NEW ZEALAND AND CHILE:
CONTEMPORARY CONVERGENCE AND DIVERGENCE
IN THE CONTEXT OF THE CEP

Warwick E Murray, Senior Lecturer, Human Geography and Development Studies, Victoria University of Wellington
Outline

1. Project Aims
2. Background to the CEP between NZ and Chile
3. Converging Political Economies?
4. Rationale for a CEP?
5. Summary and required research
1. Project Aims

1. To assess the extent of the convergence of the polities and economies of Chile and New Zealand.

2. To assess the roots and nature of politico-economic interaction.

3. To establish a baseline for comparison between New Zealand & Chile, & a starting point for the monitoring of the CEP between the two countries.
2. Background to the CEP between NZ and Chile

Whilst New Zealand & Chile are not major trading partners, trade between the two countries has been gradually increasing since the early 1980s.

- NZ Government’s *Latin America Strategy* - Launched in August 2000, coordinated by MFAT – to ‘intensify and realise the potential for New Zealand’s links with Latin America’.

  Its three main pillars of activity are:

  1. Foreign policy & political links;
  2. Trade & economic links;
  3. People to people links.
A Closer Economic Partnership (CEP) between NZ & Chile has been proposed, & in November 2001 Prime Minister Clark & President Lagos agreed to commission studies examining potential issues & implications of a CEP.

An initial study prepared by MFAT claims that a CEP with Chile would add ‘economic muscle to our already close political & cultural links’, & would be a further demonstration of New Zealand’s commitment to the region. There would be ‘no significant negative impacts’

However, there are elements of asymmetry in the relationship both within and between countries. It is our claim that deeper research is required to support the above claim.
Aspects of a CEP with Chile

1. **Goods Trade:** Management of tariff preferences
2. **Non-tariff barriers:** Establishment of a process to reduce non-tariff barriers without compromising NZ biosecurity
3. **Investment:** Possible incorporation of a signed (but not yet ratified) Investment Protection and Promotion Agreement
4. **Services:** Expand cooperation & bilateral trade in services
5. **Labour & Environmental Standards:** Integration of labour & environmental standards frameworks.
6. **Other Issues:** A CEP could serve as an umbrella for other bilateral initiatives such as the proposed Primary Industry Cooperation Arrangement & the Science and Technology Cooperation Arrangement.
7. **Exceptions:** A range of standard exceptions would need to be included – eg. To protect human, animal or plant life or health – and suitable provisions relating to the Treaty of Waitangi.
3. Converging Political Economies: Cooperation or Competition?

- Physical geographic & climatic similarities, and Pacific oceanic borders mean that NZ & Chile produce and export many of the same goods.

- Colonial histories & above have led to the common reliance on primary product exports. Both are semi-peripheral economies.

- Global proliferation of neoliberal reforms, & the pursuit of economic liberalisation in NZ & Chile has served to steer both countries into similar positions within the global economy.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>New Zealand</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>3.8</td>
<td>15.2</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>78.1</td>
<td>75.8</td>
</tr>
<tr>
<td>Urbanisation (% of total)</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>GDP (US$ bn)</td>
<td>58.0</td>
<td>66.4</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>14,727</td>
<td>4,414</td>
</tr>
<tr>
<td>GDP per capita (ppp US$)</td>
<td>19,160</td>
<td>9,190</td>
</tr>
<tr>
<td>Goods Exports (US$ bn)</td>
<td>14.0</td>
<td>17.5</td>
</tr>
<tr>
<td>Goods Imports (US$ bn)</td>
<td>12.0</td>
<td>16.1</td>
</tr>
<tr>
<td>Exports as % of GDP</td>
<td>37</td>
<td>35</td>
</tr>
<tr>
<td>Primary prods (% of Exports)</td>
<td>67.0</td>
<td>80</td>
</tr>
<tr>
<td>High tech exports (% of Exports)</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Agriculture as a % of GDP</td>
<td>8.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Industry as a % of GDP</td>
<td>23.4</td>
<td>37.1</td>
</tr>
<tr>
<td>Services as a % of GDP</td>
<td>68.3</td>
<td>54.1</td>
</tr>
</tbody>
</table>

Chile and New Zealand – the pursuit of Neoliberalism

Chile
- 1922 Constitution introduces Presidential Elections by Direct Popular vote
- 1940s-50s ECLA Structuralism
- 1973 Military Coup
- 1990s+ Democracy

1920s
- Figueroa
- Ibáñez
- Alessandri (1)

1930s
- Cerda
- Vílchez
- Ibáñez

1940s
- Frei (Sr)
- Allende

1950s
- Pinochet

1960s
- Frei (Jr)

1970s
- Aylwin
- Lagos

1980s
- 2000s+ Neo-structuralism?

