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 2025

A quarterly report featuring valuable insights into China-specific industries from NZBRiC member companies operating in the region

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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 fifth issue of the NZBRiC Quarterly Industry Report and hope you find it both insightful and valuable. This edition marks the launch of our Corporate Member Spotlight Series, a new initiative featuring one-on-one interviews that showcase the operational insights of our Corporate Membership. This series will continue in future editions, providing ongoing insights from in-market leading businesses.

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.

Corporate Member Spotlight: MitoQ - Uniquely Defining the New Zealand Standard in the Premium Health Sector in China

MAHARA INGLIS
CEO, MitoQ
& Corporate Member of NZBRiC

MitoQ

MitoQ

Introducing MitoQ:

MitoQ is a New Zealand consumer health company pioneering the research, development, and distribution of premium cellular health products worldwide. Born out of scientific inquiry at the University of Otago by their founding scientists, MitoQ traces its inception to their development of Mitoquional Mesylate, the world's first mitochondrially targeted antioxidant. When ingested, this molecule is absorbed into the mitochondria throughout the body. This process offers numerous beneficial health effects, including protecting against cell damage, reducing the risk of diseases, and significantly boosting energy levels.

Building on this scientific development, MitoQ has evolved in various forms over the past two decades as they've transformed scientific research and intellectual property into a commercially viable business. Today, the company now exports to more than 140 countries, with distribution centres in China, the United States, and Europe.

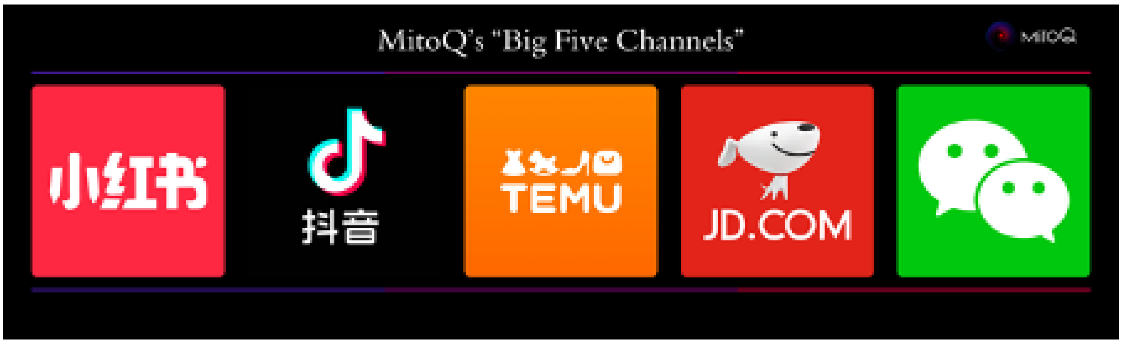
The CEO of MitoQ, Mahara Inglis, joined NZBRiC for an interview to delve into the organisation's story of adaptation, strategic decision-making, and ultimately, international success. During the interview, we discuss MitoQ's market-entry strategy into China, the creation of its unique brand, and the future of MitoQ.

MitoQ's Market Entry Strategy into China:

Initially launched in New Zealand's domestic pharmacy market, MitoQ experienced rapid growth in China with the rise of the Daigou market in 2016. To capitalise on this momentum and strengthen its control over distribution, Mahara explains that MitoQ expanded their cross-border e-commerce channels under the leadership of Zoe Li (GM, China and Asia). This distribution strategy resulted in partnerships with Chinese distributors across multiple e-commerce platforms.

Since then, MitoQ has consistently adapted to rapidly evolving consumer buying behaviour in China as the consumer market continues to grow as new e-commerce channels emerge. Specifically, Mahara identifies four key channel shifts that MitoQ has embraced under his leadership to stay ahead of the curve. These are, in order: the decline of the Daigou market, the rise of Temu Global, the emergence of Daigou 2.0 with evolved Virtual Trading Network's, and the rise of the socially conscious Douyin platform. These shifts have required MitoQ to pivot across new platforms to capitalise on emerging consumer trends and maximise its brand exposure. Mahara highlights their focus on the "Big Five Channels" - Red (小红书), Douyin, Tmall Global, JD.com, and WeChat. By leveraging these platforms, MitoQ focuses on making its products easy to sell through a pull strategy, concentrating on attracting consumers via brand exposure rather than pushing the product onto them. Testament to this strategy's success, China now represents three-quarters of MitoQ's total sales.

Forming strong relationships with the New Zealand Government has also been useful to MitoQ's growth in China. With their encouragement of two-way trade and involvement in trade events like CIIE, Mahara credits the strong export focus from the Government translating to on-the-ground support for New Zealand businesses. An example of this country to country collaboration was the visit from Chinese Premier Li Qiang in June 2024 where MitoQ announced a research partnership between MitoQ, Auckland University, and Zhe Jiang University.



Being Bold and Different - Building a Premium New Zealand Health Brand in China:

Mahara argues that boldness and differentiation are essential for establishing a unique brand, especially in China's competitive consumer health sector that is often characterized by monotonous branding. In pursuit of these ideals, Mahara says that MitoQ made three strategic decisions that have firmly established its brand as synonymous with premium quality in the market. These decisions also have the added benefit of significantly reducing the likelihood of MitoQ's products being counterfeited.

