# New Zealand Equity Monthly
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Developments in China and their impact on New Zealand companies

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## Growth in New Zealand-China trade underscores importance of Chinese market

This month we turn our focus to developments in China and their impact on New Zealand companies. New Zealand's trade with China expanded by 22% in 2021 despite COVID-19 having an impact throughout the year. This highlights the incredible growth seen in trade between the two countries over the years. The lion's share of goods exported from New Zealand to China in 2021 were in the areas of dairy, meat, forestry and fruit. Demand from China partly explains the elevated farmgate milk prices (the amount paid for milk delivered to the farmgate by farmers) New Zealand is currently experiencing. In May 2022, the dairy cooperative Fonterra's 2021/22 forecast for farmgate prices was NZD 9.10-9.50 per kilogram of milk solids, up from NZD 7.25-8.75 in May 2021, providing a clear example of how interconnected the countries are economically.

## New Zealand companies well placed to continue to benefit from Chinese demand

After multiple decades in which its GDP grew by around 10% per year, however, China recently set its annual growth target for 2022 at the more modest level of approximately 5.5%. Although this is mainly attributable to COVID-19 and strict lockdowns aimed at eliminating the virus, from a longer term perspective it also appears that China's previous "international circulation" strategy of concentrating on manufacturing products for the rest of the world has reached its limit as a driver for growth. In response to this broader trend, China is shifting to a "dual circulation" model in which it aims to combine domestic and international demand while prioritizing growth from domestic consumption. Although these changes have clear implications for foreign exporters, New Zealand's companies remain well placed to benefit from Chinese demand. For example, China has identified the three main areas in which it continues to rely on external markets as food, resources and technology, indicating that New Zealand's food and other exports will remain in high demand for a long time ahead. In addition, given that a quarter of China's working-age population is projected to be 60 or older by 2030, the Chinese government changed its policy in 2021 to allow couples to have up to three children, having already relaxed its one-child policy in 2015 to permit two children per couple. A larger market catering to infants in China driven by a higher birth rate could provide clear benefits to New Zealand's exporters of products for babies and children.

## China's trading partners likely to monitor concentration risk

On a broader level, China's trading partners, including New Zealand, clearly need to take note that the country's GDP is growing at a slower rate and that it is refocusing on its domestic economy. The risk of China decoupling from the US and other western countries as a result of trade tensions should also be monitored. Although countries are likely to review the risk of concentrating on China as a trading partner, at present there are no obvious substitutions for China's economic power. Possible options include cultivating stronger trade ties with India and parts of southeast Asia, as well as with other liberal democracies.

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