20-30-20

Meeting the New Zealand China bilateral trade goal

Ko Te Kaunihera o Aotearoa me Haina

New Zealand China Council

新西兰-中国关系促进委员会

1. 20-30-20

New Zealand has doubled bilateral trade with China to $20b, a year ahead of target. The next target is $30b by 2020.

History suggests it should be an achievable target – two-way trade has doubled every 5 years since the early 1990s.

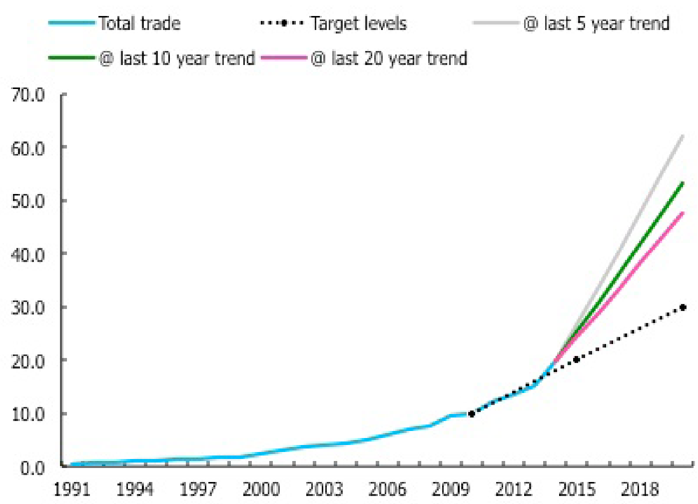
But the last doubling has relied on a few commodities (dairy, meat and forestry). Also, much of this was a redirection of trade to China rather than growing production.

Repeating the past growth in a few commodities cannot be relied upon to deliver the next doubling of trade with China. This is because production increases cannot keep up and future demand may not be for the same commodities or grow at the same pace.

The next doubling in exports requires a broader base of exporting success to China. New Zealand needs to nurture its strengths in dairy, meat and forestry, but also catalyse growth in other sectors.

Figure 1: Total trade with China and target

$b per year, June years



Source: Statistics NZ, NZIER

2. Last doubling in exports driven mainly by exports

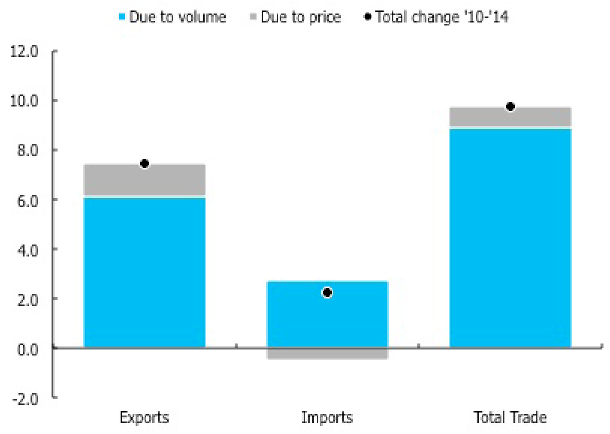
Two way trade with China doubled over the four years to June 2014. Majority (77%) of the increase came from exports and a smaller proportion (23%) from imports.

While export prices have been favourable, much of the increase has been driven by volume of exports. New Zealand is a price taker in global markets – so that can be a risk to export revenues. Imports have increased entirely on the back of volume growth, while prices fell a touch. Imports are growing steadily in line with New Zealand economic growth.

The increase in bilateral trade with China has been volume driven – indicating stronger real economic connections, rather than due to global price movements.

Figure 2: Sources of last doubling of trade with china over 2010-2014

$b



Source: NZIER calculations from Statistics NZ data

3. China is taking a much larger share of NZ's exports

Exports in general did not grow very much over recent years. The GFC weighed on demand from traditional trading partners like Australia, USA and Europe.

