

New Zealand's supply chains in a changing global economy

David Skilling

February 2023

Subscribe to my *small world* notes at: <https://davidskilling.substack.com>

The intensity of globalisation has flatlined over the past decade, after several decades of strong increases; there has also been an extension in the physical distance of trade

World trade (goods & services), world FDI flows, % of world GDP

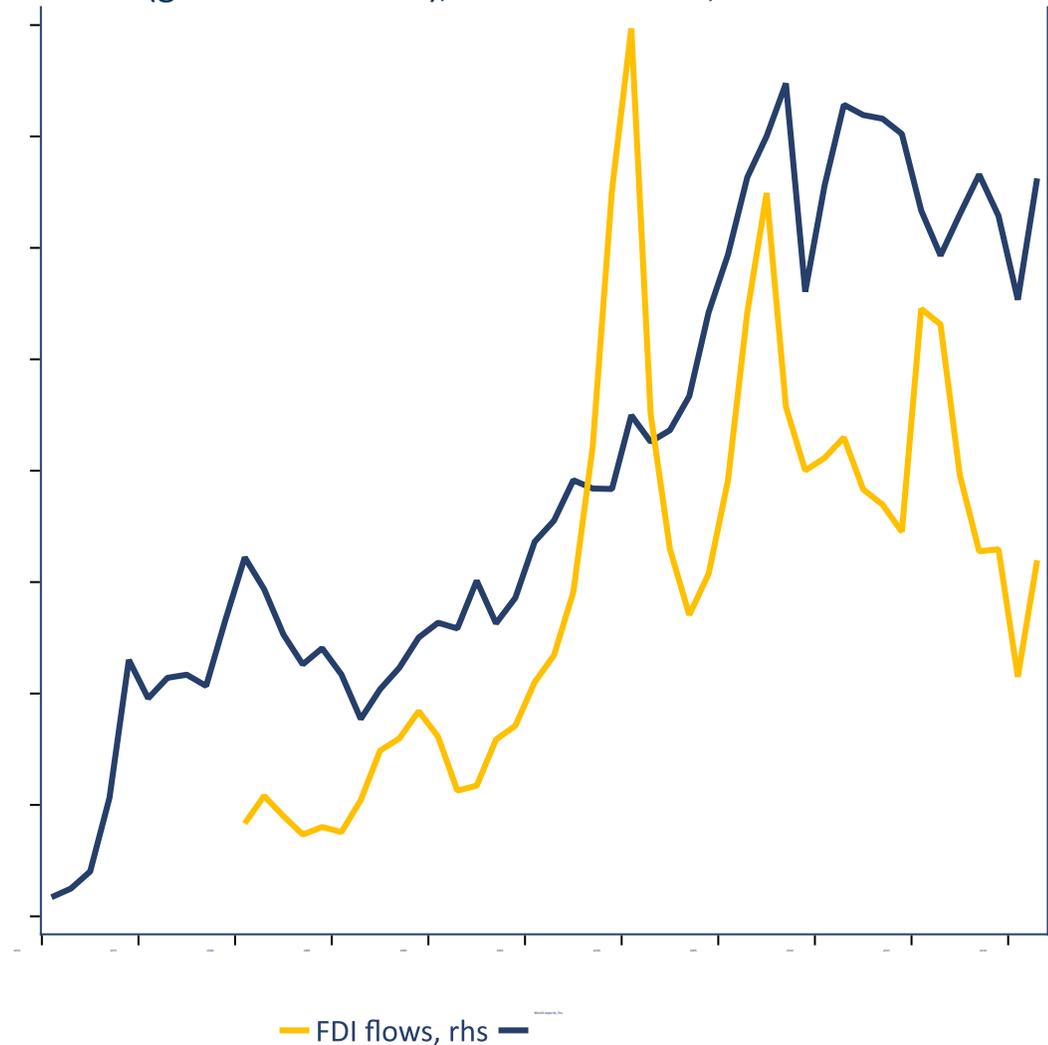
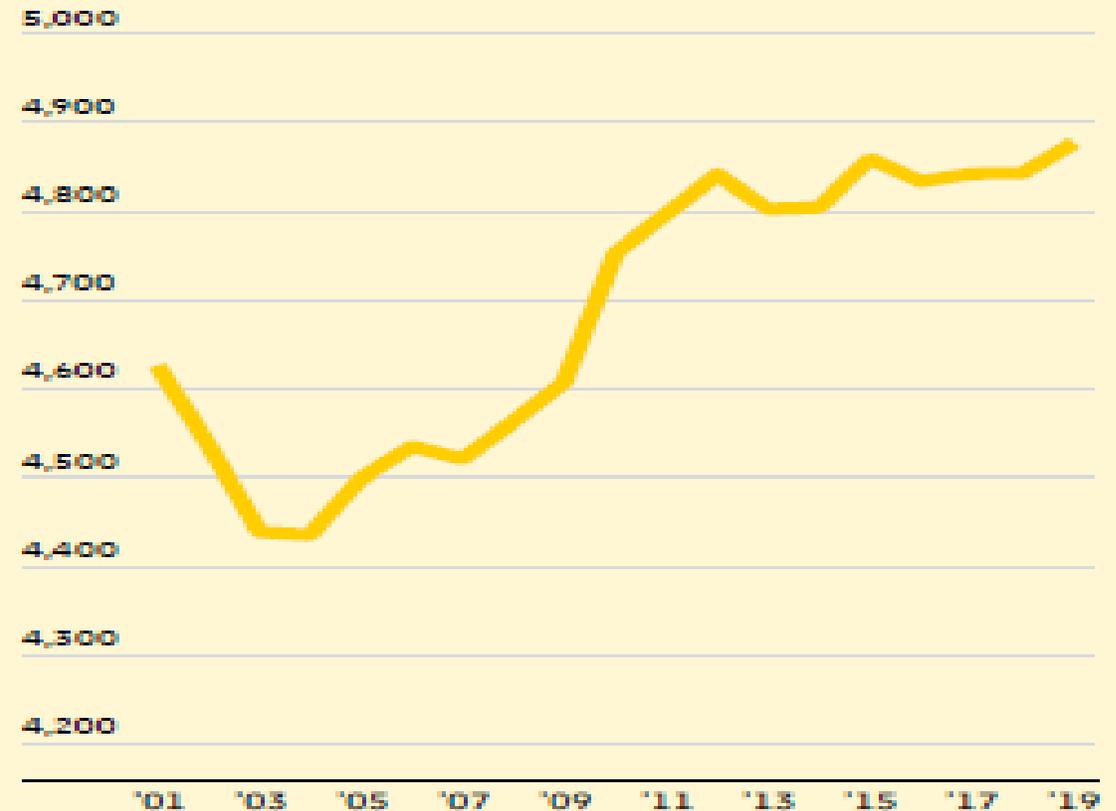
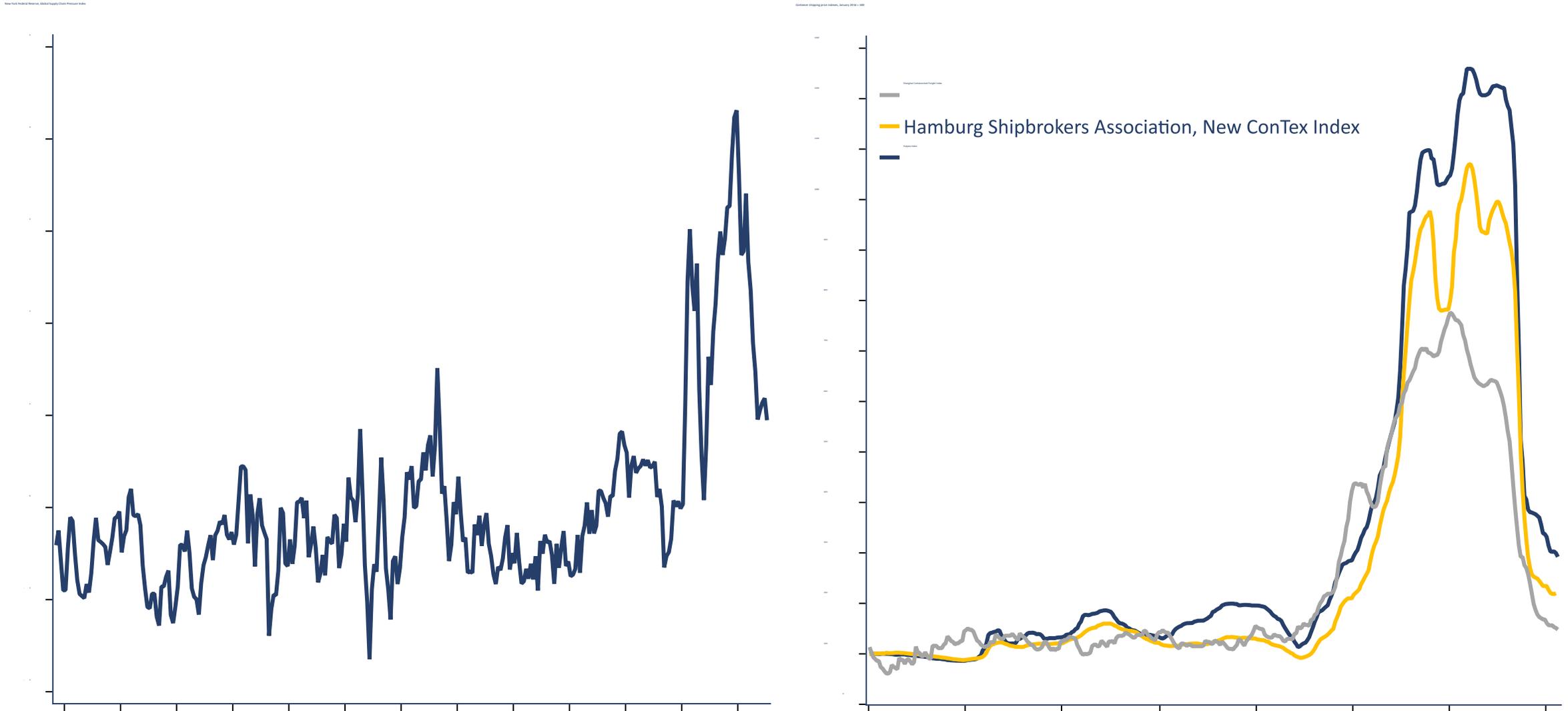


