

*Prepared by the New Zealand Embassy in Beijing*

## Rāpopoto – Summary

China's economy has continued its recovery in the second quarter of 2021, growing 1.3% from the previous quarter and 7.9% when compared to the COVID-depressed second quarter of 2020. The Chinese government has acknowledged the economic outlook for the second half of 2021 remains uncertain, with both domestic consumption and external instability presenting risks to growth. Despite the potential challenges, major international analysts continue to forecast 6-9% growth for 2021.

China is New Zealand's top trading partner with two-way goods and services trade for the year ending March 2021 valued at NZ\$32.8 billion, down slightly on the previous year. The value of New Zealand dairy, forestry, and meat exports to China so far in 2021 is higher than the equivalent period in 2020; service sector export earnings continue to suffer, down 69% compared to Q1 2020.

China's domestic COVID-19 situation remains stable, with outbreaks being dealt with promptly, and vaccinations distributed widely. Over 1.6 billion doses of seven different Chinese-developed vaccines have been administered as of late July, at a current average rate of around 15 million doses per day. Over 40% of China's population are now fully vaccinated and the government's stated target is for this to reach more than 70% by the end of 2021. Vaccination rates in major cities are already much higher, with over 80% of the adult population in Beijing and more than 70% in Shanghai fully vaccinated. Despite the rapid pace of vaccination, China continues to pursue an elimination strategy and borders will likely remain tightly controlled until at least mid-2022.

Regular China market updates and other useful resources are available on the [NZTE website](#). Exporters can also sign up for [myNZTE](#) for China market information on a number of topics. The Ministry for Primary Industries regularly provides requirements (Overseas Market Access Requirements or [OMARs \(login required\)](#) and Importing Countries Phytosanitary Requirements or [ICPRs](#)) and [For Your Information \(FYI\)](#) documents, including for China, with guidance on exporting issues relating to animal products (such as meat, seafood, honey, and dairy), food products, plant products, and wine.

## Pūrongo – Report

China maintained its economic recovery in the second quarter (Q2) of 2021, officially reporting 7.9% year-on-year (y-o-y) **GDP growth**<sup>1</sup>. When compared to the previous quarter (Q1 2021) China's economy reportedly grew 1.3%, similar to pre-COVID quarter-to-quarter growth levels. This means that in the first half of 2021 China's economy grew almost 13% y-o-y (from depressed COVID levels), with average two-year growth of over 5%.

While the economy continues to expand, longer-term challenges to future growth persist. The Chinese government has acknowledged that growth remains unbalanced and the overall outlook remains uncertain, with both domestic consumption and external instability presenting risks to future growth. Nonetheless China's stated target of 6% growth for 2021 is likely to be met, with major international analysts forecasting full year growth of between 6% and 9%.

A key indicator of domestic demand, **retail sales of consumer goods**, increased almost 14% y-o-y in Q2, beating lowered expectations but remaining below levels desired by the central government. Notably, catering sector revenue was up nearly 50% y-o-y, and is now largely back to 2019 pre-pandemic levels. Domestic consumption has not yet recovered to pre-pandemic levels, particularly for consumption spending in the services sector, which is still lagging. Boosting overall domestic consumption remains an acknowledged challenge due to ongoing uncertainty related to the global pandemic and

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<sup>1</sup> China's second quarter year-on-year economic data is calculated from a COVID depressed comparison point (i.e. Q2 2020), meaning the reported growth figures will be higher than in previous years. Because the acute impacts of COVID-19 on China's economy were primarily felt in the first half of 2020, this is likely to be the final quarter of artificially high year-on-year growth figures.

slower than ideal household income growth.

China's **domestic tourism numbers have recovered** significantly in early 2021, however total tourism revenue remains below pre-pandemic levels. For example, over the five-day Labour Day holiday in early May, China's domestic tourism visits were 3% above the equivalent pre-pandemic figures, but tourism revenue was only 77% of pre-pandemic levels. This trend continued during the three-day Dragon Boat Festival holiday in mid-June, with domestic tourist trips at 99% of pre-pandemic levels, however tourism revenue was only 75% of the 2019 holiday period earnings.

