



New Zealand Business Roundtable in China | 新西兰中国商业圆桌会



NEW ZEALAND BUSINESS ROUNDTABLE IN CHINA

Quarterly Industry Report

China, Quarter 1 2026

A quarterly report featuring valuable insights into China-specific industries from NZBRiC member companies and partners with interests in the region.





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MESSAGE FROM OUR CHAIR



DANIEL YOUNG

Chair
NZBRiC

Dear Readers,

It is my pleasure to present the first NZBRiC Quarterly Industry Report of 2026. Now in its third year of publication, this publication is an important platform for advancing dialogue across key trade sectors between New Zealand and China.

Through a curated mix of industry analysis, opinion pieces, and original contributions, the report provides meaningful perspectives to support businesses navigating one of the world's most dynamic and complex markets.

We are pleased that the report continues to contribute to the New Zealand–China business dialogue, with readership spanning partner organisations, government stakeholders, and our members.

As New Zealand business continues to navigate within an evolving economic and policy environment in China, this edition is packed full of recruitment, legal, agricultural, commercial, and economic themes. Specifically, this includes a Corporate Member Spotlight on Cornerstone Global Partners Group; perspectives on New Zealand's next chapter in Asia by Anna-May Isbey; analysis of China's agricultural outlook from Mahon China; recent employment law updates from Sparks Partners; and retail and economic insights from Primary Collaboration New Zealand and ANZ.

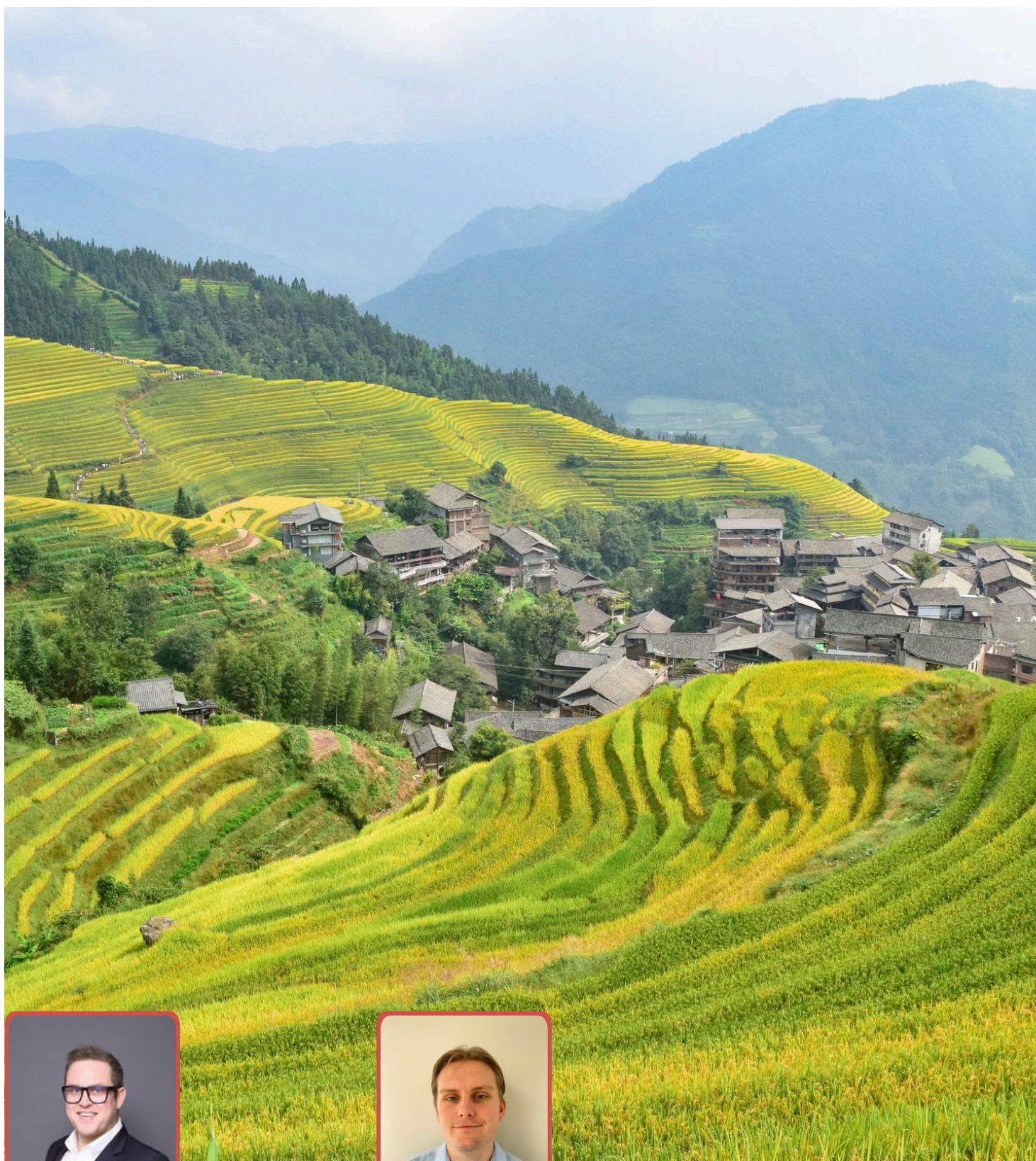
We are sincerely grateful for these contributions, which reflect our shared goal of fostering informed dialogue and building stronger connections across the New Zealand–China business landscape. We welcome your feedback and encourage you to reach out if you are interested in contributing to future editions.

Best regards,
Daniel Young
Chair, NZBRiC

The views expressed in the articles are those of the authors and do not necessarily reflect the views of NZBRiC.

From the 'Great Resignation' to the 'Great Hesitation' – A Deep-Dive into China's Current Employment Climate with Cornerstone Global Partners Group

Corporate Member Spotlight



KOUROSH ASHGARI

Vice President of Cornerstone Global Partners (CGP)
Corporate Member of NZBRiC



JAMES O'RILEY

NZBRiC Events & Communications Manager





In this fourth edition of our **Corporate Member Spotlight Series**, we spoke with **Kourosh Ashgari**, Vice President of **Cornerstone Global Partners (CGP)** and leader of its Consumer Industry team, to better understand the current state of China's talent market and CGP's role within it. A New Zealander with more than 11 years of experience across sectors including food and beverage, healthcare, consumer goods, and electronics, Kourosh brings an industry-leading expertise on China's labour dynamics.

Our conversation explored the emergence of the **"Great Hesitation"** phenomenon, what it means for New Zealand employers operating in China, and how organisations can adapt to an increasingly cautious and selective talent market.

From the Great Resignation to the Great Hesitation

To understand the emergence of the **"Great Hesitation"** in China's labour market, it is important to first consider the broader economic conditions that preceded it.

For much of the two decades leading up to 2022, China experienced extraordinary economic expansion. Throughout the 21st century, average annual GDP growth of around **10%** fuelled rapid corporate expansion across both domestic and multinational firms. On the ground, this translated into continuous workforce growth and accelerated career progression, with employees often moving quickly into senior roles as organisations scaled. At the same time, the market experienced increasing levels of investment and hiring optimism, with companies competing aggressively for talent. According to Kourosh, this dynamic ultimately led to what he describes as a form of **"talent inflation,"** where compensation levels and job packages in some sectors began to outpace the underlying value of the roles themselves. Perhaps counterintuitively, this trend intensified during the COVID-19 period, as many companies continued to hire aggressively as China's economy outperformed despite broader global uncertainty. Globally capital markets, high spending and an economic bounce back triggered – what became widely referred to as the **"Great Resignation."**

However, this long-standing equilibrium was disrupted in late 2022, when economic contractions began to fully materialise in China's corporate sector. For the first time in over a decade, companies undertook large-scale restructuring, redundancies, and cost controls. Salaries for the most critical or specialised roles continued to experience some increase, but compensation and opportunities for others was reduced as organisations sought greater efficiency. In many sectors after restructuring took place, new positions were created at lower salary levels. For many workers in China, this sudden wave of layoffs, salary reductions, and restructuring came as a profound shock, as workforce adjustments on this scale had not been widely experienced since the **Global Financial Crisis** – which even then was only experienced in China for a short period of time.



Although the labour market has since stabilised, the psychological impact of the 2022-2025 shock continues to shape behaviour in today's talent landscape. Salary growth has moderated, with average increases projected at around **4%** for **2025-2026**, reflecting slower economic conditions and greater corporate caution. At the same time, companies are increasingly relying on variable bonuses and performance-linked incentives, sometimes accounting for more than **40%** of total compensation packages, to balance retention with financial discipline.

As Kourosch explains, this environment has given rise to the **“Great Hesitation.”** Even as companies resume hiring, many professionals remain reluctant to change roles. This has created a two-track hiring situation, where employed top performers still expect over 30% to justify external career moves that are perceived as risky, while those unemployed are often content to take pay cuts from their previous packages to get back into the employment market.

