Improving NZ's resilience to trade shocks

Analysing business risks in the face of market disruption

Final report for the Ministerial Strategic Advisory Group on Trade

16 June 2023

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DATA LOGIC ACTION

Foreword

It is a truism to say that the world is becoming ever more complex and challenging for our exporters. While Free Trade Agreements have unlocked unprecedented levels of market access, particularly across Asia, it is also the case that geo-political pressures are making the global trading picture much more complex to navigate. Rising costs, damaging climatic events and supply chain disruption are adding to this complexity.

Within this environment, how businesses in Aotearoa foresee and plan for risk is critically important, as is building resilience to be able to withstand shocks and carry on. If the last many decades have been notable for their relative stability and prosperity, the coming decades could pose more multifaceted challenges.

Or in other words, we have exited a period of phenomenal growth and connectivity and we now need to get match-fit for a trading environment that could be much tougher and more unpredictable.

In this report we gauge the risk mitigation strategies and resilience of close to 100 of New Zealand's micro, small, medium, and large businesses. Including key insights from Māori and Pasifika companies, we explore how they are likely to respond to market shocks and supply chain disruptions.

We also look at the actions New Zealand businesses and the New Zealand Government could take to support the resilience of our exporters and their ability to weather unexpected trade shocks.

The results of this report are revealing. In short, we find that the larger the New Zealand company, the more proactively they are building in measures to support their resilience through diversification and other measures. The stakes are high, but they tend to have the resources, market knowledge and know-how to effectively put in place their own market disruption 'insurance policy'.

Aotearoa's smaller exporters are more likely to be impacted by disruption but are less exposed to high-risk markets and have a nimbleness that will enable them to move quickly if need be.

For all businesses, however, diversification is not simple or without cost. Many New Zealand companies simply do not have the capital or resources to invest in predicting and mitigating unrealised risks, given the day-to-day pressures of remaining competitive in export markets, and noting the high returns of some markets over others.

The report highlights the steps exporters can take to strengthen their resilience. It also looks at the role that Government plays; the steps that it has already taken; and the areas where further work might be done to better foresee risk and build resilience.

While shocks – or 'black swan events' – by their very nature cannot always be planned for, there are some building blocks that can help put our businesses on a more stable footing, and taken as a whole, the New Zealand private sector has a wealth of knowledge and experience in-market that can help in this endeavour.

On behalf of the Ministerial Strategic Advisory Group on Trade I would like to thank the Minister for Trade and Economic Growth, Hon. Damien O'Connor, for the opportunity to undertake this critical research. I would also like to thank my colleagues in the Advisory Group who have applied their expertise and strong business and iwi networks to ensure that this report is representative of Aotearoa's diverse export sector. Finally, I would like to thank Sense Partners for leading the research and drafting the report.

To the 97 New Zealand businesses who took the time to respond to this survey, you have provided the backbone to this study, and have generously shared your time and experiences to ensure this report is reflective of real-world, real-time realities. I hope you find it helpful, and that it provides a useful platform from which you can continue to assess and build your business's resilience.

He waka eke noa – we are all in this together.

Suzannah Jessep

Chair

Ministerial Strategic Advisory Group on Trade

The Ministerial Strategic Advisory Group on Trade (MSAGOT) has evolved from Government's Trade for All Agenda. The Group provides advice and insights on key trade issues and operates as an expert forum for engagement with representatives from business, Māori, Pasifika and civil society on New Zealand's trade policy.

Key points

You have asked us to investigate how Kiwi firms are preparing for market disruptions and what government could do to help

- In an increasingly complex global trading environment, future disruptions to the free flow of goods and services will be hard to avoid, be they caused by a pandemic, natural disasters or geopolitical tensions.
- Kiwi firms, with the support of government, need to build their resilience to potential trade disruption.
- This research:
    - Explores the **domestic and international evidence** on actions firms and governments can take to prepare for trade disruptions.
    - Presents the findings of a **survey of almost 100 Kiwi businesses** that sought to understand if and how firms are preparing for disruption and their views on the role of government in supporting them.

There is limited existing New Zealand-specific research on firms' preparation for market access disruption

- New Zealand firms have not faced the type of abrupt market access disruption experienced by some Australian industries selling to China in recent years. We need to look back to the UK joining the EEC in 1973 for the last episode of a material tightening of export opportunities in an existing market.
- As such, there is little recent New Zealand-specific research on how firms adjust to market access disruptions.
- There are New Zealand-based resources on how businesses can prepare for trade disruptions, but this information flows from government *to* businesses not *from* businesses. Our survey helps to provide government with information from firms.
- Through good fortune and good diplomatic management, New Zealand firms have not had to face severe market access disruptions – yet. However, much can be learnt from other countries' experiences to inform thinking about how best to prepare for such an eventuality.

Research on enhancing broader supply chain resilience is underway – but market access disruption is not top of firms' agendas

- The New Zealand Productivity Commission is in the early stages of its inquiry into 'Improving economic resilience'. Its final report will be delivered in early 2024.
- Submissions to the Commission's Issues Paper highlight that Kiwi firms are currently more concerned about domestic infrastructure and shipping logistics challenges than they are about potential market access disruptions.

- That said, geopolitical tensions and their potential implications for New Zealand did get an airing in 29% submissions. As these are publicly available documents, submitters were careful about explicitly identifying individual markets of concern.

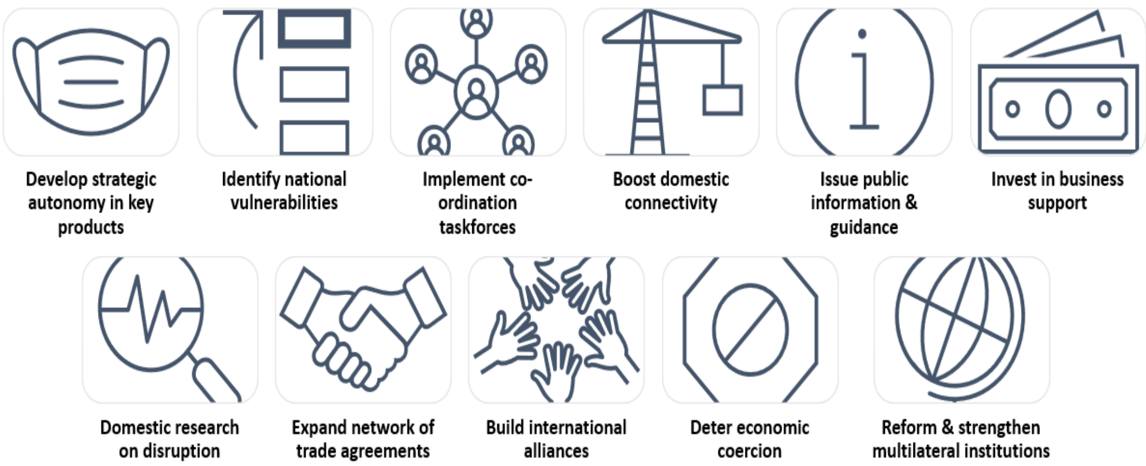
The international literature emphasises building general national resilience rather than focusing on specific types of disruption

- Most disruptions are by nature idiosyncratic and hard to plan for. The international literature suggests firms and governments can best prepare for a range of potential disruptions by:
  - Learning more about domestic vulnerabilities and the impact of disruptions
  - Reducing the risk of disruptions occurring
  - Designing systems to avoid and/or mitigate the impact of disruptions
  - Creating measures to respond to disruptions.

The New Zealand government is already doing most of the commonly recommended actions to prepare for market access disruption

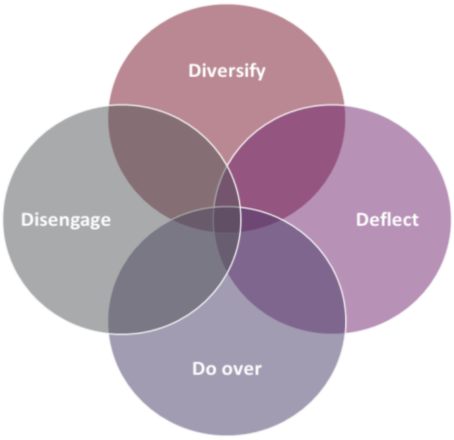
- The more limited international literature on trade disruptions, including market access disruptions (e.g. China's actions against Australian exporters and Brexit), puts forward a range of actions that governments can take to prepare (Figure 1).
- In our view, there are no obvious glaring holes in the New Zealand government's responses to recent events that have disrupted trade flows for Kiwi firms.
- Our survey results tend to back this up, although it is only natural that firms will have a range of preferences and priorities.

FIGURE 1 POTENTIAL ACTIONS TO HELP FIRMS PREPARE FOR DISRUPTION



The literature suggests businesses can prepare for and respond to market access disruptions in four key ways

FIGURE 2 HOW BUSINESS CAN RESPOND TO MARKET ACESS DISRUPTION



Strategy	Implications
Diversify	Increase options for sourcing inputs and exporting products
Deflect	Trade through intermediary markets (e.g. Hong Kong for China)
Do over	Reorient product mix or completely transform what is made and sold
Disengage	Exit the market entirely

- Overseas firms have adopted one or more of these approaches when faced with market access disruption. There is no right or wrong way to prepare for disruption – firms' preferred responses will depend on their industry, size, exposure, leverage, attitude to risk, balance sheet depth, etc.
- None of the four options are costless, but international evidence indicates these strategies can be successful in mitigating some of the negative effects of disruption.

Australian exporters' recent experiences provide valuable insights

- A study of eight Australian industries affected by Chinese measures to restrict imports found that for six of the eight, total export value losses were less than 10%. The exceptions were the wine and timber industries, which were not able to deploy these strategies as effectively or quickly and suffered more significant losses.
- However, seven of the eight industries (copper being the exception) saw average prices fall as other markets were less likely to pay the premium prices found in China.
- Simulation analysis by Sense Partners for the New Zealand China Council suggested the same thing – diversification may reduce the size of export value losses in the event of market access disruption, but it cannot eliminate those losses. As such, caution is required when suggesting diversification as a panacea.

