

NEW ZEALAND AND CHILE: PARTNERSHIP FOR THE PACIFIC CENTURY?

Warwick E Murray
Edward R T Challies

Institute of Geography, Victoria University of Wellington, New Zealand

Introduction – the South Strikes Back?

This paper explores the growing economic and political interaction between two important Pacific Rim players, New Zealand and Chile. In light of the current investigation by the New Zealand Government into the possible implications of a Closer Economic Partnership (CEP) with Chile, we present a range of data that serve to quantify evolving trade and broader economic links between the two countries, with the aim of establishing a baseline for monitoring and further comparative study. Possible implications and areas for further research are discussed in the context of the inter-linked processes of regionalisation and globalisation which frame the evolving political economy of the Pacific Rim and Basin.

Both New Zealand and Chile span significant latitudinal ranges and exhibit a variety of physical geographical environments. Physical and climatic similarities and Pacific oceanic borders mean that the two countries produce and export many of the same (or similar) goods. The colonial histories of New Zealand and Chile, and the aforementioned geographical similarities combine to determine a common reliance of the two countries on primary product-based exports. Further, the historical global proliferation of neoliberal economic reforms, and the ongoing pursuit of economic liberalisation in both New Zealand and Chile, have served to steer the two economies into similar positions within the global economy. Being positioned in the semi-periphery yields significant, and often shared, ramifications for the two economies in terms of the impacts of, and responses to, globalisation. As such, both countries face similar challenges in the context of global free-market restructuring. It is possible to

envisage the current process of closer integration between the two countries as a step towards collective action in the Southern Hemisphere in order to face the powerful Northern trading blocs, the EU and NAFTA in particular. Are we seeing the inception of a model of cooperative globalisation in the South or is the economic integration of Chile and NZ a further step that opens the door for powerful oligopsonistic trading interests? This paper intends to lay some of the ground necessary in order to answer this question.

Geo-Economic Restructuring in the 'Pacific Century'

Since the UK joined the European Economic Community in 1973, New Zealand has increasingly shifted its economic and political focus away from Europe. In particular, New Zealand has 'looked North' towards the Asia-Pacific rim. Trade, aid and investment flows between New Zealand and that part of the world have increased markedly over the last three decades as a consequence. As part of its international geopolitical re-orientation New Zealand is now looking beyond the Asia-Pacific to other parts of the Pacific Rim for mutually beneficial interaction in the future. The world's political and economic system is conflating temporally and spatially, and small nations like New Zealand and Chile are searching for partners to face the realities of the new neoliberal global order.

A region that is of increasing interest to New Zealand in this current geo-economic restructuring phase is Latin America. The current Labour government has made it clear that strategic links with the continent on the East of the Rim will be increasingly important over the coming years. Recently, Helen Clark undertook a visit of 5 nations in Latin America with this growing convergence

in mind. New Zealand's aid policy includes explicit policies geared towards fostering a new relationship with Latin America – a technical co-operation fund and a technical assistance fund have been established to this end for example. As we explore in greater detail below, there has been an increasing interaction in terms of trade and investment. New Zealand companies are playing an increasing role in the foreign direct investment (FDI) portfolio of a number of Latin American economies. The New Zealand government has been very explicit in its intentions, going so far as to place advertisements in leading newspapers (such as *The Dominion*) in order to inform the public of its intentions to focus on Latin America and Chile in particular.

A country of particular interest within the above enterprise, then, is Chile. As noted above, New Zealand and Chile share remarkably similar geographies. In the physical geography sense both are located at similar lines of latitude, are maritime nations, and possess a range of climates and have similar geo-tectonic underpinnings. This similarity has determined convergent economic production patterns to a large extent. Although, as explored below, significant strategic complementarities can be exploited. In the human geographical sense the geographies of these two nations are increasingly convergent.

In the *economic sphere*, both are primary product traders whose exports are largely made up of unprocessed and processed items for consumption in the Northern Hemisphere. They are both subject to the undulations and vagaries of primary-product orientation (Murray, 1999). By way of dealing with the increased globalisation of world trade both have adopted neoliberal models of development. Chile led this transition in the 1970s, when the military regime experimented with the neoliberal theories of Milton Friedman, eventually creating the most open economy in the world. Restructuring came later to New Zealand, beginning in 1984 under the guiding hand of the then finance minister Roger Douglas. In both cases this restructuring has followed a familiar course of privatisation, state expenditure rationalisation, and export orientation.

