NZBRiC
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 2 2025

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

TABLE OF CONTENTS

EDITORIAL TEAM

For inquiries about the NZBRiC Quarterly Industry Report or other questions, please email information@nzbric.com

MESSAGE FROM OUR CHAIR

MARK ANDERTON

Chair
NZBRiC

Dear Readers,

It is my pleasure to introduce the NZBRiC Quarterly Industry Report, a platform that aims to foster collaboration and share valuable insights among New Zealand companies operating in China.

Our goal is to advance the key trade sectors of both New Zealand and China by leveraging the expertise and knowledge of our NZBRiC members across different industries.

Through this report, we provide a content-driven platform for our member companies to share their China-specific industry insights and experiences through stories, opinion pieces, official industry reports, and other means.

As we step into 2025, we're excited to share the sixth issue of the NZBRiC Quarterly Industry Report and hope you find it both insightful and valuable. This edition features prominent voices on NZ–China trade from first-time contributors, including Consul General Chen Shijie of the Consulate-General of the P.R.C. in Auckland and Joshua Tan, Executive Director of ExportNZ. We're delighted to share their insights with our readers and would like to thank them for their efforts as we continue to foster informed dialogue and stronger connections within the business community.

We encourage you to share your comments, feedback, and suggestions for our future editions. If you would like to collaborate with us, please do not hesitate to get in touch.

Thank you for your support, and we look forward to hearing from you.

Best regards,
Mark Anderton

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

Chinese Modernization: A New Option for Achieving Modernization

Opinion Piece

**CONSUL GENERAL
CHEN SHIJIE**

Consulate-General of P.R.C. in Auckland, New Zealand

中华人民共和国驻奥克兰总领馆

CONSULATE-GENERAL OF THE PEOPLE'S REPUBLIC OF CHINA IN AUCKLAND

Many Kiwi friends have asked me: What exactly is the Chinese modernization? Imagine these scenes: farmers piloting drones to sow seeds in rural fields, live streamers at the China International Import Expo connecting New Zealand products with millions of households, people of all ages effortlessly applying mobile payments in daily purchases on bustling streets. These are all portraits of the Chinese modernization in reality— a path led by the Communist Party of China, rooted in 5,000 years of civilization, and centered on the people. It pursues harmony between humanity and nature, as well as win-win cooperation. This model not only creates a new way of life for 1.4 billion Chinese people, but also offers a new choice for humanity's pursuit of modernization.

Chinese modernization is for all Chinese people. Economic development at the cost of wealth concentration in the hands of a few has occurred to many nations in their pursuit of modernization. The Chinese modernization transcends the Matthew Effect by pursuing common prosperity. Yet, common prosperity cannot be achieved by robbing the rich to aid the poor, which would only lead to a welfare trap. China does not pursue uniform, simultaneous wealth for all, but rather strives to grow and improve the "economic pie" through high-quality development and distribute it fairly through rational institutional arrangements. The goal is to narrow regional disparities, urban-rural gaps, and income inequality, ensuring that the fruits of economic and social progress benefit everyone.

China has achieved a poverty alleviation miracle, lifting over 10 million people out of poverty annually for eight consecutive years, equivalent to 20 people shaking off poverty every minute. It has built the world's largest high-speed rail network, 5G infrastructure, and healthcare system, continuously enhancing people's sense of gain, happiness, and security. These are the most remarkable “answer sheet” of the Chinese modernization —and the “graders” are the hundreds of millions of ordinary Chinese people.

