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The Importance of Regional Integration in Latin America: A Case Study of the Pacific Alliance, Its Regulatory Frameworks and Investment Incentives[1]

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ABSTRACT

The Pacific Alliance was created in 2011 with a concept and ideology different from the diverse Regional Integration Organizations in Latin America. It is an instrument of growth for its member countries, and it is important in a global context as it accounts almost 40% of GDP in the Latin American region, attracting 45% of foreign direct investment (FDI) to the region. Its comprehensive economic concept, far from a political vision, has drawn attention to its trade interests in the Asia region. Nine years after its creation, the Alliance has succeeded in consolidating a trade bloc aiming towards a new trade era for Latin America, supported by geo-economic factors with a view to strengthening relations with Asia-Pacific as a region. This article develops an analysis of the current commercial strategy towards Asia Pacific; provides and overview of potential challenges for the Alliance in the short and long term; and reviews the tax, commercial and investment structures of the Pacific Alliance's four member countries, as well as a regulatory analysis of Panama—a candidate for membership of the Alliance.

Keywords: Pacific Alliance; investment regimes; foreign investment; market access; Asia.
JEL Classification: F02, F13, F53.

1.0 Introduction

The concept of economic integration started to be relevant in the early twentieth century but its implementation between countries was initially not successful given the political impediments at that time.

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1 This article is available in Spanish Language at: Cerón Z, P. V., Pérez, M., & Serrano, R. (2021). Regímenes e Incentivos a la Inversión de los países Alianza Pacífico. En D. Bonilla-Calle, Entorno Global de las Organizaciones: Estrategias para la Internacionalización Empresarial (p. 137-168). Sabaneta: Fondo Editorial CEIPA.
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Nevertheless, it was just before the Second World War that it gained importance, especially in European countries (Balassa, 1961), which resulted in the leading economic and political union (i.e. the European Union), that would later be promoted as guidance model. According to Malamud (2011), the regional integration process is comparable to state-building, nevertheless, its final outcome is undetermined since it can assume diverse shapes and manifestations. In the case of the Latin American countries, for several years now, the creation of associations, alliances, or blocs between them has been taken place to promote agreements and to collaborate on topics as trade, economy, politics, environment, and many others, resulting in well-known engagements such as the Andean Community (CAN), the Caribbean Community (CARICOM), Mercosur and the Pacific Alliance (PA). Despite these cases, history recalls the failed efforts of the 1960s, when the creation and implementation of the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM) were not as successful as expected (Economic Commission for Latin America and the Caribbean, 1998).

According to the Economic Commission for Latin America and the Caribbean -ECLAC- (2020) since 1960, there have been four phases of regional economic integration in the region. The first one was from 1960 to 1980 with the emphasis to "Overcome the limitations imposed by the small domestic markets of several countries", and the second one, from 1990 to 2005, the open/new regionalism arrived with the creation of Mercosur (1991) and the Andean Free-Trade Zone (1993), whose goal was to "Improve the region's participation in a globalized economy". Next, the post-liberal regionalism/post-hegemonic regionalism (2005–2015) followed, where the strategies were focused on going beyond the trade integration; and finally, the last phase after 2015, also known as the Convergence, because it opened the possibility of cooperation between two economic blocs with the purpose of "recover[ing] economic growth and promot[ing] production linkages". It is notable that the integration between Latin American countries has become relevant not just in terms of trade, but also relative to matters of freight logistics, infrastructure development (Guerrero, Lucenti, & Galarza, 2010), digital government, or digital ecosystem to leverage their performance, as it is the case of the Pacific Alliance. This article focuses on the main economic characteristics of this integration group, due to the fact that since its creation, this bloc has experienced exponential and remarkable growth in its trading and investment flows, achieving a solid integration, and making visible very different strategic goals compared to the other associations.

This article aims to describe the Pacific Alliance and analyze how it has been able to develop and consolidate a strategic platform for trade and economic development. For this purpose, the document starts, after the presentation of the methodology, with a description of the Alliance's objectives, followed by an examination of the economic figures that support its importance in the region. Then an analysis of the relationship with Asian countries and an exposition of foreseeing upcoming challenges are discussed. Finally, a detail consolidated report of the current trade regulatory frameworks and investment incentives of each country member is presented.

2.0 Methodology

The current article was developed using the case study methodology. Given that our research question is formulated with 'how', that we focus on a contemporary event and that we lack control over it (Yin 2018), are the main reasons behind the choice of methodology. The case study methodology is present in multiple academic disciplines, including political science, business, and international business (George and Bennett, 2005; Dul & Hak, 2008; Farquhar, 2012; among others). Based on Thomas' (2011) case study typology, this will be an exceptional case, purposefully being explored, with an illustrative/descriptive approach.

Single case studies can bring about controversy due to their uniqueness, lack of replicable data collection conditions, low level of generalizability and the presence of biases (Yin 2018). Nevertheless, the purpose of this article is descriptive in nature, not focused on generalization. The issue of replicability is not extensively damaging, since the data collected and analysis used is based on publicly collected information (which is only affected if the degree of freedom of information is changed, or if the information itself is updated by the sources). And finally, the uniqueness of the case is an asset since the topic has not been previously researched nor present in-depth in academia.

The data collection methodology was extensive desk research. Documented proof was especially necessary for the purpose of answering our inquiry. Our starting points were laws, decrees, and legislative documents, in order to accurately understand and portray the regulatory framework and investment incentives. To build the theoretical analysis, data collection through secondary sources, like academic articles, working papers, and the official website of the Pacific Alliance, was used.

3.0 The Pacific Alliance

The Pacific Alliance (PA) was created on April 28th, 2011, by Chile, Colombia, Mexico, and Peru, through the Lima Declaration. The PA entered into force in July 2015 and its trade protocol began on May 1st, 2016 (Ministerio de Relaciones Exteriores, n.d.).

The Alliance was formed with the purpose of:

a. Building a deep integration trade bloc to progressively shift towards a system of free mobility of goods, services, capital, and people.

b. Promoting the growth, development, and competitiveness of the Member Countries' economies, in order to achieve greater well-being, overcome socio-economic inequality, and promote the social inclusion of the Member Countries.

c. Becoming a mechanism for political articulation, economic and trade integration, and positioning within the world, with emphasis on the Asia Pacific (Alianza del Pacífico, 2012).