At the same time, deeper structural and cultural factors reinforce this caution. In China, there remains a widely held perception that a professional career effectively peaks by around the age of 50. For many mid-career professionals, the recent environment creates strong incentives to prioritise stability over risk. With financial responsibilities that often include supporting both older parents and younger family members (while also saving for early retirement), changing jobs in an uncertain market can feel like a costly gamble.

The result is a labour market defined by caution. Even when employees are dissatisfied, many prefer to remain in place rather than risk instability. This reluctance to move has fundamentally reshaped hiring dynamics, creating a persistent challenge for employers seeking to attract top talent.

Implications for New Zealand Businesses

As Kourosch explains, these dynamics present a distinct set of opportunities and challenges for New Zealand companies operating in China.

On the opportunity side, New Zealand firms are often perceived as stable, credible, and long-term players in the market. This perception is reinforced by the broader strength of the New Zealand-China relationship, which continues to signal consistency and reliability at a government level. In a risk-sensitive labour market, this stability becomes a meaningful differentiator. New Zealand companies also tend to offer more egalitarian and collaborative workplace cultures. Compared to more hierarchical structures in some local firms, this can appeal strongly to candidates who value autonomy, transparency, and a more balanced working environment. Combined with the strong reputation of New Zealand products and services in China, these factors create a compelling employer brand in the early stages of candidate engagement.

However, these strengths are not always fully translated into easy hiring processes. A key challenge lies in scale and perceived career progression. Many New Zealand firms operate with smaller businesses and teams in China, which can limit visibility on long-term growth opportunities and cause candidates to be concerned about the business stability. In a hesitant market where candidates are already cautious about change, this can make roles appear less attractive compared to larger multinational platforms.



Compensation is another critical factor. In an environment where candidates require a clear incentive to move, New Zealand companies can sometimes underprice roles relative to market expectations, particularly for high-performing or in-demand talent. This misalignment can make it difficult to secure top candidates, even when other aspects of the role are attractive. There is also a broader tendency towards conservative decision-making. While long-term thinking reinforces stability, excessive caution can weaken a company's value proposition for ambitious candidates seeking growth and impact. **In today's environment, companies must not only offer stability, but also clearly articulate their employment proposition.**

To respond effectively, New Zealand businesses need a more deliberate and strategic approach to talent. Kourosh outlines the following principles as essential to this approach:

- 1. Clarity of value proposition is essential.** Companies must communicate why a candidate should join them in terms of long-term opportunity, organisational direction, and exposure to international growth.
- 2. Reducing perceived risk should be a central focus.** This includes demonstrating commitment to the China market, reinforcing strategic intent, and clearly outlining both immediate and future upside. In a hesitant market, reassurance is as important as reward.
- 3. Companies should remain open-minded in candidate selection.** Beyond experience and track record, greater emphasis should be placed on adaptability, communication, and cultural fit—particularly for roles that require navigating both local and international contexts.
- 4. Organisations must think more intentionally about capability building.** This means aligning hiring with long-term strategy, ensuring their organisation design in both New Zealand and China supports growth, has the right “China capability” at both board and executive levels, and recognises where external expertise can accelerate progress.

In this context, partners such as **CGP** play a critical role. Beyond traditional recruitment, CGP supports New Zealand companies in defining their people strategy, designing organisations, building compensation schemes, and identifying and evaluating the capabilities required to deliver on that strategy. This includes access to interim executive talent who can provide targeted, short-term support to accelerate execution with minimal long-term risk.



What Comes Next?

Looking ahead, Kourosh expects the talent market to remain cautious, with a period of gradual and uneven recovery. This will be particularly evident in consumer-facing sectors, where growth is becoming harder won and increasingly dependent on efficiency, innovation, and precise execution. As China continues its transition towards a more mature, consumption-driven economy, the emphasis will shift from rapid expansion to sustainable, high-quality growth.

Simultaneously, structural changes in the labour market are beginning to take shape. One of the most notable is the rise of a more flexible workforce. Project-based hiring, interim leadership roles, and specialist consulting are expected to become more common, introducing new forms of mobility that have historically been limited in China. For companies, this creates an opportunity to access experienced talent in a more flexible and lower-risk manner. For candidates, it offers alternative pathways to engage with the market without committing to traditional career moves.

However, the underlying dynamic of hesitation is unlikely to disappear in the near term. Instead, it will continue to shape how talent evaluates opportunity, placing greater emphasis on stability, clarity, and long-term value.

How CGP Can Help

Cornerstone Global Partners (CGP) is one of Asia's leading talent recruitment and human resources organisations, with more than 20 offices worldwide and over 500 industry experts. Its services span executive search, contracting, restructuring, recruitment process outsourcing, and human resources outsourcing – supporting both multinational and domestic companies in building high-performing teams.

Founded in Shanghai and Beijing in 2012, CGP has established itself at the forefront of global talent acquisition, earning more than 50 government and industry awards. Central to its approach is a clear mission: they believe people are the cornerstone of every company.

A defining feature of CGP's model is its **owner-led structure**. Leaders across the company are also equity owners in the business, fostering accountability, long-term thinking, and strong alignment with clients. This underpins CGP's "**win-win-win**" philosophy, where success is shared across all stakeholders. Combined with deep market insight and a global talent network, this approach has driven CGP's rapid international expansion, with more than 60% of its business now conducted outside China.

In a market defined by caution and complexity, having the right partner is critical. Whether supporting market entry, organisational transformation, or targeted hiring, CGP provides the expertise and flexibility required to secure the talent that will drive long-term success.

Reference Material: Courtesy of CGP

China, India and New Zealand's Next Chapter in Asia



ANNA-MAY ISBEY
International Engagement Advisor,
Auckland Business Chamber





New Zealand businesses have been operating in a challenging domestic economic environment. Weak growth, higher costs, and cautious consumer spending at home mean many companies are increasingly looking offshore for their next phase of growth. For an export-driven economy like New Zealand, international markets are not optional. They are central to long-term prosperity.

From the vantage point of the Auckland business community, the Asia-Pacific region remains where the most significant opportunities lie (contributing to over 40% of global GDP). China continues to be the cornerstone of New Zealand's export economy, while the newly concluded New Zealand-India Free Trade Agreement (FTA) is generating fresh interest in India as a future growth market.

These developments should not be viewed as competing priorities. Rather, they highlight a broader shift in how New Zealand companies may need to think about international engagement, maintaining strong and mature relationships with established partners such as China, while thoughtfully building new commercial pathways into emerging markets like India.

These two relationships are often discussed separately in policy circles. On the ground, however, exporters see them as part of the same broader strategic question: how New Zealand positions itself in the economic rise of Asia.

China remains the anchor of New Zealand's international trade relationships, accounting for around one quarter of New Zealand's total goods exports. It is New Zealand's largest trading partner, largest goods export market, and largest overall export destination. It is also the largest source of international students and a major source of tourism.

Despite global geopolitical tensions, the economic fundamentals of the relationship remain strong. Two-way trade between New Zealand and China reached approximately NZ\$41 billion in 2025, representing the highest level recorded since the relationship began to accelerate following the 2008 Free Trade Agreement.

For New Zealand businesses operating in China, confidence remains remarkably resilient. According to last year's NZBRiC Business Outlook Survey, more than 90% of New Zealand companies report optimism about operating in China, with two-thirds expecting revenue growth and more than half expecting higher profitability in the coming year.

These results reflect something that is clear in conversations across the Auckland business community: New Zealand companies want the China relationship to remain strong.



A pragmatic approach to geopolitics

At the same time, the global environment surrounding the relationship has become more complex. Strategic competition between major powers, particularly between the United States and China, increasingly shapes the language and framing of international economic engagement.

For New Zealand, maintaining an independent and balanced foreign policy has long been one of our strategic strengths. It has allowed us to maintain trusted relationships across different economic blocs while continuing to advocate for open markets and rules-based trade.

From a business perspective, careful diplomacy matters. The language used by governments when navigating geopolitical tensions can have real commercial consequences. Exporters consistently express the view that New Zealand's long-standing pragmatic and independent approach to international engagement should continue.

This is not about avoiding difficult conversations, but about recognising that economic relationships built over decades are valuable national assets.

Beyond commodities: the next phase of the relationship

The New Zealand–China trade relationship was originally built on the strength of New Zealand's primary sector. Dairy, meat, forestry, and horticulture exports drove much of the rapid expansion following the landmark 2008 New Zealand–China Free Trade Agreement.

While these sectors remain foundational, the next phase of the relationship is likely to look different.

China's economic transformation is increasingly focused on advanced manufacturing, digital technologies, urban development, and climate transition. This opens new areas where New Zealand and China can collaborate beyond traditional commodity trade.

Drawing on experience working across both China and New Zealand, and considering the shared global challenges ahead, several areas of collaboration stand out as particularly promising for the next phase of the relationship.