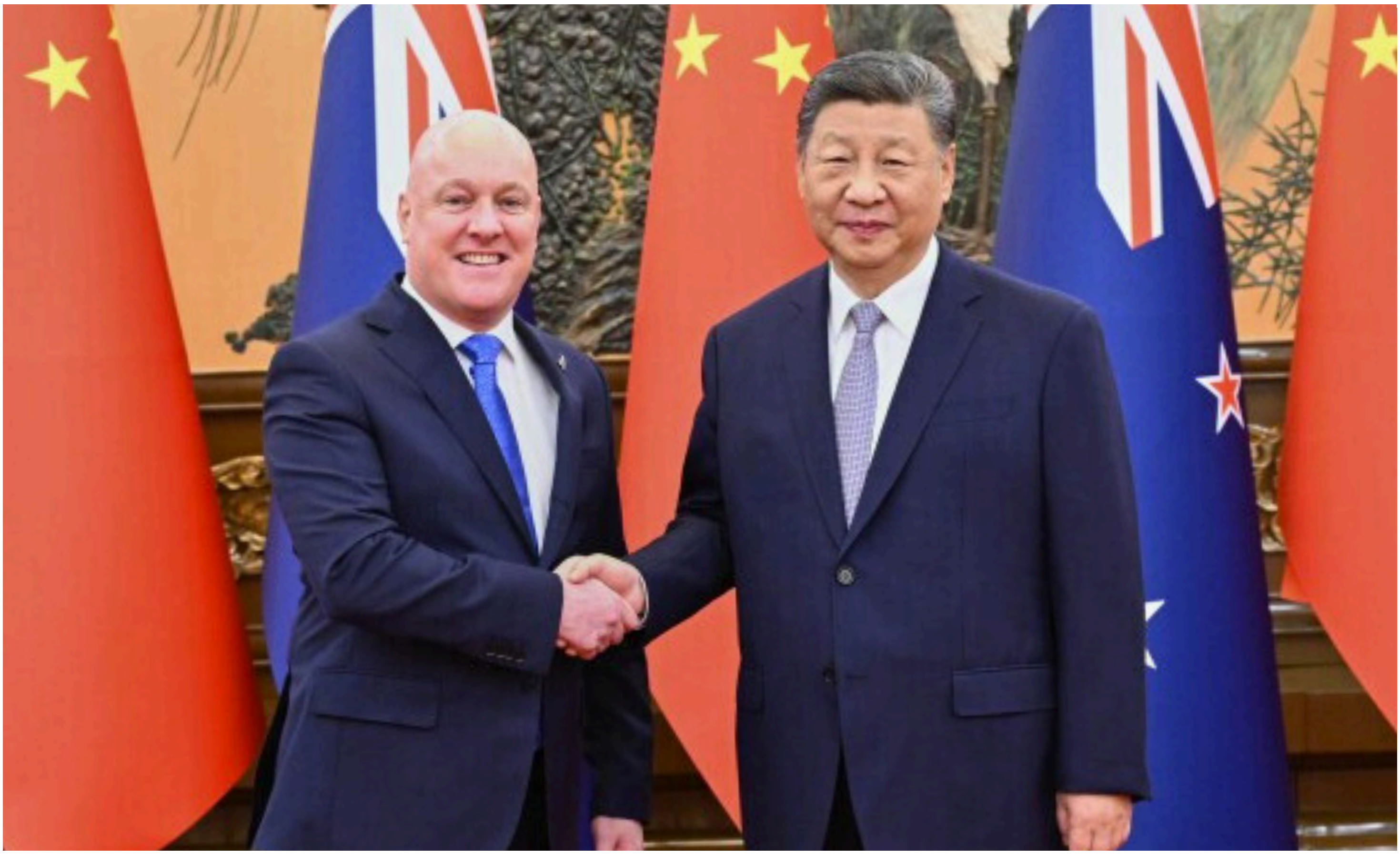
Chinese modernization is committed to green development. Must economic growth come at the expense of the environment? 3 The answer is definitely no, and New Zealand stands as a shining example. China upholds the principle that "lucid waters and lush mountains are invaluable assets," vigorously advancing green transformation, accelerating renewable energy development, and implementing its carbon peak and neutrality goals. Today, China has become the world's largest producer and user of renewable energy equipment, manufacturing over 80% of global photovoltaic products and accounting for more than 60% of worldwide new energy vehicle production and sales.

New Zealand has long prioritized low-carbon economic development, and we are delighted to see an increasing number of solar power plants equipped with Chinese technology being commissioned. China will stay on the path of civilization development featured with productive growth, prosperous living, and healthy ecology, while leveraging its leading advantages in renewable energy to provide robust support for the green energy transition of nations worldwide, including New Zealand.

Chinese modernization preserves our civilizational heritage. As President Xi Jinping says, Chinese modernization infuses Chinese civilization with modern vitality, and the rich heritage 4 of Chinese civilization bolsters Chinese modernization. One of the core values of Chinese civilization is “a world of fairness and equity for the common good”, which is in the same vein as the Vision of Building a Community with a Shared Future for Mankind, the Global Development Initiative, the Global Security Initiative and the Global Civilization Initiative.

The traditional Chinese way of getting along with others, which values peace and harmony, is reflected in China’s firm commitment to the path of peaceful development. Rooted in the idea of “seeking common ground while reserving differences” and “harmony in diversity”, Chinese modernization is distinctly open and inclusive, which resonates well with the open and diverse social environment of New Zealand. Despite the differences in history, culture, development stage and political system, China and New Zealand both advocate exchanges and mutual learning among different civilizations and cultures, believing that all civilizations are good and can thrive together. The two countries are committed to the principle of not letting differences define bilateral relations, and have worked together to keep the relationship sound and stable over the long term.

Chinese modernization pursues win-win cooperation. The development of one country should never come at the expense of others. President Xi Jinping pointed out that the modernization we are pursuing is not for China alone. We are ready to work with all countries to advance global modernization featuring peaceful development, mutually beneficial cooperation and common prosperity.



Today, geopolitical conflicts are erupting one after another globally, economic growth lacks momentum, and trade wars and tech wars are challenging global governance rules, filling the world with uncertainty. As the world's second-largest economy, China continues to drive mutually beneficial cooperation through its own high-quality development, injecting new momentum into the global economy. Since the beginning of this year, China's economy has sustained its upward trajectory. In the first quarter, GDP grew by 5.4% year-on-year, ranking among the top performers of major global economies. Despite external pressures, China's exports have shown strong resilience, with a 7.2% year-on-year increase from January to May.

From January to May this year, bilateral trade between China and New Zealand reached US$9.06 billion, up 5.7% year-on-year, with New Zealand's exports to China hitting US$6.05 billion, a year-on-year increase of 10.7%. In March, the first round of negotiations on the negative list for trade in services under the China-New Zealand FTA was held in Beijing. Together, we will create an upgraded China-New Zealand FTA 3.0, delivering more tangible benefits to our peoples. Through these practices, China and New Zealand demonstrate that cooperation is the only right answer to overcoming shared challenges.