According to official data, the value of China's **foreign trade** climbed 27% y-o-y (in yuan terms) in H1 2021, continuing the recent pattern of growth. China's stronger-than-expected exports remained one of the drivers of its economy in Q2, up 28% y-o-y (in yuan terms) in H1, while imports also grew 26% over this period. China's foreign trade is expected to continue to grow over the rest of the year, though this may be slowed by a number of factors including ongoing sluggish domestic consumption, high commodity prices, elevated freight costs, and uncertainty around the global pandemic.

A key component of China's economic growth, **industrial output**, rose by a little over 8% y-o-y in Q2. In H1 2021, industrial output grew by almost 16% y-o-y, with average two-year growth of 7%. **Fixed asset investment** expanded 12.6% y-o-y in H1, outperforming forecasts. The H1 growth rate of this metric was up 9.1% from H1 2019 levels.

China's **consumer price index** (CPI) rose by 0.5% y-o-y in H1, relative to the equivalent period in 2020; this was driven by rises in non-food prices, with food prices generally declining in recent months. The surveyed urban unemployment rate was 5% in June, 0.7% lower than the same period in 2020.

### **New Zealand-China transport links**

Three airlines are currently operating **passenger flights** between New Zealand and two cities in China: Air New Zealand and China Eastern are each operating one Auckland to Shanghai passenger flight per week. China Southern is currently operating two Auckland to Guangzhou flights per week.

Regular **cargo flights** continue between Auckland and Shanghai, and Auckland and Guangzhou.

**International sea freight** continues to operate between New Zealand and China, though both New Zealand exporters and importers report issues with securing containers for their products, increased freight rates, shipping delays, and the cancellation of shipments due to congestion issues at major ports, as well as a lack of refrigerated containers globally. Container ship congestion around key ports in Guangzhou and Shenzhen has eased following the containment of localised COVID-19 outbreaks in May-June 2021. Logistics providers have noted that container yard backlogs at Yantian Port in Shenzhen, as well as delays further up the supply chain, will still take some time to resolve.

**Domestic logistics within China are functioning routinely**, although China has introduced measures to address concerns it has with regard to COVID-19 potentially being introduced via cold chain imports. After reports that the COVID-19 virus had been detected on imported food packaging, **China increased testing and compulsory disinfection requirements on all cold-chain shipments** on arrival in China. As a result, there have been ongoing reports of slower ship unloading, slower border clearance processes, and slower post-border distribution in some parts of China; certain product groups may be more affected by this than others. These measures are expected to remain in place for the time being. New Zealand suppliers in some product groups have been asked by their Chinese buyers to carry out COVID-19 testing prior to export.

### **Entering China**

China suspended entry for most existing visa holders, including those holding an APEC Business Travel Card, in March 2020. New processes have been put in place for some categories of travellers, but entry to China remains challenging for most travellers. The **latest information on specific entry requirements for travellers to China**, including pre-departure requirements and visa application processes, can be found on the [Chinese Embassy in New Zealand's website](#). Please note that the New Zealand Government continues to advise New Zealanders not to travel overseas at this time due to the COVID-19 pandemic (see [Safe Travel](#) website here for updates).

China has a process in place for those needing to visit China for "urgent or necessary economic activity" to seek an exemption to China's border restrictions and apply for a visa. The process can be activated by the employing company or business partner in China writing to their local Commerce Department to seek an exemption. A number of New Zealand businesspeople have successfully applied for visas under this process, though it is difficult for accompanying family members to receive visas.

All New Zealand travellers to China must complete a minimum 14-day quarantine on arrival. (Note: the exact length of

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quarantine depends on the port of arrival, and may change due to the COVID-19 situation at the time of arrival).

