New Zealand and Latin America

Update on the trade relationship, barriers, and opportunities

Final report, 30 June 2022

SENSE PARTNERS
DATA LOGIC ACTION

Latin America

FIGURE 1: LATIN AMERICA

SOURCE: MAP DATA - ESRI

Latin America, as defined by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

Executive summary

The trade relationship has unrealised potential

The New Zealand-Latin America trade relationship is presently relatively small, but trade has been growing steadily outside of one-off events like Venezuela's economic collapse.

Goods exports to Latin America, excluding Venezuela, grew 29% between 2010 and 2019. and have been largely resilient through the pandemic.

Goods exports to Latin America have traditionally been dominated by dairy products, but other sectors are showing promising growth, including medical equipment and agricultural machinery. Dairy will likely continue to be central to a growing trade relationship, opening up opportunities for related sectors such as agri-tech.

Imports from Latin America are diverse, from primary products to advanced manufacturing, and have grown rapidly.

As with all New Zealand trade partners, services trade with Latin America has taken a hit as a result of the pandemic as tourism and export education dropped away. This will likely bounce back as borders reopen.

There are a number of examples of bilateral investment between Latin America and New Zealand. This includes New Zealand companies manufacturing in Mexico in order to access to the wider North American market. Outside of these examples, data indicates that total stocks and flows of investment are generally low. Should the economic relationship with Latin America thicken over time, we might expect investment trends to follow.

The best opportunities are in collaborating with Latin American producers or finding niche consumer markets

Latin America is a diverse region with pockets of wealthy consumers and advanced industry. New Zealand businesses selling a product or service that complements Latin American production patterns may find sales opportunities in the region.

This report identifies a number of opportunities in the region through the use of case studies. Ultimately, these come down to complementing what different Latin American markets do well. This includes selling products they cannot produce, providing services that enhance what they already do, and outsourcing to them what they do well.

Key to doing business in the region is developing strong relationships with potential customers and partners. This is true in any market but is particularly important in Latin America, where long-term trusting relationships are vital for doing business effectively.

Having local staff on the ground is important for lifting cultural awareness and capability and building relationship capital. Doing so takes time, potentially many years. This requires taking a long-term view.

Based on our quantitative research and case studies, the type of company that can expect to succeed in Latin America is one with a willingness to do due diligence, take a long-term view, establish an in-market presence or partnership with a local collaborator, and ride out the ups and downs. This is not necessarily a large company, but it is one that can identify a lower risk market opportunity or is comfortable with higher risk in other sectors.

Realising these opportunities will assist in New Zealand Inc's broader strategy of diversifying trade.

A long-term view and realism are needed in overcoming barriers

The long-term view is also essential in working through some of the barriers to doing business in the region. Our case studies and the existing literature suggest economic volatility, a protectionist approach to trade, corruption and bureaucratic inefficiency can be challenging in some markets.

However, the commonly held narrative of Latin American instability is not true of every market in the region. Within the region there are pockets of relative stability with an 'open for business' attitude to trade policy and business regulation.

Businesses should be clear-eyed about the barriers in each market. Entering the region where barriers are lower, such as Chile or Mexico, may be a good first step.

Taking a long-term view and planning for resilience to shocks can help manage barriers. Hiring local staff in-market can give businesses an edge in navigating the business and regulatory environments in each market.

The outlook is for solid growth contingent on policy choices

In the short term, the end of pandemic border restrictions will allow services trade to bounce back. High commodity prices will help drive an economic recovery in Latin America, boosting aggregate demand and incomes. This could translate to higher potential demand for New Zealand exports than seen in recent years.

Over the medium term, Latin American economies are expected to return to their pre-pandemic growth trends. These are modest compared to countries in Southeast Asia and China. Latin American growth is also likely to retain its characteristically cyclical pattern, with periodic downturns in some countries.

While business-to-business links will continue to offer specific commercial opportunities for New Zealand, policy choices in the region will play a large role in determining whether the trade relationship deepens materially and in a sustained fashion.

We see two main ways that policy choices could increase the scale and value of the New Zealand – Latin American economic relationship:

1. Investments in expanding productive capacity, such as infrastructure and education, which will support sustainable real income growth.
2. Expanding market access through trade agreements.

In terms of global challenges, addressing climate change will require lower agricultural emissions and a focus on renewable energy and sustainable transport. Knowledge sharing between the New Zealand and Latin American agricultural and energy sectors may lead to commercial and partnership opportunities in the climate change space.

There may also be opportunities for sharing information and exploring partnerships around the development of carbon markets in the Latin America. Collaboration on climate change can be enabled by strong commercial, government, and academic relationships.

Key takeaways for business

- **Focus on collaboration**. Opportunities exist for New Zealand products and services that complement and enhance Latin American production. Trade barriers within Latin America limit the opportunity for direct competition.
- **Take a long-term view**. Strong relationships are key to doing business in the region, even more so than other regions. These may take years to establish. A long-term view will also help in working through the ups and downs of the region.
- **Have people on the ground**. Hiring locals will help overcome language and cultural barriers faster. They can tap into their existing networks to help speed up business growth. They can also help navigate the broader business and cultural environment.
- **Be prepared for uncertainty:** The economic outlook for the region is solid. But markets will be subject to economic shocks and uncertain government policy positions. Businesses that are resilient to shocks will be well placed to succeed. Factors that will help include having a robust balance sheet, a realistic risk appetite, and a willingness to accept short term volatility in the context of securing longer-term gains.

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1. Stocktake of current economic relationship

1.1. Overview & key findings

This section provides an overview of New Zealand's trade relationship with Latin America. The analysis covers goods, services, and investment patterns. Each section starts with a look at aggregate figures, before drilling down into more detailed data.

To provide context to the analysis, it is useful to compare the Latin American relationship to that with other trade partners. To provide a relevant comparison, we look at Indonesia, Malaysia, Thailand, Vietnam, and China as comparators. These are referred to as the "comparator markets".

These have been selected as, like Latin American countries, they are developing economies and face many of the same challenges. This includes lower per capita incomes, less developed infrastructure, higher trade barriers, and weaker institutions compared to developed countries.[1] Much of the analysis focuses on the 2010-2019 period, to avoid recent volatility associated with the COVID-19 pandemic. Data to 2021 is included where available.[2]

Our analysis centres on six key Latin American markets: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. We focus on these markets as they have one or more of the following traits that offer potential opportunities for New Zealand firms: large economies within Latin America, high per capita incomes relative to other Latin American countries, or a free trade agreement with New Zealand.

Key findings

- The New Zealand-Latin America trade relationship is presently relatively small, but trade has been growing steadily outside of one-off events like Venezuela's economic collapse. Goods trade has been resilient through the pandemic.
- Goods exports have traditionally been dominated by dairy. However, other sectors, such as mechanical appliances and medical equipment, have shown rapid growth.
- As with all partners, services trade has taken a hit as a result of the pandemic. This will likely recover with the opening of the border and re-establishment of direct air links.
- Outside of some prominent examples, investment levels between New Zealand and Latin America are low relative to more mature investment relationships. As the trade relationship grows, investment levels may rise.

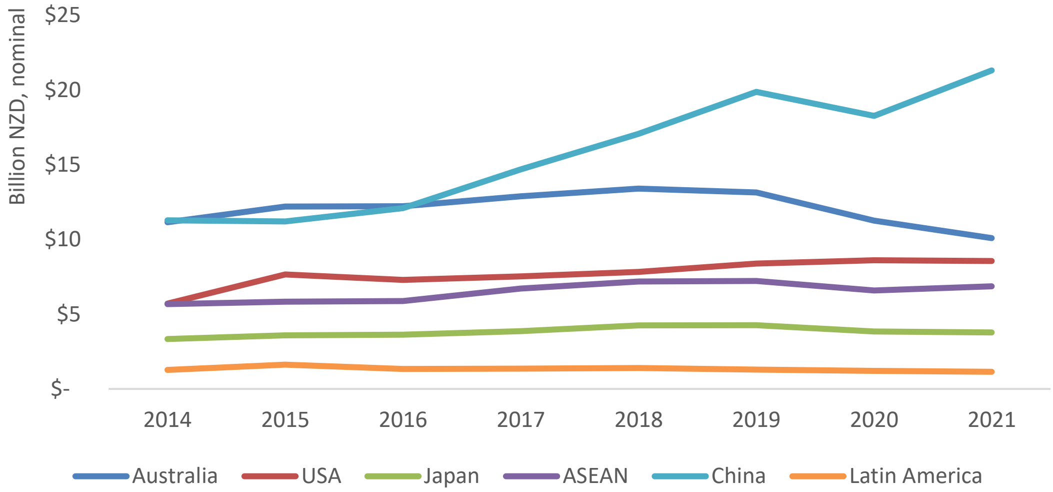
[1] The purpose of including these comparators is simply to provide context, rather than suggesting Latin America and developing country Asia are direct substitutes.
[2] Inflation-adjusted trade data is not readily available. In this report, we present nominal shares to get a sense of relative importance.

1.2. Total trade: goods and services

New Zealand exported over $1 billion to Latin America in 2021

Figure 2 below shows New Zealand's total exports of goods and services to Latin America and a selection of other major trading partners.

FIGURE 2: ANNUAL GOODS AND SERVICES EXPORTS - LATIN AMERICA AND SELECT PARTNERS



SOURCE: COMTRADE

New Zealand exported $1.06bn of goods exports and $89.4 million exports of services to Latin America in 2021. Prior to the pandemic (2019), these figures were $1.01bn and $280.5 million respectively.

Total New Zealand exports rose $23.4bn (38.7%) to $83.7bn between 2014 and 2019. Exports to Latin America rose just $10m (0.8%) over the same period.

At 1.5% of New Zealand's total exports, Latin America is an opportunity that is yet to be realised

Latin America accounts for a small portion (1.5%) of New Zealand's overall exports. The majority of growth in exports is occurring with other partners, such as China and the ASEAN countries.

This reflects the strong economic growth in these countries, and the accumulated resources the government and exporters have invested in growing economic relationships over time, including the negotiation of trade agreements.

Imports of goods and services from Latin America grew over 10% per year on average prior to COVID

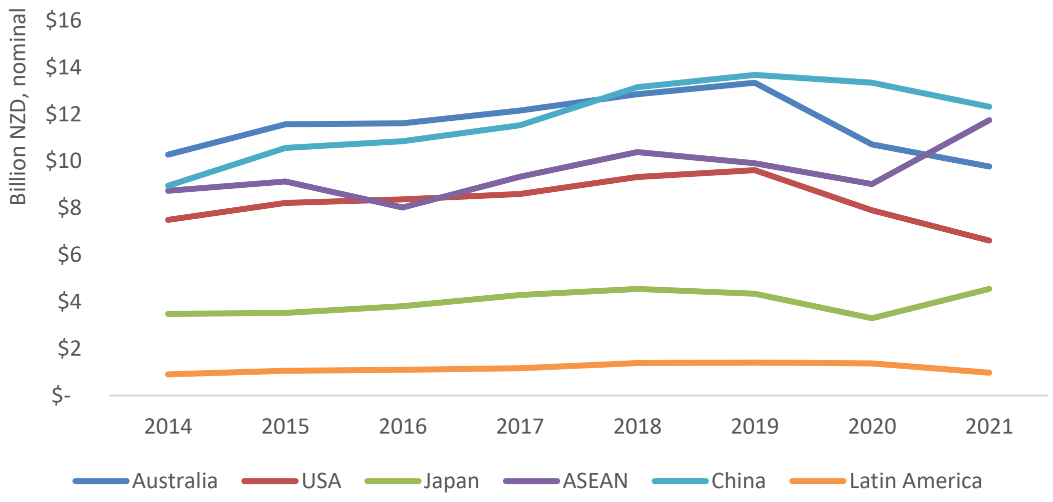
Figure 3 below shows New Zealand's total imports of goods and services from Latin America and the same partners used above.

Total imports rose $24.1bn (38.2%) to $87.2bn between 2014 and 2019, while those from Latin America rose $500m (55.6%) to $1.4bn. We explore this increase in imports in more detail below in section 1.3.

Total imports were relatively resilient to the pandemic, rising $1.35bn (1.5%) between 2019 and 2021. In contrast, imports from Latin America fell $430m (30.7%) over the same period, primarily due to pandemic travel restrictions impacting services trade.

Latin America is also a small portion (1.1%) of New Zealand's imports. As with exports, this reflects the fact that more commercial attention has been directed toward old friends (e.g. UK, EU, US) and more recent markets in Asia.

FIGURE 3: ANNUAL GOODS AND SERVICES IMPORTS - LATIN AMERICA AND SELECT PARTNERS



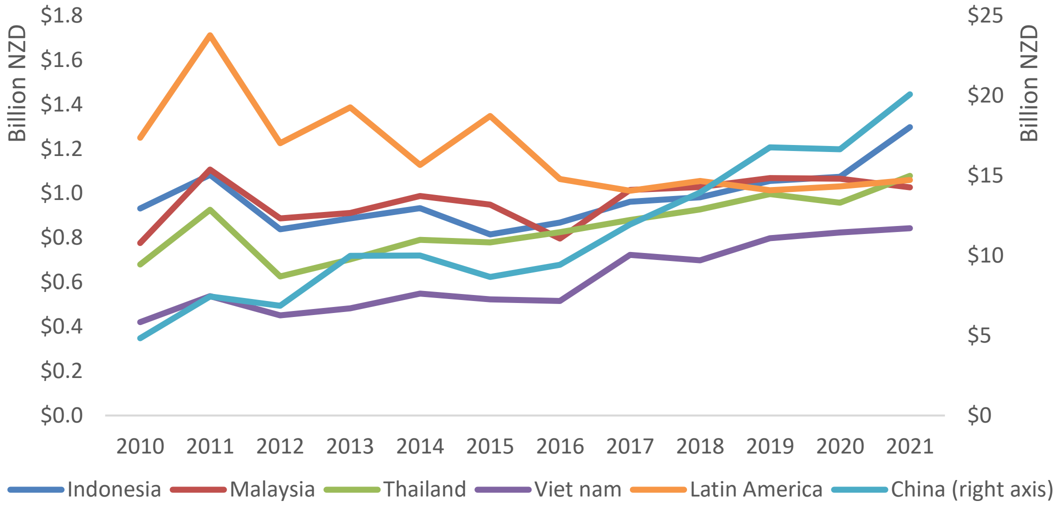
SOURCE: COMTRADE

1.3. New Zealand's goods exports

Latin America accounted for 1.7% of total NZ goods exports in 2021

Figure 4 below shows New Zealand's total goods exports to Latin America and the comparator markets.[3]

FIGURE 4: ANNUAL GOODS EXPORTS - LATIN AMERICA AND COMPARATORS



SOURCE: COMTRADE

New Zealand's total goods exports have grown 45%, or $19.7bn, since 2010. Goods exports to Latin America have fallen by 15%, or $191.2m, over the same period.

The share of goods exports going to Latin America fell from 2.9% in 2010 to 1.7% in 2021.

This fall is driven largely by the collapse of the Venezuelan market for dairy exports noted below.

Since 2016 the value of our goods exports to Latin America has been stable at around $1b, including through pandemic disruption.

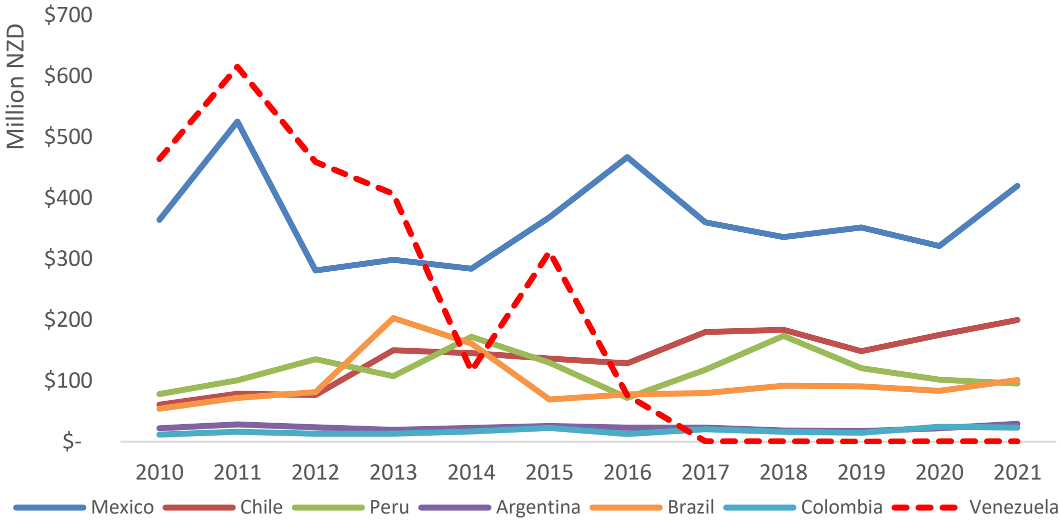
Outside of Venezuela, goods exports to Latin America have grown 2.9% per year on average over the past decade…

Figure 5 below shows New Zealand's total goods exports to the six markets of interest and Venezuela. In 2010, New Zealand's largest export partner in the region was Venezuela, taking almost half a *billion* dollars of exports – primarily dairy products. By 2019 this had collapsed to less than half a *million* dollars because of its severe economic deterioration.[4]

[3] Exports to China are shown against the right-hand axis as they are many times higher than exports to the other markets in the chart.
[4] While broad economic sanctions were imposed on Venezuela by the US in 2017, the drop in New Zealand exports predates this.