Climate and energy cooperation. China is the world's largest producer of solar photovoltaic components and electric vehicle batteries, while New Zealand has deep expertise in renewable energy systems, environmental management, and sustainable agriculture. Collaboration in decarbonisation technologies and climate adaptation could become a significant pillar of future engagement.

Life sciences and health technologies. New Zealand has a growing ecosystem in biotechnology, nutraceuticals, and medical research. China's scale in healthcare demand and research investment creates opportunities for joint research programmes, clinical trials, and life-science investment partnerships.

Artificial intelligence and smart city technologies. China's rapid urbanisation and leadership in digital infrastructure create potential collaboration in areas such as smart logistics, energy optimisation, and urban data management. Fields where New Zealand companies are developing globally competitive capabilities.

Investment partnerships. Trade between New Zealand and China has expanded rapidly over the past decade, but investment flows have not grown at the same pace. Chinese foreign direct investment accounts for roughly NZ\$1.4 billion of New Zealand's total FDI stock, representing less than 1% of total foreign investment, despite China being New Zealand's largest trading partner. This suggests there may still be untapped opportunities to deepen the economic relationship through investment partnerships as well as trade.



India's rise: opportunity, but a different model

At the same time, New Zealand businesses are increasingly turning their attention to India.

The recently concluded New Zealand–India Free Trade Agreement has created optimism across the business community. In a recent survey of NZ businesses run by the Auckland Business Chamber, India is now a top-three priority market for many New Zealand companies, with most expecting to make concrete decisions about entering the market within the next twelve months.

However, businesses are also clear that India presents a very different commercial landscape from China.

It is also important to recognise the structure of New Zealand's business sector. Around 97% of New Zealand businesses are small businesses, meaning much of New Zealand's export activity is driven by small and medium-sized firms operating with relatively limited scale and resources.

For these companies, navigating India's regulatory complexity, state-level differences, and distribution networks presents a significant capability challenge.

One important observation emerging from conversations with exporters is that New Zealand should avoid assuming that the New Zealand–India trade relationship will simply replicate the trajectory of the New Zealand–China relationship.

The growth of New Zealand's exports to China over the past two decades was heavily driven by agricultural commodities, particularly dairy and meat. The new India FTA does not provide the same level of access for New Zealand's primary sector.

This is not necessarily a negative outcome. In fact, it may encourage New Zealand companies to develop more diversified forms of engagement with India; including services trade, digital collaboration, education partnerships, technology exports, and joint manufacturing ventures.

In other words, the India relationship may develop through different channels than the China relationship did.



Asia as a portfolio, not a choice

Taken together, these dynamics suggest that New Zealand's economic strategy in Asia should not be framed as a choice between markets.

China will remain a central pillar of New Zealand's economic future. At the same time, India and Southeast Asia represent important complementary growth opportunities.

For New Zealand businesses, the strategic task is not replacing one relationship with another, but building a portfolio of partnerships across Asia that enhances resilience and long-term growth.

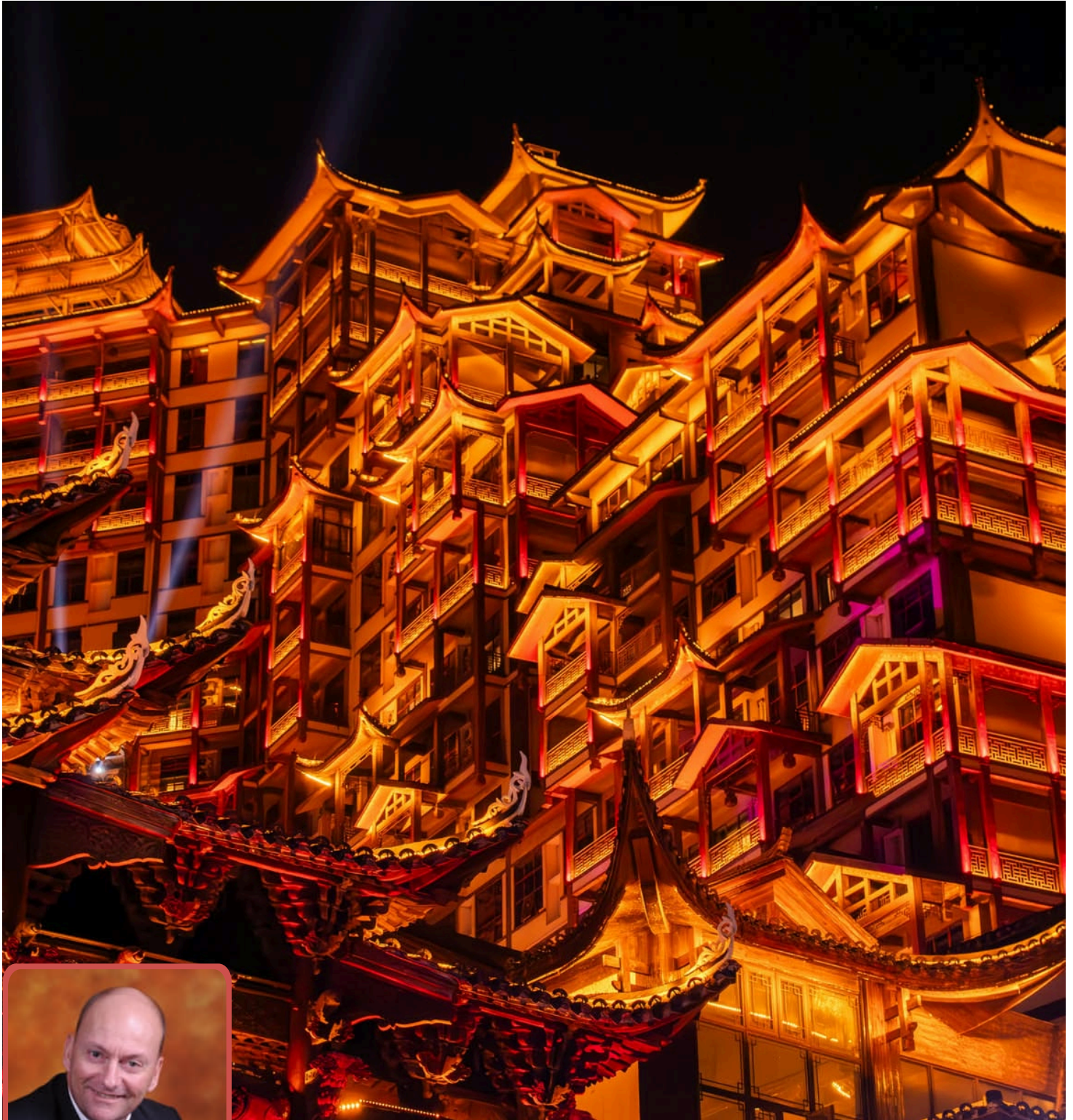
From Auckland's perspective, as New Zealand's largest business and international gateway city, the opportunity is clear. The region in which we sit will drive the majority of global economic growth over the coming decades.

The challenge for New Zealand is to engage that future with confidence, pragmatism, and a long-term perspective.

If we do so, the next phase of New Zealand's international economic story will not be defined by a single market, but by a deeper and more sophisticated presence across the Asian region. In doing so, New Zealand also has the opportunity to reinforce the role it has long played on the global stage, that of a trusted and responsible partner, working collaboratively with others to address shared challenges such as climate change, technological transformation, and sustainable economic development.

For a country of our size, our success has always depended on strong international relationships. The task ahead is not to choose between partners, but to engage thoughtfully across the region. Strengthening long-standing relationships such as China, while building new commercial pathways with markets like India. If approached with pragmatism and confidence, this broader engagement across Asia can help ensure New Zealand remains both economically resilient and internationally relevant in the decades ahead.

PCNZ Monthly Report: Chinese New Year - 2026



DAVID BOYLE

CEO of Primary Collaboration New Zealand
Board Member at NZBRiC



PRIMARY COLLABORATION
NEW ZEALAND (SHANGHAI) CO., LTD
青藤商务咨询(上海)有限公司



Greetings.

Firstly Happy New Year! And every best wish for a very prosperous year of the Horse in 2026. This year is a special “Fire Horse” Year which only comes around every 60 years. The general characteristics of people born under the sign of the horse are “energetic and active, independent and free-spirited, sociable and charming, and sometimes impulsive, and impatient, (like a good Kiwi thoroughbred racehorse). However, the special characteristics of the Fire Horse (“Bing Wu”) intensify the core horse nature, as the name might suggest; more strong-willed, ambitious, potentially volatile and prone to taking high risks! (according to the ancient traditions of the “Ba Zi” which describes the eight characteristics of people). Be wary of those born in 1966!

