

Sporadic

China Is Important To Our Economy – A Reminder

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In case you missed it, between February 2012 and July 2013 I produced a monthly publication, Growing With China, aimed at educating Kiwis about our growing economic relationship with China and how this relationship would extend beyond simple exports into flows of capital and people plus geopolitical considerations. I dropped the publication when discussion about China became more mainstream and awareness of the importance of China to us soared following Fonterra's botulism scare. Job done. But now the scene has changed again in three ways.

First, growth in our exports to China has reversed recently because of lower log and dairy prices and destocking. Reduced ability to discuss numbers showing our rising economic dependence upon China has caused media to look elsewhere for stories.

Second, absence of a high profile land purchase has removed an issue around which discussion regarding China coalesced two years ago.

Third, for some reason the huge debate about Chinese buying houses in Auckland has gone off the radar as well – perhaps for want of any data since our last stab at estimating offshore sales back in March last year.

<http://tonyalexander.co.nz/wp-content/uploads/2014/03/BNZ-REINZ-Survey-March-2014B.pdf>

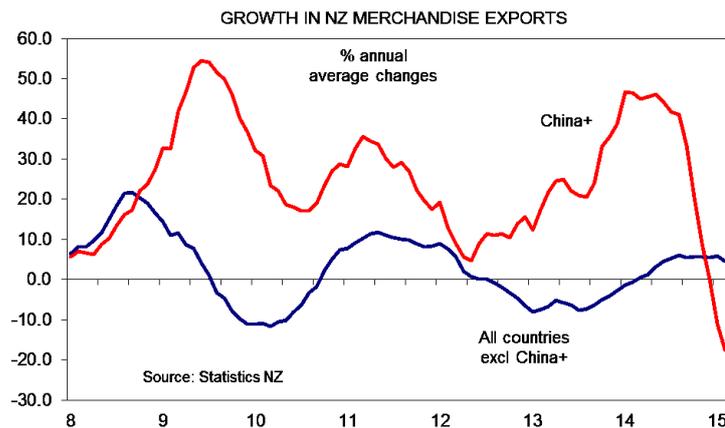
To illustrate this, although the March 31 release of the annual Asia NZ Foundation survey of Kiwi perceptions of Asia & Asians produced a result that 39% of the 1,000 respondents agree that Asians are responsible for rising house prices, (54% in Auckland) from 33% a year ago, media coverage was minor. Personally, were I running the survey I'd have included other questions such as "Do you think Kiwis are responsible for rising house prices?" and "Do you think Australians are responsible for rising house prices?" By itself the question focussing just on Asians represents its own biased viewpoint.

Realistically though, the answer to the question falls into the same camp as the "research" results which beauty and health product companies now publish in their advertisements. 89% of women noticed that their skin was more hydrated! 91.6% of men felt their functionality had been improved. And so on.

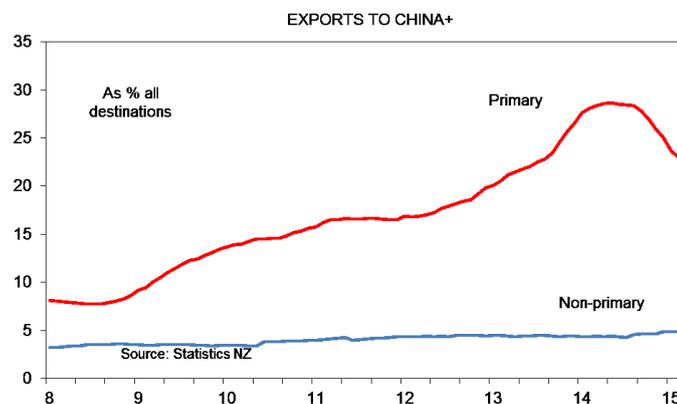
Nonetheless, our relationship with China continues to grow and deepen and it would be useful if you kept reasonably up to date with how the economic relationship is going and some of the key issues in China. So every now and then I'll discuss China in a Sporadic issue.

