A CHILE – NEW ZEALAND CEP?:
The Concept of Coopetition and
The Politics of Trade Liberalization

A Lecture

By

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For additional background on the subject our readers can consult both international researches and specific academic work done in both countries. In the first case, I recommend: N. Wood (ed.) in "The Political Economy of Globalization". St. Martin's Press, NY 2000; "Trade Blocs" a publication of the World Bank (2001); and "Regionalism and the Multilateral Trading System. The Role of Regional Trade Agreements" an OECD Policy Brief (August 2003). As for the second source of information, I suggest the following: Alberto Valdés in "Joining an Existing Regional Trading Agreement from the Perspective of a Small Open Economy: Chile's Accession to NAFTA and MERCOSUR". *American Journal of Agricultural Economics*, Vol.77 (1995); Maurice Schiff and Claudio Sapelli (ed.) in "Chile en el NAFTA: Acuerdos de Libre Comercio versus Liberalización Unilateral". Centro Internacional para el Desarrollo Económico, Santiago 1996; Glenn W. Harrison, Thomas F. Rutherford and David G. Tarr in "Trade Policy Options for Chile: A Quantative Evaluation". Paper presented in January 1997; Sebastián Saez and Juan Gabriel Valdés in "Chile y su política comercial lateral". *Revista de la Cepal*, N*67 (April 1999); Manuel R. Agosin in "Trade and Growth in Chile". *Cepal Review*, N*68 (August 1999); Matthew O'Meagher in "New Zealand and Chile: A Thwarted Friendship". *NZ International* Review, Vol.25 (2) 2000; Thomas A. O'Keefe in "The Evolution of Chilean Trade Policy in the Americas: From Lone Ranger to Team Players", *Florida Journal of International Law*, Vol.13 (Spring 2001); "The Chilean Strategy of Trade Liberalization and Market Access", ECLAC report (February 28, 2002); Megan K. L. McKenna and Warwick E. Murray in "Jungle Law in the Orchard: Comparing Globalization in the New Zealand and Chilean Apple Industries", *Economic Geography*, Vol. 78 (4) 2002; Glenn W. Harrison, Thomas F. Rutherford and David G. Tarr in "Chile's Regional Arrangements: The importance of market access and lowering the tariff to six percent". Working Paper N*238, Banco Central de Chile (November 2003); Ronald Fischer in "Trade Liberalization in Latin America: The case of Chile". Paper presented to the conference 'The Future of Trade Liberalization in the Americas' (June22, 2004); Francesca Castellani, Alberto Herrou-Aragon and Lawrence E. Hinkle in "An Analysis of Chile's Trade Regime in 1998 and 2001: A Good Practice Trade Policy Benchmark". Africa Region Working Paper Series N*71 (July 2004); Edward R. T. Challies in "Towards Closer Economic Partnership? A Comparison of Neoliberal Restructuring in the Dairy Complexes of Chile and New Zealand" (PhD thesis at Victoria University of Wellington, 2004); and Warwick E. Murray and Edward R. T. Challies in "New Zealand and Chile: Partnership for the Pacific Century?", *Australian Journal of International Affairs*, Vol. 57 (1) 2004.

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List of Acronyms

APEC	Asia-Pacific Economic Cooperation
AFTA	Asian Free Trade Agreement
ALADI	Latin American Association of Integration
ASEAN	Association of South Eastern Asian Nations
CEP	Closer Economic Partnership
CER	Closer Economic Relations
ECLAC	UN Economic Commission for Latin America and the Caribbean
EU	European Union
DIRECON	Division of International Economic Relations
FDA	U.S. Food and Drug Administration
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
MERCOSUR	Southern Common Market
MFAT	Ministry of Foreign Affairs and Trade
NAFTA	North American Free Trade Agreement
NZ	New Zealand
P3	Pacific Three
PM	Primer Minister
RTA	Regional Trade Agreements
VUW	Victoria University of Wellington
WTO	World Trade Organization

Introduction: Chile-New Zealand bilateral trade negotiations (and P3)

As active lobbyists and campaigners for free trade, Chile and New Zealand have simultaneously pursued unilateral, bilateral/regional and multilateral trade liberalization. Apart from sweeping moves towards the unilateral opening of their economies (Chile in 1975/76 and New Zealand in 1984) and their sustained support for multilateral negotiations, since the early nineties the governments of the two countries also initiated talks to evaluate the alternatives for a bilateral free trade arrangement. For Chile it was its second initiative (in parallel with the initial contacts with NAFTA and MERCOSUR) after having negotiated one with Mexico (1992) and for New Zealand it was a new option following its earlier Closer Economic Relations (CER) with Australia (1982). Unfortunately, after two initial rounds the Chilean side asked for a postponement of the discussions due to the sustained opposition of its agricultural sector (producers, associations and unions). Their logic was quite simple: New Zealand's dairy was far too strong and competitive and so the bilateral liberalization of that industry could mean a serious threat to the smaller and less efficient Chilean farmers.