First, MitoQ redesigned and relaunched its products, drawing inspiration from the technology industry rather than adhering to traditional pharmaceutical norms. This led to the adoption of sleek, custom black packaging designed to evoke the experience of unboxing an iPhone—creating a sense of anticipation and signalling that something exceptional lies inside. In Mahara's words, "We wanted to be truly iconic, a conversation starter for our customers to share with their friends and family every time they unbox a MitoQ product." This innovative approach to product design is a first in the industry, setting new standards and forcing competitors to find ways to differentiate themselves. Furthermore, the patented packaging is so difficult to replicate that it has made it very hard for counterfeiters trying to impersonate the brand. As a result, these counterfeiters are more likely to target products that are easier to replicate.

Second, MitoQ follows a "Globally Consistent, Regionally Relevant" approach to its marketing to ensure that positioning, language, and branding coalesce into a cohesive product that resonates with local consumers. For this approach to succeed, Mahara argues that "consumer brands like MitoQ one hundred per cent need to localize to understand consumer trends with people in-market. You can't simply translate one success in a market onto another. Being globally consistent and regionally relevant means taking insights from one market's success and applying them in a culturally relevant way to another. This can't be done without localizing." By fostering a localized brand, MitoQ has crafted a premium image that aligns with consumer trends and preferences, all while maintaining global consistency in its identity.

Lastly, MitoQ's marketing consistently emphasizes its New Zealand brand identity and story, leveraging New Zealand's strong association with premium quality in the Chinese market. In MitoQ's specific case, this means communicating where Mitoquional Mesylate was founded, where products are created, and reinforcing its mission to create healthy products for the people. Additionally, the 'Made in New Zealand' label serves as a crucial mark of authenticity for Chinese consumers, reinforcing MitoQ's credibility as a trusted, high-end brand. This is especially significant considering the rise of counterfeit goods in pharmaceutical products in China. Over time, Mahara anticipates that the increasing prevalence of counterfeit products or 'jia yang pai' (fake western brands) will only serve to heighten consumer awareness of product authenticity, making the quality and origin of ingredients a more critical factor in purchasing decisions. As consumer awareness grows and advancements in biomarker tracking technology emerge to support it, MitoQ will be well-positioned for continued success.

The Future of MitoQ:

Mahara's long-term ambition for MitoQ is to have established the company as the leading consumer health brand in longevity and anti-aging, with sales over USD 100 million by 2034. A key element of this vision is for Mitoquional Mesylate to be recognised as the most groundbreaking formula in the longevity and anti-aging sectors. To achieve this, Mahara envisions the future creation of multiple brand divisions, each tailored to offer distinct products for different consumer segments. This will be supported by a robust and ongoing pipeline of research and development, building on the USD 60 million MitoQ has already invested in scientific research.

According to Mahara, the biggest uncertainty in achieving this goal lies in the rapid evolution of consumer preferences and how MitoQ will respond to these shifts in demand. However, Mahara believes two groups show promising signs of a long-term consumer trend towards anti-aging solutions. The first consists of aging populations worldwide seeking to maintain their health and appearance. The second includes health-conscious younger generations who recognise the effects of aging and aim to prevent future complications. Notably, new consumer segments in the anti-aging market are already emerging across various Chinese retail platforms. Providing these trends continue, this indicates the growing importance of MitoQ's products in the decades to come.

Acknowledgements

We'd like to specially thank Mahara for his time and sage contributions to the development of this article. If you're interested in learning more about MitoQ, please see their website (www.mitoq.com) or visit their WeChat Miniprogram (MitoQ新西兰).

China Watch Spring

DAVID MAHON
Owner, Mahon China Investment Management
& Corporate Member of NZBRiC

馬鴻 | MAHON CHINA

> *He who trusts to his abundance of natural virtue, is like an infant newly born, whom venomous reptiles will not sting, wild beasts will not seize, birds of prey will not strike.*
>
> *-Lao Zi, 5th century BCE*

AMERICA'S CULTURAL REVOLUTION

Washington is abandoning its allies and neighbours, and walling in its economy, tariff-by-tariff, sanction-by-sanction. The government which came to power upon waves of popular anger and despair is destroying trade and diplomatic links daily. At the core of its actions is the deception that foreign countries are to blame for American domestic ills, and so punishing them is in the best interests of the people.

The protection racket that now passes for international trade and political negotiations is irreparably destroying US prestige and soft power. By increasing the cost of imports and therefore prices to American consumers, Trump and his cabinet are engineering a domestic recession. Although triggered by the stock market crash of 1929, it was the following tariff war that exacerbated and prolonged the Great Depression.

Some people will be revelling in Trump and his team of oligarchs' disruptive actions, for no other reason than their disdain for our current systems and their flaws. Those with more common sense are decrying the damage being inflicted on the global economic order and the livelihoods of ordinary people. Trump is not unique in bypassing the rule of American law but he is unique in defying explicit court rulings, such as those against his deportations. The integrity of a democracy is not only that leaders are chosen by ballot but that those leaders are not above the rule of law. When this rule is subverted by politicians, all that remains is democracy's façade.

But demonising the United States misses the fact that Trump and his supporters only won by thin margins in last year's election. This is, and is not, the United States of America. **The US' potential to recover its innate tolerance, generosity and informed leadership has not disappeared.** All cultures are at risk of the power-hungry seizing political agency. While non-American observers may rage against the present perfidy of Washington as being exceptional, they risk missing the potential or even imminent threats of tyranny in their own countries. In this, China is no exception.