Our survey indicates 2/3 of Kiwi firms are already taking concrete steps to reduce the risks of trade disruption

- Headline results from our online survey of Kiwi firms indicate they are aware of the risks of trade disruption and are considering their optimal preparation strategies.
- We do not present these results as being necessarily representative of the wider tradable sector. However, the sample size of 97, collected within a two-week period, nonetheless allows us to at least highlight some common themes that may warrant further investigation by officials.

Supply chain disruption is the main worry of Kiwi firms right now

- This is not surprising given the challenges of the pandemic, which saw port delays and shipping snarl ups. On top of this, recent bad weather events in New Zealand will be weighing on many firms' minds, especially those most severely affected in Auckland and the Hawke's Bay.
- This result is consistent with the submissions made to the Productivity Commission's Inquiry. Geopolitical tensions very much played second fiddle to concerns over domestic infrastructure resilience, labour shortages and logistics.
- This indicates – in our view – that while many firms are aware of the complex global trading environment, and see the potential risks, much of their focus is on the 'here and now' – trying to manage their way through a difficult high-inflation, post-pandemic, post-weather events economic period.
- That is, they are addressing immediate and *actual* business risks before devoting scarce resources to mitigating *potential* risks related to market access disruption.

If faced with trade disruption, diversification is the strategy of choice

- Most firms told us they would try to diversify if faced with trade disruptions (69%), followed by deflect (22%) and disengage (19%).[1] Only 6% said they would transform (or 'do over') their production mix, with larger businesses much more likely to do so.
- More Māori and Pasifika businesses would try to diversify their markets (86%) compared to non-Māori/non-Pasifika businesses (64%).

9 out of 10 Kiwi firms are considering diversifying their export markets

- 90% of firms surveyed are considering exporting to different markets, even if they haven't started doing so yet. The EU, US, UK, Canada and Australia were the most common alternatives.
- It seems likely to us that the recent conclusion of New Zealand's FTAs with the UK and EU (and Canada via CPTPP) will be positively influencing many New Zealand firms' perceptions of those markets as viable alternatives.
- Beyond the primarily Anglosphere markets above, firms told us they are considering diversifying to a range of Asian markets (China, Japan, Singapore, Korea, Taiwan being the top 5 – all of which New Zealand has an FTA[2] with), as well as the Middle East.
- Interestingly, given recent media and political attention, India did not rate highly as a diversification option. Indeed, it rated below the Pacific and Africa.

[1] Firms could choose more than one response, so they do not sum to 100%.

[2] We use "FTAs" in this report as a shorthand for all types of preferential trading arrangements New Zealand has (or could have in the future) with other economies.

Only 26% of firms said export diversification was an "immediate" priority

- A further 30% responded that diversification was a "short- to medium-term priority". The remaining firms rated diversification as a "medium- to long-term priority (29%) or "not a priority" (15%).
- We did not ask why diversification might not be such an urgent priority, but it is possible some firms – especially smaller ones – are simply too busy trying to get through an already challenging economic period and don't have the resources available to focus on diversification.
- It seems unlikely to us that firms are not aware of the risks of concentrating exports or imports in specific markets. But diversifying is not a simple or costless task, especially for smaller firms, and it may just be that they are parking it in the 'important but not urgent' quadrant of their risk registers.
- This finding is consistent with UK firms' experience with Brexit. There was no material shift in trade patterns in the period between the 2016 Brexit referendum and the 2021 implementation of the Trade Cooperation Agreement, despite firms expecting that trade barriers with the EU were likely to increase.
- As such, New Zealand firms under the threat of market access disruption may be choosing to take advantage of existing partnerships and sunk-cost investments until trade threats materialise. The counterfactual is pre-emptively disrupting profitable relationships on the basis of unknown changes.

Firms see an important role for government in creating international connections and sharing markets insights as a risk mitigation strategy

- The firms we surveyed reported direct financial support as the most helpful action government could take to help them cope with trade disruption. However, this is not something government can realistically plan for or pre-emptively address – any such support would necessarily be reactive, just as business support packages were rapidly developed when the pandemic took hold.
- In terms of pre-emptive government actions that seek to 'control the controllable', firms expressed a strong desire to see government working hard to reduce non-tariff barriers in export markets and exploring more free trade agreements.
- There was strong support for more trade missions (and associated funding) to help businesses build connections in new markets; and more in-market economic diplomacy, whereby officials use their knowledge of local markets and draw on their networks to generate insights into the opportunities and challenges of doing business in a range of markets.
- Providing a centralised digital hub for digestible, business-focused insights on supply chain risks and potential options for business to prepare for disruption could be one approach to improving the accessibility and relevance of existing government reporting.

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1. Context, objectives and scope

1.1. Our brief

The Ministerial Strategic Advisory Group on Trade (MSAGOT) commissioned this report from Sense Partners to get a better understanding of how prepared New Zealand businesses are for export and import market disruptions.

The Group is also interested in what support businesses need from the government to build resilience and manage risk from trade disruption.

1.2. Context

Aotearoa is deeply exposed to global trade dynamics and disruptions

Recent supply chain disruptions and geopolitical tensions have brought exposure and dependency to the front of politicians' and policymakers' minds. In response, global trade is shifting away from being primarily efficiency-driven towards resilience and self-reliance. Many large economies are seeking greater strategic autonomy – the ability to act independently on security or trade issues without relying so much on other countries.

This trend is a threat to New Zealand's stance that international cooperation – not nationalism or protectionism – is the best way to address global challenges.

At the same time, climate change will continue to affect trade through more frequent extreme weather events and rising sea levels.[3] Likewise, unpredictable events such as COVID-19 and Russia's invasion of Ukraine will continue to put pressure on global supply chains.

There is little information on how prepared Kiwi businesses are for shocks

Most literature on disruption is at the economy or industry level and focuses on identifying trends and risks, or analysing the effects of a disruption *ex-post*. There are some New Zealand-based resources on how businesses can prepare for trade disruptions, but this information flows *to* businesses not *from* businesses.[4]

We look to fill this gap through a survey of businesses and a review of the literature on trade disruption

A direct way to gauge how prepared businesses are for disruptions is to go to the source. We have done this through our survey, *Helping Kiwi Businesses manage trade risks and build resilience.* We asked businesses how they plan to respond to trade disruptions.[5] We also asked what Government support they need to help them manage risk and build resilience.

3 https://www.oecd.org/trade/topics/trade-and-the-environment/

4 https://www.nzte.govt.nz/blog/building-resilient-businesses-is-about-preparation-not-pivoting

5 https://h88vqd5a7mw.typeform.com/ExporterSurvey

Insights from the 97 responses to this survey are outlined in section 3 of this report.

We also review the available New Zealand and overseas literature on trade resilience (section 2 below).

The New Zealand Productivity Commission is currently undertaking an Inquiry on enhancing economic resilience.[6] In its recent Issues Paper, the Commission sought feedback from stakeholders on very similar questions to those in our survey.

For our New Zealand literature review, we use public submissions to the Inquiry as our main source of information on how prepared New Zealand industries and communities are for trade disruptions, as well as their expectations for Government assistance.

[6] https://www.productivity.govt.nz/assets/Inquiries/resilience/Embargoed/EMBARGOED_NZPC-Resilience-Inquiry_Issues_Paper_DIGITAL_Final.pdf

2. Literature review

2.1. Trade disruption is here to stay

Trade shocks (or disruptions) are unexpected or extraordinary events that impede the free flow of goods, services, and people across borders. Over the past three years, we have experienced several shocks: COVID-19, Russia's invasion of Ukraine, and Cyclone Gabrielle.

While normal parts of the business cycle (e.g., changes in interest rates, exchange rates, and gradual price increases) can have a large impact on trade, they are not considered shocks. In Table 1 below, we outline global and domestic shocks that are expected to become more frequent over the next decade.

TABLE 1: KEY DISRUPTION RISKS MOVING FORWARD

Category	Shocks from...
Physical and environmental	Extreme weather events, rising sea levels, and natural disasters.
Geopolitical	Wars, terrorist acts, and tensions between countries.
Protectionism *(can overlap with geopolitical)*	A ramp up in the use of trade barriers such as tariffs, quotas, import/export prohibitions and domestic subsidies.
Disease outbreaks	Viral infections to humans, animals, and plants.
Unknown unknowns	Unpredictable events that cannot be anticipated or recognised.

In the face of disruption, large economies are turning inwards

Countries are shifting their focus from economic efficiency and openness (e.g., 'Just in Time' logistics and trade liberalisation) to caution and protection ('Just in Case' supply chains, protectionism, and nationalism).

Under the Trump administration, the United States put tariffs on steel, aluminium, solar panels, washing machines and Chinese goods, citing national security concerns and to protect domestic manufacturers from what was perceived as unfair competition.

The Biden administration has introduced the *Inflation Reduction Act* and *Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act*, both of which look to promote domestic economic activity and resilience at the expense of overseas producers.

The EU has responded to the US's active industrial policy by strengthening its commitment to strategic autonomy, including through its own European Chips Act

In September 2020, China implemented an "Unreliable Entity List", which allows its government to place restrictions on entities that are perceived to be harmful to China. China also regularly uses administrative processes, tariffs, and export controls to safeguard its national interest.

2.2. Lessons learned from overseas

Table 2 summarises the international literature on how overseas businesses and governments have responded to real and anticipated market disruption.