These objectives were set in line with two approaches. The first one towards an economic and trade integration, and the second, towards political dialog and a coordinated position. Both of these have something in common: they are focused on the Asia-Pacific region (García, 2013). In order to fulfill this, six action fronts were established within the Pacific Alliance Framework Agreement, especially the development of a free trade area between the Members and the free movement of capital, to improve the promotion of investments between the Members (García 2013, p. 46-47).

The Alliance is characterized by not having an ideological-political discourse and focuses on the growth and modernization of the economies of the integration project. It is a pragmatic and open regionalism scheme that seeks to become a trading bloc, involving light structures and prone to globalization, with an emphasis on the Pacific Region (Arévalo, 2014). One of its greatest strengths is the economic-political affinity of countries, which allows them to develop collaborative synergies (Vargas-Alzate, 2019) and given their "pragmatic and flexible" integration, it does not hinder its development models nor its strategies of international inclusion (Chaves, 2018).

Despite the small number of member states, it is surprising that the Alliance has a large number of observer states: 59 states including the United States, Egypt, Singapore, China, the United Arab Emirates, Germany, the United Kingdom, Australia and others. These share the principles and objectives set by the PA.

The alliance between these four countries is a game changer in Latin America's conception of regional integration, which has been marked by protectionism and political ideologies opposed to economic openness. As Garcia (2013) puts it, the PA is part of a new phase of integration in Latin America, moving away from the traditional ideologized and closed models such as the Bolivarian Alternative for Latin America and the Caribbean (ALBA) and MERCOSUR. On its part, Ardila (2015) notes that the PA responds to the tendency of the first years of the 21st century to form regions and sub-regions in Latin America and defines it as the "New Latin American Multilateralism".

4.0 Importance of the Bloc in Latin America

The PA is considered Latin America's most dynamic trade and economic bloc, accounting for 40% of the region's GDP (EY, 2018), and has been positioned as a superior association, performance-wise (Ardila, 2015), because the sum of its four members makes it the eighth largest economy in the world (Nolte, 2016). By analyzing the composition of the GDP, it is possible to identify differentiated economies that can complement and help each other with production asymmetries (Beltrán & Ferrer, 2016). In addition, it holds 38% of the region's GDP, attracting 45% of the FDI, and representing 50% of the commerce in Latina America and the Caribbean (Alianza del Pacífico, n. d). This is evident in terms of exports, which represented 627 billion USD in 2019 (Alianza del Pacífico, n.d). In turn, this has led it to be considered at some point as the world's seventh largest exporter (Nolte, 2016), and its member states to be recognized as the most competitive economies in the region according to the Doing Business 2018 report (The World Bank Group, 2019). It is also important to highlight the excellent quality of life of its inhabitants, whose, according to figures for 2019, GDP per capita was USD 19,050, with an approximate population of 230 million (Alianza del Pacífico, n.d.).

The PA believes in economic concertation as a modular hub for Latin America's trade and integration. It seeks to *"be the region's main economic and political interlocutor with the United States, the European Union, China, and the rest of the world, thereby counteracting the economic and political leadership of Brazil and Mercosur"* (Beltrán & Ferrer 2016, p. 85).

5.0 Relationship of the Pacific Alliance with Asia Pacific (APAC) Region

As mentioned, there is a particular interest of the bloc towards the APAC, which has led it to be considered as the "Latin American bridge of relations with the Asia Pacific Region" (Ardila, 2015).

In developing activities with special emphasis in Asia, the PA has opted for the establishment of common embassies among its Asian observers, as a strategy to strengthen its relationship with that region (Garcia, 2013). The figures show that Chile has set 20 embassies; Mexico, 11; Peru and Colombia, 10; and they share commercial offices in Shanghai and diplomatic headquarters in Ghana, Vietnam, Morocco, Singapore, among others.

Boosting its goal of integration with Asia, Chile, Peru, and Mexico (three of the four PA members) signed the Trans-Pacific Partnership (TPP), and Colombia has expressed its interest in being part of it. This agreement is expected to allow investment attraction and the insertion of Latin American companies into global value chains (Nolte, 2016). In addition, China, Japan, South Korea, and Singapore have concluded trade agreements with at least two Pacific Alliance members (Villarreal, 2016). Finally, links have been strengthened with the Association of Southeast Asian Nations (ASEAN) on education, innovation, and knowledge (Vargas-Alzate, 2019), and approaches have emerged within the Asia-Pacific Economic Cooperation Forum (Ardila, 2015).

6.0 The Alliance's challenges

There have been several achievements made by the Pacific Alliance, which have gradually demonstrated its importance within the region, with ambitious projects and a new approach. Despite all the efforts there is plenty of work and challenges to take on.

One of the challenges is PA's current trade relationship with the APAC. According to ECLAC's report, The Pacific Alliance and its Economic Impact on Regional Trade and Investment Evaluation and Perspectives" by Duran & Cracau (2016), the low level of exports to Asian countries and the deficit in the trade balance with this region are of concern, given the increase in the import flow from Asian countries. According to Garcia (2013), the Alliance must implement a more dynamic strategy in this regard, and act as a trade bloc rather than as individual member countries. For some countries such as Colombia, having a positive presence and projection in the Asian region has been more difficult, given its proximity and alliance with the United States (Ardila, 2015).

Another challenge faced by the PA is its relationship with other political and economic blocs in the region. Although the commitments reached by the PA are deep and enjoy the political will of its members, trade interdependence among the Alliance's members remains quite limited. Trade and investment flows with other integration initiatives such as the Andean Community, Mercosur and the Trans-Pacific Strategic Economic Partnership Agreement, of which some of its members are part, remain limited (Durán & Cracau, 2016).

Finally, for Villarreal (2016, p. 14), the Pacific Alliance can serve as an epicenter where, in addition to having members with Free Trade Agreements (FTA's) among themselves, establishing other FTAs with Latin American countries, the United States and the European Union, through its link to the TPP and the Transatlantic Trade and Investment Partnership. Thus, we can conclude, as pointed out by Dade & Meacham (2013, p. 11), that the Alliance's most important challenge in the region and the world "is to be at the height of expectations".

