



The Pacific Alliance

A bright spot in Latin America
May 2014

Passion to Perform

Agenda



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What is it about?

2

Combined strengths

3

Challenges ahead

What is it about?

A “next generation” free trade agreement



— Goals:

- Free circulation of goods, services, capital and persons.
- Foster growth, development and competitiveness.
- Increase ties to the world, especially to Asia-Pacific.

	No. of FTAs	No. of FTA partners	Trade openness**
Chile	16	54	56%
Colombia	7	39	31%
Mexico	12	44	64%
Peru	13	46	41%
Pacific Alliance*			55%

*Pacific Alliance: GDP-weighted average

**Trade openness: Exports and imports of goods in % of GDP

Sources: Deutsche Bank Research, IMF DOTS, IMF WEO, national authorities

What is it about?

A “next generation” free trade agreement



- Milestones:
 - April 2011: Lima declaration
 - June 2012: Framework Agreement signed
 - January 2014: Tariff elimination
- International attention:
 - **Candidate countries:** Costa Rica (ready to join), Panama
 - **30 observer countries**, including: Canada and the US; Dominican Rep., Ecuador, El Salvador, Guatemala, Honduras, Paraguay, Uruguay; Spain and other Western European countries; Australia, China, India, Japan, Korea, Singapore.

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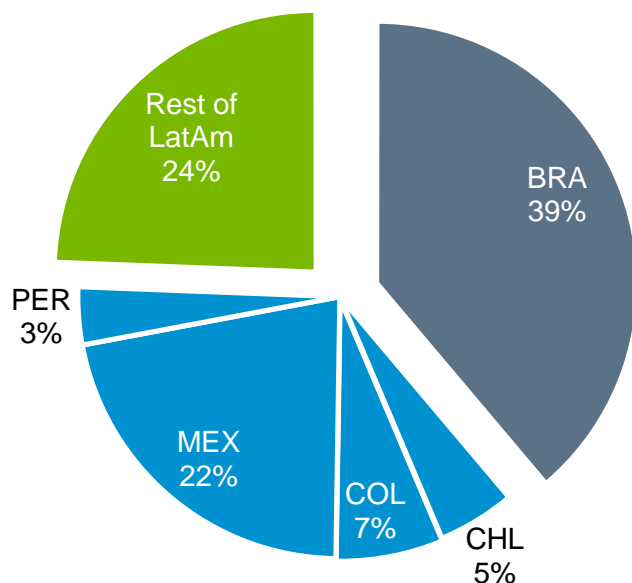
Challenges ahead

