin American participation in the mega-regionals. This can serve as a hub for knitting together free trade agreements and for linking up to TPP for those who are not already negotiating in TPP and for linking up to TTIP. There’s a larger base of trade, a larger base of policy concordance and this could be an interesting way for these small- and medium-sized countries to have an impact in the mega-regionals.

And I think speaking about the mega-regionals is a good way of teeing up to the presentation of my colleague, Jeff Schott, who is kind enough to have traveled back from Paris on Bastille Day to join us, which I think shows his dedication to NAFTA and to the Hemisphere, and we
appreciate that very much. I don’t know how much he appreciates it but he’ll show us in his presentation.

Jeffrey Schott: Thank you very much, Barbara. It actually had nothing to do with it. The Euro is very strong against the dollar and I just ran out of money.

Anyway, Barbara mentioned that the Pacific Alliance is the next big thing and explained very well why that’s the case. In the early 1990s people said the same thing about NAFTA and NAFTA was state of the art. It was the most comprehensive, best trade agreement ever negotiated. And it was designed also to give a kick in the pants to the stalled Uruguay round of multilateral trade negotiations in the GATT and it did so. So NAFTA served a number of important purposes for the United States, Canada, and Mexico.

A similar situation arises now with the confluence of regional, bilateral and multilateral talks. But now what we’ve seen is that the slow pace, the Doha Round, has led key trading nations to basically look to complements, alternatives, hopefully initiatives, that could revive the multilateral system. And to super-regionals, mega-regionals that have launched over the past five years or so have been the Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership.

Now, unfortunately, they haven’t given a kick in the pants to the WTO talks. Despite the Bali breakthrough that occurred in December of last year, that breakthrough now seems like a fleeting and distant memory. The WTO talks are back in the mud. They’re not going anywhere. And it seems like the great enthusiasm of the agreement on trade facilitation in Bali has already been long forgotten. Negotiators and diplomats in Geneva are back to their talking points from 2008 and 2009.

That returns the focus back to the mega-regionals. And the United States, Canada, and Mexico are all negotiating in the TPP, though Mexico and Canada joined in mid-stream. Each has a separate agreement with Europe, which I’ll talk about very briefly at the end. But the aims are of these mega-regionals to deepen trade and investment ties with partner countries, to create new trade rules in areas not yet covered by WTO obligations, and to set broader precedents for multilateral negotiations if a new strategy can be devised to revive those talks.

But for the purposes today, I want to focus mostly on the implications that these mega-regionals have for NAFTA and North American economic integration. And many of these points I can go through rather quickly because a number of them have been raised in good detail in previous sessions.
But the first thing to emphasize is that the TPP is important for the NAFTA countries and the NAFTA countries are a critical part of the TPP. TPP represents almost 40% of global output and 25% of global exports. And of that, the NAFTA is really the core of, the economic core of the TPP countries. Even with Japan in the deal 68% of the combined output and almost 60% of the population of the 12 participants in TPP are the NAFTA countries.

So that’s important. It’s important that they are working together to help develop the 21st century rule book that’s been talked about. It’s important for each of the countries because it adds new FTA partners. But importantly, it also updates existing pacts with other TPP countries, one that often finds too casual a discussion of trade agreements as if they’re all the same. But actually, the old trade agreements are actually much less comprehensive with many more exceptions and with the lack of coverage of some of the new trading rules that are critically important for the conduct of international commerce in the 21st century. And so that is something that TPP is trying to build in and would be incorporated into the NAFTA.

And indeed, when you think about the TPP often the arguments are really under stressed that these agreements have great strategic importance. And that’s one area when one was talking about the value of NAFTA or the value of TPP for the participating countries, it is deepening the ties both economic and political between the partner countries. It makes it easier to manage frictions that inevitably arise in international relations.

TPP would also generate significant income and trade gains for each of the countries. Very important work has been done here by my colleague, Peter Petri, to look at the income and export gains from a TPP-12. They’re cited here. But what it shows is for the United States, Canada, and Mexico once the deal is implemented, both income gains and export gains would be significantly greater than would otherwise have occurred in the absence of the agreement.

