# Mega-regional trade negotiations: What is at stake for Latin America?

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## Introduction

During this decade, and with particular intensity in recent months, several far-reaching trade negotiations have been in the works worldwide. Chief among them are the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union; a Free Trade Agreement (FTA) between the European Union and Japan; a Regional Comprehensive Economic Partnership (RCEP) among the ten members of the Association of Southeast Asian Nations (ASEAN) plus Australia, India, New Zealand, China, Japan, and the Republic of Korea; and an FTA among the latter three countries. All four processes were formally launched in 2013. They come on top of the Trans-Pacific Partnership (TPP) negotiations, underway since 2010, encompassing twelve countries of Latin America, North America, Asia, and Oceania. All these initiatives—referred to in the literature as mega-regional or mega-bilateral negotiations—should have a deep impact on the global trade and investment architecture of the coming decades, especially given the continued impasse at the Doha Round of the World Trade Organization (WTO).[1]

A rapidly growing number of FTAs has been a global trend since the 1990s, but the recent mega-regional negotiations have features that set them apart from most existing pacts. The first two distinctions are the number and size of the economies concerned. All of them account for significant shares of world output, population, trade, and foreign direct investment (FDI). (See Table 1.) Second, these mega-regional negotiations go beyond the bilateral approach of most of the existing FTAs by aiming to create vast integrated economic spaces, whether Asian, transatlantic, or trans-Pacific. Third, the thematic agenda is far more extensive and complex than has traditionally been the case, and it includes a number of areas not covered by WTO agreements (see Table 1).[2]

This brief discusses how Latin America may be affected by the ongoing mega-regional negotiations, specifically the TPP and the TTIP. Only Chile, Mexico, and Peru currently participate in the TPP negotiations and no Latin American countries

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[1] The credibility of the WTO as a negotiating forum was boosted by the agreement on trade facilitation reached at its 9th Ministerial Conference, held in Bali in December 2013. However, the possibility of an agreement on the overall Doha Round still looks remote.

[2] The TTIP, TPP, and EU-Japan negotiations in particular include several issues currently not covered by the WTO agreements. According to the information available, this is less of the case in the RCEP negotiations.

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# FOREWORD

In recent years, economic opportunities have become the main force driving relationships in the Western Hemisphere. While political cooperation has stumbled, robust trade and financial engagement has been shown to be the best foundation for stronger partnerships between the US and the region, as well as amongst Latin American countries themselves.

Though the United States' economic preeminence in Latin America has waned in relative terms, its commercial relationships with the region's countries continue to deepen. Between 2000 and 2013, US sales to Latin America more than doubled, as did the region's exports to US markets. The United States remains the first or second trading partner for nearly every country in the region, and provides upwards of 90 percent of the $60 billion or so of remittance income destined for Latin America. The level of US foreign direct investment in Latin America is twice as high as it was a decade ago—notably in both Brazil and Mexico.

But Latin American trade today is also characterized by new players. The region itself has become a global exporter, while China, other Asian nations, and Europe are a crucial part of the economic landscape in many Latin American countries.

Latin American nations also now trade much more among themselves. Argentina, for instance, may soon replace the United States as Brazil's second largest trading partner. The Pacific Alliance, comprised of Chile, Colombia, Mexico and Peru, merits special attention on this score.

But Latin American countries face enormous challenges in strengthening their international competitiveness and assuring their position in global finance and trade flows. And while the United States can expect trade with the region to continue growing, they will have to work harder and harder to compete for the region's markets and resources. Further economic integration will require smart policy and an understanding of the complicated issues at play.

Drawing on distinguished policy analysts, government officials, and business leaders from across the hemisphere, the Dialogue is seeking to build a better understanding of the major trends affecting trade and foreign investment in the Americas, and to explore the emerging opportunities for enhancing economic cooperation. This paper, by Osvaldo Rosales and Sebastián Herreros of the Economic Commission on Latin America, focuses on the impact on Latin America of recent mega trade negotiations such as the TPP and TTIP. The Dialogue is deeply grateful to Liberty Mutual for its support of this project. For access to information on the Dialogue's work on trade issues, including other working papers and videos of our meetings, we invite you to visit our website (www.thedialogue.org).

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are involved in TTIP talks, but all countries in the region stand to be influenced by both processes. Since the TPP and TTIP negotiations are underway at the time of writing (with the latter in a very early stage), any pronouncements on their outcome are highly speculative. Moreover, time and space restrictions preclude a detailed country-by-country analysis. Instead, we attempt to identify key issues that would arise from a successful conclusion of both negotiations. Further, in-depth examination by Latin American academics and policymakers is called for in the coming years.

This brief focuses on the possible impact of the TPP and TTIP on Latin American countries' future trade flows, how both processes might influence these countries' ability to design and implement a number of public policies, and deals with possible implications for Latin American regional integration. The paper ends with some concluding considerations.

## Possible impact of the TPP and TTIP on Latin American countries' trade flows

How successful conclusions of the TPP and TTIP negotiations will affect trade flows depends on each Latin American country's foreign trade structure. The United States remains the top export destination for Mexico and Central America, as well as for Colombia, Ecuador, and Venezuela in South America. In contrast, China has become the top export destination for natural resource–rich South American countries, notably Brazil, Chile, and Peru. The Latin American market is the most important one for small landlocked countries (Bolivia and Paraguay), as well as for Argentina and Uruguay (see Table 2).

The pattern for imports is similar, with Mexico and the Central American countries showing a much higher dependency on the United States as a supplier than that seen in South American countries. An important difference between the region's export and import profiles relates to China. It is a key export destination for only some Latin American countries, but it has become a major import supplier for almost all of them. The majority of Latin America depends on other countries in the region as significant import suppliers, with the notable exception of Mexico (see Table 3).

A second important consideration is whether Latin American countries have FTAs with the United States, the European Union, and Japan—the main economies participating in the TPP and TTIP. Mexico and all the Central American countries have FTAs with both the United States and the European Union; Mexico is the only member of that group in an FTA with Japan. In South America, there is a clear distinction between Chile, Colombia, and Peru and the other countries. The first three have free-trade pacts with both the United States and the European Union. Chile and Peru also have FTAs with Japan, and Colombia is currently negotiating one. In contrast, the five members of Mercosur,[3] as well as Bolivia and Ecuador, have not signed free-trade agreements with the United States, the European Union, or

[3] The five members are Argentina, Brazil, Paraguay, Uruguay (founding members), and Venezuela (which officially joined Mercosur in July 2012).