Combined strengths Growing weight in Latin America



The Pacific Alliance accounts for 37% of LatAm's GDP

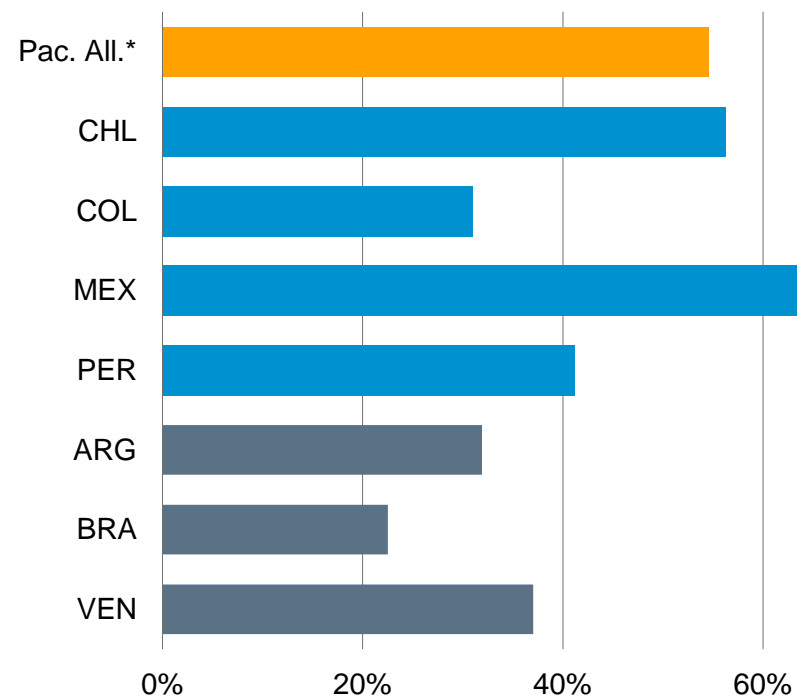
% of LatAm regional GDP in USD, 2013



Sources: IMF WEO, Deutsche Bank Research

An alliance of open economies

Imports and exports in % of GDP, 2013



*Pacific Alliance: GDP-weighted average

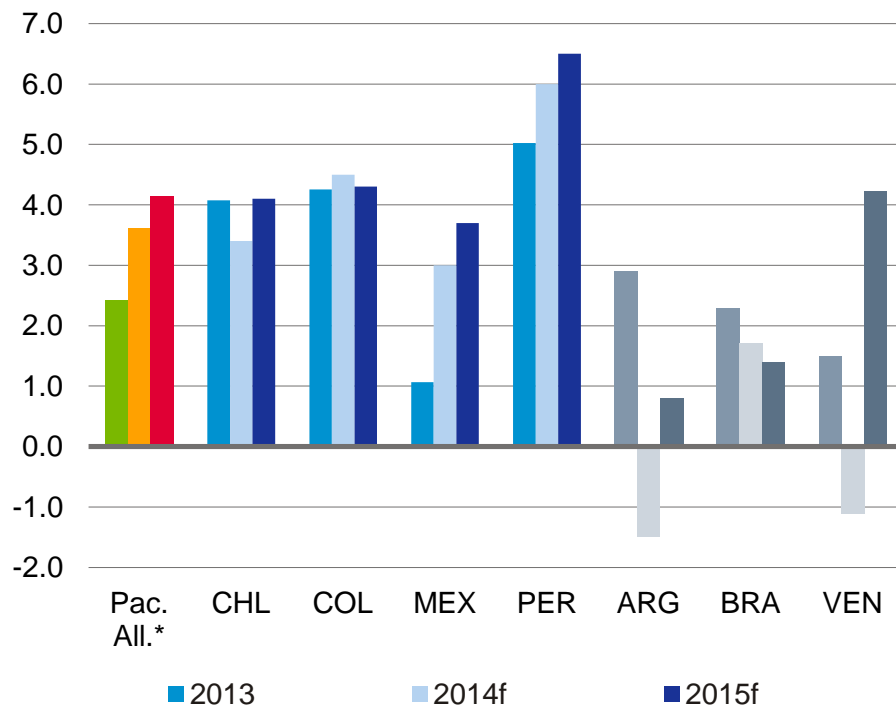
Sources: IMF DOTS, IMF WEO, Deutsche Bank Research