This year’s Lunar New Year started on February 17th, but the extra-long national holiday began on February 15th and ran for 9 days until the 23rd. As noted previously in our reports, the correlation between extra holidays in China and increased consumer spending is proven. The forecasts were for 9.5 billion single passenger trips to be taken during that time, (surpassing the 9.02 billion last year. 80% will be self-driving, which in itself says something about the growth of the passenger vehicle sales, especially EVs. For outbound travelers, popular destinations are mostly around Southeast Asia, with Thailand the most favoured destination.

For Spring Festival, all of our brands prepared special seasonally themed promotions and gift packs for what was again a strong shopping season. Highly prominent campaigns included New Zealand Kiwifruit, Chilean cherries, and Norwegian salmon, as well as our own Apple brands (Mr Apple, Bostock, Rokit) which seem to have been even more widespread and visible this year. The Ministry of Commerce backed up the government’s desire to ignite consumption with its “2026 National Online New Year Shopping Festival,” placing greater emphasis on ‘Online-Offline integration’ of live streaming and offline exhibitions. The campaign, which ran from February 15th to 23rd featured activities across six areas, including dining, accommodation, transportation, tourism, shopping and entertainment.



Retail insights; Market Moves

Yonghui Supermarket group issued a profit warning for its 2025 annual results, forecasting a net loss RMB2.14 billion for the year. This compares with a loss of RMB1.47 billion recorded during the corresponding period of the previous year. The group closed 381 hypermarkets that no longer align with future strategic positioning.

Metro China issued an official notice announcing that **Andrew Mills**, former President of Sam's club, will assume the role of Advisor to Metro China from Feb 2026. He will provide fresh expertise to Metro China's cash-and-carry warehouse membership stores. Andrew formally retired on 31 January 2025. During his 13-year tenure he spearheaded expansion of Sam's Club's presence in China from eight stores to over fifty.

New Zealand stood out as one of the top 10 sources of white wines to China and is experiencing off-season growth due to their refreshing and easy-drinking qualities, with consumption becoming a regular part of daily life. Notably, New Zealand's import volume surged by nearly 50%. Importers noted that the New Zealand white wine market is highly competitive, characterized by a 'price-for-volume' strategy.

Meituan Acquires 100% Equity of Dingdong Maicai's China Business. On February 5, Meituan announced on the Hong Kong Stock Exchange that it had completed the 100% acquisition of Dingdong Maicai's China business for an initial consideration of approximately US\$717 million.

Hema's 2026 Store Plan Unveiled: Hema is Targeting 100 Billion Yuan in sales, and at Least 300 New Stores in 2026.



Transition to Normalized and Stringent Regulation of Live-streaming eCommerce: The State Administration for Market Regulation (SAMR) held a press conference in late January, announcing that 2026 will see the investigation and handling of a batch of major, typical cases in live-streaming e-commerce. The regulatory focus is on reinforcing platforms' "gatekeeper" responsibilities, utilizing measures like elevated jurisdiction, designated jurisdiction, and cross-regional coordination to implement "one case, three checks" targeting merchants, hosts, and platforms, thereby building a full-chain accountability system. This marks a shift from targeted crackdowns to a new stage of normalized, institutionalized supervision for new business models like live-streaming e-commerce.

"Live" Commerce Becomes the Core Sales Channel: Pre-Chinese New Year consumption momentum converged in the live-streaming e-commerce sector. Data from Douyin E-commerce shows that during the festival, sales of branded New Year gift boxes on the platform increased threefold compared to regular days, with over 70% sold through live streams. This further confirms live commerce as the primary driver of festive consumption growth.

"Instant Retail" Approaches the "Trillion-Yuan" Inflection Point: According to forecasts from the Chinese Academy of International Trade and Economic Cooperation, China's instant retail market size is expected to surpass 1 trillion yuan in 2026. This model blends online convenience with offline instant fulfillment (typically within 30 minutes), catering to the core consumer demand for "proximity and convenience." Future competition will hinge on reconstructing the supply chain through methods like direct sourcing from origin to build barriers with extreme "quality-price ratio."

Macro-Policies Focus on Stimulating Domestic Demand: A State Council Information Office press conference on January 26th outlined the policy framework for stimulating consumption in 2026. Measures include optimizing and extending consumer goods trade-in programs, promoting the "First Launch Economy" (encouraging new product debuts), and supporting the quality improvement and expansion of service consumption, which will provide strong support for the annual consumer market



China's 2025 economic performance.

- China hit its GDP growth target for 2025 of “about 5%” but the recent trends of slowing growth continued in Q4 of last year (+ 4.5% YoY) following +4.8% growth in Q3. (2025)
- Exports remain by far the strongest leg of the economy, despite the higher US tariffs, growing 5.2% with strong non-US buying continuing, particularly of motor vehicles. Household consumption also held up, despite the decreasing influence of the “Cash for Clunkers” programmes in 2025 but was in large part buoyed by childcare subsidies.
- Total retail spending grew only 3.7% in 2025, below the GDP growth of 5.0%
- Consumption expenditure as a percentage of total economic growth was 52%, which is +5% versus 2024. (A positive trend, given China’s historically low consumption percentage of growth, versus government spending and Investment).
- Spending on services accounted for 46.1% of total growth; purchase of services drove online retail growth of 8.6%, whereas physical goods purchases (online) grew 5.2%
- Services spending on tourism and sightseeing services grew 25.1% and culture and sports grew 8.5%
- Rural spending grew 4.1% versus 3.6% growth in the cities, a factor that our NZ businesses should continue to monitor
- The real drag on the economy continues to be the weak housing market, with property sales and prices still declining, and because of this, household consumption (and confidence) is tepid, and household incomes flat.

Summarily there are continuing calls from the economic pundits, for Beijing to further add consumption stimuli in 2026.

As we head into the New Year, and after the turbulent economic year in 2025 globally, there is generally a feeling of quiet confidence here that the Chinese economy has survived and is robust enough to withstand whatever 2026 may bring. As something of a signpost of that confidence, it is now expected (coming out of the last economic plenary session) that the government will again set a growth target of “about 5%”, in its economic planning session in March, possibly underpinned by developing trade relationships with Canada and India.

At PCNZ we are hoping all of our brands can also approach 2026 with that same quiet confidence.

Warm Regards,
David

China Employment Compliance - Q&A



ROCKY MENG
Founder of Sparks Partners
Vice-Chair of NZBRIC



Introduction

Launched in early February 2026, the **NZBRiC H1 Membership Satisfaction Survey** revealed that **Labour** and **IP** were two key legal areas that require further understanding by New Zealand businesses. In response, we have gathered some of the most frequently encountered questions in the China labor law space and presented them here in a Q&A format.

This edition covers several interconnected topics: termination of employment (including severance calculation and contract renewal), hiring structures for foreign enterprises (including entity setup and cross-city hiring), and recent legal developments that may impact your compliance obligations in China. We hope this practical guide helps you navigate the complexities of employing staff in China with greater confidence.

Part I: Termination of Employment

Q1. Can an employer terminate a labor contract due to position elimination or poor performance?

In practice, these are two common reasons for employee termination among multinational companies. These reasons for termination may be well justified in an overseas country, however, whether such reasons are lawful under Chinese labor law requires further examination. Under Chinese labor law, aside from mutual agreement termination, lawful dismissals generally fall into three categories:

- **Employee-fault terminations:** Including serious violation of company rules, gross negligence causing significant damage, or disqualification during the probation period.
- **Non-fault terminations:** Applicable when an employee is unable to perform the original job due to a work-related injury, remains incompetent after training or position adjustment, or when major changes in objective circumstances occur.
- **Mass layoffs:** Subject to strict statutory procedures and conditions.

Position elimination does not automatically qualify as “change of objective circumstances” or a “mass layoff.” “Change of objective circumstances” refers to situations where the employment contract can no longer be performed due to unforeseen external events beyond the employer's control—such as force majeure events or government policy changes leading to business restructuring or merger. Internal restructuring or cost-cutting alone generally does not meet this threshold.



Lawful mass layoffs must meet three specific requirements:

- (i) The layoff situation must fall under legally prescribed scenarios (e.g., restructuring under the **Enterprise Bankruptcy Law**);
- (ii) The employer must explain the situation to the trade union or all employees **30 days in advance**; and
- (iii) The layoff plan must be reported to the **labor administrative authority**.

Poor performance does not automatically amount to "incompetence" under the law. To establish incompetence, the employer must follow a three-step process:

- (i) Demonstrate that the employee failed to meet clear, measurable performance standards that they were aware of and agreed to;
- (ii) Provide training or a job transfer; and
- (iii) Show that the employee continued to fail after such remedial measures.

Failure to follow any of these steps can render the termination unlawful, leading to significant penalties. Therefore, in practice, **we often recommend that employers consider mutual agreement termination** as a more flexible and lower-risk alternative to unilateral dismissal, thereby avoiding potential arbitration or litigation risks.



Q2: How is severance pay calculated under Chinese law?

