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Services Dimension in the Pacific Alliance

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The main purpose of this article is to answer two questions: Whether the Pacific Alliance countries had given a better treatment on services liberalization to its developed countries partners (EU and US) than amongst them? How could the Pacific Alliance members' services liberalization commitments at WTO and FTA converge to a single agreement? This article reviews the trade in services aspects of the Pacific Alliance members. First, we review the existing commitments on services liberalization of the Pacific Alliance members in the World Trade Organization (GATS). Second, studying the commitments on member's Free Trade Agreements, particularly with the US and EU comparing them with those amongst them. Finally, an agenda on services liberalization for the Pacific Alliance is proposed.

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SERVICES DIMENSION IN THE PACIFIC ALLIANCE¹

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Abstract

The need for Latin American countries to address the economic and trade challenges through coordinated continental strategies with stronger economies and in particular towards emerging Asia Pacific led to the creation in 2007 of the Pacific Arch Initiative. This project was stalled by the lack of progress in the integration process and differences in trade policy among its members, so in response to this arise the Pacific Alliance in 2011, between Chile, Colombia, Mexico and Peru. The Alliance pragmatism has led to the subscription of some commitments and the implementation of various cooperation programs between member countries, without the need to incorporate them into a single package. Since the Uruguay Round the aspects related to services have been fundamental in trade negotiations. Recently, trade in services has appeared increasingly as an alternative way for developing countries to achieve economic growth and development. Not only in relation to the possibility to add value to its production and exports baskets, but also as a strategy of improving regional production chains which is one of the main objectives of the Pacific Alliance. Although the four members could be classified as middle-income countries, they still have deficit in their highly concentrated export basket. The main purpose of this article is to answer two questions: Whether the Pacific Alliance countries had given a better treatment on services liberalization to its develop countries partners (US) than amongst them? How could the Pacific Alliance members' services liberalization commitments at WTO and FTA converge to a single agreement? This article reviews the trade in services aspects of the Pacific Alliance members. First, we review the existing commitments on services liberalization of the Pacific Alliance members in the World Trade Organization (GATS). Second, studying the commitments on member's Free Trade Agreements, particularly with the US comparing them with those amongst them. And what the Pacific Alliance reached on trade on services negotiations. Finally, an agenda on services liberalization for the Pacific Alliance is proposed.

Key Words: Pacific Alliance, Trade in services, PTA

JEL Classification: F13 - F53 -L8

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INTRODUCTION

The Pacific Alliance (PA) is a regional integration initiative, formed by Chile, Colombia, Peru and Mexico². It was first promoted by the former Peruvian President Alan Garcia in the Pacific Rim Forum, launched by the Presidential Declaration for the Pacific Alliance (Lima Declaration), in April 2011, and officially established through the Framework Agreement signed in Paran , Chile, in June 2012. The stated aim of the PA is to deepen the integration process among participants by speeding up measures for the free circulation of goods and financial flows, the delivery of services and the movement of people across borders (Wilhelmy, 2013).

While the nature of the PA has eluded precise definition, it shares elements of a free trade zone (built on the foundations of several bilateral accords among members) and an agreement for greater facilitation, cooperation and partnership (Wilhelmy, 2013). It is characterized by seeking a model of openness centered on the "open regionalism", i.e. a process that aims to create economic interdependence between countries through preferential trade agreements that increase their competitiveness. It has shared values in regard to the respect for rule of law, democracy, and protection of human rights, though the current focus is on liberalizing and increasing trade and investment (Villarreal, 2014).

The objective of create an economic platform out of the Pacific Alliance is interesting as it will become the most important block in Latin America, while not a so important player worldwide. As we may see in table 1, both individually and as a group, the PA members participation in the world's GDP and trade is marginal. As it may be an interesting project, numbers should help us realize the real extent of its effects. As mentioned by Bhagwati (2013), "...in the face of failure to conclude Doha, the damage to multilateralism has been compounded by a substantial push, led by the United States (for the Trans-Pacific Partnership, or TPP) and the European Union (for the Transatlantic Trade and Investment Partnership, or TTIP), toward discriminatory, preferential "regional" trade initiatives. The Pacific Alliance of Chile, Colombia, Mexico, and Peru is far less significant than the other two". Despite this, the PA may become an important regional player, that could be making some noise in the region "From a focus more of their political position, this alliance has the risk of creating animosity by those countries that do not belong to it, which could have effects on the parallel blocks where these same countries are involved" (L pez & Mu oz, 2012). "...The PA has provoked reactions from regional actors such as Venezuela and the other ALBA countries, as well as from Brazil and some of its Mercosur partners. The former consider the PA to be an alternative, anti-podal project to its socialist regional model in Latin America and a US tool with which Washington can reassert its hegemony. For Brazil, its concerns lie with losing control of its own sphere of influence as Mexico tries to get a foothold in the region" (Nolte & Wehner, 2013).