And 0.4% of GDP for the United States is a big number and it should not be discounted. And the NAFTA total represents about a third of the total income gains and more than a third of the export gains of the TPP-12 countries. If additional countries join the TPP as is expected in the coming years, Korea, Indonesia, Thailand, and the Philippines, all of which are seriously studying prospective membership, then the gains become even greater and the NAFTA share becomes even greater, as shown in this table.

Now, how will the TPP affect the NAFTA provisions? Doug Bell talked about this in some details, so I can go through rather quickly. But a
critical gain for both the United States and Mexico and Canada is that the TPP will update and augment NAFTA without having to renegotiate NAFTA. And in fact, the TPP is a substantial augmentation, is the way I would put it, of the original NAFTA agreement.

Now in the area of labor and environment, I think it’s important to spell out what was said in the last panel. Gary Hufbauer had it right. One of the important changes for the NAFTA countries is integrating the labor and environmental chapters into the core agreement, which means it is tied to the dispute settlement provisions of the overall agreement. This is a source of the biggest contention in—one of the biggest sources of contention in the TPP negotiations right now because the Congress insists on having labor and environment, or members of Congress insist on having labor and environment as part of the core agreement subject to dispute settlement.

Other countries are willing to augment their obligations, their trade obligations, on labor and environment. Not in areas as Jose was worried about, like capital controls where they have different policies, but in areas where they have already reached common agreements and accepted common obligations in other international conventions. They are unwilling to do so, however, tied to dispute settlement. And so there is now a calibration going on in the negotiations, as I understand it, between the level of strength of the dispute settlement and the level of detail of the obligation on labor and environment and that will end up, in either case, improving the status quo condition in the NAFTA.

Regional rules of origin will be important. That was mentioned by speakers in all three sessions. And added coverage of government procurement; new disciplines on state-owned enterprises and e-commerce will also be a value added of the TPP for the NAFTA countries, but no new disciplines on contingent protection policies. They weren’t included in NAFTA and the United States and the Congress refused to let any changes in US lobby included in any US trade agreement.

Final comment on TTIP, because I think it’s important. It’s on a much slower time path than TPP. Talks are underway again, in Brussels this week on those negotiations, but they have much longer time horizon but they could have implications and create the frictions or distortions within North American economic integration if not done properly.

Right now, the three NAFTA countries have separate arrangements or are negotiating separate arrangements with the European Union. Canada and EU signed a deal in 2013, but it was incomplete and they agreed to continue to finish the deal. But I suspect that they haven’t gotten any closer to the finish line and they may have gotten a little farther away
from the finish line than when they made that announcement last year. Mexico and the EU have an agreement that goes back 14 years and it's much less comprehensive than subsequent deals that Mexico has negotiated. And this is an area where Mexico and the EU are now considering updating as well, but again, on a slower time path.

The one area that could cause substantial distortions on North American economic integration is if the US and the EU make substantial progress on regulatory convergence and adopt higher standards than exist in the NAFTA region right now. That would apply to the United States and Europe, but not necessarily—the standards and the regulations could be applied differently to non-TTIP countries. I think that’s one area that needs to be followed very closely and one reason why some observers, including Carla Hills, a member of our board, has suggested that there be a trilateral or NAFTA negotiation with the EU instead of the bilateral TTIP. That hasn’t been accepted by either the United States or the European Union, though both are anxious to see an expansion of the TTIP once it is concluded, but if it’s on a slower timetable that means that the timing of these integration efforts or the sequencing of them may not work out as well as desired.

Essentially, there’s scope for distortions in agricultural trade because of the compromises made in the Canada-EU deal and likely to be made in the US-EU negotiations that could have an impact on North American trade and also on the ability of the three North American countries to work more closely with the European Union.

So those are just warnings not necessarily problems that will eventuate, but it’s better to mention them in order to better try to avoid the problems before they take full form.