As a consequence of structural change and the considerable natural comparative advantages enjoyed by both countries, they have become relatively highly export-oriented. In many sectors, such as fruit, wine and forestry, the two countries occupy similar competitive spaces on global markets (McKenna and Murray, 2002) markets. This is troubling in a world where free-trade is anything but free. In particular, it is often the very nation-states (US, UK) and regional groupings (the EU for example) that are the most vociferous advocates of free-trade that are the most protectionist. It is erroneous to talk of the current phase of global political economic restructuring as an example of the diffusion of 'pure' free-market ideology. Rather, a relatively open periphery and semi-periphery under pressure from capital suppliers, including the IMF and the World Bank, supply markets and resources to an industrial core which practices selective protectionism. The global free-market economy is highly geographically differentiated and creates many 'unfreedoms' in this way.

However, interaction between the two countries has grown over the last two decades, and the fierce head-to-head competition which would normally characterise two substitutable economies of this nature is being harnessed towards more cooperative ends. In general, it is perhaps time that exporting nations in the Southern Hemisphere forge a new co-operative globalisation based on collective action to face the neo-colonial trading oligopolies of the North. The closer economic association of Chile and New Zealand may be an early indication of moves towards this end within the context of APEC, and going beyond the requirements of WTO membership.

In the *political sphere*, the two countries now pursue similar models. Having come out of a long period of authoritarian rule Chile is now officially a social democracy, although commentators are divided on the extent to which true democracy has been restored (see Barton and Murray, 2002, for an entrance point into these arguments). This social democracy, headed by the current president, Dr Ricardo Lagos, attempts to marry the requirements of economic

liberalism with social policy that addresses the enormous inequalities created through extreme neoliberal policy imposed under the military from 1973. New Zealand has approached neoliberalism from the opposite direction. It has evolved from a state-centred, welfare driven economy to a liberalised social democracy which seeks to exploit its comparative advantage in world markets. The political models are thus converging around the theme of *neoliberalism with a human face*, or what some have termed neostructuralism. As a consequence of neoliberal economic policies both countries have seen a rise in income inequality – and thus social

geographies are converging also. Chile and New Zealand's future, then, is one of shared interests, challenges and trajectories.

Table 1 provides a comparison of selected macroeconomic indicators for New Zealand and Chile. Despite Chile's larger economy and population, and New Zealand's higher income per capita, the industrial structures and trade volumes for the two nations are remarkably alike.

Table 1. Selected Macroeconomic Indicators, New Zealand and Chile (2001 unless specified)

Indicator	New Zealand	Chile
Population (million)	3.8	15.2
GDP (US\$ bn)	49.5	70.2
GDP per capita (US\$) (2000)	12,870	4,620
Visible exports (US\$ bn)	13.0	17.4
Visible imports (US\$ bn)	12.4	15.9
Agriculture as a % of GDP	8.3	7.1
Industry as a % of GDP	23.4	27.1
Services as a % of GDP	68.3	54.1

Source: MFAT, 2002:10, Table 1.

Growing Economic Interaction – Some Baseline Data

Given the similarities in the composition of the two economies, trade theory would predict that New Zealand and Chile be competitors in global markets, yet the governments of the two countries are pursuing a CEP, which aims to promote cooperation rather than competition. The conditions of this CEP which will also include Singapore, will be discussed through 2003 in the run-up to Chile's hosting of the 2004 APEC meeting. The following presents some basic background data which describes the level and nature of this interaction.

Commodity Trade

Overall, New Zealand's major exports by value comprise dairy products, meat, forestry and wood products, art items, fish, aluminium, machinery, fruit and wool. Chile is a major exporter of copper, forestry and

wood products, fruit, processed food, fish and wine. The trade between the two countries partly reflects this specialization in general.

Commodity trade between the two countries from the early 1970s to date has fluctuated, sometimes dramatically, due to differentiated political and economic transitions and volatility in the markets for key commodities (See figures 1 and 2). While neither New Zealand nor Chile feature as major players in each other's trade partner rankings, trade and broader economic interactions between the two countries have been increasing since the early 1980s. New Zealand's balance of trade with Chile reached a peak surplus in 1995 of NZ\$ 49.2 million, however a sharp decline in trade between 1996 and 1999 saw exports to Chile decline from NZ\$ 80.3 million to NZ\$ 43.5million, imports from Chile drop from NZ\$ 32.9 million to NZ\$ 23.4 million, and New Zealand's balance of trade with

Chile was reduced to NZ\$ 20 million. While this decline was followed by a recovery in 2000, a second sharp decline in New Zealand's exports to Chile has led to a reduced balance of trade of NZ\$ 22.4 million being recorded for 2001 (figure 3).