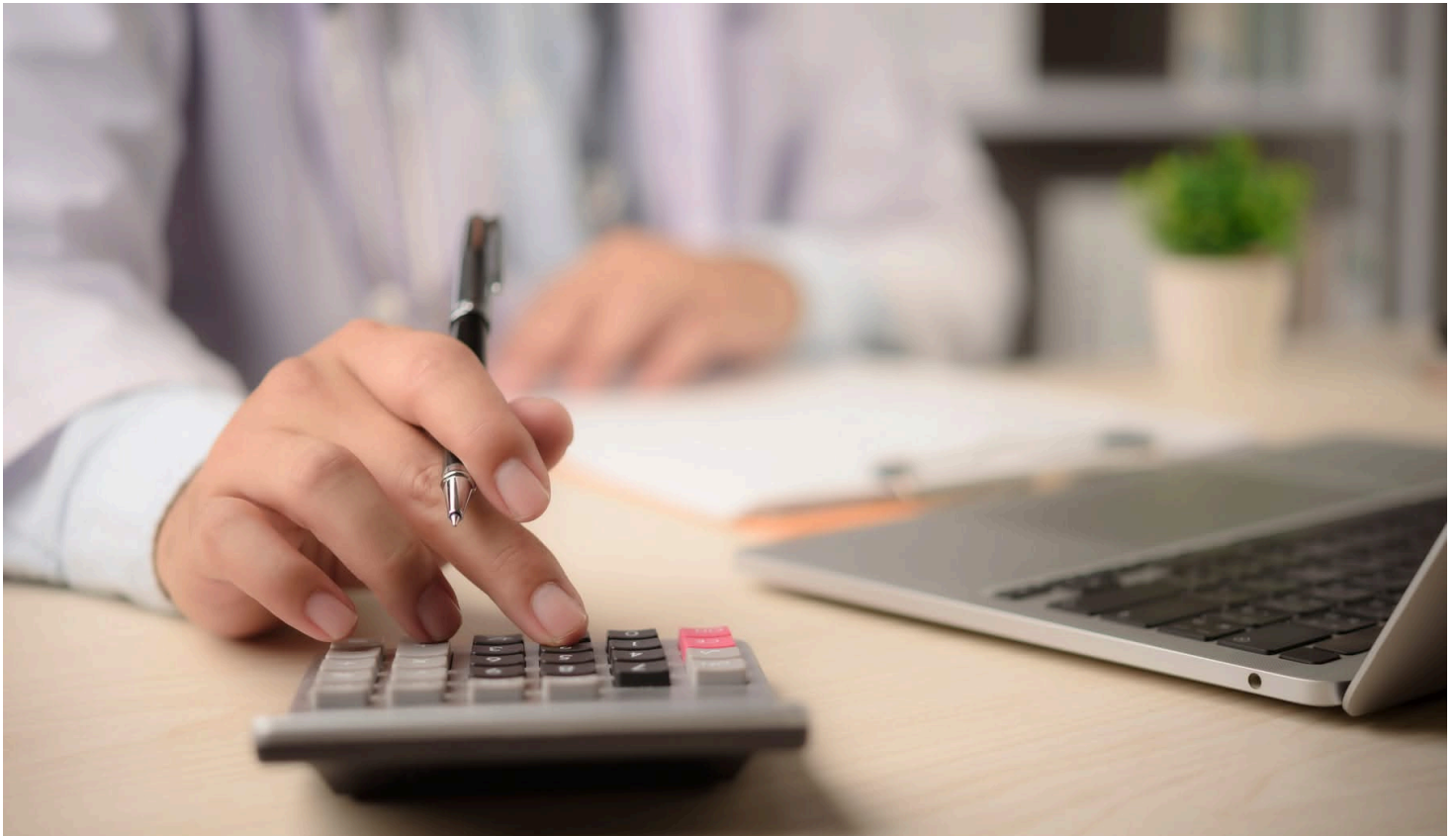
Severance pay is a statutory payment made by the employer upon termination or expiration of a labor contract. It is important to note that even when a fixed-term contract expires naturally, the employer is generally required to pay severance unless the employee chooses not to renew or is at fault. This is a common misconception—unlike many common law jurisdictions where expiration ends the obligation, under Chinese labor law, the employer's liability to pay severance is triggered in most scenarios where the employment relationship ends, including non-renewal and mutual agreement terminations.

Severance is designed to provide financial support to employees during their career transition and to recognise their service to the company. It is calculated based on a simple formula: one month's salary for each full year of service. This is why you will often hear the terms "N," "N+1," and "2N"—where "N", being a variable number, represents the number of months of salary corresponding to the employee's years of service.

Understanding "N":

- If an employee has worked for 3 years, N = 3 months of salary
- If an employee has worked for 5 years and 7 months (6 months or more counts as one full year), N = 6 months of salary
- If an employee has worked for 2 years and 4 months (less than 6 months counts as half a year), N = 2.5 months of salary

So when we say "pay N", we mean: pay the employee the equivalent of X months of salary, where X equals their years of service.



The Three Severance Calculation Methods:

Term	Meaning	Example (5 years of service)
N	Statutory severance = years of service × average monthly wage over the 12 months prior to termination	5 months of salary
N+1	Statutory severance + 1 month in lieu of notice (Applicable when the employer terminates the contract without providing 30 days' prior written notice.)	5 + 1 = 6 months of salary
2N	Double statutory severance (Applicable when the employer unlawfully terminates the contract, such as position elimination, or incompetence without following the proper process)	2 × 5 = 10 months of salary

Cap Note:

If the employee's monthly salary exceeds three times the local average monthly salary, the calculation is capped at that three-times limit.

Example: In Shanghai, the 2024 average monthly salary is RMB 12,434. If a senior executive earns RMB 50,000 per month, their average monthly salary for severance calculation purposes will be capped at RMB 37,302 (3 × RMB 12,434). Therefore, if they have worked for 5 years, their statutory severance (N) would be: 5 years × RMB 37,302 = RMB 186,510.



Q3: After two fixed-term contracts, must the employer offer an open-term contract?

Yes, under current Chinese labor law and prevailing judicial interpretations. After an employee has completed two consecutive fixed-term contracts, the employer is generally obligated to offer an open-term contract (also known as an indefinite-term contract) upon the third renewal—unless the employee requests otherwise.

This was previously a point of debate, particularly in Shanghai, where courts historically favored employers by granting them the right to choose. However, with the strengthening of employee protections, judicial authorities in Shanghai and elsewhere have now clearly affirmed that the employer must offer an open-term contract. Failure to do so may result in liability for unlawful termination.

Q4: Are there any recent developments in Chinese labor law relating to employment termination?

Yes. A significant development is the Interpretation (II) of the Supreme People's Court on Issues Concerning the Application of Labor Dispute Law, which took effect on September 1, 2025.

A key highlight of this new interpretation is its clarification on the feasibility of reinstatement following an unlawful termination. According to Article 48 of the Labor Contract Law, if an employer unlawfully terminates a contract, the employee has the right to choose between: Reinstatement to their original position; back pay; or Severance pay (2N).

Previously, courts in Shanghai often denied reinstatement citing a "loss of trust." However, the new Interpretation provides a limited and exclusive list of circumstances under which reinstatement may be deemed impossible. Importantly, "loss of trust" is not included. The specified circumstances are:

- The labor contract expires during arbitration or litigation and cannot be legally renewed or extended;
- The employee has begun receiving basic pension benefits;
- The employer has been declared bankrupt;
- The employer has been dissolved (except in cases of merger or division);
- The employee has established a new employment relationship that materially affects their performance, or refuses to terminate such new relationship upon the employer's request;
- Other objectively impossible situations.

This interpretation imposes stricter compliance obligations on employers. If a termination is found unlawful and the employee demands reinstatement, providing that none of the statutory exceptions are met, the employee's claim for reinstatement will likely be upheld. In such cases, the employer may be ordered to pay back wages and social insurance contributions for the entire period from the date of termination through to the conclusion of the arbitration and litigation proceedings – regardless of how long the process had taken.



Part II: Hiring Structures for Foreign Enterprises

Q1: How should a foreign enterprise hire employees in China?

Generally speaking, the most compliant approach for a foreign company is to establish a Wholly Foreign-Owned Enterprise (WFOE) in China, which then acts as the direct employer and enters into labor contracts with employees in its own name.

Alternatively, a foreign company may first set up a Rep-Office in China. In this case, due to restrictions on the Rep-Office's capacity to hire staff directly, it is standard practice to engage employees through a designated foreign service unit, which then dispatches the workers to the Rep-Office. However, as Rep-Offices are strictly limited to non-commercial activities and cannot generate revenue, this structure is becoming less common for operational hiring.

Another increasingly popular option is to engage a service provider. Under this arrangement, the foreign company enters into a service agreement with a local provider, which then employs the staff and provides the required services. This allows the foreign company to quickly establish a presence in China without immediately setting up a legal entity, while remaining compliant with local labor laws.

