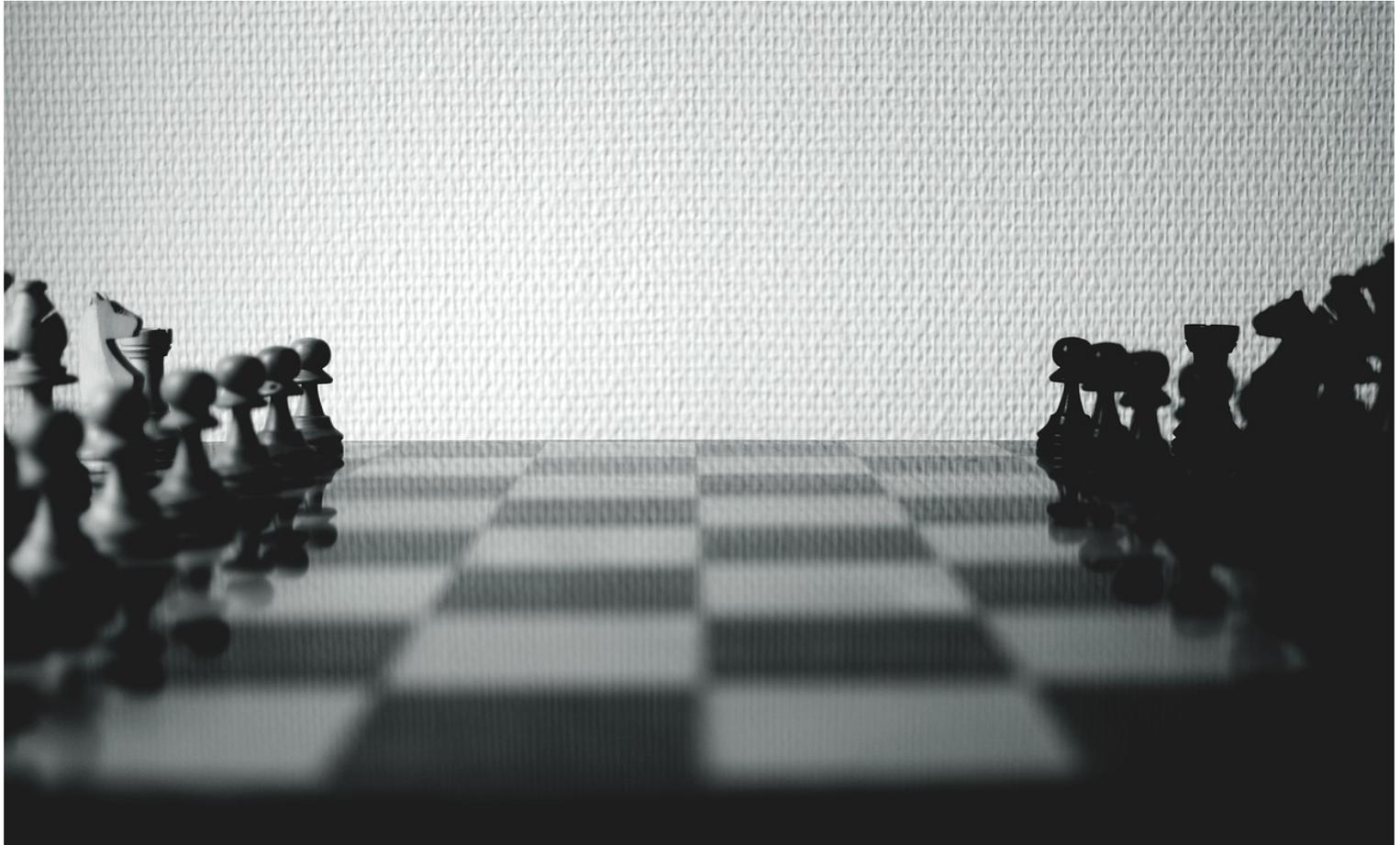


## what a global trade war could mean for New Zealand

**In July 2018, Donald Trump announced sweeping tariffs against products imported from China, for alleged unfair trade practices.**

And so the trade wars began.



The USA has a trade deficit with China of US\$419 billion. This means that they import \$419 billion worth of goods more than they sell to China.

The USA's main imports from China are electronics, machinery, manufactured goods and clothing. In return, The USA's main exports to China are motor vehicles, computers and electronics, machinery, oil and gas, chemicals and food.

When the US government put tariffs on Chinese goods, it basically means that there is an extra tax to be paid at the border when the goods are brought in from China.

This means that the goods will cost **more** to the end user, or that the supplier will be forced to cut costs (cut jobs) to keep their prices down so that the cost of their goods is still going to be competitive with local competition.

Donald Trump has campaigned on "*making America great again*" and a heavy emphasis has been about returning manufacturing to the blue belt – the areas of the US which were the manufacturing hubs of the post war era.

While it may have been his goal to use trade tariffs to bring jobs back to the US, or to encourage US businesses to buy US goods, it appears that the strategy has backfired somewhat.

The US farming community appears to have been hardest hit, with the highest number of farmers filing for bankruptcy seen in decades.

Donald Trump has promised billions of dollars in aid to farmers, but it may not be enough.

Half of all Chinese imports are said to be used by US manufacturers to make other products, or are American products which have been assembled in China.

The application of tariffs to these items just has the effect of making them more expensive for US companies to sell to both US citizens or globally.

Trump's tariff wars have also extended to his neighbours Canada and Mexico and also to the EU, with the latter retaliating with tariffs on US cars and food.

## **How could this affect NZ?**

### **#1 - We are a nation that relies on trade for survival**

The trade wars may create some short term export opportunities for NZ, but there is greater potential for more harm than good.

The US has called on China to remove tariffs on all US agricultural products.

The removal of tariffs may make the price of US milk and beef more attractive to the Chinese and reduce the amount of product which we can sell into China.

China is our largest trade partner. China bought \$4 billion of dairy products from NZ last year. 26% of Fonterra's total exports went to China.

One third of our exported meat went to China.

The loss of trade would have a massive impact on our economy as we would need to source new markets for our products.



## #2 - Investors | Shares | Kiwisaver

Investors with shares will be very aware of the impact of the current trade wars on the value of their share portfolio or their KiwiSaver.

Volatility (ups and downs in the market) are at decade high levels.

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The markets are reacting violently to supposed progress or supposed break downs in trade talks.

Shares are priced on the expected future profits of companies – many of whom have had profits impacted by the current tariffs.

Lower profits in the future mean lower share prices now.

### **#3 - NZD Commodity Currency**

Our New Zealand dollar is a “commodity currency”.

Any movements in commodity prices or the potential for volatility in commodity prices has an impact on the value of the NZ dollar, reducing it.

As our dollar drops in value against other currencies, it means that we will have to pay more for our imports, but our exports become cheaper and easier to sell.

However, as a nation, we import more than we export, so a falling NZ dollar has a negative impact on our economy.

Our largest import is fuel, followed by machinery and mechanical equipment, and consumer goods.

Higher costs of inputs mean that prices will rise for NZ consumers.



### **#4 - market inefficiencies | drop in global GDP**

A trade war results in market inefficiencies and a drop in global GDP.

This basically means that the world slows down.

Employment slows down.

Spending slows down.

Share markets slow down.

It is like a giant handbrake being applied to the world's economic system.

Our trading partners will spend less with us, and our economy will slow as well.

## **No winners in global trade wars**

History shows that there is no winner in a global trade war.

At this point, we can only hope that President Trump works this out sooner rather than later and pulls back on his tariff war with China, his neighbours and the European Union before the trade wars stall global economic growth.

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