> *It amuses us that so many in the United States really want to change our government and refer to Xi as a dictator, as if this is what we all want. I know we are "authoritarian" but it has been benign for some time. I know the horrors of chaotic dictatorship; my father was killed in the cultural revolution and I was brought up in poverty in western China. We should treasure the prosperity and stability of this era.*
>
> *- Retired Provincial Official*

As the US becomes more bellicose and distracted with imperial delusions, China would be wise to manifest the opposite characteristics and resist the temptation to take refuge in its own brand of nationalism and cultural exceptionalism, something it has succumbed at times to in recent decades.

> *I am trying to be objective but it is hard not to take some pleasure in seeing the US do such damage to itself. It has been bullying China for years. My daughter studies in Indiana; we owe America a great deal but things have gone mad. I am old enough to remember when we were mad in our own way. Perhaps this is America's cultural revolution.*
>
> *- Beijing-based Investment Banker*

Washington cannot wage tariff wars on its major trading partners while expecting them to help it contain China and deny themselves the world's largest and fastest growing market. After three years of sanctions failing to cripple the Russian economy, which by purchasing power parity (PPP) is four times smaller than America's, it will never be able to contain, less cripple the Chinese economy, which by PPP is already 20% larger than that of the United States.

> *Trump seems obsessed with two wars: the tariff war and the war in Ukraine, but we have been well prepared for economic pressure. We have already established ourselves in alternative markets and know that his actions will drive down the value of the renminbi which will be to our advantage for a while. But the greatest benefit is that much of the world will depend more on our market than the volatile US. This is also good for the Chinese economy as our policymakers will be pushed to reform this economy to sustain new alliances. As for the Ukraine war, it is hard to see how he can make peace. He does not seem to understand the conflict from any perspective and has an odd need for Putin's approval.*
>
> *- Chinese Professor of Trade Economics*

Those looking for rational, conservative economic or even nationalist principles in the actions of Trump and his cohort may miss the possibility that Trump's actions are driven more simply by a desire to extract as much as possible from America's trading partners and to wreak revenge and havoc on any who resist or offend him. Whether Trump really believes that the US can annex Canada or Greenland is immaterial, because he will continue to damage the US economy and allies' trust the longer he makes such claims.

Canada and the EU are fighting back by lifting tariffs recently imposed on Chinese electric vehicles. The Australian Government is linked inextricably to Washington's regional China containment strategy, but facing 25% tariffs on Australian steel and aluminium, and probable 200% tariffs on wine and beer, Canberra may be forced to reconsider its strategic partnership with the US. This would be a major political win for China.

A Measured Response

Chinese policymakers are striving to rebalance the domestic economy while strengthening the country's resilience to US attempts to slow or derail its growth. Even limited progress in these areas will make the Chinese economy more productive and competitive, and open its markets to more foreign participation.

> *We don’t need our economic and geopolitical choices to be defined by Washington anymore. Our best response to the US challenge is to make our own economy strong and open to trade and investment. You can see this is our strategy in the policy announcements in the recent National People’s Congress. The next few years will not be easy but at least these stresses are forcing the government to make some long overdue reforms.*
>
> *-Beijing Policymaker*

To date, Beijing has responded to increased US tariffs in a relatively measured, non-escalatory manner. While Trump and his cabinet are protesting and posturing, Xi Jinping and his cabinet are positioning China to benefit from the new order that will ensue. This is one in which the US is a weaker player, with its waning power demarcated by new alliances and trading blocs in which China will be stronger, and in many cases, the key economic arbiter. Rather than reacting to populist tantrums in Washington, the Chinese leadership appears to be pausing at each outburst and trying to assess their substance and what may be the appropriate response.

It appears that China’s strategy is to continue establishing itself as an economy of scale and stability to serve as a counterpoint to the unpredictability of the US, with its reactive tariffs, sanctions and increasingly weaponised currency.

Economic Strategy

The Chinese Government set ambitious growth targets during the recent National People’s Congress (NPC) in Beijing. Despite Washington’s containment stance and escalation of tariffs, China has not succumbed to a siege mentality and is investing in leading sectors such as technology, renewable energy and in SMEs, while attempting to restructure embattled provincial balance sheets. Premier Li Qiang set a GDP growth target of 5% for 2025, which is ambitious but achievable. If Trump manages to apply his threatened tariffs on Chinese exports and sanctions Chinese technology companies further, China may fall short of Li’s aim, but any growth over 4% this year would be healthy.

It is problematic that Beijing has set a GDP target at all, rather than setting goals in core sectors needed to drive the economy forward. In setting a specific GDP target Beijing is demonstrating much needed confidence, but it also risks forcing local officials to deliver macroeconomic numbers when they would be better off supporting the commercial performance of key sectors within their localities. As the private sector constitutes more than 80% of the Chinese economy by most measures – profits, tax revenue, employment and innovation – private companies often pay the price of such command-economic aims, for officials come to them demanding performance indicators that support growth data. Policy initiatives and stimulus packages announced in Beijing are paid for and implemented by the provinces, and most Chinese provinces have cashflow issues from carrying the huge costs related to the pandemic, and real estate crises. Policymakers perhaps recognised this in that the outstanding issues of welfare, pension and education reforms had only scant mention in the recent NPC. Local governments invariably pay for these.

The Chinese Government reiterated its long standing yet often misunderstood commitment to the private sector during the recent NPC, preceded a week earlier by a public meeting between President Xi and China’s top tech entrepreneurs, including Alibaba’s Jack Ma. The government has always been committed to the tech sector, but this was at times obscured by anti-trust measures and Beijing’s attempts to manage and censor China’s cyberspace. Beijing remains anxious at the unrestrained freedoms technology offers citizens, outside its guardrails and filters, some of which are prudent, but many unnecessary.