### Table 1: Population, GDP, Merchandise Trade, and Foreign Direct Investment Flows, 2012

| Grouping | Number of Countries | Population (mm) | GDP US$ bb | Merchandise Exports US$ bb | Merchandise Imports US$ bb | Foreign Direct Investment Inflows US$ bb | Foreign Direct Investment Outflows US$ bb |
|---|---|---|---|---|---|---|---|
| **RCEP** | 16 | 3,398 | 21,189 | 5,236 | 5,232 | 329 | 325 |
| **TPP** | 12 | 792 | 27,558 | 4,339 | 5,188 | 406 | 609 |
| **TTIP** | 29 | 817 | 32,269 | 7,349 | 8,273 | 426 | 652 |
| **EU-Japan FTA** | 29 | 630 | 22,548 | 6,602 | 6,823 | 260 | 446 |
| **World** | | **6,941** | **71,707** | **18,401** | **18,601** | **1,351** | **1,391** |

**Source:** Authors, based on International Monetary Fund, World Economic Outlook Database April 2013 (population and GDP); World Trade Organization (exports and imports); and United Nations Conference on Trade and Development (FDI).

Japan—even though Mercosur has been negotiating an FTA with the European Union since 2000 (see Table 4).

These findings highlight a first distinction between Mexico, the Central American countries, Chile, Colombia, and Peru, on the one hand, and the rest of Latin America, on the other. Exports from the first group of countries enjoy legally binding duty-free access to the US and EU markets through FTAs or will progressively obtain it as the tariff phase-out schedules kick in. The second group of countries' exports to the US and EU markets depend on tariff preferences provided through non-reciprocal programs. These are the Generalized Scheme of Preferences (GSP) in the European Union and the Generalized System of Preferences (also known as GSP) and the Andean Trade Preference Act (ATPA) in the United States.[4]

All of these non-reciprocal preferential programs share important shortcomings. First, several products of interest to Latin American countries, including many agricultural and apparel items, are excluded from the coverage. Second, these programs usually carry safeguards to limit the impact of increased imports on domestic producers. The safeguards, which include quantitative limits on goods entering under preferential terms, tend to apply to products for which the exporting countries have comparative advantage.[5] Third, countries can be removed from the list of beneficiaries for a number of reasons, including alleged violations of worker or intellectual property rights or if they reach a certain level of income per capita or export competitiveness.

Upon the successful conclusion of the TTP or the TTIP, Latin American countries that have FTAs with the United States and the European Union may see increased competition in those markets. An example would be if tariff elimination by the United States under TTIP leads Mexican

[4] Our analysis focuses on Latin American exports to the United States and the European Union, since Japan is a much less important market for the region. In 2012, Japan accounted for less than 10 percent of total exports for all Latin American countries except Chile (see Table 2).

[5] Similar safeguards are also contained in reciprocal agreements, such as the "snapback" clauses for agricultural products in US FTAs.

## Table 2: Selected Partners' Shares (%) of Total Merchandise Exports, 2012

| Sub-region/Country | China | Japan | United States | EU-27 | Latin America | Rest of the World |
|---|---|---|---|---|---|---|
| South America | | | | | | |
| **Argentina** | 6.2 | 1.5 | 5.1 | 14.7 | 42.3 | 30.2 |
| **Bolivia** | 2.7 | 3.7 | 14.8 | 5.7 | 65.1 | 8.0 |
| **Brazil** | 17.0 | 3.3 | 11.1 | 20.2 | 19.2 | 29.3 |
| **Chile** | 23.3 | 10.7 | 12.3 | 15.3 | 17.4 | 21.1 |
| **Colombia** | 5.5 | 0.6 | 36.9 | 15.1 | 25.8 | 16.1 |
| **Ecuador** | 1.6 | 2.7 | 44.7 | 10.3 | 32.9 | 7.7 |
| **Paraguay** | 0.6 | 0.4 | 2.1 | 14.5 | 58.5 | 23.8 |
| **Peru** | 17.1 | 5.6 | 14.2 | 17.1 | 18.5 | 27.5 |
| **Uruguay** | 9.2 | 0.1 | 3.8 | 11.3 | 38.8 | 36.9 |
| **Venezuela**[b] | 15.3 | 0.3 | 41.3 | 5.7 | 6.4 | 31.0 |
| Central America and Mexico | | | | | | |
| **Costa Rica** | 2.9 | 0.8 | 38.3 | 17.7 | 27.0 | 13.4 |
| **Dominican Republic** | 5.2 | 0.4 | 56.0 | 6.8 | 8.4 | 23.3 |
| **El Salvador** | 0.1 | 0.6 | 46.6 | 4.5 | 44.9 | 3.3 |
| **Guatemala** | 0.3 | 1.8 | 41.0 | 6.5 | 40.6 | 9.8 |
| **Mexico** | 1.5 | 0.7 | 77.7 | 6.0 | 7.5 | 6.6 |
| **Nicaragua** | 0.4 | 0.9 | 29.9 | 10.7 | 40.5 | 17.6 |
| **Panama**[a] | 0.3 | 2.0 | 26.3 | 1.5 | 62.1 | 7.8 |

**Source:** Authors, based on UN COMTRADE database.

[a] Figures for Panama are from 2011.

[b] Figures for Venezuela were calculated from mirror statistics (i.e. partner countries' recorded imports from Venezuela).

manufactures to face tougher competition from European counterparts in that market. However, countries that have no FTAs with the United States and the European Union are the ones that will face the greatest export diversion risks. For that reason, most of our analysis focuses on those countries. Risks will be bigger for countries i) for which the United States and the European Union are important export destinations, ii) that have little or no access to unilateral tariff preferences in those markets, and iii) whose exports to the US or EU markets are similar to those of the countries participating in the TTP or TTIP.[6]

Of the seven Latin American countries without US and EU free-trade agreements, Ecuador and Venezuela are by far the most exposed. The US market accounted for 45 percent and 41 percent, respectively, of their total merchandise exports in 2012. Next come Bolivia and Brazil. The United States absorbed 15 percent and 11 percent, respectively, of their total exports in the same year. The United States is the destination for 5 percent or less of total exports from Argentina, Uruguay, and Paraguay. The European Union is generally a more important export market for these same seven countries, accounting for 20 percent of Brazil's total exports in 2012 and more than 10 percent of the other countries' exports, except Bolivia and Venezuela (see Table 2).

Concerning access to non-reciprocal tariff preferences, the European Union announced in October 2012 that, effective January 1, 2014, Argentina, Brazil, Uruguay, and Venezuela will no longer be eligible for GSP benefits. This comes as a result of their being classified by the World Bank for three consecutive years as upper-middle-income countries. Therefore, exports from these four countries in 2014 and beyond will pay the EU's Most Favored Nation (MFN) tariffs. Bolivia, Ecuador, and Paraguay will maintain their

[6] For example, the greater the similarity between the product composition of Brazilian exports to the United States and the product composition of EU exports to the United States, the greater the risk is that Brazilian exports will face strengthened competition from European products in that market.