7.0 Trade and investment policies

Trade policies of the Pacific Alliance aim to deduct 99% of all tariff positions among the four members and apply the most-favored-nation principle by 2030 (Durán & Cracau, 2016). This is linked to its Strategic Vision for 2030, which was defined at the 13th Pacific Alliance Summit, where four axes were specified: "More integrated, more global, more connected and more citizen", on which the PA will focus its activities and efforts (Alianza del Pacífico, 2018). Subsequently, at the 14th Summit held in July 2019 in Lima, the commitment of the states to continue promoting inclusive and sustainable development, in the spirit of respect for human rights, the welfare and social inclusion of their population, was confirmed for the ultimate purpose of deep integration (Alianza del Pacífico, 2019).

In the context of the above, the Alliance has over time established different trade policies to enable itself to achieve these objectives. One of these was the creation of the Additional Protocol to the Pacific Partnership Framework Agreement, where elements of interest, such as an agenda for trade facilitation, customs programs and the creation of a Subcommittee on Investment and Services, stand out.

Likewise, in the search for economic and commercial integration, the PA created the first Latin American Integrated Market (MILA), managing to integrate the stock exchanges of the four member countries (Nolte, 2016). According to Duran & Cracau (2016), this could contribute to the increase and variety of trade in financial services in these countries.

The PA also sums up the individual achievements of the Party countries, not only with the liberalization of trade flows but also with policies for the promotion and attraction of foreign direct investment (FDI). It also seeks to spread the image of the region as an attractive destination for the arrival of these greenfield flows and projects. In this way, member countries have developed promotional activities such as the opening of trade promotion offices in Istanbul, Turkey in 2012, and Casablanca, Morocco in 2013 (Nolte, 2016). And they want to go further with the creation of the Technical Group on Services and Capital, that seeks to strengthen the conditions that facilitate and promote trade in services and intraregional investment (Villarreal, 2016).

8.0 Pacific Alliance Regimes and Investment Incentives

An in-depth look at the bloc's regimes and incentives for investment attraction is a priority. This is especially significant in times of the pandemic, and framed by the China-USA trade war, the increase of e-commerce, and the incidence of phenomena such as re-shoring and near-shoring as strategies for internationalization and exploitation of global value chains. In this regard, we have developed a comparative methodology of these PA regimes, incentives and agreements. Table No. 1 shows all the key regulatory elements of trade and investment in the four countries, together with Panama, which is emerging as the next possible member state of the Alliance. Table No. 2 shows the different trade and investment agreements in force for each of the member countries and Panama, which is then followed by an analysis that includes the main findings.

Table 1.
Pacific Alliance Members' and Panama's Regimes and Investment Incentives.[5]

	Chile (1)	Colombia (2)	México (3)	Perú (4)	Panamá[6] (5)
Opportunity Sectors	Mining. Energy (Hydric). Food Industry. Services. Tourism.	Agribusiness. Manufacturing. Services.	Agribusiness. Automotive and Aerospace Industry. Energy (Renewable, Natural Gas, Oil).	Agribusiness. Energy and Mines. Hydrocarbons. Transport. Water and Sanitation. Tourism.	Logistics. Agribusiness. Financial Services. Tourism. Renewable Energy.
Exchange Rate Regime					
Official Currency	Chilean Peso	Colombian Peso	Mexican Peso	Nuevo Sol	Balboa,
Exchange Rate flexibility.	Flexibility	Flexibility	Flexibility	Flexibility	Yes, on par with USD.
Repatriation of Profits.	Yes*	Yes, with one exception. *	-----	Yes, no restrictions.	Yes, no restrictions.
Taxes on Profit Repatriation.	Yes**	Not†	-----	Not	Yes*
Limitations to Foreign Investment.	Unlimited, with authorizations†	Limited‡	Limited*	Limited*	Not
Notes	*Subject to the powers of the Central Bank	*Where international reserves are less than	*Restricted sectors: Transport,	*Restricted sectors: Air transport, maritime	*The tax will be applied on 50% of the amount sent.

5 The information of this table was last updated in June 2021, from the regulations issued by the government agencies of each country. For efficiency purposes, these sources will be included in the bibliography under the subsection "Bibliography Table No. 1".
6 Panama is currently an observer state of the Pacific Alliance and is a candidate to be a state member.

	**Capital may be repatriated without taxes up to the amount of funds invested. Profits will have a 35% credit rate for the First Category tax paid by the company. †For sectors such as hydrocarbon exploration and exploitation and nuclear power production.	three months of imports. †As long as the profits of the company have been taxed on the company; otherwise, they will be taxed at 34% on the corresponding beneficiary. ‡Restricted sectors: Defense and national security activities, processing, and disposal of toxic wastes.	telecommunications, hydrocarbons, nuclear power, ticketing, radioactive minerals, radiotelegraphy, and post offices, among others.	transport, private security and surveillance, and the manufacture of weapons of war.	
Tax and Fiscal Regime	Income Tax (IT): First Category Tax: • 27%* for resident companies with global sources Second Category Tax: • For residents with global sources 4% - 40% Additional tax:‡ • 35% for non-resident with territorial sources Value Added Tax (VAT): 19% general rate. Includes services provided abroad;	Income Tax (IT): • 31% (2021) and 30% (2022) national and foreign legal companies with permanent establishments or branches* • 0% - 39% for resident individuals† • 35% for non-resident foreigners** • 20% companies' users of customs-free zones‡ Equity Tax (2020-2021):	Income Tax (IT): • 1.92% - 35% corporate rate; global source. + • 1.92% - 35% rate for natural resident individuals; global source. + • 4.9% - 35% variable, natural individuals abroad, territorial source. • 5%, 25%, or 35% for non-resident entities • 20% resident	Income Tax (IT): Third Category: • 29.5% General for resident companies with global sources • 15% Agriculture and agribusiness • For micro and small business residents 10% - 29.5%++ • For non-resident with territorial sources: First Category (5%): Real estate rental.	Income Tax (IT): • 25% rate for territorial companies • 0% - 25% Variable rate of natural individual's dependent on annual income Education Tax: 1.5% employer rate 1.25% employee rate Tax on Property Transfer and Service (ITBMS) (VAT): 7% general rate* Capital Gain Tax (Surplus)

