

The economic repercussions of the coronavirus outbreak worldwide and for New Zealand are beginning to emerge – and it is already clear that the coronavirus will have a [worse impact](#) than the severe acute respiratory syndrome ([SARS](#)) outbreak in 2003.

The estimated costs of SARS to the global economy was about [US\\$40 billion](#) . China's share in world GDP at that time was 4%, significantly lower than the [current estimate of 17%](#) .

This four-fold increase in economic dependence on China worldwide, primarily because of its status as a manufacturing hub and a key node for production networks in Asia and globally, means that the outbreak is likely to have a [bigger global impact on trade](#) , at least in the current quarter.

But over the same period since 2003, New Zealand has become even more economically dependent on China. This is particularly so in trade in commercial services (both exports and imports), with a 12-fold jump in China's share, based on comparisons between historical and the latest [Stats NZ data](#) .

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Slumping exports and cancelled events

In 2003, New Zealand's goods exports to China constituted about 5% of the total, based on historical data from the [United Nations](#) . Today, [it is about 26%](#) . Any slump in export demand from China in the current quarter will have a much stronger direct impact on New Zealand exporters' earnings, for both trade in goods and commercial services, than for many other

countries.

This is already evident. Food exporters are facing declining demand for [meat products](#) , [forestry](#) , [flowers](#) and [seafood products](#) from consumers in China. The outbreak could also disrupt supply chains of intermediate products New Zealand imports from China and the rest of Asia for agricultural and food production.

As of 2019, China was New Zealand's [fourth largest service export destination](#) , constituting 13% of the country's total exports of commercial services, which includes primarily education and tourism. In 2003, this figure was less than 2%.

Around 87% of New Zealand's service export earnings from China came from education-related travel and personal tourism. These exports are expected to decline sharply with the [temporary ban on foreign travellers from mainland China](#)

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New Zealand's summer season is a busy time for Chinese visitors and international students studying in New Zealand. This has already cost the local economy of Auckland as several tourism events, including the annual Lantern Festival, [have been cancelled](#) .

Uncertainty shrouds estimated impact

A "worst case" scenario would look like this: zero visitor arrivals from China until March 2020,

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followed by an increase by at least 50% the following month, accompanied by a 20% decline in overall arrivals from Asia (whether for tourism or education). It is estimated that this itself would result in [at least a 0.4% decline in GDP](#) in the first quarter of 2020.

The above is a conservative estimate. It assumes that the coronavirus outbreak is contained quickly and will not affect the second quarter of the year. The SARS outbreak took about [eight months to contain](#), so it is reasonable to assume that travel and education exports from New Zealand may veer off their normal trajectory at least until mid-2020.

While the indirect impact of the coronavirus on New Zealand consumers remains unclear, the direction is likely to be negative. One obvious channel is the disruptions to the supply chains of major consumer goods globally because of China's role as a manufacturing hub.

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There are already reports of [factories closing in China](#) or facing temporary shutdowns in high-tech manufacturing, including cars, semiconductors and telecommunications. For example, Qualcomm expects negative impacts on demand and supply in the [mobile phone industry](#). These will raise production costs when made in China, and therefore prices for the global consumer.

A more open economy can come with costs

It is more difficult to quantify indirect effects on New Zealand's trade with other trading partners where coronavirus cases have been confirmed, and among those who also share a close economic relationship with both New Zealand and China. Australia, the US and Japan all fit into this category.

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In the short term, New Zealand may receive fewer tourists from these countries, including both air and [sea travel](#). Business-related travel disruptions are also likely to have an indirect negative impact on investment decisions. The longer the uncertainty around the outbreak remains, the greater the downward spiral of investor confidence.

Finally, New Zealand has to prepare for the likelihood of a confirmed case. If that happens, there will be additional costs from managing the uncertainties for domestic businesses. As a small open economy, New Zealand has enjoyed the benefits of globalisation, but now it must face the negative costs it can also bring.

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