Several years later (1999), NZ and Singapore announced their decision to negotiate their own trading agreement and, in the beginning of 2000, Chile, New Zealand and Singapore together considered setting up a joint study group to explore mutual recognition of credentials and standards, and the potential for a trilateral scheme for a Closer Economic Partnership (CEP). The so called "Pacific Three" (or P3) was formally raised during the APEC leaders meeting in Brunei (2000), when Chilean President Ricardo Lagos, NZ Prime Minister Helen Clark, and Singaporean Prime Minister Goh Chok Tong endorsed the concept of a comprehensive free trade negotiation involving the three countries as the initial step for an expanded trade liberalization area within APEC. They hoped it could pave the way for a P5 scheme that would include APEC's more open economies (the above three plus Australia and U.S.A.), an initiative that had emerged in informal talks during the 1998 and 1999 APEC meetings.

While NZ and Singapore went ahead –as we mentioned- with their bilateral negotiations, as a result of which a Closer Economic Partnership (CEP) between them entered into force in January 2001, the P3 idea was discussed again during the APEC leader's meeting in Shanghai in October 2001. It was acknowledged that the expanded idea of a P5 would not get easily off the ground (without American leadership and with only lukewarm Australian support) and that Chile had still to work bilaterally with NZ through a number of issues regarding its agricultural access

concerns. In order to progress this last initiative, Prime Minister Clark and President Lagos agreed during the PM's visit to Santiago in November 2001 that Chile and New Zealand should carry out a study examining the potential issues that could arise in the implementation of a CEP between the two countries. In 2002 the results of the respective studies were positive about the potential net economic benefits for both countries in the form of regional and global liberalization, increased bilateral investments and services, technology transfer and scientific cooperation. Criticism from some quarters pointed out at the time that the studies were very superficial because they did not provide data on the specific trade gains expected from the CEP. But, as we hope to demonstrate, the CEP is not merely about increasing bilateral flows of merchandise but basically a framework for joint strategic actions between the two countries in third markets.

Subsequently, during the APEC leader's meeting in Los Cabos (Mexico) at the end of 2002, the P3 was re-launched by its respective heads of government, an action that meant -in essence- the renewal of the Chilean-New Zealand negotiations. A first round of talks was held in Wellington in July 2003, followed in August of that year by technical discussions in Singapore. Once again, however, the negotiation process faltered and stalled because of renewed pressures from the "dairy lobby" in Chile in times of municipal elections (mainly politicians representing rural electorates and farmers associations). Afterwards, a better understanding between Chilean dairy industry processors and producers, as well as a new drive from the Lagos government, enabled the bilateral talks to be reassumed. A second round of negotiations was then held in Wellington in August 2004 and a third one in Santiago in December that same year, with additional sessions scheduled for March and April 2005. Current prospects are that by mid this year the governments involved could be ready to sign the P3.

What is Free Trade? Not theory, but practice

As we will see ahead, the Chile – New Zealand initiative was, from the very beginning, not supposed to be a typical Free Trade Agreement (FTA), as trade was only part of a larger scheme for a Closer Economic Partnership (CEP). To understand the rationale of this process and to discuss the implications of a Chile-NZ CEP and/or P3, we should review beforehand the broad policy perspective under which both countries have pursued their bilateral economic understanding. We will not discuss here about of trade liberalization in general. There is mounting work on the subject and strong evidence that free trade can strengthen the economies

that practice it. The fact is that, from 1948 to 1989, sixty-five (65) Free Trade Agreements (FTAs), custom unions, or equivalent regional trade liberalization schemes (RTAs), were notified to GATT. That trend accelerated afterwards and, for the period 1990-1994, thirty-three (33) new arrangements were notified. Among them, New Zealand has completed FTAs with Australia (CER), Singapore, and Thailand and is planning to do the same with Chile, China and ASEAN. The negotiations with Hong Kong are currently suspended and NZ has expressed varying degrees of interest with Mexico, South Korea and the United States. In the case of Chile, it has already negotiated with all its major Latin American partners[1], Canada, South Korea, the U.S. and EU, and most probably will follow with China, India and Japan. Anyhow, RTAs continue to proliferate as progress on the Doha Round has slowed. About 162 of them are in force as of 2002 and estimates are that over 300 will be in effect by 2007. We can conclude then that, at present, it seems that the reality of world trade is being dominated by bilateral and regional negotiations.

The main reason for the above is the phenomenon of globalization. Economic "globalization" is a historical process, the result of human innovation and technological progress, and its refers to the increasing integration of economies around the world, particularly through trade and financial flows, as well as through the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions. The question is that globalization is not only here but it has come to stay, so countries have to prepare themselves to live and cope with it in order to reap its benefits instead of opposing it and dying in the process. For small countries such as Chile and New Zealand, this challenge is even greater as they not only have to be competitive but also need to strengthen their weaker positions through cooperation and alliances with other similar players.

Being that the case, we would like to stress here that free trade is essential for both of our countries. But FTAs come in many forms, depending on the specific objectives pursued by each of its players and, at the same time, trade liberalization can be relevant because of its economic impact as wells as in diplomatic, political and strategic terms. In that general context, we can say that different motivations drive these agreements, among others the following: (a) to strengthen national economies by increasing trade flows between interested parties; (b) to gain access to more restricted markets; (c) to ensure greater stability to already consolidated trade flows that could be affected by unilateral arbitrary measures; (d) to basically enhance trade in services and cross-investments between the signatories; (e) to encourage greater integration of the economies

[1] Bolivia, Central America, Colombia, Cuba, Ecuador, Mexico, Peru, Venezuela and MERCOSUR.-

involved; and (f) to ensure that "open regionalism" (even the economic bloc formations) works for and not against the parties not involved in the pertinent RTA.