TABLE 2: PREPARING FOR AND RESPONDING TO MARKET DISRUPTION[7, 8,9,10,11,12]

Action	Description
Firm-level actions	
Diversify	Increasing options for sourcing inputs and exporting products.
Deflect	Adapting to the new market situation by using as much flexibility as possible, such as importing or exporting through intermediary countries (e.g., to China via Hong Kong).
Transform	Reorienting product mix or completely changing what the business produces/sells.
Disengage	Exiting the market.
National and multilateral actions	
Strategic autonomy in key products	Ensuring key inputs can be easily accessed. This has been done through maintaining reserves, and policies to promote onshoring, near-shoring, and friend-shoring.
Identify national vulnerabilities	Reviewing nationally important and vulnerable imports/exports.
Co-ordination taskforces (domestic)	Pooling knowledge and resources across agencies and key business groups; coordinating strategies and initiatives.
Domestic connectivity	Maintaining and building resilient infrastructure and spare capacity.
Public information/ guidance	Providing key information on trade settings and available support.
Business support	Providing financial assistance or targeted advice to importers/exporters; supporting trade missions to build new contacts.
Domestic research on shocks	Building research capacity on shocks and simulating potential events.
Preferential trade agreements	Negotiating new trade agreements and upgrading existing ones.
International alliances	Forming relationships with countries to respond to events as they arise.
Deterring economic coercion	Using the World Trade Organisation (WTO) dispute-settlement system, sending strong international messages against coercion, and supporting countries that are affected.
Reform and strengthen multilateral institutions	Supporting a rules-based international trading system through active advocacy, cross-country collaboration, and by complying with commitments and obligations.

7 https://www.iod.com/app/uploads/2023/04/IoD-Exporting-in-a-post-Brexit-world-ab63573e0216c554af8182e201c685fa.pdf

8 https://www.csis.org/analysis/deny-deflect-deter-countering-chinas-economic-coercion

9 https://rbr.business.rutgers.edu/sites/default/files/documents/rbr-050310.pdf

10 https://www.australiachinarelations.org/content/australia%E2%80%99s-export-exposure-china-assessing-costs-disruption

11 https://www.productivity.govt.nz/assets/Inquiries/resilience/Trade-Data-Analysis-version-1.1.pdf

12 https://www.oecd.org/newsroom/OECD-G7-Report-Fostering-Economic-Resilience-in-a-World-of-Open-and-Integrated-Markets.pdf

In addition to the specific actions in Table 2, two main themes emerged from the international literature.

1. Focus on the basics - build strong systems, infrastructure & relationships

Specific shocks cannot always be planned for, and in most cases, cannot be controlled. As such, the literature emphasises building general national resilience through:

- Learning more about domestic vulnerabilities and the impact of disruptions
- Reducing the risk of disruptions occurring
- Designing systems to avoid and/or mitigate the impact of disruptions
- Creating measures to respond to disruptions.

Building business resilience is also about getting the basics right. To maximise resilience, businesses should aim to have a healthy balance sheet, insurance, and consider diversifying their export markets and import sources.

The role of the government is to make achieving these basics as easy as possible.

2. Direct government resources to vulnerable, strategically important industries

The government won't always be able to prioritise trade after a major economic shock. As such, and based on the international literature, we put forward a framework that can help policymakers start thinking about how to prioritise trade resilience policy.

The framework, outlined in Figure 3, groups policy actions by the vulnerability and strategic importance of imports and exports.[13]

According to the literature, most government actions should focus on enhancing general resilience, which will create positive flow-on effects to almost all importers and exporters. This is demonstrated by the top left quadrant of Figure 3.

However, targeted resilience support might be considered for products that are vulnerable **and** strategically important. This is shown in the top right quadrant of Figure 3.

Using this framework in combination with robust political-economic analysis of New Zealand's state of trade (e.g., NZPC's Final Inquiry, or new analysis) will help highlight where targeted policy may be most useful.

[13] See section 2.5.2 below for more discussion on defining vulnerability.

FIGURE 3: A TAILORED POLICY APPROACH[14]

2.3. What government assistance did firms seek following trade disruptions overseas?

Using ChatGPT4, we identified the main types of government assistance that firms asked for in response to two recent trade disruption events: Brexit and the Chinese government's efforts to limit imports of certain products from Australia. Common requests across the events were:

- **Financial aid and incentives** – grants, loans or tax relief to help mitigate costs as firms adjusted to a new trading environment.
- **Market diversification assistance** – firms sought funding and support from officials to explore and access new markets, including for trade missions, generating new business contacts, trade fairs and market research.
- **Regulatory guidance** – firms wanting to diversify export markets sought guidance and support from officials regarding alternative markets' legal and regulatory frameworks (e.g. standards, compliance, rules of origin, customs procedures).
- **R&D funding** – firms requested more funding for R&D to change their product mix, improve production processes to meet new regulatory requirements in alternative markets, and more broadly lift their innovation capacity.

While each case of market access disruption will be different, these broad types of requests for assistance provide an indication of what firms might ask the New Zealand government for should such an event occur here. Our survey results (see section 3.4) support this finding.

[14] Adapted from: https://cepr.org/voxeu/columns/resilient-global-supply-chains-and-implications-public-policy

2.4. Overseas case studies

China's trade restrictions on Australia

Disruption Type	Trade direction	Trade relation	Change to trade
Geopolitical	Export	Bilateral	Temporary

Context

In mid-2020, China began imposing restrictions across eight Australian imports: barley, coal, copper, frozen beef, wine, cotton, rough wood, and rock lobster. There are now signs that China is winding back these restrictions following more open dialogue between the countries.

Three key insights

1. Many exporters successfully diverted to alternative markets. One study calculated export value and volume losses at an industry level by looking at the difference in trade to China and the rest of the world before and after the restrictions.

For six of the eight goods, the value loss to exporters was less than 10% of the total export value of each good.[15] In addition, four of the eight goods did not lose any export volume as exporters successfully diverted to alternative markets.

But exporters still had to bear some costs. All commodities (except for copper) fetched slightly lower prices in other markets. The wine and timber industries saw little diversion and therefore experienced much more significant losses.

2. Restricting market access is a blunt tool. China targeted Australian products where the cost to itself was relatively low[16], mostly because alternative suppliers exist. But, in most cases, that also means there are other buyers. This reshuffling of global trade is why macroeconomic damage to Australia has been limited. An analysis of eight cases of Chinese economic restrictions since 2010 tells the same story – restrictions did not impose significant economic costs on the targeted country.[17]

3. Exporters take risks for getting premium prices – and that's OK. Evidence from Australia shows that exporters were getting premium prices in China, and when this opportunity closed, they pivoted to alternative, lower-priced markets.[18] As such, calls to diversify New Zealand's export profile are fine in theory but difficult to achieve in practice as companies make individual decisions to maximise profits, including by making the most out of price premiums where they exist.

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15 https://www.australiachinarelations.org/content/australia%E2%80%99s-export-exposure-china-assessing-costs-disruption

16 For example, China did not target big-ticket, strategic items it relies on (e.g., iron ore).

17 https://www.csis.org/analysis/deny-deflect-deter-countering-chinas-economic-coercion

18 https://www.australiachinarelations.org/content/australia%E2%80%99s-export-exposure-china-assessing-costs-disruption

Short-term impact of Brexit

Disruption Type	Trade direction	Trade relation	Change to trade
Geopolitical	Import and Export	Multilateral	Permanent

Context

The United Kingdom (UK) voted to leave the European Union (EU) in June 2016 and formally left on 31 January 2020. From February to December 2020, the UK traded as if it was an EU member state during a transition period, which ended on 31 December 2020.[19] On 1 January 2021, the Trade Cooperation Agreement (TCA) came into effect.

Two key insights

The threat of disruption isn't enough to change firm behaviour. The UK's trade with the EU (relative to the rest of the world) did not change materially between the referendum and the implementation of the TCA in 2021.[20] This suggests that UK-EU business relationships were relatively unaffected by anticipated, but uncertain, market disruption during the transition.

On the face of it, the lack of trade slowdown after Brexit's announcement conflicts with evidence that trade flows increase in anticipation of trade liberalisation.[21] But this makes sense as scaling down trade activity is faster and less costly than scaling up.

Businesses may also be better off by taking advantage of existing partnerships and sunk-cost investments until the change is either implemented or detailed. The counterfactual is pre-emptively disrupting profitable relationships on the basis of unknown changes. Without clarity, firms would find it difficult to re-optimise trade patterns effectively. This is especially true for small firms or firms in peripheral markets, which can't, or aren't sufficiently incentivised to, invest in Plan Bs as they are expensive and time consuming to develop.

Higher trade barriers tend to harm small markets and small businesses. The TCA caused a major shock to UK-EU trade. In 2021, UK imports from the EU declined by about 25% more than UK imports from the rest of the world.[22] However, there has only been a small and temporary decline in UK exports to the EU to date. This asymmetry could be because UK exporters still find it profitable to pay the fixed cost of exporting to the large EU market, even if costs have risen due to the UK leaving the EU. In contrast, the UK is a relatively small market so paying a higher price to enter may not be worth it for EU exporters.

UK-EU trade also reorientated towards core product and country markets, shown by a large fall in the number and variety of products being traded. In 2021, export varieties from the UK fell by 30%. Most of this decrease came from small UK exporters leaving small EU markets.

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19 https://www.mfat.govt.nz/en/countries-and-regions/europe/united-kingdom/brexit/brexit-overview/

20 https://cep.lse.ac.uk/pubs/download/dp1847.pdf

21 https://onlinelibrary.wiley.com/doi/epdf/10.1111/ecca.12394

22 https://cep.lse.ac.uk/pubs/download/dp1847.pdf

2.5. New Zealand's trade resilience

2.5.1. Learning from the past

Significant trade shocks due to market access disruptions have not occurred since the UK decided to join the European Economic Community in 1973, and even then, the Government and exporters were already seeking to diversify due to the UK's weak economic growth and hence import demand. However, New Zealand's experience with a wider set of economic shocks provides insights that can be used in future policy.