Economic growth outperforms the regional average



Favorable growth prospects

Real GDP growth, % yoy

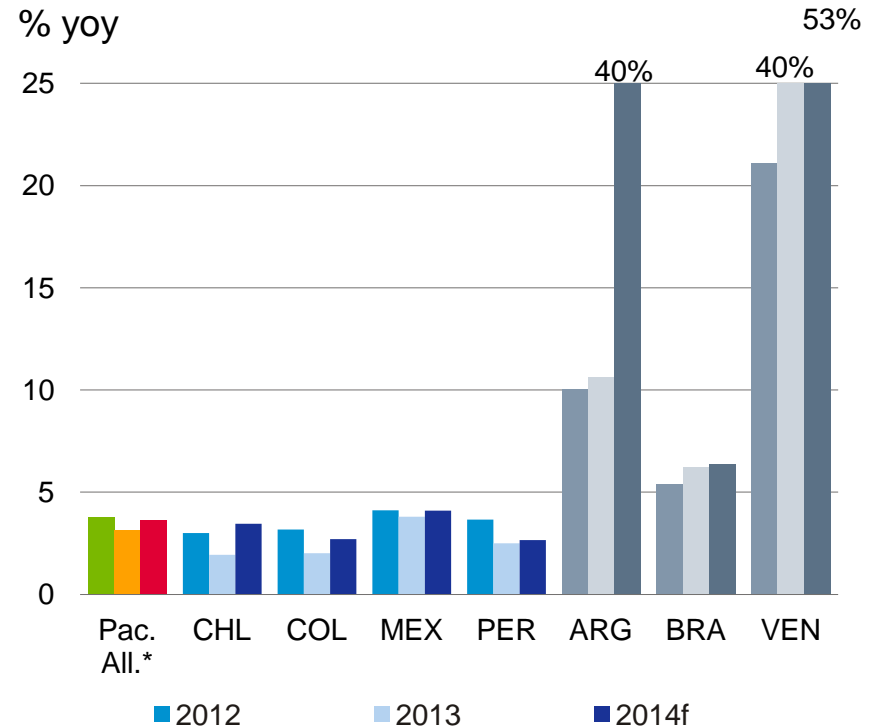


*Pacific Alliance: GDP-weighted average

Source: Deutsche Bank Research

Inflation under control

% yoy



*Pacific Alliance: GDP-weighted average

Source: Deutsche Bank Research

Combined strengths Investment climate is positive



Economy	Ease of Doing Business Rank	LatAm Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Chile	34	1	22	101	43	55	55	34	38	40	64	102
Peru	42	3	63	117	79	22	28	16	73	55	105	110
Colombia	43	4	79	24	101	53	73	6	104	94	155	25
Mexico	53	5	48	40	133	150	42	68	118	59	71	26
Brazil	116	23	123	130	14	107	109	80	159	124	121	135
Argentina	126	27	164	181	80	138	73	98	153	129	57	97
Venezuela	181	33	157	110	167	95	130	182	187	173	92	165
	Out of 189	Out of 33										

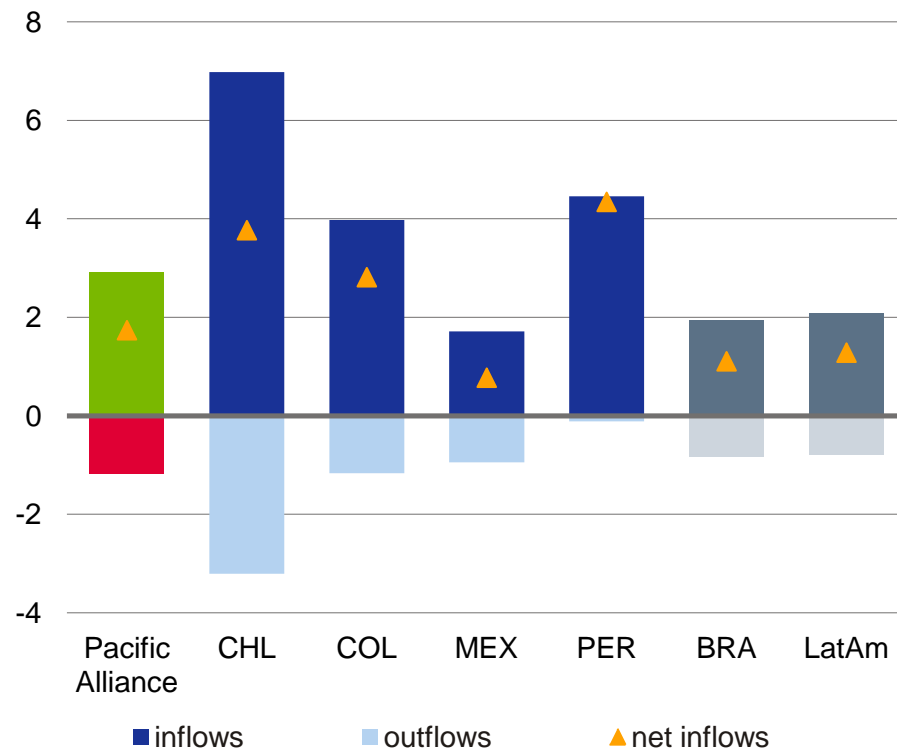
Sources: Deutsche Bank Research, World Bank "Ease of Doing Business" Report 2014

Combined strengths Above-average foreign direct investment



High FDI inflows relative to GDP...