Challenges Remain

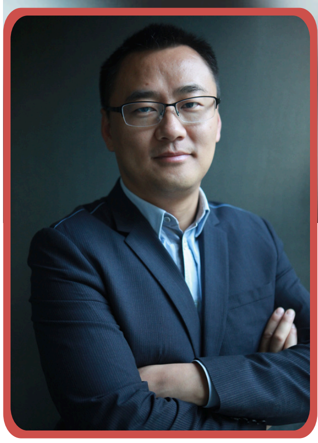
For all China's strategic ambitions, the government remains tactically conservative, for there were few new radical policy announcements during the NPC, and no great stimulus packages or concessions to consumers. Premier Li acknowledged the need for government support for employment as urban unemployment has been officially 5.5% for the last 24 months, and unofficially may even have exceed 7%.

The premier's report included indications that reserve requirement ratios in Chinese banks would drop by 0.5%, as would interest rates. He also said the government would implement new policies to assist more vulnerable citizens, such as unemployed graduates and the rural elderly, and that it would increase support to families with two or more children.

China will benefit from the realignment of the US' trading partners and adversaries, spurred by the disruptions and conflict emanating from Washington, but China's own continued rise and stability can only be ensured by deepening its domestic economic reforms. This requires Beijing to make more progress helping provinces, municipalities and counties to restructure their debts and recover their ability to generate revenues. Above all else, local officials must allow private citizens more access to capital, afflict them with far less bureaucracy, and enable greater personal economic agency.

Beijing has the understanding and tools to take the next step in liberalising local economies, yet it appears to still lack the confidence to loosen its control. This may change as it watches the unfolding chaos triggered by an intemperate president in the name of the United States of America, its greatest competitor and at-times in the past, generous partner.

New Company Law in Action: Insights from Emerging Cases



ROCKY MENG
Founder of Sparks Partners
Vice-Chair of NZBRiC

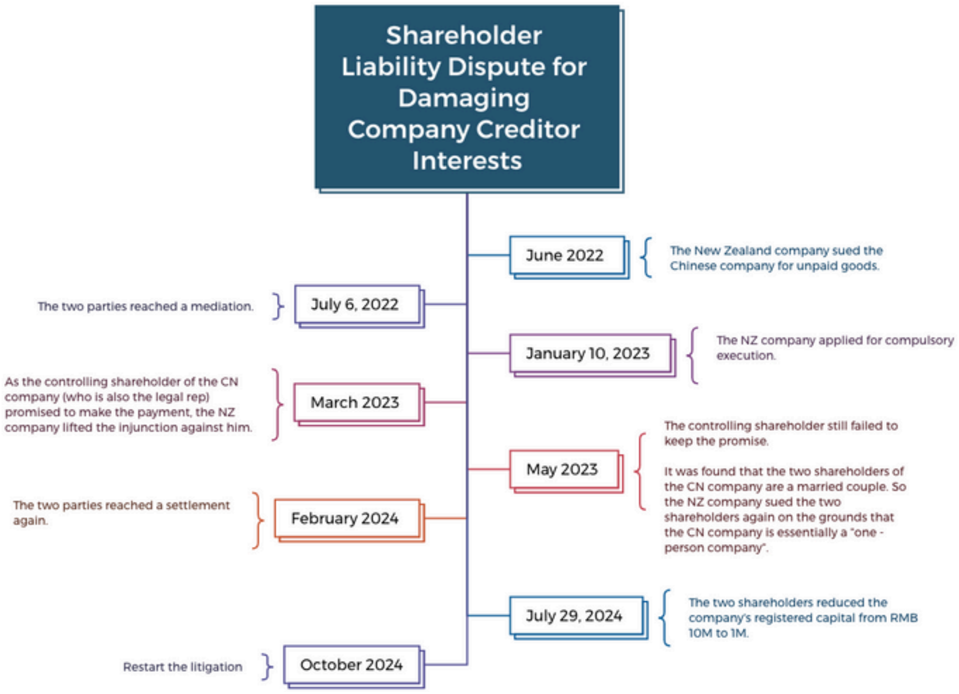
SPARKS PARTNERS
上海辉岩律师事务所

Introduction

On July 1st, 2024, the new reforms to China’s Company Law were officially implemented. This landmark legislation has already begun to reshape the legal landscape, with an increasing number of cases now citing the latest provisions. These cases have taken on new dimensions as a result, and in this article, I will use the following case to guide you through the significant changes and implications brought about by the new Company Law.

Case Process

Consider a typical cross-border commercial dispute that I recently handled. It involved a New Zealand company suing a Chinese company for failure to pay the outstanding balance. The case unfolded as follows, as illustrated in the chart:



In order to avoid a confrontation between the two companies and balance their interests, we explored various dispute resolution methods. Mediation, as an alternative to direct litigation, can be conducted in three main ways:

1. **Self-signed mediation agreement:** This type of agreement is akin to a civil contract. It holds legal validity provided that both parties enter into it voluntarily and its content complies with the law. However, should one party fail to honor the agreement, the other party is compelled to seek judicial resolution through court proceedings.

2. **Mediation by a mediation committee:** A professional mediation committee facilitates the mediation process. Upon reaching an agreement, the parties involved petition the court for confirmation. Once confirmed by the court, the agreement becomes enforceable.