	provision of digital entertainment content; software, storage, platform or IT infrastructure services. Supplemental Global Tax: • For natural residents. 4% - 44.45% SME Regime: • 25% IT for companies with an annual gross income not exceeding UF 75,000 or cash capital not exceeding UF 85,000. Surcharge: For resident individuals and companies that hold real estate appraised over 670 Annual Tax Units (UTA, in Spanish)**, a rate between 0.075% and 0.275% applies as per the value of a UTA. Green Taxes and Indirect Taxes.	1% for liquid equity equal to or greater than $5,000 million Colombian pesos. Sales Tax (VAT): 0%, 5%, or 19% depending on the good or service. Tax Normalization 2020: 15% for taxpayers who have omitted assets or non-existent liabilities. National Consumer Tax: 4%, 8% or 16% depending on the sector. Tax on Financial Transactions (GMF): 0.4% per operation Industry and Trade Tax (ICA). Unified Property Tax: 0.3% - 3.3% Income Self-Withholding: 0.4%, 0.8%, 1.6% depending on the economic activity.	individuals and businesses* Value Added Tax (VAT): 16% general rate** 8% in border regions Special Tax on Production and Services. Property Tax. Income tax withholding rate on financial services: 0.97%	Second Category (5%): Sale of real estate Fourth and Fifth Category: 8%, 14%, 17%, 20% and 30%** for the independent performance of a profession and trade. For non-resident individuals and companies 4.99% - 30% variable according to type of income. General Sales Tax: 18% General Tax + Municipal Promotion Tax. Tax on Financial Transactions (GMF) and Payment methods: 0.005% in all credit and debit transactions. Temporary Tax on Net Assets. Selective Consumption Tax. Property Tax: 0.20%, 0.60%, 1% depending on the value of	Real Estate Tax: 0.5% and 0.7% for family equity or main housing 0.6%, 0.8%, and 1% for commercial and industrial properties Dividend Tax: 10% Remittance Tax: 25% Municipal taxes.

				the real property. Alcabala Tax: 3% of the transfer value of the property Historic Vehicle Tax.	
Notes	*Partially integrated regime from 2018 ‡ 35% Profit repatriation tax rate. Any person who remains in Chile, uninterruptedly or not, for one single period or several periods that in total exceed 183 days, within any twelve-month period, is considered a resident. **For December 2020, the UTA was around 0.82 US dollars	*All foreign persons who remain physically in Colombia for over 183 days within the same 365-day period will be considered tax residents. †Rates depend on the level of taxable liquid income. **If dividends or shares are received, 7.5% tax will apply on them. ‡ With the exception of commercial users	+Variable based on the range of values to be declared. *Applies to the northern border region of Mexico. ** 0% rate applicable to certain transactions such as the export of goods and certain services, food, medicines, books and gold sales.	++ Variable based on Taxation Units (UIT, in Spanish) ** Variable based on Tax Units (UIT)	*With the exception of alcoholic beverages, tobacco, and lodging services, which have higher rates.
Corporate Regime	• Stock Companies • Private company limited by shares • Sole Shareholder Limited Liability Company (E.I.R.L., in Spanish). • Joint Stock Companies (SpA, in Spanish).	• Simplified Stock Company (S.A.S., in Spanish). • Stock Corporation (S.A., in Spanish). • Limited Liability Partnership (Ltda., in Spanish)	• Stock Company (SA, in Spanish). • Limited Liability Company (SRL, in Spanish) • general Partnership Enterprise. • Limited Joint-Stock	• Stock Company • Open Joint -Stock Company • Limited Company. • Private Limited Trade Partnership. • Branches.	• Stock Company • General Partnership. • Limited Partnership. • Private company limited by shares • Limited Joint-Stock Partnership. • Private interest

	• Branch or agency of a foreign branch • Mutual Guarantee Company • Limited Partnership or Stock-Based Limited Partnership.	• Foreign Company Branch. • 4 more types of unlimited liability companies.	Partnership. • Cooperative Partnership. • Foreign Partnership. • Office of Representation (does not conduct business).		foundations.
Labor Regime	Foreigners may not exceed 15% of payroll when the company employs over 25 people. When more than 25 employees, the employer is free to hire foreigners without restriction.	There are no limitations on the number of foreigners a company can employ.	Foreigners may not exceed 10% of the payroll and require authorization from the National Migration Institute. This does not apply to directors, administrators, and general managers.	Foreigners may not exceed 20% of the payroll and their remuneration may not exceed 30% of the total cost of the payroll; they require approval by the Ministry of Labor and Employment Promotion.	Foreigners as ordinary workers may not exceed 10% of the payroll, and as specialists or technicians may not exceed 15% of the payroll.
Types of Employment Contracts	• Open-ended. • Fixed-term. • Works and services agreement. • Part-time. • Transient services.	• Open-ended. • Fixed. • Jobs or services contracted. • Accidental or Transient.	• Specific employment agreement. • Open-ended or fixed term contract. • Trial or initial training agreement.	• Open-ended. • Fixed-term. • Part-time.	• Open-ended. • Fixed. • Specific employment agreement.
Employer obligations	• Compulsory Social Insurance against Occupational Accidents	• Social Security System (Occupational Risk Administrator,	• Personal Labor Remuneration Tax (ISRTP, in Spanish). 2%	• Social Health Insurance. • Supplementary Labor Risk Insurance.	• Social Security. • Professional Risks Insurance.

	and Diseases. • Disability and Survival Insurance AFP. • Severance payment insurance.	Compensation, Pension and Health).	on payroll. • Social Security Employer Contributions (Labor risks, retirement, CEAV, in Spanish). • Contributions to the National Housing Fund Institute for employees.		
Immigration Regime	• Tourism Visa. • Temporary Residence Visa. • Temporary Visa for Investors and Traders. • Residence Visa subject to a Work Contract. • Visa Tech. • Definitive Permanence • Visa.	• Migrant Visa (M): Migrant under the Mercosur Agreement; refugee; work; entrepreneur; practice profession or independent activity; real estate investor. • Resident Visa (R): People making a foreign direct investment. • Visitor Visa (V): Business, administrative and/or judicial procedures, audiovisual and/or digital production, journalistic coverage, temporary	• Visitor Visa (tourism; business trip; no permission to conduct long-term paid activities). • Temporary Residence Visa. • Permanent Residence Visa.	• Tourist Visa. • Business Visa. • Work Visa. • Investor Visa. • Designated Worker Visa. • Independent Visa. • Resident Visa.	• Visas for Non-Residents (Tourism, Investors). • Temporary Residence Permits. • Permanent Residence Permits.