Q2: What should a company consider when hiring an employee in another city?

If a Shanghai-based WFOE wishes to hire an employee who will work from Beijing for example, the company is generally required by law to contribute to the employee's social insurance and housing fund in Shanghai, where the employer is registered.

However, in practice, this can create significant inconvenience for the employee, as social insurance contributions paid locally (i.e., Shanghai) can negatively affect access to everyday benefits that said employee would otherwise receive in Beijing, such as healthcare, housing fund loans, children's education, and even eligibility to purchase a home. As a result, employees in this situation often request that contributions be made in their city of residence and work.



The most compliant way to accommodate this request is for the WFOE to engage a qualified labor dispatch agency based in Beijing. Under this arrangement:

- The agency enters into a labor contract with the employee;
- The agency handles social insurance and housing fund contributions in Beijing;
- The employee is then dispatched to work for the Shanghai WFOE.
- However, employers should be aware of the following legal limitations on labor dispatch:
 - Cap on dispatched workers: The number of dispatched employees must not exceed 10% of the company's total workforce.
 - Eligible positions: Dispatched staff can only be used for non-core, short-term, or replacement roles.

If the number of hires in another city exceeds 10% of the total workforce, or if the roles are core to the business, a more sustainable long-term solution may be to establish a subsidiary in that city.

About Sparks Partners:

Sparks Partners is a Shanghai-based law firm with a distinctly Kiwi heartbeat. Founded by New Zealand solicitor Rocky Meng, we're one of the few Chinese firms built specifically to help Kiwi businesses hit the ground running in China. Whether you're in F&B, tech, education, or primary produce, we handle the heavy lifting—IP protection, company formation, contracts, labour, compliance and dispute resolution—so you can focus on growing. Rocky leads a team dedicated to making the complex simple, and as a Beachhead Advisor, a KEA World Class New Zealander and Vice Chair of the NZ Business Roundtable, he's deeply plugged into the local community. If you're looking for legal support with a personal touch, reach out—we'd love to chat.

China's Agricultural Revolution

Opinion Piece



DAVID MAHON

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MAHON
CHINA



Scarcity and famine

'Farming looks mighty easy when your plough is a pencil and you're a thousand miles from the corn field.' - Dwight D. Eisenhower

Agriculture has long been and is still central to Chinese civilisation; it is as crucial to China's future as any other single factor.

China possesses 9% of the world's arable land while supporting 20% of the world's population — 50% less arable land per capita than the United States. Between 2010 and 2020, China lost 15 million hectares of agricultural land to urbanisation, an area larger than England. Urbanisation, infrastructure and industry claim a further one million hectares each year. China has only 7% of the world's freshwater, 65% of which is used for agriculture.

'We used to question China for storing so much grain until Trump's trade war in 2018. It accelerated the West's retreat from globalised trade, and we saw how vulnerable China was, and its obsession with food security began to make sense. Now the situation is even worse. China has trading partners, but no real allies, and the US is pressuring its many allies to help it keep a lid on China. Not many people know of China's history of natural disasters and famines. It has no choice but to increase its productivity and find reliable global suppliers.' US agricultural official in Shenzhen.

Between 1959 and 1961, an estimated 30 to 45 million Chinese people died in a famine resulting from Mao Zedong's Great Leap Forward. Hundreds of millions of farmers were diverted from growing food to working in makeshift, mostly inefficient village furnaces, striving to increase steel output. Spoons and pots were melted down to meet quotas. At the same time, the state tried to expand agricultural production by breaking in unsuitable land.



Chinese agricultural officials experimented with schemes such as ‘deep ploughing’, which involved planting seeds a metre below ground in the irrational belief they would produce hardier, higher-yielding crops. This was combined with ‘close planting’, a pseudo-agronomic Soviet theory of clumping crops close together to increase yields. Widespread crop failures resulted. The Chinese Government also confiscated grain for storage, in part to demonstrate to the US and USSR that its mass rural collectivisation was effective. Millions starved to death, many at the gates of full granaries.

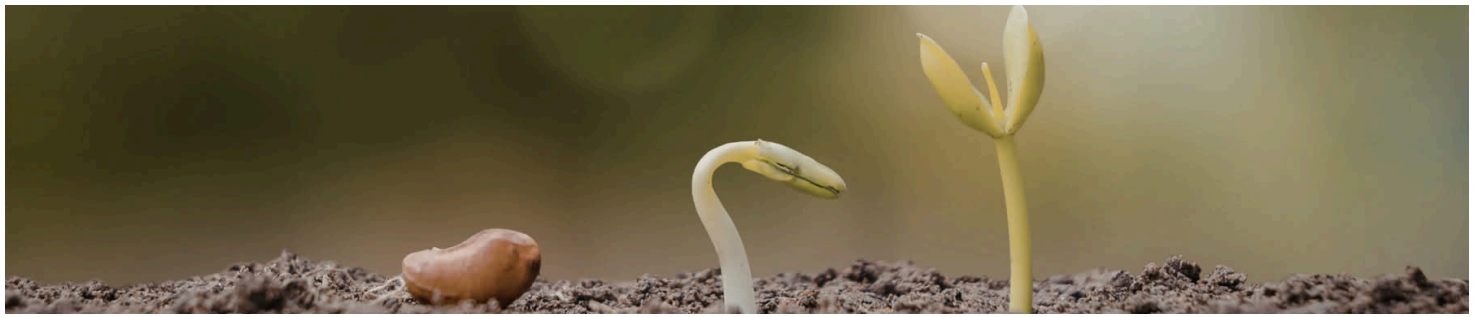
Westerners with no experience of hunger, let alone famine, are unlikely to understand why the Chinese Government stores such large reserves and why people focus so much on food in their daily lives. Most Chinese families have a relative who suffered from poor nutrition at some point in their lives or know of someone who starved to death.

The government understands that a core foundation of its power and legitimacy lies in, at a minimum, being able to feed the people.

Private risk, public good

‘Extreme straightness is as bad as crookedness. Extreme cleverness is as bad as folly. Extreme fluency is as bad as stammering.’ - Lao Zi, 5th century BCE

In the late 1970s, a handful of Anhui farmers, risking imprisonment or even death, triggered China’s economic reforms by growing crops to meet market demand rather than just fulfilling state-mandated quotas. In doing so, they challenged what had become a core principle of communist agricultural theory: strictly planned, collectivised farming. Deng Xiaoping subsequently endorsed the Anhui farmers’ initiative, dubbing it the Household Responsibility System. To this day, the state’s agricultural development strategies, aimed at securing China’s future sustenance and security, are based on the Anhui farmers’ principles of assessing supply and demand and ensuring investment returns. Today’s private sector relies on the fact that local officials, on whom farmers depend for credit and the application of market regulations and commercial law, will ultimately respect the free market.



The state has a mixed track record in its attempts to mitigate risks, ensure commercial and social stability, and drive economic growth. Some decisions have appeared to make sense in the long term, but resulted in catastrophic commercial losses in the short term. In the quest for greater independence and food security, many agricultural subsectors are experiencing oversupply and deflation, including the berry, beef, and dairy sectors. While these sectors are in the process of recovering, the damage inflicted on producers and farmers has been severe. Local officials must find a way to balance their longer-term mission of improving sustainable supply and resilience with the need to deliver short-term growth KPIs to their superiors, or risk failing at both.

Both Chinese and foreign analysts often attribute radical changes in the Chinese economy to single choices by powerful individuals like Deng Xiaoping, or today, Xi Jinping. While these leaders have had the vision, and at times courage, to own often radical trends, the initiatives have invariably come from the grassroots of the economy.

Sufficiency

China has learned much from the past, and is ten years into an agricultural revolution that is reshaping international markets. China cannot become totally independent in many food categories; it currently buys 60% of globally traded soya beans (100 million tonnes) and 25% of globally traded wheat annually, more than the combined harvests of Britain, Germany and France. But China is working hard to reduce the degree of its dependence.

The positive impact of Chinese demand on food-exporting nations is already profound. Yet no food supplier to China can take its place in the market for granted. The Chinese Government has been assessing the agricultural sectors most dependent on foreign imports, while expanding domestic production where it can to reduce that dependence, particularly in dairy and beef, and animal feed such as alfalfa and soya beans. This effort to diversify away from the coercive, tariff-prone West has been ongoing since Trump's first term and what China understood to be a clear and worrying trend of deglobalisation.

Some of China's trading partners that enjoy preferential market access through free trade agreements — such as Australia and New Zealand — and others hoping to gain better access like the UK, continue to align themselves with Washington and support American attempts to contain China. Small nations like New Zealand and even middle powers like Australia would be better avoiding military alignment altogether, or risk alienating both great powers.