When we exclude Venezuela from the figures, goods exports have grown by 29%, from $787m in 2010 to $1.01bn in 2019. This is an average annual growth rate of 2.9%.

FIGURE 5: ANNUAL GOODS EXPORTS – MARKETS OF INTEREST IN LATIN AMERICA



SOURCE: COMTRADE

...with pockets of strong growth, notably to Chile, Peru and Brazil

Between 2010 and 2019, New Zealand's goods exports grew in key markets:

- Chile (up $87.8m between 2010 and 2019, a 10.5% average annual growth rate),
- Peru ($42.4m, 4.9% per annum); and
- Brazil ($36.7m, 5.9% per annum).

In comparison, 2010-2019 growth in goods exports to Indonesia was $124.4m (1.4% per annum), to Malaysia $291.8m (2.6%), Thailand $317.8m (4.3%), and to Vietnam $378.4m (7.4%).

Since the start of the pandemic, trade to Mexico has risen $83.8m, tracking back toward the highs seen in 2016 and 2011.

This suggests that some of the lost exports to Venezuela have been offset by rising exports to other Latin American markets. However, of the roughly half a billion dollars in lost exports, only half has been recovered over the past decade through diversification to other Latin American markets.

This partly reflects the surge in demand from China over this period ($11.9bn between 2010 and 2019), meaning New Zealand exporters had a high paying alternative to having to find new markets in Latin America.

Trade agreements provide a basis for growth

The partial offset of Venezuela's lost trade has been enabled by progress in free trade agreements (FTAs) between New Zealand and Latin American markets. The biggest story has been the ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Mexico ratified this agreement in 2018, with immediate reductions in some tariffs and gradual elimination of almost all tariffs by 2032. Since 2018, exports to Mexico have grown 24%, or $83.8m.

Peru ratified the CPTPP agreement in September 2021. This is too recent to be reflected in these trade values, but with the consequent removal of most tariffs over time, the impact will be positive.

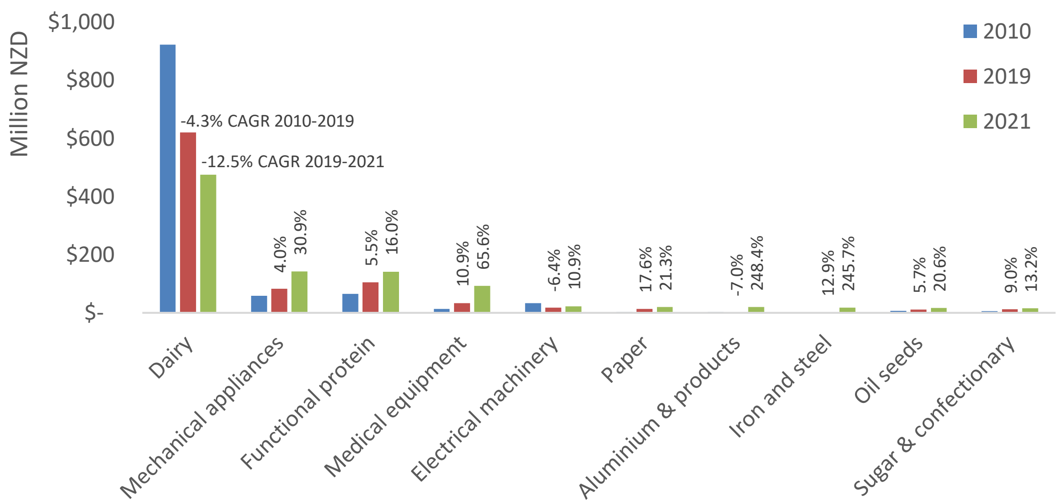
While Chile has yet to ratify CPTPP, New Zealand already has comprehensive access under the Trans-Pacific Strategic Economic Partnership, or P4[5]. This pre-existing access will partially explain the robust export growth to Chile noted earlier. Econometric estimates of the impact of this trade agreement imply a 79.9% reduction in the cost of trading with Chile as a result[6].

Dairy products are our dominant goods export to the region

Figure 6 below shows the level of New Zealand's top 10 export products to Latin America in 2010, 2019 and 2021. The labels on the columns are Compound Annual Growth Rates (CAGRs). These are high level aggregated categories, and so include a wide range of related products.

The largest export category to the region is dairy products. In 2021, exports were $475.4m, 45% of total goods exports sent to the region[7].

FIGURE 6: TOP 10 GOODS EXPORT BREAKDOWN – MARKETS OF INTEREST



SOURCE: COMTRADE

[5] https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/trans-pacific-strategic-economic-partnership-p4/

[6] Sense Partners econometric modelling.

[7] Adding in functional proteins, primarily casein, these figures are $616.6m and 58.1% respectively. Functional proteins have grown at an average 5.5% from 2010 to 2019, with further sharp increases between 2019 and 2021. As a result, functional protein exports have increased by 118% since 2010, and are sitting at $141.8m in 2021

Overall, dairy has experienced a sharp fall in exports as a result of economic deterioration in Venezuela. In 2010, exports of dairy to Venezuela (essentially our sole export to that market) were valued at $460m. This collapsed to zero in 2019, though it has registered a little under $0.25m million in 2021.

Exports of dairy to other countries in the region grew from $412m in 2010 to $549m by 2019, an average growth rate of 3.2% per year. This indicates that dairy exports have in part been reallocated away from Venezuela to markets within the region, including Chile (up $58.4m between 2010 and 2019), Peru ($382m), and El Salvador ($24m).

Potential in manufactured equipment is increasingly being realised

While dairy has been the dominant goods export, there are emerging categories of products elsewhere in the export profile.

This includes **mechanical appliances**, mainly agricultural related equipment such as automated apple packing systems. This grew 4.0% per year on average between 2010 and 2019.

Since the pandemic, there has been a surge in demand, with exports in this category growing 71% in just two years. Exports are now valued at $143m, up from $59m in 2010.

Another fast grower was **medical equipment**. This category is dominated by exports of breathing apparatus and sleep apnoea machines manufactured by Fisher & Paykel Healthcare.

Exports in this category have grown from $13.4m in 2010 to $92.5m in 2021. Almost three-quarters of this growth ($58.8m) has occurred since the start of the pandemic.

While we would expect growth to ease off as the world emerges from the pandemic, commercial relationships will have been established which may lead to sustained exports of medical equipment for purposes beyond responding to the pandemic.

Growth in other categories of New Zealand exports, such as **aluminium and steel**, likely reflects the post-Covid bump in global economic activity. This is reflected in high commodity prices and has led to an increase in the export value of commodities produced in New Zealand.

Figure 6 shows there is market demand for New Zealand products beyond just dairy. It is important to keep in mind that Latin America, with 650 million people across 20 countries, is large and diverse. While there are pockets of poverty and underdevelopment, there are also centres of high incomes and advanced production.

Other niche export opportunities may be worth exploring

The diversity of goods demanded within Latin America reflect this. Figure 7 shows the top nine fastest growing imports into Latin America between 2010 and 2019, for those products which grew by more than US$50m. The percentages included are CAGRs for the period.

The figure thus presents sectors that are both relatively large and fast-growing, potentially indicating valuable market opportunities.

Goods range from agricultural commodities, such as rapeseed oil, to highly complex technological platforms such as warships and lifeboats. This reflects the fact that Latin America is a diverse region with complex economies. Demand cannot be summarised into a few simple categories and many niche opportunities exist.

FIGURE 7: FASTEST GROWING LATIN AMERICAN IMPORT DEMAND 2010-2019

Floating docks, platforms, cranes, and dredgers (60%)	Rape seed, colza, and mustard oil (21%)	Woven fabrics of artificial fibres (18.2%)
Undenatured ethyl alcohol (17.9%)	Zinc oxide, and zinc peroxide (17.7%)	Other vessels, including warships and lifeboats (17.7%)
Railway rolling stock (17%)	Flexible metal tubing (16.6%)	Aircraft launching gear and ground trainers (16%)

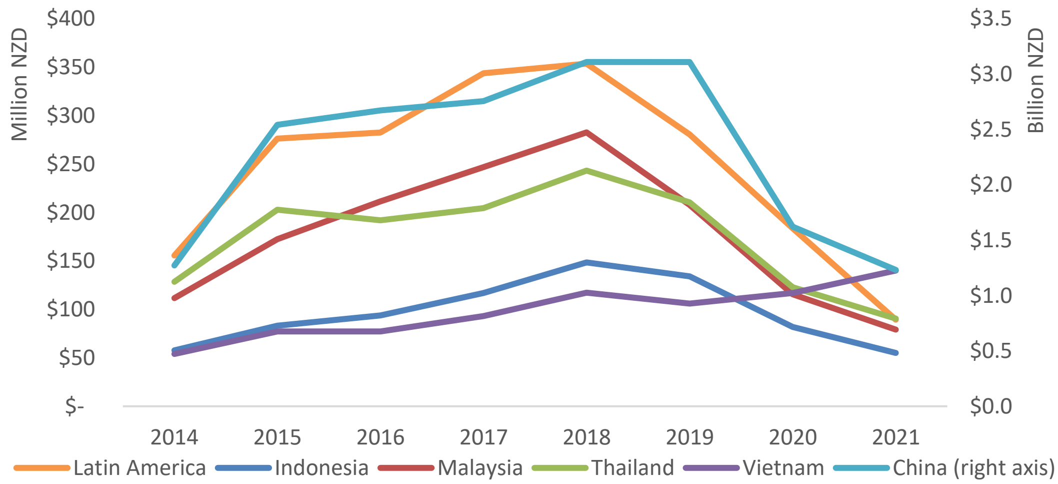
SOURCE: COMTRADE

1.4. New Zealand's services exports

Services exports have been severely impacted by the pandemic

Figure 8 below shows New Zealand's total exports of services to Latin America and the comparator markets. The much-higher trade with China is measured against the right axis. This enables a clearer visual inspection of the other trading partners.

FIGURE 8: ANNUAL SERVICES EXPORTS - LATIN AMERICA AND COMPARATORS



SOURCE: STATISTICS NEW ZEALAND

New Zealand's services exports to the world grew 133% between 2014 and 2019. This is an average annual growth rate of 18%.

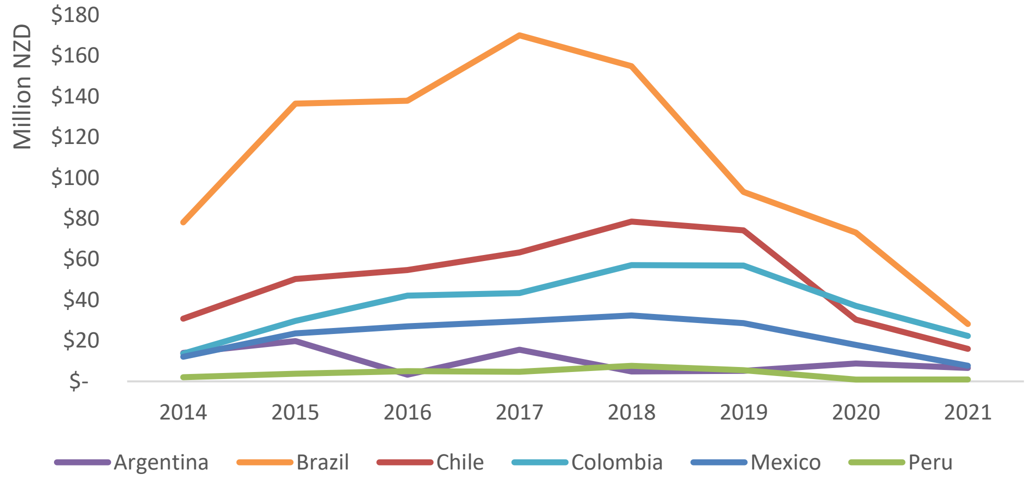
Services exports to Latin America (1.2% of total services exports in 2019) grew 80% over the same period, from $156m to $281m. This is a slightly slower average growth rate of 12% per year.

Since the start of the pandemic, total services exports have fallen by 49%. For Latin America, this fall has been sharper: a 68% drop (or $191m). As explored below, this reflects the relatively high proportion of travel-based services, namely tourism and international education, in services exports to the region.

The pandemic has been tough for services exports across the board. This is an inevitable consequence of closing the borders to New Zealand's main service exports – travel. Pre-pandemic, growth had been strong to both Latin America and the comparator markets. With borders soon to open fully, services exports will likely recover over coming years.

Pre-COVID, services exports were growing strongly to several Latin American markets

FIGURE 9: ANNUAL SERVICES EXPORTS - MARKETS OF INTEREST



SOURCE: STATISTICS NEW ZEALAND

Brazil is New Zealand's largest services export market in the region, with a 31.5% share, although this share has been trending down since 2017. Services exports to Brazil reached a high of $170m in 2017, falling 45% to $93m in 2019.

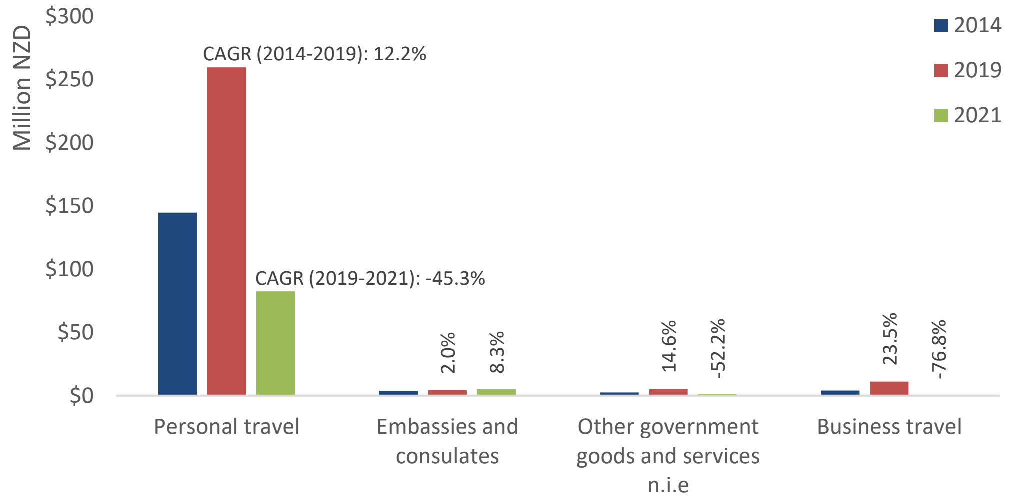
Services exports to other Latin American markets have experienced strong growth, albeit from low levels. Exports to Colombia grew an average annual 33% between 2014 and 2019. For Mexico, this average annual was 19%, for Peru 21%, and Chile 19%.

Services exports to Argentina fell by 63% between 2014 and 2019, an average annual fall of 18%, though the level has fluctuated substantially.

Services exports are dominated by tourism and international education

Figure 10 below shows New Zealand's key services exports to Latin America. Services exports to Latin America are dominated by personal travel. This incorporates both tourism and international education. Prior to the pandemic, personal travel made up 94% of services exports to Latin America (over $250m) and had been growing at an average of 12.2% per year.