Those travelling to China from overseas are currently required to complete one nucleic acid (PCR) test and one antibody (IgM) test two days prior to boarding China-bound flights. Vaccination is not an entry requirement, but if travellers have been vaccinated then a proof of vaccination needs to be provided along with a "[Letter of Commitment on COVID-19 Vaccination](#)". Travellers must then supply this information to the Chinese Embassy or Consulates in New Zealand to request a "green health code". This requirement has implications for the ability to transit in other locations.

### **New Zealand China trade: Recent trends in key export sectors**

China remains New Zealand's top trading partner, with two-way goods and services trade totalling NZ\$32.8 billion in the year ending March 2021, down 0.3% from year ended March 2020 figures. Over this period China remained New Zealand's largest market for exports (NZ\$19.0 billion) and imports (NZ\$13.8 billion).

According to China's official import data, in the first half of 2021 China's imports from all sources have increased. New Zealand's share has been relatively steady maintaining its place just outside China's top 30 import sources.

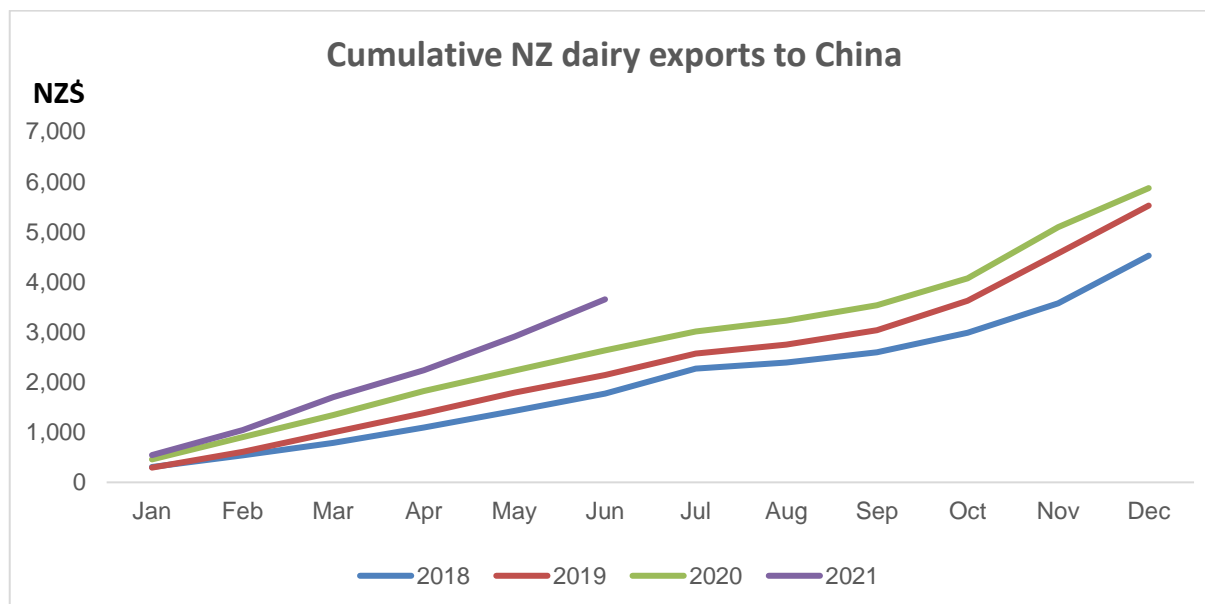
***NB: the most recent goods trade data available for New Zealand is to June 2021; for services trade it is to March 2021.***

#### *Dairy (not including infant formula)*

The value of New Zealand's dairy exports to China in the first half of 2021 totalled \$3.7 billion, 39% above the equivalent period in 2020. The increased value of dairy exports in this period was largely due to greater revenue from milk powder (+46%), butter exports (+26%), and cheese (+45%), driven primarily by an increased volume of sales.