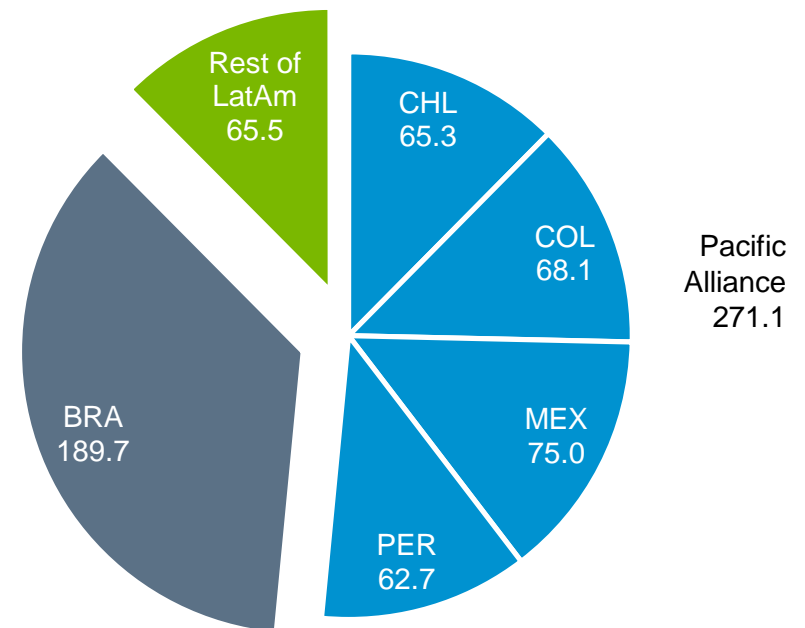
Avg. annual FDI inflows in % of GDP, 2004-2013



Sources: Deutsche Bank Research, IIF

... and in absolute numbers

Net FDI inflows in the last decade, USD bn



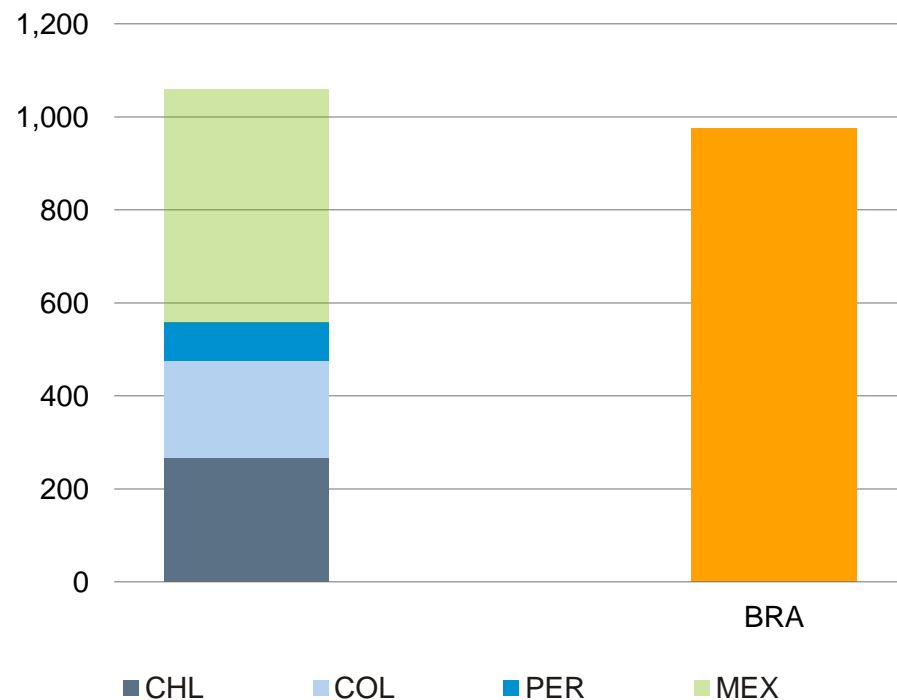
Sources: Deutsche Bank Research, IIF

Nascent financial integration – MILA



Mexico will add weight to MILA*

Stock market capitalisation end-2013, USD bn



*Mexico is expected to join the platform this year

Sources: Bloomberg Finance LP, Deutsche Bank Research

- Shared point of access to the countries' stock markets
 - Broader investor base for issuers
 - Higher diversification and liquidity for investors
- Once Mexico joins, market cap will compete with that of Brazil's stock market
- But trading volumes remain much lower

