

Prepared by the New Zealand Embassy in Beijing.

Rāpopoto – Summary

- China's economy is encountering headwinds in the second half of 2021, with Q3 growth slowing to 0.2% from the previous quarter and to 4.9% when compared with the third quarter of 2020. The Chinese government itself has acknowledged that the overall outlook continues to be uncertain, that the country's economic growth remains unbalanced, and that the economy faces "triple pressure" from shrinking demand, supply shocks and weakening expectations. The People's Bank of China is nevertheless forecasting 8% growth for 2021. Most major international analysts have revised down their forecasts for the year, although they still sit within a band of 6-9%.
- China comfortably remained Aotearoa New Zealand's top trading partner for the twelve months ending June 2021, with two-way goods and services trade totalling NZ\$34.2 billion, constituting 23% of New Zealand's total trade. Over this period China was also New Zealand's largest market for exports (NZ\$20.1 billion) and imports (NZ\$14.1 billion). Goods exports to China were up 12% on the previous year, while services exports declined more than 50% over the same period.
- Despite COVID-19 Delta outbreaks in China over the second half of 2021, overall case numbers in China remain low and the government continues to pursue a "zero-tolerance" elimination policy. This has been broadly successful to date, and the domestic COVID-19 situation remains stable. The elimination strategy means there are frequent restrictions on domestic travel and international borders look likely to remain tightly controlled at least well into 2022.
- Regular China market updates and other useful resources are available on the [NZTE website](#). Exporters can also sign up to [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

Economic situation in China

China's impressive economic rebound since the COVID pandemic began has started to slow in the third quarter (Q3) of 2021, with official growth rates falling short of most economists' predictions. In Q3, China's economy grew just 0.2% from the previous quarter and 4.9% year-on-year (y-o-y), with power shortages in key parts of the country, an unfolding debt crisis in the property market, supply chain issues, and a Delta outbreak in July-August the main contributors to the lower than expected result.

One of the traditional drivers of China's economic growth, **industrial output**, grew 3.5% in October from a year

earlier, up slightly from a post-COVID low in September. Despite the short-term challenges, the manufacturing sector remains the driver of China's economy, as international demand remains strong.

A key marker of domestic demand in China, **retail sales of consumer goods**, grew 0.4% in month-on-month terms in October, after a slightly more sluggish performance in the previous three months. The Chinese government has put significant emphasis on its ongoing policy to boost domestic demand and rebalance its economy away from overreliance on manufacturing and investment, but this is a long term agenda and is yet to see significant results in official figures.

Domestic tourism rates, another way of estimating levels of domestic demand, which had been performing strongly earlier in 2021, dropped 18% year-on-year (y-o-y) in Q3, primarily due to travel restrictions introduced in response to the July-August Delta outbreak. Domestic tourism revenue during Golden Week – a seven-day holiday which is one of the busiest travel periods in the country and a bellwether for consumer demand – was down 5% on 2020 levels and equated to less than 60% of revenue for the same week pre-pandemic.

China's **foreign trade** continued to show strength, and this was a key contributor to maintaining Q3 growth. Official data shows China's foreign trade increased 23% y-o-y (in Yuan terms) in the first three quarters of 2021, meaning that this indicator has achieved y-o-y growth for five consecutive quarters. When compared to the equivalent pre-COVID 2019 figures, total foreign trade, exports, and imports have all increased (23%, 25% and 22% respectively). The private sector's contribution to foreign trade has increased its significance since the start of the pandemic, growing its share by almost 30%, now accounting for around half of China's total foreign trade.

Fixed asset investment increased 7.3% y-o-y in the first three quarters of 2021, achieving stable growth levels. The y-o-y growth rates of investment in manufacturing and high-tech industries were 15% and 19% respectively. When compared to the first half of 2021, fixed asset investment has slowed somewhat in Q3, in part weighed down by fears around the property sector and wider regulatory reforms.