Lessons from our high-level analysis of past shocks

1. **Healthy economic foundations support societal and trade resilience.** Macroeconomic stability, fiscal capacity, and a diversified economy are all ingredients of a healthy economy. Monetary and fiscal policy are key tools to help businesses and the wider economy get through disruptions.
2. **Not all shocks are the same, so businesses should focus on general resilience.** The oil price hike in 1973 was different to the one in 1979. Disasters like Cyclone Gabrielle, the Canterbury earthquake, and the Kaikoura earthquake were of different magnitudes and had different impacts. Businesses can't be insulated from a specific shock. Instead, business should focus on general resilience through having a healthy balance sheet, insurance, and diversity in their export markets and import sources.
3. **Maintaining and making new overseas allies is crucial as risks of trade fragmentation increase**. COVID-19 led to an increase in protectionist measures. In response, the Government made joint statements with like-minded countries (e.g., Singapore, Australia, and Chile) to sustain trade and supply chain connectivity.
4. **We need better long-term and needs-based infrastructure planning.** New Zealand has a $210b+ infrastructure deficit, assets are managed poorly, and building new infrastructure is more expensive here than overseas. A non-trivial proportion of our infrastructure is also exposed to shocks, doesn't have sufficient redundancy, and is uninsured – all of which will exacerbate future shocks.
5. **Knowledgeable institutions can minimise public and economic panic.** Universities, private research institutions, and government organisations can prepare for shocks through research, including by simulating the economic impact of potential shocks (e.g., replicating the Computable General Equilibrium analysis that has been done in the US and Australia on Chinese trade measures). Investing in knowledge can contribute to evidence-based responses and, if communicated well, will help build public trust.

Impact of COVID-19 on the Māori economy

There is a lack of analysis on how shocks prior to COVID-19 have impacted the Māori economy. It is likely that the Māori economy has been disproportionately affected by past shocks as Māori are overrepresented in lower-skilled jobs, temporary jobs, and labourintensive industries. This aligns with the idea that shocks exacerbate, rather than cause inequalities.

The Māori economy bounced back quickly from COVID-19.[23] Māori employment is high in manufacturing, construction, retail, and food services – industries that were initially hit hard by COVID-19. But once lockdown ended, these industries had a quick recovery due to high domestic demand, a booming construction market, and comprehensive government support.

The story won't always be positive – different shocks will have different economic impacts. If the Government is interested in targeted support for Māori businesses facing trade shocks, then more work should be done to build the evidence base. Any future work in this space should be accompanied by consultation with Māori businesses and leaders.

2.5.2. How vulnerable are Kiwi importers and exporters?

One key indicator of trade resilience is diversification. This means having diversity in input sources and diversity in export markets.

Some policymakers are concerned about having all of our eggs in too few baskets, and some businesses are worried about the consequences of losing access to key markets.

We can think of vulnerability as a combination of concentration and leverage (using 'bread' and 'Australia' as an example):

1. **Concentration (exports) –** If we send a large proportion of our bread exports to Australia, that creates export concentration risk.

   Concentration (imports) – If we receive a large proportion of our bread imports from Australia, that creates import concentration risk.

2. **Leverage (exports) –** We have low leverage when our bread exports make up a small share of Australia's total bread imports, OR if Australia buys a large share of the world's bread trade. In this case we have low leverage because there are alternative sellers for Australia to switch to, and few alternative buyers for us to sell to.

   Leverage (import) – We have low leverage when our bread imports make up a small share of Australia's bread exports, OR if Australia is a major producer and exporter in the global bread market. In this case we have low leverage because Australia can sell bread to many alternative markets, and there are few alternative sources for us to buy from.

Concentration alone is not enough for vulnerability because, in most cases, the world market has many buyers and sellers. The trade disruption between China and Australia in 2021 is a good example of this. In aggregate, the restrictions had a relatively small impact on the Australian economy as many exporters redirected goods to alternative markets.

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[23] https://www.westpac.co.nz/assets/About-us/sponsorship/documents/The-Maori-economy-obstacles-and-opportunities-Westpac-NZ-Oct-2021.pdf

There is no exact proportion to determine whether a product is concentrated and/or has low leverage. As such, arbitrary thresholds/assumptions are typically used in analysis to identify vulnerable products. This is not necessarily an issue as the relative risk of imports and exports (i.e., the most vulnerable products) can still be identified.

Many other factors also determine exposure. They include consumer preferences, the quality of the good, whether the product is an essential or a luxury good, where it fits into value chains, and the ability of other producers to scale up to meet supply gaps.[24]

Most NZ research on trade vulnerability focuses on exports to China

China is our largest import and export market and has been for the last decade.[25] Over recent years, China has restricted access to its market to advance and protect its wider strategic interests. Since 2020, China has issued two warnings to New Zealand via Chinese government officials and newspapers.[26] As such, it is unsurprising that most of New Zealand's research on trade vulnerability has focused on our exposure to China.

To identify vulnerable export sectors and products, we look at two recent analyses by Westpac and Sense Partners. An overview of New Zealand's top three vulnerable export products and wider sectors (by value) is shown in Table 3.

TABLE 3: OVERVIEW OF NZ'S VULNERABLE EXPORTS TO CHINA[27, 28]

	Value exported	China's % of NZ export values	NZ's % of China's import values	Availability of substitutes	Strategic importance to China
Westpac's analysis (2019)					
Seafood	$0.7b	37.5%	3.1%	High	Medium
Tourism	$1.9b	14.0%	Very low	High	Low
Education	$1.3b	28.5%	Very low	High	High
Sense Partners' analysis (2022)					
Logs	$3.4b	87%	29%	-	-
Milk and Cream	$1.0b	82%	41%	-	-
Infant formula	$0.9b	51%	26%	-	-

[24] https://nzchinacouncil.org.nz/wp-content/uploads/2022/04/China-trade-report-2022-update.pdf
[25] https://statisticsnz.shinyapps.io/trade_dashboard/
[26] Warnings were issued after (1) our decision to suspend our extradition treaty with Hong Kong, and (2) after Prime Minister Jacinda Ardern issued a joint statement with Joe Biden expressing concern about the security agreement between China and Russia and 'the establishment of a persistent military presence in the Pacific'.
[27] https://nzchinacouncil.org.nz/wp-content/uploads/2022/04/China-trade-report-2022-update.pdf
[28] https://www.westpac.co.nz/assets/Business/economic-updates/2020/Bulletins/China-Exposure-Oct-2020-Westpac-NZ.pdf

We still don't have a good understanding of the potential cost of a NZ-China trade disruption

Westpac has looked at vulnerability by sector, across goods and services, and found that the tourism, seafood, and export education sectors have high exposure risk to China.[29]

Sense Partners looked at vulnerability by good and identified eight export products where New Zealand has high exposure to China **and** low leverage.[30] The total value of these export vulnerabilities was around $6b, which accounted for 29% of our exports to China in 2021, and 8% of our total exports in 2021.

Sense Partners' illustrative scenario-based modelling suggests that export value lost would be much lower than $6b and somewhere closer to $1.1b. This is due to exporters diverting goods to different markets, albeit at a lower per unit price than received in China.

As shown by the Australia-China case study above, it is important to remember that export values are not simply lost when trade relationships change. To get a more accurate understanding of New Zealand's vulnerability to China or other markets and the potential cost of market access disruption, we would need a detailed model of global trade, paired with political-economic analysis.

NZPC is currently looking at vulnerability from a broader lens

As a part of its current Inquiry, NZPC has completed a preliminary analysis on vulnerable goods imports and exports.[31,32]

In 2019, the value of vulnerable imports was $4.3b (7% of goods imports), and the value of vulnerable exports was $1.6b (3% of goods exports).[33] Our most vulnerable import was data processing machines from China. And our most vulnerable export was gold to Australia.

One limitation of this analysis is that it only focuses on the economic vulnerability of products. From a political perspective, it is unlikely that we need to worry about our gold exports to Australia. As such, further stakeholder engagement and/or political-economic analysis is needed to identify whether an economically vulnerable good may warrant government support.

Many of our vulnerable imports (e.g., crude oil, machinery, and vehicles) are strategically important intermediate and capital goods or are products that lack reasonable substitutes. NZPC plans to do more research on strategically important products for the final Inquiry.

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[29] https://www.westpac.co.nz/assets/Business/economic-updates/2020/Bulletins/China-Exposure-Oct-2020-Westpac-NZ.pdf

[30] Goods included live cattle, lobsters, logs, milk and cream, raw hides, green offal, infant formula, and wood pulp.

[31] Concentrated imports are defined as those HS10 goods where more than half of New Zealand imports come from a country that controls more than half of the global market for the given good.

[32] Concentrated exports are defined as those HS10 goods where over 80% of New Zealand exports are sold to a market that buys more than half of the global production of these goods.

[33] https://www.productivity.govt.nz/assets/Inquiries/resilience/Resilience_Issues_Paper_Final_17-Feb-2023.pdf

2.5.3. How prepared are Kiwis for trade shocks: NZPC submissions

NZPC has sought feedback from industries and communities on:

1. What supply chain disruptions are you most worried about?
2. What are you currently doing (or planning to do) to address supply chain concerns?
3. How can the government help to enhance the resilience of your industry/community to supply chain disruptions?

These questions are similar to those in our survey. However, our information gathering processes have key differences. Only businesses were invited to complete our survey, whereas anyone can submit to NZPC. In addition, NZPC allows for complete free-form responses, and they have received several large submissions.