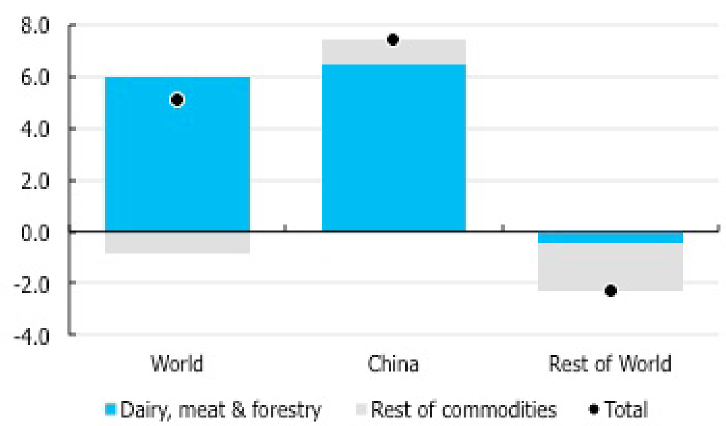
Over the last five years New Zealand's exports to the world grew by $5.1b or 12%. Exports to China grew by $7.4b or 293%, while exports to the rest of the world fell by $2.3b or 6%.

The strong growth in exports to China over recent years has been driven by strong demand from China – or China specific factors.

This means that the experience of recent years has been about China as a market, rather than production of specific commodities or industries per se. continued growth in NZ exports requires robust economic growth in China and harmonious economic relations between the two countries to foster trade.

Figure 3: Sources of NZ export growth to China and the world

5 year change, $b, 2008-2013



Source: NZIER calculations from Statistics NZ data

4. What is needed to reach $30 in two way trade by 2020? Steady growth in exports and imports.

Imports are growing steadily in line with New Zealand economic growth. The steady pace appears sustainable and will increase from $8b now to $13b in 2020. Exports need to grow by $5.6b to $17b to meet the $30b target.

Exports need to grow by 7% a year until 2020 to achieve that. The typical growth of total New Zealand exports over the last 30 years is 6% a year. This is an achievable target – but not an easy one.

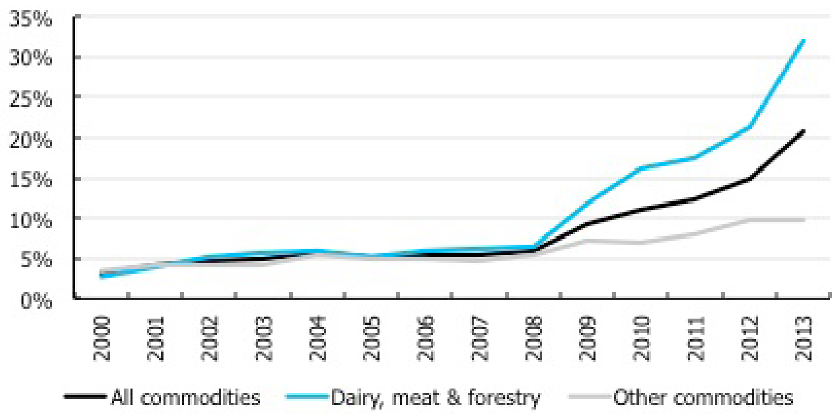
5. What is the biggest risk to export growth to China? Concentration risk.

While China imports a wide variety of products from the world, New Zealand exports have become more concentrated in recent years. One summary measure is the Herfindahl index, which shows how concentrated product mix is.

China's imports from the world remain diversified, but imports from New Zealand have increased in concentration in recent years. This is a recent development – in the past exports were diversified.

Concentration in our basket of commodities means that a few commodities have grown very fast in recent years. Dairy, meat and forestry drove nearly 80% of the doubling in exports. In a diversified basket the risk from one off events that may impact one of two commodities does not feature as largely.

Figure 4: Share of NZ exports to China
% of total by commodity grouping



Source: NZIER calculations from Statistics NZ data

Figure 5: Herfindahl index of concentration of Chinese imports from the world and New Zealand
HHI, greater than 0.15 is concentrated, the higher the more concentrated