New Zealand's top ten exports to Chile in 2001 (ranked by value) were dairy; machinery (largely made up of exports by one firm involved in the construction of a conveyor belt system for Santiago's main airport); art and antiques; misc. grains, seeds and fruit; albumins, modified starch and glue; electrical machinery; plastics; sugars; vehicles (not railway); and iron/steel products (Trade NZ 2001:4). There is little reason to doubt that trade between the two countries will rise over the coming years as Chile moves out of recession steadily and New Zealand continues to grow at modest rates. The proposed CEP will increase the likelihood of this, although tariffs in both countries are relatively low already and the increase is likely to be marginal.

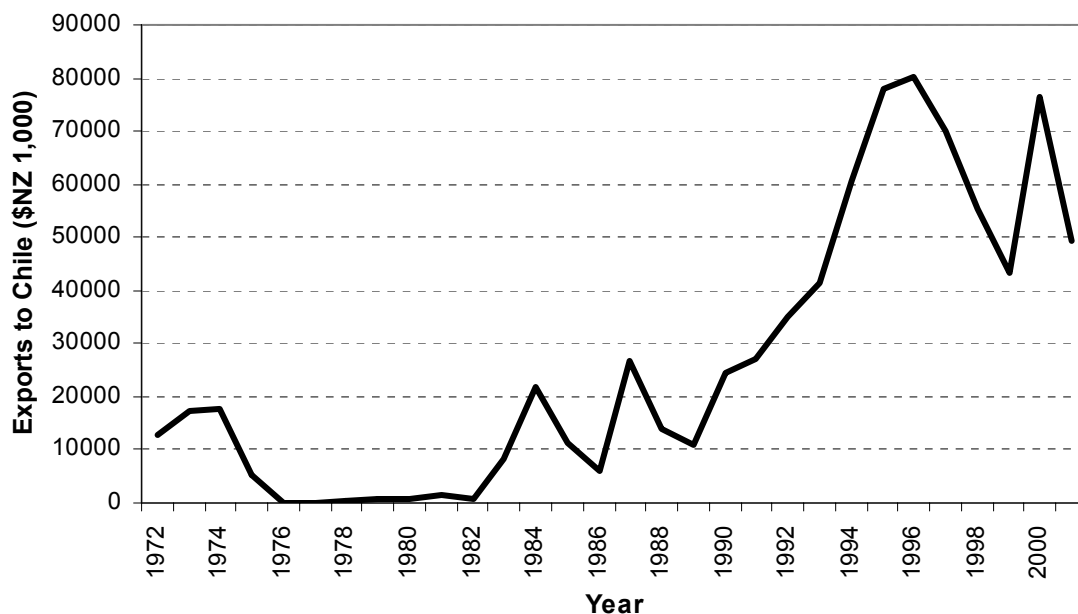
Although exports between the countries are in similar types of goods, to a certain extent there is a level of complementarity between the two economies. In the case of wine for example, New Zealand's production is firmly located in the 'first division' in terms of quality, and this is reflected in terms of relatively high prices on the global market. Chilean production is of high quality, but relatively cheap labour means that it is often

sold at premium prices. This also partly effects the external perception of Chilean wine as of medium quality. As McKenna and Murray (2002) explore in the case of the apple export sectors in Chile and New Zealand, the two countries occupy converging, yet differentiated, competitive spaces in various global agro-food complexes. The same can also be said of the forestry sector (Venegas, pers. comm.. Dec 10, 2002). The extent of the overlap between the two countries should be the focus of future comparative studies.

Services Trade

Services trade between New Zealand and Chile is difficult to quantify, but both countries are net importers of services. In 2001 New Zealand's balance of trade in services stood at US\$ -37 million, and Chile's at US\$ -592 million. Since 1990 however, the relative importance of services exports has increased for New Zealand, while in the case of Chile services imports have intensified. Further research is required in this area in order to determine the exact nature and direction of services trade *between* the two countries. However this area is likely to form an important part of the growing trade between the countries following the application of a CEP. Particularly New Zealand 'technical expertise' is likely to be increasingly sought by Chile.