3. **Court-assisted mediation:** The mediation agreement reached with the court's involvement possesses the same legal force as a court judgment. After both parties sign the settlement agreement, it becomes enforceable. In the event that one party fails to comply with the agreement, the other party has the right to seek court enforcement without going through the substance of the case again.

In this case, we opted for the third method: court-assisted mediation. However, the company in default failed to follow up on the settlement agreement. Consequently, we were compelled to request court to take enforcement actions. Upon further investigation, it was discovered that the Chinese company lacked assets that could be used for enforcement purposes. As a result, the court decided to suspend the enforcement process temporarily.

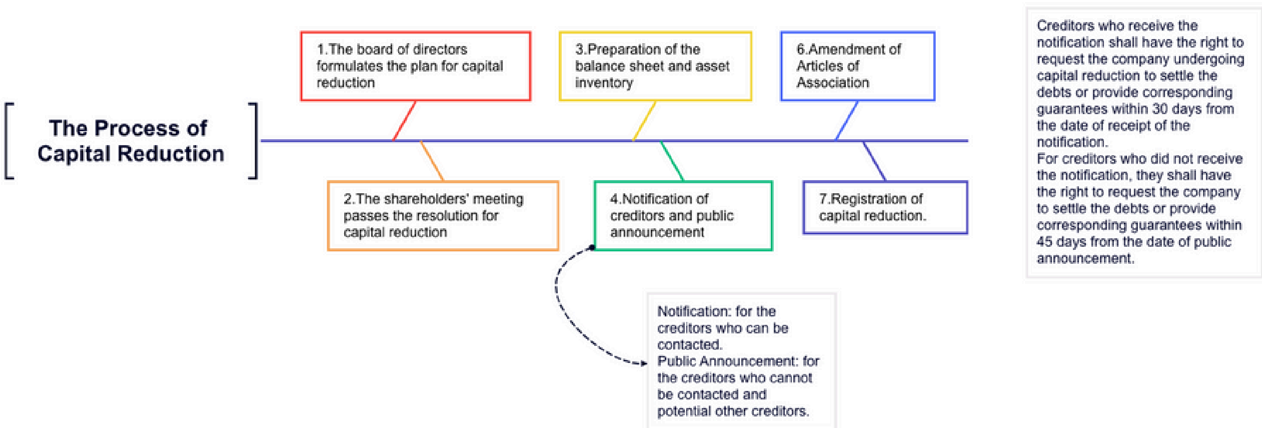
Our efforts did not cease there. Through additional inquiries, we uncovered that the only two shareholders of the defaulting company were a married couple. Under company law, if the sole shareholder of a one-person limited liability company fails to prove a clear separation between personal and company assets, they become jointly liable for the company's debts. The marital relationship between the two shareholders could imply that the company is essentially a one-person company.

In 2024, we petitioned the court to add these two shareholders as joint defendants. The controlling shareholder made some further payments and promised to make payments based on an adjusted settlement plan, so we withdrew our lawsuit. Unfortunately, the story repeated itself and the payment plan failed again. In October 2024, we discovered that the defaulting company's registered capital had been reduced from RMB 10 million to RMB 1 million. Upon discovering the issue, we promptly instructed our team of lawyers to restart the legal process.

Impact of the New Company Law on the Case

The implementation of the new Company Law on July 1st, 2024, marked a significant turning point. Article 54 of the new law stipulates that if a company is unable to repay its due debts, the company or the creditor whose debt has already matured has the right to demand that shareholders who have made subscribed contributions, but have not reached the contribution deadline, must make early payment of their contributions. Under the new legal framework, creditors are no longer required to prove that the company is insolvent, where the onus of proof is too cumbersome on the creditors. Under the new Company Law, as long as the company is unable to pay its due debts, creditors can demand early capital contribution from shareholders to pay off their registered capital obligations. This amendment, known as "The Accelerated Crystalisation of Shareholder Liability" system, has greatly enhanced the protection of creditors' rights

In this case, the two shareholders knew that the original registered capital of RMB 10 million was too high and they couldn't pay the debts. To avoid being held responsible for the company's excessive debt, they quickly reduced the capital after the new Company Law was introduced. However, capital reduction is not arbitrary and must comply with the requirements of the Company Law as follows:



During the capital reduction process, one of the key obligations is to notify the creditors of the company's actions, giving creditors the right to ask the debtor to provide guarantees or to settle the debts immediately. However, in this case, the shareholders reduced the capital illegally without notifying its creditors, with the intention to reduce their shareholder liabilities. With the case involving more than US$400,000, if the Chinese company successfully reduces its registered capital to RMB 1 million, recovering any amount beyond this limited liability will be difficult.