China's **consumer price index (CPI)** rose 0.6% y-o-y in the first three quarters of 2021. The moderate rise in consumer prices has been attributed largely to a decline in food prices and overall weak domestic demand. Notably China's producer price index (PPI) rose 14% in October from a year earlier, the biggest rise since 1995. The rise in producer prices is mostly attributable to output curbs caused by power shortages in key provinces and sustained increases in global commodity prices in recent months. There has so far been a reluctance to pass on these higher costs to domestic customers, reflected in the lack of a commensurate increase in CPI.

New Zealand-China transport links

Three airlines are currently operating passenger flights between Auckland and two cities in China:

- Air New Zealand and China Eastern currently each operate one Auckland to Shanghai passenger flight per week.
- China Southern currently operates 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. In order to reduce the risk of COVID entering China through the ports, China has implemented a "closed loop" for all port employees involved in handling and processing cargo. These measures have impacted port resourcing, resulting in slowing loading and unloading times for some key ports.

Domestic logistics within China are functioning routinely, although China has introduced measures to address concerns it has expressed 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 in the short- to medium-term. 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

In March 2020, China suspended entry for most existing visa holders, including those holding an APEC Business Travel Card. New processes have been put in place for some categories of travellers, but entry to China remains challenging for most. The latest information on specific entry requirements, 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 and their families (spouses and children) have successfully applied for visas under this process.

All New Zealand travellers to China must complete a minimum 14-day supervised quarantine on arrival. (Note: the exact length of quarantine depends on the port of arrival, and may change due to the COVID-19 situation at the time of arrival).

Travellers to China 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\$34.2 billion in the year ending June 2021, up 5.5% from year ended June 2020 figures. Over this period China remained New Zealand’s largest market for exports (NZ\$20.1 billion) and imports (NZ\$14.1 billion).

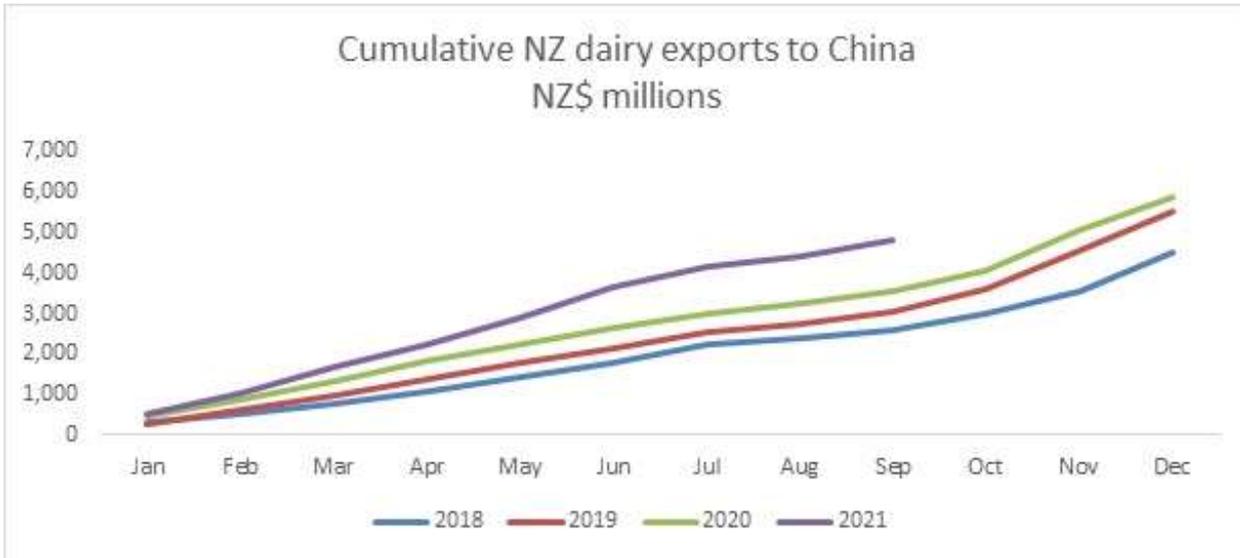
According to China’s official import data, in the first nine months of 2021 China’s imports from all sources have increased. New Zealand’s share has been relatively steady maintaining its place just outside China’s top 30 import sources.