There is neither single modernization model that reigns supreme, nor universal modernization standards applicable everywhere. China's steady and solid success has shown the world that there is more than one path to modernization —a revelation of profound significance for human civilization. Looking ahead, China stands ready to share development opportunities with all countries, including New Zealand, to achieve mutual benefit and win-win outcomes, and jointly build a community with a shared future for mankind.

From Tariffs to Budget 2025: Charting a Steady Course in Unpredictable Times

JOSHUA TAN
Executive Director at ExportNZ

&

CALLUM ROBERTS
Communications Manager at ExportNZ

ExportNZ
EXPORTERS HELPING EXPORTERS

Kia ora from the capital city.

As we head into the colder months back home, the twists and turns of US trade policy remain “predictably unpredictable” - although the dust seems to have settled for now with the announcement of a deal being done between the US and China. However, the 55 percent tariff on Chinese goods imported into the US will be cold comfort for exporters and importers alike, and as Trump’s attention turns toward the escalating conflict in the Middle East, the risk of further geopolitical instability and supply chain disruption looms large for global businesses.

Rarely can businesses insulate themselves from politics; these events should be cause for concern, and exporters are not immune.

The advice from ExportNZ remains consistent: Keep planning for a range of scenarios and outcomes.

Stay closely informed through reliable channels such as NZTE and MFAT. Maintain regular dialogue with your in-market buyers and distributors. Work with your freight forwarders and supply chain partners to anticipate any possible disruptions over the coming months.

Late last month, we heard from China’s Auckland Consul General, Mr. Chen Shijie, at an event hosted by the EMA. The Consul General conveyed a strong sense of confidence in managing any trade or tariff turbulence in the months ahead. Mr. Shijie reinforced China’s strong commitment to the rules-based trading system and its well-established economic relationship with New Zealand.

A key takeaway from the address was that the Chinese government feels well-prepared for a range of possible trade conflict scenarios. Their long-term strategic planning (often spanning decades) suggests that while near-term disruptions are expected, China is willing to weather short-term tensions and play the long game. That includes any potential renewed trade confrontations with a Trump-led US administration.

We’ve been pleased with the positive engagement of officials from the Chinese embassy and consulate offices to address and eliminate non-tariff barriers, and other issues that New Zealand businesses face when engaging in business and trade in the Chinese market.

So, what do we make of this? Actions speak louder than words and the Chinese government have made significant moves to open the Chinese market as a place for New Zealand businesses to engage in and conduct business. Visa-free travel, removing non-tariff barriers, and a public commitment to the rule-based order should tick several boxes for New Zealand businesses looking for markets to work in. Even amid global uncertainty, there's a measure of stability and certainty when trading with China, and Chinese policy settings towards New Zealand are likely to remain stable for the foreseeable.

The upheaval caused by US trade policy has presented both problems and opportunities for New Zealand companies. Exporters are frustrated over the added 10 percent tariff on New Zealand exports to the US, and New Zealand companies manufacturing in China have not escaped the trade war between the two superpowers.

But overall, the commentary from exporters has been largely positive. These unnecessary costs can still be managed through negotiating with partners. New Zealand premium products sold in the US also have high price points so an increase, like a 10 percent tariff increase, is not expected to deter targeted consumers in the US.

New Zealand's strong reputation has meant that exporters are receiving enquiries from buyers that would have typically given their business to US firms and manufacturers, too, and some New Zealand companies are now accelerating their US market plans. The baseline tariff coupled with a strong reputation means that New Zealand goods and services become a more attractive proposition compared to some competitors. On the manufacturing side, they see the current situation as an opportunity to invest and establish a presence Stateside.

We're also encouraging exporters to seek out dependable, rules-based markets. New Zealand's global reputation as a consistent, high-quality, and trustworthy trading partner serves us well. With around 75 percent of our trade conducted under free trade agreements, exporters and importers have a strong foundation of certainty and market access to build when other markets are less certain.

Through engaging with exporters, manufacturers and officials, we've seen that adapting to the current global economic environment has taken several different forms. We encourage companies to plan for different scenarios, strategise with advisors and directors, and engage with external suppliers and buyers early. In short, your relationships are key.

Domestically, there has been mixed commentary and statistics on how well the New Zealand economy is performing.

In April and March, New Zealand had record surpluses for two-way goods trade ($970 million and $1.4 billion respectively). The SOPI (Situation and Outlook for Primary Industries) Report forecast strong growth and demand for the next 18 months. However, The BusinessNZ-BNZ PMI (Performance of Manufacturing Index) and PSI (Performance of Services Index) both fell back into contraction after positive Quarter 1 expansion.

BNZ commentary called the combined services and manufacturing slump “nothing short of disastrous” and that there are “clear warnings that the New Zealand economy has hit a brick wall in Q2”. PMI data in China, Australia, and the US also showed a decline, while the Eurozone, UK, and Japan we also in contraction territory.

Contracting results represent a shaky New Zealand economy currently propped up by a strong agriculture sector which is in turn driven by strong dairy and beef prices, good harvest seasons in NZ, and a low New Zealand dollar. Strong agri results aside, there is plenty of talk in New Zealand of “uncertainty”, “economic headwinds” and “navigating difficult conditions” and this all trickles down to paint a less than optimistic outlook of the economy.