Figure 1. New Zealand Exports to Chile: (1972-2001)



Source: MFAT, 1972-2001

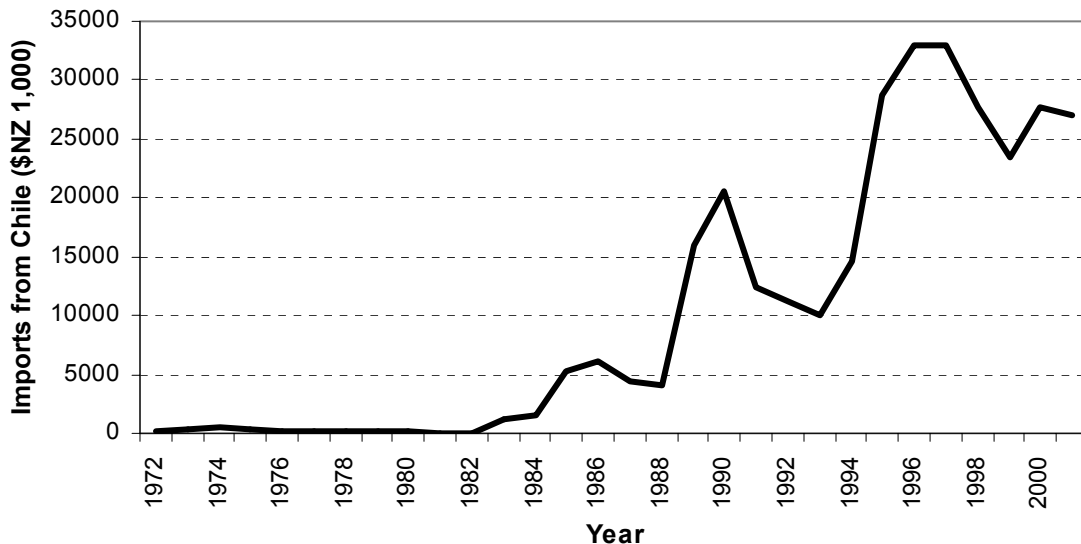
Investment Flows

Both New Zealand and Chile are important destinations for international investment, and both countries have similarly open economies to foreign direct investment. Both countries have also begun to emerge as significant investors abroad.

Capital flows into Chile are controlled by two main mechanisms. The first is the Foreign Investment Statute, or Decree Law 600 (DL 600), through which the Foreign Investment

Committee (FIC) authorises and registers inward investment. The second instrument, Chapter XIV of the Compendium of International Exchange Regulations, provides a means by which foreign investors can register with the Central Bank of Chile. Registration through DL 600 has proved to be the most popular route by which foreign investment has entered Chile, with investments through the FIC being almost five times greater than through the Central Bank since 1992 (OECD 1997).

Figure 2. New Zealand Imports from Chile (1972-2001)



Source: MFAT, 1972-2001

Over the period 1974 to May 1996 New Zealand investors contributed US\$ 412 million, or 2.4% of total materialised inward investments into Chile under DL 600, and New Zealand was ranked as Chile's tenth most important source of FDI (OECD 1997:16). New Zealand interests have played a major role in the evolution of Chile's forestry sector through the investments of Carter-Holt and Fletcher in particular (both recently sold their interests however). There has also been interaction in the fruit sector. However, the dairy sector is by far the most important area of New Zealand investment in Chile. Fonterra is 51% owner of Soprole, one of Chile's four big dairy players, and the company which often leads in this oligopsonistic sector.

Chilean investment abroad is increasing, and Chile is a major player in Latin America, with all of the top six Chilean investment destinations, and eleven of the top fourteen destinations falling within the region between 1990 and 1995. Argentina and Peru were by far the most important destinations for Chilean Capital during that period. The exact level of Chilean involvement in the New Zealand economy is yet to be determined.

Overall then, although trade and investment volumes between the two countries are likely to rise, this cannot be considered the major driving force of the moves towards integration. Below we consider geopolitical, sectorally specific, and symbolic reasons for

New Zealand's interest in Chile and vice versa.

Why Chile and New Zealand? Rationale for and Implications of a Closer Economic Partnership

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) (2002) has emphasised the potential that the growing Latin American consumer market holds for New Zealand exporters. The population of Latin America is expected to reach 625 million by 2015, and between 1990 and 1998 New Zealand exports to the region rose by around 460% (MFAT 2002).

