

HEDGING AGAINST TRADE DEPENDENCY POST-COVID 19

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What was a lockdown of just the Chinese economy has now become a global recession. How should New Zealand respond?

Key findings

- New Zealand risks being even more dependent on the Chinese economy and on the agricultural sector
- New Zealand needs to restart manufacturing fast and embark on a market diversification strategy
- The services economy is in even more serious trouble than goods. Bold and innovative strategies are needed for this sector – tourism would be a good place to start

Executive summary

New Zealand needs to re-start the non-agriculture economy quickly or risk long term damage to the private sector, and a return to the days when we were entirely dependent on one sector and one market. I suggest a 10-point plan to avoid severe economic damage and the risks of trade dependency.

Analysis

While New Zealand's response to Covid-19 has come at an enormous economic cost. If we don't move very fast that cost will increase greatly. And if we are not careful we will be left with a really perverse result. We will be even more dependent on one market – China, and on one sector – agriculture, than we were before going into this crisis. China will be an important market for us for many years to come and agriculture is critical to our future – but we don't want all our eggs in a couple of baskets. Particularly as China has in recent years shown a propensity to use trade dependency as a political lever.

In 2019 China took:

33% of our dairy exports

41.9% of our meat

58.3% of our logs and timber

37.5% of our seafood

46.5% of our wool

28.5% of international education and 13.5% of our tourism earnings also came from China.



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We can see from the data coming from Statistics NZ that goods trade with China has either held up well, or recovered fast, post the Covid-18 level 4 and 3 lockdowns, especially on essential goods such as food and beverage.

In contrast trade with the rest of the world is now in serious trouble. This will impact our exports greatly – particularly those to the UK, EU and the US – all important markets.

Services exports make up 30% of our total exports \$26 billion and these are being decimated – our \$11.6 billion international tourism income has flat lined, and our \$4.6 billion international education value might halve. All sectors except information technology are likely to be impacted negatively.

Why is this important? We depend on international trade for our prosperity. Unfortunately, short term, because of the global recession we can't count on an export-led recovery to completely save us post-Covid 19. But if we get things right international trade can help reduce the economic damage.

What is getting things right? I suggest a 10 point plan.

- We need to re-start export manufacturing immediately. New Zealand's processed wood, mechanical machinery, electrical machinery, optical measuring devices, wood pulp and paper, iron and steel, wool, plastics, textiles, paper and vehicle parts exports are worth close to \$9 billion. These are an important part of our export story and if we keep this sector closed they will lose contracts and be severely harmed. Without this flow of exports we will start to see international shipping lines start reducing the frequency of their services. This will start impacting agriculture exports also. If we move back to Level 4 in the future – this winter or next – we should not stop this sector.
- We need to re-start the \$4 billion log trade and drop suggestions that we ban or impose a tax or levy on this trade. Can we really afford – in current economic circumstances – to cut so many exports? I am all for more domestic processing, but a ban on log sales is not the best way to boost this sector at this point in time. I also think we should be getting our \$350 million coal export business up as quickly and our \$800 million gold mining business also.
- We need a very active market diversification policy led by NZTE and MFAT. We need to export more to the CPTPP economies and we need strategies to help us do better in less traditional markets – the emerging economies in Africa and the Turkey market stand out as new opportunities – and success in these markets will require a mixture of trade policy and trade promotion.
- We need to expand CPTPP as a priority. Thailand seems to be being lined up – but we need a bigger expansion. Taiwan, Republic of Korea, Indonesia and Hong Kong SAR are good candidates within APEC and we should reach out to the UK and Colombia as well. We should also add a new Chapter to CPTPP on trade in medical goods, devices and pharmaceutical ingredients.
- We need to get the NZ-UK FTA finished this year.
- We also need to get momentum re-established in the EU-NZ FTA and look again at FTA opportunities with Turkey, Russia and Kenya.
- We need to be working now on rules and protocols with those jurisdictions with whom we can have confidence to re-open quarantine free travel. It will be a few months away before we can have the confidence to begin a re-opening of the border beyond the agreed trans-Tasman



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bubble, but I can see travel with Taiwan, Singapore and Pacific nations being possible before a wider opening. This will help provide the crucial reboot to our international tourist businesses. This would give us – this year a tourist market of 65 million people – much better than our 5 million domestic tourists.

- We need to develop a world best distance learning system for our universities, our ITP, our private training establishments, and our schools. International education and travelling offshore for education is going to be hugely disrupted for some time. We need new ways of operating if we are to keep this important industry going.
- This recession is going to hit our Māori population hard. I would like to see a supercharging of government efforts to boost exports from the Māori economy. We have plenty of resource devoted to this area in Te Puni Kokiri, Ministry of Business Innovation Employment, New Zealand Trade and Enterprise, Ministry of Foreign Affairs and Trade and Ministry for Primary Industries but we can coordinate better. One entity should be held accountable for delivering a step change in performance.
- Lastly, we should have a new look at the New Zealand brand story. Whether it be our management of Covid-19 or the bravery, dedication and expertise of Nurse Jenny from Invercargill in helping save the life of Boris Johnson – we will emerge from this crisis with our reputation enhanced. We need a new national strategy to leverage this. If we get it right New Zealand will be seen as an even more desirable country to visit, to invest in, and to buy goods and services from – because the world knows that these will be of the highest integrity.

Many of these ideas are already on the way to being implemented. The manufacturing and forestry sectors are operational again, increased collaboration between education providers in offshore markets is being talked about, and progress is being made towards the first step of opening our border to people flows with Australia. There is high level political support for an expansion of this opening along the lines I suggest. The Minister for Māori Development is reaching out to the business community to help develop a well-coordinated all-of-government strategy in an attempt to minimize the inevitable negative impact the recession is going to have on Māori.

Given the continuing reduction in new cases of Covid-19, it also seems likely that New Zealand is on the verge of a further opening our economy. Retail and hospitality will hopefully resume very soon, as will domestic travel.

New Zealand's success in addressing the Covid-19 challenge and the speed with which our society is returning to something close to "normalcy" is attracting even more international attention. New Zealand is emerging with a greatly enhanced reputation. This offers an enormous opportunity. A new brand story is part of this opportunity. But there is also an opportunity for New Zealand to play more of a leadership role with other medium-sized jurisdictions as we jointly face increasingly large challenges in a global order where respect for an international rules-based system is diminishing and where the existence or operation of many international organisations is being challenged by larger players.



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