Finally, Budget 2025 came and went with a few wins for New Zealand exporting businesses. The biggest announcement in the budget was the new tax incentive that will allow businesses to immediately deduct 20 percent of the cost of new assets like machinery and equipment. There was also:

- $84 million over four years in new funding to enhance New Zealand's relationships with Asian countries, address trade barriers, and support the Government's goal to double exports.
- $85 million over four years to establish Invest New Zealand.
- A total of $48.8 million to go to initiatives to support the science and innovation sector. This funding will support the establishment the new Public Research Organisations (PROs), the creation of a new gene technology regulator, and the formation of the Prime Minister's Science, Innovation, and Technology Advisory Council.
- Establishing a $246 million fund to support primary sector growth and replace the former Sustainable Food & Fibre Fund.
- $577 million in increased funding to sustain the International Screen Production Rebate.
- An extra $100 million contribution to the Elevate NZ Venture Fund to support later-stage NZ startups.

Despite a record-breaking year in 2024, there is a long way to go to double New Zealand’s export value by 2034. And while ExportNZ and BusinessNZ welcome these announcements we emphasise that substantial policy support, strategic investment, and consistent engagement with sector leaders are crucial to achieving the government's goal.

Grin – Walking the Talk: How a Community-First Strategy Unlocks Market Potential

Corporate Member Spotlight

LEO LIU

General Manager of China at Grin

Introducing Grin:

Grin is a New Zealand oral health company proudly taking on global industry leaders with 100% natural, eco-friendly oral care solutions. Launching in New Zealand in 2015, Grin has since grown into a global market challenger, with its products now available in the United States, Australia, and of course, China. At the heart of Grin's growth is its mission to create safe, sustainable, and natural oral care products that encourage long-term healthy habits. Many of its products are made using recycled materials — from toothpaste tubes to toothbrush handles and floss picks — reducing plastic waste without compromising performance. Its products feature naturally sourced ingredients like Manuka Oil, Propolis, Organic Sea Salt, and Charcoal.

More than just an oral health company though, Grin is a committed advocate of Environmental, Social, and Governance (ESG) initiatives, establishing itself as a positive force for social good within its communities. Its most distinguished charitable program, "Share a Grin", has helped over half a million children in New Zealand, Australia, and China by providing toothbrushes and supporting oral health education. In China alone, Grin has partnered with 35 different social charities/associations and 70 schools to help over 30,000 students.

In this edition of our Corporate Member Spotlight Series, we sat down with Leo Liu, Grin's General Manager for China, to explore the thinking and lessons behind the company's mission and its commitment to ESG. During the interview, we discussed Grin's beginnings in China, opportunities to grow as a small player in China, the importance of building localised brand credibility that reinforces New Zealand values, and fostering strong relationships with local government. As will become clear, a community-based approach has been central to Grin's development in almost all these aspects.

Grin's Beginnings in China

Before expanding into the Chinese market, Leo explains that Grin's primary goal was to strengthen its service and establish itself as a leading player in the New Zealand and Australian markets. This meant focusing on steadily expanding its reach – starting with dental clinics, then moving into pharmacies, and eventually onto supermarket shelves. By 2019, Grin had become the number one natural oral care brand in the pharmacy channel in both New Zealand and Australia with the goal of achieving the same in supermarkets.

Having consolidated a stable leadership position in its home market, Grin turned its attention to China—a market it had identified as high-potential for quite some time. According to Leo, this interest wasn't driven solely by China's sheer market size or economic strength, but by something more deeply cultural: the mindset of Chinese parents. "Chinese parents are especially unique in their desire to give all the best things to their kids," he explains. This insight aligns with Grin's long-term strategy, which centres on the children's oral care segment. By focusing on building healthy habits in children early on, Grin aims to establish lasting brand loyalty and promote long-term oral health—both of which are core to its mission and positively benefit local communities.

In Leo's words, "When we came up with the idea of Grin, we tried to make products safe for kids, pregnant women, and people who want healthy products. Then we filed down this list and asked, who needs these products the most? You know, actually it's the kids. Because if you don't have a good habit of brushing, you have tooth decay and oral diseases. So, we need to build a good habit from a young age when people are kids. This is why we started 'Share a Grin', to give back to communities and show something we do differently."

Thus, with a strong parental culture that prioritises giving children the very best, and Grin's ongoing efforts to improve children's health through a community-first strategy, the opportunity in China was clear. Under this strategic rationale, Grin entered the Chinese market in 2019, partnering with local hospitals, pharmacies, and dental clinics to deliver its products to direct consumers. Furthermore, such partnerships also enabled Grin to begin running ESG initiatives early on so that the market understood Grin's values and mission. However, as the company identified early on, it would take more than this strategy alone to compete with over 200 oral care providers in a Chinese industry worth NZD $20 billion.