One of the interesting to issues to analyze within the framework of the Alliance are commitments in services, since there is a general belief that countries provide better facilities to major trading partners, related to those commitments between them. This papers attempts to

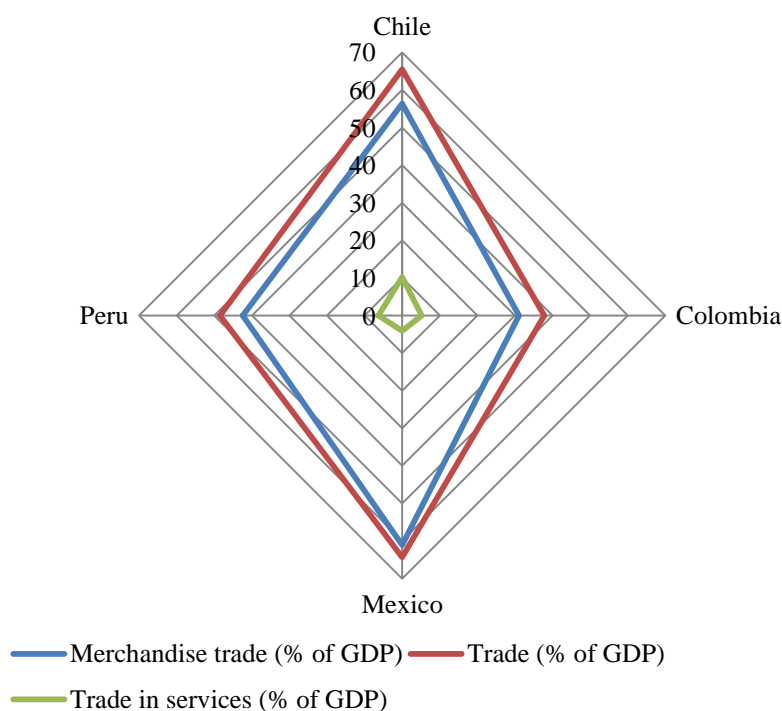
² Currently, Panama and Costa Rica are in their accession process. However, it is important to note that the PA is one of the integration processes that cause more interest worldwide, indicator of this is the large number of observers. In 2015 the observers included: Australia, Austria, Belgium, Canada, China, Costa Rica, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Georgia, Germany, Greece, Guatemala, Haiti, Honduras, Hungary, India, Indonesia, Israel, Italy, Japan, Morocco, Netherlands, New Zealand, Panama, Paraguay, Poland, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United States, United Kingdom, and Uruguay.

analyze the services dimension of the Pacific Alliance. After this introduction, the second section overviews the service sector for the countries conforming the PA. The third section reviews the commitments set in the World Trade Organization. After this, we study the agreements between the PA countries, and those in the trade agreements with the United States. Finally, some remarks and a propose work agenda are presented.

I. TRADE IN SERVICES IN THE PACIFIC ALLIANCE

Although the four countries forming the Pacific Alliance have been identified as open to trade or at some extent have defined their development pathways closely linked to their international economic relations, when we analyze the data some differences arise. Chile and Mexico, the countries that started before an aggressive openness policy are far more engaged in international trade, and so it reflects in the participation of trade in GDP. As shown in Figure 1, for this two countries trade represents over 65% of their product, while for Colombia and Peru it does not account for more than 50%. Still, this may be explain as the latest countries are new comers, and are rapidly converging to the formers. Another interesting remark to be made is the importance of merchandise trade in the Alliance. For all the countries, more than 80% of their trade is explained by goods, while services only accounts for around 10%. Although not the focus of this paper, we must mention that most of this merchandise trade is explained by commodities (petroleum, cooper) or low-tech *maquila*.