FIGURE 10: ANNUAL SERVICES EXPORT BREAKDOWN - MARKETS OF INTEREST

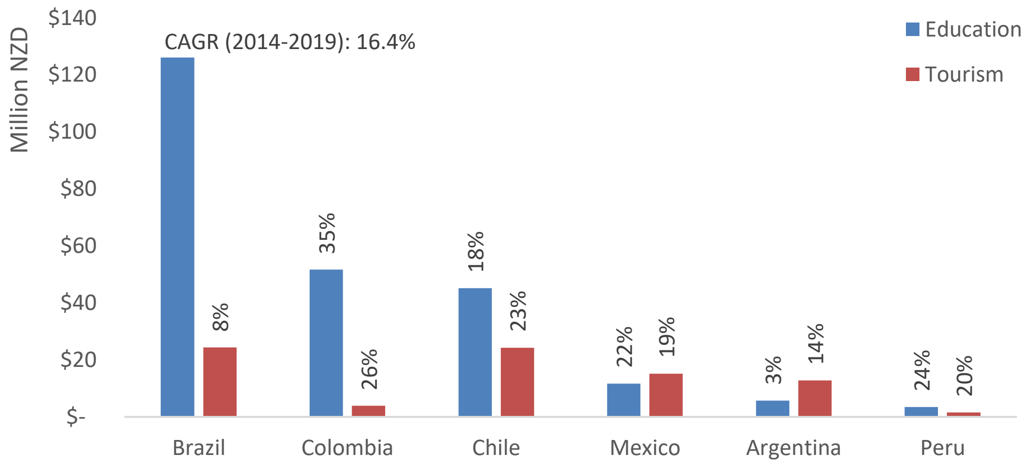


SOURCE: STATISTICS NEW ZEALAND

Of New Zealand's personal travel exports, international education is the dominant component, with Brazil, Colombia, and Chile the key markets.

Figure 11 below shows the value of international education and tourism exports in 2019. The labels on each column indicate the average annual growth rate between 2010 and 2019.

FIGURE 11: ANNUAL PERSONAL TRAVEL EXPORTS – MARKETS OF INTEREST



SOURCE: STATISTICS NEW ZEALAND

Prior to the pandemic, most of the markets of interest experienced very robust growth in tourism. The value of tourism exports to Brazil, for example, were growing at an average 8%. Smaller markets, such as Colombia, Chile, and Mexico, were experiencing even higher growth.

The tech sector is also seeing export growth

The opportunities section of this report includes case studies of a number of companies operating in the tech sector. A report from the Technology Investment Network indicates that tech companies operating in Latin America achieved $151.3m in revenue in 2020, up 17.7% from the previous year.[8]

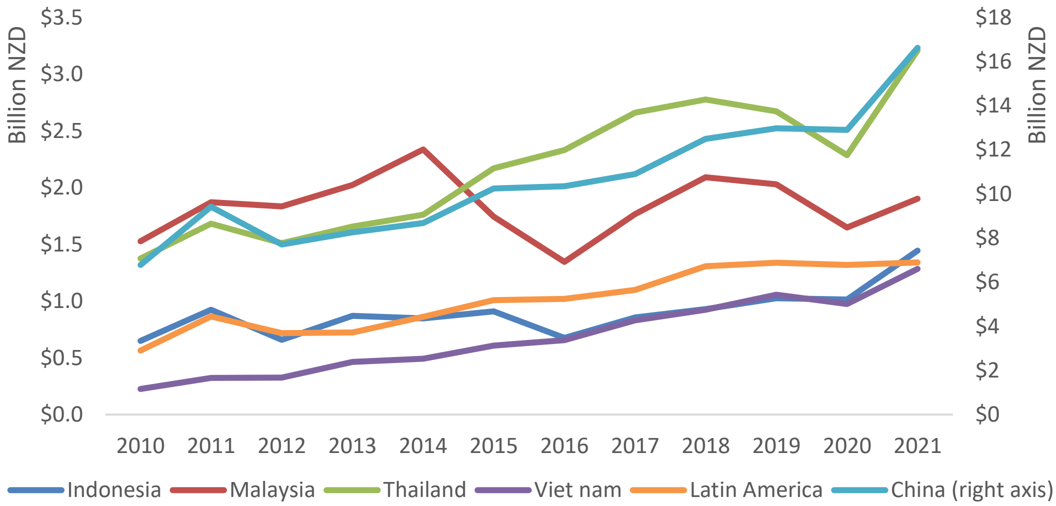
1.5. New Zealand's goods imports

Goods imports from Latin America have grown by 133% since 2010

Latin America, with a large primary sector and pockets of advanced manufacturing, is a growing source of specialised imports that support New Zealand household consumption and production.

Although Latin America remains a small source, goods imports have grown 133%, or $541m, since 2010. This rate outpaced growth in goods imports from all sources, at 64% ($27.3bn).

FIGURE 12: ANNUAL GOODS IMPORTS – LATIN AMERICA AND COMPARATORS



SOURCE: COMTRADE

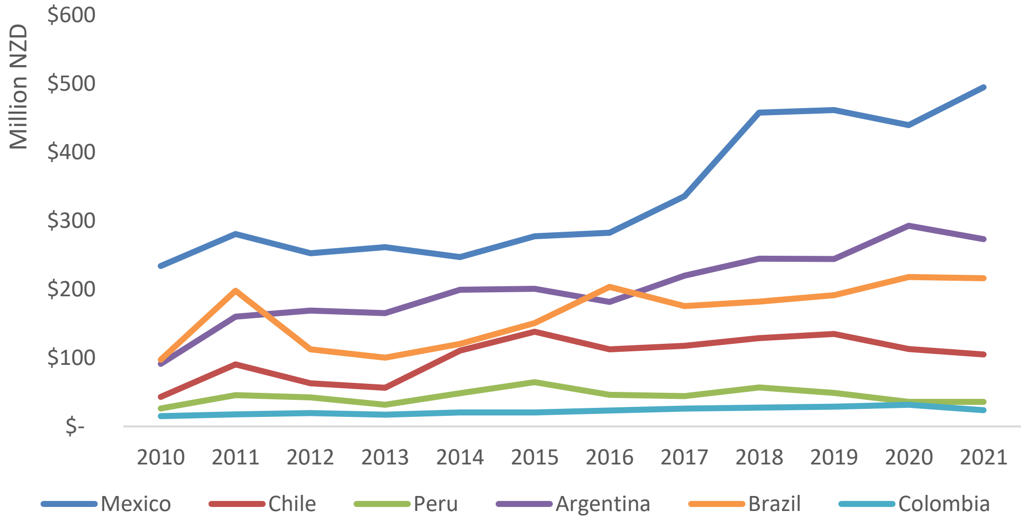
[8] This export revenue is not shown in Figure 10 as tech export revenue is not always reflected in Statistics New Zealand's 'traditional' services export categories. This is increasingly so with the adoption of Software-as-a-Service type business models.

Mexico, Argentina, and Brazil are key import sources

Figure 13 below shows New Zealand's total imports of goods from the six markets of interest. Venezuela is not included here, as it has never been a meaningful source of imports.

Mexico, Argentina, and Brazil are New Zealand's largest goods import sources in Latin America.

FIGURE 13: ANNUAL GOODS IMPORTS – MARKETS OF INTEREST



SOURCE: COMTRADE

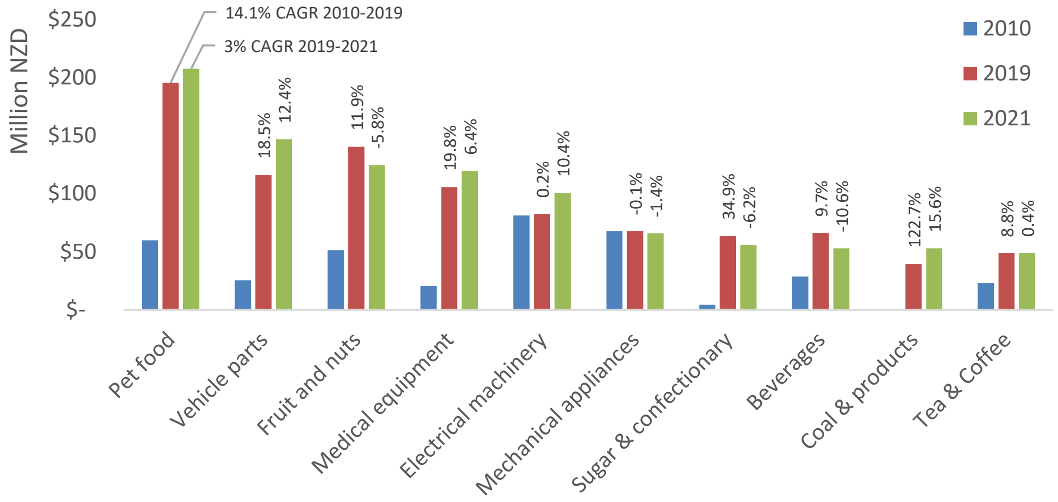
Goods imports are diverse and go beyond raw products

The largest import ($206.8m in 2021) is animal feed in the form of oilcake, the fibrous leftover after soya-bean oil has been extracted. It accounts for 22% of total goods imports from the region and grew an average of 14.1% per year from 2010 to 2019, with a further 2.8% per annum rise to 2021.

The second largest import is passenger cars ($128.3m in 2021) from Mexico ($108.2m) and Argentina ($20.2m). Mexico is a large producer of cars thanks to its access to the US market, and many US car manufacturers have outsourced operations to Mexico.

Imports of fruits, at number three, amounted to $124.6m in 2021. These were primarily bananas ($85.9m), 85% of which came from Ecuador. Various frozen fruits ($20.3M), grapes ($8.6m), and dates ($5.3m) are the other major fruit imports.

FIGURE 14: TOP 10 GOODS IMPORT BREAKDOWN – MARKETS OF INTEREST



SOURCE: COMTRADE

The diversity of imports from Latin America shown in Figure 15 below reflects the diversity and complexity of the region. Each market within Latin America has its own comparative advantages in production.

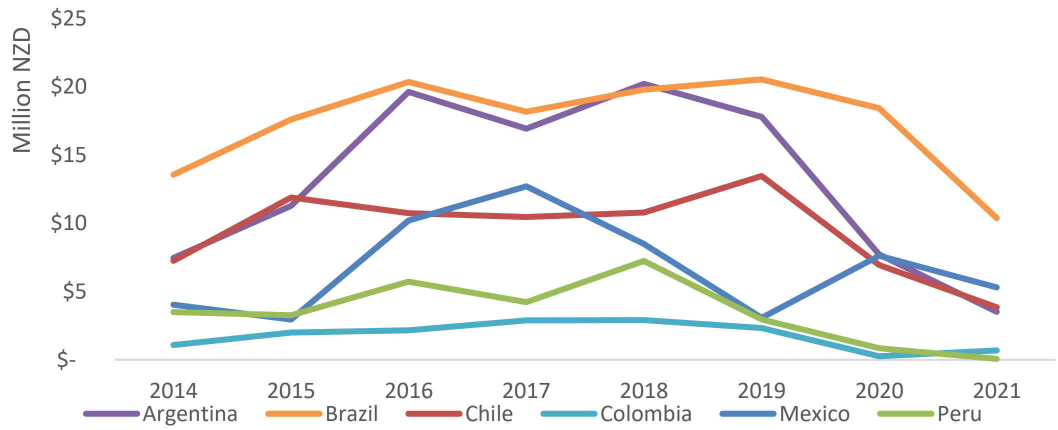
New Zealand importers are taking advantage of this to import useful products, both for final consumption and as inputs into domestic production.

1.6. New Zealand's services imports

New Zealand's services imports from Latin America are low and almost entirely comprised of New Zealanders travelling to the region for holidays – primarily to Brazil, Argentina, and Chile.

Prior to the pandemic, New Zealand imported $65.4m of services from Latin America. This fell to $25.3m in 2021 as closed borders curtailed Kiwis' travel plans.

FIGURE 15: SERVICES IMPORTS - MARKETS OF INTEREST



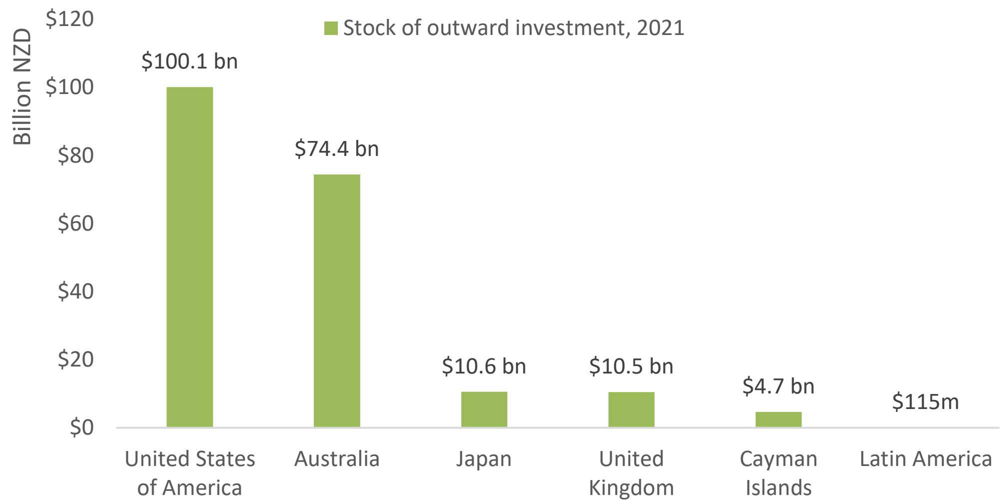
SOURCE: STATISTICS NEW ZEALAND

1.7. Investment

Official data indicates low levels of bilateral investment…

Data on bilateral investment flows between New Zealand and Latin America is sparse. The stock of New Zealand outwards direct investment in Latin America was recorded as $115m in 2021.

FIGURE 16: TOP INVESTMENT DESTINATIONS AND LATIN AMERICA – NEW ZEALAND



SOURCE: STATISTICS NEW ZEALAND

…though there are examples of Kiwi investment in Latin America

Fisher & Paykel Healthcare is in the process of building a third manufacturing facility in Mexico[9]. As a member of the United States-Mexico-Canada Agreement (USMCA), Mexico provides free access to the wider North American market.

Fonterra has a long history of investment in the region, including investments made by its predecessors. Fonterra owned Soprole, a leading consumer brand in Chile, and in 2019 acquired Prolesur, a milk supplier to Soprole[10].

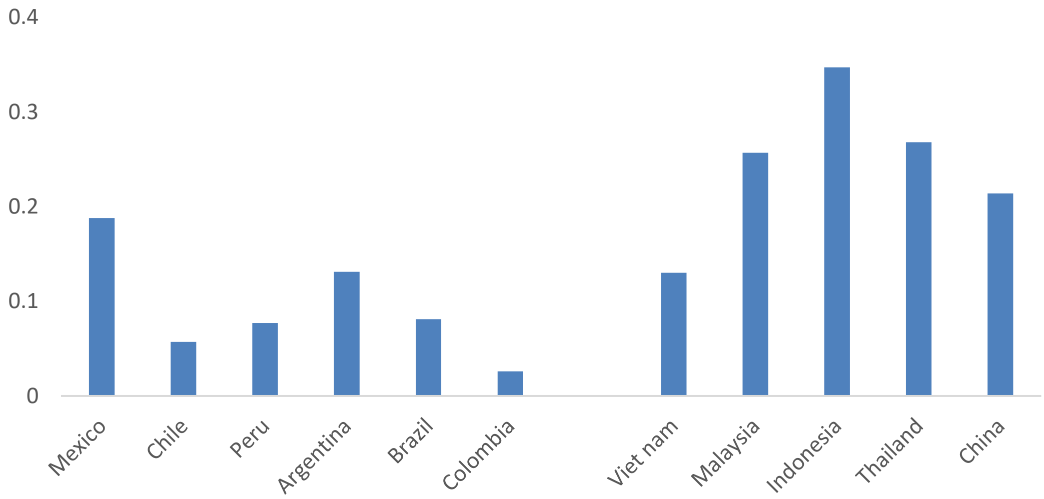
Explored in the case studies in section 3, these operations have performed well and have future potential. However, to align with Fonterra's strategic focus on the New Zealand milk pool, the company is looking to divest these assets[11].

There may be potential for greater levels of investment in Latin America, and indeed the region is relatively open to investment.

[9] Fisher & Paykel Healthcare. 2020. *Fisher & Paykel Healthcare commences planning for new manufacturing facility*.
[10] Fonterra. 2019. *Fonterra to streamline Chilean operations*.
[11] Fonterra. 2021. *Our Path to 2030*.

Figure 17 below shows a measure of each country's openness to foreign direct investment (FDI). The lower the score, the more open the economy to FDI. Brazil, Chile, Colombia, and Peru are all more open than some of the comparator markets.