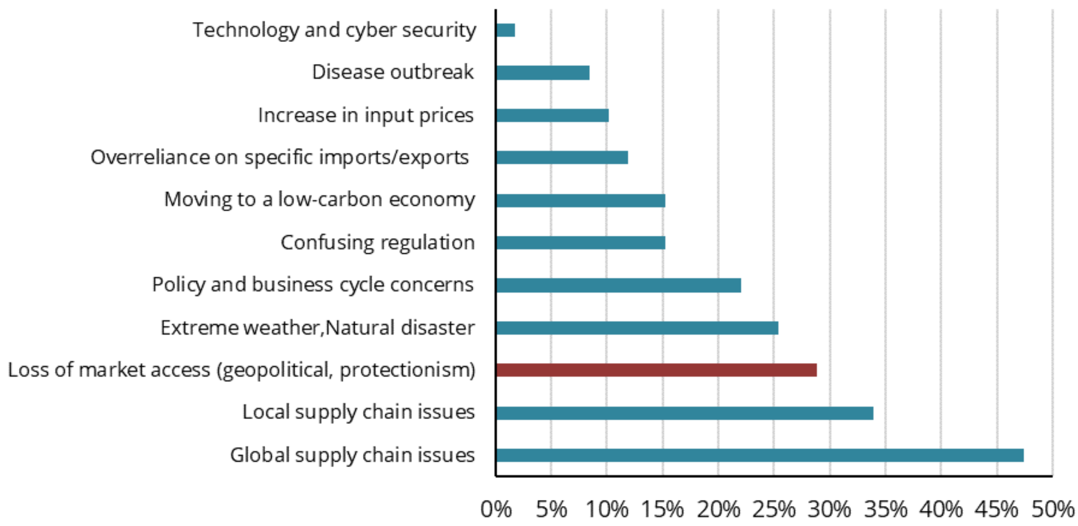
We analysed NZPC's submissions by identifying key themes for each of the three questions above. For example, if one submitter is worried about a pandemic, and another is worried about mad cow disease, we would categorise their responses under the broader theme of "Disease outbreak".

There is considerable concern about global and local supply chains

Figure 4 shows the percentage of submissions that mention one of the 11 key concerns we identified. Global and local supply chain disruptions are the largest worry. This is understandable as COVID-19 has brought these shocks to the front of peoples' minds.

But 29% of submitters are also concerned about losing market access due to rising geopolitical issues and protectionism.

FIGURE 4: SUPPLY CHAIN DISRUPTIONS NZPC SUBMITTERS ARE WORRIED ABOUT



Underlying submitters' worry is their belief that the Government does not deeply understand supply chain resilience

Submitters note that the Government has not mapped out and prioritised:

- Strategically important and vulnerable imports and exports
- Critical supply-chain connections (roads, ports, freight lines etc)
- Vulnerable regions and communities.

Submitters are also concerned that no work has been done (or at least nothing in the public domain) to test different trade disruption scenarios.

We would expect submitters' concerns regarding a lack of preparation and information on supply chain vulnerabilities to be explored in depth by the NZPC as it develops its thinking leading up to its next draft report, due in October 2023.

Small firms and communities feel most vulnerable

Submitters reported that many smaller firms and communities are disproportionately affected by supply chain risks and are bearing the consequences (e.g. those heavily reliant on deteriorating and inadequate ports in smaller cities). Some submitters report they have resorted to expensive alternatives such as chartering entire ships to avoid shipping logistic risks.

Across submissions to the NZPC, businesses have started preparing for future disruptions by:

- Near-shoring and onshoring suppliers
- Strengthening ties with Australia and the Pacific Islands to reduce the risk of shipping delays to more distant markets
- Investing in technologies like blockchain to track supply
- Diversifying product and input mix to reduce critical dependencies
- Diversifying supply chain relationships (i.e. different export markets/import sources)
- Building redundancy into supply chains through stockpiling.

Most submitters are advocating for their industry beyond the scope of enhancing supply chain resilience, but there are a few common themes

It is clear that submitters are calling for a better understanding of the current state of our supply chains. Firms and industry bodies want to know how bad potential disruptions will be, where the gaps in our supply chain are and how the Government plans to fill them.

Other suggestions for Government measures related to trade include:

- Continue working to reduce other countries' tariffs and NTBs to make New Zealand exports more competitive
- Accelerating the supply of renewable energy to increase energy security
- Facilitating collaboration with key global players in the freight sector
- Ensuring we have a resilient and efficient national road and rail network.

3. Survey analysis

To get a better understanding of how Kiwi firms would respond to trade shocks, we asked them directly through our survey, *Helping Kiwi Businesses manage trade risks and build resilience.*[34]

We got a healthy mix of responses

We received 97 responses over a two-week period, which demonstrates an encouraging level of participation from businesses. We are grateful to MSAGOT members for their efforts to distribute and promote the survey amongst their networks.

Table 4 and Table 5 show that these responses were diverse across key characteristics including business size and business-ownership demographic. The vast majority were exporters rather than importers.

TABLE 4: % OF RESPONDENTS BY SIZE OF BUSINESS

	Extra small (1-10)	Small (11-50)	Medium (51-200)	Large (201-1,000)	Extra-large (1,000+)
% of responses	22%	43%	18%	13%	4%

TABLE 5: % OF RESPONDENTS BY OWNERSHIP DEMOGRAPHY

	Māori	Pasifika	All others
% of responses	21%	2%	77%

We also had a range of responses in terms of firms' main export product and main export market.

Respondents spanned the primary sector (e.g. dairy, meat, seafood, honey, beverages), manufacturing and equipment industries, and services sector (e.g. business services). A third of businesses mainly exported products in the "Other" category (including health consulting, health and beauty products, nutraceuticals, vitamins and supplements, textiles and clothing, building materials).[35] See Figure 5 overleaf.

Respondents' main export markets were the US (33%), Australia (33%), and China (12%). This suggests survey respondents' exports are somewhat different to those of the economy as a

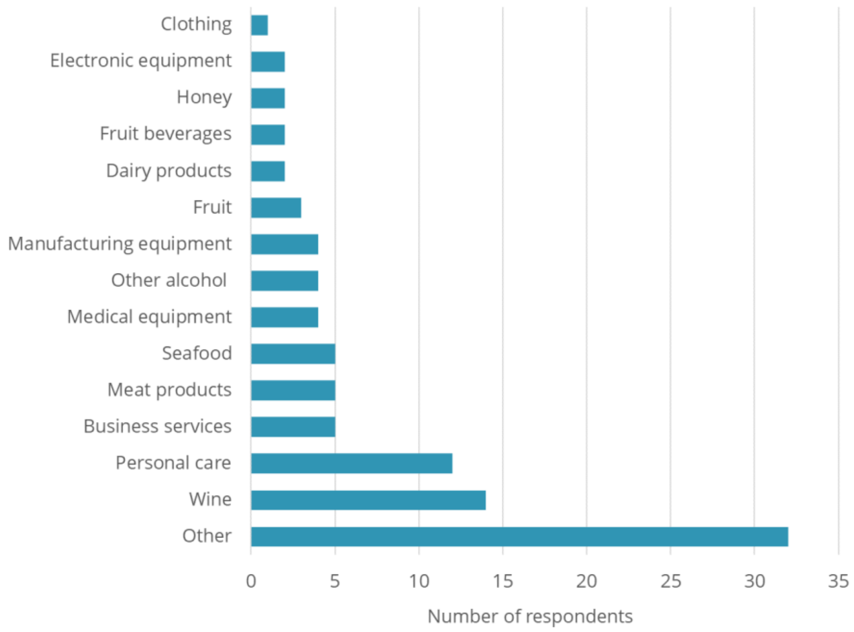
[34] To keep this report focused and to avoid drawing conclusions from very small sample sizes, we only present data by broad groupings (e.g., Māori businesses, OR small businesses) as opposed to more granular groupings (e.g., small Māori businesses that mainly export seafood to China). The full dataset could be a useful tool for future policy, or even for NZPC's Inquiry. We have provided an Excel spreadsheet of survey responses separately to this report.

[35] Tech sector firms did not account for many responses, likely reflecting their perceptions that trade barriers and market access disruption is more of a goods problem than a services problem.

whole, as in calendar year 2022 the US accounted for around 13.5% of New Zealand's total exports of goods and services, Australia around 15% and China 24%.[36]

It may be that our survey captured a relatively high number of smaller exporters who may be more focused on Western developed markets like the US than the export sector as a whole. In turn, this may be conditioning their responses around trade risks.

FIGURE 5 SURVEY RESPONDENTS' MAIN EXPORT PRODUCT



In terms of export exposure to their main market, we have aggregated responses into industries to avoid identifying individual firms. We found:

- The share of industries' exports going to China as their main market ranged between 35% (dairy) and 82% (seafood).
- The share of industries' exports going to the US as their main market ranged between 20% (seafood[37]) and 80% (fruit).
- The share of industries' exports going to Australia as their main market ranged between 5% (clothing – heavily New Zealand-focused) and 95% (seafood).

Exposure to the EU, Japan and other Asian economies was on average lower.

Key insights from our survey analysis are below in Table 6.

[36] Also note we did not ask for export values to each market, so our survey responses are not trade-weighted. The response of a firm exporting (say) $2 million of electronic equipment to the US carried the same weight in our results as a firm exporting (say) $8 billion to dairy products to China.

[37] Different seafood firms answered differently in terms of their main markets.