**Table 3: Selected Partners' Shares (%) of Total Merchandise Imports, 2012**

| Sub-region/Country | China | Japan | United States | EU-27 | Latin America | Rest of the World |
|---|---|---|---|---|---|---|
| South America | | | | | | |
| **Argentina** | 14.5 | 2.2 | 12.4 | 17.9 | 35.7 | 17.3 |
| **Bolivia** | 13.1 | 4.5 | 11.0 | 9.5 | 55.0 | 6.9 |
| **Brazil** | 15.3 | 3.5 | 14.6 | 21.4 | 16.7 | 28.5 |
| **Chile** | 18.2 | 3.3 | 22.9 | 13.4 | 26.1 | 16.2 |
| **Colombia** | 16.8 | 2.9 | 24.9 | 12.8 | 27.6 | 15.0 |
| **Ecuador** | 11.2 | 2.9 | 26.9 | 11.5 | 33.3 | 14.3 |
| **Paraguay** | 27.6 | 2.7 | 8.1 | 6.6 | 46.2 | 8.9 |
| **Peru** | 18.5 | 3.6 | 19.0 | 11.9 | 29.2 | 17.9 |
| **Uruguay** | 14.3 | 0.9 | 7.5 | 11.1 | 45.5 | 20.7 |
| **Venezuela**[b] | 12.0 | 1.4 | 27.9 | 13.8 | 35.7 | 9.2 |
| Central America and Mexico | | | | | | |
| **Costa Rica** | 7.9 | 3.1 | 51.9 | 7.0 | 22.2 | 8.0 |
| **Dominican Republic** | 10.0 | 1.8 | 38.6 | 10.1 | 22.4 | 17.0 |
| **El Salvador** | 5.9 | 1.7 | 37.9 | 5.5 | 39.3 | 9.8 |
| **Guatemala** | 7.5 | 1.6 | 38.1 | 6.4 | 34.5 | 12.0 |
| **Mexico** | 15.4 | 4.8 | 50.1 | 11.0 | 3.7 | 15.0 |
| **Nicaragua** | 9.5 | 2.9 | 18.0 | 5.8 | 45.9 | 17.9 |
| **Panama**[a] | 26.2 | 2.3 | 18.6 | 9.0 | 14.9 | 29.0 |

**Source:** Authors, based on UN COMTRADE database.

[a] Figures for Panama are from 2011.

[b] Figures for Venezuela were calculated from mirror statistics (i.e. partner countries' recorded imports from Venezuela).

status as GSP beneficiaries. In the United States, meanwhile, the GSP program expired on July 31, 2013, although the US Congress is considering an extension through September 2015. Argentina's eligibility for GSP benefits has been suspended since May 2012 due to its alleged failure to enforce arbitral awards favoring US companies in investment disputes. Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela remain eligible although there is pressure in the US Congress to "graduate" (i.e. exclude) "more advanced" developing countries such as Brazil (Jones, 2013). As for the ATPA program, no countries are benefiting. The last was Ecuador, which unilaterally renounced its benefits in June 2013 over political differences with the United States.

Any attempt to project the likely impact of TTIP or TPP on the exports of individual Latin American countries requires an in-depth, product-by-product analysis of their exports to the countries involved in the negotiations. Such an analysis exceeds the scope of what can be presented here. Nevertheless, Tables 5 and 6 offer a snapshot of the kind of examination that would be required. It reveals that many of the top products exported from Argentina, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela to the United States and the European Union already enter these markets duty free (or almost duty free) on an MFN basis. That is the case, for example, of petroleum, coffee, frozen shrimp, bananas, and honey in the United States and of copper and iron ores, soya beans, petroleum, and pulp wood in the European Union. At least on the tariff front, therefore, Latin American exports of those products should not be disadvantaged vis-à-vis third countries as a consequence of the TTIP or TPP. However, the risk is not displacement, but the opposite: remaining stuck in the current export basket dominated by raw and processed commodities.

More immediate risks appear when Latin American exports to US or EU markets pay a positive MFN rate while third country suppliers improve their competitive position as a result of the TTIP or TPP. For example, Argentina, currently the third most important wine supplier to the United States, could see its market share eroded as a result of TTIP tariff cuts favoring the European Union, which is already the largest wine supplier to the United States (see Table 5). Similarly, Argentine, Brazilian, and Uruguayan bovine meat exports to the EU market could face stiffened competition if the European Union agrees in the TTIP to reduce its very high MFN tariffs for US beef (see Table 6). However, given the European Union's strong defensive sensitivities regarding this product, such a scenario may not emerge.

Examining key export products in relation to third country suppliers is important. But assessing the possible impact of the TTIP and TTP on Latin American countries' trade flows requires more complex analysis, especially given the increasing importance of international production networks in world trade. For example, Mexico, Central America, and the Dominican Republic are closely linked to US-centered

## Table 4: FTAs with the European Union, Japan, and the United States

(As of September 2013)

| | European Union | Japan | United States |
|---|---|---|---|
| **South America** | | | |
| **Argentina** | In negotiations | No | No |
| **Bolivia** | No | No | No |
| **Brazil** | In negotiations | No | No |
| **Chile** | Yes | Yes | Yes |
| **Colombia** | Yes | In negotiations | Yes |
| **Ecuador** | No | No | No |
| **Paraguay** | In negotiations | No | No |
| **Peru** | Yes | Yes | Yes |
| **Uruguay** | In negotiations | No | No |
| **Venezuela** | No[a] | No | No |
| **Central America and Mexico** | | | |
| **Costa Rica** | Yes | No | Yes |
| **Dominican Republic** | Yes | No | Yes |
| **El Salvador** | Yes | No | Yes |
| **Guatemala** | Yes | No | Yes |
| **Honduras** | Yes | No | Yes |
| **Mexico** | Yes | Yes | Yes |
| **Nicaragua** | Yes | No | Yes |
| **Panama** | Yes | No | Yes |

**Source:** Authors, based on Organization of American States, Foreign Trade Information System (www.sice.oas.org).

[a] Venezuela does not participate in the negotiations with the European Union because it is still implementing its Mercosur accession commitments.

production networks. The clothing industry is a case in point. In the TPP negotiations, there has been considerable controversy over the rules of origin applied to textiles and clothing. The United States seeks the "yarn-forward rule" that it has used in previous FTAs. This rule is intended to ensure that clothing made in a TPP member country, using fabrics or fibres originating in a non-member country, does not benefit from tariff reduction. Vietnam, on the other hand, prefers the "cut and sew" rule, which requires only that the final garment be cut and sewn in that country. This would allow Vietnam to use inputs from non-TPP countries (such as China) without losing tariff benefits under the agreement.

> Production processes could be restructured in favor of certain Asian countries, particularly Vietnam, depending on the rules of origin agreed in the TPP. These negotiations, therefore, have major implications for Central American countries, even if they do not participate in them.