Figure 1

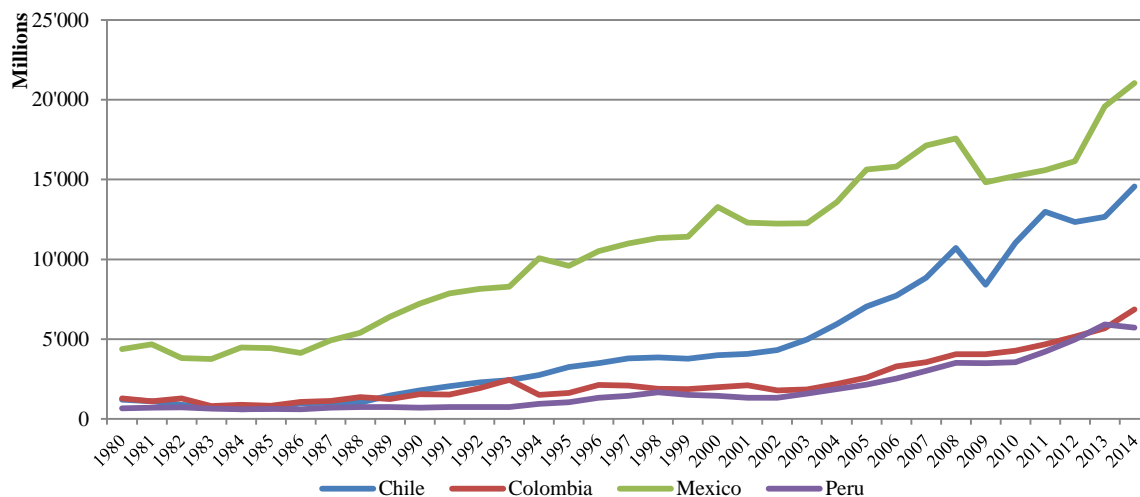


Source: Authors elaboration based WDI, World Bank

Despite the relative low weight of services in the export baskets of the Pacific Alliance countries, trade in services in the region has shown interesting progress in the last years. For the last couple of decades, rapid growth of services exports may be observed in the four PA countries (Figure 2). Chile and Mexico leads this process, which is consistent with their early trade policy orientation towards an open economy. While having a relative stagnant

international service sector till the early 2000, since 2005 a strong increase in their exports, with growth of two digits is observed. For Chile and Mexico, although the long term trend also shows a sustained growth, the 2008 financial crisis had a notorious impact over their trade in services, with contractions of 21% and 15% respectively.

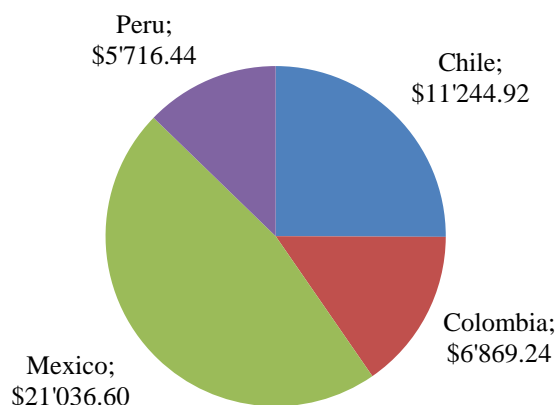
Figure 2. Trade in services Pacific Alliance countries. 1980 – 2014.



Source: Authors elaboration based WTO Statistics

As a whole, the Pacific Alliance is not an important player in trade in services. Totalizing 44.87 billion dollars in exports for 2014, it only represents 0.91% of world share. As shown in Figure 1, Mexico accounts for almost half of the Alliance exports (46.7%), Chile ranks second with 25%, while Colombia (15.3%) and Peru (12.7%) remain behind.