So final conclusions or main takeaways, the TTIP will update and augment NAFTA without renegotiating NAFTA and that’s contributed to a deepening of North American economic integration. The point, that made in earlier panels I think is very important, that should strengthen North American competitiveness and significantly boost output and exports of each country, TTIP could also produce additional advantages for the NAFTA countries, but you need to take care in how it’s developed.

And of course, if TTIP and TPP could follow the original NAFTA impetus and spur more plurilateral and multilateral agreements like the NAFTA did originally with Uruguay Round, then it would be a win-win-win for all three countries. Thank you very much.

Fred Bergsten: Jeff’s last comment suggests we are now seeing competitive liberalization run wild, which is a great thing with all these different agreements
competing with each other, try to improve standards, try to expand membership, try to broaden the global participation in trade and investment liberalization.

We have one discussant of these presentations. It’s our good friend, Antonio Ortiz Mena. He’s the head of the Economic Affairs at the Mexican Embassy. He has been one of the thought leaders on Mexico’s participation in all of this and the world economy more broadly. He did his PhD of what we think of the Institute West, University of California in San Diego. And it’s a great pleasure to have him to make a few remarks. Then the three participants will take the floor to answer a few questions from the audience and conduct a discussion. Antonio.

Antonio Ortiz Mena: Thank you, Fred. It is an honor to be here in this room that now bears your name, as has been mentioned. And I’m also very thankful for Adam for setting up these very timely discussions.

I have to point out. I have the honor of being a member of the NAFTA negotiation team. And back then we were already using Gary and Jeff’s work. Back then it was called North American Free Trade: Issues and Recommendations. I guess it’s so old that is not even cited in your NAFTA work today, but we did read it. We did not photocopy it. We just handed it around, okay. So IPR is well taken care of.

I’ll address briefly, some issues that are germane to Mexican domestic economic policy but are relevant for the discussion that we have. Then I’ll make some comments on the TPP and the TTIP and then I’ll finish with comments on the Alliance.

First of all, in terms of unilateral policies by Mexico, the title of the panel is called Trade Liberalization for Mexico and the US after NAFTA. I think it’s important to point out that Mexico did proceed with unilateral liberalization, which for those of us who followed trade policy is much easier said than done, even if it makes sense for an economic perspective. When NAFTA entered into force our applied MFN tariff was about 13% and the latest figure I have for 2012, our MFN applied tariff was about 7.8%. And our trade openness coefficient went from about 23% in 1993 to about 63% last year. So we are really an open economy.

In addition, the reforms of President of Peña Nieto happened mentioned in passing, but I think it’s real important to keep them in mind because the reforms in labor, energy, financial services, competition policy, are all aimed at increasing productivity, which was precisely the theme of the first panel today. And I think that there will be a boon for firms that are in Mexico, Mexican or foreign firms, that they will help increase Mexico’s insertion into international trade.
And lastly, in terms of domestic policies, I do want to bring up the very ambitious national infrastructure program that was announced in April this year. It will entail close to $600 billion in investment, both public and private and over 700 projects. And it includes areas such as energy, water, communications, and transportation, health. So this is extremely important for productivity and also for our insertion into the world economy. We don’t do very well at all in terms of international benchmarking in infrastructure, but we acknowledge that. We recognize this and we are getting our act together in that regard.

Turning to TPP, as Jeff pointed out, it will generate significant gains. I don’t have to believe it. They did the hard work. Again, a lot of Peterson work is very clear and empirically based. So I guess some of your colleagues did the work on the empirics. But perhaps for Mexico, the most important thing about TPP is that it is part of the most important rule for 21st century trade. And Mexico as an open economy, really came out for it to be a rule-taker, it has to be a rule-maker, if I can coin that expression. And even though we hesitated a bit at the outset, we had a lot of internal debates.

We did join a bit late, as Jeff said. Canada joined, I think, one day after we did, so we were one day before Canada. So for us, it is really about being at the negotiation table. Someone has mentioned that it’s important to be at the table rather than on the menu so we are at the table, very important for us. And we see that as a clear complement to NAFTA.