By insisting on the yarn-forward rule, the United States aims to reduce competition from Vietnamese apparel not only with its own clothing products but also with those imported from Latin America and manufactured with US-made fabrics or yarns. Both the North American Free Trade Agreement (NAFTA) and the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) include the yarn-forward rule. As a result, Mexico and the Central American countries have built sub-regional production networks oriented to the US market, and textile and clothing industries account for more than 50 percent of total exports to the United States from El Salvador, Honduras, and Nicaragua. However, these production processes could be restructured in favor of certain Asian countries, particularly Vietnam, depending on the rules of origin agreed in the TPP. These negotiations, therefore, have major implications for Central American countries, even if they do not participate in them.

Another relevant aspect to international production networks is the ability to import high quality inputs and intermediate goods at competitive prices. This often requires sourcing these goods from several countries. In the context of the TPP, participants have agreed (at least in principle) to allow cumulation of origin among all members of the agreement. This means inputs originating from a TPP member country that are included in a final good exported by another member to a third member are regarded as originating in the country that exported the final good. Cumulation of origin is one of the potentially major gains that the TPP offers to the countries involved because it fosters the development of production networks. However, the ability to use this mechanism to full advantage differs across the three Latin American participants. Mexico participates actively in several US-based production networks, in sectors such as automobiles, electronics, and garments. It could, for example, benefit from using high quality, competitively priced Japanese components in the mobile phones, personal computers, or cars it exports to the United States. In Chile and Peru, on the other hand, natural resources (mostly mining products) dominate the export baskets. They could still benefit from cumulation of origin, but the advantages would be less evident than in the case of Mexico.

Another dimension of the TTIP and TPP with implications for Latin American trade is the negotiating dynamics that these processes may create. Mexico has publicly stated its interest in joining the TTIP. Since the European Union has also concluded FTA negotiations with Canada, there could be movement in the medium term toward an integrated transatlantic agreement involving the three NAFTA members and the European Union. The cumulation of origin and the harmonization of rules brought by this process would open opportunities for Mexico and the Central American countries (all of which also have FTAs with both the United States and the European Union) to join transatlantic value chains. In principle, this possibility would also be available to South American countries that have FTAs with both the United States and the European Union (currently Chile, Colombia, and Peru). For their part, Colombia and Costa Rica have publicly expressed interest in joining the TPP, although membership so far has been restricted to members of the Asia-Pacific Economic Cooperation (APEC) forum (see Tables 5 and 6).

## Table 5: Main US Imports from Selected Latin American Countries, 2012

| HS-6 code | Description | Value (US$ mm) | Share of Total US Imports from This Origin | Tariff | Share of Total US Imports of This Product (2011) | Ranking as US Supplier of This Product (2011) | Main Competitors in the US Market for This Product and Import Share (2011) |
|---|---|---|---|---|---|---|---|
| | | | | Argentina | | | |
| **270900** | Petroleum oils and oils obtained from bituminous minerals, crude | 946 | 20.7% | 5.25 cents/bbl (MFN) | 0.4% | 19 | Canada (27.7%), Mexico (17%), Nigeria (12.9%) |
| **220421** | Wine of fresh grapes, in containers holding 2 liters or less | 315 | 6.9% | 19.8 cents/ liter (MFN) | 7.5% | 3 | EU (66.5%), Australia (13.0%), Chile (6.5%), New Zealand (4.6%) |
| **730429** | Iron (other than cast) or non-alloy steel, seamless casing pipe, threaded or coupled, of a kind used in drilling for oil or gas | 271 | 5.9% | 0% (MFN) | 9.2% | 5 | EU (26.5%), Mexico (13.9%), Japan (12.4%), Canada (11.7%) |
| **760110** | Aluminum, not alloyed | 137 | 3.0% | 2.6% (MFN) | 6.0% | 4 | Canada (70.4%), Venezuela (8.1%), Russia (7.5%) |
| **040900** | Natural honey | 128 | 2.8% | 1.9 cents/ kg | 27.3% | 1 | India (19.4%), Vietnam (17.5%), Brazil (12.1%), Canada (7.1%) |
| | | | | Brazil | | | |
| **270900** | Petroleum oils and oils obtained from bituminous minerals, crude | 7,713 | 23.2% | 5.25 cents/bbl (MFN) | 2.8% | 10 | Canada (27.7%), Mexico (17%), Nigeria (12.9%) |
| **720712** | Semi-finished products of iron or non-alloy steel | 1,955 | 5.9% | 0% (MFN) | 45.7% | 1 | Russia (14.1%), Canada (11.4%), Mexico (10.2%), Japan (8.8%) |
| **271000** | Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified | 1,709 | 5.1% | 52.5 cents/bbl (MFN) | 1.2% | 16 | EU (19.7%), Russia (16.5%), Canada (13.7%), Saudi Arabia (9.5%) |
| **220710** | Ethanol, for non-beverage purposes | 1,531 | 4.6% | 2.5% (MFN) | 62.9% | 1 | Trinidad and Tobago (15.6%), Jamaica (11.1%) |
| **090111** | Coffee, not roasted, not decaffeinated | 1,285 | 3.9% | 0% (MFN) | 29.4% | 1 | Colombia (18.5%), Guatemala (8.8%) |
| | | | | Ecuador | | | |
| **270900** | Petroleum oils and oils obtained from bituminous minerals, crude | 7,093 | 71.7% | 5.25 cents/bbl (MFN) | 2.9% | 9 | Canada (27.7%), Mexico (17%), Nigeria (12.9%) |
| **030613** | Frozen shrimp and prawns | 565 | 5.7% | 0% (MFN) | 13.5% | 3 | Thailand (24.8%), Indonesia (15.4%) |
| **080300** | Bananas, including plantains, fresh or dried | 471 | 4.8% | 0% (MFN) | 23.5% | 2 | Guatemala (31.5%), Costa Rica (19.4%) |
| **710812** | Gold (non monetary), other unwrought form | 303 | 3.1% | 0% (MFN) | 0.2% | 18 | Mexico (38.7%), Canada (23.5%) |

## Table 5: Main US Imports from Selected Latin American Countries, 2012 (continued)

| HS-6 code | Description | Value (US$ mm) | Share of Total US Imports from This Origin | Tariff | Share of Total US Imports of This Product (2011) | Ranking as US Supplier of This Product (2011) | Main Competitors in the US Market for This Product and Import Share (2011) |
|---|---|---|---|---|---|---|---|
| | | | Venezuela | | | | |
| **270900** | Petroleum oils and oils obtained from bituminous minerals, crude | 34,643 | 88.1% | 5.25 cents/bbl (MFN) | 6.9% | 4 | Canada (27.7%), Mexico (17%), Nigeria (12.9%) |
| **271000** | Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified | 3,199 | 8.1% | 52.5 cents/bbl (MFN) | 5.6% | 5 | EU (19.7%), Russia (16.5%), Canada (13.7%), Saudi Arabia (9.5%) |