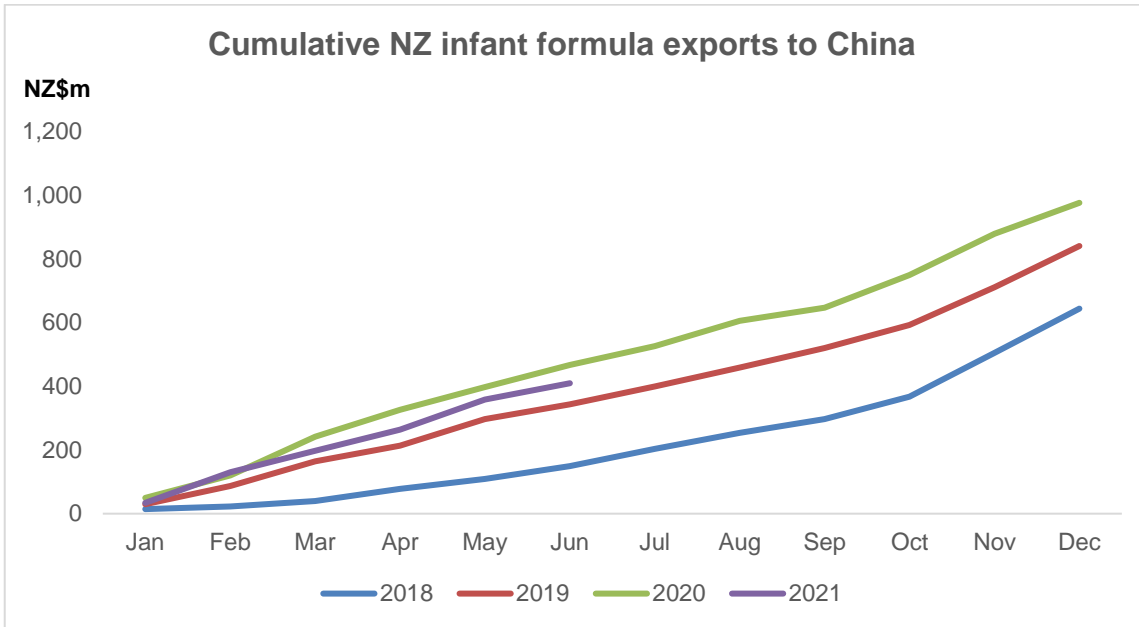
Recently released MPI forecasts indicate that demand for New Zealand products into China is likely to remain strong despite a possible medium-term slowdown as China expands its dairy herd. Demand from China has been the key driver of export revenue for New Zealand dairy exporters due to recovery from COVID-19, consumer demand for dairy products, and high feed prices (for domestic dairy herds) resulting in increased demand for imports.

According to China's official trade data New Zealand remains China's largest source of dairy imports. China's imports of dairy products from all sources grew 22% in the first half of 2021, and imports from New Zealand grew 13%.



#### *Infant Formula*

Although the volume of infant formula sales to China increased more than 6% in the first half of 2021, the value of export earnings declined 12% relative to the equivalent period in 2020, largely due to lower infant formula prices in China so far this year. Increased production by Chinese domestic infant formula brands is possibly having an impact on prices.