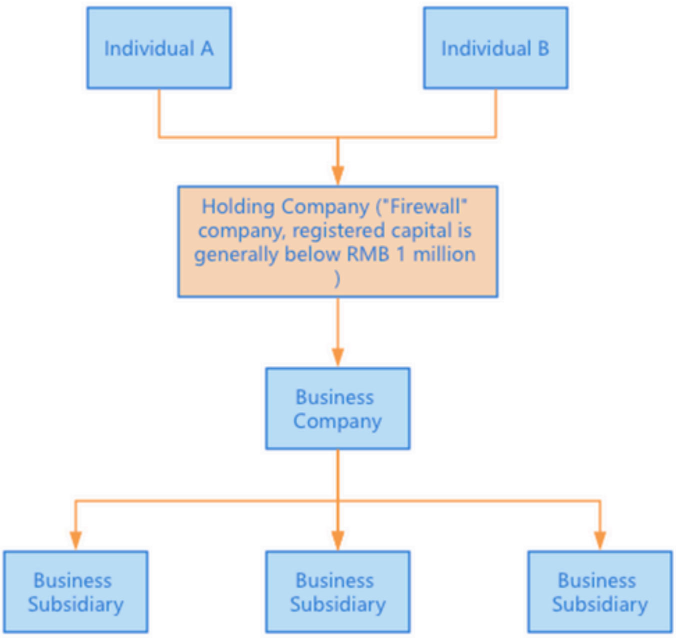
Therefore, we have to file a lawsuit for shareholder liability, addressing the damage to the company creditors' interests, seeking the reinstatement of the registered capital, accelerating the shareholders' capital contribution obligations, and holding the two shareholders personally liable for the repayment of shareholder liabilities within the original range of RMB 10 million to protect our rights.

Lessons from the Case

1 The Importance of Due Diligence

This case clearly demonstrates that due diligence is of great significance in commercial cooperation. A company's registered capital not only reflects its financial strength and market reputation but also serves as the upper limit of the shareholders' liability. To avoid the risk of any cooperative partner's inability to pay debts and the formation of bad debts in the future, it is essential to closely monitor any changes in the company's registered capital in advance and on an ongoing basis. If any abnormal situation is detected, such as the capital reduction in this case, timely measures must be taken.

In terms of company structure, we should be cautious about "firewall" companies. A "firewall" company is typically a holding company with a small registered capital and no substantial business operations, established by exploiting the limited liability system of company shareholders. This holding company then sets up a limited liability company to conduct specific business, aiming to protect the natural person shareholders at the top level and achieve its "fire-proof" purpose.



As illustrated, suppose two individuals, A and B, first establish a "firewall" holding company with a registered capital of RMB 1 million. Then, this holding company invests in setting up a business company with a registered capital of RMB 10 million. Due to the independent legal personality of the legal person and the limited liability of shareholders, the holding company, despite subscribing to invest in the Business Company with a capital of RMB 10 million, is only liable up to its registered capital of RMB 1 million. In this way, shareholders A and B only have a liability risk of RMB 1 million, but they can control the Business Company with a capital of RMB 10 million. When it comes to creditors' rights protection, this structure often poses significant obstacles to creditors.

However, the "firewall" company is not invincible. For example, if the shareholders abuse the company's independent legal status and limited liability to evade debts, the creditors can request the court to pierce the corporate veil and hold the shareholders jointly liable.

2 Mediation May Be a Better Solution Than Litigation

Regarding litigation strategy, considering the potential for future cooperation between companies within New Zealand's business community, a more amicable mediation approach should be seriously considered. As demonstrated in this case, we initially reached a court-supervised mediation agreement, which holds the same legal force as a court judgment. In the event that the defendant fails to comply with the terms of the mediation agreement, we can still seek compulsory enforcement without the need to re-initiate the litigation process. This approach not only conserves time and resources but also preserves the possibility of future collaboration.

2 Carefully Decide on the Company's Registered Capital

For shareholders of an existing company, when the registered capital is excessively high and the contribution burden is too heavy, planning a capital reduction in advance is essential. You should carefully assess your own financial situation and business operations, and ensure that the capital reduction is carried out in a compliant and lawful manner.

Sparks Law will continue to track emerging trends and cases under China’s new company law to better understand its implications and adapt its guidance for clients. If you have questions about how the law may affect your operations in China or wish to conduct a comprehensive review of your operations in the region, feel free to contact us at **international@sparkslaw.cn.**

NZBRiC REPORT: Happy New Year – 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 and Happy Chinese New Year !

Firstly, wishing all our New Zealand businesses “Gong Xi Fa Cai” and all the best for a prosperous 2025. The CNY festival has finished without the skyrockets and fireworks of previous years, (now they are banned in Shanghai), but there have been ample fireworks fired across the Pacific to compensate! The staff are arriving back in the office after trips home to see distant families, and trips away to warmer climes, (it’s cold here!) but we are generally in a buoyant mood about the challenges of 2025. There are some steep challenges too, with China’s economy still sluggish, consumer confidence cautious, and ambitious targets for our brands this year.

So, how did the new calendar year begin? January’s macro-economic data were slightly disappointing but not bad, due partially to the relatively early Lunar New Year holiday in late January compared to mid-February last year. The large migration of people to homes in central and western China began a week before the holiday started on January 28th. China’s tourism spending and box office sales prospered however, showing some signs of a rebound in domestic consumption.

There is a proven and direct correlation between more holidays and increased domesticconsumption, and the eight-day CNY holiday was one day longer than 2024. Tourism spending was up 7% to 677 billion yuan (US$93 billion), according to data from the Ministry of Culture and Tourism. And another critical pillar of the Chinese economy, home sales, grew 26% YoY in January, suggesting purchasing intentions remained strong before the holiday lull set in. This growth continued the end-of-2024 home-sales market rally, driven by government policy announcements and incentives in Q4 last year, including mortgage relief and tax breaks for homebuyers.

Export activity in January reduced slightly, which was somewhat concerning considering exports are likely to deteriorate further following the US tariffs implemented last month. (+10% on all China imports into USA, so far). Directly related to the exports, and the pre-Christmas inventory builds for USA and Europe, **manufacturing conditions** deteriorated slightly in January, with a PMI decline from 50.5 in December, to 50.1. (The headline Producer Manufacturing Index (PMI) readings above 50 signal improvement and below 50 indicate deterioration).