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

Dairy (not including infant formula)

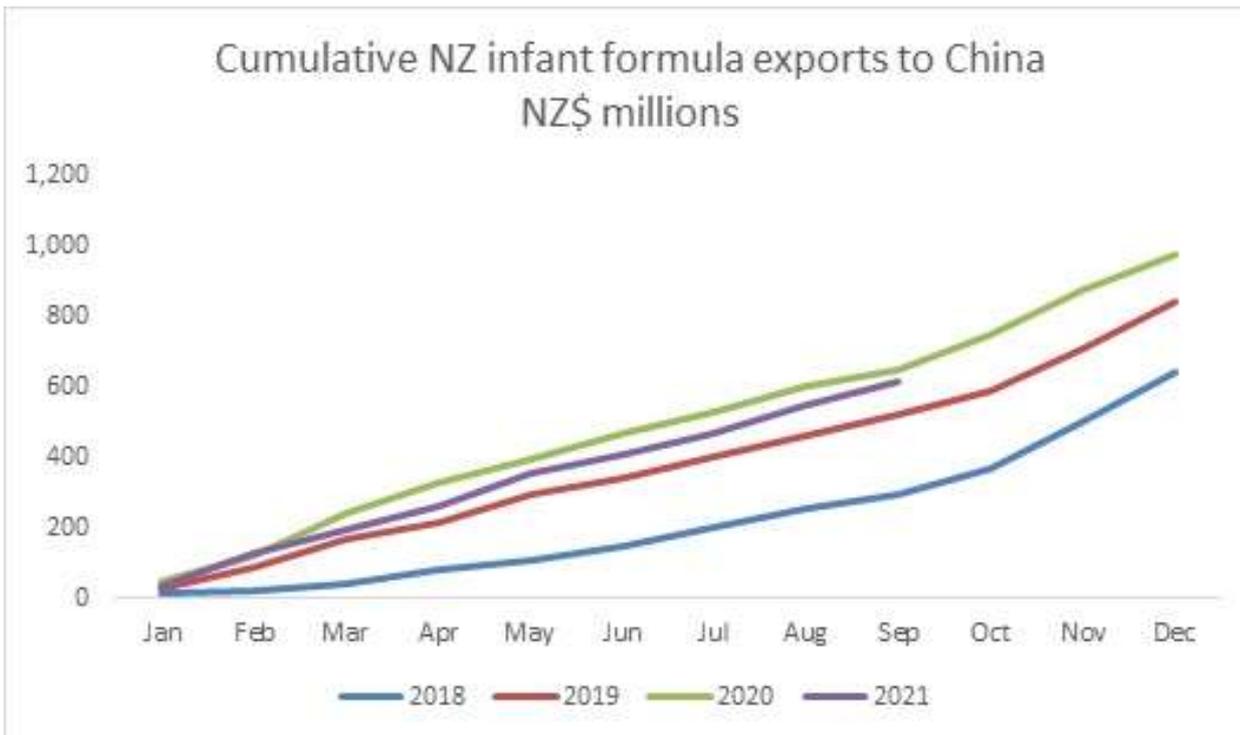
The value of New Zealand’s dairy exports to China in the first nine months of 2021 totalled \$4.8 billion, 36% above the equivalent period in 2020. The increased value of dairy exports was driven by greater volumes of sales of all dairy product categories compared to 2020 figures.

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 26% in the nine months of 2021, and imports from New Zealand grew 23%.



Infant Formula

The volume of infant formula sales to China increased more than 9% in the first nine months of 2021, however, the value of export earnings from this trade declined 5% relative to the equivalent period in 2020, due to lower infant formula prices in China over this period. Increased production by Chinese domestic infant formula brands is possibly having an impact on prices.