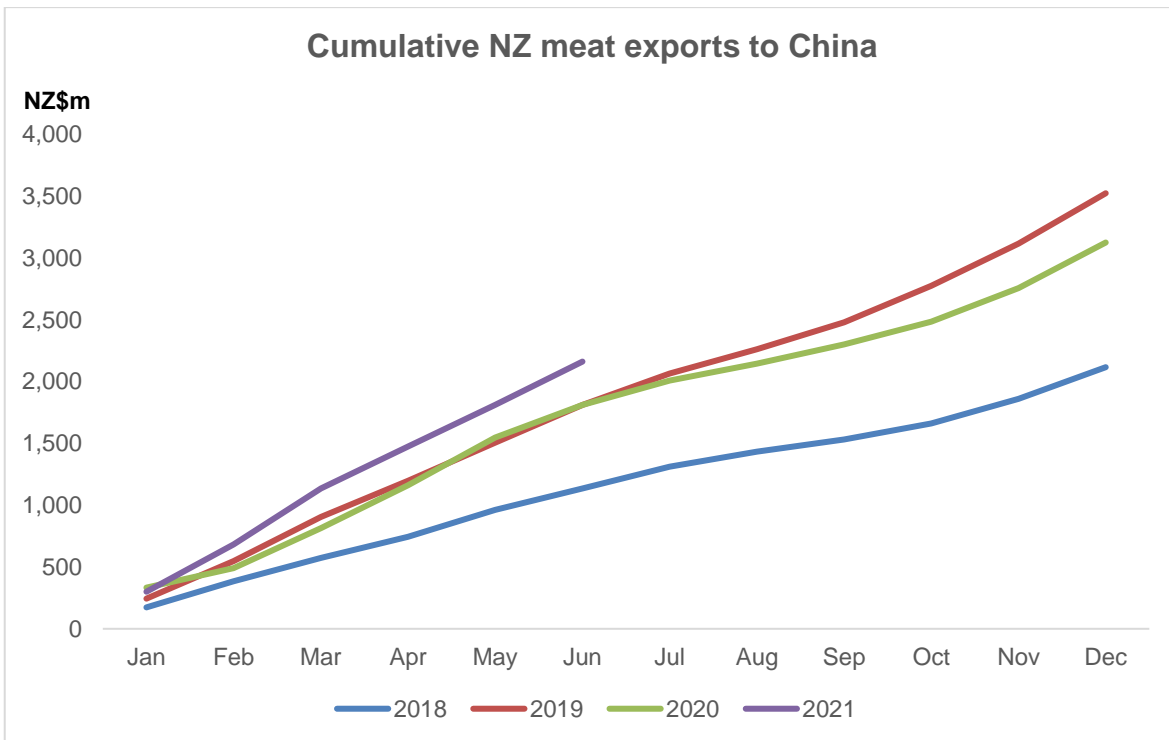


**Meat and meat products**

China continues to be the main market for New Zealand’s meat exports currently accounting for 43% of the total share, up from 35% in 2020. Meat exports to China in early 2021 were up on the equivalent period in previous years, with almost \$2.2 billion of product sold so far this year, 19% more than at the same time in 2020.

The volume of meat sold into China has also increased by around 20% over this period, driven largely by sheepmeat. The same period saw an increase of 29% in value of sheepmeat exports to reach \$1.2 billion.