Global exporters dominant in domestic Chinese food sectors should be prepared to see their primacy challenged as Beijing deploys the same private-public sector partnerships it applied in its technology sectors to stimulate growth and forge greater autonomy. Beijing is trying to boost not only local production, but also support local companies establishing premium brands to serve the needs of the rapidly growing middle class. It is partly a matter of face for the government and for the Chinese people that the best of their own products and brands are world-class.

With the exception of staples such as bananas and citrus fruit, global fruit demand was sluggish in 2025, which drove all major producing regions to increase exports to China. This exacerbated existing Chinese domestic oversupply in high-end fruit such as blueberries and cherries, yet within that disruption, established brands such as Driscoll's held their position as market leaders. Few fruit exporters to China have put in the time and investment needed to establish their brands, and many have tended to underestimate the burgeoning growing power of local competitors.



Consumer rule

The pandemic accelerated the shift in food distribution from traditional retail to online sales. Online distributors' share of retail sales grew 30% in first-tier cities from 2021 to 2023. Most food exporters to China without teams in the market lost share and brand equity to competitors, both domestic and foreign. Companies need enough resources, not only to manage distributors, but to make independent assessments of market demand and pricing and to observe retailers and engage selectively with consumers.

The Chinese market no longer delivers quick profits and sales surges to new entrants as it once did, and has become more sophisticated and competitive than many foreign companies understand. The opportunities, particularly in the food and beverage sectors, are still good but take patience, resources and deep consumer insights to realise.

'Our board wants a measure of predictability so they can plan more effectively, but China is so dynamic and tough to forecast. The key is to be flexible and quick to adapt. Our management come to China frequently, and even then it is hard for them to put themselves in the minds of our consumers or competitors. Local teams need to have the resources to know their consumers, adapt to changes and have confidence that their parent companies will respect the need for swift decision-making.' - Sales manager, foreign produce company in Shanghai

African growers have begun taking counter-seasonal advantage to sell fruit to China since Beijing removed all tariffs on African produce from the continent's less-developed countries. Driscoll's Zimbabwean-sourced blueberries commanded premium prices this year and helped the brand towards a more certain position to offer 12-month supply – a necessary strategy to endure heavy local competition in the Chinese season.

Beijing identified apples, grapes, citrus (particularly navel oranges) and kiwifruit as categories for local government assistance in the next Five-Year Plan. The choice of kiwifruit was a surprise as the category is so much smaller than the other fruit mentioned, but it is indigenous to China and recognised as a nutrient-dense 'superfood'.

Imported kiwifruit will come under increased pressure as local supply expands and local competitors challenge foreign plant variety rights while asserting China's indigenous claims to a number of original cultivars. The need is deepening for all suppliers of scale to be able to offer fruit over their off-season and maintain their brands. Companies must either procure or grow their varieties in China to protect existing sales and compete with those who will have fruit on shelves.



Farmer robots

'Whoever controls food controls the people.' - Mao Zedong, 1963

Driven not only by a need for food security but also by a dwindling rural labour force, China is applying some of the world's most advanced farming techniques. Many are not of its own invention, but most are being commercialised at a scale that few markets have been able to meet to date. Chinese farmers deploy 10 times the number of drones in agriculture than their US counterparts.

Privately-owned Shouguang Vegetable and Food Industry Group in Shandong produces 9 million tonnes of vegetables per annum from 600,000 greenhouses, covering 60,000 hectares, dominating supply to Beijing, Shanghai and a significant portion of northern China. Between 2015 and 2025, China spent on agrotechnology the equivalent cost of building 53 Three Gorges Dams: USD 1 trillion. In Fujian, one hydroponic and aeroponic factory farm uses 95% less water than traditional farms and yields 10,000 tonnes of vegetables, 400 times that of traditional farming per hectare per annum. It employs 15 people. Vertical farming of this kind grew 40% in 2025 and is forecast to expand by over 12% for each of the next five years, and will come to characterise produce supply to China's wealthier cities in the future.

Global producers need not only consider the impact of China's increasing agricultural prowess in respect of Chinese companies competing in domestic markets, but also these companies' impact on markets around the world. Toughened by unremitting local and inter-provincial competition, Chinese entrepreneurs in the food industry will soon make themselves felt in global markets.

Collaboration rather than protectionism is key for foreign companies wishing to maintain their domestic and global markets and expand within China. Where collaboration is not possible, foreign firms need to become sufficiently local to compete. US and German companies were early leaders in foreign investment in China in the first three decades following China's reopening because they invested and formed strong partnerships. In the middle of the last decade, they began to fall behind Chinese competitors, due to domestic political and strategic impediments in their home markets, combined with an inability to grasp the impact of Chinese long-term industrial planning.



China's need, foreign investors' gain: knowledge and technology

China's lack of arable land and freshwater sets hard limitations, and Chinese business people are constantly seeking to acquire new technology and know-how. It is a mistake for foreign investors to resign themselves to the idea that they cannot participate and compete in China now. Some harbour outdated views that intellectual property is widely stolen with little legal recourse. On the contrary, Chinese entrepreneurs and scientists have created a great deal of IP in recent decades, spawning a commensurate legal and, by global standards, thorough arbitration system.

This evolution has finally established a credible basis for engaging China not only as a market for products, but also as a venue for structured collaboration around technology and know-how. Such business is unlikely to encounter the stiffening domestic competition felt in product sales, aligns with Chinese policy objectives, and presents stable, long-term opportunities for profit generation.

Despite the unprecedented pace of China's agricultural revolution, much of Chinese agriculture and horticulture remains technologically backwards, with horticulture in particular often taking place in remote, hilly, and even mountainous regions that are ill-suited to the application of the unmanned vehicles and robotic systems in which China has specialised. Foreign companies may find excellent opportunities in places that lie outside of China's wealthiest cities, but still in the hearts of markets where demand is strong and partnerships are welcomed.

The West is rich in agricultural technology and biotechnology, and, equipped with AI tools, will develop further each year. In many fields, the West is still more advanced than China. Coupled with building fresh food brands in China, Western companies need to consider how best to invest their technology and know-how in order to participate in and profit from China's ongoing agricultural and consumer revolution.

Greater China Insight

China's 2026 Start and Headwinds



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China's 2026 start and headwinds

1. Policy signals continue to favour industrial upgrading over the next five years, reinforcing a growth model less reliant on property. The housing sector is unlikely to recover sufficiently to make a meaningful contribution to growth in 2026.
2. Instead, the global technology super-cycle has supported China's exports. However, a sharp downturn in this cycle would present a material headwind to the economic outlook.
3. The central bank is likely to remain cautious on rate cuts, favouring liquidity operations to keep market conditions accommodative.

Modest start

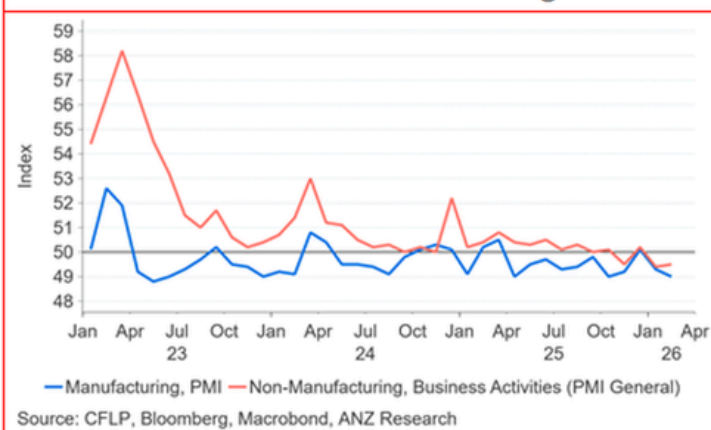
China's economic momentum in Q1 2026 remained modest, with activity indicators softened by temporary factors rather than a renewed downturn. Manufacturing and services PMIs weakened early in the first two months (<50), reflecting the timing of the Lunar New Year, which disrupted production schedules, logistics and survey responses. Service PMI has contracted frequently recently. The holiday effect was particularly evident in labour-intensive and manufacturing sectors, overstating underlying weakness. We need to observe the activity data in March for a full assessment of economic momentum in the first quarter.

Inflation dynamics turned incrementally more supportive. Headline CPI in January and February rebounded to 1.3% y/y YTD after an extended period of deflationary pressure in 2025, driven mainly by food prices and a gradual recovery in services inflation. PPI also showed a material recovery in February from -1.4% to -0.9% showing deflation risks have eased. Inflation expectations appear to have stabilised, reducing the risk of delayed consumption and investment. While pricing power remains limited, the shift away from outright deflation is an important signal for an improvement in supply-demand imbalance.