Chile's negotiations with Mexico in 1992 (reviewed and expanded in 1999) and with Canada in 1997 are good examples of agreements whose main objective was to substantially increase the low levels of trade that existed between them. Effectively, we should point out that Chilean exports to Mexico not only have grown steadily since then but also that we can say today that there is a free trade zone between both countries as 99.7% of custom duties have already been eliminated[2]. On the other hand, in 2001, after only three years of the Canada-Chile FTA, bilateral trade in merchandise had increased 33%, Canadian FDI to Chile rose 57%, and Chilean exports to Canada had risen 59%, making the Canadian market the second fastest growing market for Chile (after Mexico).

Of course, all traditional FTAs have had this basic purpose of enhancing trade, even when the focus of them has been the preferential rights that the parties offer to each other in comparison with third parties. Chile's old preferential agreements back in 70s and 80s with its Latin American partners were of this nature[3]. Those early preferential agreements, however, were subject to different degrees of trade distortions, so they were not only criticized by most trade experts but in the end also curtailed by GATT and WTO. In any case, the point here is that many small or developing economies used trade agreements to maintain preferential access to the markets of its trading partners. They may have breached GATT or WTO principles; but we have to accept there is a problem when even the largest players in the world trade system argue special circumstances or the defense of national interest to do the same.

A second motivation for a free trade arrangement is to open access to closed or highly protected market. In fact, a common challenge for Chilean and New Zealand exports is the permanent need to open foreign markets with restrictions on their agricultural products, a sector – by the way- affected worldwide by all forms of protectionism. Probably that is the kind of

[2] In 1991, before the FTA entered into force, Chilean exports to Mexico were in the order of US$ 123m. By 2004 they had reached the amount of US$ 1.3bn., with an annual average increase of 18% (39.4% only for the period 2003-2004). At the same time, between 1994 and 2004, accumulated Chilean investments in Mexico accounted for US$ 127m and Mexican in Chile for US$ 290m.-

[3] They are known in Spanish by the name of *Acuerdos de Complementación Económica* within the context of ALADI.-

reasoning that led Chile to negotiate an FTA with South Korea[4] and it would probably be the main objective driving a possible negotiation with Japan in the near future.

A third motivation is a country's wish to obtain what we can call an "insurance trade policy" with regard to the market to which it is exporting. The theme here is how to best defend a consolidated market share from arbitrary or unilateral measures. The U.S. economy, for example, has always been an open and quite an accessible market for Chilean exports. However, in special circumstances, such as in the Chilean "poisoned grapes" crisis of 1989[5], the affected Chilean exporters were left defenselessness before extreme actions undertaken by the U.S. authorities. Therefore, the idea of Chile's attempt to join NAFTA or, when that alternative did not work, to negotiate a bilateral FTA with the U.S. in 2003, was not so much aimed to increase trade or eliminate specific restrictions to it as to protect its traders from unilateral actions that the American Administration might apply discretionally to products which became too competitive and displaced national (domestic) production. While no agreement can guarantee a full-proof system, dispute settlement mechanisms in the FTAs may help to pave the way towards solutions to bilateral trade conflicts. In many ways, the Chilean economic cooperation and liberalization agreement signed with the European Union (EU) in 2002 was driven by this same objective of assuring some form of legal protection for Chilean exports to the markets of its larger partners. So, more than incrementing trade, the end goal in this case is to protect market share against arbitrary action and avoid volatility in trade flows.

An additional aim pursued by FTAs is to create a favorable environment that allows trade liberalization to expand from goods to services and also to increase the levels of cross-investments flows, as indicated in the fourth motivation. This was another important reason considered by Chile in its negotiations with both the U.S. and the EU. In other words, the idea of providing sound economic and commercial relationships in order to attract increasing levels of foreign direct investment (FDI) that otherwise would flow to other markets.

[4] The agreement was finally signed in 2003 but only entered into force in April 2004. While more time is needed to measure its impact on trade, we can say that Chilean monthly exports to South Korea grew between April 2003 and April 2004) from US$ 80m to US$ 127m.-

[5] The U.S. FDA, after detecting in the port of Philadelphia two Chilean grapes containing cyanide, decided to quarantine all fruit imports from Chile not only creating real panic among consumers but also damaging half of Chile's production for the season. The cyanide dose was not lethal, it was determined that the cyanide was injected and it was never proven that they were contaminated in Chilean orchards. At the end of the day, many impartial observers had the conviction that all this was a protectionist (illegal) action against a substantial rise in Chilean grapes imports.-

Then again, the FTAs can also be considered as stepping-stones for broader economic cooperation and higher levels of economic integration between the negotiating parties. Here trade liberalization is only part of a broader deal for there are other common interests in play, which are subject for the building-up of "strategic alliances"[6] between the countries involved. Perhaps a good precedent in this regard is the Australia-New Zealand CER. In our view, this would also be the case for a Chile – NZ CEP and/or a trilateral agreement including Singapore (P3).

Last but not least, there is always a general motivation for smaller economies, such as Chile and New Zealand, to engage in the bilateral option with one or more countries that are part of broader RTAs (e.g., EU, NAFTA, AFTA, MERCOSUR or CER). The prevailing criteria here is that while countries like Chile, New Zealand and Singapore are in principle against the emergence of economic blocs, due to economic realism and political pragmatism, if a bloc is inevitably going to be formed they would rather be in than out.