**Source:** Authors, based on UN COMTRADE and WTO Tariff Analysis Online (TAO) databases.

## Table 6: Main EU Imports from Selected Latin American Countries, 2012

| HS-6 code | Description | Value (US$ mm) | Share of Total EU Imports from This Origin | Tariff | Share of Total EU Imports of This Product (2011) | Ranking as EU Supplier of This Product (2011) | Main Competitors in the EU Market for This Product and Import Share (2011) |
|---|---|---|---|---|---|---|---|
| | | | Argentina | | | | |
| **230400** | Oilcake and other solid residues resulting from the extraction of soya-bean oil | 3,788 | 30.9% | 0% (MFN) | 50.2% | 1 | Brazil (44.2%), US (2%) |
| **382490** | Prepared binders for foundry moulds or cores; chemical products and preparations | 1,576 | 12.8% | 0% (GSP)* | 32.2% | 1 | Indonesia (23.5%), US (21.3%), China (5.5%) |
| **260300** | Copper ores and concentrates | 846 | 6.9% | 0% (MFN) | 10.3% | 5 | Peru (28%), Chile (19.9%), Brazil (10.6%), Indonesia (10.4%) |
| | | | Brazil | | | | |
| **260111** | Iron ores and concentrates, other than roasted iron pyrites; non agglomerated | 4,569 | 9.8% | 0% (MFN) | 56.6% | 1 | Ukraine (12.2%), South Africa (7.5%), Canada (6.7%) |
| **230400** | Oilcake and other solid residues resulting from the extraction of soya-bean oil | 4,423 | 9.5% | 0% (MFN) | 44.2% | 2 | Argentina (50.2%), US (2%) |
| **120100** | Soya beans, whether or not broken | 3,473 | 7.5% | 0% (MFN) | 41.2% | 1 | Paraguay (21.2%), US (19.5%), Canada (10.1%) |
| **270900** | Petroleum oils and oils obtained from bituminous minerals, crude | 2,763 | 5.9% | 0% (MFN) | 0.7% | 17 | Russia (34.5%), Norway (12.4%), Saudi Arabia (7.5%) |

* Beginning January 1, 2014, EU imports of this product from Argentina will pay the MFN rate of 5.7 percent.

## Table 6: Main EU Imports from Selected Latin American Countries, 2012 (continued)

| HS-6 code | Description | Value (US$ mm) | Share of Total EU Imports from This Origin | Tariff | Share of Total EU Imports of This Product (2011) | Ranking as EU Supplier of This Product (2011) | Main Competitors in the EU Market for This Product and Import Share (2011) |
|---|---|---|---|---|---|---|---|
| | | | | Ecuador | | | |
| **080300** | Bananas, including plantains, fresh or dried | 1,184 | 37.9% | 16% (MFN) | 28.5% | 1 | Colombia (27.4%), Costa Rica (16.7%) |
| **160414** | Tunas, skipjack and bonito | 513 | 16.4% | 24% (MFN) | 23.2% | 1 | Thailand (15%), Mauritius (11.9%), Seychelles (10.9%) |
| **030613** | Frozen shrimps and prawns | 426 | 13.6% | 12–18% (MFN) | 16.9% | 1 | Argentina (12.9%), India (11.9%), Bangladesh (10%) |
| | | | | Paraguay | | | |
| **120100** | Soya beans, whether or not broken | 836 | 83.7% | 0% (MFN) | 21.2% | 2 | Brazil (41.2%), US (19.5%), Canada (10.1%) |
| | | | | Uruguay | | | |
| **470329** | Pulp of non-coniferous wood | 208 | 15.0% | 0% (MFN) | 11.2% | 3 | Brazil (61.4%), Chile (15.5%), US (4.6%) |
| **120100** | Soya beans, whether or not broken | 187 | 13.5% | 0% (MFN) | 2.4% | 6 | Brazil (41.2%), Paraguay (21.2%), US (19.5%) |
| **020130** | Meat of bovine animals, fresh or chilled, boneless | 182 | 13.1% | 12.8% + 303.4€/100 Kg net (MFN) | 12.9% | 3 | Argentina (40.9%), Brazil (16.4%), US (12.9%) |
| **020230** | Meat of bovine animals, frozen, boneless | 118 | 8.5% | 12.8% + 221.1€/100 kg net (MFN) | 33.1% | 2 | Brazil (38.1%), New Zealand (13.1%), Argentina (9.9%) |

**Source:** Authors, based on UN COMTRADE and WTO Tariff Analysis Online (TAO) databases.

Progress in mega-regional negotiations underway, especially the TTIP, could also hasten the conclusion of the protracted FTA negotiations between the European Union and Mercosur.[7] One of the reasons is the risk of trade diversion. Conclusion of the TTIP and of the Canada-European Union FTA would make Mercosur agricultural exporters less competitive than their US and Canadian competitors in the European market and their EU competitors in the US market. For Argentina, Brazil, and Uruguay, this would be compounded by the loss of GSP benefits in the European Union beginning in January 2014.

The regulatory outcomes of the TTIP and TPP will, arguably, be much more important to Latin American countries than the results in terms of tariff cuts, especially since the Doha Round stalemate has undermined the rule-making role of the WTO. Given the status of the United States and the European Union as the world's main trade-rule makers, TTIP promises to bring new disciplines to emerging issues

[7] Both parties are expected to exchange market access offers before the end of 2013.

in global trade. If successful, the TTIP negotiations could set *de facto* global standards for issues as wide-ranging as the treatment of data flows, state-owned enterprises, environmental protection, trade in raw materials and energy, and so-called localization barriers to trade.[8] These standards, in turn, would have a profound impact on Latin America's trade.

In principle, greater regulatory convergence between the world's main trade powers could bring more uniform requirements and, therefore, lower transaction costs for third countries trading with those markets. At the same time, rules negotiated between highly developed partners are not necessarily the best or easiest to comply with for countries at lower development levels (see the next section). Latin American governments and firms could face market access difficulties and additional costs in meeting more demanding standards. At this stage, it is difficult to make general predictions since the situation will differ for every country, sector, and issue. Nevertheless, it is clear that the outcome of US-EU discussions on issues such as genetically modified crops, the use of hormones in livestock production, or the regulation of biofuels will have important implications for several Latin American countries.

Indirect effects of TTIP and TPP must also be taken into account. For example, successful conclusion of the TTIP would boost world output and trade through higher economic growth in the United States and the European Union. According to one study (CEPR, 2013), TIPP could increase global income by almost €100 billion. As of 2027, the net effect would be between 0.7 and 1.4 percent of the output of all countries not party to the agreement; potential trade diversion would be offset by the positive impact of lower non-tariff barriers and greater convergence of global standards. Using a computable general equilibrium model, Erixon and Bauer (2010) projected that under a dynamic scenario (taking into consideration productivity gains and lower trade costs), full liberalization of transatlantic trade could mean a 0.99 to 1.33 percent GDP gain for the United States and a 0.32 to 0.47 percent GDP gain for the European Union. Latin American countries would benefit through increased import demand in those large markets.