The New Zealand Government's Latin America Strategy, launched in August 2000 with a three-year timeframe, is an attempt to reinvigorate New Zealand's relationship with the region and realise the potential of existing political, economic, cultural and people-to-people links. A long-standing and established relationship with Chile, it is claimed, makes Chile a logical focus of the Latin America Strategy. The MFAT states that

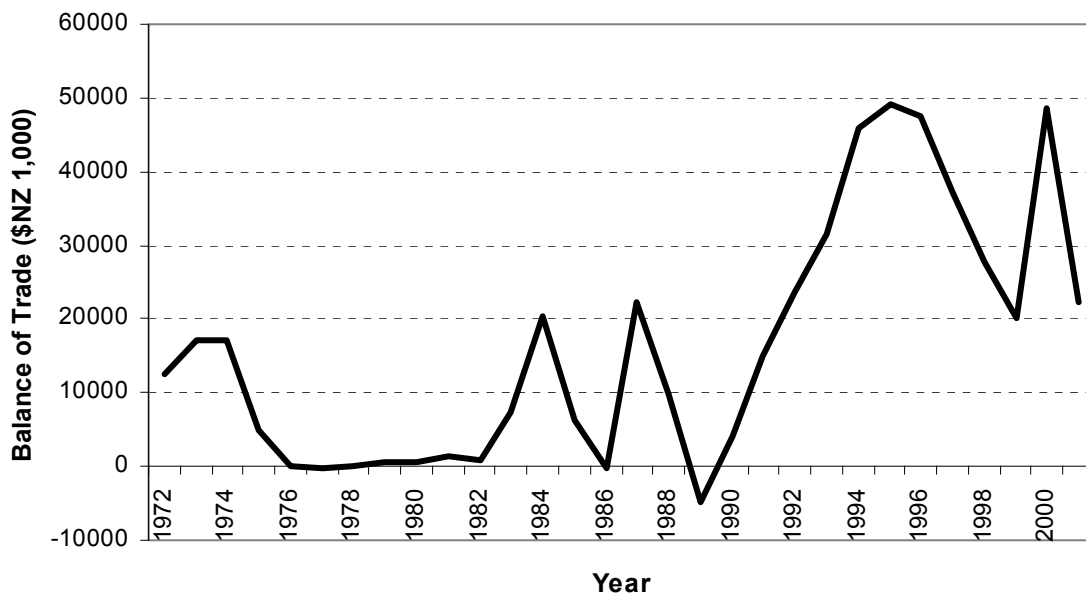
economic muscle to our already close political and cultural links, and would be a further tangible demonstration of New Zealand's commitment to the region. (MFAT 2002:4)

Given that New Zealand and Chile are of limited importance to each other in terms of trade volume and value, integration following a CEP may prove to be effective in stimulating a growth in bilateral trade. However, it is likely that Chile has been identified as a country with which New Zealand should increasingly engage for a more complex set of strategic reasons. The importance given to this endeavour is somewhat symbolic of New Zealand and Chile's future intentions as they both re-invent themselves on the uneven global playing-field. Below we consider the rationale for closer integration under the following headings:

- *geopolitical trade strategy*
- *techno-economic complementarity*
- *political factors*

A Closer Economic Partnership Agreement would add

Figure 3. New Zealand's Balance of Trade with Chile (1972-2001)



Source: MFAT, 1972-2001

In terms of *geopolitical trade strategy* both New Zealand and Chile are already members of or party to negotiations on a multitude of bilateral, regional and global agreements. Some of these (eg. APEC, Cairns Group) are common to both countries, while others (eg. Chile's associate membership in MERCOSUR, FTAA negotiations, New Zealand's CEP with Singapore) are attractive, but not (as yet) accessible to both countries. Chile has been especially aggressive in pursuing free-trade agreements, and in this sense very successful. It is currently the only country in the world which a foot in both the EU (with which it recently signed a free-trade and closer association agreement) and North America (it is fast-tracked for NAFTA membership).