Figure 3. Pacific Alliance services exports. 2014

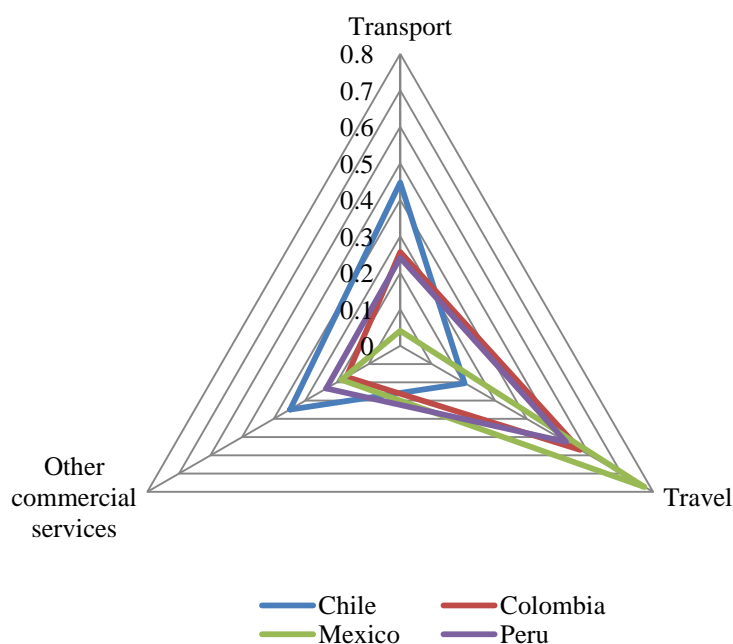


Source: Authors elaboration based WTO Statistics

Some interesting differences arise when looking at sectoral composition of services trade amongst the countries of the Alliance. While for Mexico, Colombia and Peru, Travel is the most important component of their services exports, accounting for more than 50% (reaching 77% for Mexico), for Chile, Transport is the most important activity, reaching nearly 45% of total

exports. Other commercial services (which include high value added services, such as business or knowledge oriented services) have a secondary importance in the region.

Figure 4. Services export composition. Pacific Alliance countries. 2014



Source: Authors elaboration based WTO Statistics

Comparing the Pacific Alliance participation in services trade with the world confirms the secondary role this countries are now-a-days playing (Table 1). No PA economy makes it to any top 10 exporter in the three main categories: Transport, Travel or Other commercial services. Moreover, they rank in the middle of the distribution. The best relative position we may find is Mexico ranking 22 in Travel services, with a market participation of nearly 1.3%.

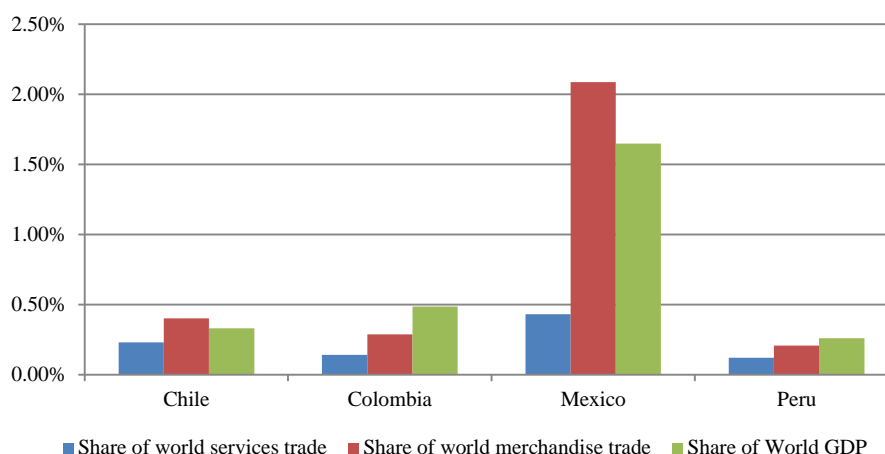
Table 1. Pacific Alliance countries services exports world position. 2014.

	Commercial services		Transport		Travel		Other commercial services	
	Rank	Share	Rank	Share	Rank	Share	Rank	Share
Chile	55	0.23%	37	0.53%	67	0.18%	43	0.15%
Colombia	65	0.14%	60	0.19%	51	0.32%	67	0.04%
Mexico	40	0.43%	75	0.09%	22	1.31%	44	0.15%
Peru	71	0.12%	65	0.14%	55	0.24%	63	0.05%

Source: Authors elaboration based WTO Statistics

Taking the share of world's GDP as reference, we may take some few conclusions. First, regarding trade in merchandise, we again may find differences between Chile and Mexico, on one side, and Colombia and Peru, on the other. While the first have a higher relative participation than their share in GDP, reflecting the importance trade has in their economic development processes, Colombia and Peru still lagged behind. For services trade, all four countries have a relative lower participation than their share of GDP. Chile and Peru are more close to their expected share in services trade, while Mexico has a big difference, of almost 3 times their actual services exports.