Some people, I believe, have mentioned that TPP as a possible way to correct or amend NAFTA. We think that NAFTA has worked very, very well. So we see that rather as a complement because NAFTA is a bit over 20 years old, but as a supplement or a complement with new issues. We don’t see that as a “correction,” just have to spell that out.

Turning to the TTIP, it is true that our agreement with the US as stated, it was negotiated in the late 1990s, entered into force in 2000. It’s not as ambitious as the Canadian agreement in terms of scope and coverage. That was concluded late last year. But there’s a difference between the Mexico and the TPP and the Mexico and the TTIP. We are not at the table. And there are indeed, some potential issues that could represent challenges. Jeff mentioned regulatory cooperation. I don’t know how rules of origin could affect that.

And I was remembering this book, *Issues and Recommendations*. And as long as commentators are giving suggestions, it might be a good idea to think about issues and recommendations in terms of TTIP and NAFTA. What are the-? Get down into the weeds and see how, as the TTIP evolved, that could affect or NAFTA, given the deeply integrated
production change in the NAFTA region. Certainly, we had your issues and recommendations before NAFTA was negotiated, because I said, we were consulting that book.

Finally, turning to the Pacific Alliance, Barbara, I think, did a wonderful job of summarizing it, especially in one of her slides where she has four bars showing the different components. It’s not only trade and investments. Sometimes we like to quote Orwell by saying that all free trade agreements are equal, but some trade agreements are more equal than others. And we believe that the Pacific Alliance is one of the more equal agreements. First, because it’s pragmatic and we have managed to achieve a trade deal in a very, very short time. Again, this might not seem surprising for people who do not follow trade. But for people who follow trade, well, we actually did what we said and we managed to achieve a very far reaching trade agreement.

We are also jointly promoting trade and investment. Again, it shouldn’t be such a big deal, but given the recent presentation about whether US investment in Mexico is supplementary or complementary, we are taking a view of integration as a positive sum rather than zero-sum strategy and this changes the whole dynamic. And the reason for this is that this is like-minded countries that are engaging in trade. And there I would point you to the spider web-like chart of Barbara. This is just a natural reflection of what we are doing.

In terms of more current developments, Mexico hosted the Pacific Alliance Summit last month in Nayarit. It’s a very beautiful beach resort. I was not invited but that is great. We will be focusing on making sure that the MILA, Mercado Integrado Latino Americano, is fully working by the end of this year. Only the Mexican Stock Exchange remains to be linked to the other stock exchanges.

We are working on the accession of Costa Rica, but also Panama. I’m not sure Panama was mentioned. We will be having a dialogue with the MERCOSUR countries just to show this is not balance of power. This is just like-minded countries getting together to do what they think is right.

And one suggestion for Barbara, in terms of research, you have a chart where you show Mexico’s export to the Pacific Alliance countries. The amounts are really pretty small if you compare with other regions. But I think that most of the action has to do with regional production. Maybe it would be very interesting to look at the multi-Latinos, the Latin American multinationals investing there and investment in the region as just opposed to say, “How much is Mexico is exporting to Chile or to Colombia?”
And finally, as a segue to the last panel, I would say that I don’t think gravity has gone out of fashion and I don’t mean the Mexican film that was in the Oscars, but the gravity model of trade. Everyone needs to speak about the model, got to have the gravity model. And most of Mexico’s trade and investment, naturally, is with the US, a bit less so with Canada. So no matter which way you slice it, I think that’s where we have to focus most of our attention, both in terms of public policy and research. And with that, I’ll leave it.

Fred Bergsten: Thank you, Antonio. I think instead of having a discussion from this session, we are up against our time limit. We want to leave time for the last panel. Some of its speakers are already here. So I think we will thank the three speakers here. I would only note that Barbara failed to mention what’s already one of the clearest cut successes of the Pacific Alliance. Four of its five member countries distinguished themselves with exceedingly successful outcomes at the World Cup and it must obviously be related directly through the creation of the Pacific Alliance. In any event, thanks to our speakers. Please give them a big hand.