But before we examine the Chile-NZ CEP case, we should review what Chile and New Zealand really think about world trade liberalization and the instruments they have at hand to accomplish it. To start with, we must admit that they constitute two small outward-looking trading nations that are very much co-dependent on international markets as their only alternative to achieve economies of scale. This situation presents two major challenges for them: (i) Their dependency on world markets makes their economies more vulnerable to foreign impacts; and (ii) They have limited power to influence international negotiations as they are not big players within the multilateral arena. Notwithstanding, Chile and New Zealand not only participate actively in a wide range of international fora and observe to the multilateral rules, but also work hard in order to gain enough leverage to be able to influence the shape of a world that can better meet their needs. But, the fact remains that, due to the realities of world trade that we have already discussed, both access to and diversification of foreign markets are critical to them. For the same reason, the development of special trading linkages with countries with similar perspectives and

[6] By strategic alliance we mean a partnership agreement that drives businesses to cooperate in achieving mutually beneficial objectives in terms of market expansion and consumer base. In that understanding, both partners contribute resources and capabilities that are necessary to carry out their common goals. In international trade, for example, it takes more than lower trade barriers to capture the economic benefits from increased trade. In fact, "firms must organize sufficient resources to identify new markets and opportunities and to produce, distribute and service products in those markets". In many cases, entering foreign markets "is beyond the capabilities of many companies, prompting many to look to other organizations for the additional resources and capabilities needed" (David Sparling and Roberta Cook in *Strategic Alliances and Joint Ventures Under NAFTA: Concepts and Evidence* in R.M. Loyns, Karl Meilke, Ronald D. Knutson and Antonio Yunez-Naude (eds.) "Policy Harmonization and Adjustment in the North American Agricultural and Food Industry". Friesen Printers, Winnipeg Ca. 2000).-

common interests has become a top priority for Chilean and New Zealand trade strategies and policies.

Countries with big domestic markets –powerful players in the multilateral system- often see themselves as less dependent on world trade. Some, like the U.S are more interested in what they call "fair trade" than in free trade because of anxieties –real or imagined- about shifts in the balance of competitive advantage. A Brazil or an India may see no urgency in opening up their national economies, either because it believes it can manage with its own resources and is relatively self- sufficient, as in the first case, or it thinks it needs more time to build up a competitive industry and is still in the catch-up process, as in the second case.

It is because of these facts of international life that Chile and NZ have adopted a pragmatic approach to their international economic policies. They define themselves as export-led economies, global traders and countries that combine simultaneously the unilateral opening with multilateral negotiations and bilateral and regional free trade liberalization. Due to their small domestic markets, they are internationally oriented; their trading interests are not confined to a specific area or region, but open to opportunities in all foreign markets; and their trade strategies are multidimensional.

Chile – New Zealand Comparative Analysis

Chile and New Zealand are similar in many ways. You are an island and we have an insular geography (surrounded by a desert in the north, the Andes mountain range, Antarctica and the Pacific Ocean). Both countries are –in relative terms- isolated, as they are located deep in the Southern Hemisphere, in a sort of "semi-periphery", due to their distant position from the world's economic and political centers[7]. However, they have experienced (Chile in the early seventies and New Zealand in the early eighties) drastic structural reforms that have decisively opened and internationalized their economies. Chile and New Zealand also span across significant latitudinal ranges and exhibit a variety of physical environments. Due to physical and climatic similarities

[7] This concept of "center versus periphery" could be challenged on the basis of globalization, as communication technology is eroding the implications of distance and, on the other hand, as Chile and New Zealand are located in the Pacific, a region which is supposed to be the new center of economic growth and innovation. However, we are applying it in two ways: (a) theoretically, in terms of "big" and "small" players with more or less international leverage; and (b) Practically, in terms of higher transportation costs for exports from Southern Hemisphere economies towards markets in the Northern Hemisphere.-

on the borders of the Pacific, their economies are not only richly endowed in natural resources but also produce a similar range of products.

The basic country data indicates that New Zealand constitutes -more or less- one third of Chile's both land area and population. In economic terms, New Zealand's GDP accounts for just above 70% of Chile's, but in terms of per capita income the situation is the reverse with Chileans earning only 56% of New Zealanders' average income ("PPP" or parity purchasing power). The two countries' main economic sectors (in percentage of GDP) are also very similar: Services (68.3% in NZ and 54.1% in Chile), Industry (23.4% in NZ and 27.1% in Chile) and Agriculture (8.3% in NZ and 7.1% in Chile). However, there is an important socio-economic disparity between them, as Chile stands as a "developing" country and New Zealand as a "developed" one. While this development gap, which differs in magnitude depending on the segment of the populations and the productive sectors, could be a source of opposition to the CEP, we should also consider that it provides two important complementarities: on the one hand, labor is more abundant and cheaper in Chile; and on the other, New Zealand has greater educational and training resources, which generally result in more advanced technological applications to primary industry.