Figure 5. Pacific Alliance countries world's share in GDP, merchandise and services trade.



Source: Authors elaboration based WDI, World Bank

II. SPECIFIC COMMITMENTS IN THE GENERAL AGREEMENT ON TRADE IN SERVICES

The General Agreement on Trade in Services (GATS), result of the Uruguay Round of trade negotiations and part of the Marrakesh agreement, which gives rise to the World Trade Organization. “GATS is based on the non-discrimination principle that governs the multilateral trading system contained in the most favored nation (MFN) clause that ensures non-discrimination in the treatment to which a WTO Member is entitled from other Members” (Sáez, 2005). It is composed of three pillars: the framework agreement defines the obligations; eight annexes, addressing horizontal³ and sector specific matters; and schedules of specific commitments. As mentioned by Sauvé (1998), “definition of “trade in services” was a central issue of the negotiations, the substantive issue being whether the GATS would apply only to cross-border trade in services or would also include transactions requiring the relocation of factors of production”. The agreement finally addresses services regarding the mode of supply: Mode 1: Cross-border supply; Mode 2: Consumption abroad; Mode 3: Commercial presence; Mode 4: Presence of natural persons. Due to its negotiation approach, specific commitments become the most important part of the agreement. “Negotiators chose to pursue a hybrid positive-negative list scheduling specific commitments. It is positive in determining sectoral coverage of market access and national treatment commitments, negative with regard to identifying measures that violate either national treatment or market access disciplines” (Hoeckman, 1996). In order to analyze the extent in which countries committed in GATS these schedules should be review. Therefore, in this section we study the Pacific Alliance members’ commitments in GATS. First, horizontal commitments will be address, and then specific sectorial commitments will be review.

When reviewing the GATS, we may refer that all PA countries did not listed horizontal commitments for Modes 1 & 2. Chile schedule market access and national treatment limitations only for mode 3 & 4. For commercial presence market access commitments will only apply to those suppliers of services that establish themselves as a foreign investment and comply with

³ Horizontal commitments stipulate limitations that apply to all of the sectors included in the schedule.

the rules and legal procedures on direct foreign investment in force, while national treatment restrictions refers to transfer abroad their capital, real estate acquisitions and the performance of other legal acts in frontier zone, and the staff employed by a supplier of services established in Chile must be Chilean. Regarding presence of natural persons (mode 4), market access is unbound, except for transfers of natural persons within a foreign enterprise established in Chile, equally national treatment, except for the categories of natural persons listed under market access.

Colombia, as Chile, had not schedule any commitments on mode 1 & 2. For commercial presence, the country had listed a market access limitation regarding investment projects in activities relating to national defense and the processing and disposal of toxic, hazardous or radioactive waste not produced in Colombia; taxes on remittances; ownership of coastline and border regions; and special provisions for the establishment in San Andrés and Providencia Archipelago. For mode 4, commitments on both market access and national treatment are unbounded, except for Managers, legal representatives and technical specialists, with the exception of the professional services sub-sectors.

With regard to Mexico`s commitments, the horizontal section in mode 3 stipulates that foreign investment in activities reserved for Mexicans should be done through neutral actions previously listed on the Mexican stock exchange (market access) and that foreigners may not acquire direct ownership of lands and waters within a defined band (national treatment). For mode 4, market access is unbounded except for the entry and temporary stay of natural persons within a number of categories. For national treatment, the schedule is unbounded except for those categories listed in market access, but defining a list of activities reserved for Mexican nationals and that subsidy may only be granted to Mexican citizens.

Finally, Peru has unbounded market access for both mode 3 & 4, except for natural persons providing services and employed by service-providing companies in the sectors and sub-sectors included in this Schedule who are nationals of countries members of the GATS as listed.

Moving into specific commitments, a first step is to review in which sectors countries did made commitments. As shown in table 3, PA members where not active listing commitments in GATS. Out of 12 sectors, Chile just committed in 5, while Peru and Colombia in 6, and Mexico 7. This is consistent with finding made out by Marchetti & Roy (2008), whom calculated the extent of the commitments made by countries in GATS and PTA. In this study, they scored Chile`s GATS commitments in 19.8, Colombia`s in 27.8, Mexico`s in 40.3, and Peru`s in 30.8.