[8] These barriers are designed to protect, favor, or stimulate domestic industries, services providers, or intellectual property at the expense of imported goods, services, or foreign-owned or foreign-developed intellectual property (U.S.-EU High Level Working Group, 2013).

The TTIP and TPP processes will also affect Latin American countries' FDI inflows and outflows. This will be especially the case for countries that participate actively in international production networks and whose exports are relatively similar to those of TTIP and TPP members. Mexico stands out on both counts, given its deep involvement in US-centered industrial value chains. As a result of the TTIP, European FDI currently going to Mexico to use that country as an export platform to the United States (for example in the auto industry) could be relocated back to Europe.[9] The same could happen with FDI from the United States currently going to Mexico to benefit from its preferential access to the EU market. This is one of the reasons why it seems critical for Mexico to join the TTIP. Investment flows to Brazil, Latin America's other industrial powerhouse, should be less affected by the TTIP and TPP since most FDI in Brazil is aimed at its large domestic consumer market. However, this type of FDI may be technologically less sophisticated than that taking place within modern value chains and, thus, less likely to upgrade Brazilian production and exports.

## Possible impact of the TPP and TTIP on Latin American countries' policy space

A major feature common to the mega-regional negotiations underway is the emphasis on regulatory convergence. The goal of this concept, spearheaded by developed economies, is to reduce discrepancies between the regulatory regimes of countries in a trade negotiation. This can apply to both trade in goods (such as technical regulations on cars and chemicals and sanitary rules for agricultural products) and trade in services (including prudential standards for financial services). In the ongoing mega-regional negotiations, regulatory convergence is also being pursued in areas not traditionally associated with trade. These include environmental and labor regimes, the protection of personal data in the digital environment, the operations of state-owned enterprises, and the possibility of using capital

[9] In this scenario, relocation of FDI flows could benefit European countries that occupy a position similar to Mexico's in automotive value chains, such as the Czech Republic, Hungary, and Slovakia.

controls, among many others. These issues, in turn, have a bearing on important areas of public policy.

Latin American participants in mega-regional negotiations could find the policy space they currently enjoy much reduced as their regulatory regimes are pushed toward convergence with those of their developed negotiating partners. In this discussion, we focus mostly on examples from TPP negotiations, which are at a much more advanced stage than the TTIP talks. Also, unlike the TTIP, these negotiations include both developed and developing countries. As such, they provide greater insight into the main policy dilemmas facing the latter. Our analysis focuses on the areas of investment, financial services, intellectual property, state-owned enterprises, labor, environment, and the treatment of data flows.

Latin American participants in mega-regional negotiations could find the policy space they currently enjoy much reduced as their regulatory regimes are pushed toward convergence with those of their developed negotiating partners.

Regarding **investment**, the most controversial TPP issue so far has been Australia's opposition to an investor-state dispute settlement (ISDS) mechanism. Its position, maintained by the Labor government that was voted out of office in September 2013, was based on the Australian Government Productivity Commission's criticisms of the mechanism. The commission cited the possibility that the host state would be hesitant to regulate for fear of being sued in international tribunals (regulatory chill), as well as concerns about the arbitration process, including fear of institutional bias, conflicts of interest, lack of transparency, and excessive damage awards for foreign investors (Productivity Commission, 2010).

Latin American participants in the TPP accepted investor-state dispute settlement (ISDS) in their FTAs with the United States. Therefore, in principle, this should not be a sensitive issue for them. However, press reports indicate that the United States is seeking broader ISDS coverage in the TPP than in its current FTAs. For example, it is reportedly demanding that companies be allowed to bring investor-state challenges if a government breaches its obligations to provide MFN treatment, national treatment, and minimum standard of treatment to investments in financial services. These demands are said to have met strong resistance from TPP partners (World Trade Online 2013c).

The US position on capital controls is another area of concern for Latin American countries. In all its bilateral investment treaties (BITs) and FTAs, the United States has sought–and largely achieved—to constrain the ability of governments to deploy such controls, even if only temporary and done for purposes of financial stability (Gallagher 2010). In their FTAs with the United States, Chile, Peru, and Singapore secured some limited flexibility in applying capital controls under the so-called "cooling off" provision. With the provision, no claims can be filed against those countries (either state-to-state or investor-state) in relation to restrictive measures applied to payments and transfers for one year following their implementation.

There are indications that the US position within the TPP is to restrict as much as possible the space to implement capital controls (World Trade Online 2013a). This could even imply a reversal of the limited flexibility granted to Chile, Singapore, and Peru. This position seems paradoxical given the lessons from the recent world financial crisis, which heightened concerns about the potentially destabilizing role of volatile short-term capital flows. Even the International Monetary Fund, traditionally opposed to capital controls, has come to recognize their usefulness under certain circumstances in dealing with speculative capital flows (IMF 2011).

Closely related to the issue of capital controls is that of **financial services**. In the context of the TTIP, the European Union wishes to address areas in which the regulatory framework is different on either side of the Atlantic. However, the United States has indicated that it prefers to hold these talks in other forums, such as the International Organization of Securities Commissions (IOSCO) (World Trade Online 2013d). It may be harder to achieve strong, enforceable results in IOSCO than in the TTIP, given the former's large and diverse membership and its non-binding character.

The reported US positions on capital controls and financial services appear highly ideological, placing freedom of movement for international capital above prudential regulation. Well-known advocates of free trade, like Professor Jagdish Bhagwati, have repeatedly questioned according the same treatment to trade and financial flows, given the latter's potentially destabilizing nature. The US positions not only fail to reflect the lessons learned from the recent world financial crisis but, more importantly, they may limit the space for undertaking a meaningful reform of the world's financial architecture in line with G20 leaders' pledges in the immediate aftermath of the crisis.

Overall, Chile, Mexico, and Peru had to make economically and politically costly concessions on intellectual property rights in their FTAs with the United States. It could be problematic for them if the TPP carries new and even more demanding obligations, especially since their impact on those countries' ability to design and implement a range of important public policies remains unclear.

Since the 1980s, the United States has pursued a strategy of steadily increasing **intellectual property** (IP) protection in its FTAs; thus the last agreement negotiated becomes the *de facto* baseline for the next one. This reflects the economic importance and political clout of creation- and knowledge-based industries in the United States. As a result, IP protection levels in US FTAs increasingly exceed those set out in the WTO's TRIPS Agreement. The US position in the TPP is consistent with that trend. However, to a greater or lesser extent, most participants have defensive sensitivities in this area. This chapter is, thus, seen today as the most controversial in the negotiations.[10]

The interaction between IP protection and public health has traditionally been contentious. The United States has proposed a mechanism in the TPP that would offer pharmaceutical companies a set of benefits if they seek approval to bring new medicines to the market within an agreed time frame or "access window" (USTR, 2011a). According to the United States, this mechanism would expedite access to generic medicines, presumably at a lower cost than the original medicines. However, the proposal has met strong resistance from other TPP partners. In Latin America, a coalition of civil society organizations has publicly rejected several components of the US proposal, arguing that they would have a negative effect on public health. These components include mandatory patent linkage and the proposed extension of patent terms to compensate for perceived delays in the patent prosecution or regulatory approval processes and (LAC-Global Alliance for Access to Medicines 2013).[11] According to reports, positions remained far apart in this area as of December 2013.