FIGURE 17: FDI RESTRICTIVENESS - MARKETS OF INTEREST AND COMPARATORS

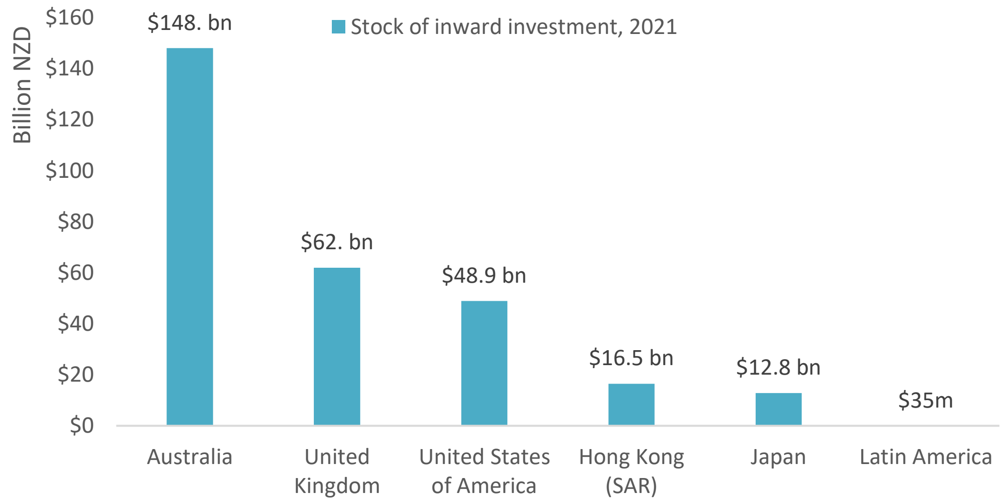


SOURCE: OECD

There is minimal Latin American foreign direct investment in New Zealand, but portfolio investments indicate potential

Inward investment from Latin America does not appear in the official data to any great extent. The stock of Latin American direct investment in New Zealand was $35m in 2021.

FIGURE 18: TOP INVESTMENT SOURCES AND LATIN AMERICA– NEW ZEALAND



SOURCE: STATISTICS NEW ZEALAND

With a low number of transactions, those that do occur are often kept confidential. This would include some recent, significant portfolio investments in New Zealand. One example is from 2019, when Mexican investment group Finaccess Capital secured a partial takeover of NZX listed Restaurant Brands[12]. Restaurant Brands holds the licenses to a number of franchises in New Zealand, including KFC, Pizza Hutt, Taco Bell, and Carl's Junior. Finaccess Capital bid for 75% of the company at a 24% premium.

As the trade relationship grows, one might expect further examples of investment between New Zealand and Latin America.

[12] Bridgeman, D. 2019. *Restaurant Brands' Mexican bidder sees growth ahead*. NZ Herald, 16 Feb.

2. Opportunities

2.1. Overview

Case studies highlight the opportunities that can be realised

This section seeks to understand some of the key opportunities in the region, and factors to consider when pursuing them.

It can be difficult to identify opportunities using historical data alone. As a result, this section draws on a series of case studies. These highlight how existing New Zealand companies have entered the region and the opportunities they have identified.

Seven case studies of New Zealand companies operating in Latin America have been included. These case studies are based on interviews with company representatives, supplied information, and previous case studies completed by the CAPE.

Key findings

- Latin America is a diverse region with pockets of wealthy consumers and advanced industry. New Zealand businesses selling a product or service that complements Latin American production patterns may find sales opportunities in the region.
- This report identifies a number of opportunities in the region through the use of case studies. Ultimately, these come down to complementing what different Latin American markets do well. This includes selling products they cannot produce, providing services that enhance what they already do, and outsourcing to them what they do well.
- Key to doing business in the region is developing strong relationships with potential customers and partners. This is true in any market but is particularly important in Latin America, where long-term trusting relationships are vital for doing business effectively.
- Having local staff, with language capability, on the ground is important for lifting cultural awareness and capability and for building relationship capital. Doing so takes time, potentially many years. This requires taking a long-term view.
- Based on our quantitative research and case studies, the type of company that can expect to succeed in Latin America is one with a willingness to take a long-term view, establish an in-market presence, and ride out the ups and downs.
- This is not necessarily a large company, but it is one that can identify a lower risk market opportunity or is comfortable with higher risk in other sectors.
- Realising these opportunities will assist in New Zealand Inc's broader strategy of diversifying trade.

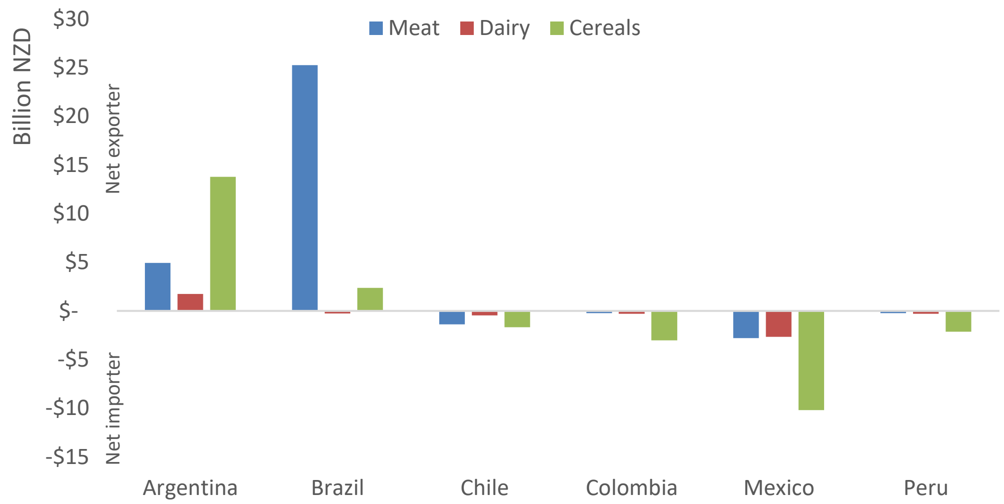
2.2. Specialist agricultural products

Latin America is a major producer of agricultural products

Figure 19 below shows the net exports of key Latin American markets. Latin America is a major agricultural producer, and countries such as Brazil and Chile are net exporters. The region as a whole is home to 21% of the world's cattle, some 352m animals, the majority in Brazil.

For agricultural products, some Latin American countries are largely able to satisfy their demand with domestic production. Regarding dairy, this includes Brazil, with 36m tonnes of milk produced in 2019, and Argentina. However, the region is also home to big net importers unable to satisfy domestic demand through domestic production, especially Mexico, Colombia, and Peru.

FIGURE 19: NET EXPORTS, AGRICULTURE - MARKETS OF INTEREST



SOURCE: COMTRADE

Fonterra is working to sell specialist products locals can't produce

For Fonterra and New Zealand dairy farmers, both net exporters and net importers present a valuable market opportunity. Those net importers of dairy are promising markets for core dairy products. This includes staple New Zealand exports of cheese, butter, cream, and whole and skim milk powders.

For the larger dairy producers, while it is true most core dairy demand can be satisfied domestically, they can lack the capacity to produce specialised dairy ingredients, such as functional proteins. Exports of casein, a dairy protein, to the region have doubled from $65m in 2010 to $141.8m in 2021. They have also been relatively resilient to pandemic disruption, with a $36.4m rise over 2019-2021.

This means there is a growing market opportunity for New Zealand dairy in exporting core dairy products to net importers and exporting specialty ingredients region wide. This is reflected in export growth to markets such as Chile, Mexico, and Peru.

Historically, Fonterra has had joint ventures in the region as well as ownership stakes in local brands, such as Soprole in Chile. These opportunities have been strong performers and hold the promise of further growth. These ventures have generally drawn on domestic dairy production. With Fonterra's strategic focus on New Zealand dairy production and exporting, however, they have opted to divest from production in the region.

Key lessons:

- Focus on selling products that Latin American producers don't make.
- Production varies between countries, and most products could find a potential market in the region.

2.3. Agri-tech

Latin American farmers are investing in productivity

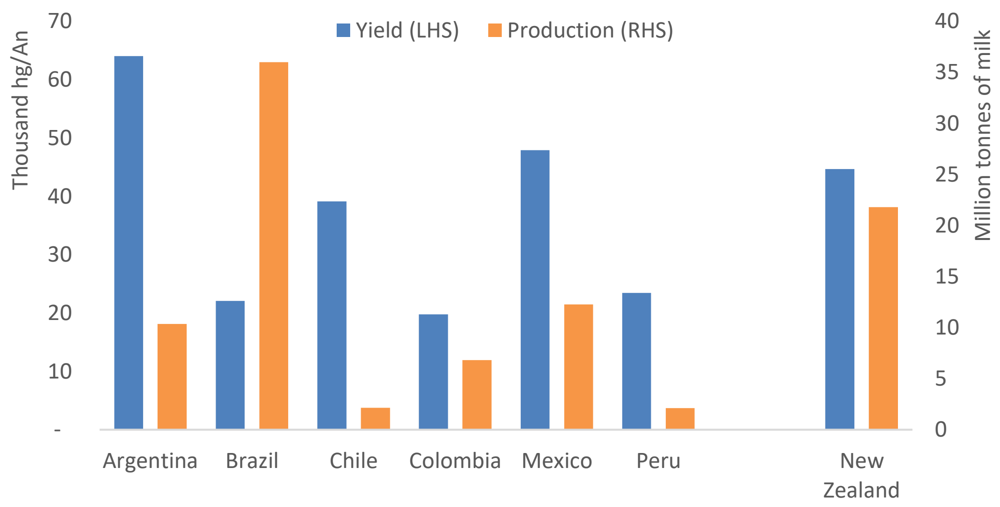
As shown in Figure 19 above, some Latin American countries are net importers of agricultural products, and some are net exporters. Another factor to consider is yield, or how productive Latin American farmers are.

Figure 20 below shows the average dairy yield of farmers in the markets of interest and in New Zealand. This is measured in hectograms (100 grams) of milk per animal (hg/An). The more milk per animal, the more productive the farm is.

The graph also shows total production in million tonnes of milk, measured against the right axis.

The implication of this chart is that productivity in New Zealand is higher than some Latin American countries. In particular, at 45,000 hg/An, New Zealand farmers achieve higher yield than farmers do in Brazil. This implies an opportunity to sell productivity enhancing products and services to these farmers.

FIGURE 20: AVERAGE YIELDS AND TOTAL PRODUCTION - DAIRY



SOURCE: UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION

Gallagher is bringing new technology to the region's agriculture

Gallagher group, headquartered in Hamilton, New Zealand, is a major manufacturer and exporter of animal management systems. The company designed and produced New Zealand's first electric fence in 1938. Since then, the company has expanded into a full range of animal management systems, such as electronic identification.

The company has identified three market segments in Latin America. These are based on technology adoption, with low, medium, and high adoption segments. Low adopters tend to be small, family farms using conventional methods. For Gallagher, the opportunity lies in retailing to medium technology adopters and establishing direct relationships with high technology adopters. These farmers, typically at the larger end of the scale, are both willing and able to invest in productivity improving technologies.

An example of the technology Gallagher is bringing to the region is virtual fencing. This technology, called eShepherd, consists of a GPS neckband. It enables rotational grazing to be done remotely and without the need for physical fencing. Rotational grazing involves moving livestock between fields to give grazed pasture time to regrow. When done at the right frequency, this helps maintain soil health, sequester carbon emissions, and improve pasture regeneration.

Key lessons:

- Sell a product or service that complements what Latin American producers do. Identify their key export markets, such as agriculture, and identify where your offering can help improve output.
- Have people on the ground, in the market. This is important in helping navigate the different regulatory and business environments. It also helps build stronger relationships in the region.

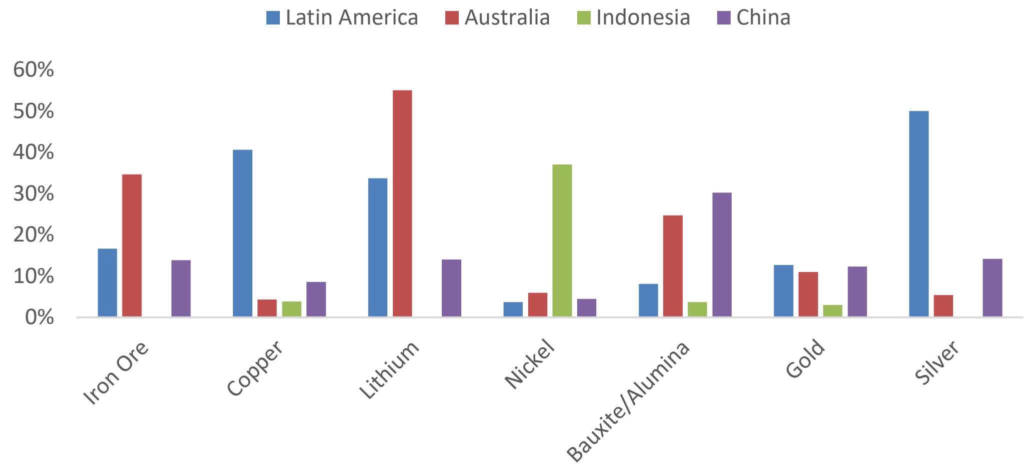
2.4. Energy and resources

The resources sector is a large part of Latin American economies

Latin America is a major source of minerals such as iron ore, gold, copper and lithium. Brazil is the world's second largest exporter of iron ore, with US$22.7bn in export receipts in 2019. Chile and Peru are the largest and second largest exporters of copper, at US$18.5bn and US$12.2bn in 2019 respectively.

Minerals such as iron ore and copper have long been key inputs into the global economy. The importance of these minerals is only expected to grow. The global transition toward sustainable energies and battery technologies is expected to alter the profile of demand for resources. Lithium is a key input into lithium-ion batteries, expected to remain the dominant battery technology[13].

FIGURE 21: SHARE OF WORLD PRODUCTION, BY MINERAL – SELECT COUNTRIES



SOURCE: UNITED STATES GEOLOGICAL SURVEY

Latin America's resources sector is a strategic focus for Seequent

Seequent is a New Zealand headquartered company specialising in geotechnical modelling, data management, and collaboration software. With offices in 25 countries and customers in over 100, Seequent helps create greater visibility of what's under the surface. Clients can make precise decisions knowing what is under the ground, from mineral extraction to developing geothermal energy sources.

Latin America is a key market for Seequent, with strong growth in the mineral sector. The importance of these minerals to the global economy, and the sector's importance to Latin America, mean growth prospects are strong.

For Seequent, an essential component to doing business in Latin America is having an in-market presence with local employees and partners. This in-market presence helps to build strong relationships with clients and can smooth cultural and language barriers.

The nuances of doing business vary across the region, and having local knowledge is necessary. Seequent has offices in Chile, Peru, Brazil, and local partners in Colombia. From this diverse base they are able to work with clients across the region.

Having local knowledge also smooths entry into the Latin American business environment. As indicated in section 3 of this report, Latin American markets typically have higher regulatory costs than comparable Asian economies. While this represents a barrier to enter the market, Seequent believes the region must be seen as a long-term investment. Patience is needed in

[13] Dominish, E., Florin, N. and Teske, S., 2019, Responsible Minerals Sourcing for Renewable Energy. Report prepared for Earthworks by the Institute for Sustainable Futures, University of Technology Sydney.

early years, and relationships must be developed over time. While the entry cost can be high, the returns are correspondingly high, and the local market is lucrative.

Key lessons:

- Sell a product or service that complements what Latin American producers do. Identify their key export markets, such as mining, and identify where your offering can help improve output.
- Have people on the ground, in the market. This is important in helping navigate the different regulatory and business environments. It also helps build stronger relationships in the region.
- Target resilient sectors. Sectors such as mining and agriculture are likely to remain key components of Latin American economies. While not immune from the economic cycle, they could prove more resilient in the long run.