Opportunities to Grow as an Emerging Player in China

One of the key opportunities Grin leveraged to grow as an emerging player in China was the strategic use of omni-channel livestream marketing across popular social media platforms. In a market where the average user spends between 90 minutes to two hours a day scrolling, livestreams are powerful as they are often pushed to the top of user feeds. For Grin, this created a unique opportunity to engage directly with consumers—educating them on natural oral care, building brand visibility, and capturing market share from traditional offline competitors dominating retail shelves and supermarkets. Livestreaming didn't just boost exposure; it allowed Grin to communicate its values, demonstrate product benefits in real time, and foster trust with a digitally savvy audience.

Complementing this digital engagement was China's advanced delivery infrastructure, which amplified the effectiveness of Grin's online strategy. Leo explains that early on, the team recognised China's fast, low-cost logistics and rapidly expanding e-commerce channels as major differentiators compared to other markets. For instance, in the United States, shipping a single parcel can cost between $10–20 USD and take up to three days. In contrast, China's delivery system typically charges less than one US dollar per parcel and can reach consumers within just half a day. For a new entrant like Grin, this provided the ability to fulfil online demand efficiently and transform social media traction into real sales and customer satisfaction at scale. A striking testament to the success of this strategy came in 2022, when Leo reported that Grin sold 200,000 products in just four hours of live streaming. Though live streaming is a much more competitive space today and is less used by Grin as the organisation has grown, Leo still believes it is a useful opportunity for new businesses.

Today, China is Grin's fastest growing market, representing approximately 35 per cent of its global business, with the rest coming from the United States, New Zealand, and Australia.

Building Localised Brand Credibility that Reinforces New Zealand Values

To succeed as a New Zealand brand in China, Leo argues that it takes far more than simply carrying the “Made in New Zealand” label. Relying on that label alone risks being seen as just another foreign company, distinguished only in contrast to local competitors. True success, he suggests, comes from actively embodying and expressing the values New Zealand stands for: openness, innovation, and a commitment to community—values that genuinely resonate with Chinese consumers.

“It’s not just about bringing benefits back to communities in New Zealand, but bringing them directly to local communities as well.”

Achieving this level of localisation, however, requires more than good intentions. Leo emphasises the importance of building strategies grounded in local insight by leveraging the knowledge and expertise of local talent. This approach allows brands to authentically connect with Chinese consumers, not just by offering quality products, but by delivering meaningful impact right back into the communities they sell to. Without this depth of engagement, Leo warns, foreign brands risk being reduced to mere vendors, appreciated for their products but disconnected from consumers.

“So, give back to the community, with your local strategy, with the local talent. I think that’s the key.”

Telling examples of this approach in action is Grin’s sponsorship of more than ten marathons throughout China in the past three years. By supporting events that promote healthy lifestyles and benefit local communities, Grin positions itself as both a consumer health and community-first brand. To maximise the visibility and impact of these efforts, Grin partners with influencers whose platforms reflect its values, inviting them to join running groups and volunteer during the marathons. These collaborations are mutually reinforcing. Influencers strengthen their personal brands by aligning with Grin’s positive image, while Grin benefits from authentic, values-based exposure to their audiences.

Fostering Strong Relationships with Local Government

Another key pillar of Grin's efforts towards building a successful and credible brand in China has been fostering strong relationships with local government. According to Leo, this begins with active participation in the community - entering local competitions, attending government events, and maintaining a visible presence through ESG initiatives. For Grin, this approach has seen the organisation officially recognised as one of the top 50 best investments in Shanghai, standing out as the only consumer brand among 806 different companies considered. Such recognition, Leo notes, not only builds credibility but also differentiates Grin in the eyes of both officials and consumers as something unique. Furthermore, Leo explains that Grin's local standing enables the company to support eligible employees in obtaining Shanghai *"hukou"* residency faster—an important incentive in attracting and retaining high-quality talent. In this regard, Leo demonstrates that fostering strong relationships with local government has a beneficial flow-on effect on both consumer perceptions and operational effectiveness.

Final Remarks

At the conclusion of the interview, we asked Leo what piece of advice he'd give to a New Zealand company preparing to enter China for the first time. In his words, Leo said "It's a very simple piece of advice: you must come to see the market for yourself. People are friendly and channels are open and accessible... There's huge opportunity here in China, you only have to come see it for yourself."

Acknowledgements

We'd like to thank Leo for his time and contributions to the development of this article. If you're interested in learning more about Grin, please see their website (www.grinnatural.com) or visit their WeChat Mini Program (Grin新西兰专业天然口腔护理品牌).

Asia Macro Weekly

ZHAOPENG XING
Senior China Strategist
ANZ Bank

ANZ 澳新银行

China: Headwinds Remain in Place

- The trade talks in Geneva and London suggest both China and US are willing to close a deal. This will reduce the uncertainty in the external outlook.
- But the elephant in the room is property market. Negative wealth effect continues to weigh on consumption.
- We watch closely the timing and agenda of the 4th Plenum which may have significant implication on China's policy orientation.

Trade Shock Contained

Despite turbulent talks with the US, China's export growth remained steady in May. The trade surplus increased to USD103bn from USD96bn in April. However, exports composition shifted post-tariff. Overall exports grew 4.8% y/y, down from April's 8.1%. Exports to ASEAN surged nearly 15%, while those to the EU and Africa increased by 12% and over 33%, respectively.

In contrast, direct shipments to the US dropped 34.5%, the steepest decline since February 2020 due to Covid-19. With smaller import decreases, China's trade surplus with the US reduced by 42% y/y to USD18bn.