TABLE 6: KEY INSIGHTS FROM SURVEY ANALYSIS

	Key insights	
What are firms most concerned about?	• Supply chain disruptions are by far the biggest worry (79%), followed by trade restrictions (43%) and protectionism (40%). • Smaller businesses consistently rated their concern lower across shock types. Large businesses were consistently more concerned.	
How are firms preparing for trade disruption?	• If businesses lost access to their main market, 69% would diversify, 22% would deflect, and 15% would disengage. Only 6% would try transforming. • 67% of surveyed business are taking pre-emptive action to address trade risks, with larger firms being more likely to do so. • Firms are preparing for shocks by diversifying (23%), onshoring and near-shoring (14%), and stockpiling (10%). • 90% of firms are *considering* exporting to different markets, with the EU being the most popular alternative market. • But businesses don't seem to be panicking yet – around ¾ of businesses do not see diversifying as an immediate priority.	
Successes and challenges of diversifying markets	**Successes** • Getting back out to the world through trade shows has helped promote goods to different markets • Lifting internal capability is helping business take advantage of opportunities • Diversifying products and markets – Asia may be a popular new destination for alcohol	**Challenges** • Inconsistent or unhelpful overseas regulations – particularly for medical products, dairy, seafood, and vitamins and supplements • It takes time and money to diversify markets, which is a challenge for small businesses
How can the government help businesses build resilience and manage trade risks?	**Pre-selected government actions rated from "not helpful" to "very helpful":** • Financial support during disruptions is perceived to be the most helpful action (77%), followed by reducing NTBs (74%) and more FTAs (68%). **Key actions identified through free-form responses:** • Create AND share insights (economic diplomacy) • Co-invest in risk-reduction, and increase access to overseas business connections and experts • Build stronger relationships, enhance NZ's brand, and advocate for the global rules-based trading system • Reduce offshore barriers for business - more FTAs, address inconsistent regulation • Improve freight continuity and work with/incentivise shipping companies so that they want to come here • Stronger domestic connectivity - plan for and invest in infrastructure that we need	

3.1. What are businesses most concerned about?

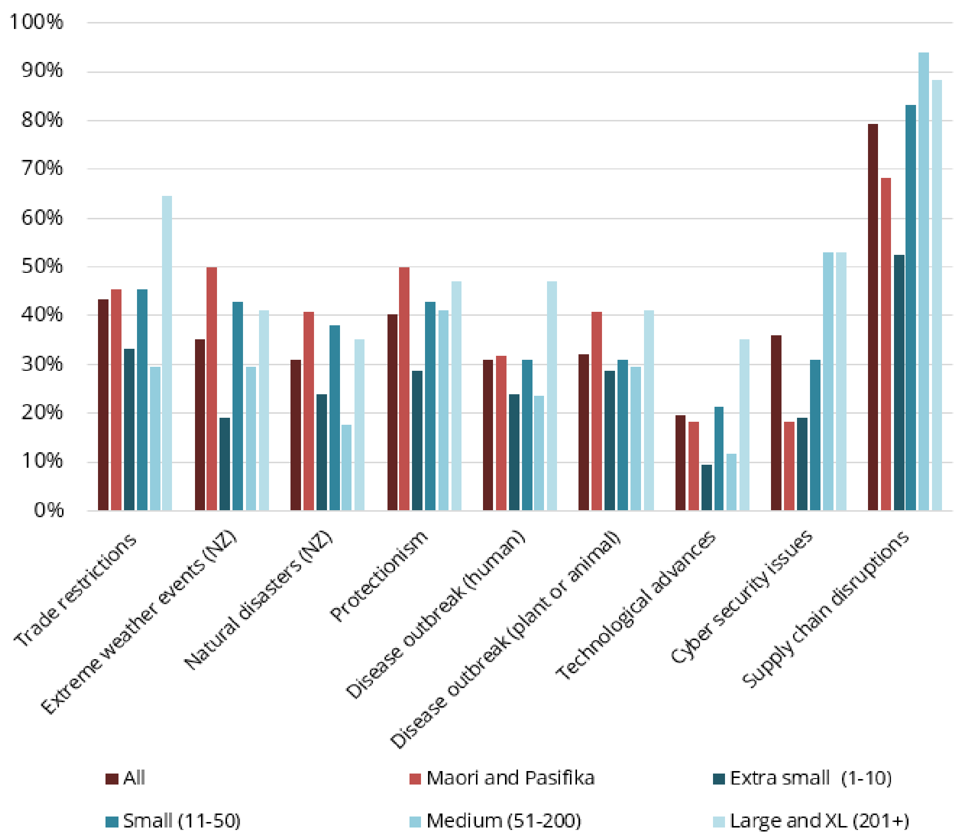
Businesses are most concerned about supply chain disruptions

We asked businesses how concerned they are about a range of different potential supply chain disruptions. Figure 6 shows the % of businesses reporting they are "Concerned" or "Very concerned" by different types of disruption.

Supply chain disruptions are by far the biggest worry (79%), followed by trade restrictions (43%) and protectionism (40%). This suggests – on average – firms are more concerned about the logistics of getting goods to market and having reliable access to imported intermediate inputs than the risks of market access disruption.

The firms we surveyed were relatively less concerned about cyber security risks. This could either be due to a lack of awareness of cyber risks or perhaps that firms we surveyed are comfortable they have adequate safeguards in place.[38]

FIGURE 6: % OF BUSINESSES "CONCERNED" OR "VERY CONCERNED" BY SHOCK TYPE



[38] A recent survey of 217 Kiwi firms by Kordia indicated that 55% had experienced a cyber attack in the past year but 85% of firms were happy with their cyber protection.

Extra small businesses (with one to 10 employees) consistently rated their concern lower across the various types of disruption. Larger businesses (with more than 201 employees) were consistently more concerned across shock types.

Larger businesses are likely to be more concerned about disruptions because they have:

- More resources, capability, and connections to conduct research on and get a better understanding of their exposure to various risks
- More risk points through their extensive global operations and supply chains that span multiple countries
- Higher levels of interconnectedness and dependency in suppliers, customers, and partners.

Larger firms may also be more exposed to cyber security risks as they are higher value targets and have more complex technological infrastructure.

Māori and Pasifika businesses were more concerned about natural disasters and extreme weather events compared to other businesses. One potential explanation is that Māori businesses have a strong economic base in primary industries. It is also likely that kaitiakitanga (guardianship and conservation of land) plays a greater role in Māori businesses' concern for the natural world.

Across the board, businesses were least concerned about trade shocks from technological advances (e.g. robots or AI replacing workers).[39] This could be because businesses primarily view technological advancement as a source of opportunity in trade rather than a threat.

We also asked businesses which disruptive event they were *most* worried about. We included a text box for "other" concerns that we did not provide as options. Table 7 shows that businesses across size and ownership demographic selected "Supply chain disruptions" as their biggest concern. Of the 10 businesses that used the "other" text box, most were concerned with recession, high interest rates, and shipping disruptions.

TABLE 7: BIGGEST TRADE SHOCK CONCERNS BY BUSINESS SIZE AND DEMOGRAPHY

	All	Māori and Pasifika	Extra small (1-10)	Small (11-50)	Medium (51-200)	Large (201+)
Biggest concern	Supply chain	Supply chain	Supply chain	Supply chain	Supply chain	Supply chain
Second biggest concern	Trade restrictions	Disease outbreaks and physical events	Trade restrictions	Trade restrictions	Disease outbreaks and physical events	Disease outbreaks

[39] 45% of respondents answered: "Not concerned".

3.2. Preparing for trade shocks

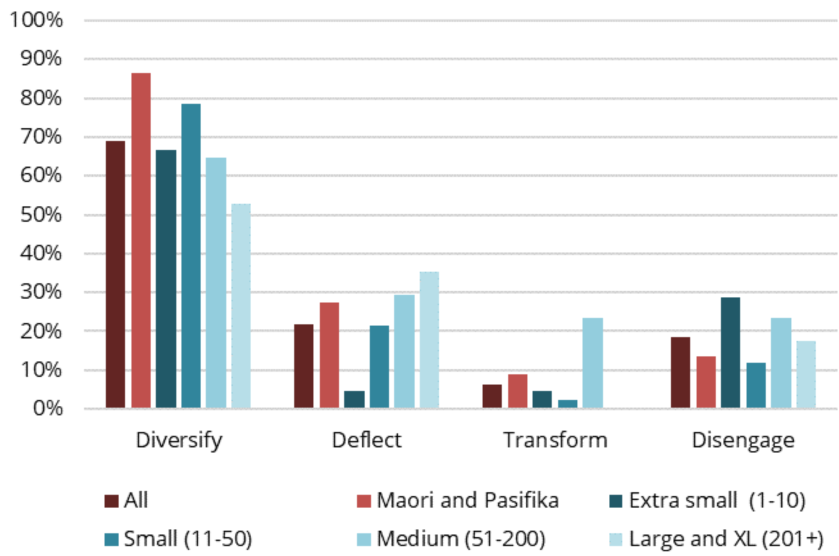
Most businesses would try to diversify if they lost market access

We asked businesses how they would respond if they lost access to their main market for one year. Based on how firms overseas have responded to trade shocks, we gave respondents five options, from which they could pick more than one:

1. **Diversify** – send your goods or services to different markets
2. **Deflect** – send your goods or services to the same market through an intermediary
3. **Do over/Transform** – change what your company makes and exports
4. **Disengage** – exit the market
5. **Other** (free form response)

Figure 7 shows most businesses would try to diversify (69%), followed by deflect (22%) and disengage (19%).

FIGURE 7: HOW WOULD BUSINESSES RESPOND TO LOSING MARKET ACCESS?



More Māori and Pasifika businesses would diversify their markets (86%) compared to non-Māori and non-Pasifika businesses (64%). This perhaps reflects Māori firms' interests in primary products and potential high exposure/low leverage into China.

Only a few extra small businesses would deflect (5%), and almost a third of extra small businesses would consider leaving the market (29%). In comparison, 26% of bigger businesses would try deflecting and only 16% would consider leaving the market.

Of the seven business that used the "Other" text box, two noted that they would manufacture in the affected market, and another noted that they would "wait out" the disruption by delaying deliveries as their products have a long shelf-life.

Larger businesses are more likely to be taking pre-emptive action

We asked businesses if they are taking pre-emptive action to address risks from trade disruption (yes or no). Table 8 shows that 67% of businesses have started taking action.

There is a clear pattern – bigger businesses are more likely to be taking pre-emptive action to address trade risks. This could be for the same reasons that bigger businesses are more concerned about shocks: they have more capability and resources, more points of risk, more established networks, and higher levels of interconnectedness.