2.5. Tech sector

Latin American business has an appetite for technology solutions

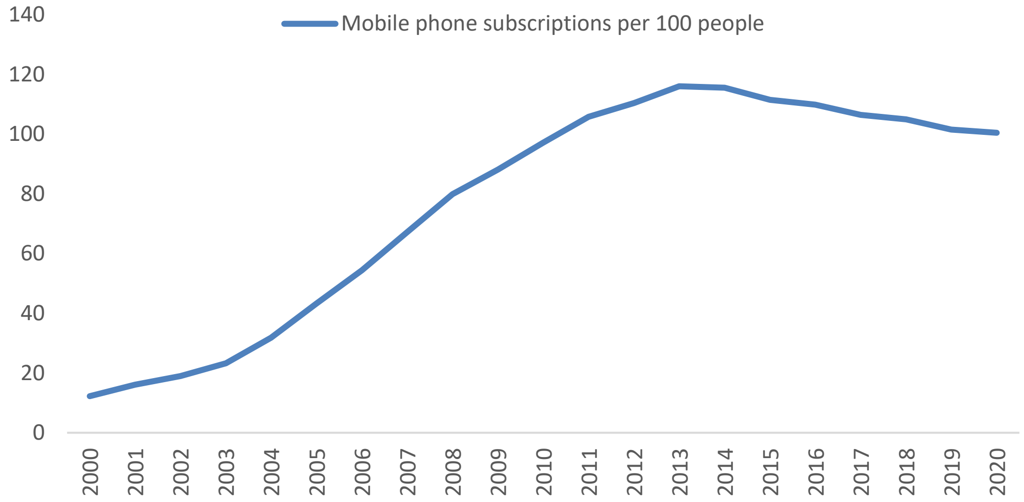
Latin American producers have a strong willingness to invest in productivity enhancing solutions. In many cases, technology can offer new solutions to old problems. This extends from agriculture, to fintech, e-commerce and logistics. A number of case studies included here noted a receptiveness to technology offerings among certain sectors and market segments.

A report by the Association for Private Capital Investment in Latin America[14] found that venture capital investment in technology sectors topped US$4bn in 2020. 40% of this was in the fintech sector, though e-commerce (12%), apps (7%), and real estate technology (6%) were also major destinations for investment.

Much of the investment is toward sectors that use smartphones to connect with customers and clients. This is on the back of strong growth in mobile phone connections in Latin America in the first decade of the 21st century, shown in Figure 22 below. Mobile phones offer a lower cost entry point to access technology.

[14] LAVCA's 2021 Review of Tech Investment on Latin America. 2021. Association for Private Capital Investment in Latin America

FIGURE 22: MOBILE PHONE SUBSCRIPTIONS – LATIN AMERICA



SOURCE: WORLD BANK

A retail analytics firm finds each country varies significantly

One case study is of a retail analytics firm[15] working with major retail chains to provide advanced insights into customer behaviour. They have been in the Latin American region for many years, with a focus on Chile, Mexico, and Brazil.

This company doesn't take a typical approach of identifying markets by geographic region. Rather, it seeks to find its ideal client. This means retail chains with scale, as this is where customer insights can be of greatest economic value. Latin America, with a sizeable middle class and major urban centres, is home to large numbers of these ideal client types. This makes the region an attractive opportunity for this business.

The market environment varies between individual Latin American countries. Some have a more competitive retail space, and some less. This has an impact on clients' willingness to pay for analytics. Retailers in less competitive markets typically have higher profit margins and so a higher willingness to spend.

The differences go far beyond the market environment, and cultural differences are significant. This goes beyond the Spanish/Portuguese divide, and each country has its own cultural nuances. This includes different negotiating cultures, some of which can seem erratic compared to New Zealand.

Another difference is the regulatory environment. Some areas, most notably Brazil, have complex regulatory and bureaucratic systems. Simple business processes, such as registering a company or setting up a bank account can take many months. The tax system can also be complex. Selling software-as-a-service into the region can be difficult, as this is not a recognised category in some tax jurisdictions.

[15] The company interviewed for this case study wished to remain anonymous.

Key lessons:

- Focus on finding your ideal customer. Latin America is a vast region with diverse markets and complex economies. Taking a geographic approach can overlook market opportunities, while focusing on ideal customers can identify opportunities in the region.
- Companies must focus on building strong relationships over time. This is necessary in the trust-based business culture of Latin America. To achieve this, companies must take a long-term view. Quick wins are a rarity in the region.
- Have people on the ground, in the market. This is important in helping navigate the different regulatory and business environments. It also helps build stronger relationships in the region.

Latin America is Wellington Drive Technologies' most mature market

Wellington Drive Technologies is one of the world's leading suppliers of advanced "Internet of Things" (IoT) solutions for commercial refrigeration. Its products can retrofit to existing commercial refrigerators to provide over 200 data points. This includes basics, such as location and temperature. It also generates data to support more advanced applications, such as stock management and direct engagement with customers.

Connecting fridges to IoT brings numerous benefits. The primary benefit is energy savings, as fridges can be remotely monitored and managed. Commercial drinks retailers typically have large fridge fleets (up to 300,000 units) dispersed across many shops. An IoT connection makes central management and optimisation achievable. This is particularly relevant in a region as geographically large as Latin America.

Wellington Drive began its entry into Latin America by focusing on the major beverage distributors, such as the Coca-Cola Company. As the market has matured, it has begun to explore working with smaller, local distributors and retailers. When paired with their energy-efficient fridge motors, Wellington Drive can help customers achieve a 70% decrease in their fridge's energy consumption and hence running costs.

Key lessons:

- Sell a product or service that boosts Latin American businesses' productivity.
- Focus on finding your ideal customer. Latin America is a vast region with diverse markets and complex economies. Focusing on ideal customers can identify opportunities in the region.
- Have people on the ground, in the market. This is important in helping navigate the different regulatory and business environments. It also helps build stronger relationships in the region.

The region is a source of talent and a promising market for PikPok

PikPok, established in 2009, has grown to become New Zealand's largest game developer. The company focuses on games for the mobile and tablet market, producing popular hits such as Rival Stars Horse Racing, and Into the Dead. With nearly half a billion downloads, the studio has been nominated for awards including BAFTA, DICE Award, IMGA, and Pocket Gamer.

An expanding market means expanding opportunities for PikPok. However, taking advantage of these opportunities will be a challenge given the small domestic pool of talent in the New Zealand gaming sector. Challenges navigating the immigration system, and the high cost of living in New Zealand, make bringing in experienced talent from overseas difficult, time consuming, and costly.

This is one area where PikPok's acquisition of a studio in Colombia, Wizard Fun Factory, promises to deliver value. Latin America has a thriving gaming sector and a deep pool of tech talent. Through multiple strategic partnerships since 2016, evolving into an acquisition, PikPok has been able to outsource an increasing volume of work. By tapping into Latin America's talent pool, PikPok has been able to ensure continued growth.

The studio in Colombia is not only useful for sustaining a volume of work. Local developers are better able to tailor games to suit the tastes and preferences of local gamers. This includes culturally relevant prompts and features within games to appeal to Latin Americans. The region is one of PikPok's fastest growing sources of demand, making the entry to Latin America valuable in addition to its role as a source of staff.

Key lessons:

- Outsourcing to Latin America can help overcome labour constraints in New Zealand. This can help businesses grow production as well as tap into the regional market.
- Have people on the ground, in the market. This is important in helping navigate the different regulatory and business environments. It also helps build stronger relationships in the region.

2.6. International Education

Education links can create opportunities beyond the sector

A number of case study participants noted business success is highly dependent on having local staff in-market to provide insights on market nuances.

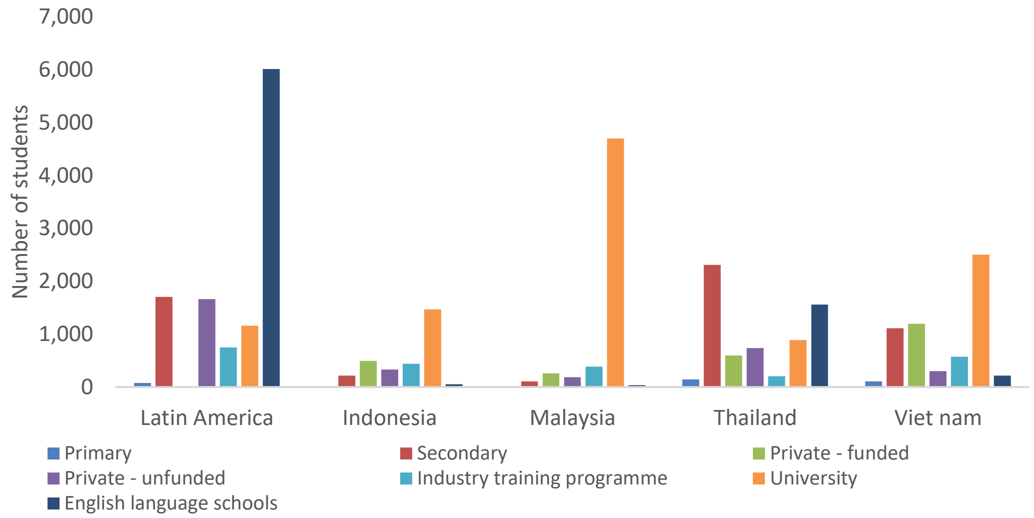
A common method of finding local staff is through education links, such as old contacts from university study. Old contacts can also expedite the process of forming business relationships.

Latin Americans who have done some period of study in New Zealand are also attracted toward working with New Zealand companies, either as an employee or as a business contact. Case study participants noted that when a potential client or partner had previous education in New Zealand, relationships developed faster. This led to better market opportunities, sooner.

Expanding educational links will help grow the relationship over time. Student exchanges will help reduce the language and cultural barriers to doing business.

As Figure 23 below shows, the majority of Latin American students in New Zealand were attending English Language Schools in 2018. Education links can also improve the receptiveness to, and recognition of, New Zealand among businesses in Latin America.

FIGURE 23: INTERNATIONAL STUDENTS IN NEW ZEALAND, 2018



SOURCE: EDUCATION NEW ZEALAND

Education links go beyond student mobility. Connections between research institutions can help New Zealand universities access global research networks. Mutual recognition of qualifications is also a major enabler of education links morphing into economic links. This can help New Zealand businesses find suitably qualified Latin Americans, aiding in general business growth as well as expansion into the region.

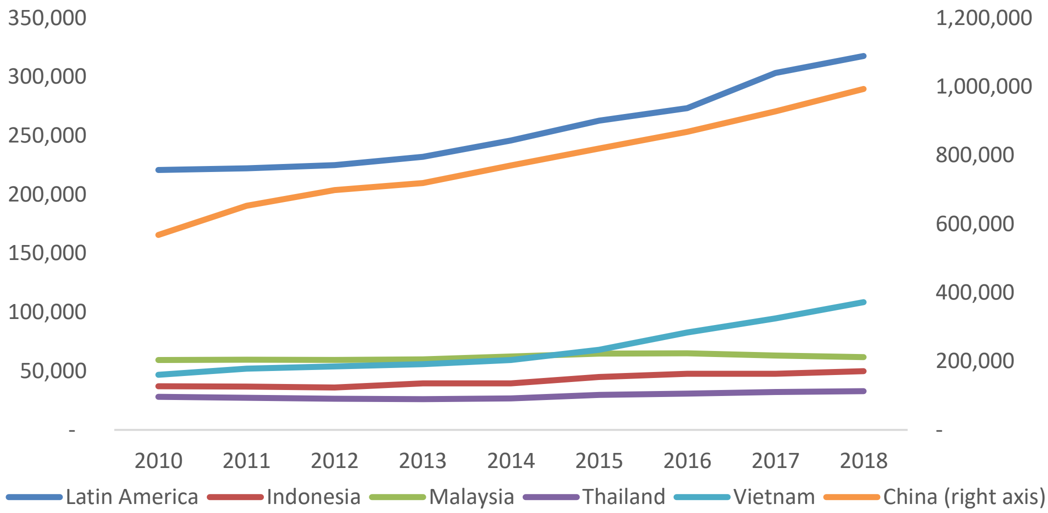
The size of the potential opportunity is substantial

Figure 24 below shows the number of students from Latin America and the comparators studying overseas each year. China is measured against the right axis. For Latin America, this figure includes students studying within the region but outside of their home country. Research from UNESCO[16] has found that this amounts to 38% of the total.

With 317,750 students studying abroad, approximately 197,000 studying outside of the region, Latin America is a major source of international students globally. For New Zealand, the value of tapping into this source goes beyond immediate student numbers and revenue. The benefit is in the connections, personal and academic, that this can forge.

[16] https://www.iesalc.unesco.org/en/2019/09/25/unesco-iesalc-reveals-that-only-38-of-mobility-from-latin-america-and-the-caribbean-is-to-the-same-region/

FIGURE 24: OUTBOUND STUDENTS – LATIN AMERICA AND COMPARATORS



SOURCE: WORLD BANK, UNESCO

Key lessons:

- Education links, through exchanges and academic cooperation, are a valuable tool to promote relationship building. It may take time to pay off, but the effects will build over time.

2.7. Manufacturing

Mexico is a commercial gateway to North America

Figure 25 below shows some outputs of econometric trade modelling conducted by Sense Partners. It compares distance to market against trade costs.

The trade cost index, shown on the horizontal axis, is a measure of the cost of exporting a product from a country to the United States, relative to the cost of domestically selling that product in the US. For example, the cost of exporting the average product from New Zealand to the US is 3.2 times higher than the cost of selling that good domestically in the US.

There are many costs which factor into the cost of trade. These include language and cultural barriers, the quality of infrastructure, and the presence and size of tariff and non-tariff barriers to trade. Anything which increases the cost of selling abroad is included.

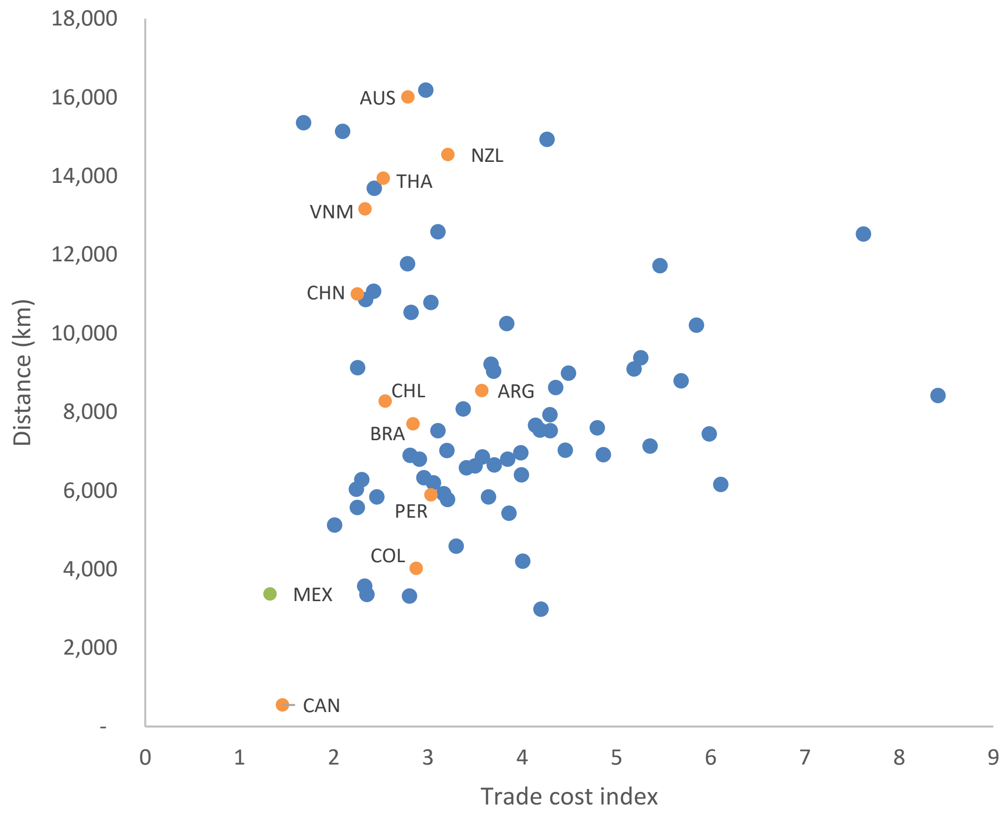
One of the largest costs in selling goods abroad is the distance to market, as this drives freight costs. This is shown on the vertical axis below. It is measured as the distance, in kilometres, between country capitals, e.g., Washington and Wellington (~14,500km).

Of particular interest is the trade cost index for Mexico exporting to the US. At 1.3, Mexico has the lowest trade cost of all countries exporting to the US. This indicates the advantages of closeness and the benefits of access to the US market. Companies looking to export into the US may find Mexico an ideal place to source manufacturing.

Fisher & Paykel Healthcare, a global leader in respiratory humidifiers and consumables, has begun work on its third manufacturing facility in Tijuana, Mexico[17]. Tijuana is the location of a hub of medical product manufacturing, ensuring a qualified local workforce. The proximity to the US border is another key attractor. This also provides geographic diversity in their manufacturing, helping build the resilience of their supply chains and ensuring they can deliver for their customers.

