



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

Chile – a beachhead market for New Zealand exports



MARKET REPORT

February 2023

Summary

- Latin America holds untapped potential for New Zealand companies looking to internationalise, and Chile remains one of the most business-friendly countries in Latin America despite recent challenges in the region and a complicated scenario forecasted for 2023. New Zealand has an excellent reputation in Chile across the business sector and the political spectrum. New Zealand's private sector is perceived as innovative, outputting high quality goods.
- New Zealand companies often use Chile as a beachhead market for South America, given its like-mindedness, economic structure, and welcoming business practices. Chile's size, about four times that of New Zealand, makes for a far more manageable market than Latin America's giants such as Mexico (26 times) and Brazil (43 times). The return of direct air flights from April 2022, with LATAM now operating daily to Auckland (and Sydney), has also boosted connectivity between Chile and New Zealand. Although, any business looking to establish a foothold in the Chilean market must meaningfully engage local counterparts.

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Chile has a strong and diversified economy, with a well-developed export sector and a growing domestic market. After the 2020 COVID-19 economic crisis, when the GDP shrank by 6%, the country had a sharp economic rebound, growing 11.7% in 2021 (World Bank) and 1.9% in 2022 (projected). Despite a slowdown forecasted in 2023 due to the global economic downturn (-0.5% GDP growth), the economy is expected to sustain growth in the coming decade.

Chile has a number of economic strengths that are likely to contribute to good economic performance, including a dynamic workforce, a stable political and legal system, and one of Latin America's most favourable business environments, ranking first in the region in the World Bank's Ease of Doing Business report and in The Economist's Investment Safety Index. It has a number of natural resources, including copper and lithium, which are expected to be in high demand in the coming years in light of the climate-driven energy transition.

Whereas New Zealand already had a free trade relationship with Chile through the P4 agreement, there has been additional trade liberalisation in particular in services and investment thanks to the ratification of CPTPP, of which Chile will become a full member in February 2023. Chile is also a member of the Pacific Alliance (with which New Zealand is currently negotiating a free trade agreement), the Digital Economy Partnership Agreement and has the largest network of free trade agreements in the world (covering 65 countries and 88% of the world's GDP), including with the United States, China, and the European Union. These factors, along with a growing middle class and increased foreign investment, make Chile an attractive destination for businesses and investors, mainly from China, the US, and the European Union.

The trend towards decentralisation has given regional governments ample freedom to promote economic development, and these autonomous authorities are eager to cooperate with international partners such as New Zealand. With a smaller business community, Chile's major business associations are easy to engage, even in mining, where New Zealand's reputation opens doors among some of the biggest players.

Minor headwinds ahead, but the ship should remain steady

Among the reasons for Chile's forecasted slowdown in 2023 are Russia's invasion of Ukraine (and the ensuing increase in global food, fertiliser, and fuel prices), the impact of COVID-19 in China in 2022, and post-pandemic inflation (slowly receding - albeit

reaching 16% annually in 2022) - and expected to stabilise at 3% by late 2024). The Chilean currency is strengthening following a stronger-than-expected performance of copper (Chile's main export).

Despite the predicted 2023 recession, Chile's GDP growth is expected to slowly recover from the third quarter of 2023, leading to 2.4% growth in 2024 (OECD). In the meantime, businesses in key primary sectors, such as mining and horticulture, are prepared to continue investing in sleeker and more productive and tech heavy business models, as their products will not go out of demand any time soon. Foreign Direct Investment (FDI) in 2022 is indicative of the optimism over the Chilean economy: FDI flows up to Q3 2022 totalled the entirety of FDI received in 2021.

Chile is also undergoing political change in light of its ongoing constitutional process, and while the outcome remains to be seen, it is unlikely there will be significant change to the country's economic fundamentals. After voters rejected a proposed new constitution in a September 2022 referendum, further votes will take place in 2023 for a new body to develop a second draft constitution and a plebiscite on the body's work.

Competition brings opportunity

New Zealand's reputation in Chile is excellent. A survey in 2021 found New Zealand to be the top ranked country among experts and top three in the general population as the country whose model Chile should emulate. Many of Chile's regions, especially in the south, have links to New Zealand, as it is common for young people to participate in educational exchanges or working holiday schemes. Authorities in the central and regional governments are keen on importing New Zealand services that could foster their economic productivity, and establishing educational links. In general, New Zealand's goods are seen as high quality, and New Zealand services are gaining reputation for their relevance and quality.

Mining is Chile's greatest export sector, and its operations are mostly located in northern and central regions, in which water is scarce. In recent years, the industry has seen a shift towards social and environmental responsibility that both drives them to look for innovations and to invest in a leaner productive chain, enhancing efficiency. The mining industry is prioritising investment in novelty and innovations, decarbonisation and other solutions that can contribute to companies' Environmental, Social, and Governance indicators (ESG). Although the mining-adjacent market is crowded and competitive, NZTE advises that in their experience, the New Zealand brand helps companies stand out from the crowd.

Chile is an agricultural exporter with a similar geography and climate to New Zealand, especially in the centre-south and southern regions, which produce the bulk of Chile's agricultural, fishing and forestry exports. These similarities make the two countries competitors in international markets, but also bring opportunity for New Zealand

companies with expertise serving primary industries such as a dairy, agriculture, forestry, and fishing to also serve Chilean companies. Enhancing productivity and the digitalisation of primary goods production is in extremely high demand across all primary industries. In an event in late 2022, the Chilean National Agricultural Society exhorted its members to invest more in capital equipment, training, and digitalisation in order to improve productivity and competitiveness. Although SMEs can be slow to adopt new technologies and services, State agencies and regional governments remain keen in promoting such transformation through business fairs, grants, and pilot projects.

New Zealand businesses looking to establish a foothold in the Chilean market must reckon with the need to meaningfully engage with their local counterparts, a challenging task given the language barrier, time difference (16 hours most of the year), and distance. These hurdles can be sorted with the help of a range of local partners, including NZTE. Connections in government are rarely needed, but there is potential for developing public-private partnerships to promote technological innovations in strategic primary sectors in Chile, for which business development agencies and local governments have exceedingly good will towards New Zealand.

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