Copyright protection in the digital environment is another controversial IP issue. The United States seeks to include in the TPP provisions that make Internet service providers responsible for removing content that may infringe on copyrights (such as music, films, or literary works) upon being notified by the copyright holder. In this area, it is critical that an appropriate balance be found between IP protection and the pursuit of fundamental goals, such as freedom of expression and access to culture and knowledge. Access to Internet content is extremely important in a global economy where knowledge and innovation drive competitiveness. Latin America's recent progress in increasing Internet coverage will stop short of having a real impact

[10] Armstrong (2013) argues that strengthening IP protection through the TPP would actually entail the transfer of wealth from the less developed participating countries to the more developed ones.

[11] The United States faces its own difficulties regarding patents. In August 2013, President Barack Obama vetoed a June 2013 ruling by the International Trade Commission that had found older Apple devices infringed upon Samsung patents. This decision calls into question the stringent disciplines that the United States is pursuing in the TPP. See the August 4, 2013, *Financial Times* article, "Apple import veto risks undermining patent protection push."

on growth and equality if access to digital content becomes more restrictive.

Overall, Chile, Mexico, and Peru had to make economically and politically costly concessions on intellectual property rights in their FTAs with the United States. It could be problematic for them if the TPP carries new and even more demanding obligations, especially since their impact on those countries' ability to design and implement a range of important public policies remains unclear.

The United States has pushed to include strong disciplines on **state-owned enterprises** (SOEs) in the TPP. The goal is an environment of competitive neutrality in which state-owned firms do not receive benefits beyond those granted to their private-sector competitors. Such benefits may include subsidies and loans on preferential terms, the right to provide certain services on an exclusive or preferential basis, or privileged access to government procurement. There is no clarity on the scope of the rules being negotiated on SOEs. This is a particularly complex issue for TPP countries in Asia, where state-owned firms play an important role in the economies. Among notable examples are mail service Japan Post, Malaysian oil company Petronas, and sovereign wealth fund Temasek in Singapore. In Vietnam, SOEs account for nearly 40 percent of GDP (Fergusson and others, 2013).

TPP commitments could also affect the operations of major SOEs in participating Latin American countries. SOEs affected may include the National Copper Corporation (Codelco) and the National Mining Corporation (Enami) in Chile, Petróleos Mexicanos (Pemex), and Petróleos del Perú (Petroperu). The commitments would also affect new SOEs these countries create. Under that scenario, public companies from several countries could be put at a *de facto* competitive disadvantage with US agricultural firms (which benefit from substantial public subsidies) as well as US banks and financial institutions that received massive funding under bailout programs after the outbreak of the global financial crisis in 2008. The content of this chapter is also relevant to any future decision by China to join the TPP, given SOEs' large role in the Chinese economy.

The US proposal on **environment** issues is significantly broader in scope than in previous FTAs, which generally reflect only a commitment by the parties to ensure effective enforcement of their own environmental legislation. In the TPP, the United States has proposed adding binding commitments in the area of conservation, including provisions to combat illegal trade in plant and animal species, illegal logging, and overexploitation of fisheries (USTR, 2011b). It has also proposed that the obligations set forth in the environment chapter of the TPP be subject to the agreement's general dispute settlement mechanism, opening the door to trade sanctions for non-compliance. Several participants, particularly developing countries, have put up resistance to this approach.

> Trade agreements are not the most appropriate instrument for regulating what is (and is not) acceptable labor and environmental protection. This is even more the case of agreements—like the TPP and the TTIP—that are negotiated outside the multilateral framework.

Discussions of a TPP **labor** chapter bring similar reactions. There is strong pressure in the United States for the agreement to establish stringent and legally binding labor disciplines, especially in view of competition from Vietnam in sectors such as clothing and footwear. Vietnam's competitiveness in these sectors is based largely on low wages and labor practices that fall short of the standards in other TPP participating countries. The US proposal requires that TPP members ensure the effective enforcement of their respective national laws and also comply with the rights covered by the 1998 ILO Declaration on Fundamental Principles and Rights at Work.[12] As with the environment chapter, the United States has proposed that the labor chapter of the TPP be subject to the general dispute settlement mechanism,

[12] This is despite the fact that the United States has ratified only two of the ILO's eight core conventions: No. 105 on the Abolition of Forced Labor and No. 182 on the Elimination of the Worst Forms of Child Labor.

including the possibility of trade sanctions. This has been met with resistance from several other participants, especially developing countries. Canada reportedly has sought to break the impasse by proposing an alternative mechanism whereby breaches under the labor chapter result in fines rather than trade sanctions (World Trade Online, 2013b).

Developing countries' resistance to subjecting labor and environment provisions to full dispute settlement is understandable. These are two sensitive issues not yet covered (for the most part) by WTO rules. There is ample scope for protectionist abuse of those provisions in trade agreements, especially when dealing with trade between countries at different development levels. Furthermore, trade agreements are not the most appropriate instrument for regulating what is (and is not) acceptable labor and environmental protection. This is even more the case of agreements—like the TPP and the TTIP—that are negotiated outside the multilateral framework.

The United States wants to include provisions in the e-commerce chapter to ensure the **free cross-border flow of data**. To this end it has proposed prohibiting the blocking of cross-border data flows over the Internet and barring countries from requiring that servers be located within their territory as a condition for companies to do business there. Australia and New Zealand have indicated that the US proposal could contradict their own personal data privacy laws. Malaysia and Vietnam allegedly apply restrictions to the free cross-border transfer of data over the Internet and might also be reluctant to accept the US proposal (Fergusson and others 2013). This issue has taken on a high political profile in recent months, including in Latin America, following reports that Google, Twitter and Facebook gave US security agencies access to their users' personal data. This is another chapter that is especially relevant should China want to join the TPP in the future.

Summing up, US demands on several issues carry potentially important public policy implications for countries participating in the TPP. Furthermore, those demands do not appear in keeping with the US defensive position in other areas. For example, the United States has so far appeared reluctant to fully open up sensitive sectors such as clothing, footwear, automobiles, dairy, and sugar. And it remains unclear to what extent the United States is prepared to open its government procurement processes to TPP partners, especially at the sub federal level. Other issues of great interest to Latin American and other developing countries do not seem to even be a part of the TPP talks. Among these topics are US agricultural subsidies and antidumping practices and the possibility of easing US market access to developing country services providers who are natural persons (the so-called "mode four" of supply). All this calls into question the stated goal of achieving a high standard agreement for the 21st century. An agreement that appears biased toward US interests will be difficult for TPP partners to sell politically at home and will hold little interest for potential candidates from Asia (and Latin America), thus defeating its stated long-term vision.