New Zealand
- 1907 Dominion
- WWII
- 1947 Independence

1900s
- Liberal
- Reform
- Labour
- National

1950s
- United

1960s
- 1978 SMPs

1970s
- 1984 Labour Govt. reform
- Bolger

1980s
- 1990-ongoing reform under National Govt.

1990s
- 2000s+ Neo-structuralism?

Primary Product-based EOI
- ISI
- Diversified EOI

Primary Agriculture-based EOI
- ISI – ‘New Mixed Economy’
- Diversified EOI

Parliamentary Democracy
- Dictatorship
- Democracy/Concertación

Great Depression
- WWII
Chile’s trade agreements and share of total trade, 2003

Legend
Proportion of Total Trade
- 0.1
- 0.2 - 0.7
- 0.8 - 1.3
- 1.4 - 2.0
- 2.1 - 2.3
- 2.4 - 4.2
- 4.3 - 10.1
- 10.2 - 21.6

ECA = Economic Complementation Agreement, FTA = Free Trade Agreement
Commodity Trade

- Trade between NZ & Chile has fluctuated due to political & economic transitions & volatility in the markets for key commodities.

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

- 1996 peak (sustained growth in 1990s).
- End of Pinochet regime.
- NZ boycott 

*Source: MFAT, 1972-2001*
Despite fluctuations, trade between the two countries has been increasing since the early 1980s, & more rapidly since 1990.

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

- Asian crash & competition from cheap Asian imports?
- Appreciation of the Peso?
- Recession following debt crisis
- Political turmoil

*Source: MFAT, 1972-2001*
In 2001 New Zealand’s top exports to Chile were (ranked by value):

<table>
<thead>
<tr>
<th>Rank</th>
<th>Category</th>
<th>Value</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Machinery</td>
<td>NZ$ 49.83 million</td>
<td>22.6%</td>
</tr>
<tr>
<td>2.</td>
<td>Confidential</td>
<td></td>
<td>22.3%</td>
</tr>
<tr>
<td>3.</td>
<td>Dairy</td>
<td></td>
<td>20.7%</td>
</tr>
<tr>
<td>4.</td>
<td>Casein</td>
<td></td>
<td>7.3%</td>
</tr>
<tr>
<td>5.</td>
<td>Electrical machinery</td>
<td></td>
<td>5.2%</td>
</tr>
<tr>
<td>6.</td>
<td>Seeds etc.</td>
<td></td>
<td>3.6%</td>
</tr>
<tr>
<td>7.</td>
<td>Sugar products</td>
<td></td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Chile’s top exports to NZ were:

<table>
<thead>
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<th>Value</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fruit</td>
<td>NZ$ 27.08 million</td>
<td>22.5%</td>
</tr>
<tr>
<td>2.</td>
<td>Wine</td>
<td></td>
<td>18.6%</td>
</tr>
<tr>
<td>3.</td>
<td>Copper &amp; articles</td>
<td></td>
<td>9.0%</td>
</tr>
<tr>
<td>4.</td>
<td>Salts etc.</td>
<td></td>
<td>7.5%</td>
</tr>
<tr>
<td>5.</td>
<td>Fish meal</td>
<td></td>
<td>5.7%</td>
</tr>
<tr>
<td>6.</td>
<td>Fish</td>
<td></td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand.
New Zealand investment in Chile

- New Zealand companies with investment interests in Chile at present are:

  * Fonterra Co-operative Group Ltd. (ex-NZDB) – involved in agribusiness and dairy processing through its 57 percent share in Soprole;
  * Sanfords - a fishing venture;
  * ENZA (ex-New Zealand Apple and Pear Board) – involved in fruit marketing and distribution; and
  * Glidepath – the aforementioned baggage-handling service provider.

