



BUILDING THE SOUTHERN LINK – BACKGROUND BRIEF

This briefing note summarises the main goals of the Southern Link Conference and provides points of reference for delegates¹. It provides detail on the opportunities and challenges of the Southern Link Project and how businesses and organisations could benefit from being involved in the process. A summary of the most recent trade data between the Southern Link participants is provided in the Annex.

Background

Southern Link Project

The Southern Link Project proposes the development of new trade and travel routes between China, New Zealand and South America, in particular Argentina and Chile.

The Southern link across New Zealand is the quickest and most convenient route between China and South America. It offers new opportunities to boost trade and travel in both directions. New Zealand enjoys a close economic relationship with China, built off the free trade agreement which entered into force in 2008. The New Zealand Government is committed to deepening New Zealand's relationships in South America, building on our free trade linkages with Chile, Mexico and Peru (notably through CPTPP) and negotiating an FTA with the Pacific Alliance (Chile, Colombia, Mexico and Peru) and possibly MERCOSUR (Brazil, Argentina, Paraguay and Uruguay), which would open up new opportunities for engagement throughout the region and beyond.

New Zealand is already served by one New Zealand and seven Chinese air carriers flying to eight different Chinese cities and one New Zealand and one South American carrier flying to two South American cities. No Chinese carriers currently fly to South America across the Southern Link, although one Chinese carrier operates a service through Madrid to Sao Paulo (Brazil). Only one sea-freight service is currently believed to link China, New Zealand and South America. This provides a basis on which to build, but this foundation will need to be expanded and upgraded in order to realise the Southern Link vision. Not only will additional end-to-end flights be required to service increasing passenger flows, recent upgrades in rail and land transport in South America are enabling easier transport of goods from interior regions, which will be available for international onward movement both by air and by sea. In terms of the movement of goods, New Zealand border authorities already enjoy a positive relationship with Chinese counterparts, which could provide for efficiency of onward trading through New Zealand.

Increased cooperation and communication across the Southern Pacific and the development of more efficient trade routes mean New Zealand, China, and South American countries will be able to create more sustainable and profitable economic exchanges. An increase of customer flow and trade volume passing through New Zealand will result in increased business opportunities,

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particularly with South America where access is currently constrained by lack of volume in air and sea transport.

Belt and Road Initiative

The Belt and Road Initiative (BRI) began in 2013 when Chinese President Xi Jinping first announced the intention of developing more trade routes and channels of investment and development with China's neighbours. Building on ancient trade routes, BRI is made up of two parts - the belt and the road- the "belt" being the overland connection between China or Eastern Asia and Europe, and the "road" being the maritime connections both westwards to Africa and eastwards including through the Pacific and onto the Southern America. The premise is that the more efficient the trade and transport infrastructure between markets and countries, the freer flowing the transfer of goods, services and people will be, as time and cost are reduced. The BRI provides for increased connectivity and inter-connectedness and takes in a range of policy and commercial instruments including infrastructure but also encompassing trade and people-to-people links. The relevance of the Southern Link is as an extension and of the Maritime Silk Road (and its broadening to include air links) across New Zealand and onwards to South America. As the geographical halfway point between the two, New Zealand can play a role as the natural conduit - for the first time in our history, instead of being at the end of a long chain, now New Zealand has the opportunity to be the locus of connection. With this in mind BRI provides an opportunity for New Zealand to continue to develop its international connections as a global trader in a globalised age.

New Zealand - China Links

New Zealand's trade with China has increased rapidly (refer Annex) since the NZ/China Free Trade Agreement entered into force in 2008. China is now New Zealand's largest trading partner. Chinese investment into New Zealand has also grown strongly, although it continues to lag behind investment from other major partners. Migration, tourism and international education are other important pillars of the relationship. New Zealand was an early member of the Chinese-instigated Asia Infrastructure Investment Bank (AIIB), which it joined in 2015. In March 2017 at the time of Premier Li Keqiang's visit New Zealand and China signed a Memorandum of Arrangement which committed both sides to develop a work programme in respect of BRI. In April this year Prime Minister Jacinda Ardern went to Beijing for her first official visit and met with both President Xi Jinping and Premier Li Keqiang. During the visit New Zealand's future involvement in BRI was a major focus and it was announced that Trade Minister Parker would attend the Belt and Road Forum in Beijing in May. While in Beijing Ardern and Premier Li Keqiang released a number of joint statements including in relation to climate change, financial and agricultural co-operation and welcomed the 2019 China New Zealand Year of Tourism as a means to promote further friendly bilateral relations between the two nations.



New Zealand – South America (Argentina and Chile) Links

New Zealand has close relationships with a number of countries in South America including Chile, Argentina, Peru, Uruguay, Brazil and Mexico. These relationships are founded on shared interests, including as major agricultural producing nations. With Argentina, while trade flows are limited, New Zealand shares a love of rugby and growing people-to-people links which are supported by Air New Zealand's direct flights between Auckland and Buenos Aires which have operated since 2015.