Merchandise Exports

The value of NZ merchandise exports to China including Hong Kong stood at \$2.9bn in the year to October 2008 when the Free Trade Agreement (FTA) became effective. This accounted for 6.9% of all NZ export receipts. This proportion peaked at 24.2% and \$12.3bn in May 2014 and has since declined to 19.7% with nominal value of \$9.6bn. This still leaves China+ as our biggest supplier of export receipts, ahead of Australia at 17.7% then the United States at 10.2%. Why the rise? Why the decline?



The surge mainly reflected diversion of exports from other destinations as the average level of export prices near mid-2014 was actually down 6% from late-2008, while volumes going to all destinations were ahead just 20%. The decline since September 2014 reflects both export prices plus volumes falling – principally for forest and dairy products.



Why are log and dairy prices so important? Because in the year to February 2015 35% of our export receipts from China were for dairy products, 19.5% for wood including pulp. Meat ranks third at 11.7%, fish 5%, wool 4.5%.

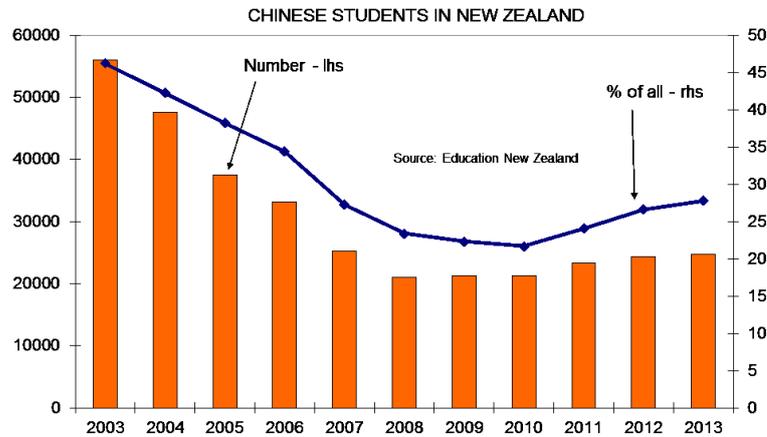
Compared with the year to September 2008 the value of our exports of primary products to China has grown by 250% while the value of non-primary exports has grown by only 37%. Primary products dominate the relationship and far more so than to other destinations (92.7%/4.2% residual excluded, versus rest of the world 75.8% primary 20.4% non-primary, residual excluded). China is only minimally important to us as a market for other than our primary products.

Growing non-primary exports is desirable but in this area into which SMEs tend to fall the road is arduous to navigate with many obstacles centred around certification regimes, business protocols, securing suitable distributors and partners and so on. Our Growing With China publication focussed strongly on such issues.

Education Exports

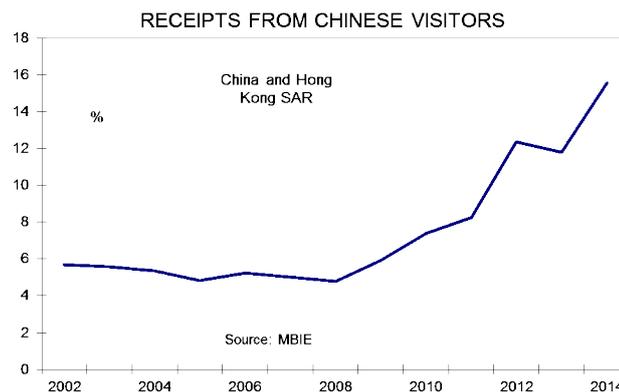
The latest estimate from Infometrics is that the export education sector is worth \$2.9bn to the NZ economy. Over calendar 2013 28% of the 89,000 students studying in New Zealand came from China including Hong Kong and the latest data show that in the period from January to August 2014 this proportion remained at 28%. Thus one can imply that Chinese students bring in over \$800mn a year to the NZ economy. Numbers have grown by 10% the past year which is the strongest growth rate since the unsustainable boom of the

early-2000s but much less than India's growth of 60% the past year to achieve second place in importance at 18% of all student numbers. Note that very few Indians attend English language schools – if any.