Larger businesses may also have relatively more experience dealing with trade shocks and, in response, have developed strategies and contingencies to mitigate potential disruptions

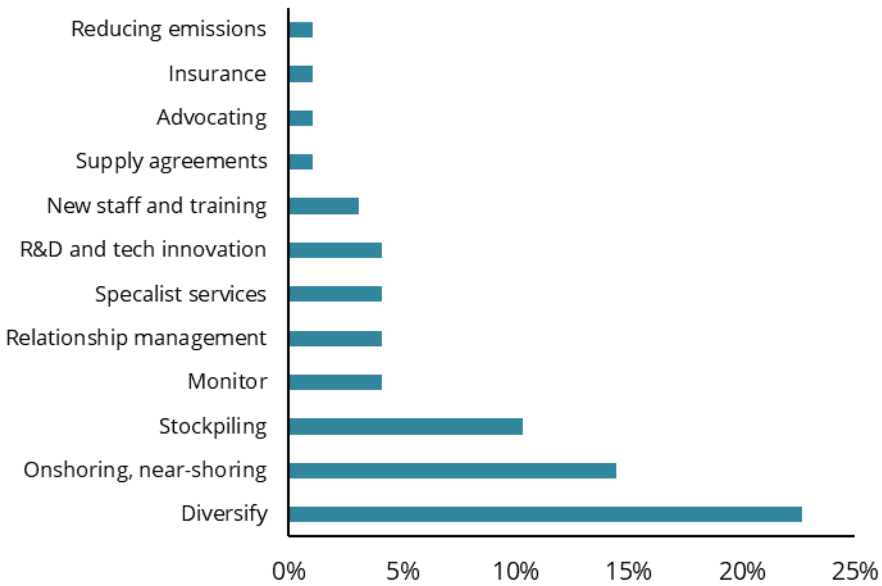
TABLE 8: % OF BUSINESSES THAT ARE PRE-EMPTIVELY ADDRESSING TRADE RISKS

	All	Māori and Pasifika	Extra small (1-10)	Small (11-50)	Medium (51-200)	Large (201+)
Responded "yes"	67%	59%	52%	67%	71%	82%

Businesses are preparing for shocks by diversifying markets, onshoring, near-shoring, and stockpiling

Figure 8 shows that 23% of businesses have started diversifying their markets; 14% are looking into onshoring/near-shoring; and 10% are stockpiling. For exporters, near-shoring means relocating production to countries that are close to end-markets/customer bases.

FIGURE 8: % OF FIRMS BY SHOCK PREPARATION ACTIVITIES

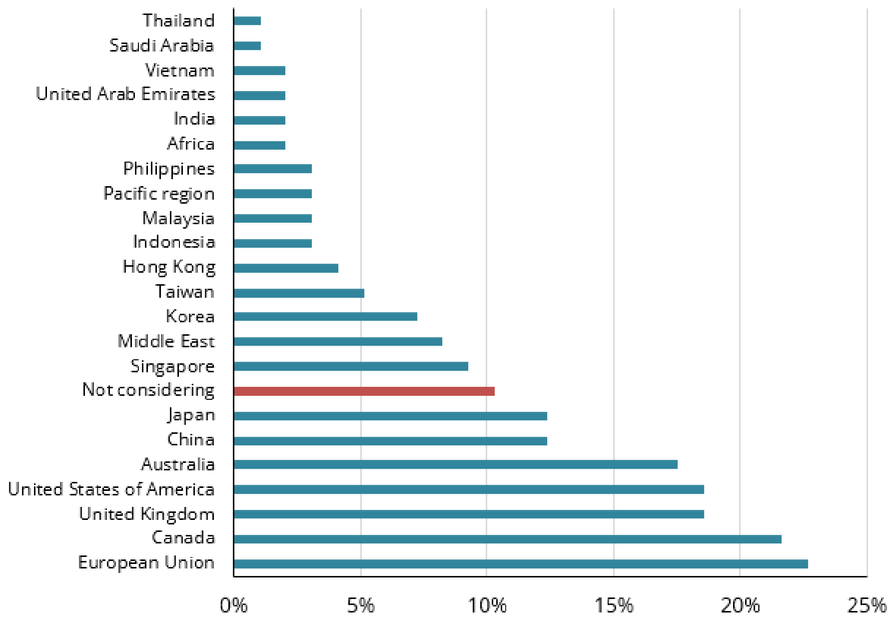


90% of firms are considering exporting to different markets

We asked businesses what other markets they have considered exporting to. Figure 9 shows that the EU is the most popular choice of alternative market (23%) followed by Canada (22%), the UK (19%), and the US (19%).

Five businesses noted that they already export to many markets, ranging from 17 to around 120 markets. One business that mainly exports primary products to China responded that market access for its product is very restricted in other markets, so they have few opportunities to divert their products elsewhere in significant volumes.

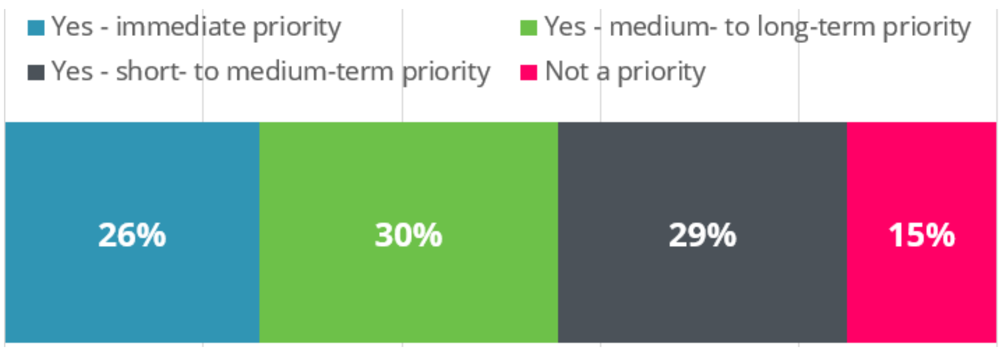
FIGURE 9: ALTERNATIVE MARKETS EXPORTERS ARE CONSIDERING



But businesses don't seem to be panicking too much – yet

Of the 87 businesses who are considering exporting to different markets, 74% do not see this as an immediate priority.

FIGURE 10: % OF BUSINESSES THAT VIEW DIVERSIFICATION AS A PRIORITY



3.3. Successes and challenges of diversifying

We asked businesses about their successes and challenges in diversifying markets and/or products. Businesses provided their responses using a free-form text box. To analyse these responses, we categorised them into themes – groups of two or more similar responses. Table 9 outlines four common successes across businesses, supported by examples from respondents. Likewise, Table 10 (overleaf) outlines three common challenges.

TABLE 9: THEMES AND EXAMPLES OF SUCCESSES IN DIVERSIFYING MARKETS OR PRODUCTS

Lifting internal capability is helping business take advantage of opportunities
• By focusing on our internal capability for manufacturing our core product this has opened diverse markets in other sectors which are now a significant contributor to the business. • We have developed resources, skills, and systems within our business to take advantage of opportunities that arise.
Diversifying products and markets – Asia may be a popular new destination for alcohol
• Expanding in Australia during a difficult time exporting to China during COVID. • **Asia/Alcohol:** Got the beginnings of sales relationships in Korea and another one in Japan. We've done this through another business based in Asia who represent us in-market. • **Asia/Alcohol:** We have exported small amounts to smaller markets (Vietnam, South Korea, Japan, EU) and widened our network of business contacts • **Asia/Alcohol:** Good sales in Japan. • Exporting products other than meat (e.g., seafood and dry goods).
Some businesses have found success in doubling down in a single market
• Focusing on one particular market as we can focus on a variety of product. • We moved to a strategy of greater depth in a single market and have seen solid growth. We understand it better than the other markets and have structured our business to support it.
Getting back out to the world through trade shows has helped promote goods
• We work through the night on virtual trade shows to get in front of key buyers around the world. • We've had success at international wholesale shows and plan to continue building on this in other markets this year. • Recently sent our General Manager to an overseas expo - have had some success promoting our goods especially Manuka Oil.

TABLE 10: THEMES AND EXAMPLES OF CHALLENGES IN DIVERSIFYING MARKETS AND PRODUCTS

Late nights and slow internet made doing business more difficult, especially during lockdown
• Communication with international relationships was difficult during lockdown due to time differences and lack of high-speed fibre internet. • Becoming nocturnal during parts of lockdown and then going back to normal hours when NZ opened. It was difficult to maintain mahi across new work hours. • Lack of high-speed fibre internet to our home office. This affects video conferences across time zones and the transfer of large genetic data files.
Inconsistent or unhelpful regulation – particularly for medical, dairy, seafood, and vitamins and supplements
• **Medical:** Regulatory barriers and inconsistencies for medical products. • **Medical:** Having to obtain regulatory approval for each product within each market we decide to enter. • **Vitamins and supplements:** Difficulty with regulatory requirements. Each country has different regulations and approval processes slowing down market entry and adding to costs. • **Dairy:** NZ appears to have non compatible requirements with the rest of the world so new Stock Keeping Units (SKUs) are required which involves significant costs. • **Seafood:** Our local ingredients are not listed or recognised on FDA databases. Australian customs policy is at odds with Food Code policy - our products are food safe under the food code but not allowed to be exported to Australia due to customs restrictions. • **Seafood:** Opaque and contradictory interpretation of rules between MPI and US FDA. We have found no help through MPI. Normally they don't know what to do with our food category, and they have even misinformed us on one occasion. Inevitably we are forced to hire VERY expensive export consultants to navigate us. • **Electronic equipment:** Challenges are new standards and compliance. e.g., lithium battery transport and safety.
It takes time and money to diversify markets, which is a challenge for small businesses
• **One to 10 employees:** A challenge with shifting from the US to Australia is that it takes time to build momentum, establish relationships, and set up the necessary systems to ensure good reliable supply. • **11 to 50 employees:** In a small business, we are very resource constrained in developing new markets and channels and have to prioritise and focus on key export markets.