Though the tariff shock hasn't caused a COVID-like trade collapse, China's economy remains stagnant. The manufacturing PMI rose to 49.5 in May, rebounding from April's 16-month low but still showing contraction for the second month. The new export orders index increased to 47.5%, up by 2.8 percentage points from April, yet remains in contraction.

The non-manufacturing PMI dipped slightly in May to 50.3, down from April's 50.4. Construction activity fell to 51.0, while services rose slightly to 50.2. The indices are marginally above the threshold, reflecting a sluggish domestic economy that leaves China vulnerable to external shocks.

We hold a cautious view on China's growth outlook. At this stage, we maintain our full-year GDP forecast for 2025 at 4.2%. After the 5.4% recorded in Q1, the economic performance in Q2 is expected to decrease to the lower end of the 4.5-5.0% range based on April/May data.

Despite positive trade talks, China will face a higher US tariff of 55% compared to 10% for most countries. Redirecting shipments is uncertain due to the slowing global economy. Further stimulus effectiveness is questionable as Q1 GDP did well. We do see an upside risk to our forecast for H2 GDP of 3.5%.

Deflation Persists

We have pointed out that China's economic performance is better characterized by deflation rather than GDP growth. The CPI fell 0.1% year-on-year, compared to the 2024 annual average inflation rate of +0.2%. As economic momentum slows, competition among suppliers and weak demand continue to lower consumer prices. The Producer Price Index (PPI) has been contracting, with May seeing a 3.3% decrease— the steepest drop in nearly two and a half years.

The economy experienced a 0.4% m/m decline in May, marking the largest monthly decrease in six months. Positive GDP growth alongside negative reading on price indicates a significantly negative output gap or excess supply within the economy.

A significant factor contributing to China's deflationary spiral is the decline in home prices. Nationally, the property sector continues to experience downward trends. In April, prices decreased by 4.0% compared to the previous year, showing a slight improvement from the 4.5% drop observed in the prior month. The prevalence of unfinished projects and unsold units in peripheral areas will likely continue to dampen buying sentiment. Developers, facing financial pressures, are persistently reducing prices.

But urban unemployment pressure is high with youth jobless rate staying at 14%. Lacking a speculative motive for capital gain, demand for new home is weak. According to local survey, 44 of 50 major cities saw house price decline in Q1 2025. Lower rent is more attractive to urban workforce. We do not believe the sector is approaching the bottom, although some individual cities may report an improvement in sales for selected projects.

Declining property prices are affecting household consumption, keeping consumer sentiment low despite short-term measures. Retail sales rose 4.7% in the first four months of 2025 (April: 5.1%). Auto sales fell 0.5%, indicating the replacement campaign hasn't revived discretionary spending sustainably.

Service consumption remains suboptimal. The catering industry's revenue increased by 4.8% during January to April. Holiday consumption data and domestic tourism flows are not reliable indicators due to varying holiday lengths affecting year-over-year comparisons. Households seem to focus their spending on holidays while reducing their consumption during regular months.

Stimulus Insufficient

The government is expected to aim for 5% GDP growth in 2025. They could launch a stimulus package similar to the policy changes in Q3 2024. Policymakers are likely to use proactive fiscal policy as a primary tool to support infrastructure spending and technology investments. The implementation of these policies by local authorities and state-owned enterprises remains a question.

In the last two years, local governments have generally waited for clearer directives from top leadership during July's Politburo or other major Party meetings. The policy activity in Q2 might be subdued. Additionally, we will monitor the timing and agenda of the 4th Plenum in 2025 closely.

Our main concern with monetary policy is its intensity. Although the policy wording has shifted from 'prudent' to 'moderately easing', authorities prefer 'extraordinary measures' over interest rate cuts for monetary support. Unlike other economies that might reduce interest rates to negative levels during a property downturn, China maintains a higher real interest rate of around 6%, with the 5-year Loan Prime Rate at 3.5%. A rate cut of less than 3-4% is unlikely to change economic price expectations.

The reluctance to implement a significant interest rate cut is at odds with the low-yield environment currently observed in China. Due to an inadequate recovery in consumption, policymakers are compelled to depend on investment to stimulate growth. This investment-driven growth model is inevitably going to be funded by debt. The latest data from the Bank for International Settlements suggests that total credit to the non-financial sector in China is projected to approach 300% in the forthcoming years as the deflationary trend persists (with nominal GDP growing slower than debt). International evidence supports the conclusion that rising debt levels typically lead to falling interest rates. It is likely that China's 10-year yield will drop below 1% during the period of 2026-2030.

