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China's tough line on Covid likely to hamper NZ supply chain recovery

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China's strict policy on Covid dampens hopes of supply chain recovery this year.

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China's zero tolerance policy to Covid is likely to prolong recovery of the supply chain for New Zealand, a logistics organisation has warned.

Customs Brokers and Freight Forwarders Federation president Chris Edwards said several events in the supply chain in China and Hong Kong linked to that policy will continue to disrupt cargo for New Zealand importers and exporters.

"Not only is China an important trading partner for New Zealand, but much of our cargo trans-ships through Chinese ports on its way to and from market," Edwards said.

China's zero tolerance for Covid has seen Shenzhen put into full lockdown, an event which will initially affect manufacturers ahead of ports and airports, he said.

"Shenzhen's sudden closure is a sign that China is not going to relax its (policy) approach anytime soon.

"Given the fact Shenzhen has done some of the heavy lifting for Hong Kong in terms of cargo - especially Hazmat (hazardous materials) - in the past six months, these types of disruptions are going to be felt by New Zealand importers and we have already seen delays in collecting orders from some suppliers."

Shanghai Pudong airport closed for up to six weeks to stop the spread of Omicron, Edwards said.

While dedicated cargo flights were not thought to be affected by the policy, there would be an impact on cargo on passenger flights, some of which could be headed for New Zealand.

"This becomes especially true when borders begin to open here - pre-pandemic Chinese carriers were an important option for cargo and passengers from Europe to New Zealand."

Edwards also cited long quarantine periods of up to 21 days in many sectors of the Chinese economy.

"Think Cathay Pacific pilot ... Cathay should by now be a key carrier in the air freight market to and from Europe especially, but are hindered by events in Hong Kong.

"We have already seen the ports of Ningbo and Guangzhou shut due to single Covid cases, leading to significant delays for New Zealand importers and exporters."

Edwards expected the disruptions due to China's policy to continue for 2022.

Meanwhile, Deloitte in its latest report on the ports and freight sector said some difficult decisions were ahead for the freight sector.

The effect of Covid-19 on supply chains and recent geopolitical and trade risks made existing challenges even more prominent, the firm said in its 2022 New Zealand Ports and Freight Yearbook.

"We expect firms to increasingly take risk mitigation into account for future supply chain strategies and investment, as well as considering ways of increasing productivity and reducing emissions. Careful forward planning, with a focus on technology and supply contracts with strategic companies is likely to be key into the future, especially given the uncertain economic outlook," the report said, citing the risk of modern day stagflation ahead.

Stagflation is a combination of rising inflation and slow economic growth.

"We note that transitioning to a 'just in case' approach is likely to impose costs, which may include necessary investment in warehousing capacity, local manufacturing capacity, costs of holding extra working capital and obsolescence risks. Such costs of promoting resilience in the system are likely to be borne by end consumers.

"Supply chain disruptions have highlighted the benefits of a diversified supply chain, including local manufacturing and access to a broad range of imported supplies which together promote resilience.

"A key advantage is ensuring products continue to be available in New Zealand during periods of intense supply chain disruption. Supporting the transition to a "just in case" approach will require the right policy settings and incentives."