With Chile, New Zealand has a long-standing free trade agreement and both countries have co-operated actively in APEC (Asia-Pacific Economic Cooperation) and on trade initiatives such as the CPTPP and more recently the launch of the Digital Economic Partnership Agreement together with Singapore. A future New Zealand-Pacific Alliance and New Zealand FTA will deepen existing trade and economic linkages between New Zealand and the Pacific Alliance countries. Although two way trade is small (less than 0.5 percent of New Zealand exports), New Zealand has a history of foreign investment in the Chilean dairy and forestry industries: today Fonterra, owns 93% of Chile's largest dairy company, Sople, and there are other New Zealand companies investing or with active businesses in Chile's agricultural and agri-tech sectors.

New Zealand and the Mercosur countries (Brazil, Argentina, Paraguay and Uruguay) have been involved in precursor FTA talks for a number of years, and a formal trade agreement would help strengthen connectivity further. The BRI and Southern Link project will build upon these pre-existing platforms and develop them further as the bandwidth for communication and the means of exchange between the regions continues to increase.

China – South America (Argentina and Chile) Links

China and Argentina have had diplomatic relations for 47 years over which they have worked together to develop their relationship into a comprehensive strategic partnership. This has spanned over many different industries including agri-food, energy, mining, and infrastructure development.

Presidents Mauricio Macri and Xi Jinping have met five times since 2016. During the recent State Visit of the Chinese President to Argentina, held in December 2018, both leaders stressed that their strategic integral partnership extends to the Belt and Road Initiative (BRI). In this framework, the governments are committed to promoting joint actions of cooperation between companies from both countries in third markets. The Minister of Foreign Affairs participated in the Second Belt and Road Forum in Beijing in April 2019.

China and Chile have continued to develop their international relations and in November Chile signed a Memorandum of Understanding with China to participate in the Belt and Road Initiative. In addition to this, the two nations already have strong trade ties with Chile being the world's largest copper exporter and China being the world's largest copper importer. In 2006 the two countries signed an FTA and an agreement to upgrade the FTA which came into force on 1 March 2017. Bilateral trade between Chile and China has increased consistently since the FTA and has now reached over US\$40 billion, and Chile has implemented a visa-free system for Chinese citizens who



previously had been granted a U.S.A. or Canadian visa. Since implementation China-Chile tourism has increased by 13.3%.

The governments of Chile, Argentina, and Brazil are working together to develop a submarine fibre optic cable to increase the digital connectivity between South America and Asia. This would turn Chile into a world class data supplier and increase the transfer speed of information between the two continents. One of the options available would place New Zealand in the middle of the cable as it follows the Southern Link, this would open up many business opportunities for New Zealanders and would stimulate market growth in the digital sector.

Chinese foreign investment in Latin America and the Caribbean (LAC) is largely through Mergers and Acquisitions (M&A) and has been heavily focused on infrastructure (energy) and extraction (mining). At the end of 2018 there were twelve Latin American countries who signed BRI memoranda or cooperation or framework agreements and seven Latin American countries have joined China and New Zealand as members of the Asian Infrastructure Investment Bank (AIIB).²

Building the Southern Link – what’s next?

Realising the Southern Link presents a number of challenges. The purpose of the Southern Link conference is to identify these challenges and derive strategies for addressing them. As we look to increase the flows of both people and goods transiting through New Zealand there will be inevitable regulatory, commercial and logistical barriers to work through. Some of these are outlined below:

Air services – to increase the number of flights from New Zealand to China and New Zealand to South America existing air services agreements will need to be modified. Determining and achieving the maximum efficiency of slot timings at airports, especially in China, is a key issue for Air New Zealand.

Passenger transit - increased passenger movement through New Zealand will require changes to our current visa policies and issuing procedures, perhaps including a more streamlined, electronic processes for short term and transit visas for visitors from China in particular. Main airports in New Zealand would also need to increase their transit facilities and distribution networks.

Trade facilitation – to provide for increased flow of goods and to facilitate the expansion of e-commerce, current regulations and facilities for processing of goods through biosecurity and customs would need to be examined and upgraded. The idea of New Zealand as a hub for e-commerce in the South Pacific has been proposed and could be extended to provide for a conduit for e-commerce between China and South America.

² Boston University China Latin America Economic Bulletin 2019 ed.
<https://www.bu.edu/gdp/files/2019/05/GCI-Bulletin-Final-2019.pdf>



The Southern Link conference has been designed to articulate the value proposition of the concept and to identify the costs and benefits of greater connectivity between China, New Zealand and South America. This conference is a starting point of a continuing journey.

NZ China Council
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Annex A: Data and Graphs



1: Source - StatsNZ



2: Source - StatsNZ



3: Source - StatsNZ



4: Source - Comtrade



5: Source - Comtrade