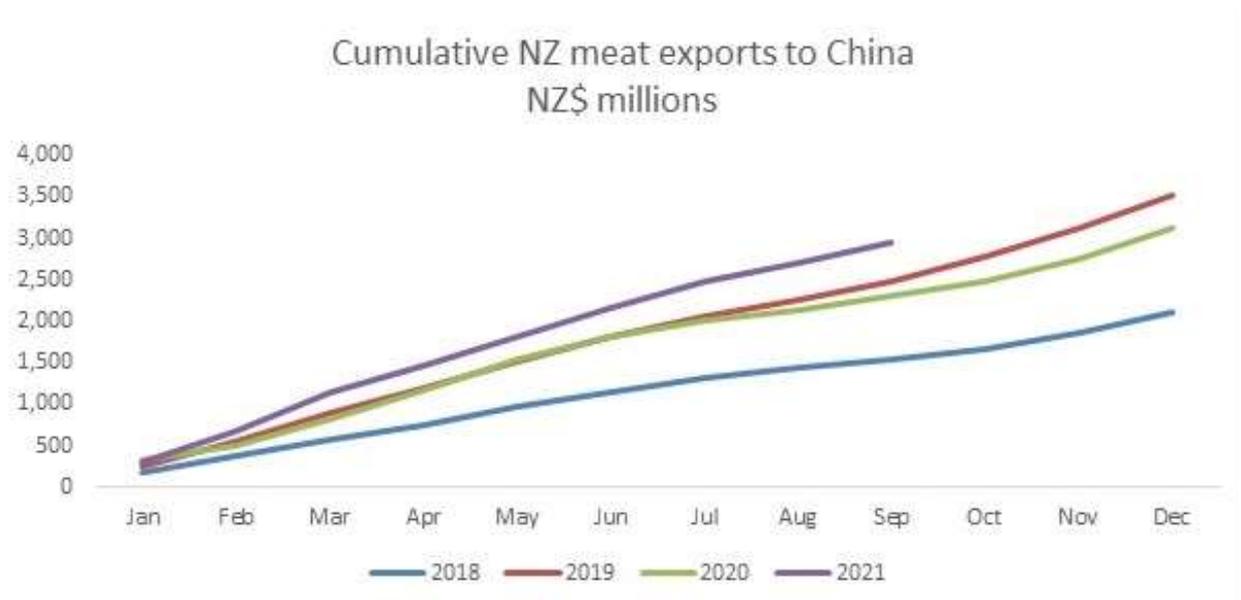


Meat and meat products

China remains New Zealand’s main meat export market, currently accounting for 42% of the total share, up from 34% in 2020. Meat exports to China in the first nine months of 2021 were up on the equivalent period in previous years, with almost \$2.9 billion of product sold so far this year, 28% more than over the same period in 2020. This has been driven by an increase in the volume of meat sold into China over this period, with growth in both sheepmeat and beef export volumes.

Following a rebuild of the industry from African Swine Fever, pork prices are continuing their decline from the

beginning of 2021 with a glut of pork on the market. Non-pork protein sources - poultry, sheepmeat and beef - continue to be in demand despite this glut. This particularly applies to demand for beef following suspension of beef imports from Brazil, Argentina's self-suspension and a low point in supply from Australia.



Forestry and forestry products

Demand for New Zealand logs has been consistently strong despite a rise in global log prices which peaked at record levels. Over the last year, the price of New Zealand radiata pine logs reached record highs at US\$190-195/m³, but has since dropped to US\$152-160/m³.