The most significant motivation driving a CEP then appears to be the potential for both countries to gain better access to regional markets with which the other is associated. MFAT claims that given Chile's negotiations on the proposed FTAA, and the likelihood of it becoming the fourth member of NAFTA, New Zealand can secure its viability in the Americas through a CEP with Chile. Similarly, a CEP with New Zealand would provide Chile with a relatively easy stepping stone into the Asia-Pacific market and will establish a high benchmark for free trade measures and help promote trade liberalisation within the APEC region. By including Singapore (with whom New Zealand already has a CEP) in the Chilean agreement to form a 'Pacific three', or 'P3', the free-trade agendas of both countries will be well-served.

In terms of *techno-economic complementarity* both economies stand to benefit from interaction with the other for reasons of subtly differentiated economic conditions. As already mentioned relatively cheap labour costs in Chile provide a range of cheap import items for New Zealand. More importantly however, outward direct investment by New Zealand firms may be stimulated by cheap labour costs in Chile. In the dairy industry in particular New Zealand has already invested heavily, and discussions are currently underway for further investment. Being able to source global exports from a cheap labour base in

Latin America is highly attractive for the NZ dairy giant.

From Chile's point of view the receipt of foreign investment is a priority, as it has been since neoliberal restructuring in the 1970s. The Chilean government is also keen to reap the benefits of technology transfer which may have a demonstration effect for other areas of the agro-economy (Ramiro Sanhuza, pers. comm., December 5, 2002). A further factor mentioned by officials from the Chilean Ministry of Agriculture in recent interviews is the access to foreign markets which linkages with specific New Zealand firms will bring. This is particularly the case with Fonterra, but is also the case in the wine, fruit, forestry, and fishery sectors.

In terms of *political factors*, Chile's democratic status, and the presidency of Ricardo Lagos, are compatible partners for Prime Minister Helen Clark's centre-left Labour government. Ms. Clark has publicly expressed her admiration for Chile's current *Concertación* (coalition) government, which has ruled since the peaceful toppling of the dictatorship in 1990 and has long followed the fortunes of the once-troubled Latin American nation. Dr. Lagos was one of Augusto Pinochet's most formidable and publically-recognised opponents in the 1980s and has earned much respect globally in the left and centre-left. There can be little doubt that the 'meeting of minds' between the current heads of government has acted as a significant impulse towards closer integration. How ironic that two former socialist-leaning thinkers should solidify their relationship through the development of an agreement intended to further free-trade.

Nature and Implications of a CEP

The Ministry of Foreign Affairs and Trade has suggested that a CEP with Chile would need to address: goods trade and the management of tariff preferences; the establishment of a framework to reduce non-tariff barriers such as sanitary and phytosanitary barriers without compromising New Zealand's biosecurity; the promotion of two-way investment through a possible Investment Protection and Promotion agreement; the expansion of cooperation in bilateral trade in services; and the integration of labour and environmental

standards frameworks. In addition, the CEP could serve as an umbrella for other cooperative initiatives, and help facilitate communication and linkages between New Zealand Maori and the Mapuche and Rapa Nui of Chile.

Although it is suggested that the CEP would have little effect on the protected sectors in either country due to different export foci (MFAT 2002), the potential socio-economic costs of the agreement could be substantial. Implications will vary across sectors and between New Zealand and Chile, and because of this, detailed sectoral studies and negotiations will be necessary if the CEP is to proceed without creating an unequal distribution of costs and benefits. Of particular concern is the impact of the CEP on the dairy sector in Chile, which currently provides employment for thousands of small-scale growers in the south of the country. Restructuring in this area is likely to be a painful process in both social and environmental senses. Soprole's purchasing policy has been the course of some controversy among farmers. Furthermore, some groups have voiced concern over the possible flooding of the Chilean market by cheaper New Zealand imports. The fact that Chile is now a net exporter of dairy products suggests that the potential for the absorption of imports may be exhausted however (Chris Langley, pers. comm., December 5, 2002). Furthermore, some have argued that the increased investment which accompanies a CEP will bring much longer-term benefits to the industry. There is little doubt that these benefits will be unevenly distributed however, and steps should be taken to estimate and ameliorate regressive outcomes which further threaten precarious livelihoods in the Chilean dairy sector.

The implications of the CEP for the indigenous peoples of both countries requires investigation, and MFAT has acknowledged the possible need for exceptions to the agreement on New Zealand's part, in order to ensure the ability of the Government to fulfil its obligations to Maori under the Treaty of Waitangi. In Chile, the Mapuche population makes up a considerable proportion of the small-scale sector involved in dairy in the South. The impacts of an agreement on this group thus

need to be considered (Alfredo Apey, pers. comm., December 4, 2002). There are numerous Mapuche groups opposed to free-trade agreements which intend to exploit the natural resources of the south of Chile and debate surrounding this issue has become increasingly confrontational.

