

## LOOKING TO THE FUTURE: EXPANDING NEW ZEALAND FOREIGN RELATIONS BEYOND TRADITIONAL PARTNERSHIPS (CASE STUDY: LATIN AMERICA)

Dr Reuben Steff | University of Waikato | reuben.steff@waikato.ac.nz

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The combination of positive trends in Latin America and political developments in the US offers New Zealand a great opportunity to energise its engagement with the region.

### Key findings

- The Donald J. Trump administration's controversial trade, immigration and border policies represent an unprecedented opportunity for New Zealand to differentiate itself from the US in Latin American and go on the diplomatic offensive. New Zealand should review its engagement with the major states in the region, leverage its 'independent' foreign policy credentials, and market itself as a willing and capable partner that can act as a bridge to Australia and Asia.
- Trends in Latin America are favourable to an export-oriented economy like New Zealand. These include a firm basis for long-term economic growth in the region and a decline of left-leaning governments opposed to business-friendly reforms and free trade.
- Identifying areas of common interest where New Zealand can deliver value could provide a foundation for expanding and deepening relations. Three proposed areas are: (1) collaboration on trans-national organised crime, with an emphasis on countering narcotics, (2) exporting 'best practice' governance Intellectual Property (IP) and (3) expanding people-to-people links.

### Executive Summary:

*What is the problem?*

New Zealand faces barriers to expanding its foreign relations with Latin America. The first is inertia at the strategic level that has prevented the New Zealand government from seizing the opportunity presented by the arrival of the Trump administration. The second is the result of resourcing constraints in the New Zealand Ministry of Foreign Affairs and Trade (MFAT), which have led to a lack of institutional capability and expertise to engage with Latin American nations effectively.



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*What should be done?*

New Zealand should efficiently utilise its financial, intellectual and cultural resources, and prioritise states within Latin America that have the greatest potential for economic growth and political stability. Identifying issues of common interest, and where New Zealand can deliver value, could provide a basis for expanding and deepening relations.

## Analysis

Inertia at the strategic level has prevented the New Zealand government from seizing the opportunity afforded it by the advent of the Trump administration in the US. Owing to the Trump administration's trade, immigration and border wall policies, Latin America-US relations are likely to be fraught over the coming years. This provides an opening for New Zealand to market itself to the region as a capable, friendly, and willing partner – one that can also act as a bridge to Australia and Asia. Relatedly, it appears there is not a sufficient level of resourcing to expand New Zealand's relation in Latin America, compounded by a shortage of institutional capability and expertise to engage with the region effectively.

These barriers are not insurmountable. Indeed, they are a feature of New Zealand's relations with many of its non-traditional trading partners. New Zealand's 40+ years of investment in South East Asia, which is now paying dividends, could act as a model for Wellington's Latin America strategy. While New Zealand cannot compete at a level commensurate with larger states, it should identify and work on areas of common interest and develop niche expertise. This would add to its 'value proposition' and help differentiate it from other states in the region.

Three potential areas of focus are:

- (1) **Combating trans-national organised crime**, with an emphasis on counter narcotics. This is an issue of common concern to Latin America and the New Zealand government, and there is potential for strengthening police-police, border and intelligence cooperation.
- (2) **Exporting 'best practice' governance IP**. According to The World Justice Project, which assesses the quality of governance globally, (this includes the level of corruption, basic freedoms, regulation and other governance issues) New Zealand ranks number 8 in the world. By comparison, Chile ranks 22, Argentina 51, Brazil 52, Colombia 71 and Mexico 88. Given ongoing governance concerns in Latin America, New Zealand could market itself as an exporter of good governance IP.
- (3) **Expanding people-to-people links**. New Zealand should focus on expanding the number of air-service agreements, flights to Latin America, easing education/travel visa requirements and promoting working holiday schemes. Additionally, the feasibility of establishing a Latin America: New Zealand Foundation, modelled after the Asia: New Zealand Foundation, should be explored. This organisation would focus on expanding ties between New Zealand and Latin America across a range of areas, including business, security, development, science and education, tourism, Track II events, immigration and culture.



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## Why does Latin America matter to New Zealand?

Despite economic and political turbulence in some major Latin American economies over the past two years, the recent story of economic growth across the region and the underlying fundamentals are cause for optimism.

According to the International Monetary Fund (IMF), Latin America's economic growth rate averaged 2% from 1980 to 1990, 2.9% from 1990 to 2000, and a 'golden decade' during the 2000s, with average growth rising to 3.8%.<sup>1</sup> From 2010 to 2014, growth rates averaged 3.6% before falling to -0.1% in 2015.<sup>2</sup> In 2016, they recovered marginally to 0.6%, and are projected to grow to 1.2% in 2017 and 2.1% in 2018.<sup>3</sup> The recent decline conceals the fact that many Latin American countries continue to grow robustly, and those that have contracted have done so largely due to domestic factors.

Major economies, such as Argentina and Brazil are emerging from recession and have pro-business governments. Mexico is expected to continue to grow (and has recently made prudent economic reforms), and Central America and the Caribbean are growing the fastest.<sup>4</sup> Additionally, the emerging demographic profile across the region is favourable to sustaining short and medium term growth.<sup>5</sup> As such, Latin America has immense potential, reinforced by the fact that a number of protectionist left-leaning governments in the region have given way in recent years to administrations focused on pro-business reforms.