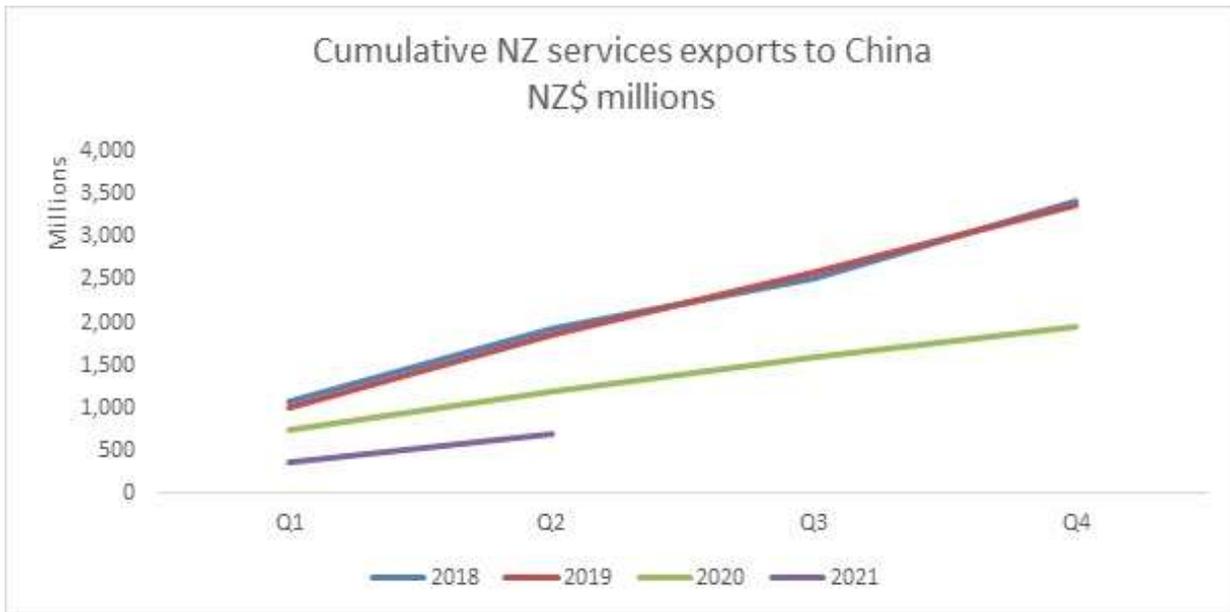
In the first nine months of 2021, exports in forestry products increased by around 31% to reach more than 15 million m³, surpassing pre-pandemic 2019 volumes, and reaching \$3 billion in value.

Cumulative NZ forestry exports to China.

Services trade (NB: only Q2 2021 currently available; StatsNZ has made some changes to their methodology for estimating visitor expenditure, see details here(external link))

In the first half of 2021 the value of services trade with China was around \$690 million, down 42% on the equivalent period in the already COVID-19 affected first half of 2020.

Prior to the COVID-19 pandemic, China was New Zealand's top source of international students and second largest source of international visitors. The pandemic continues to have a disproportionate impact on New Zealand's services export sector – particularly tourism and education - which continued to be felt in the first nine months of 2021, as New Zealand and China's borders both remained tightly controlled. While the scheduled relaxation of New Zealand's border settings in April may bring some relief for these sectors, China's borders look likely to remain controlled for much of 2022, meaning recovery of the China market may take more time.