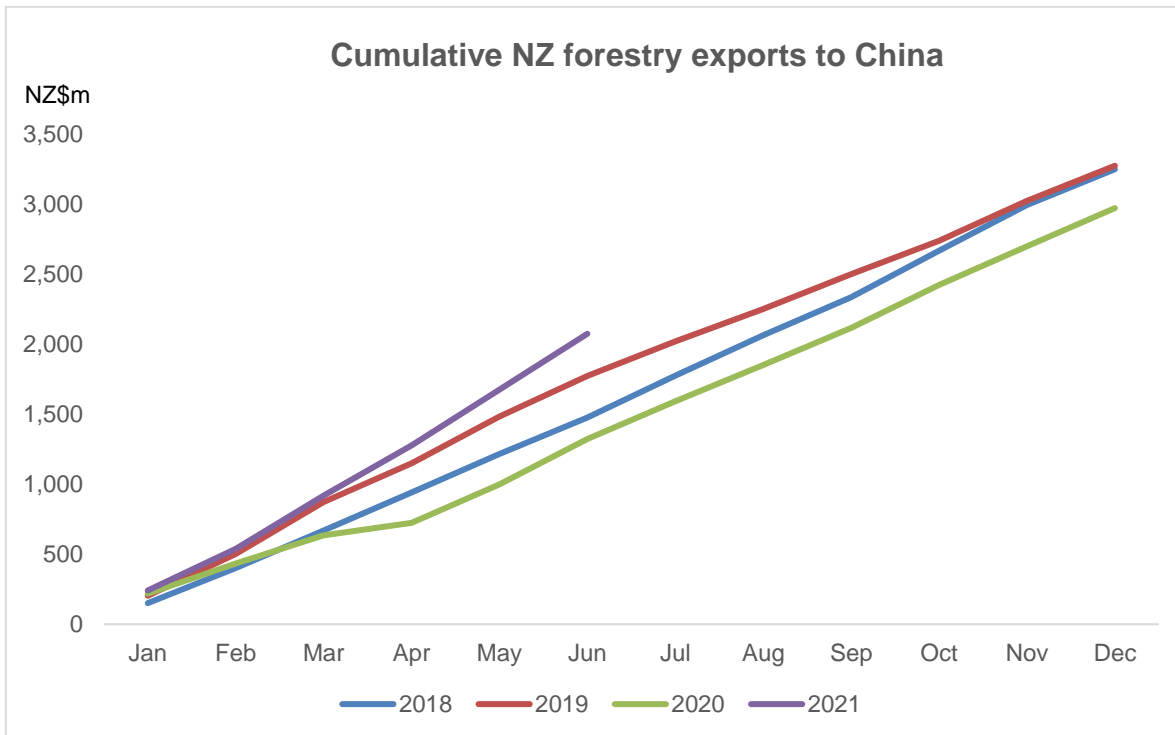
Beef exports were down slightly from January to June 2021 compared to the previous year, but China continues to account for around 35% of New Zealand’s beef exports. Due to the African Swine Fever-influenced protein deficit in the Chinese market, the demand for beef continues to be high but is increasingly being met by other suppliers.



**Forestry and forestry products**

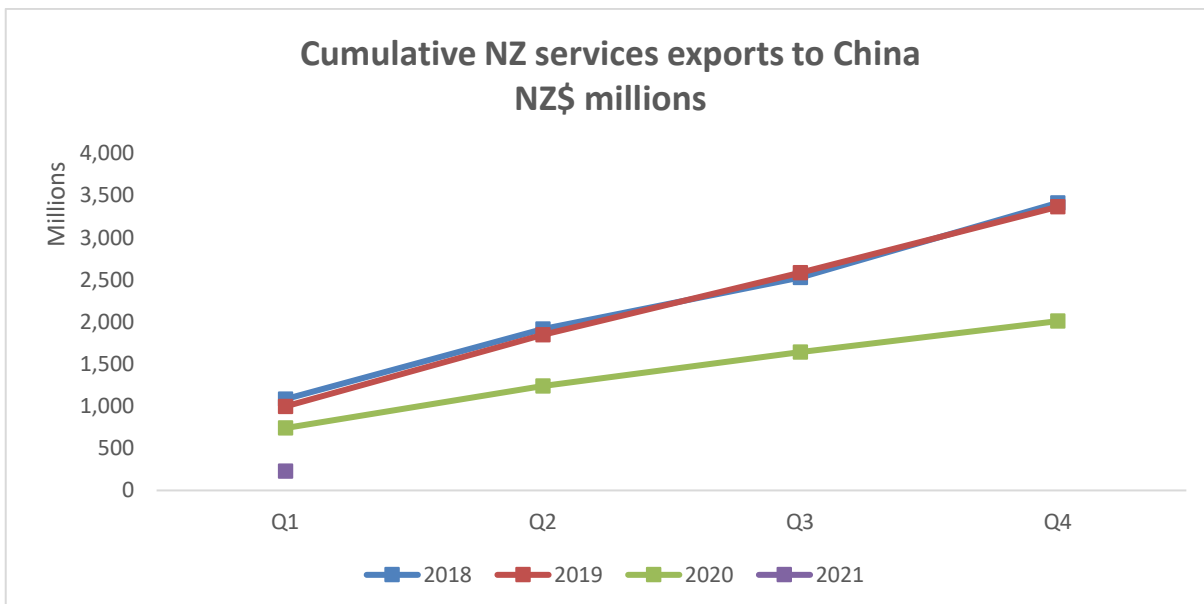
Demand for New Zealand logs remains strong even as global log prices rise to record levels and manufacturers’ costs increase. In the first half months of 2021, exports in forestry products increased by around 50% to reach more than 10 million m<sup>3</sup>, surpassing pre-pandemic 2019 volumes, and reaching \$2 billion in value. Despite recent turbulence, this trend looks likley to resume given supply issues from some other markets. The price of New Zealand radiata pine logs have been

high at US\$190-195/m<sup>3</sup>.