Towards Cooperative Globalisation or Oligopsonistic Competition?

At the governmental level, the moves towards integration between New Zealand and Chile through a CEP have been justified thus far by the idea that the two economies might cooperate and share expertise and technology in the face of increasingly regionalizing global markets. There can be little doubt that a 'P3' agreement involving New Zealand, Chile and Singapore has the potential to broaden regional integration and provide a solid connection between the Asia-Pacific and Latin American markets.

Where aggregate trade data and macroeconomic indicators suggest 'no significant negative impacts', local evidence and real life situations can often illustrate the opposite. The shortcomings of the neoliberal model (despite the 'human face' which is now appended to it) in terms of securing socio-economic and environmental sustainability for the majority of the population has been clearly evidenced in the literature. Furthermore, the tendency of trade liberalisation to prioritise profit at the expense of the collective good at various scales – particularly at the level of the community – is clearly evident, both historically and today. What is lacking in the discussions so far is a detailed consideration of the local geographical impacts of the agreement. Estimating these will require more consultation with those who are likely to be affected.

A CEP between New Zealand and Chile has the potential to set a benchmark for trade liberalisation within APEC and promote free trade in the region, which under certain conditions may contribute the betterment of living standards *in some cases*. However, it also has the potential to trample on the livelihoods of people on both sides of the Pacific if it is not thoroughly negotiated and researched.

To this end, we make a strong call for further research which identifies the local social, economic and environmental implications of the CEP, and assess the degree to which these should be prioritised by the respective governments. We suggest research in the following areas:

- 1) Comparative sectoral investigations and case studies to assess the likely impacts on participants across sectors. We recommend holistic social-economic comparative studies in the following sectors: dairy, wine, fruit, fisheries and forestry;
- 2) Work in identifying the major commercial stakeholders and investors in both New Zealand and Chile to provide an insight into the possible workings of the agreement and its likely outcomes. Research on the firms driving the dairy sector is especially important;
- 3) Investigation of the potential threats and opportunities for Maori, Mapuche and Rapa Nui would be extremely valuable, given that these groups often occupy lower socio-economic positions in the sectors of concern,
- 4) Research to determine the distribution of costs and benefits *between* New Zealand and Chile. These are likely to be disproportionate and should be more formally estimated;
- 5) Finally, there is considerable scope for research into the possible broader regional effects of the CEP within and between the Asia-Pacific and American regions, and its implications for North-South relations.

The potentially positive ramifications of the agreement between Chile and New Zealand should not be underestimated. The suggested CEP comes at a watershed period in the geopolitical economy of both countries and could provide a useful model

for other 'semi-peripheral' economies wishing to cooperate in the face of globalisation. However, if it used as a vehicle to further open the door for oligopsonistic interests which concentrate benefits in the hands of the few, the governments of the two countries would be perpetuating the uneven relations of power which characterise the local topography of the global economy. It is these power relations which are so detrimental to so many marginalised people both in Chile and New Zealand.

References

- Barton J R and Murray W E (eds.) (2002) *Chile – A Decade in Transition*, special edition of *Bulletin of Latin American Research*, vol. 21, no. 3
- McKenna M K L and Murray W E (2002) 'Jungle law in the orchard – comparing globalisation in the New Zealand and Chilean apple industries', *Economic Geography*, vol. 78, no. 4, pp. 495-514
- Ministry of Foreign Affairs and Trade (MFAT). (2002) *Chile and New Zealand: Towards a Closer Economic Partnership*, MFAT, Wellington New Zealand.
- Murray W E (1999) 'The global economy, natural resources and sustainability' in Gwynne R N and Kay C (eds.) *Latin America Transformed – Globalisation and Modernity*, Edward Arnold, London, pp. 128-151
- OECD. (1997) *OECD Reviews of Foreign Direct Investment: Chile*, Organisation for Economic Co-operation and Development, Paris, France.
- Trade New Zealand. (2001) *Chile Country Brief*, www.tradenz.govt.nz, accessed 15/08/02.
- World Trade Organisation (WTO). (2002) http://www.wto.org/english/res_e/statis_e/webpub_e.xl