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LATIN AMERICA: TPP will be ratified

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Abstract

Agreement on the Trans-Pacific Partnership (TPP) represents the most ambitious multilateral negotiating experiment since the breakdown of the Doha round of global trade talks. For Latin American signatories, the importance is as much geopolitical as economic, further tying them to pro-business trade and investment strategies.

Full Text

EVENT: Agreement on the Trans-Pacific Partnership (TPP) represents the most ambitious multilateral negotiating experiment since the breakdown of the Doha round of global trade talks. For Latin American signatories, the importance is as much geopolitical as economic, further tying them to pro-business trade and investment strategies.

ANALYSIS: Impacts.

Governments will have 24 months to introduce TPP regulations into domestic legislation.

If ratified, the TPP will deepen divisions within Latin America over laissez-faire economics.

Anti-TPP groups will campaign vigorously but are unlikely to gain sufficient traction to prevent its approval.

The final agreement on the terms of the TPP has been warmly welcomed by the three Latin American governments which have been involved in negotiations: Mexico, Chile and Peru.

The agreement also involves Australia, New Zealand, Indonesia, Malaysia, Singapore, Vietnam, Japan, Canada and the United States.

The deal was struck on October 5 in Atlanta, and forms a key part of the trade strategy of US President Barack Obama's administration. Formal discussions began in 2010. The agreement contains 30 provisions relating to the environment and labour matters as well as rules guiding trade, investment and respect for intellectual property (IP).

Unlike previous multilateral trade deals, the agreement was negotiated under a cloak of secrecy. Critics have rounded on the way in which the agreement was negotiated without public consultation.

Details are yet to be made public though Wikileaks has published what it says is the chapter on IP rights.

The three Latin American countries already have free trade agreements with many of the Asian and North American signatories. All three have long sought to diversify towards Asian countries.

Mexico became the first Latin American country to join APEC in November 1993, followed by Chile in November 1994 and Peru in 1998. Since then, the volume of their trade with Asia has increased hugely, particularly with China (a country excluded from the TPP).

A network of trans-Pacific free trade agreements (FTAs) has come into existence on the basis of agreements forged within APEC.

Trade and investment.

All three countries expect the TPP substantially to increase trade and investment across the Pacific over the next few years and the relative dynamism of the Asian economies to boost Latin America's sluggish economic growth (see LATIN AMERICA: Growth pessimism gains ground - August 3, 2015).

Mexico.

Mexico has long seen Asia as important in reducing its economic dependence on the United States. However, the US market -- into which Mexico has been integrated since the signing of NAFTA in 1994 -- accounted for 74% of Mexican exports in 2014.

The TPP may help open new overseas markets for Mexican producers, but the United States will remain by far Mexico's most important export market.

The official estimate that TPP will increase Mexico's exports by 150 billion dollars in five years may prove over-optimistic, and even if achieved the causality will remain unclear.

Mexican authorities believe that the TPP will provide an important fillip to high-tech investment by Asian companies, providing enhanced access to the US market.

It would provide extra dynamism to manufacturing, particularly in the all-important auto industry, though it may mean imports displacing local production.

Chile .

Chile is among the countries that have been most aggressive in signing free trade agreements in recent years, many of them with fellow TPP countries.

Unlike Mexico, its dependence on minerals (principally copper) rather than manufactures for its exports may reduce the importance of the TPP, though the government trusts that it will assist trade diversification and help

the country raise their added value.

Chile's top destination for exports in 2014 was China, of which 70% was refined copper or copper ores and concentrates. With the exception of Japan, TPP destinations were relatively small.

One of the sticking points in negotiations was over the extension of pharmaceutical patents, a point on which concessions were demanded by United States.

Peru.

As is the case with Chile, Peruvian exports are highly concentrated on minerals (particularly copper and gold) and the TPP is unlikely to provide much of an extra stimulus for these products for which China is the most important market.

Far more important than trade preferences in determining the value of exports are commodity prices.

Peru can expect to increase sales of specific manufactures, such as alpaca garments, but at the same time increased imports of cheaply-made garments from countries such as Vietnam will add to competitive pressures on local textile and clothing industries both in the domestic and foreign markets.

In the negotiations, Peru -- like Chile -- failed to reduce pharmaceutical patent protection and thereby reduce the cost of drugs to the local health system.

Geopolitical implications.

The TPP will reinforce divisions within Latin America between those countries signed up to the Pacific Alliance (chiefly those now adhering to the TPP less Colombia) and those belonging to Mercosur and other blocs such as ALBA see LATIN AMERICA: ALBA malaise may boost Mercosur - September 1, 2015).

The Pacific Alliance has grouped together those countries with more liberal economic strategies geared to attracting foreign investment, and those that have remained most closely aligned to the United States in their foreign policies.

In recent years, these have tended to be more dynamic in their growth patterns. The Mercosur countries (Brazil, Argentina, Paraguay, Uruguay and Venezuela) have maintained more protectionist policies while veering away from the United States in their foreign policies.

It is likely that some countries -- notably Colombia (never a member of APEC) and possibly some Central American economies -- will seek inclusion in the TPP in future.

The TPP will also serve to provide further guarantees against Latin American countries deviating far from the liberal policies they have pursued over the last decade or two. This will provide added guarantees to foreign firms investing in them, ensuring that agreed procedures are used for the resolution of disputes.

Ratification.

Parliaments in all three Latin American countries will probably ratify the TPP within the timetable set out under the agreement.

The ruling Institutional Revolutionary Party (PRI) in Mexico enjoys a solid majority in Congress, and the TPP is likely to be supported too by the opposition National Action Party (PAN).

President Michelle Bachelet's administration in Chile can count on sufficient support to attain approval in Congress, with centre-right opposition groups supporting what is seen as a measure that will promote

business and foreign trade.

Unless there is an unexpected surge on the left in the 2016 Peruvian elections, there will be a solid majority of centre-right parties in Congress with business support that will ensure passage of the necessary legislation.

The greater danger to the TPP's ratification therefore appears to come from elsewhere, notably the United States and Canada (see EAST ASIA: TPP will unsettle regional relations - October 7, 2015).

CONCLUSION: Opposition from certain sectors is likely, but the parliaments of Mexico, Chile and Peru will probably ratify the agreement. As its specifics become clear and countries engage in providing detailed regulations to make it operative, the economic implications will become easier to assess.

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