- The New Zealand FDI stock in Chile in 2001 was approximately US$ 162 million (DIRECON 2002:13).
NZ FDI in Chile 1990-2003, (US$ millions)

Accumulated NZ FDI in Chile 1974-2003 by sector

Source: Generated from FIC (2004) data.
Dairy products constitute New Zealand’s most important exports to Chile, & dairy is the most contentious area arising out of the CEP discussions.

*Source:* Generated from Statistics New Zealand (2004) data: INFOS Database
New Zealand and Chile major dairy farming regions
## The dairy sectors of New Zealand and Chile: Selected economic and productive indicators, 1997*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Chile</th>
<th>New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk Production (millions of Litres)</td>
<td>2,050</td>
<td>10,339</td>
</tr>
<tr>
<td>Number of dairy cows</td>
<td>616,000</td>
<td>3,065,000</td>
</tr>
<tr>
<td>Number of dairy farms</td>
<td>48,773</td>
<td>14,673</td>
</tr>
<tr>
<td>Area under dairy pasture (millions of hectares)</td>
<td>3.4</td>
<td>1.3</td>
</tr>
<tr>
<td>- as a % of total pasture land</td>
<td>25.0</td>
<td>11.0</td>
</tr>
<tr>
<td>- as a % of total agricultural land</td>
<td>6.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Average herd size</td>
<td>12</td>
<td>220</td>
</tr>
<tr>
<td>Production per hectare (L)</td>
<td>603</td>
<td>8,402</td>
</tr>
<tr>
<td>Cows per hectare</td>
<td>0.18</td>
<td>2.6</td>
</tr>
<tr>
<td>Production per cow (L)</td>
<td>3,328</td>
<td>3,373</td>
</tr>
<tr>
<td>Average price to the producer (US$/L)</td>
<td>0.23</td>
<td>0.18</td>
</tr>
<tr>
<td>Dairy Exports US$ (millions)</td>
<td>28.4</td>
<td>2,446.7</td>
</tr>
<tr>
<td>- as a % of total dairy production</td>
<td>1.0</td>
<td>84.5</td>
</tr>
<tr>
<td>Dairy Imports US$ (millions)</td>
<td>41.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Balance of Trade in dairy products US$ (millions)</td>
<td>-13.5</td>
<td>2,430.4</td>
</tr>
</tbody>
</table>

* The most recent comprehensive Chilean data accessible, from the Sixth National Agricultural Census, National Institute of Statistics (INE), 1997.

Sources: Compiled from FAO 2004; INE 1997; LIC 1999; ODEPA 2004b.
4. Rationale for the CEP?

- Given the similarities discussed, Trade Theory would predict that Chile & New Zealand be competitors within global markets, yet the governments of the two countries are pursuing a CEP.

- The relatively low (albeit growing) level of trade between the two countries, existing very low tariff rates & the existence of more significant trading partners in the region begs the question: Why has the NZ Government opted for a CEP with Chile?
1) GEOPOLITICAL TRADE STRATEGY
2) TECHNO-ECONOMIC COMPLEMENTARITY
3) POLITICAL FACTORS
5. Summary
Required research

- More explicit research on the internal costs of the CEP which were played-down in the official reports;
- Comparative sectoral investigations and case studies to gauge the likely impacts of the CEP in terms of competitive space. The following sectors: dairy, wine, fruit, fisheries and forestry;
- Work relating neostructuralism to the rise of managed-trade and bilateral agreements in the Asia Pacific
- Work in identifying the major commercial stakeholders. Research on the firms driving the dairy sector is especially important. Work on the institutional drivers of this process in the context of the geoeconomic strategies of NZ and Chile
- Work on the likely implications of the CEP for Maori & Mapuche
- 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.
Project publications to date

Gwynne, R N (submitted) ‘Globalization and the wine sectors of New Zealand and Chile’ submitted to *Asia Pacific Viewpoint*

Murray W E and Challies E (in prep.) ‘Chile and New Zealand – convergence on neostructuralism?’ *Journal of Comparative Political Economy*


