

Latin America: A revised approach

This is an edited summary of the New Zealand Government's revised Latin America Strategy, approved by Cabinet in May 2010.

Why is Latin America important for New Zealand?

Commensurate with the growing economic opportunities in the region, competition for Latin America's attention and resources is increasing. The region warrants a sharper focus from New Zealand for the following reasons:

- **New Zealand already has significant economic interests in Latin America.** Our annual exports (mainly dairy to Mexico, Venezuela and Cuba) average around NZ\$1b annually and New Zealand investments (in agri-technology, energy, fisheries, and specialised manufacturing etc) are worth around NZ\$1.3b.
- **There is considerable scope to expand investment and services trade in the region.** This could be a significant avenue of economic diversification for New Zealand's external economic interests. The agricultural potential of South America provides New Zealand businesses with the chance to capitalise on their agri-technology strengths. Better returns will be achieved through establishing secure relationships which yield long-term returns for New Zealand. In general, there is good potential to build on existing business links, and develop new opportunities, in energy, clean technology, and fisheries, as well as to grow the education and tourism markets.
- **South American agricultural production will increasingly compete with New Zealand products in third markets.** Expansion of New Zealand's production, processing, and distribution footprint in the region is a way of addressing this threat.
- **Latin America, and especially Brazil, is a global player on the issues that matter to New Zealand,** including the Doha Round, responses to the global economic crisis through the G20, and international climate change negotiations.

The Latin America Strategy: Focusing on Economic Links

Since 2000, New Zealand's Latin America Strategy Fund (LASF), worth NZ\$250,000 annually, has promoted foreign policy cooperation and political links; trade and economic links; and people-to-people links between Latin America and New Zealand.

Since late 2008, the Latin America Strategy Fund has emphasised trade and economic links. Its objective is to expand and deepen New Zealand's links with Latin America, especially to maximise the economic opportunities for New Zealand in the region and to strengthen political and foreign policy engagement.

Under the Latin America Strategy, New Zealand has prioritized six countries: Brazil, Mexico, Chile, Argentina, Uruguay and Peru, with scope to also increase our engagement with other countries

such as Colombia and Cuba. Necessarily our approach to each country needs to be tailored to reflect the different stages of our relationships. The dedicated overall Latin America framework is appreciated by our Latin American partners. It has been seen as a positive point of difference in our engagement with the region.

What should New Zealand be doing?

Looking ahead, the following are specific priority action areas for New Zealand government agencies working with Latin America.

- **Underpin economic links with political engagement.** The Latin America Strategy is appreciated by the region. We need to intensify efforts to build a broad-based political dialogue with the current governments and "next generation" leaders. This will help to create a favourable response to New Zealand investments and trade, demonstrating our long-term commitment to the region.
- Promote a **better understanding of the region among New Zealand businesses** to help identify prospects for increased investment, trade and joint ventures. Some businesses have not yet recognised the opportunities nor developed the capability (including use of Spanish/Portuguese language) to operate effectively in Latin America. MFAT and NZTE are working together to ensure that Latin America is increasingly on the radar of businesses. We also need to raise New Zealand's profile as an investment destination in the region in areas of strategic economic importance to New Zealand, e.g. through the Rugby World Cup 2011 and other promotions.
- **Lower barriers to business.** The TransPacific Partnership (TPP: with respect to Chile and Peru) will be a key tool for providing businesses with improved market access and regulatory certainty. Sanitary/phyto-sanitary agreements, double taxation agreements, and regular trade policy discussions are other useful ways to address barriers to New Zealand businesses in the region.
- **Promote New Zealand tourism in the region**^{*}. Tourism New Zealand funds activities to build the knowledge and the capability of agents who sell New Zealand. Tourism New Zealand's three-year marketing strategy to 2013 is currently focused on existing markets (e.g. US, China, Germany) because this is where the greatest returns are earned from investment. Tourism New Zealand is investing modestly in emerging markets such as Latin America because of their growing importance, during and beyond the three-year strategy timeframe.
- **Improve airlinks between New Zealand and the region.** There are currently ten flights a week between the region and New Zealand (from Santiago and Buenos Aires to Auckland)^{**}. New Zealand has an interest in enhanced airlinks, including direct flights between Brazil and New Zealand. New Zealand has air services arrangements in place with Argentina, Brazil, Chile and Mexico.
- **Deepen education links with the region.** EducationNZ is eager to expand and mature the education market beyond secondary school and English language training^{****}. Brazil is a priority market for EducationNZ (currently students and tourists from Brazil are worth more to New Zealand than goods exports). There are increasing numbers of post-graduate students from Chile under the Bicentennial scholarships scheme and strong potential for education links and marketing in Colombia. Existing Working Holiday Schemes with Argentina, Brazil, Chile, Mexico, Peru, Uruguay help to build people-to-people links, including promoting study in New Zealand.
- **Expand research and science links.** This is an important means of supporting New