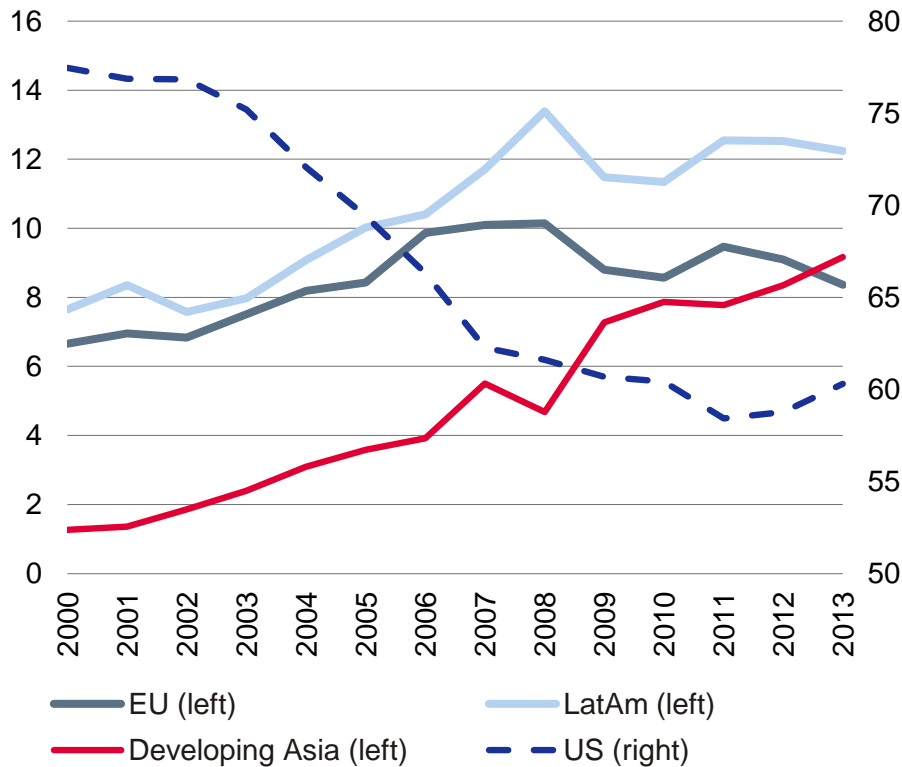
Combined strengths

Rising trade focus on Asia-Pacific



Exports to Asia on the rise

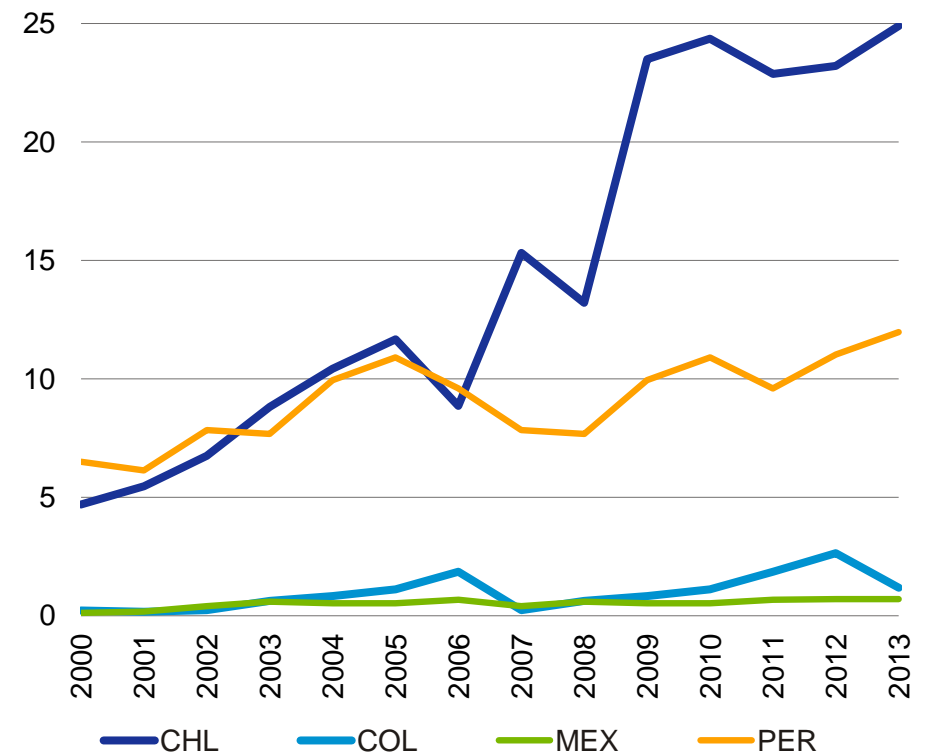
Pacific Alliance export shares by region, %



Source: IMF DOTS, Deutsche Bank Research