### *New Zealand's Presence in Latin America*

New Zealand maintains a modest presence in Latin America, with embassies in Argentina, Brazil, Chile and Mexico (with plans to open one in Colombia by the end of 2017). These embassies are cross-credited to 14 other nations in the region.<sup>6</sup> Out of 14 markets prioritised on Education New Zealand's (ENZ) website, 3 are based in Latin America (Brazil, Chile and Colombia), while New Zealand Trade and Enterprise (NZTE) has offices in Chile, Colombia and Brazil.<sup>7</sup>

New Zealand's interest in the continent is also reflected through its engagement in regional organisations, such as the Asia-Pacific Economic Cooperation Forum (APEC), the Community for Latin American and Caribbean States (CELAC), the Forum for East Asia – Latin America Cooperation (FEALAC), and Central American Integration Scheme (SICA).<sup>8</sup>

There are two major regional economic blocs relevant to New Zealand. These include the Pacific Alliance (established 2011) and Mercosur (established 1991). Pacific Alliance members include Chile, Colombia, Mexico and Peru, all of which border the Pacific Ocean, are pro-business and share New Zealand's commitment to free trade. New Zealand's interest is evident in regular New Zealand Trade Ministerial attendance at Pacific Alliance meetings and Wellington's Observer Status in the organisation. Additionally, two of New Zealand's five embassies in Latin America are in Chile and Mexico, with a third planned for Colombia.

Mercosur's member include Argentina, Brazil, Paraguay, Uruguay and Venezuela (the latter was suspended on 1 December 2016). Since its inception, this bloc has emphasised protectionism, with left leaning governments dominating the organisation. However, political developments in Argentina and Brazil since 2014 have ushered in pro-business governments, which could provide a boost to trade and to ongoing New Zealand-Australia-Mercosur FTA negotiations.



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## What should New Zealand do?

- Undertake a review of its engagement with Latin America to establish whether existing expertise, capability and resourcing is appropriately calibrated to achieve New Zealand's foreign policy objectives and seize emerging opportunities.
- Develop proposals focused on expanding collaboration in three areas: collaboration on trans-national organised crime, 'best practice' governance and people-to-people links.
- 'Pick winners': specific states in Latin America should be identified that have the greatest prospects for political stability and economic growth, and resources and attention to develop and expand ties with these states.
- Explore the feasibility of establishing a Latin America: New Zealand Foundation.
- Appoint a permanent ambassador to Latin America, with a particular focus on the Pacific Alliance and Mercosur.

## Conclusion

Given favourable political trends in Latin America and the controversial policies of the Trump administration, there may never be a more opportune time for New Zealand to go on the diplomatic offensive in Latin America. It should review its resourcing of the region and energise its engagement.

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<sup>1</sup> Nicolás Eyzaguirre, 'Sustaining Latin America's Transformation,' Finance and Development, March 2011, Vol. 48, No. 1, <http://www.imf.org/external/pubs/ft/fandd/2011/03/Eyzaguirre.htm>, accessed 1 June 2016.

<sup>2</sup> Patrick Gillespie, 'Latin America's Worst Year since Global Recession,' <http://money.cnn.com/2015/11/23/investing/latin-america-worst-performer-2015/>, accessed 1 June 2017.

<sup>3</sup> Alejandro, 'Navigating through Global Cross Currents: Latest Outlook for Latin America and the Caribbean,' 23 January 2017, <https://blogs.imf.org/2017/01/23/navigating-through-global-cross-currents-latest-outlook-for-latin-america-and-the-caribbean/>, accessed 1 June 2017.

<sup>4</sup> International Monetary Fund, 'IMF Survey: Latin America's Economic Slowdown Continues,' 27 April 2016, <https://www.imf.org/en/News/Articles/2015/09/28/04/53/socar042716a>, accessed 1 June 2017.

<sup>5</sup> Paulo M. Saad, 'Demographic Trends in Latin America and the Caribbean,' 14-15 July 2009, [http://www.cepal.org/celade/noticias/documentosdetrabajo/6/48786/Demographic\\_Trends\\_in\\_LAC\\_PAULO\\_SAAD\\_ED\\_12\\_7\\_09.pdf](http://www.cepal.org/celade/noticias/documentosdetrabajo/6/48786/Demographic_Trends_in_LAC_PAULO_SAAD_ED_12_7_09.pdf), accessed 1 June 2017.

<sup>6</sup> MFAT, 'Our Relationship with Latin America,' <https://www.mfat.govt.nz/countries-and-regions/latin-america/>, accessed 1 June 2017.

<sup>7</sup> ENZ, 'Markets,' 2016, <https://www.enz.govt.nz/markets/>, accessed 1 June 2017; NZTE, 'South America,' <https://www.nzte.govt.nz/contact-us/international-offices/south-america>, accessed 1 June 2017.

<sup>8</sup> MFAT, 'Our Relationship with Latin America.'



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