Mexico is particularly relevant to supply chain resilience given the change US approach to trade. Senior Biden Administration officials have signalled a desire to look toward "friend-shoring" as a guide to trade policy. This involves adapting trade policy to incentivise the movement of supply chains to countries historically aligned with US strategic interests[18].

FIGURE 25: THE COST OF EXPORTING TO THE USA



SOURCE: SENSE PARTNERS

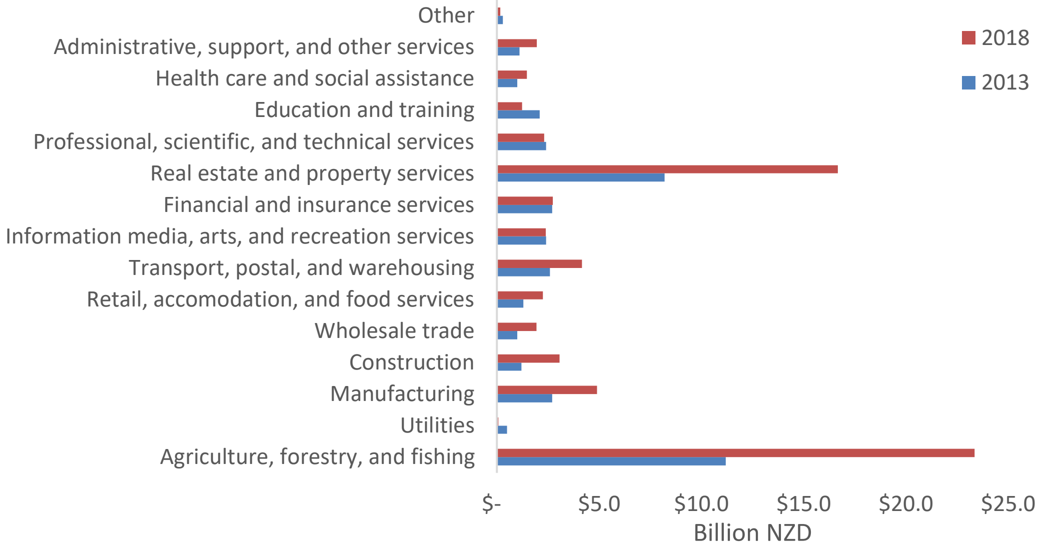
[17] Latin America CAPE. 2021. "New Zealand, Mexico, and North American Supply Chains". Webinar series.
[18] Atlantic Council. 2022. *Transcript: US Treasury Secretary Janet Yellen on the next steps for Russia sanctions and 'friend-shoring' supply chains."*

2.8. Māori economy

An indigenous and intercultural edge could open up commercial opportunities

The Māori economy has grown significantly between 2013 and 2018. A series of reports by Te Puni Kōkiri[19] and BERL[20] show the asset base has grown by 68.8%, from an estimated $40.7bn in 2013 to $68.7bn in 2018. Figure 26 below shows the Māori asset base across sectors. There is a concentration in the agricultural, forestry, and fishing sectors, but there has also been growth across the asset base. This includes growth in potentially export-oriented sectors, such as manufacturing (up 81.3%).

FIGURE 26: ESTIMATED MĀORI ECONOMY ASSET BASE



SOURCE: TE PUNI KŌKIRI, BERL

The potential for Māori economy export growth is increasingly recognised. This is reflected in progress made on addressing indigenous economic growth within international trade frameworks. A prime example is the Indigenous Peoples Economic and Trade Cooperation Arrangement (IPECTA), a first of its kind agreement developed by New Zealand and other APEC economies.

The value of this and similar agreements is in developing frameworks for indigenous economic issues to be effectively promoted within trade agreements. Understanding the material impact of these frameworks is currently hindered by a lack of data on export patterns in the Māori economy. This is an issue encountered during the research underlying this report.

It is not clear how many Māori businesses are actively engaged in Latin America, whether exporting, importing, or investing in the region. There are some examples of engagement with the region. Te Ohu Whai Ao Trust (TOWA) is an organisation set up to promote Māori business

[19] Te Puni Kōkiri. 2013. *Te Ōhanga Māori 2013: Māori Economy Report 2013.*
[20] BERL. 2018. *Te Ōhanga Māori 2018: The Māori Economy 2018.* Commissioned by the Reserve Bank of New Zealand.

expansion to external markets and indigenous to indigenous people links. Chair of TOWA, Richard Jefferies, has spent time in Latin America working to build such relationships.

His experience identified a common theme across our case studies, namely the need to build strong relationships over a longer time period than in other markets. For some Māori businesses, there may be opportunities in Latin America with long-term investment and the development of deep enduring relationships based on a Te Ao Māori world view having the potential to resonate with partners.

With indigenous peoples globally, Māori share a common historical experience of colonisation, and this can enable iwi and Māori businesses to develop high levels of trust with indigenous peoples in Latin America in a much shorter timeframe than other New Zealand groups and businesses.

Indigenous peoples in the region increasingly look to Māori for support and leadership in terms of enhancing their knowledge, skill and asset base to enable their peoples to increasingly participate in indigenous-to-indigenous business and in indigenous-to-mainstream and global business settings.

Key lessons:

- Companies must focus on building strong relationships over time.
- Greater data on Māori exporters and overseas investment patterns is needed to better understand the current state and material impact of trade frameworks for Māori businesses in Latin America.
- A more coordinated stakeholder management approach could help consolidate what experience does exist in Māori-Latin America economic engagement and provide essential guidance for future iwi/Māori business-lead, NZ Inc and/or CAPE-led business initiatives in the region.

3. Barriers to doing business in Latin America

3.1. Overview

This section considers the barriers identified through the research in more detail. These are often cited as economic volatility, corruption and protectionist trade policy.

We look at a range of measures of economic volatility, focusing on standard deviations in GDP growth, inflation rates and exchange rates.

Corruption Perceptions Index scores and Ease of Doing Business scores are used to infer the level of corruption and other barriers to business.

We also draw on estimates of tariffs and non-tariff measures to assess trade barriers in the region.

Key findings

- A long-term view is essential in working through some of the barriers to doing business in the region.
- The commonly held narrative of Latin American instability is not true of every market in the region.
- Within the region there are pockets of relative stability with an 'open for business' attitude to trade policy and business regulation.
- Businesses should be clear-eyed about the barriers in each market. Entering the region where barriers are lower, such as Chile or Mexico, may be a good first step.
- Taking a long-term view and planning for resilience to shocks can help manage barriers.

3.2. Barrier 1: economic volatility

Businesses must plan for the ups and downs

In some respects, Latin America is more volatile than the comparator markets in Asia. However, among the markets of interest, there are examples of comparable stability such as Chile and Mexico. Nevertheless, businesses entering the region must be prepared to encounter and deal with some level of economic fluctuations.

This volatility can only be managed, not "fixed". Tools exist to do so, such as exchange rate hedging. The case studies, explored in the opportunities section, noted the need for flexibility in working with customers in the region. Contracts denominated in US dollars are common and can pass the exchange rate risk on to customers and clients in the region.

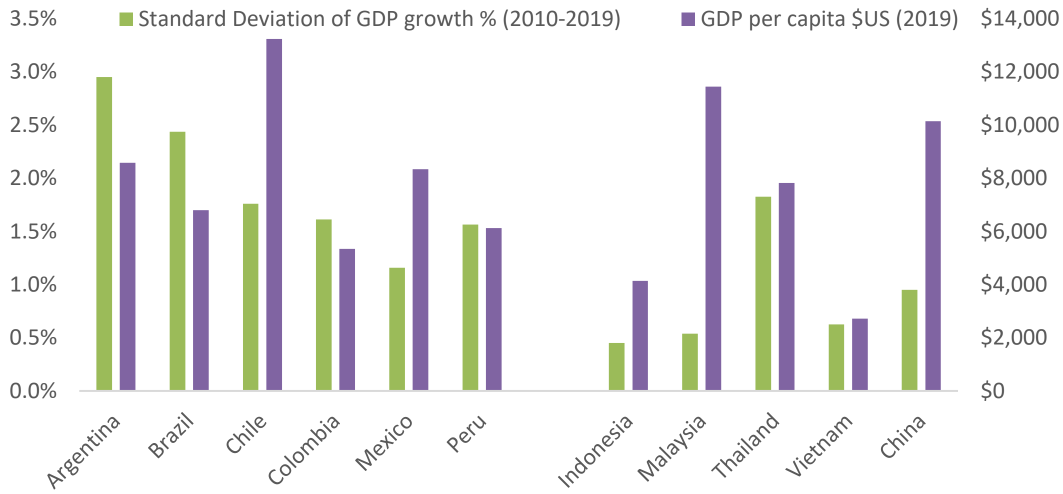
However, some flexibility will still need to be given to customers to help them manage the volatility. This is a potential short-term cost which must be planned for. Over the medium term, however, this sort of flexibility can make a valuable contribution of building relationships and gaining trust.

Given the presence of some volatility, it is essential the businesses should consider the longer term and be prepared for ups and downs. This fits in with the need to take time to build strong relationships, noted in the opportunities section.

Economic growth varies within the region, with pockets of stability

Figure 27 below shows the volatility of GDP growth in the markets of interest and the comparators. Volatility is measured as the standard deviation of GDP growth and is measured against the left axis. The graph also shows GDP per capita in each country, indicating the relative incomes of consumers. This is measured in US dollars against the right axis.

FIGURE 27: GDP GROWTH - MARKETS OF INTEREST AND COMPARATORS



SOURCE: WORLD BANK

The markets of interest tend to have higher levels of instability than the comparators. This is reflected in higher standard deviations, which captures how much GDP varies from year to year. Incomes per capita also tend to be lower than the comparators.

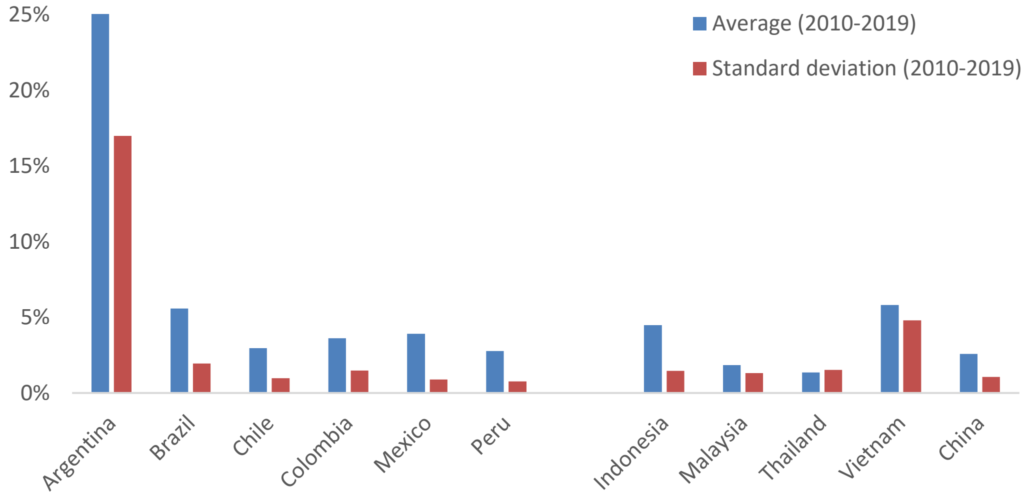
Higher incomes and more stable economic growth in the comparator markets will in part explain why those markets also have higher demand for New Zealand products. However, among the comparators Thailand has a high level of economic volatility and yet strong demand exports. Exports to Thailand in 2021 amounted to $1.08bn, a similar level to all of Latin America.

This indicates that economic instability, as measured here, is not sufficient to deter trade. Promising market opportunities can still exist in markets with less stable growth.

Perceptions of inflation are skewed by extreme cases

Figure 28 below shows average annual inflation across the markets of interest and the comparators. It also shows the volatility of inflation, measured as the standard deviation of inflation.

FIGURE 28: INFLATION RATES - MARKETS OF INTEREST AND COMPARATORS



SOURCE: WORLD BANK

Generally, it is not the level of inflation that matters. Rather it is how stable, or consistent that inflation is. When inflation is stable and predictable, businesses have greater certainty and can plan for price changes. When inflation is less predictable, businesses have less certainty about the future and have a harder time planning.

The stability of inflation, or standard deviation, is broadly similar across the markets of interest and the comparators. Brazil (1.9%), Chile (1%), Colombia (1.5%), Mexico (0.9%), and Peru (0.8%%) all have stable inflation, despite relatively higher levels for some.

These compare well to Indonesia (1.5%), Malaysia (1.3%), Thailand (1.5%), and China (1.1%).

This means businesses seeking to engage with the region won’t necessarily encounter high levels of inflation, or price volatility.

The exception is Argentina, which is dealing with a bout of high inflation. Argentine inflation[21] reached a high of 53.9% in 2019 and is sitting at 50.9% in 2021.

Changing government policy or macroeconomic conditions in Latin American markets could create more or less price instability, as in any country. In our view, historically higher inflation or price volatility isn't a basis for carte blanche dismissing Latin America as a whole as an export opportunity.

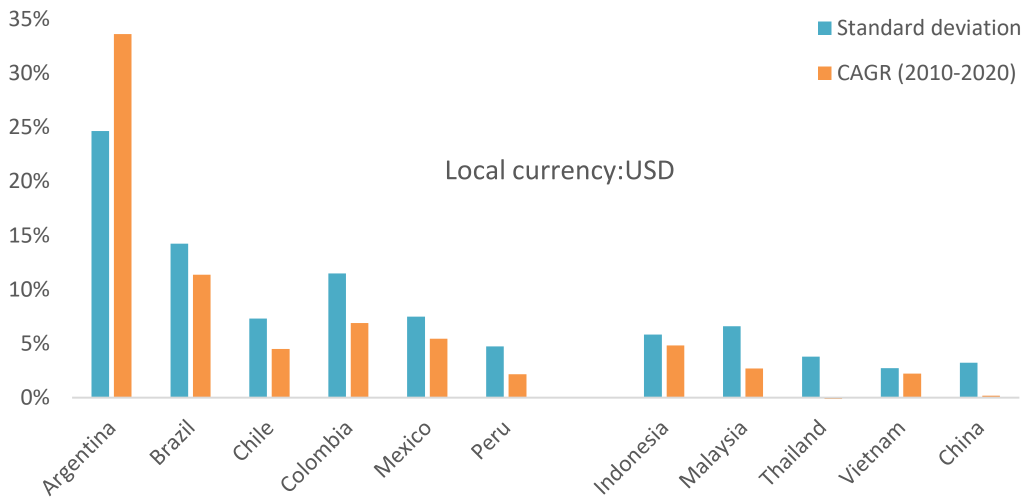
Many Latin American countries have relatively stable exchange rates

Figure 29 below shows the standard deviation of the exchange rate of each local currency against the USD. A higher standard deviation indicates higher volatility. This also shows the average annual depreciation against the dollar (CAGR).

Comparator countries have an average standard deviation of 4.8%. Latin American as a region has a higher standard deviation, indicating greater volatility. The average standard deviation including Argentina is 6.8%. This does of course mask variance within the region, and a number of the markets of interest show relatively stable exchange rates. This includes Peru, with a standard deviation of 4.7%.

This means that Kiwi businesses seeking to enter markets in the region will need to be prepared to deal with some exchange rate fluctuations. This is less so in markets with a track record of relative stability but will still need to be factored into business and investment planning.

FIGURE 29: EXCHANGE RATE - MARKETS OF INTEREST AND COMPARATORS



SOURCE: WORLD BANK

[21] Estimate sourced from INDEC, the Argentine Statistics Agency.