		service provider, transfer of intra-company personnel.			
	(1)	(2)	(3)	(4)	(5)
Econoic and Investment Incentives	• R&D Incentive Act - Law No. 20570: Tax credit for 35% of total project expenditure; the remaining 65% can be deducted as expenditure. • Decree 15, Capital Goods Purchase Allowance for Extreme Areas: Allows to recover 20% of net investments or reinvestments made in Capital Goods. Must be filed annually*. • Tourism Areas of Interest (ZOIT, in Spanish): Priority areas for the implementation of public programs and projects for tourism development, as well as for the allocation of resources for necessary infrastructure works and	• Variable incentives within the tax regime in the following sectors: Tourism, Farming, Fish Farming, Hospitality, River Transport, Editorial, Electric Power, Forestry Plantations, and Software. • Law 1556 of 2012 (Cinema): Return of 40% of the value of expenses for cinematographic services and 20% of the value of expenses for cinematographic logistics services. • Incentives for Investments for Scientific and Technology Development: Deduction	• Federal Tax Incentives for Investors per Territory. • Reduction of IT to eligible maquila companies. • Tax Credit for Federal R&D Taxes: Eligible companies may receive a tax credit of 30% of total spending on Research and Development activities, including processes and design. • Film-Friendly Mexico: Return of VAT to productions made in Mexico, whose primary commercial operation is outside the country, for a total value equivalent to 16% of the expenses;	• Legal Stability Conventions: The government may grant legal stability with respect to IT and dividends sharing for a period of 10 years*. • General Sales Tax (GST) Early Recovery: Developing projects with a pre-operational stage of two years or more may request the advance return of the GST prior the start of commercial operations. † • Final Return of GST: This scheme is open to holders of concession contracts, licenses or public works services for infrastructure and	• Multinational Company Headquarters (SEM, in Spanish): Tax, labor and migration incentives. 5% IT, credit on IT, among others. • Legal Stability of Investments: For a period of 10 years: Legal, tax, national and municipal tax, labor and customs stability, as indicated in the law. * • Law 16 of 2012 (Cinema): Tax, deduction, economic, labor and migration incentives; exemption from customs tax, and temporary import without surety bond for the film and audiovisual industry. • Law 54 of 2001 and Law 653 of 2018 (Call

	equipment. The quality of the ZOIT lasts 4 years and can be extended for 4 more years. • Startup Chile: Program by the Government of Chile to support selected entrepreneurs. • Support to Strategic Projects in Pre-Investment Phase: Financing up to 70% of the cost of the feasibility study for projects of over 2 million USD. • Implementation of Technological Investment Projects (IFI, in Spanish): Co-financing up to 30% to support the implementation of new technology investment projects or the expansion of existing ones. • Enterprise Technology Innovation: Subsidy for developments linked to	of 175% of the invested amount of your liquid income (this amount may not exceed 40%). • Creative Industries exemption for 7 years of IT*. • Mega Investment Regime: 27% rate of IT for 20 years, with the possibility to sign a legal stability contract.**	incentive of up to 7.5% on the total eligible expenses incurred and invoiced in Mexico*. • Incentives for the Renewable Energy Sector: Depreciation of 100% of investments in machinery and equipment; exemption from import and export duties. • Refund of Import Taxes to Exporters. • Promotion and Operation of the Export Maquila Industry (IMMEX, in Spanish): Exemption from import tax, VAT and countervailing duties on imported goods for usage in the processing of goods. • Sector Promotion Programs (PROSEC, in Spanish): Import goods	public services. ‡ • Law of the Amazon: IT Rate: 5% or 10%, depending on the territory; 0% for agricultural activities and processing or processing of native and/or alternative crops. • Exemption from GST: Sale of goods, services and construction contracts carried out in the area. • Exemption from GST and Selective Consumption Tax (SCT): For sales of natural gas, oil and byproducts in certain areas. • Promotion of Scientific Research, Technology Development and Innovation (R+D+i): A tax incentive that grants deductions for 150%	Centers): Tariff exemptions, capital or property taxes, and income tax on certain services. Exemption from direct and indirect taxes, contributions, fees, duties and national levies. Migrant and labor incentives • Law 80 of 2012 and Law 82 of 2018 (Tourism): Tax, territorial, and tariff incentives and exemptions for developers and incentives for tourism activities and locations. • Law 24 of 1992 and Law 69 of 2017 (Reforestation): IT exemption; tariff and tax exemptions, and migratory incentives. • Law 159 of 2020 - EMMA: Special regime for the establishment of multinational

	Innovation in Products and Processes (prototypes) for amounts ranging from 90,000 to 300,000 USD.		with ad-valorem preferential tariff to be used in the processing of specific products.	and 175% on the expenses incurred by companies in R&D+i, when the project is carried out through non-domicile scientific research centers. When the project is carried out by the taxpayer in research centers in Peru, this deduction can be 75% of the expenditure and reduces the net income from which IT is calculated.	manufacturing service delivery companies with a 5% IT payment, credit on IT, inclusion of remuneration in deductible expenses, exemption from import, dividends, supplementary and transfer of tangible personal property taxes.
Notes	*Addressed to industrialists, traders, craftsmen or producers of goods or services that credit annual sales of less than 40,000 Development Units (*Unidades de Fomento, UF*), with investment or reinvestment projects, or for new projects that do not exceed a maximum investment of	*Investments must be 50,000 USD in 3 years, create a minimum of 3 jobs and be approved by the Ministry of Culture. ** Must generate at least 400 direct jobs, investment amount greater than 30,000,000 UVT in a maximum of 5 years.	*The minimum amount must be 40 million Mexican pesos in production or 10 million pesos in post-production, and the sum of the percentages of these incentives cannot exceed 17.5% of the total approved expenses.	*Minimum investment of 10 million USD in 2 years in the mining and/or hydrocarbons sectors, or 5 million USD in any other economic activity. †Minimum investment of 5 million USD, excluding agriculture. ‡The beneficiary must be private, and the investment must be	*For those who invest 2 million USD over a maximum of 2 years