*Services trade (NB: only Q1 2021 currently available)*

Prior to the COVID-19 pandemic, China was New Zealand’s top source of international students and second largest source of international visitors overall. The pandemic has had a disproportionate impact on New Zealand’s services export sector – particularly tourism and education - and this has continued to be felt in the first half of 2021 as New Zealand’s borders remain tightly controlled. Overall the value of services exports to China was down 69% in Q1 2021 compared to Q1 2020.

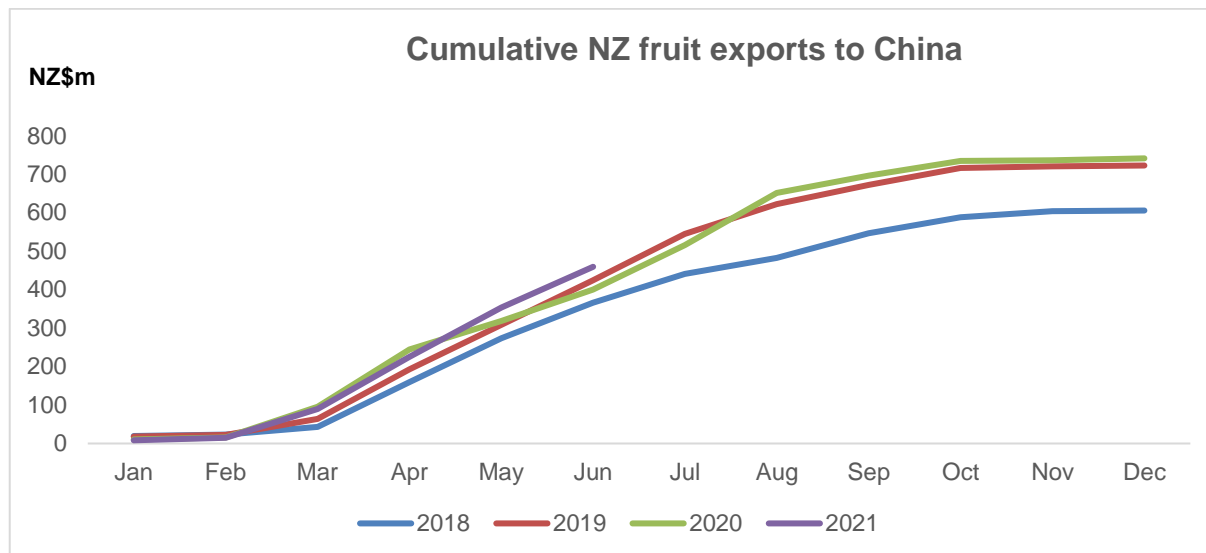


### Fruit

China is the highest-value single-country export market for New Zealand fruit exports, with \$460 million in exports in the first half of 2021, an increase of 15% on the previous year (narrowly behind exports to the EU, at \$476 million). Kiwifruit comprises over 75% of the value of fruit exports to China and kiwifruit earnings were up by 16% compared to the same period in 2020. Gold kiwifruit accounts for over 80% of the volume of kiwifruit to China. The volume of cherry exports to China was down around 14%, while apple volumes were up 2% compared to the previous year.

The horticulture sector as a whole has experienced significant weather events (hail, flooding), and transport and harvesting disruptions in the past year. This may have impacted volumes in the last harvest season and could have ongoing effects for

the next growing season.