Table 3. PA countries specific commitments in GATS

Sector	Chile	Colombia	Mexico	Peru
Business services	X	X	X	X
Communication services	X	X	X	X
Construction and related engineering services		X	X	
Distribution services			X	X
Educational services			X	
Environmental services		X		
Financial services	X	X	X	X
Health and related social services			X	
Tourism and travel related services	X	X	X	X

Recreational, cultural and sporting services			X
Transport services	X	X	X
Other services		X	

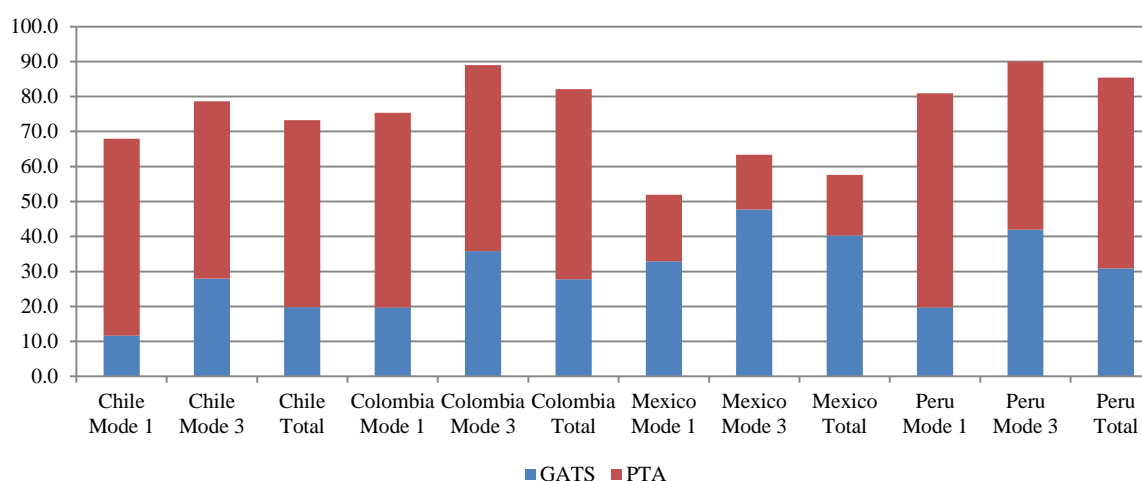
Source: Authors elaboration with I-tip data.

III. COMMITMENTS IN PREFERENTIAL TRADE AGREEMENTS

As seen before, GATS had not substantially liberalized international trade in services. Most liberalization had occurred in preferential trade agreements; particularly those signed with the United States. The NAFTA approach to services negotiation, using a negative list (countries agree to liberalize all sectors, except those mentioned in the list) has had more aggressive results as: “foster greater transparency, as it will be immediately obvious which sectors or activities are excluded from coverage... may generate a greater pro-liberalization dynamic, as governments might be embarrassed by long list of exceptions... finally, a negative list approach would imply that any new services developed as a result of innovation or technological advancement, or for any other reason, would automatically be subject to established disciplines” (Low & Mattoo, 2000).

Comparing the level of commitments included in GATS and in preferential trade agreements of the Pacific Alliance members we may conclude that for these countries most liberalization has taken place at preferential levels. Figure 5 shows how further PTA of PA countries have gone from their commitments in GATS, using data elaborated in the WTO by Marchetti & Roy (2008). Except for Mexico (whose main liberalization took place under NAFTA, therefore could commit more in GATS), there is significant difference between liberalization undertaken in GATS and in PTA for Chile, Colombia, and Peru.

Figure 5. GATS vs PTA commitments Pacific Alliance countries.



Source: Authors elaboration based WTO Dataset of Services Commitments in Regional Trade Agreements (RTAs)

To understand the extent of this trade openness, this section will review commitments made by the PA members in their bilateral agreements and with the United States, as it is perceived that more concessions have been given to developed countries rather than amongst them. First, we must acknowledge that all agreements have been negotiated following NAFTA model, i.e. negative list approach has been used. Therefore, their structures are quite similar, with no

evident differences amongst them. A close review to Annex I and Annex II exceptions shall be undertaken, as in this sections we may find real barriers to trade in services. Looking at the number of reserves undertaken in each agreement, we may see that there are no huge differences amongst the different PTA (Table 4).