The full year **2024 trade data** between China and New Zealand warrants a brief summation; China is still;

- NZ’s largest trading partner (2-way trade was NZ$37.7 billion),
- Our largest export destination (NZ$20.25 billion),
- Our largest source of foreign students. (19,070)
- Our 3rd largest source of visitor arrivals (240,870).
- New Zealand’s Number One Food and Beverage export partner, buying 28% of our total F&B exports, despite the fact that our total F&B exports shrank -2.2% vs 2023.

Across the sectors:

- Dairy, after three soft quarters until September, grew +5.2% YoY, (+NZ$400million)
- Meat sales fell NZ$1 billion (from NZ$3.4b to $2.4b),
- Fruit grew by NZ$ 300 million (+34%),
- Seafood exports held their head above water growing NZ$ 11.2 million (+1.2%).
- And a nod to a favourite sector; Wine exports grew by 14.4% to reach $44 million; with quantity growing (+18.8%), but values dipping (-3.7%), in a saturated market.

So, a mixed bag of results across our key sectors in what was a turbulent year economically.

Other Recent News...

Tariffs
On Saturday, US President Donald Trump issued an executive order imposing 10% tariffs on Chinese imports, mentioning Beijing's alleged role in enabling the flow of fentanyl into the US. The Executive Order also eliminated the 'de minimus' exemption which previously exempted imports worth less than USD 800 from customs duties, undermining Chinese retailers like Shein and Temu. In response Beijing immediately hit back: the Ministry of Commerce (MofCom) announced a 15% tariff on U.S. coal and liquefied natural gas, and a 10% tariff on crude oil, farm equipment, and some vehicles.

Consumer Incentives
Government employees received pay increases near the end of 2024, and also the government announced an expansion of the "Cash-for-clunkers" trade-in program. Both moves are clear signs that the central government will continue to incentivise spending in 2025.
Real Estate Sector. Pundits are still concerned about the lack of any new policy support for the real-estate sector. Sales are losing some steam, and after the failings of real-estate behemoths Evergrande, Country Garden, and Huarong Securities, the fate of the part-state-owned developer China Vanke once again appears uncertain.

DeepSeek
Arguably the biggest China news of the year so far revolves around something that few people had heard of until late January: the release of DeepSeek's R1 app. This groundbreaking AI app has the potential to reshape geopolitics and global economies. "China Skinny's" Mark Tanner has written a balanced piece about DeepSeek's capabilities versus Chat GBT and other AI tools, which is well worth a read.

China's Tech Rally
China's technology stocks continue to roar ahead after news was released of a meeting between 15 private sector tech executives and President Xi Jinping, last week. The main beneficiaries are likely to be the larger, well-established companies, given the pipeline of early-stage tech sector companies has declined to a trickle. Broadly speaking, there's some cause for optimism about China's economy when looking at credit growth in January which showed that some of China's much-promised stimulus is working. The major downside risk to the economy is still the real-estate sector, with the huge (and hugely troubled) developer China Vanke's poor fortunes having a negative impact on homebuying sentiment.

Best wishes for 2025, and the Chinese New Year of the Snake!
David

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KEY VIEW

On 5 March, China's 14th National People's Congress (NPC) will hold its annual meeting in Beijing. The annual economic blueprint and major targets will be announced at the meeting. This year, we will look out for three things: (1) annual target, (2) fiscal budget and (3) the press conference.

The 2025 Targets

GDP of 5%

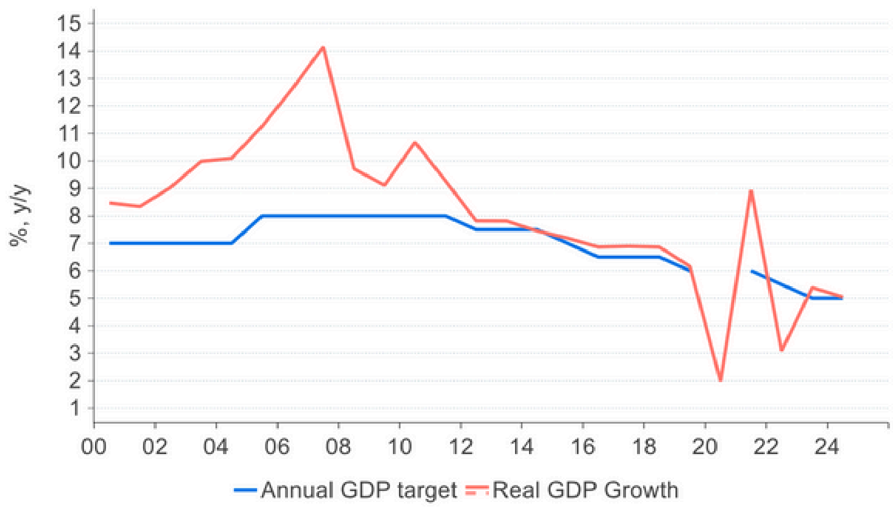
We continue to see 5% as the near-term bottom line. China will have to keep average GDP growth at 4.7% to double its GDP per capita by 2035. We highlighted that the AI boom can boost China's productivity, but it is the sentiment improvement rather than the technological breakthrough posing an upside risk to our GDP forecast in the near term.