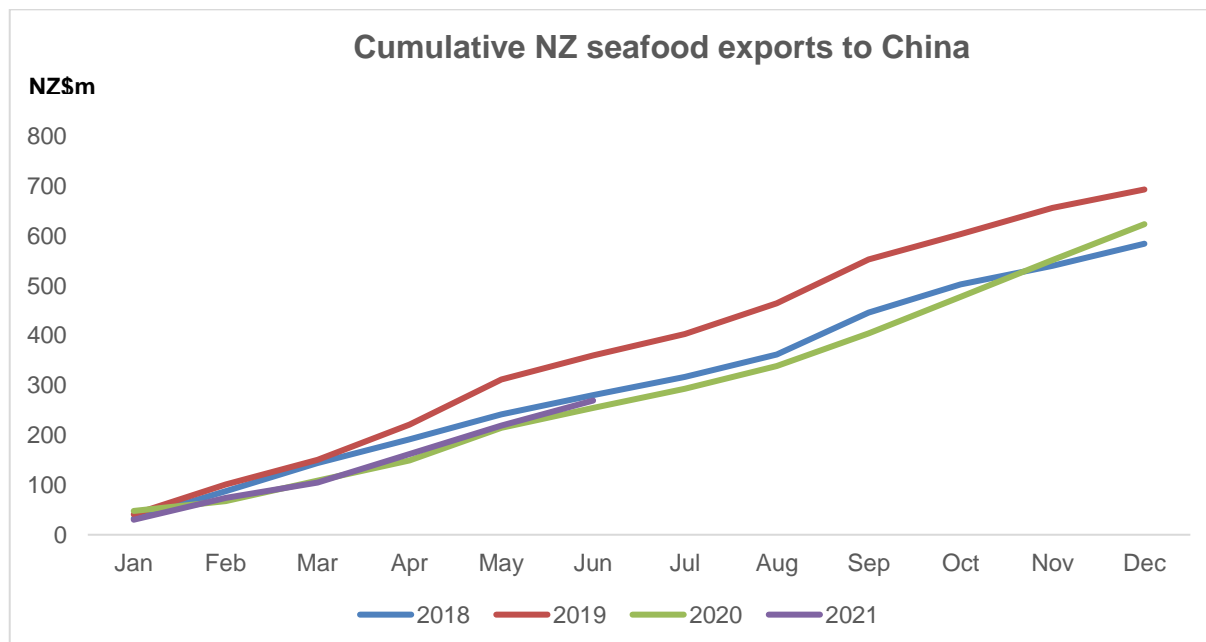


**Seafood**

China currently accounts for around 36% of New Zealand’s seafood exports. While exports were up 6% in the first half of 2021 compared with the COVID-affected first half of 2020, they remain significantly down on pre-COVID levels – for the first half of the year, they were 25% down on equivalent 2019 figures.

Rock lobster exports to China, hit hard in 2020, have largely rebounded to 2019 levels. In the first half of 2021, the value of rock lobster exports to China reached \$157 million, an increase of 81% on the previous year, and a 7% increase on 2019 levels. Other categories of seafood exports remain depressed – in part, this is attributable to consumer concerns around imported frozen seafood as a potential vector for COVID-19, and the resulting stringent border entry requirements for such products from all markets. Most countries exporting seafood to China have seen similar downturns.

China’s own seafood exporters have also been disrupted by COVID-19 and have refocused some of their efforts on the domestic market, leading to increased competition.



**Wine**

China is currently New Zealand’s eighth-largest market for wine, but accounts for less than 1.6% of New Zealand’s global wine exports so far in 2021. China is predominantly a red wine-drinking market, but in the last two years the majority of New Zealand’s exports to China were white wines. New Zealand’s wine exports to China grew 13% compared to the equivalent period in 2020, but remain slightly below 2019 levels. Despite the low volumes, the unit price for New Zealand wine is among the highest at \$14.70/L. New Zealand exporters are taking advantage of China’s various e-commerce channels, selling increasing quantities of wine through this medium, and in greater quantities than many other wine



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