Chile & Peru lead exports to China

in % of total exports by country



Sources: IMF DOTS, Deutsche Bank Research

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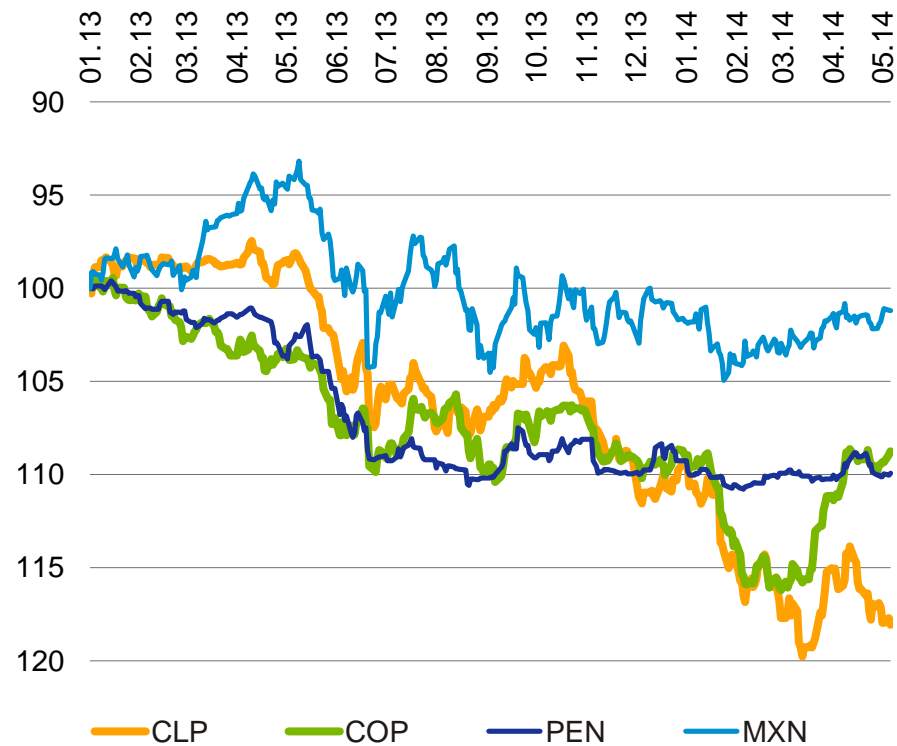
Challenges ahead