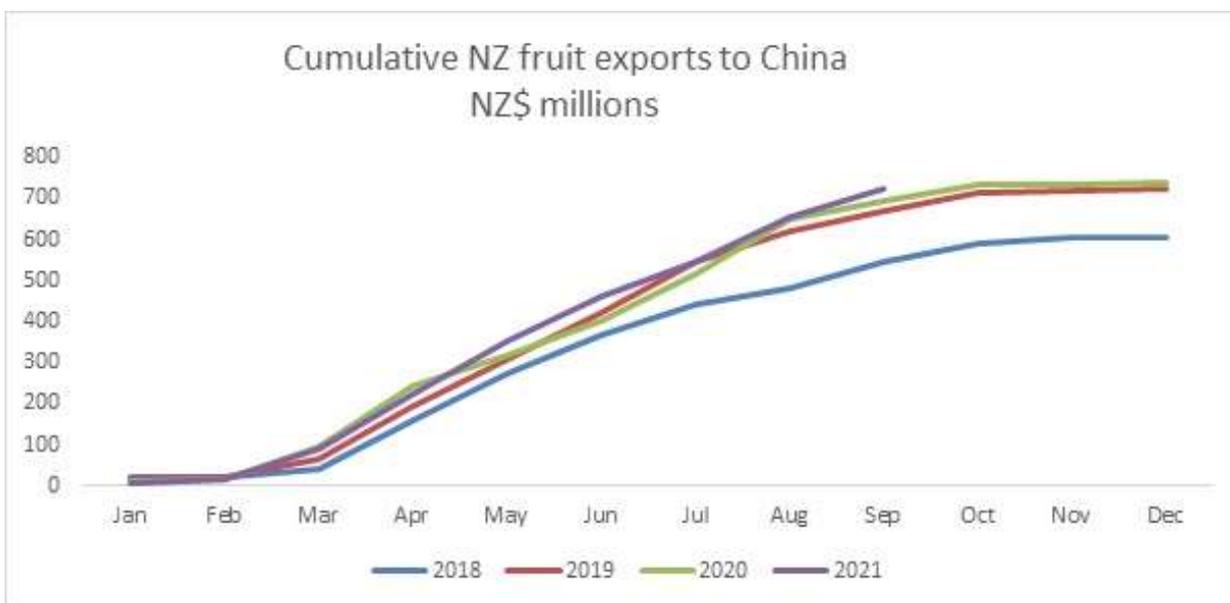


Fruit

China is the highest-value single-country export market for New Zealand fruit exports, with \$722 million in exports in the first nine months of 2021, an increase of 4% on the previous year.

So far this year, kiwifruit made up over 80% of the value of all New Zealand’s fruit exports to China and kiwifruit earnings were up by 19% compared to the same period in 2020.

The volume of cherry exports to China was down around 14%, while apple volumes were up 2% compared to the previous year.



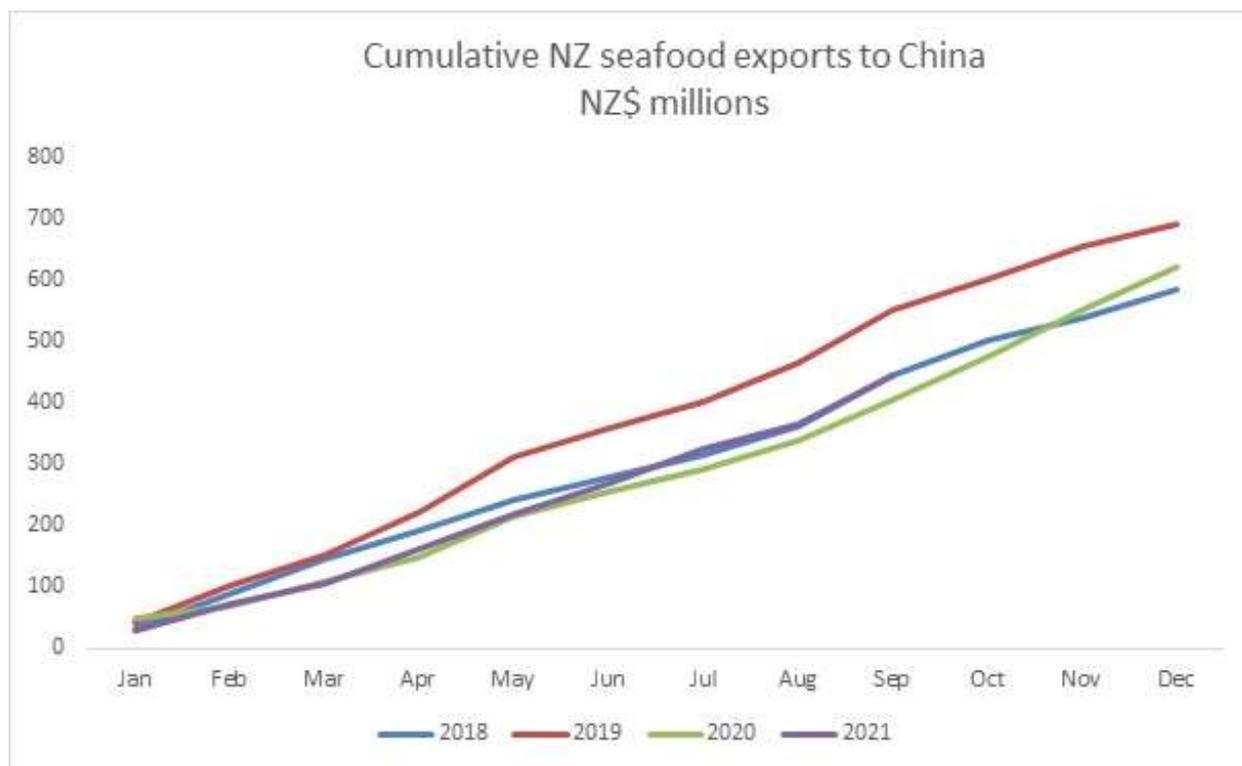
Seafood

China currently accounts for around 35% of New Zealand’s seafood exports. While the value of seafood exports to China was up more than 10% in the first three quarters of 2021, this remains significantly down on pre-COVID levels. For the first nine months of the year, the value of seafood exports was 19% down on equivalent 2019 figures, but there have been signs of recovery in Q3.