Zealand's investment and education links. New Zealand has a shared interest in addressing agricultural emissions through the Livestock Emissions Abatement Research Network and now the Global Research Alliance.

- **Align New Zealand's development assistance programme with New Zealand's economic and political interests in Latin America.** The modest development assistance programme is an important means to demonstrate New Zealand's commitment, and to strengthen relationships with the governments of the region.

Risks

In order to take advantage of the opportunities in Latin America, we will need to recognise, and mitigate, key risks:

- **Latin America will be a growing agricultural competitor.** To address this, New Zealand needs to be part of the South America food value chain through increased investment in agricultural production, processing and distribution, rather than competing with it. This requires on-going effort to convince New Zealand businesses of this strategy.
- **New Zealand businesses may sell their comparative advantage short in Latin America,** by allowing their intellectual property to leach to Latin America for short-term gain. Given the prospect of growing agricultural competition with the region, this could erode our longer-term comparative advantage particularly in the agri-technology sector. NZ Inc needs to work together to promote long-term economic partnerships which generate an income stream back to New Zealand and a better understanding of intellectual property issues through business education.
- **There may be negative perceptions of New Zealand's economic links with Latin America.** Given the broader ramifications for New Zealand's image, NZ Inc needs to promote a positive response to New Zealand investments, including demonstrating a long-term broad-based commitment and working with New Zealand businesses to minimize any reputational concerns. Political engagement and other government-to-government links are an important means of doing this.
- **Political or economic volatility may affect New Zealand's interests.** Latin America (particularly the key countries of interest to New Zealand) presents a more stable and predictable economic environment than previously, although economic populism as well as high levels of crime pose risks for New Zealand investors in some markets. Monitoring of the situation, information-sharing and engagement with New Zealand businesses on the risks remain important.
- **Other priorities and limited resources impede New Zealand Inc's capacity to tap the potential of the region.** This is relevant for education and tourism promotion (and the related requirement to ensure that visa services in the region can cope with any increased demand). New Zealand businesses have identified Double Taxation Agreements as a key measure to assist offshore investment, particularly in South America – but, given other negotiating priorities, the Inland Revenue Department will not be in a position to address this in the medium term.

*There were 35,803 visitors, including students, from the region in 2009, almost half from Brazil. Argentina, Chile and Mexico are also growing sources of visitors to NZ.

***There are six LAN Chile flights from Santiago to Auckland and four Aerolineas Argentina flights from Buenos Aires to Auckland each week. There are also three Qantas flights from Buenos Aires to Sydney each week.

***There are approximately 3,580 students from Brazil (mainly secondary school and English

language students) – making it New Zealand's ninth biggest market for foreign students with an estimated yield of NZ\$55million in 2009.

[top of page](#)

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The Re-freshed Latin America Strategy: One Year Later