If Chile is a larger merchandise exporter than New Zealand (US$ 32 billion against US$ 22.5 billion in 2004), both countries are equally prolific traders (35% to 37% of GDP, respectively), they have been achieving trade surpluses for many years, and have positioned themselves in similar world markets niches. Dairy, lamb and beef are the three major New Zealand agricultural commodities, whereas the Chilean ones are grapes, fish meal and apples. Comparative data for world agricultural exports in 2003 show New Zealand as the 11th largest exporter (value of US$ 9.6bn and a 1.4% world share) and Chile in the 13th place (US$ 7.47 and 1.1%). At the same time, the two countries are essentially primary product traders to the Northern Hemisphere taking advantage of their off-season fruit production. In the case of world fresh fruit total exports for 2003, Chile stands at the 7th place (US$ 1.6bn) and New Zealand at the 17th (US$ 0.6bn). It is important to mention in this regard that while New Zealand horticultural exports have focused more on value per unit (high quality niches) the Chileans ones tend to focus on quantity (greater volumes). One clear example is apples, where Chile doubles New Zealand in volumes (600 thousand Mt versus 300 thousand Mt), but the situation is the reverse when it comes to unit value (US$ 441 against US$ 730). Another common export sector of the two countries is forestry, where Chile was the world's 10th leading wood product exporter in 2003 (US$ 1.4bn) and the

world's fourth softwood lumber exporter (here New Zealand was in sixth place). However, as we will see, both countries share a world dominating position on radiata pine plantations and exports.

Although New Zealand might enjoy -because of its location- up to an average of 36% lower delivery cost than Chile in the Asian markets (say Japan or China), the reverse could be favoring Chile in its trade with the Americas. Nevertheless, in terms of markets, it is interesting to note that recent changes in the trade patterns of Chile and New Zealand (policy focus and export market destinations) are showing an increasing bilateral convergence: Chile, traditionally focused to the Americas and Europe, has reoriented its economic linkages towards the Asia Pacific region, and New Zealand, that has usually looked to Europe, is increasingly turning its attention to East Asia and the Americas on the eastern Pacific rim.

Notwithstanding the above, the export portfolios of both countries may vary if we consider the fact that Chilean exports tend to be more dependent on primary products while manufactures feature a bit higher in New Zealand exports. Another basic difference between them is that New Zealand appears to be a more vertically integrated international supplier with a high concentration of its export sector in comparison to Chilean exporters who are less integrated or concentrated. Overall, New Zealand major exports by value comprise dairy, meat, forestry, machinery, fishery, fruit, aluminum, and wool, while in the case of Chile it comprises copper and minerals, processed food and fish, forestry, fruit and wine. But, one again, apart from these differences, in many sectors the two countries occupy similar competitive niches in third markets, basically in horticulture, forestry and wine.

With regard to the Chile-New Zealand bilateral trade, neither of the two economies is a market of major significance to the other in terms of trade volumes, trade value nor investment flows. Bilateral commerce is relatively low (under US$ 50 million in 2004) with New Zealand top exports in coal, food ingredients, pasture seeds and dairy products, and Chilean top exports in fruit, wine, fish, and copper. Services trade between Chile and New Zealand is also low or unknown, but has increased gradually in the last years especially from the New Zealand side. Potential is seen in tourism, transport, professional services, consultancies and technical expertise in primary industries, as well as education and training[8]. Finally, New Zealand foreign direct

[8] In 2003 New Zealand world trade in services earned NZ$ 11bn in foreign exchange receipts and services exports have been growing at 8.1% per annum since 1991 (export of goods have grown 5.5% over the same period). About 80% of the total figures for 2003 are constituted by transport, travel and education. But, on the other hand, business and miscellaneous services have risen from 7% of services exports in 1995 to 17% in 2003. Meanwhile, according to

investment (FDI) in Chile has decreased in recent years and Chilean FDI in New Zealand practically does not exist. Again, there could be great potential in this area if and when the industry in both countries decides to enter into joint partnerships.

Why not a Chile – New Zealand CEP?

From the comparative data on Chile and New Zealand that we have just briefly summarized, one could infer that there are several reasons why, at least from the point of view of traditional theory on free trade, a CEP between those two countries or an alternative P3 that includes Singapore might not seem necessary or recommendable. Let us look into some of the usual arguments:

(i) In the first place, *Chile and NZ are already open economies*. If that is the case, then there are not much trade gains to be obtained through a normal FTA, as the removal of residual tariffs should in practice make no big difference in the future bilateral trade flows. For the same reason, there is no apparent commercial justification for free trade in services, as the Chilean and New Zealand firms do not face major barriers to operating in the other country;

(ii) Secondly, *Chile and New Zealand have small domestic markets*. Both economies are not only open but also structurally small with a joint market of under 19 million inhabitants in total. Trade in goods between them is comparatively insignificant and that trend is unlikely to change dramatically in the near future with a bilateral or a trilateral FTA. If that is the case, why bother doing an agreement with another country when its tariffs are already low or its market is too small?. Or, for that matter, why shouldn't Chile negotiate instead an FTA with India or New Zealand do it first with Mexico rather than with each other?;

(iii) Thirdly, *neither Chile nor New Zealand is a major global player but they are not equal either*. The market of 15 million Chileans conforms basically a developing country while the 4 million New Zealanders a developed one, so this development gap does not help the "poorer" one solve its basic needs nor offer major gains to the "richer one". Even bilateral integration is difficult to achieve when both countries are not physically connected or share a common culture. In addition, the nominal sum of both countries' population and resources (be it

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UNCTAD (2004), Chile was the 10th largest exporter of transport services among developing countries (US$ 2.2bn in 2000, with a rate of growth since 1990 of 12.9% per annum.-

GDP and/or income) does not appear as sufficient for any of the two countries to improve their positioning within the world economy (or to have an impact in the form of a "demonstration effect").