3.3. Barrier 2: Patches of protectionist trade policy

Trade costs are higher with Latin American countries, even after accounting for distance

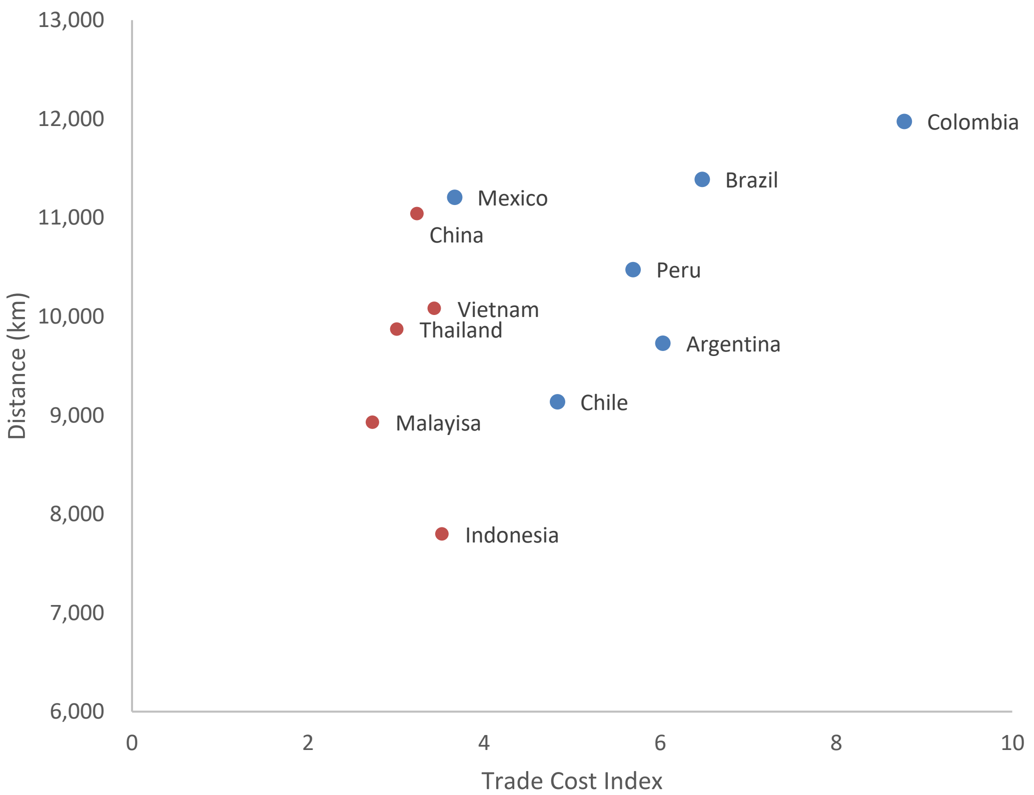
Figure 30 below shows some outputs of econometric trade modelling conducted by Sense Partners. It replicates Figure 25 above but for New Zealand sales to Latin American and comparator counties, rather than different countries' exports to the US.

The trade cost index, shown on the horizontal axis, is a measure of the cost of selling a product to a country relative to the cost of selling that product in New Zealand. For example, the cost of selling the average product in Chile is 4.8 times higher than the cost of selling the product in New Zealand.

In addition to freight costs (proxied by distance), this cost index incorporates language and cultural barriers, the quality of infrastructure, and the presence and size of tariff and non-tariff barriers to trade.

The distance to market is shown on the vertical axis. It is measured as the distance, in kilometres, between country capitals, e.g., Wellington and Santiago.

FIGURE 30: DISTANCE AND TRADE COSTS



SOURCE: SENSE PARTNERS

We can see that trade costs with Latin American countries are higher than those with the comparators, and that these costs are not explained by distance alone.

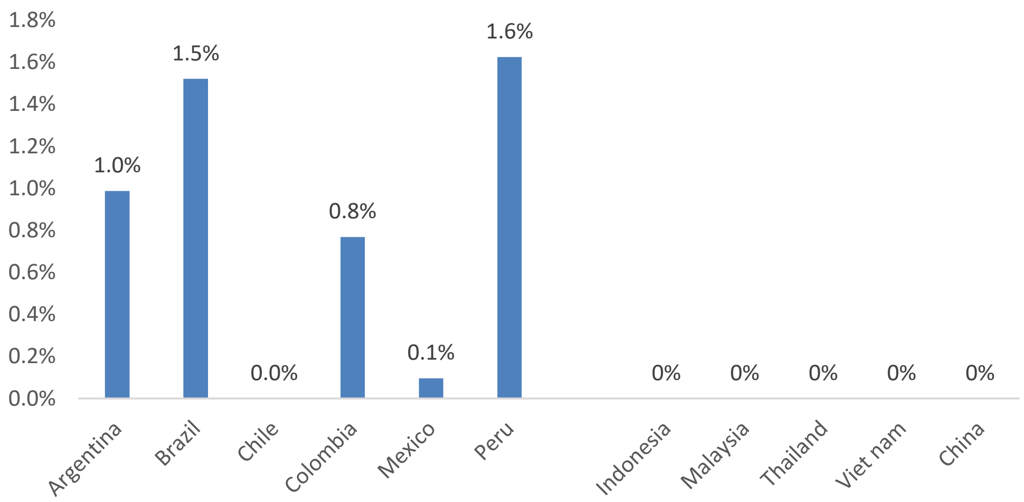
Tariffs and tariff-rate quotas are on average more restrictive in Latin America than in comparator markets

Latin American countries typically have higher tariffs and more restrictive tariff rate quotas (TRQs) on imports from New Zealand than the comparators.

This is largely due to New Zealand having signed more FTAs with the comparator economies than with Latin American economies. New Zealand's network of FTAs across Southeast Asia has seen average tariffs fall to very low levels.

The rates shown in Figure 31 below are trade-weighted average Ad Valorem Equivalents (AVEs). An AVE converts different types of tariffs and TRQs into a single percentage equivalent and is a measure of overall trade protection on New Zealand's exports to each market.[22]

FIGURE 31: AVES OF TARIFFS AND TRQS – MARKETS OF INTEREST AND COMPARATORS



SOURCE: MARKET ACCESS MAP

The AVEs in the Latin American markets in the chart are not particularly high on average. Indeed, the average AVE applied to New Zealand exports is zero in Chile and almost zero in Mexico (0.1%) due to existing FTAs.[23]

However, even relatively small nuisance tariffs and other trade barriers can be sufficient to influence exporters' decisions about whether to sell to any given market.

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[22] Many New Zealand agricultural exports to the Asian comparators are subject to TRQs. The reason the AVE is shown as 0% in Figure 31 is because New Zealand exports don't exceed the quotas and so aren't triggering the higher out-of-quota rates. As such, these AVEs are not a complete picture of trade barriers into the comparator countries. If high out-of-quota tariffs are chilling trade – limiting it to the duty-free quota – then such measures are still having a negative impact on New Zealand's export interests.

[23] The CPTPP only entered into force for Peru in September 2021, and so isn't fully reflected in the data below. CPTPP will remove all remaining tariffs on dairy exports to Peru immediately. This indicates a future average AVE closer to 0.2%.

Non-tariff measures are on average higher in Latin American markets than in comparator markets

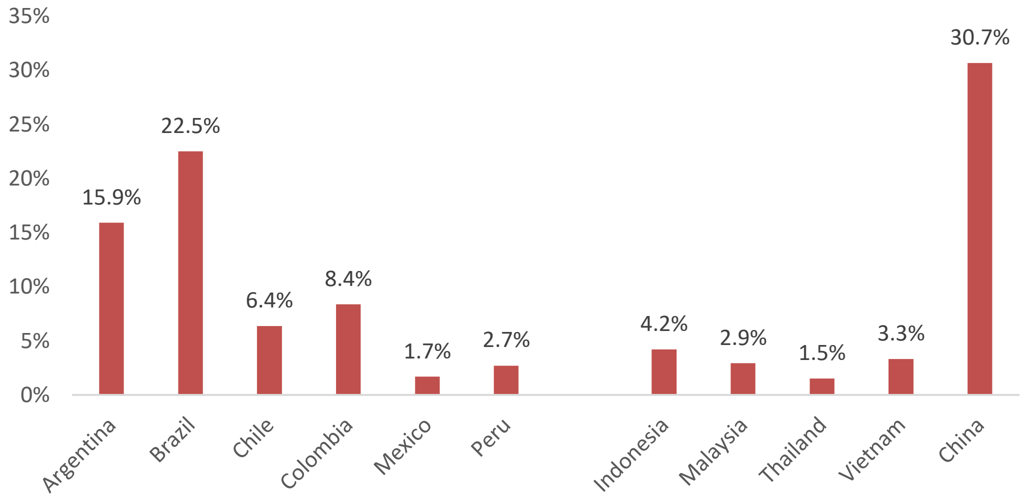
Non-tariff measures are policy instruments other than tariffs and TRQs that affect trade prices or quantities, or both.[24] They can include:

- Sanitary and phytosanitary (SPS) measures related to food safety or animal and plant health standards
- Technical barriers to trade (TBT) such as testing or certification procedures
- Non-technical measures such as non-automatic import licencing and export quotas.

Figure 32 below shows estimates of weighted average AVEs for non-tariff measures used in each country in 2018. The AVE of a non-tariff measure is an estimate of the cost of that measure, represented as a percentage of the value of the product. This yields a figure that is comparable with measures of tariffs.

Because of this complexity, the level of NTMs exports face is contextual to each country. In addition, FTAs can't always effectively lower NTMs.The chart shows New Zealand exporters, on average, face higher costs of non-tariff measures in Latin America than in the comparator countries. However, there are marked differences between markets. The cost of non-tariff measures in Brazil and Argentina are relatively high – albeit less than in China – whereas they are much less problematic in Mexico and Peru.

FIGURE 32: AVES OF NON-TARIFF MEASURES – MARKETS OF INTEREST AND COMPARATORS



SOURCE: GOURDON ET AL, 2020[25]

[24] See definition here: https://www.oecd.org/trade/topics/non-tariff-measures/ . It is important to note that while non-tariff measures add trade costs, many are important for consumer safety or human/animal health reasons.
[25] Gourdon, J. Stone, S. & Tongeren, F. 2020. "Non-tariff measures in agriculture", *OECD Food, Agriculture and Fisheries Papers,* No. 147, OECD Publishing, Paris.

A key point to note is the AVEs of non-tariff measures are much higher than the AVEs of tariffs and TRQs shown in Figure 31 in the previous section. This suggests a priority for policy-makers should be continuing to work with Latin American government agencies to minimise the trade-chilling impacts of such measures, including through processes established under existing FTAs in the region.

Businesses could consider prioritising countries with low barriers

A sound strategy for businesses will be focusing on markets with lower barriers to trade. These markets are typically those with whom we have existing trade agreements in place. On this count, Mexico, Peru and Chile appear to be the best options.

3.4. Barrier 3: institutional capacity

Measures of transparency are similar between Latin America and the comparators…

Latin America is reputed to have weak institutions. While this is true of a number of countries within the region, it is not true of all. On Transparency International's Corruptions Perception Score, a higher score indicates less corruption.

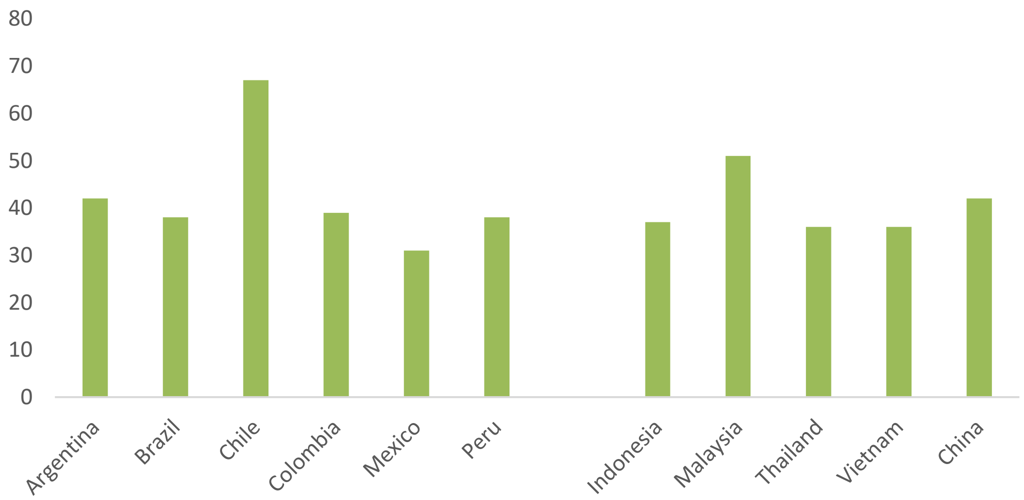
As shown in Figure 33 below, Chile has a Corruption Perceptions Index score of 67. This is higher (i.e. less corrupt) than the scores of any of the comparators by a considerable margin. The remainder of the markets of interest have similar scores to the comparator markets.

This indicates that corruption (or at least perceptions of it) is not systemically more prevalent in Latin America than it is the comparator markets. These are of course still low scores by developed country standards, and so care will need to be taken by any businesses seeking to enter any of these markets.

The cost of doing business is higher in economies with weak institutions and high levels of corruption. These factors tend to lead to inefficient bureaucratic processes.

It was noted in a number of case studies (see Section 2) that under such circumstances, doing business tended to become primarily trust-based. It took longer to gain customers, as trust had to be developed first.

FIGURE 33: CORRUPTION PERCEPTIONS - MARKETS OF INTEREST AND COMPARATORS



SOURCE: TRANSPARENCY INTERNATIONAL

…and pockets of Latin America are business-friendly

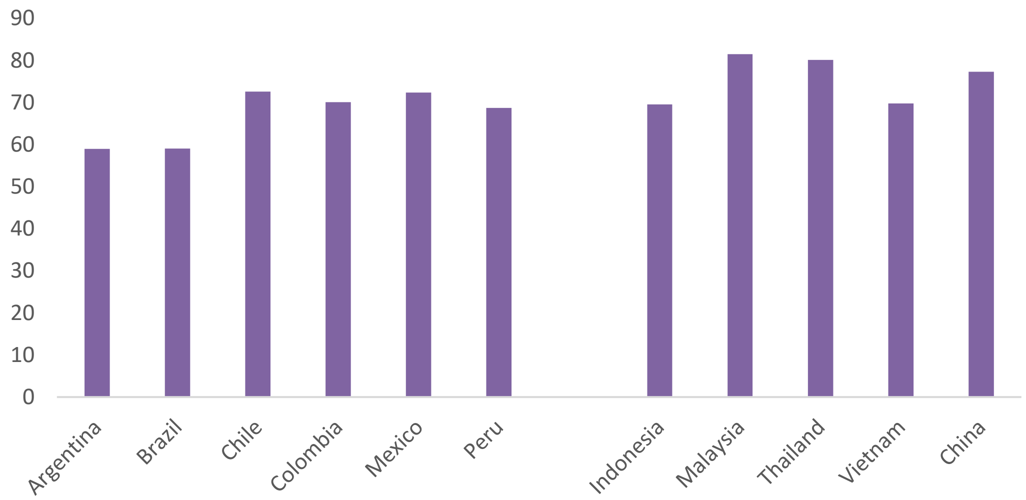
Despite common perceptions, there are countries in Latin America which perform reasonably well in ease of doing business ratings.

Figure 34 shows the World Bank's 2020 Ease of Doing Business scores for our focus Latin American markets and comparators. A higher score denotes easier conditions for doing business.

Mexico, Chile and Colombia each score in the 70s on the World Bank's ease of doing business 2020 report. Peru is not far behind on 69.

These scores are similar to some Asian comparators, such as Indonesia and Vietnam. However, Malaysia, Thailand, and China score higher. This indicates it is easier to do business in these markets than in any Latin American market.

FIGURE 34: EASE OF DOING BUSINESS - MARKETS OF INTEREST AND COMPARATORS



SOURCE: WORLD BANK

4. Outlook for Latin America

4.1. Overview

This section explores the potential outlook for Latin America out to 2030. In the short term, a link between commodity prices and economic activity is drawn. For the medium term, we refer to IMF forecasts for the region.

It is important to assess this all in the context of policy choices.

What Latin American governments decide to do and not do will have a decisive impact on how the region evolves over the next decade.

Key findings

- In the short term, the end of pandemic border restrictions will allow services trade to bounce back. High commodity prices will help drive an economic recovery in Latin America, boosting aggregate demand and incomes. This could translate to higher potential demand for New Zealand exports than seen in recent years.
- Over the medium term, Latin American economies are expected to return to their pre-pandemic growth trends. These are modest compared to countries in Southeast Asia and China. Latin American growth is also likely to retain its characteristically cyclical pattern, with periodic downturns in some countries.
- While business-to-business links will continue to offer specific commercial opportunities for New Zealand, policy choices in the region will play a large role in determining whether the trade relationship deepens materially and in a sustained fashion.
- We see two main ways that policy choices could increase the scale and value of the New Zealand – Latin American economic relationship:
    - Investments in expanding productive capacity, such as infrastructure and education, which will support sustainable real income growth.
    - Expanding market access through trade agreements.
- In terms of global challenges, addressing climate change will require lower agricultural emissions and a focus on renewable energy and sustainable transport. Knowledge sharing between the New Zealand and Latin American agricultural and energy sectors may lead to commercial and partnership opportunities in the climate change space. This can be enabled by strong commercial, government, and academic relationships.