Table 4. Reserves contained in bilateral trade agreements

		Chile	Colombia	Peru	Mexico	United States
Chile	Annex 1	-	22	22	25	24
	Annex 2	-	17		11	16
Colombia	Annex 1	28	-			26
	Annex 2	13	-			14
Peru	Annex 1	27		-	26	20
	Annex 2			-	15	11
México	Annex 1	14		49	-	28
	Annex 2	7		9	-	10
United States	Annex 1	12	11	12	16	-
	Annex 2	6	6	6	8	-

Source: Authors elaboration based on the agreements

Another way to asset the reserves included in the agreements if to analyze which obligations are being affected, understanding that a sector may have reserve in more than one obligation. Table 5 summarize the number of reserves regarding national treatment, MFN, local presence, performance requirements, high executives and directors, and market access in the different bilateral trade agreements amongst PA members and with United States included in Annex I. We may observe that the most affected obligation is national treatment, which is present in almost every reserve included in the agreements. Local presence becomes the second most recurrent reserve, with a frequency of about 50% of affected obligations.

Table 5. Affected obligations in Annex I

		Chile	Colombia	Peru	Mexico	United States
Chile	NT	-	21	21	22	21
	MFN	-	8	8	6	9
	Local presence	-	13	12	9	11
	Performance requirements	-	3	3	3	3
	High executives and directors	-	5	6	6	6
	Market access	-	0	0	0	0
Colombia	NT	18	-			17
	MFN	2	-			2
	Local presence	18	-			18
	Performance requirements	4	-			3
	High executives and directors	1	-			1
	Market access	11	-			9
Peru	NT	24		-	23	15
	MFN	1		-	1	1
	Local presence	9		-	9	8
	Performance requirements	2		-	2	2
	High executives and directors	4		-	4	3
	Market access	0		-	0	4

Mexico	NT	14		46	-	24
	MFN	2		10	-	1
	Local presence	4		18	-	2
	Performance requirements	2		1	-	8
	High executives and directors	1		3	-	2
	Market access	0		0	-	0
United States	NT	12	11	12	13	-
	MFN	7	7	7	8	-
	Local presence	6	6	6	6	-
	Performance requirements	1	1	1	1	-
	High executives and directors	3	3	3	2	-
	Market access	0	0	0	0	-

Source: Authors elaboration based on the agreements

Regarding Annex II, most of the reserves corresponding to future measures are relative to minorities, indigenous communities and cultural activities. As in Annex I measures, Table 6 summarize the obligations that are being affected by the reserves, mostly covering national treatment.

Table 6. Affected obligations in Annex II

		Chile	Colombia	Peru	Mexico	United States
Chile	NT	-	14		11	12
	MFN	-	12		9	11
	Local presence	-	7		7	7
	Performance requirements	-	4		4	4
	High executives and directors	-	5		4	5
	Market access	-			0	1
Colombia	NT	10	-			
	MFN	6	-			
	Local presence	3	-			
	Performance requirements	6	-			
	High executives and directors	0	-			
	Market access	1	-			
Peru	NT			-	11	8
	MFN			-	8	5
	Local presence			-	7	6
	Performance requirements			-	6	4
	High executives and directors			-	2	2
	Market access			-	0	2
Mexico	NT	19		9	-	10
	MFN	6		4	-	8
	Local presence	6		7	-	7
	Performance requirements	6		1	-	0
	High executives and directors	3		2	-	4
	Market access	3		0	-	0
United States	NT	4	7		8	-
	MFN	3	7		6	-
	Local presence	3	6		5	-

Performance requirements	3	6	2	-
High executives and directors	1	6	5	-
Market access	0	2	0	-

Source: Authors elaboration based on the agreements

Analyze the number of reserves, or the obligations affected by them, is not enough in order to get a complete picture regarding the level of restriction made by one country, and whether the restrictions are equivalent. It has been stated that PA countries would have given better conditions to the US in their commitments than amongst them. This may not be evident from the previous analysis, but when reviewing the reserves we may find some interesting differences.