Rock lobster exports to China, hit hard in 2020, have now rebounded and have exceeded 2019 levels. In the first nine months of 2021, the value of rock lobster exports to China reached \$249 million, an increase of 70% on the previous year, and an 11% increase on 2019 levels.

Most of the other major categories of seafood exports are yet to rebound to pre-COVID levels – 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.

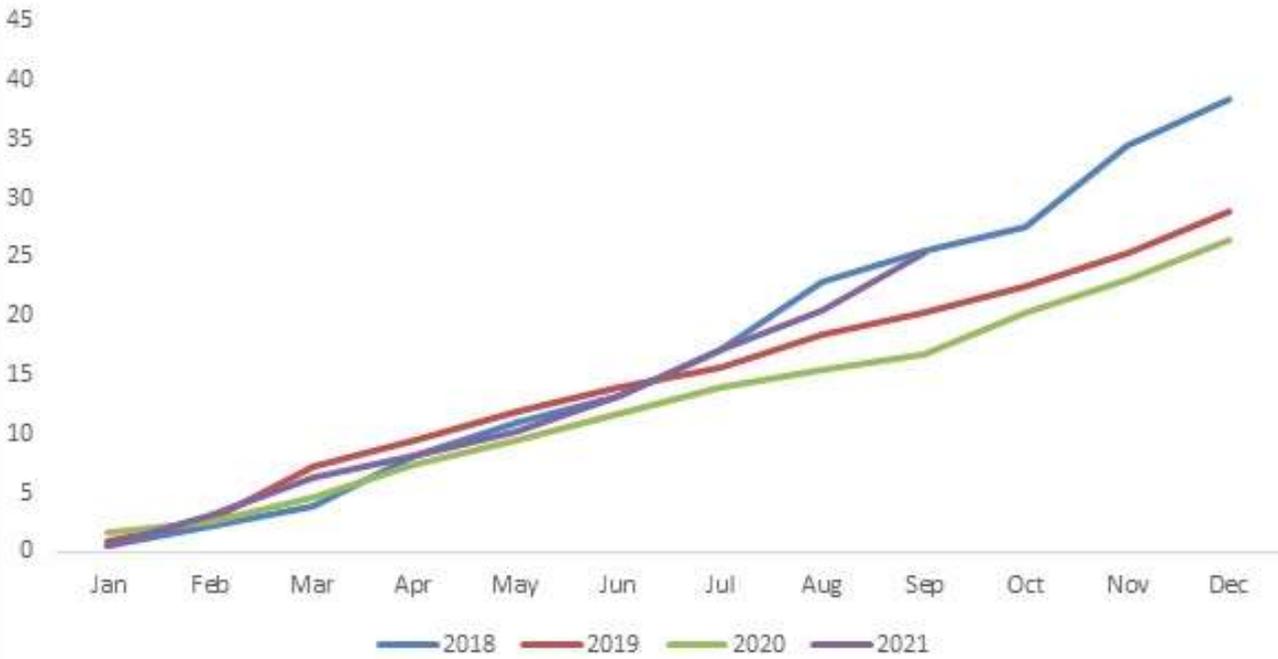


Wine

In the year to date, China is New Zealand’s sixth-largest export market for wine by value, but only accounts for around 2% of New Zealand’s global wine exports. The value of New Zealand’s wine exports to China in the first nine months of this year is 50% higher than the equivalent period in 2020, and 25% above 2019 levels.

Despite the relatively low volume of sales into China, the unit price for New Zealand wine is among the highest at \$14.70/L.

Cumulative NZ wine exports to China NZ\$ millions



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