4.2. The future of the trade relationship

Services exports will likely bounce back once borders open

Throughout 2022, New Zealand's border will begin to reopen to travel from all countries. As this occurs, there is likely to be a rebound in services exports as pent-up demand is released over time.

The resumption of direct flights between New Zealand and Latin America will support tourism's bounce back from the pandemic, although it is challenging to international determine to be seen whether tourism numbers will return to their pre-pandemic levels.

Updated data on student numbers out of Latin America is not yet available, and so it is too soon to conclude whether students will return in force. However, in lieu of an evident structural change in the relationship, it is a reasonably safe bet that numbers will recover towards pre-Covid levels over time.

High commodity prices will support Latin American growth

For Latin America, the first decade of the 21st century saw an economic boom arising from a global commodities super cycle[26]. With commodity prices rising, many countries in the region were able to sustain high economic growth rates. As the commodity boom came to an end and prices started falling in the mid-2000s, economic performance in the region has been less promising.

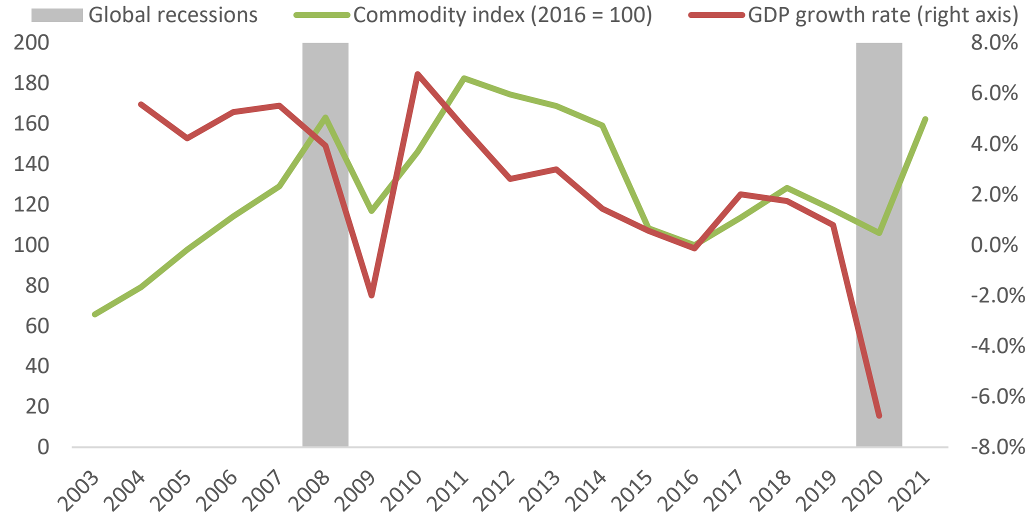
Figure 35 below shows this relationship. Commodity prices are measured by an index on the left axis, with a base year of 2016. The GDP growth rate is measured as a percentage on the right axis. The grey columns indicate periods of global recession, namely the 2008 global financial crisis and the 2020 pandemic.

The post pandemic rebound in the global economy has resulted in a sharp increase in commodity prices[27]. It is not yet clear how long this boom in prices will last, particularly with the risk of increasing inflation, tighter monetary policy, and snarled up supply chains casting a pall on the demand outlook. If it is sustained, Latin America will likely experience stronger economic growth and potentially higher demand for imports from New Zealand.

However, strong demand for New Zealand's primary products in Asia, Europe and North America may outcompete Latin American markets. Established commercial relationships may be at the front of the queue for limited supply.

[26] McKinsey Global Institute. 2017. *Where will Latin America's growth come from?*
[27] Gardner, T. 2021. *Is the world entering a commodities supercycle?* Stockholm Environment Institute.

FIGURE 35: COMMODITY PRICES AND GDP GROWTH – LATIN AMERICA



SOURCE: ST. LOUIS FEDERAL RESERVE

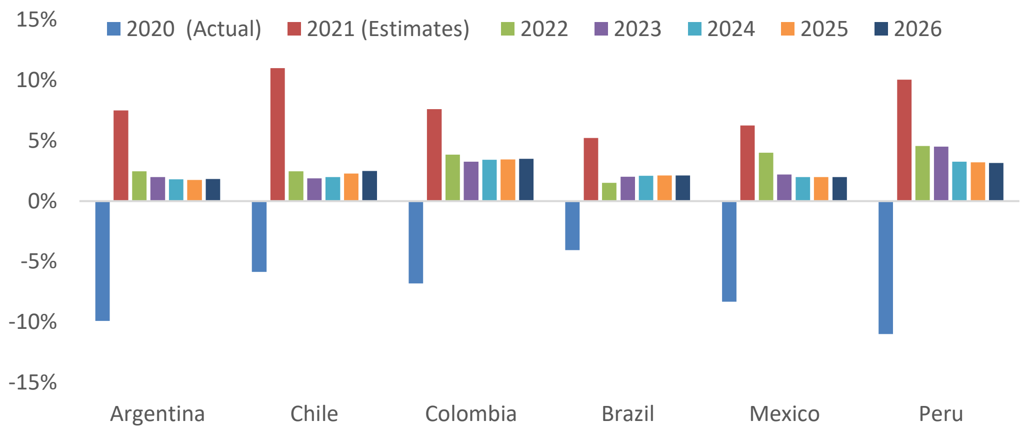
The medium-term outlook is for a return to pre-pandemic trends

IMF projections of economic growth see Latin American economies returning to their pre-pandemic growth tracks. The bulk of the recovery is expected to have happened in 2021, with 2022 finalising a return to trend.

Average growth over 2022-2026 is expected to stabilise at 2% for Argentina, Chile, Brazil, and Mexico. Peru is expected to record 5% annual growth to 2023 before settling to 3%. And Colombia is expected to average 3-4% annual growth over the same period.

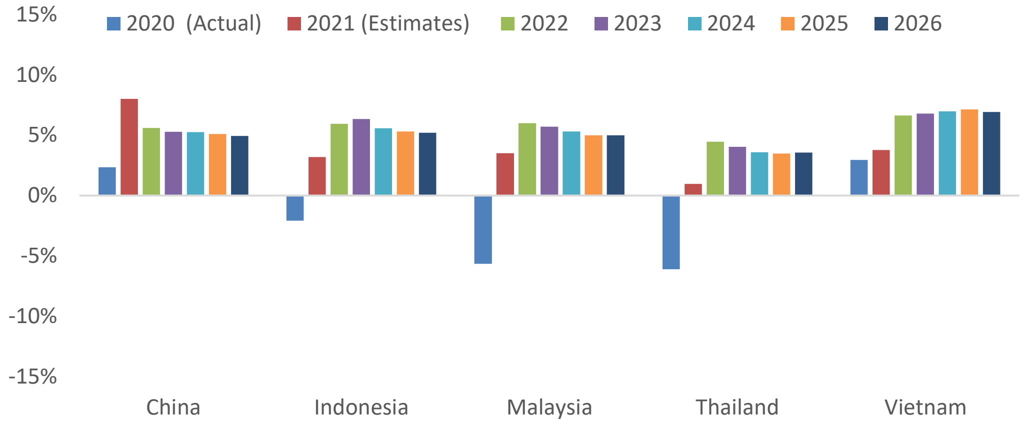
These are modest rates compared to those expected in Asian markets (see Figure 37 below).

FIGURE 36: GDP GROWTH PROJECTIONS - MARKETS OF INTEREST



SOURCE: IMF

FIGURE 37: GDP GROWTH PROJECTIONS - COMPARATORS



SOURCE: IMF

The cyclical nature of Latin America's growth will likely continue

The policy choices made by governments in the region will be a key deciding factor. In particular, governments (and businesses) face a choice in how they invest the extra revenue generated by high commodity prices.

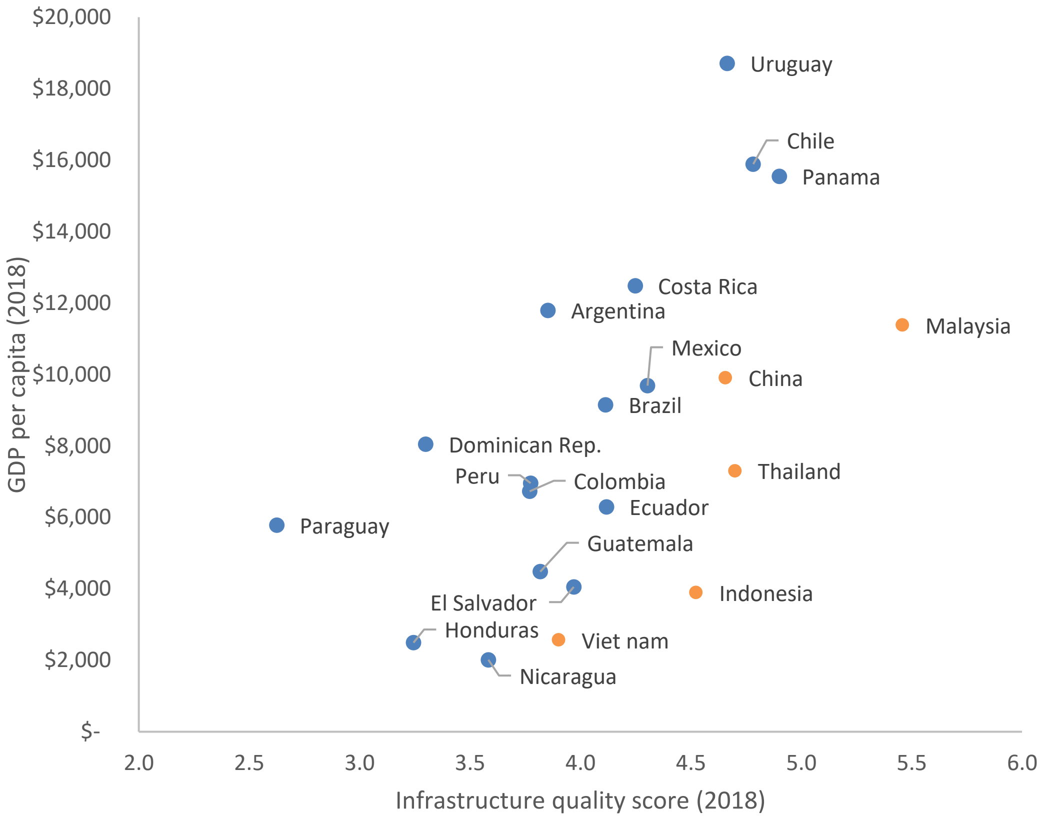
Investments in infrastructure, education, and healthcare could improve the physical and human capital of Latin American economies. This in turn can improve productivity, leading to higher economic growth and real incomes. Higher real incomes will potentially lead to higher demand for imports from places such as New Zealand.

Figure 38 below shows a score of the quality of infrastructure in each Latin American country and the comparators on the horizontal axis. This is plotted against GDP per capita for each country on the vertical axis.

Latin American countries typically score lower than comparators, though Uruguay, Chile, and Panama stand out. In general, there is a broad correlation between the infrastructure score and GDP per capita.

If cyclical growth is not overcome through sound policy choices in Latin America, growth in the New Zealand-Latin America trade relationship will likely remain below its potential. Businesses looking for new export opportunities should keep an eye out for areas of strong and smart government investment.

FIGURE 38: INFRASTRUCTURE AND INCOME - MARKETS OF INTEREST AND COMPARATORS



SOURCE: WORLD BANK

Climate change will require knowledge sharing on agri-emissions

Climate change, and the need to mitigate global emissions, will pose significant challenges for New Zealand, Latin America, and the world. With Latin America stretching over 10,000km from north of the equator to the Southern Ocean, climatic effects will vary substantially.

What New Zealand and Latin America do share is a strong agricultural sector. Cutting emissions from this sector is among the hardest problems confronting climate policy makers. Reducing agricultural emissions without jeopardising food supply will require innovation and experimentation.

Commercial, government, and academic relationships between Latin America and New Zealand will enable knowledge sharing in this space. Innovations developed in New Zealand may support emissions reductions in Latin America. A good example is the MPI-backed Global Research Alliance on Agricultural Greenhouse Gases. This organisation seeks to reduce agricultural greenhouse gas emissions globally through research and development activities.[28]

[28] https://globalresearchalliance.org/about/

Likewise, Latin American farmers and scientists may find creative solutions to New Zealand's own agri-emissions challenges.

There may also be opportunities for New Zealand to share its knowledge and expertise in renewable energy, which is a frequent priority for countries seeking to lower their greenhouse gas emissions. This organisation seeks to reduce agricultural greenhouse gas emissions through research and development activities.[29]

Expanding trade agreements will promote increased exports

As was explored in Section 1 of this report, FTAs have been a key enabler of growth in New Zealand's goods exports to Latin American markets.

Chile was the top New Zealand export markets by value growth between 2010 and 2019, growing $87.8m over that period. This is in part a function of the existing FTA, the P4.

Since ratification of the CPTPP by Mexico in 2018, exports to Mexico have grown $83.8m, or 25%, in just three years. This has occurred with much of the tariff reductions included in the CPTPP yet to occur, indicating further promising growth in exports to come.

Peru ratified CPTPP in September 2021, and we can expect this to open up further opportunities for export growth. With the removal of tariffs on dairy products below certain quotas, the average tariff may fall from 1.6% to 0.2%.

Other agreements will also help to deepen trade links. An example is the Digital Economy Partnership Agreement, (DEPA), an open plurilateral initiative signed with initially by New Zealand, Chile, and Singapore. This agreement will help to streamline digital trade between signatories. Mechanisms to achieve this include prohibiting customs duties on electronic transmissions and protecting encrypted information.

Progress is also being made on innovative initiatives that promote sustainability through trade. The Agreement on Climate Change, Trade and Sustainability (ACCTS) is currently under negotiation. This agreement seeks to remove tariffs on environmental goods, remove subsidies on fossil fuels, and develop guidelines for eco-labelling[30]. Costa Rica and New Zealand, alongside Fiji, Norway, Iceland, and Switzerland, have formed the initial negotiation group, and as with DEPA, this is an open agreement that any similarly ambitious economy can seek to join.

The outlook for trade liberalisation with key partners is positive

The outlook for trade liberalisation with some key partners is positive. The Pacific Rim economies of Mexico, Colombia, Peru, and Chile have a strong recent history of trade liberalisation. This is reflected in their joint membership of the Pacific Alliance, a regional

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[29] https://globalresearchalliance.org/about/
[30] https://www.mfat.govt.nz/en/trade/free-trade-agreements/trade-and-climate/agreement-on-climate-change-trade-and-sustainability-accts-negotiations/

economic integration initiative to which New Zealand is an observer[31]. Negotiations started in 2011, and an agreement came into force in 2015.

Several key New Zealand trading partners in Latin America have been highly active in signing FTAs:

- Chile has around 25 FTAs in force with most of the world's major economies, including the EU, US and China[32]. In addition, Chile has a further four agreements in negotiation and has expressed interest in joining the ASEAN-Australia-New Zealand-FTA (AANZFTA)[33].
- Mexico has 11 FTAs in force, with a further eight in negotiation.
- Peru has 15, with a further 7 in negotiation or due to enter into force.

Overall, the outlook among Pacific Rim Latin American economies is positive, and New Zealand can expect increases in the value of trade with these markets.

Other Latin American economies have been less outward-looking. Argentina and Brazil each have only a single bilateral FTA in force outside of MERCOSUR. MERCOSUR, a trade grouping of Argentina, Uruguay, Paraguay, and Brazil, soon to be joined by Bolivia, has seven FTAs in force with countries outside the bloc.

The approach to trade liberalisation taken by Brazil and Argentina will cap the potential for further growth in trade with the region as a whole. Without a reduction in barriers to trade, businesses will face lower incentives to business in these markets, though they will remain attractive for other reasons including scale.

[31] http://www.sice.oas.org/tpd/pacific_alliance/Pacific_Alliance_e.asp
[32] http://www.sice.oas.org/tpd_e.asp.
[33] The Twenty-Sixth AEM-CER Consultations: Joint Media Statement. 2021. https://aanzfta.asean.org/uploads/2021/09/Joint-Media-Statement-for-the-26th-AEM-CER-Consultations.pdf

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