For example in the case of Colombia, the bilateral agreement with Chile includes a reserve regarding the number of Colombian employees' required (national treatment and performance requirement). However, this reserve is not included in the bilateral agreement with the US. A similar restriction may be found in the agreement between Chile and Peru, but not in the Peru-US FTA. Peru has not listed in their bilateral agreement with the US a series of requirement for fishing boats included in the FTA with Chile (national treatment obligations).

As we may see, even though similar in their framework and in the number of reserves, once reviewing in depth the commitments and reserves we may find important differences between agreements, with a bias towards the US rather than amongst Latin American countries, issue that should be tackled in the framework of the Pacific Alliance.

IV. PACIFIC ALLIANCE

Services have been included at the PA in different approaches. At the beginning in 2011 the initial mandate aimed to make the bilateral treaties to converge then the main objective was to aggregate value to them. In 2012 a Protocol that shows political will to achieve something was signed. The PA signed a Commercial Protocol in which there is the Chapter 9 devoted to services, with the NAFTA approach. There is a working group on Services and Capital, which focuses on services trade, including ecommerce, investment negotiations, cross-border trade in services, financial services, telecommunications, air and maritime transport, and professional engineering services. This group also will work on the proposed integration of stock exchanges among member countries, which is more a private initiative called MILA. In 2011, Chile, Colombia, and Peru integrated their stock exchanges through the formation of the Latin American Integrated Market, or the MILA. Then Mexico joined this initiative.

The Pacific Alliance's Group of Services and Capital is working to establish conditions that will facilitate and promote trade in services and intraregional investment. It completed negotiations on chapters on services trade, investment, electronic commerce, maritime services, and telecommunications (Villarreal, 2014). Countries have not advanced in air transport as was expected. Tourism and investment have their own specific groups. Also it is possible to find the lists of commitments of the four countries that are less than they had in their previous agreements.

The Pacific Alliance framework agreement entered into force the 20th of July of 2015. The ratification of the Commercial Protocol is still in is under discussion for approval at the four members Congresses.

FINAL REMARKS

PA started as a very promising economic integration process. In this article we aim to understand the different approaches that Mexico, Chile, Peru and Colombia have used in their previous negotiations in GATS, amongst them and with the Unites States in services.

The countries of the PA have a very high dependence on primary export baskets or in one country destination. The PA was defined as a possibility to increase services trade, as a way to aggregate value and develop more sophisticated global value chains. The implemented economic model, in the last 30 years, in the four members is deeply sustained in their trade policies and the international insertion. For this reason, the real economic integration that is achieved represents a fundamental option for developing the alternative of more services trade amongst them and with Asia. Up to now for us was impossible to identify if there is any strategy to reach Asian countries with a services joint initiative.

After reviewing the commitments in the services negotiations, a first conclusion is that in the framework of GATS, countries definitely have fewer commitments that the ones they have in the rest of the trade negotiations. Including the text of the PA that seems to be the most complete in some aspects. Chile is the country that has the biggest difference, because this country committed very few services openness in GATS compared with afterwards negotiations.

A second point, is that at the beginning there was a confuse position that the convergence of the agreements will not take place. However when we read the Protocol it seems that they agreed the legal text similar to their NAFTA bilateral agreements. And the reserves are listed individually but delivered in NMF basis. In this regards, the countries in general have less reserves, more openness on trade in services, with their previous preference agreements amongst them and with USA. But this seems to be changes in the PA text. Where they overcome as we mentioned some of the barriers that they still keep between them and not with USA.

The structure denotes more understanding or political will in some sectors. Tourism is in a special group. And the most relevant topic in the regional integration the free movement of people has its group as well as the financial matters. An innovation initiative is also in the process, this aspect is a big deficit in tall the members' developments and it is deeply linked with services. In spite of this, the real trade in services liberalization is far from be completed, is still a status quo in the internal legislations, and not a real effort to integrate markets.

The recent TISA (Trade in Services Agreement) participation of the PA members posse the question how much the countries will commit in this agreement that can erode the PA liberalization process?

Finally, the new rules the TTIP will establish for services understanding and negotiation should be analysed very closely for the clear implication to the regional integration.

Even though the PA does not seem to be a big step in services openness, it is important in increasing the liberalization in a region that normally finds more difficult to give preferences to the Latin American countries than to developed economies.

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