Annual Report for the 2010-11 Financial Year

Executive Summary

- With positive results for NZ's economic interests, there has been good progress in the implementation of the re-freshed Latin America Strategy approved by Cabinet in May 2010.
 - Momentum of NZ political engagement with the region was maintained during the year, notably through the Foreign Minister's visit to South America, and Trade Minister's visit to Brazil and Mexico, demonstrating that NZ is a committed partner.
 - But there needs to be a continued focus on building political links in 2011-12, with a particular focus on the new Rousseff administration in Brazil, including at Head of Government level.
 - Targetted inwards visits from the region have supported NZ business links (e.g. dairy, fisheries investments).
 - Major business networking events held in Sao Paulo and Mexico during Minister of Trade's visit, as well as visits to the region by business association representatives used to spread the message at the NZ end of "how to do business" in the region and highlight the opportunities there.
 - NZTE is working with a growing number of NZ businesses that are interested in, and engaging across the region.
 - TPP negotiations, significant support for NZ investments, work on trade access issues (sanitary and phytosanitary as well as technical barriers to trade), as well as "best practice" policy engagement all contribute to addressing barriers to business.
 - Active Rugby World Cup promotion resulted in around 5,000 additional visitors from Argentina and other countries in the region.
 - Air Services negotiations could open opportunities for improving airlinks with the region.
 - Mixed results on the education marketing front –student numbers from Brazil and Chile appear to have slowed after years of strong growth; partly off-set by continued strong growth in student numbers from Colombia.
 - A number of research projects have highlighted NZ's areas of expertise (e.g. geothermal energy, agriculture, biotechnology, carbon footprinting) and provided support for NZ's commercial interests. Our key partners in the region are now all members of the Global Research Alliance.
 - NZAID is developing a new framework for the region which will focus on agriculture and human resource development.
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Report

2 This report outlines key NZ Inc developments in the implementation of the Latin America Strategy approved by Cabinet in May 2010. A range of government agencies (NZ Trade and Enterprise, Ministry of Agriculture and Fisheries, Ministry of Education, Ministry of Economic Development, Ministry of Science and Innovation, Ministry for the Environment, Department of Labour, Ministry of Transport, Tourism NZ, Education NZ) have contributed to this report.

3 The objective of the Latin America Strategy (and its Fund) is:

“to expand and deepen New Zealand’s links with Latin America, especially to maximise the economic opportunities for New Zealand in the region and to strengthen political and foreign policy engagement.”

4 In particular this report evaluates the NZ Inc projects supported by the Latin America Strategy Fund in the 2010-11 financial year.

Underpinning economic links with political engagement:

5 Investment and services continue to drive NZ’s economic relationship with the region. NZ investment is estimated to be worth several billion dollars – although it is difficult to make a precise valuation – and is primarily in the dairy sector, as well as energy and fisheries. NZ exports to the region in the year to June 2011 were worth NZ\$1.367 billion with key markets including Venezuela (NZ\$475 million), Mexico (NZ\$432 million), and Peru (NZ\$95 million).¹

6 A primary focus of the Latin America Strategy is to underpin New Zealand’s economic links with political engagement. There was a positive momentum of political engagement during the 2010-11 year.

7 This included the visit by the Minister of Foreign Affairs to Chile, Argentina and Brazil in August 2010; the Minister of Trade’s visit to Brazil and visits to Mexico, in conjunction with business delegations (Oct/Nov 2010 + March 2011); the visit by the Speaker and parliamentary delegation to Chile, Argentina, Uruguay and Brazil (May 2011); and a lunch between the PM and President of Chile at APEC 2010; as well as inwards visits from the Chile Minister of Agriculture (Nov 2010); Chile Vice Trade Minister (Dec 2010); Brazil Governor of Bahia (Nov 2010); and Colombian Vice Foreign and Vice Trade Ministers (June 2011). Foreign Ministry consultations were held with both Chile and Brazil (March 2010).

8 This high level engagement focused on reinforcing New Zealand’s commitment as an economic partner with the priority countries for NZ in the region. It also sent an important signal to New Zealand businesses that the region holds significant potential as an avenue of economic diversification. During these visits opportunities were taken to promote a favourable view of NZ companies investing in the region.

¹ World Trade Atlas: provisional trade statistics for the year to June 2011. NZ exports to other key regional partners include: Argentina (NZ\$18m); Brazil (NZ\$56m); Chile (NZ\$66m); Colombia (NZ\$12m); Cuba (NZ\$76m); and Uruguay (NZ\$13m). NZ imports from the region totalled NZ\$654 million, including Mexico (NZ\$214m); Brazil (NZ\$152m); Argentina (NZ\$119m) and Chile (NZ\$66m).