(iv) A fourth argument is that *Chile and New Zealand are mainly competitors* in many of the same products, but especially in fruits and vegetables, timber and wood products, fish and wines, and possibly in meat and diary products in the future. Due to the similarities of their resource endowments, both countries have relied heavily on primary products and on natural resources in their exports and, therefore, are strong competitors in third markets.

(v) A final critique relates to the point that a CEP could have significant potential socio-economic costs. The one most commonly alluded to is the impact of trade liberalization on the Chilean dairy sector, affecting employment of thousands of small-scale growers and possibly with painful social and environmental consequences

As a general conclusion, one could hypothetically infer that, as relatively small agricultural global traders with comparable economic perspectives, Chile and New Zealand have symmetric economies or such a level of similarities that inevitably turns them into direct competitors. However, we will try to establish that, on the contrary, there are also –in parallel- some strong bilateral complementarities that can lead to greater cooperation between them. At the same time, we have reached a point of "maturity" in our relationship and in the knowledge of our mutual interests where the old popular proverb that says, "if you can't beat them, join them", is totally applicable.

Cooperation and Competition or the concept of "Coopetition"

The kind of analysis that we have summarized in the previous section leads to a different conclusion from the one we have actually reached. We would prefer to think "out of the box" and to take a forward-looking approach. One must consider, to start with, that up until very recently modern theories of business in general and of international trade in particular stated that competition was the key to keeping the economic agents (governments, economies, industries and firms) lean and innovative. But that emphasis has now been challenged by new academic developments in game theory and by pragmatic trade policies and practices, which suggest that businesses can also gain advantages by means of an adequate blend of both competition and

cooperation. Innovation and value, for example, are more and more commonly generated within the collaborative dynamic of networks, partnerships and joint ventures, because "social capital" (including alliances) can be as important as physical capital (equipment and technology) or as human capital (education and training) in driving innovation and economic growth.

Though competition for market position is a must in the New Economy, we are now also acknowledging that collaboration among competitors can provide a win-win situation, not by taking share from a contender, but by making the pie bigger. This new concept of "coopetition"[9], or the cooperation between competitors through strategic alliances that can develop new products and markets, can lead to the expansion of trade flows and the creation of new business relationships and enterprises. Coopetition is attributed today to the increasing interdependence between global traders looking for collective actions, risk sharing, flexible strategic planning, greater leverage, and prompt response to market demands. If competition by itself can only breed conflict, the cooperative approach between competitors can nourish joint payoffs through exploiting complementary resources.

The question is what triggers coopetition? What leads competitors to cooperate? Is it simply that they are exposed to greater competition from third parties? The general idea is that by partnering with someone, rather that trying to blow them away, one can really create new forms of synergies, which will help, to start with, to think much bigger that anyone would do on his own. In the concrete case of Chile and New Zealand, coopetition is about sharing information (marketing insights), expertise (technology transfer), as well as costs (broaden financial and operational possibilities). Additionally, bilateral joint ventures can make significant strategic contributions in terms of greater competitive advantages: economies of scale and rationalization, vertical integration, risk reduction and international expansion.

With this in mind, Chilean and New Zealand traders and producers should not only be individually competitive both with each other and in the world markets, but also capable at the same time of developing alliances and other forms of collaboration between them that can equally ensure their interests by negotiating and trading together in many of their common products and

[9] See B. J. Nalebuff & A. Brandenburger in "Co-opetition: A Revolution Mindset That Combines Competition and Cooperation. The Game Theory Strategy That's Changing the Game of Business". Currency, 1997; M. Bengtsson & S. Kock in "Coopetition in Business Networks. To Cooperate and Compete Simultaneously". *Industrial Marketing Management,* Vol.29 (5) 2000; and Yadong Luo in "Coopetition in International Business". CBS Press, Copenhagen 2004.-

markets. Just to mention a couple of examples at this stage, first we have a common interest in joint market access in third countries for several of their agricultural products, and secondly, we confront the same challenge in branding wherever possible so as to prevent the "commoditization" of Chilean and New Zealand exports.

Against the criticism that in a Chile-NZ CEP both countries are essentially competitors (in products and markets), we should also acknowledge that, parallel to that commodity exports competition in third markets, there is still much space to work on with regard to the complementarity aspects (synergies) of both economies. These relate mainly to Chilean lower labor costs vs. New Zealand higher levels of scientific and technological research; Chilean connections with the Americas vs. New Zealand ones with Asia; the big potential for intra-industry trade within their more competitive sectors; and the common necessity for greater economies of scale.

Chile and New Zealand are -individually speaking- already major exporters of many common agricultural products. Just a few examples: in apples, Chile was in 2003 the world's fourth largest exporter (600 thousand Mt and US$ 265m value) and New Zealand the sixth (322 thousand Mt and US$ 235m); in kiwifruit, Chile had a 19% share of the world market while New Zealand a big 36%; and in radiata pine plantations, the two countries sum up 73% of the world's total stock. Additional data shows that, following the U.S., Chile and New Zealand rank top among countries exporting fresh fruits to China. Also Chile is the world's leading stone fruit exporter from the Southern Hemisphere and together with New Zealand is the dominant supplier to the U. S. market. This can be extended to many other horticultural products. In the past New Zealand investors were relevant players in the development of the Chilean forestry boom and in the first stages Chile's aquaculture business (production and export of salmon). There has also been a continual New Zealand contribution to upgrade Chilean kiwifruit quality and to the marketing of Chilean apples.