	50,000 UF.			greater than 5 million USD.	
Special Economic Zones (SEZs)	Iquique Customs-Free Zone (ZOFRI S.A.) Activities: Commercial and industrial activities among others. *Benefits:* • Exemption from taxes and customs duties for stored goods until 2035 • First Category Tax exemption. • VAT exemption for operations under the regime of the Customs-Free Zone. • VAT exemption for services provided between users within a Customs-Free Zone. • Credit equivalent to 50% of the first category tax (income) rate for supplemental and additional global tax	Permanent or Multi-User Customs-Free Zones: 36 zones spread across different geographical regions. It has investment and employment requirements Activities: Agribusiness, IT services, logistics, automotive, construction, cosmetics, metal mechanics, health, among others. *Benefits* • Exemption from VAT and tariffs for goods entering the customs-free zone from abroad. Special or Uni-Business Permanent Customs-Free Zones: 71 customs-free zones with investment and employment requirements different	In 2016, the Federal Law on Special Economic Zones was enacted, which created the regime for the development, regulation, planning, establishment and operation of Special Economic Zones. On November 18, 2019, a decree was issued repealing the Law on Special Economic Zones and allocating the resources previously used in these areas, for the Isthmus of Tehuantepec Inter-Oceanic Corridor (CIIT, in Spanish), which connects the ports of Coatzacoalcos and that of Salina Cruz, with the Railway of the Isthmus of Tehuantepec.	Tacna Customs-Free Zone (ZOFRATACNA) Activities: Industrial, maquila, agribusiness, assembly and logistic services, among others. *Benefits:* • Exemption from IT, GST, SCT, Municipal Promotion Tax, as well as any regional or municipal national tax, for activities carried out within the zone until 2041. • Exemption from the import tax of goods from abroad until 2041. Special Development Areas (SDAs)* Paita, Ilo and Matarani Activities: Repair services, refurbishment, modification, mixing,	Colon Customs-Free Zone (ZLC) Activities: Import, export, re-export, manufacturing, marketing, distribution, refinement, and processing of goods. *Benefits:* • Exemption from sales, production, import or re-export tax, capital investments, among others. • Labor regime flexibility. • Migratory incentives for investors and executives. • Work incentives. Panama Pacific Special Economic Zone (APP) Activities: services, import, re-export, manufacturing, film industry, high technology and activities not prohibited by

	Punta Arenas Customs-Free Zone (ZonAustral) Activities: Commercial, Industrial, Transformation, Packaging, Import, among others. *Benefits:* • Exemption from taxes and customs duties for stored goods until 2035 • First Category Tax exemption • VAT exemption for operations under the regime of the Customs-Free Zona • Credit to partners and shareholders of 50% against Supplemental Global Tax or Additional Tax, for taxpayers of assigned income or simplified regime. Industrial Customs-Free Zone of Arica Activity: Industrial Manufacturing.	from the previous zones. Activities: Dairy, services, goods, agribusiness, exploration, port companies, and hydrocarbon production, among others. *Benefits:* • Exemption from VAT and tariffs for goods entering the customs-free zone from abroad. Special Economic Export Zones (SEEZs) Areas in specific regions where goods are produced, or services are provided with a high export component. *Benefits:* • Exemption from VAT and tariffs for equipment and raw materials entering the customs-free zone from abroad. • Exemption from IT and		packaging, maquila, transformation, distribution, storage, among others. *Benefits:* • Exemption from IT, GST, SCT, Municipal Promotion Tax, regional or municipal national taxes, for activities carried out, transfer of goods and provision of services within the zone. • Import Tax Exemption. • Recovery of 3% of the FOB value of exported products. Special Economic Zone of Puno, Tumbes and Loreto** Activities: Industrial, maquila, agribusiness, assembly, and logistic services, among others. *Benefits:* • Exemption from IT, GST, SCT, Municipal	applicable laws. *Benefits:* • Exemption from dividends, ITBMS, remittances, imports, among other taxes. • Work and migratory incentives for investors and executives. • Legal stability to 10-year investments Private Customs-Free Trade Zones Activities: Manufacturing and assembly, services, high technology, research, higher education, logistics, environmental and health services. *Benefits:* • Exemption from direct and indirect taxes, contributions, fees, national duties and charges on activities, operations, formalities, transfers of goods, and

	Benefits: • Raw materials, parts or spare parts imported to be incorporated into the final product are exempt from customs duties, fees and other levies, and from VAT until December 2035 • Services required by the industrial process (transport, electric power, water) exempt from VAT until December 2035 • The goods produced are exempt from customs duties for export until December 2035 Region of Arica and Parinacota, Region of Aysén and Magallanes, Region of Chiloé and Palena: Activities: Agriculture, Tourism, Logistics, Renewable Energy, Aquaculture, mining services, among others. *Benefits:*	supplemental taxes to eligible infrastructure projects. • Labor regime flexibility.		Promotion Tax, as well as any regional or municipal national tax, for activities carried out within the zone. • Exemption from tax on imports of goods from abroad.	procurement. • Dividend Tax 5% • Supplemental Tax 2% • Some sectors are exempt from IT because of their external operations. • Migrant and labor incentives Barú Special Economic Area Activities: Agribusiness, oil companies, among others. *Benefits:* • IT exemption, import, ITBMS, remittances, among other taxes. • Work and migratory incentives for investors. Barú Tourist Free Zone Activities: Import, export, re-export, packaging, manufacturing, packaging, refining, construction, among others. *Benefits:* • Free of tax, contributions, or national taxes. • Additional tax incentives

	• Labor allowance until 2035 • Import tax of 0.6% on CIF value. • Investment benefit and productive reinvestment * • VAT refund to tourists** • Export centers • Special taxation for residents	in accordance with applicable laws Fuel Free Zones Activities: Introduction, refining, transformation, storage, export, re-export, domestic disposal and, in general, operation and management of crude oil, semi-processed oil and petroleum products *Benefits:* • Exemption from the import tax on raw materials and goods used in the abovementioned processes. • Exemption from IT for the sale or delivery of oil and its derivatives. City of Knowledge Activities: scientific, technology, human development, and cultural activities. *Benefits:* • Exemption from import,

					export, stamp taxes, ITBMS, among others. • Work and migratory incentives for investors and employees.
Notes	*Bonus equivalent to 20% of the amount invested. Benefit exempted activities: large copper and iron mining and extractive industrial fishing. **Where the value of such goods exceeds average UTM			*Active benefits until December 31, 2042. **These SEZs are currently not operational	