3.4. How can the government help businesses build resilience and manage trade risks?

Businesses suggest that financial support would be most helpful in managing trade risks

We asked businesses how helpful they would find a variety of government actions. The actions outlined in Figure 11 were selected based on our literature review, with a focus on measures overseas governments have used to respond to real and anticipated trade shocks.

Figure 11 and Table 11 (overleaf) shows that financial support during disruptions is perceived to be the most helpful Government action (77%), followed by reducing NTBs (74%) and more FTAs (68%).

Extra small businesses, small businesses, and Māori and Pasifika businesses gave higher ratings for the helpfulness of all Government actions. This likely reflects their smaller balance sheet depth and hence ability to cope with trade disruptions.

FIGURE 11: % OF BUSINESSES THAT RESPONDED "HELPFUL" OR "VERY HELPFUL" BY GOVERNMENT ACTION

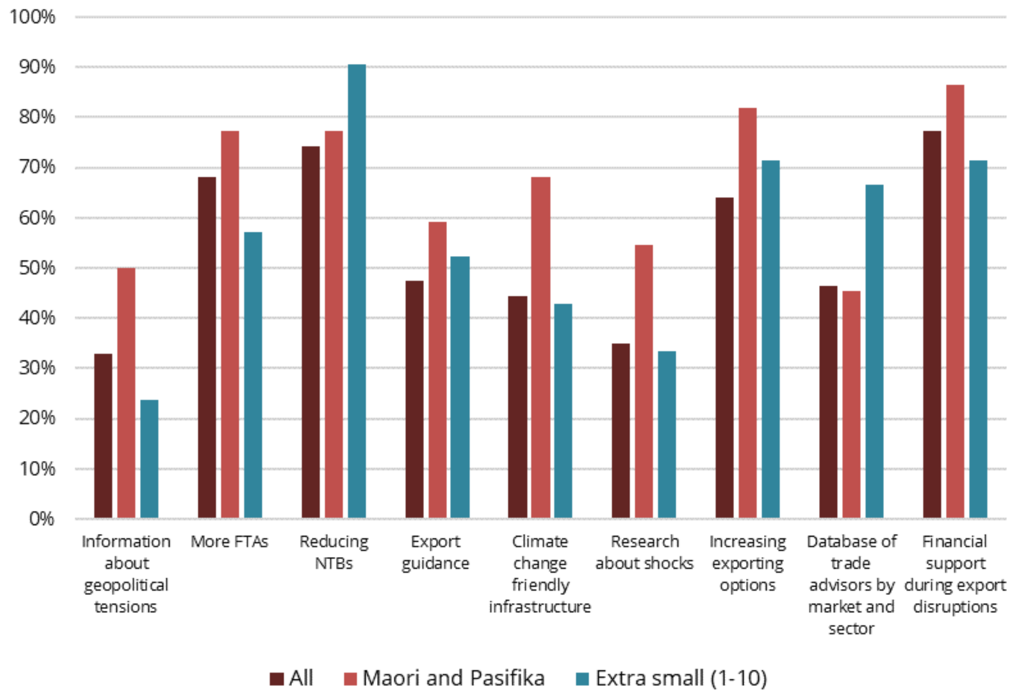


TABLE 11: HELPFUL GOVERNMENT ACTIONS BY BUSINESS SIZE AND DEMOGRAPHIC

	All	Māori and Pasifika	Extra small (1-10)	Small (11-50)	Medium (51-200)	Large (201+)
Most helpful	Financial support	Financial support	Reducing NTBs	Financial support	Financial support	More FTAs
Second most helpful	Reducing NTBs	Increasing trade options	Financial support	More FTAs	Reducing NTBs	Financial support and Reducing NTBs

Business would like the Government to improve freight continuity, share insights, and co-invest in risk management

We also asked businesses how the Government could help them manage risks from export market and importing/ supply chain disruption. Businesses provided their responses using a free-form text box. To analyse these responses, we categorised them into themes based on groups of three or more similar responses.

Figure 12 below outlines eight themes we identified across responses. Unsurprisingly, 34% of businesses suggested that the Government should improve freight continuity, which encompasses improving outcomes in shipping, customs and ports. It makes sense that businesses would like Government assistance in freight continuity as supply chain disruption is their number one concern.

Table 12 (overleaf) outlines six key suggestions for how the Government could help with trade risks, supported by examples put forward by businesses. There were many other suggestions in the areas of global politics, immigration, and COVID-19 lockdown.

FIGURE 12: % OF BUSINESSES THAT MENTION A COMMONLY SUGGESTED GOVERNMENT ACTION

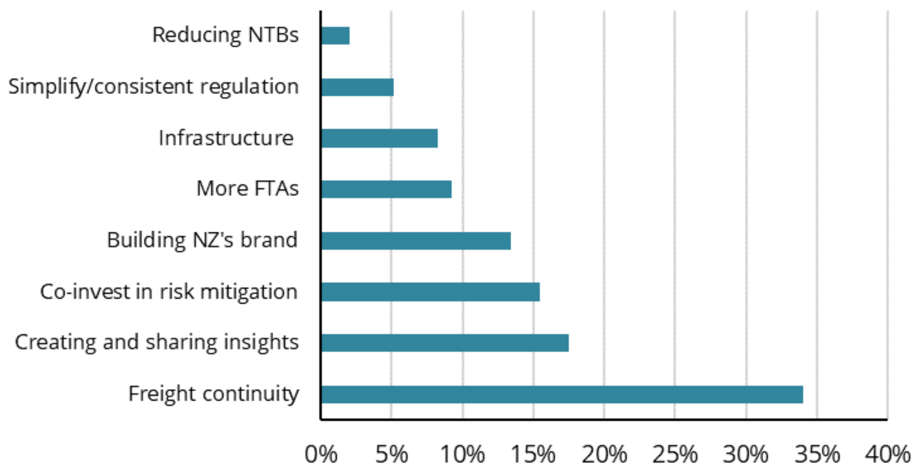


TABLE 12: THEMES AND EXAMPLES OF HOW THE GOVERNMENT CAN HELP BUSINESSES MANAGE TRADE RISKS

1. Create AND share insights (economic diplomacy)
• Timely sharing of insights around key political and trade developments in specific markets. • Identifying risks and mitigants to share with the business community and share more data around various export markets around the world. • Facilitate networking amongst exporters to build NZ knowledge of an export market. • Identify risks and take action early - rather than just watching the train crash in slow motion. The GIB shortage could have been avoided if action was taken earlier. • Provide a forum for executives to share stories and experiences.
2. Co-invest in risk-reduction and increase access to overseas business connections and advisors
• Invest heavily in organisations' market development programs. • Provide a funding/credit scheme that reduces the cost to import or hold increased raw materials. • Provide guidance and support from overseas based experts. • Assistance with cultural advice and business contacts would be helpful. • Helping businesses increase capability through NZTE. Increase opportunities for business to individually access support. • Continue to support the likes of NZTE who in turn support exporters to build and grow success.
3. Reduce barriers for business - more FTAs, address inconsistent regulation, and fix MPI's website
• High quality FTAs with commercially meaningful market access, support for timely resolution of NTBs. • Take a more pragmatic approach to some of the red tape involved in moving product across the border. • **Medical:** Simple and straightforward regulation. • **Medical:** Let us know who we can speak to within MFAT when we have an issue. • **Business services:** Standardisation of NZ regulation to align with export partners - if we are compliant here, we are compliant there. • **Dairy:** Our compliance requirements in NZ are not easily compatible with other export markets. Look at making NZ export compliance more easily compatible. • Overhaul the MPI website. It is a diabolical tangle of circular links and references. Massive waste of time. Worse than useless. Make's Dante's Purgatory look like a trip to the beach. • **Other alcohol:** Not insisting on Closer Economic Relations (CER) adherence with Australia offering excise tax rebates only to Australia domiciled breweries (in breach of CER). • Delays at customs / MPI for our client material import. It appears to us that turnover or poor understanding of rules around unregulated naked DNA frequently cause issues.

4. Improve freight continuity and work with/incentivise shipping companies so that they want to come here
• Fix our port system, it is broken. • Invest in port infrastructure that is flexible and can adapt to changes in supply/ demand. • The IVS container people are useless and shouldn't be allowed such a monopoly on container checking. • Help overcome onshore logistic issues. Port disruptions are having a huge impact on our business. Coastal feeding option from Nelson to Napier would be a big help. • Work more closely with the shipping lines to encourage them to return to NZ, and decrease their high fees. • Strengthen or even intervene in shipping / freight connections - especially between NZ and Australia, and NZ and Singapore. • Increase options for shipping and freight in and out of NZ, ensure ports and customs are efficient. • Lease spare freight ships and start an NZ shipping company to take containers to say, Singapore.
5. Build stronger relationships, enhance NZ's brand, and continue to advocate for the global rules-based trading system
• Work on NZ brand, it has been damaged over the past few years. We were easy to work with, we need to get back to this. • Support for World Trade Organisation reform and the global rules-based trading system. • Investing in key relationships and collaboration to build NZ's reputation and social licence to operate in key markets. • Maintain strong relationships with all our trading partners, particularly China and the US. • NZ should commit to take young people on all trade missions and strengthen rangatahi. • Fund export missions to all markets as we climb out of the COVID 19 disaster. • Marketing 'brand NZ' as a premium export. • Address recruitment challenges - promote NZ lifestyle with incentives to create a Silicon Valley of the Pacific.
6. Stronger domestic connectivity - plan for and invest in infrastructure that we need
• Ensure the resilience of key export supply-chain infrastructure (ports, rail, roads) in NZ. • Ensuring strong infrastructure - ports, roading etc. • Do much - much - more to protect us from adverse weather events. • Lack of support to help with damage caused by Cyclone Gabrielle. • Lack of investment in local infrastructure. • Lack of infrastructure in terms of roading.

SENSE PARTNERS
DATA LOGIC ACTION