In conclusion, the fostering of bilateral partnerships through a CEP can open the way for mutual collaboration and joint ventures between enterprises of both countries in their exports to third markets. But, apart from the basic advantage of controlling together a significant world

share in the production and export of specific primary products[10], the sharing of innovation and technologies (natural resource based or agri-tech) can induce Chile and New Zealand to develop more value-added products (e.g. branding wood products for construction materials in the Chinese market) and joint competitive clusters within the world economy[11].

Geopolitics: economic integration and strategic alliances between Chile & NZ

After reflecting on the motivations for free trade arrangements, comparing Chilean and New Zealand economics, considering the reasons why a Chile-New Zealand CEP would not be appropriate and, finally, looking at the new thinking on "coopetition", we should be ready to deal with the core of what a Chile-New Zealand CEP is really all about. We believe that a CEP can in fact nourish greater integration between the two countries with the following general advantages:

(i) *A Chile-NZ CEP and/or P3 as* a *benchmark in APEC and a demonstration effect for WTO*.- As all small, resource-based, open and export-led economies, Chile and New Zealand (and for that matter too Singapore) confront the challenge of having to push much harder for world trade liberalization than what their larger and less-export dependent counterparts actually do. If the multilateral negotiations don't make enough progress, the second best is for our two countries to resort to either a bilateral arrangement and/or regional schemes (in the context of "open regionalism") in order to increase the momentum for global liberalization or, at least, ensure a way forward than can provide more foreign market access for their exports. Such bilateral or trilateral CEPs should represent, at the end, a good benchmark for APEC, as well as an association between traditional competitors that can produce a "domino effect" upon the work of the World Trade Organization (WTO).

One could argue again that the Chile-New Zealand-Singapore partnership is still not sufficient to have a big impact on such an ambitious goal as influencing the WTO course. But, in

[10] As we have seen, this is the case of radiate pine, apples, kiwifruit, strawberries, and other agricultural products. Just to make the point, an equivalent example is the collaboration between Chilean and Norwegian salmon exporters (the world's two largest) in relation to the EU's antidumping actions against imports of Chilean salmon -

[11] In Chile, "there is a surprisingly extensive network of backward linkages in successful export oriented industries…in the mining industry these include sophisticated makers of dump loaders, which are exported to Canada an Australia," (also explosives to Latin America and drills to the U.S.). In the wine industry high quality wine barrels are exported to Europe and the U.S. and several local firms have integrated into the Chilean salmon farming industry by supplying equipment, vaccines and feeding for its aquaculture resources (R. Fischer 2004). Examples of successful natural resource-based clusters internationally-wise are the Italian ceramic tile (a US$10bn industry in 1987); Finnish forestry (40% of world plywood market and 25% of world market of cardboard and paper); Norwegian marine (10% of the world's seaboard transportation with wide variety of related industries and internal suppliers); and Dutch flowers (production and marketing of flowers outside the country).-

principle, a P3 trilateral grouping could be a stepping-stone for an expanded "P+" within APEC (a "P5" or any other equivalent gathering) or, for that matter, even an entirely South-South model (say a "SH6": a Southern Hemisphere CEP including Chile, NZ, Singapore, Argentina, Australia and South Africa, or a "CG6" in terms of an equivalent Cairns Group mini group), in order to build up collective liberalization actions among the Southern Hemisphere agricultural exporting countries that can exert more influence on the economic hegemony of Northern trading blocs.

(ii) *A Chile-NZ CEP as an underlying political element of bilateral integration.*- Integration is not only about economic cooperation and association. In general, there are also other common political, strategic and diplomatic interests that favor integration between the two countries. In that sense, Chile and New Zealand are not only economies with structural commonalities and similar trading policies; they are also nations with similar political profiles, affinities and converging national interests. Both countries' current center-left social democracy, "Third Way", neo-structuralist, "neoliberal with a human face" governments, or whatever other denomination we want to give them, are basically geared towards achieving growth with equity. They are looking for ways to fulfill their visions of a more developed, prosperous, innovative and decent place to live and work. A CEP would therefore stand for an association between two countries that want to drive their national goals through a blend of both their particular and common potentials.

The best practical example in this regard is the evolving political ties between the two current governments. Efforts undertaken by President Lagos to launch Chile into the Asia Pacific region and of PM Clark for a New Zealand drive towards the Eastern rim and Latin America are clear signs of converging political interests. The push that both have given in order to advance against all odds an agreement on the CEP, and the way that these two political leaders have worked in favor of growing bilateral interactions over the last decade, also reflects a non-declared idea of "codependent destiny".

(iii) *A CEP as a framework for strategic alliances between the governments, organizations and enterprises of both countries.*- An arrangement between Chile and New Zealand (and Singapore) with all its trade, services and cross-investment facilitation measures should provide the basis for fostering a sense of bilateral partnership, which in turn could open the way for joint ventures and mutual collaboration between the two countries. Apart from an expected rise in intra-industry trade, the sharing of technologies between Chilean and New Zealand primary industries (mainly pastoral agriculture, fisheries and aquaculture, forestry,

horticulture and wine), as well as the collaboration in research, production techniques, trading and marketing, and the exchange of information, ideas and personnel, can help both economies to become even more competitive with regard to third markets. The P3 dimension would additionally help further technologies and investments from Singapore.