Table 2.
Pacific Alliance Member's and Panama's International Agreements in Force.[7]

	Chile			Colombia			México			Perú			Panamá		
Agreements With	BIT[i]	TDT[ii]	FTA[iii]	BIT[iv]	TDT[v]	FTA[vi]	BIT[vii]	TDT[viii]	FTA[ix]	BIT[x]	TDT[xi]	FTA[xii]	BIT[xiii]	TDT[xiv]	FTA[xv]
Economies of North America	-	2	3	-	2	3	-	1	-	1	2	2	3	1	2
T-MEC.	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Caribbean Economies.	1	-	-	-	-	-	2	1	-	1	-	-	2	1	-
CARICOM.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central American Economies.	6	-	1	-	-	1	1	2	-	1	-	3	-	-	5
Central American Bloc.	-	-	1	-	-	-	-	-	1	-	-	-	-	-	-
North Triangle.	-	-	-	-	-	1	-	-		-	-	-	-	-	-
South America's Economies.	6	7	2	1	1	1	2	4	5	5	2	1	3	-	2
CAN.	-	-	-	-	1		-	-		-	1		-	-	-
European Economies.	20	16	1	2	5	-	17	24	-	14	2	-	11	9	-
European Union.	-	-	-	-	-	1	-	-	1	-	-	1	-	-	-
EFTA.	-	-	1	-	-	1	-	-	1	-	-	1	-	-	1
Belgium-Luxembourg Economic Union.	1	-	-	-	-	-	1	-	-	1	-	-	-	-	-
African Economies.	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-
Middle East Economies.	-	-	-	-	-	1	1	3	1	-	-	-	1	3	1
Asia Pacific Economies.	4	5	6	3	2	1	4	5	1	5	1	3	1	3	1
Oceania Economies.	1	2	1	-	-	-	1	2	-	1	-	1	-	-	-
Total	39	33	16	7	11	10	29	43	11	29	8	12	21	17	12

9.0 Main findings

Considering the opportunity sectors of the contrasted countries, agribusiness is the dominant sector, for the attraction of foreign direct investment in Mexico, Colombia, and Peru. Peru also promotes the transport and energy sectors for attracting investors and, along with Chile, they bet on the tourism sector to boost it through foreign investment operations, harnessing their geographical and cultural characteristics. Panama wants to strengthen the services, manufacturing, logistics and renewable energy sectors. On the other hand, Mexico has a strong automotive and aerospace industry sector that allows it to offer a unique and profitable option to investors interested in diversifying their portfolios. Finally, it should be noted that although there is an effort of the member countries to frame attractive FDI incentives, where interest in the diversification of sectors is evident, the mining and hydrocarbons sector continues to dominate investment flows.

With regards to the tax regime, the one in Chile is the simplest, which separates companies and natural persons based on their income tax (IT), made up of the First Category Tax, that taxes companies, while the Second Category Tax and Supplemental Global Tax are taxes on natural persons. Other taxes are applied on specific goods, services, and the repatriation of profits. In February 2020, the tax reform in that country was approved, increasing income rates and creating a special taxation regime for SMEs. Colombia, on its part, is the country with the highest number of taxes (nine), of which three directly affect the income of taxpayers, whether obtained through commercial operations or not. The new tax reform, or "Economic Growth Act", adopted in December 2019 does not change structural aspects. It only changes tax rates, broadens taxable bases, and provides tax deductions in certain cases, both for natural persons and companies. The creation of two taxes is highlighted: the property tax, that applies only for the 2020 fiscal year, and the tax normalization tax. Peru and Panama follow with eight and seven types of taxes, respectively. However, in Peru, half of these are taxed only if the person uses, consumes, or transfers specific goods, which makes a significant separation of small-micro and large enterprises in the tax rate. In Panama, four taxes affect personal earnings, while other taxes apply to real

[7] The information of this table was last updated in June 2021. For efficiency purposes, these sources (presented in roman numbers) will be included in the bibliography under the subsection "Bibliography Table No. 2".

estate, dividends, and remittances. Their rates are the lowest compared to the other four countries. Mexico has a tax structure similar to that of Chile with only four types of taxes.

In 2021, Panama (25%) and Chile (27%) have the lowest Income Tax (IT) for resident companies, followed by Peru (29.5%), Colombia (31%) and Mexico (35%). In the case of Mexico and Chile, the rates are expected to remain, given that the tax regime has already been proposed for the next four years.

IT for residents varies in relation to earnings. From the highest to the lowest, the following is the IT ranking: Chile (40%), Colombia (39%), Mexico (35%), Peru (30%), and Panama (25%).

For non-resident entities, Peru has a variable IT of 5% to 35%, depending on the source from which income is obtained, while Mexico has 5%, 25%, or 35%. Chile and Colombia collect 35% as IT, but in Colombia, an additional 7.5% is applied if dividends or shares are received, increasing the total amount collected. Panama applies the same percentage as for resident entities (25%) only if income is derived within the Panamanian territory.

The corporate regime is quite similar in all Pacific Alliance countries and Panama, holding similar business models, in terms of their possible membership and responsibility, but different in terms of their name and national requirements for openness and operation.

Labor regimes for foreigners are similar, except for Colombia, where there are no limitations on the number of foreigners a company can employ.

All Pacific Alliance countries offer more than one visa option for investors and traders visiting their countries for business activities. However, in the case of foreign workers, they all offer a single visa option. It is important to mention that the SEM Act of Panama -Multinational Companies Headquarters Act-, in addition to tax incentives, provides ease in visa obtention, differing from other countries.

All Pacific Alliance countries encourage Research and Development; Chile and Mexico offer tax credits for total expenditures, while Colombia and Peru provide deductions for invested income amounts. Based on this, Chile offers better benefits than its counterparts, as it not only offers loans, but provides subsidies and assistance with co-financing innovation projects. In terms of incentives for entrepreneurs or new industries, Chile established a program to boost selected entrepreneurs, Colombia, on its part, with the implementation of the Economía Naranja (Orange Economy) encourages creative industries, and Panama offers incentives in the City of Knowledge for technology development and research. It is worth mentioning that in Mexico, as a result of the increased use and consumption of digital platforms and services, the Federal Income Act established that companies providing these services during 2021 must withhold 100% VAT on in-country residents and on residents abroad without an establishment in Mexico; (PwC, 2021), something that can undoubtedly have an important effect on the growth of the sector.