As long as the Latin American market remains fragmented by multiple agreements with different rules, it will be difficult for the region to increase its participation in modern value chains. The most important effect of mega-regional negotiations on Latin American integration could be to encourage deeper forms of trade and economic integration.

## Possible impact of the TTIP and TPP on Latin American regional integration

Regional integration, the development of production networks, and the ongoing mega-regional negotiations are closely inter-linked. Regional integration efforts in Europe, North America, and East Asia have sparked and reinforced the development of regional production networks. These, in turn, have created demands for more sophisticated forms of governance that the-mega regional negotiations aim to provide. In contrast, regional economic integration in Latin America has historically focused on the removal of tariffs, showing much less progress on behind-the-border issues such as trade in services, investment, government procurement, and harmonization or mutual recognition of technical standards. This is especially the case in South America which, in part due to its rich natural resource endowment, is less integrated in international production networks than Mexico and Central America (ECLAC 2013). Moreover, Latin America presents serious deficiencies in physical infrastructure (especially transportation) and logistical services, further complicating cross-border production linkages.

As long as the Latin American market remains fragmented by multiple agreements with different rules, it will be difficult for the region to increase its participation in modern value chains.[13] The most important effect of mega-regional negotiations on Latin American integration could be to encourage deeper forms of trade and economic integration. The establishment in 2012 of the Pacific Alliance seems to point in this direction. Its current members (Chile, Colombia, Mexico, and Peru) aim to build on their existing bilateral FTAs to create a "deep integration area" characterized by the free circulation of goods, services, capital, and people. However, this new integration project faces the challenge of differentiating itself from the TPP since three of its members (Chile, Mexico, and Peru) also participate in the TPP, while the fourth (Colombia) has declared its interest in eventually joining it.[14] This membership overlap between the two processes (both of which are works in progress) raises potentially important challenges for the members of the Pacific Alliance. Broadly speaking, the substantive content of the Pacific Alliance may be constrained by the commitments that Chile, Mexico, and Peru eventually adopt in the TPP.

Mega-regional agreements may also infuse a greater sense of urgency in efforts to gradually converge Latin America's different economic integration schemes and trade pacts. One positive development in this regard is the recent, single FTA between Mexico and the five Central American countries. It replaces the three FTAs that previously linked these six countries. The new FTA should reduce transaction costs for firms and promote stronger production linkages in Mesoamerica.

Yet another way in which mega-regional negotiations may contribute to closer integration of production among Latin American economies is through cumulation of origin. As already mentioned, many Latin American countries have FTAs with the United States and with the European Union. However, these agreements (especially those with the United States) tend to be hub-and-spokes arrangements, meaning that two Latin American countries with bilateral FTAs with the United States cannot freely cumulate origin with each other when exporting to the US market. This outdated bilateral logic goes against the value-chain notion that underpins mega-regional negotiations. All Latin American countries with FTAs with the United States should push for full cumulation of origin among themselves; those with FTAs with the European Union should do the same.

## Conclusions

The mega-regional negotiations underway will likely have a profound impact on the geographical distribution and governance of global trade and investment flows in the coming years. The magnitude of these initiatives could mean that by 2020 the rules of international trade will have been largely rewritten. However, such a scenario would differ substantially from the most recent global negotiation of this kind (the GATT Uruguay Round, completed in 1994) in that this time the new rules would have been negotiated outside the multilateral framework and among a limited number of countries. This prospect by

The mega-regional negotiations underway will likely have a profound impact on the geographical distribution and governance of global trade and investment flows in the coming years.

[13] There are also key missing links in Latin American economic integration. Most notably, there is no comprehensive FTA between Brazil and Mexico, the region's two biggest economies.

[14] Costa Rica, which is set to become the Pacific Alliance's fifth member, has also declared its interest in joining the TPP.

itself should be a matter of concern for Latin American countries, which—with few exceptions—are largely absent from both international production networks and mega-regional negotiations.

Mega-regionalism's implications for Latin America are varied and complex. If these negotiations are successfully concluded, the magnitude, composition, and direction of Latin American countries' trade (and investment) flows are likely to change. The impact on countries involved in mega-regional negotiations (such as Chile, Mexico, and Peru in the TPP) will be different from the impact on non-participating countries. Effects will also depend on the composition and geographic structure of each country's trade, its FTA network, and other factors. For each country, a detailed, product-by-product analysis of exports to the US and EU markets is essential for identifying trade creation and diversion that might result from the TTIP or TPP. This assessment, which should incorporate the growing importance of international production networks in world trade, requires more depth and analysis than is presented in this brief.

Since the TTIP and TPP share a strong emphasis on regulatory convergence, the outcomes of both negotiations in that area will arguably be more important to Latin American countries' trade than the results in terms of tariff cuts.

Since the TTIP and TPP share a strong emphasis on regulatory convergence, the outcomes of both negotiations in that area will arguably be more important to Latin American countries' trade than the results in terms of tariff cuts. This should be especially true given the WTO's currently diminished rule-making role. In particular, the TTIP holds potential to shape new rules on emerging issues in global trade, given the strong rule-maker roles of the United States and the European Union. Thus, the outcome of TTIP discussions on issues such as the marketing of genetically modified crops, the use of hormones in livestock production, or the regulation of biofuels will have important implications for several Latin American countries. At the same time, issues of great interest to them, such as the agricultural subsidies of developed countries, are not on the agenda of current mega-regional agreements. The WTO remains the only forum for reaching agreements on these issues.

Along with their impact on trade and investment flows, the TTIP and TPP processes will likely affect Latin American countries' ability to carry out important public policies. In many cases, the result would be a reduced policy space. The new disciplines being negotiated on issues such as intellectual property, capital flows, state-owned enterprises, labor, and the environment are some examples. Latin American countries involved in mega-regional negotiations will directly feel the impact of these new rules; countries that do not participate in such processes will likely feel their effect indirectly, as the outcomes of mega-regional negotiations may well form the basis for future multilateral negotiations.

In the final analysis, mega-regional negotiations aim to establish governance mechanisms that respond to the changing nature of global production, trade, and investment. The international production networks based in North America, Europe, and East Asia are one of the most visible examples of that transformation. However, production is much less integrated among Latin American economies, and economic integration agreements are shallower. Mega-regionalism, therefore, challenges Latin America to deepen its own regional integration as a means to upgrade its insertion into the global economy. This calls not only for renewed efforts on the trade front but also for increased cooperation on key areas such as science, innovation, logistics, and infrastructure.

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