In the case of Chile and New Zealand, the opportunities for potential strategic alliances are many and very varied[12]. In fact, everything from generic cooperation to cross-investments and joint ventures are possible between the two countries' horticultural growers and exporters (fruit and vegetables), especially when it comes to agreeing on quality standards, developing brands, the coordination of shipments, and the joint commercialization of common products in third markets. Investments will be required both for scientific and technological research and the development of intellectual property that can enable stronger services exports from Chile and New Zealand to the international markets. We should mention in this regard the untapped potential that can arise from both countries competitive advantages in biotechnologies[13].

Bilateral joint ventures should develop as well in the forestry and fishery sectors. The radiata pine value added products (construction materials and wood furniture) for the Chinese and Indian market is one good example. Another one relates to aquaculture, where both countries have acquired expertise in hatchery potential, conservation, harvesting and processing technologies. The same can be said of agribusiness in general, even in the dairy and beef industries, as well as fruit, flowers, beekeeping, and wines. All these businesses look for economies of scale, the lowering of production costs, the development of high-quality products, and the protection of their intellectual property.

Finally, a CEP agreement should also provide mechanisms and incentives to encourage greater bilateral cooperation in the educational sector in general, but also to facilitate specific economic and cultural linkages between New Zealand Maori and Chile's indigenous people,

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[12] We see bilateral strategic alliances as voluntary understandings between partners involving exchange, sharing and co-development of products, technologies or services and which might assume several forms: joint-ventures, co-marketing, contractual agreements, licensing arrangements, affiliate programs, or distribution agreements.-

[13] In general terms, we should recognize that "advancements in science and technological breakthroughs in the understanding of the biology of plants, animals, humans, and organisms at the molecular level, combined with the power of new information technologies, are creating a new technology platform, that is, biotechnology….While most technologies have generally focused on boosting farm productivity and have impacted how farmers farm their land, biotechnology has the potential to completely revolutionize agriculture by changing what is produced". Therefore, for Chile and New Zealand that are so dependent on agriculture, "the ability to create proprietary value-added traits will turn many agricultural commodities into premium-priced specialty and quasi-specialty products" (Sano M. Shimoda in "Agricultural Biotechnology: Master of the Universe?. AgBioForum 1 (2) 1998).-

including the Mapuche from mainland Chile and most especially the Rapa Nui (Easter Island) who have historical Polynesian linkages with the Maori people. Possible areas of interest comprise training in small farming, coastal fishing and tourism.

This brings us to a final and key element. The implementation of any broad bilateral partnership can only work on the base of mutual knowledge and trust. Two factors can work against this: the lack of physical connections and the barriers of language. Direct air links between Chile (Santiago) and New Zealand (Auckland) have fortunately been established, but much has still to be done with regard to breaking cultural barriers. Apart from problems resulting from general misunderstandings or preconceptions based on negative stereotypes, many Chilean and New Zealanders still don't recognize that culture is also an economic resource in itself and that greater official and private efforts should be made at intercultural awareness and dialogues. More emphasis should be given to the building of peoples to people contacts (travel and tourism, official visits and business missions, educational exchange programs, academic and cultural cooperation, and sporting links). Therefore, and coupled with increasing bilateral educational services, more cooperation in the field of cultural industries and related sectors will be required between the two countries. All this should constitute at the end the critic mass that will drive future bilateral strategic alliances.

Conclusions: ten good reasons for a Chile-NZ CEP and P3

1. A high quality and comprehensive Chile-NZ CEP or P3 will no doubt contribute to more cooperation within APEC and to greater global trade liberalization through the WTO.
2. This same CEP or P3 can provide each party with some gains in the trade of goods. In an initial stage, it should at least level the playing field for or partially neutralize the trade distortions and trade deviations resulting from the preferential rights already conceded by Chile and New Zealand to third countries through previous FTAs or CEPs.
3. For the medium and long term, any CEP or P3 that is business-friendly should provide a bilateral or trilateral framework for an increasing development of trade in services, additional cross-investments flows and broader linkages among the parties.
4. Anyhow, due to the symmetric characteristics of the Chilean and New Zealand economies, and as a result from stronger investment and new joint-venture enterprises, the most probable outcome will be greater flows of intra-industry trade.

5. Both CEP and P3 should also be the best drivers for a process of economic integration, built upon the synergies between the respective economies, a bilateral or trilateral association that can achieve greater economies of scale.

6. Only in the context of economic integration and closer partnership will strategic alliances flourish among these two/three partners and with them the possibility of expanding common exports to third markets[14].

7. In an era of increasing globalisation, where innovation, science and technology (ICT) will make the difference in the upgrading of competitive advantages, CEP and P3 can provide the appropriate environment for such small economies to increase research funding together by avoiding duplication of and achieving greater efficiencies from their limited national resources.

8. A deeper integration between Chile, New Zealand and Singapore will have a beneficial impact in their individual trade bargaining power and, in the end, in their respective international positioning.

9. The concept of closer economic partnership will enable to work on the promotion of common political and strategic objectives between the three countries.

10. As a last resort, both economic integration and political understandings should benefit each party as catalysts for new and greater domestic reforms that are pending or required by the globalisation process.

[14] A closer economic partnership such as the P3 is obviously a way to implement a trade and investment bridge between East Asia and Latin America. In that context, it is not a mere coincidence that China is negotiating free trade agreements simultaneously with Chile, New Zealand and Singapore.-