In the tourism sector, only Colombia and Peru offer better tax rates, while Chile focuses on the execution of public programs and projects to promote the development of this activity. Colombia grants a very low preferential stable IT rate to investors and for 20 years. Peru grants anticipated benefits to commercial tourism operations.

Panama, Colombia, Mexico, and Chile have developed initiatives to promote their countries as settings for film or mega film productions. However, only the first three have enacted incentives for this sector, of which Colombia offers a higher rate of return on the value of expenditures.

Chile and Peru have allocated benefits related to their extreme territories, such as the north and south of the country in the case of Chile, and the Amazon for the case of Peru, where companies established in these areas will receive tax exemptions and reductions. As per Chile, investors will recover part of their investments. Mexico, depending on the territory, offers special federal tax incentives for investors and export industries. Panama, on its part, offers fiscal benefits for 10 years to multinational companies that require operations in some of its special economic areas.

In the area of renewable energy production, Colombia offers an IT deduction of 50%, VAT exemptions and customs duties, while Mexico exempts import and export tariffs on materials and machinery under this item. Similarly, Panama, with its new bet on this sector, offers special incentives specifically for wind and solar energy. Panama also encourages the reforestation of its territory by granting IT exemptions, tariff and tax exemptions, and migratory incentives.

Different from the other countries, Peru and Panama grant legal stability contracts for a period of 10 years to investors earning more than 5 million USD or 2 million USD, respectively. The case of Colombia differs from the previous ones, since it offers the possibility of signing a contract of this nature for mega investments, provided that the investment is equivalent to 30 million Tax Value Units (UVT, in Spanish) in 5 years and generates 400 direct jobs.

Mexico eliminated the Special Economic Zones (SEZs) by arguing that they did not meet the expected investment objective and established that the resources previously used in these zones will be redirected to the project of the Interoceanic Corridor of the Isthmus of Tehuantepec, which seeks to create a multimodal corridor and boost connectivity in the region. It has been announced that customs-free zones will be created along the corridor to attract private investors. The other countries keep geographic SEZs, with Colombia holding 36 permanent customs-free zones, 71 special permanent customs-free zones, and 4 offshore customs-free zones;

Panama holds 12 active customs-free zones and 6 developing zones, in addition to four other special economic zones and a special area as a knowledge and technology platform that has fiscal incentives similar to its special economic zones; Peru holds only 7 SEZs, of which only 4 are in operation, and Chile has 3 customs-free zones. In addition, Chile implemented benefits and incentives in six of its regions. As a result, there are different SEZs that encourage investment throughout the country.

In descending order, the number of Bilateral Investment Treaties (BITs) concluded are: Chile (39), Mexico and Peru (29), Panama (21), and Colombia (7). In descending order, the number of treaties governing the avoidance of double taxation (TDTs) concluded are: Mexico (43), Chile (33), Panama (17), Colombia (11), and Peru (8). In descending order, the number of Free Trade Agreements (FTAs), including investment chapters, concluded are: Chile (16), Perú and Panamá (12), México (11) and Colombia (10). In descending order, the number of currently in force instruments are: Chile (88), Mexico and Peru (83), Panama (50), and Colombia (29). It can therefore be concluded that, in terms of international instruments, Chile is the most competitive country of the Pacific Alliance, while Colombia is the country with the least number of such agreements in force.

10.0 Conclusions

Over the course of its nine years of creation, the Pacific Alliance has demonstrated its importance as a trading bloc, and its actions have had a positive impact on the Latin American region. By 2030, the PA seeks to become a regional group of great importance within the international context, by implementing dynamic, global interconnected initiatives that are closer to citizens. The bloc's trade and economic inclinations and its aim of partnering and working closely with the dominant economies of the Asia-Pacific region are evident. This makes of this economic group a great geostrategic player to current global value chains.

The investment regimes of the member countries retain certain similarities to attract foreign direct investment. For example, all countries encourage investment in large proportions in different sectors, provided that they meet certain requirements such as the number of jobs to generate (for Colombia). These regimes, beyond seeking capital income for their country, include social factors that contribute to the sustainable economic development of the member states, as predicted in the PA's objectives.

Trade and investment agreements are an important instrument in all countries to attract investment and stimulate trade relations. Although, the purpose of this article is not to demonstrate a positive relationship between the number of agreements with the degree of development of the economies, it is important to mention that they are necessary to meet the objectives each member state has in terms of growth, as one of the requirements to be a member is to have trade agreements with the state members of the alliance. On its part, Panama, as a member candidate to the Pacific Alliance, shows a favorable profile and adds a complementary component in its logistics services, research and development sectors. Optimistically, Panama can conclude a trade agreement with Colombia to make progress in its path to accession.

It is interesting to see how Mexico is the only country of the Pacific Alliance that considers that the Special Economic Zones did not fulfill their development objectives and has eliminated them to develop an ambitious project, the Interoceanic Corridor of the Isthmus of Tehuantepec. The corridor aims at establishing special economic development areas/zones that are expected to consider IT and VAT exemptions as part of its development strategy and instrument to attract foreign investment. This is a case for further study, but it is once again evident that the elements of union between member states go beyond the similarities that their internal policies may have.

Finally, it can be concluded that the projections for the Pacific Alliance are clearly positive. Its growth and relevance within the region have drawn the attention of 59 countries that, from their role as observers, can closely follow the movements and decisions of the alliance, in addition to being able to apply for membership. Thus, the Alliance has been able to develop and consolidate as a strategic platform for trade and economic development through the various trade regulatory frameworks and investment incentives of its member states.

In the context of globalization and the post-COVID 19 scenario, the Alliance's areas of focus seek to ensure that countries are at the forefront of the world's current events and trends. From the point of view of the authors of this article, this will allow the bloc to face the challenges of a new world economic order with all the tools it has available. This will take place in favor of the continuity, durability, and robustness of the bloc.

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