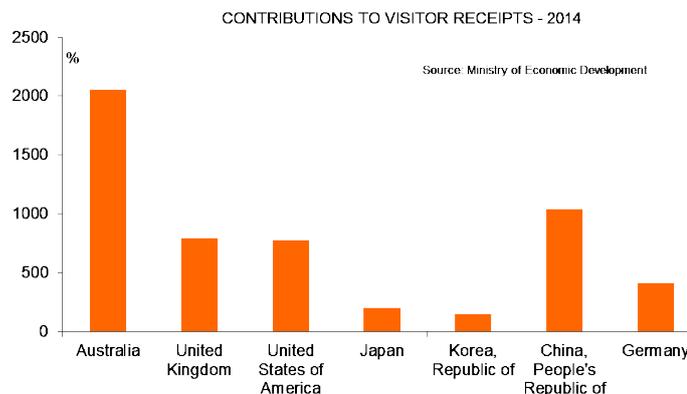


Tourism

During calendar 2014 international visitors to New Zealand spent \$7.4bn. This was a strong 13% rise from a year earlier. Spending by visitors from China rose by 49% following growth of only 1.2% during 2013. The \$1,037mn spent by Chinese visitors accounted for 13.9% of all spending, up from 7% in 2011, 4% ten years ago and 1% in 1998.



The Chinese visitor market is now our second most important behind Australia at \$2bn and 27.6%.

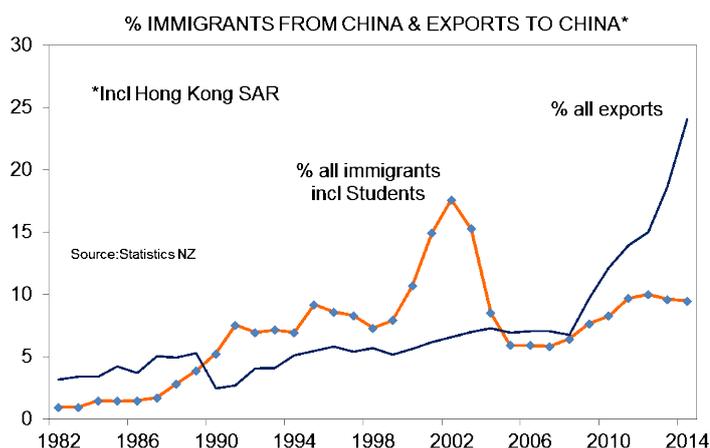


Migration

In 1979 just 100 people from China and 255 from Hong Kong migrated permanently to NZ. That was 0.9% of all permanent migrants. Come 1989 the numbers were 381 from China and 1,539 from Hong Kong

accounting for 3.9%. In 1999 the numbers were 3,507 and 1,217 for 7.9%. For 2014 they were 9,515 and 855 for 9.5%. So almost 10% of our migrants now come from China+.

Note that if we however exclude Student Visas from the China result and All Country total then migrants from China+ account for 7% of all migrants, up from 5.5% in 2004, the earliest period for which we have Student Visa data. The 7% number is therefore the one to use for most purposes though it is not completely accurate as the Migration definition captures all people intending to stay longer than one year while the Student Visa category also captures those in NZ for shorter than one year. The true China migration number is somewhere therefore toward the lower end of the range from 7% to 10%.



I'll update these numbers maybe two or three times a year and when next discussing China in Sporadic will look at some of the developments in China at the moment.

Summary

- 20% of our goods export receipts come from China+
- 28% of foreign students studying in NZ come from China+, bringing us about \$800mn.
- 14% of foreign tourism spending comes from China+, bringing us over \$1bn.
- 7% of non-student migrants to NZ come from China+

For your reference here is my February 2013 paper entitled "Sources of Western Apprehension About China" where I discuss 55 reasons why people in the West are struggling to figure out China's role in the world economy, politics and institutions going forward.

<http://tonyalexander.co.nz/wp-content/uploads/2013/02/Sources-of-Western-Apprehension.pdf>

The Growing With China issues can be found here.

<http://tonyalexander.co.nz/topics/growing-with-china/>

Sporadic Library

2. Kiwi/AUD parity – mainly a function of AUD weakness. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-8-2015.pdf>
1. Implications of interest rates staying low for a long time. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-7-2015.pdf>

Sporadic is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. It is a supplement to the monthly NZ Observer. Please sign up at www.tonyalexander.co.nz
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