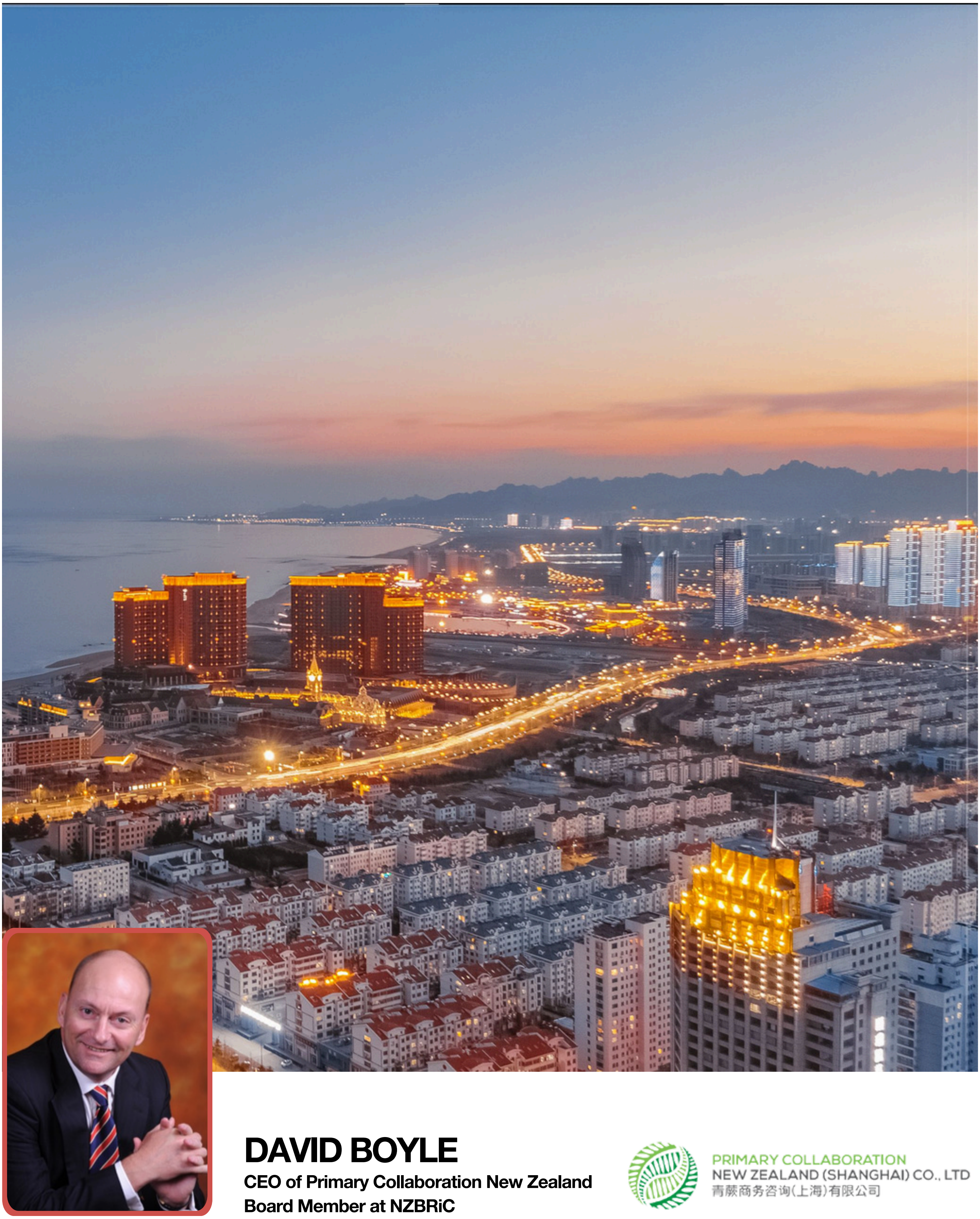
Preparing for 15th Five Year Plan

China has begun preparing the draft for its 15th Five Year Plan (2026-30) for national economic and social development. Going forward, the meaning of urbanisation will likely be very different from the previous model. As data flows become more critical, technology and innovation will play a central role in Total Factor Productivity growth rather than infrastructure related to people or goods flows.

Chinese policymakers aim for an annual economic growth of 4.7% to double the GDP per capita in the period 2020-35. Using investment to attain this goal will only extend the deflationary cycle for a few more years. Capacity expansion will continue to exaggerate the supply-demand imbalance in China. Potential growth rate is high. But output gap will stay negative. We expect PPI deflation will stay negative in 2025 and probably 2026.

Structurally, investment will be the main growth driver rather than consumption if China's economy remains capital-intensive. As labour contribution will continue to shrink, wage growth will be constrained. This will limit household spending. Stimulus measures such as consumption subsidy or equipment replacement programmes are not long-term recipe for consumption-investment rebalancing.

PCNZ Monthly Report: May - 2025



DAVID BOYLE

CEO of Primary Collaboration New Zealand

Board Member at NZBRiC

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

Greetings.

The month of May in China started with the Labour holiday and finished with the Dragon Boating festival (May 31st – June 2nd), with the frequency of holidays being part of the central government's plan to enable more shopping festivals and increase domestic consumption. To some degree that has worked, with retail sales still growing over 5% YTD, but perhaps not as strongly as was hoped. As an example, some of our brands attended the annual SIAL tradeshow in Pudong from May 19th – 21st, (Alliance, ANZCO, NZ Avocado Oil). We witnessed large numbers of people attending with most of the big distributors on show, but with muted commercial activity emanating.