Worsening external environment



Vulnerable currencies

index, 01/01/2013 = 100

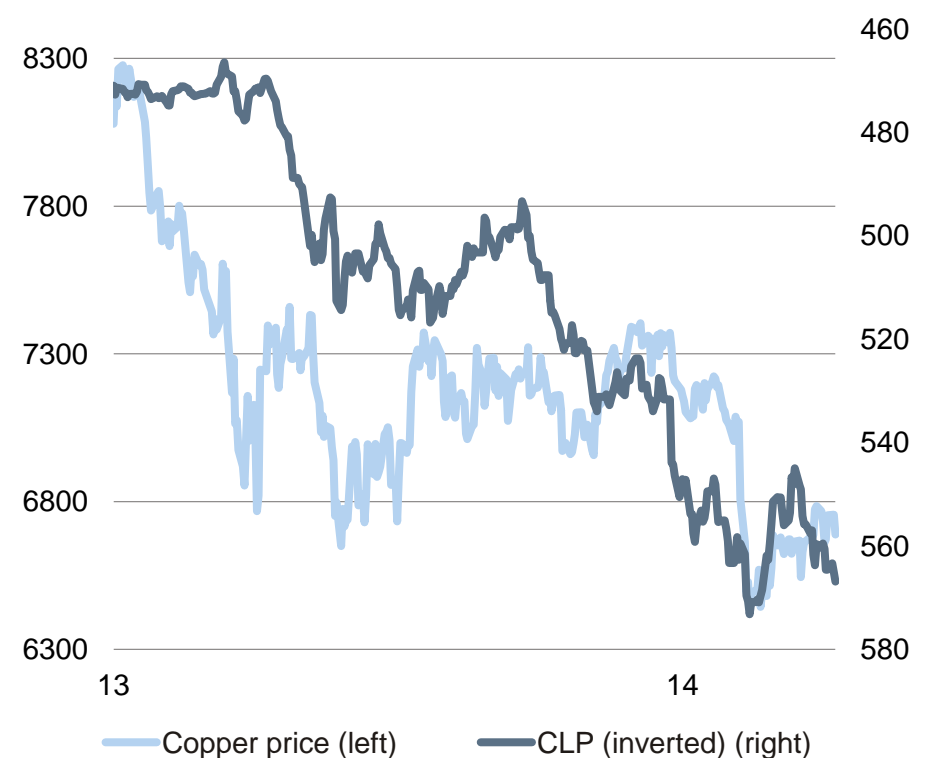


Sources: Deutsche Bank Research, IHS Global Insight

Copper price decline hurts CLP

USD/t

CLP/USD



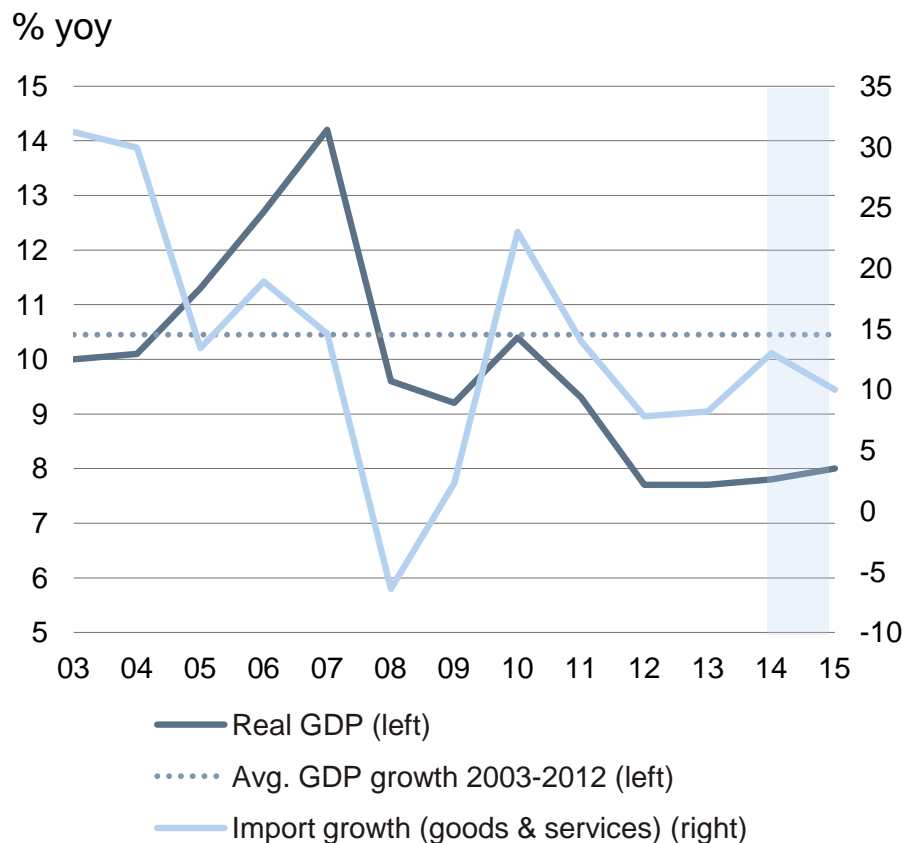
Sources: Deutsche Bank Research, IHS Global Insight