FIGURE 7: AVERAGE DISTANCE TRAVERSED BY MERCHANDISE TRADE (KILOMETERS), 2001 – 2019



The average distance traversed by merchandise trade has been fairly stable in recent years. A major shift toward more regionalized trade patterns would pull this measure downward. Data sources: IMF Direction of Trade Statistics (DOTS), UN Comtrade, CEPII GeoDist Database

Global supply chain pressures and international container shipping prices surged through the pandemic, but have since eased (although remain elevated)



Source: Macrobond; New York Federal Reserve; Landfall Strategy Group calculations.

Governments and firms are responding to global supply chain risks and disruptions

- ✦ There are growing economic and political pressures for reconfiguration of global supply chains
 - Economic: firms are re-assessing risks attaching to global supply chains as well as higher shipping costs and lower benefits (as production costs increase in other markets).
 - Political: there is increased domestic political pressure for greater self-reliance of strategic goods as well as geopolitical pressures to reduce exposure to strategic rivals
- ✦ The pandemic experience reinforced action already underway by firms and governments to build resilience into global supply chains. These include:
 - Reserves/inventories, diversification of suppliers/supply chains, long-term contracting, as well as increased self-sufficiency/strategic autonomy.
 - Reshoring/nearshoring/friendshoring activity.
 - Some of this is efficiency enhancing, but some will lead to inefficient fragmentation of the global economy. Either way, supply chain costs will increase.

New Zealand's is deeply exposed to global supply chain dynamics...

- ✦ New Zealand has a low imports/GDP share and a low import content of exports relative to other advanced economies (and particularly relative to small economies), which reduces the exposure.
- ✦ But New Zealand is heavily reliant on imports across a range of categories (machinery, vehicles, and energy) and has multiple areas of specific import reliance.
 - New Zealand has a low manufacturing share of GDP
 - China has become New Zealand's largest source of imports
- ✦ Physically, New Zealand's international supply chains are thin and stretched, prone to disruption (e.g. recent issues with fuel imports), and with limited redundancy.

...and New Zealand's global supply chain risks are likely to increase looking forward

- ✦ Looking forward, there are several structural (not temporary) dynamics that will generate increased risks and costs with respect to supply chains into New Zealand:
 - Structural changes in logistics: consolidation in shipping industry (larger ships, reduced frequency); potentially weaker inbound international tourism; increased costs due to emissions pricing
 - Geopolitical rivalry: New Zealand will increasingly face pressure to make choices about sourcing of some import categories from China, which may increase costs and delays
 - Physical disruptions to production and supply chains: increased frequency of supply chain disruptions due to conflict, environmental shocks/natural disasters, pandemics, and so on
- ✦ New Zealand's international supply chain connectivity will become more costly and exposed to increased disruptions – reducing the efficiency of the New Zealand economy, particularly the traded goods sector, and making New Zealand a less attractive location for economic activity.
- ✦ New Zealand has 'scrambled' well in response to previous shocks. But this will not be enough.

Possible policy responses

- ✦ New Zealand can learn from other advanced economies in terms of responding, although there are particular issues with New Zealand's small size, physical location, and economic structure
- ✦ Invest systematically in understanding key supply chain exposures
- ✦ New Zealand will have to consider investing in insurance: reserves/inventories, supply chain diversification, physical and digital connectivity initiatives, strategic partnerships (eg with Australia)
 - Measures to strengthen self-sufficiency will generally not be feasible, because of New Zealand's small size.
- ✦ There are also some structural responses: accelerate investments in electrifying the economy (renewable energy, green hydrogen); support for new modes of production (3D printing); and the international tourism strategy (value v volume).
 - To strengthen the resilience of outbound supply chains, policy can support a weightless export economy and encourage outward direct investment by New Zealand firms.

Landfall Strategy Group

Landfall Strategy Group is a research and advisory firm that provides insight and advice on understanding and responding to global economic, policy and geopolitical issues. We serve governments, firms, and financial institutions around the world, from Australia and New Zealand to Asia, the Middle East, Europe, and the Americas.

We prepare briefings and presentations on global economic and political issues; undertake in-depth analysis of priority issues; and work with our clients to develop effective responses. We aim to help our clients navigate a changing world, providing them with a sustained performance edge.

Contact details

Email: contact@landfallstrategy.com

Website: www.landfallstrategy.com

Subscribe to my regular notes on global economic and political issues at: <https://davidskilling.substack.com>