Tier 2 and Tier 3 City Visits. Two recent regional visits, one to Liaocheng, and one to Qingdao in Shandong province, have been instructive about the growth prospects for regional businesses away from the main centres. Liaocheng is a relatively small Tier 3 city of 'merely' 5.9 million people, and is the home of Gambol, one of China's largest petfood businesses, employing nearly 3,500 employees. Gambol went public in 2023, with an ambition to use this public funding to expand operations, build a new plant in Thailand, plus an enormous fully automated 'pick-pack-ship' facility to cater for their online business. They are now the Number 1 domestic petfood supplier in China. They have prospered because of their speed to change, their ambition to dominate petfood via eCommerce, and lower labour and energy costs in a smaller Tier 3 city.

The second business we visited, accompanying a Hawkes Bay fruit snack business, was to Jia Jia Yue (JJY) in Qingdao, a retail chain with over 1,200 stores. They are China's 5th biggest retailer, with surprisingly low presence in Tier 1 cities. Their reach extends from their HQ in Shandong province, into Hebei, Anhui and Jiangsu provinces, and they employ over 30,000 people. They currently sell our NZ apples, and, added to our talks about dried fruit snacks, were very interested in our range of Kiwi beef and lamb. JJY purchased all Tesco's 130 stores in 2020, when Tesco retreated from China, and have since added around 100 stores per year, in the last 4 years. They ascribe their success to offering fresh, high-quality produce at 'affordable' prices, promoted by strong local marketing content, and local delivery. Like Gambol they have evolved very quickly in the last 5 years, during and after COVID.

Recently published McKinsey research about China's changing consumption behaviours (May 2025) further corroborates the views we are forming about business in the regions, and the findings from these two regional visits. This McKinsey paper headlines three key trends, after surveying over 17,000 Chinese consumers for this paper. The key trends are:

1 Consumers are accepting the new reality of the Chinese economy, including slower aggregate growth, modest growth in their household incomes, but hold some optimism for the future, as evidenced by a small increase in consumption as a share of their total household income.

2 Confidence has stabilized; as a result of the consumer incentives released in September 2024, consumers feel that falling confidence trends have bottomed out. Importantly, confidence is higher in Tier 2 and 3 cities, (and amongst rural dwellers) than in Tier 1 cities.

3 Consumers are prioritizing personal fulfilment; and are increasingly basing their spending decisions on "hard factors" like their income levels, rather than soft factors like confidence. Personal fulfilment expenditure manifests itself in homes, cars, travel, education and health.

Summarily, as we approach the June 18 sales festival ("618"), and then the two-month school summer holiday, our brands are continuously looking for fertile market opportunities, whether by segmenting regions, channels, or age and wealth demographics, which are all evolving.

The Macro-numbers: China's economic growth momentum weakened somewhat in April but steadied in May; domestic and external demand held up as the trade war with USA de-escalated. Prices still point to relatively tepid demand, and high competition, and somewhat deflationary trends continuing. Overall sequential month on month growth dropped to 2.7% in April from 5.3% in March.

- Retail sales growth gained 6.4% in May, up from 5.1% growth in April
- Core CPI inflation ticked up 0.6% in May, slightly up from 0.5% growth in April
- Property sales further contracted a further 4.6% in May, after 2.9% drop in April.

Retail sales growth improved materially in May, as the latest round of consumer goods subsidies boosted sales of household appliances and phones. There is little evidence that a tightening labour market (and higher wages) is leading to an improvement in consumption; unemployment levels remain around 5.0%. Exports were fairly resilient, in the face of the tariffs on sales to USA, but the all-important property sector has softened further by 4.6%, after a 2.9% drop in April. Housing sales dipped only slightly, but housing prices, completions, and new projects all declined.

Summary. When reviewing our key sectors export performance to China so far this year, there are grounds for optimism, tempered by pragmatism. Total New Zealand exports to China in Q1 amounted to NZD $6.29 billion (+12.5% YoY). NZ dairy exports of NZD $2.38 billion grew 40%, meat rebounded from a tough 2024 and grew +1.4% vs Q1 '24 (to $700 million) and the food service sectors increased nearly 12% to $380 million (milk preparations, pasta, baking products). However, the meat sector is still well down in annual terms (-18.7%), versus 2024, and our petfood and honey businesses have lost ground in the face of intense competition and disjointed in-market strategies. So, a mixed bag by sector, but the aggregate results are very good.

We are hoping that Prime Minister Luxon's visit, and the high profile these state visits attract, will further raise interest in our New Zealand products, in the next few weeks and month.

Warm Regards,

David

NZBRiC

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

ABOUT US

The New Zealand Business Roundtable in China is a non-profit organization that brings together industry, corporate, and individual members who share a common interest in the success of the New Zealand/China trading relationship. Our goal is to promote mutual business interests and advance key trade sectors in the New Zealand and China trade relationship.

As a collaborative network of key business and government leaders in the New Zealand-China relationship, we strive to be the leading voice and advocate on New Zealand-China trade matters. Our members represent a wide range of sectors from New Zealand, including food and beverage, services, cosmetics, technology, travel, HR, FMCG, health, and more.

In the past few years, NZBRiC has focused on collaborating and supporting NZ businesses and their teams through various challenges created by ever-changing responses to the pandemic. From 2023, we have moved into our post-COVID recovery phase with an emphasis on advocacy, representation, and providing insights to our members. We are dedicated to advancing the interests of our members and promoting a successful New Zealand-China trading relationship.

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