Challenges ahead

Worsening external environment

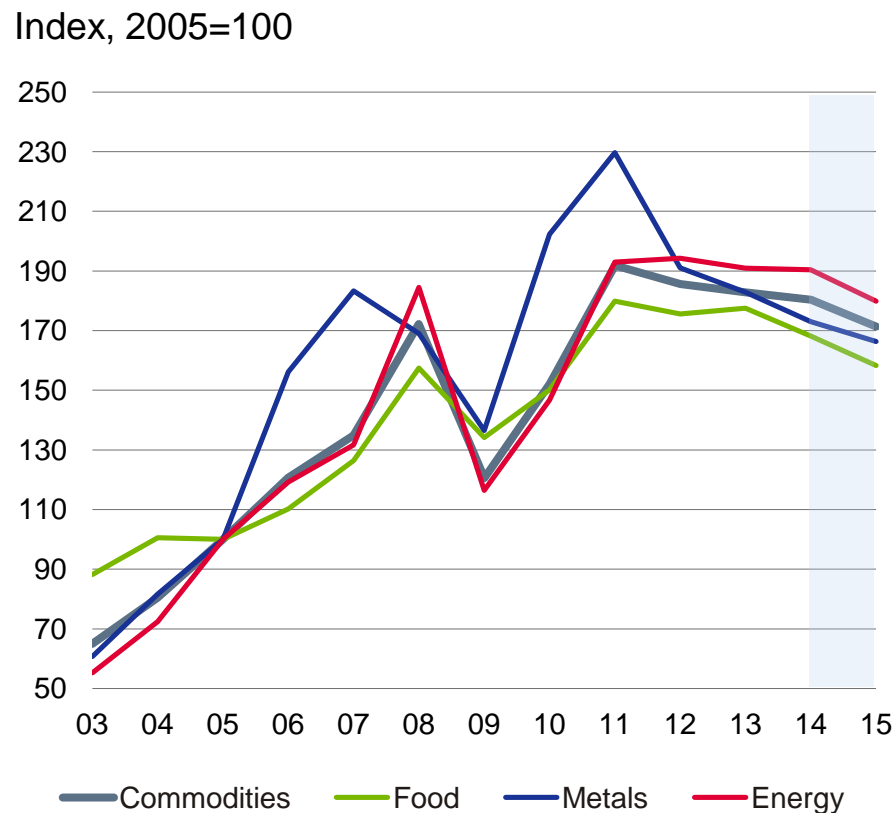


China slowing down



Sources: Deutsche Bank Research

Commodities prices soften



Sources: IMF WEO, Deutsche Bank Research

Challenges ahead

Commodity export dependence



2012	Commodity exports (% share of total exports)			Manufactured goods exports (% share of total exports)
	Food & agricultural raw materials	Ores, metals & gold	Fuels	
Argentina	54.7%	7.0%	6.3%	32.0%
Brazil	36.5%	17.7%	11.2%	34.6%
Chile	24.2%	61.6%	0.9%	13.3%
Colombia	11.0%	6.9%	65.7%	16.3%
Mexico	6.2%	6.0%	14.3%	73.5%
Peru	19.7%	55.1%	12.9%	12.3%
Venezuela	1.2%	2.3%	82.1%	14.4%

Sources: UNCTAD, Deutsche Bank Research



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