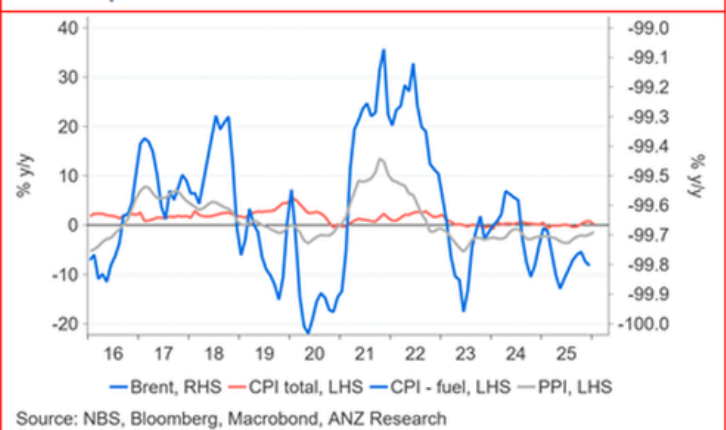
External demand continued to provide a partial offset to domestic softness. Export growth in January and February grew by 21.8% y/y YTD, thanks to a late Spring Festival and strong AI-related demand. However, we expect March export growth will significantly slow down, bring the quarterly export growth to 6-10% range. Imports also showed a strong rebound in the first two months of the year with a 19.8% rise. Commodity rallies will likely shape China's import landscape and import growth is expected to show positive numbers after stagnating at 0% in 2025.

Taken together, Q1 data points to below-potential growth, but GDP will still be likely fall within the range of 4.5%- 5.0%.

China's service sector is contracting



The impact of oil shock to CPI is contained



External uncertainties heightened

External uncertainties have intensified in early 2026, skewing risks to the downside for China's outlook. Renewed volatility in global energy markets, linked to heightened geopolitical tensions in the Middle East, poses a near-term risk to costs and inflation dynamics. A sustained oil price shock would lift producer prices and transportation costs. However, every 10% increase in oil price will only be translated into 0.1% rise in China's CPI. Structural gains in energy efficiency and renewable capacity limit vulnerability. The overall impact should be contained.

Trade policy uncertainty has resurfaced as a significant challenge. The recent US Supreme Court decision regarding reciprocal tariffs has renewed debate over the stability and breadth of current tariff agreements. In addition to the imminent implementation of Section 122, the US may invoke Section 301 to raise tariffs on China. Such uncertainty can discourage investment, accelerate the restructuring of supply chains, and heighten cautiousness among exporters. Businesses now contend with extended planning cycles, increased compliance expenses, and elevated regulatory risks. These dynamics inhibit capital spending linked to US-centric demand and diminish medium-term certainty for sectors reliant on exports.

We continue to believe that the technology super-cycle will support China's exports. However, growing concerns about valuation excesses in AI-related assets increase the risk of a sharp reversal. Although this is not our base case, weaker confidence in the global growth outlook and higher oil prices could present a material headwind to China's exports. These external risks reinforce the importance of maintaining policy flexibility and macroeconomic stability amid an increasingly uncertain global environment.

The 15th Five-Year Plan: Lower growth, higher discipline

At the National People's Congress, China lowered the GDP target to 4.5–5.0% for 2026. We consider this growth target a stretch goal for the world's second-largest economy. China's GDP reached CNY140trn in 2025. We forecast China's nominal GDP to expand 4.8% in 2026, translating into a nominal value of CNY6.7trn in 2026 and close to USD1trn at an exchange rate of 6.75 by the year end. According to our estimation, China needs to raise an additional CNY3trn debt to achieve this goal. This is considered costly.

The next five years will require a new assumption for potential growth, which China has historically revised down in each cycle, from 7–8% in the 12th FYP to 6–7% in the 13th and 5–6% in the 14th (Figure 3). Demographic change alone is estimated to drag GDP growth by around 0.3ppt per year, while rising global trade protectionism continues to restrict China's access to the technological frontier. Against this backdrop, we believe annual growth of 4.5–5.0% in the 15th FYP and 4.0–4.5% in the 16th FYP is a reasonable baseline, which would still enable China to double its GDP per capita from 2020 levels by 2035.

Productivity improvement will be central to the new economic regime. In the 14th Five Year period, labour productivity grew at an average rate of 6.1% annually, compensating the negative contribution of labour inputs. With labour supply tightening, future growth will increasingly depend on total factor productivity gains. Policy focus will remain on advanced manufacturing, digitalisation and green transition, but with greater emphasis on efficiency and commercial viability. Structural reforms aimed at improving market access and capital allocation will be critical.

Reform-led policy with targeted support

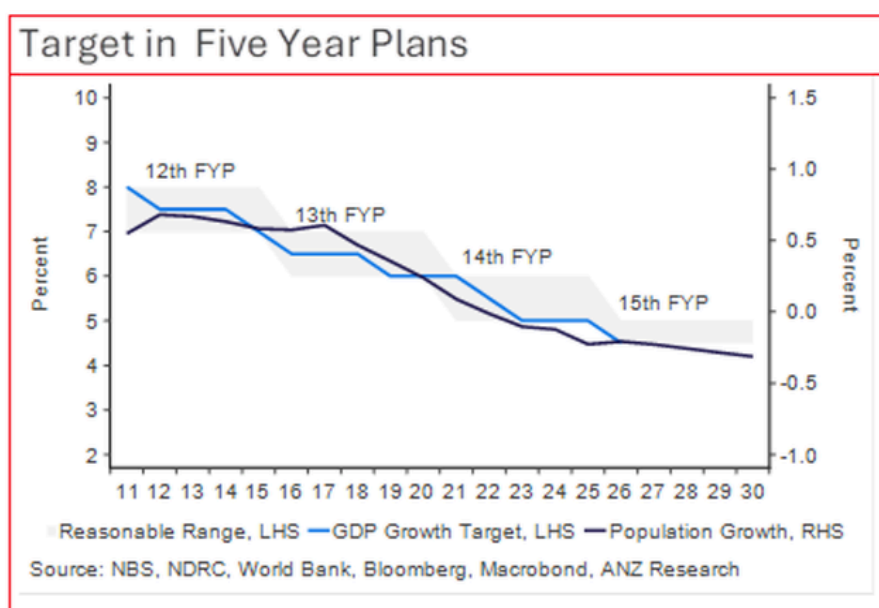
China's policy stance is leaning towards reform-oriented in the 15th Five Year Plan, emphasising on cross-cyclical adjustment (i.e. volatility control) rather than counter-cyclical. We expect the People's Bank of China (PBoC) to exercise caution regarding an interest rate reduction. If Q1 GDP is 4.5%, the likelihood of a policy rate cut in the near term remains minimal, as headline growth rates are projected to be higher in subsequent quarters. Instead, we continue to forecast two reserve requirement ratio (RRR) cuts of 25bp each for 2026, with the first expected prior to the Politburo meeting in April. We believe these measures will adequately support economic growth.

Targeted easing measures are expected to be used by authorities to foster structural growth. A recent official announcement highlights 'employment stabilisation' as the top priority. The mandate to create over 12 million new urban jobs is compulsory. Typically, each percentage point increase in GDP equates to roughly 3 million new urban positions.

A lower GDP target will offer a window for the PBoC to review its policy framework. China has established its 'scientific and prudent monetary policy frame (科学稳健的货币政策体系)' since 2024. The authorities will take this opportunity to reform the interest rate corridor, bank reserving method and exchange rate management.

The overall fiscal strength is less aggressive than last year. In 2025, China prepared nearly CNY14trn broad deficit (10% of GDP) ahead of the US tariff uncertainty. But only CNY12.7trn of funds were utilised (9%). This year, the broad deficit is set at 9.5% of GDP. Fiscal spending will increase 4.4% (1.0% in 2025) in the General Public Budget and 5.1% (11.3% in 2025) in the Government Fund Budget.

Government funding will be allocated to support growth and manage risks. Growth-related spending will be reduced to 7.3% of GDP, compared to 7.5% projected for 2025, mainly supported by bond issuance. Policy banks will provide CNY800bn in policy financing tools this year, an increase from last year's CNY500bn. These funds are intended to drive investment throughout the year.





ABOUT US

The New Zealand Business Roundtable in China (NZBRiC) is a non-profit organisation that unites industry, corporate, and individual members committed to advancing the New Zealand-China commercial relationship. Our mission is to foster a collaborative network of businesses and government leaders, serving as the primary voice and advocate for New Zealand-China trade relations. Through our efforts, we continue to strengthen bilateral ties and drive growth in key trade sectors across both nations.

Our members span a diverse range of sectors, including food and beverage, professional services, cosmetics, technology, education, and fast-moving consumer goods. Collectively, our membership now accounts for over 50 per cent of New Zealand's export value to China.

Headquartered in Shanghai - China's economic centre - NZBRiC remains closely connected to its members, delivering dedicated support through our four core pillars: advocacy, information and insights, networking, and representation. These pillars guide our work as we champion the interests of New Zealand businesses in China, ensure they are informed and heard, and foster meaningful connections that help drive long-term success in the world's second-largest economy.

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