The economy remains on a steady course towards recovery. GDP grew 5.4% in Q4 2024, close to the potential growth. Domestic consumption and property performed well so far.

- During the Lunar New Year holiday, the sales revenue of key retail and catering enterprises nationwide increased by 4.1% y/y. The trade-in program proved supportive. On the first four days of the Lunar New Year holiday, the sales of home appliances and other digital products rose by 10% y/y.
- Travel and box office were the two areas that outperformed others. Domestic travellers increased by 5.9% y/y, reaching 501 million. This marks a favourable rebound after a 7.4% y/y decline during the National Day holiday last year. Box office revenue reached a historical high, recording CNY9.5bn.
- Property prices rebounded since September last year (Figure 1). New home sales during the Lunar New Year holiday increased 30% y/y (Figure 2). Media reported that developers have been buying land at 20% premium to bet on market bottom.

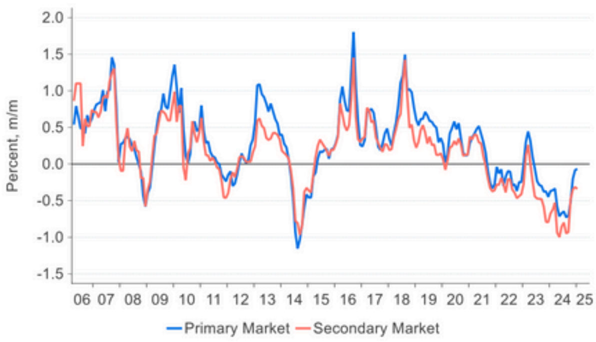
Chart of The Week

China's GDP targets and achievements in the past two decades



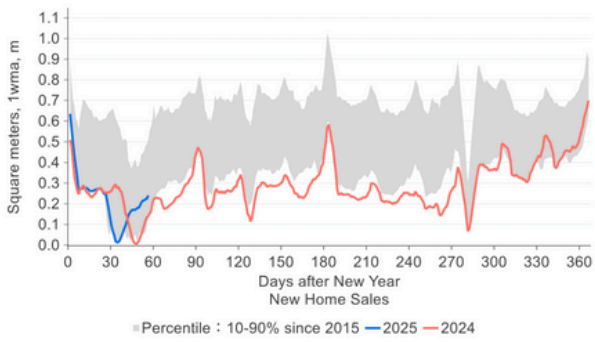
Source: NBS, NDRC, Bloomberg, Macrobond, ANZ Research

Figure 1. Property prices



Source: NBS, Bloomberg, Macrobond, ANZ Research

Figure 2. New home sales in 30 major cities



Source: Bloomberg, Macrobond, ANZ Research

13 Million New Jobs in Urban Areas

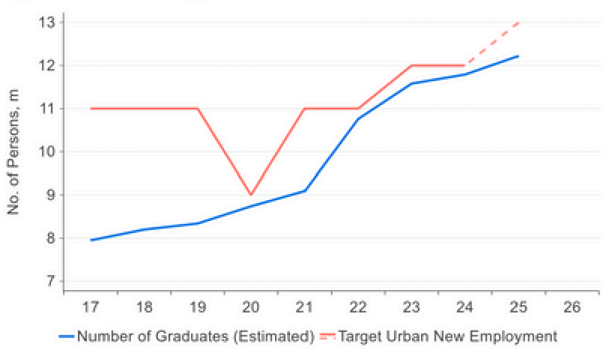
Employment may carry a high weight in the 2025 policy agenda. The new employment target will likely be upgraded to 13 million from 12 million in 2024. On 31 October, the Qiushi magazine published President Xi's speech on high-quality employment, calling to prioritise employment for economic development. The labour market headwinds in 2025 will include the following:

- Around 12.2 million graduates will be placed on market, a new historical high according to the estimate by the Ministry of Education (Figure 1).
- Millions of migrant workers will be affected by the possible US tariffs; there is a consensus is that the previous trade war during Trump 1.0 cost China almost 2 million industrial jobs.

The labour market has continued to deteriorate in the past two years. Over 60% of jobs were created by the services and construction sector according to 2020 Census data. However, the PMI non-manufacturing employment index dived to 45.1 in October 2024, similar to the level during the pandemic (Figure 2). Authorities will likely prioritize employment over headline growth rates in the policy agenda for 2025. This is related to social stability. So far, the official urban unemployment rate for those aged 16 to 24 years remained high above 15%.

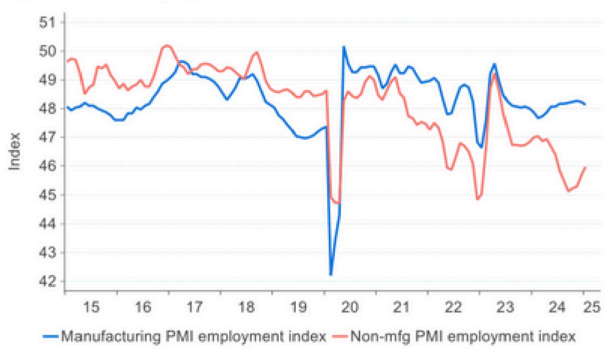
The actual jobless data may be higher as many young people have returned to schools or dropped out from the urban labor market. China may need to enhance the labour-intensive services sector.

Figure 3. Number of graduates



Source: MOE, NDRC, Bloomberg, Macrobond, ANZ Research

Figure 4. PMI employment



Source: NBS, Bloomberg, Macrobond, ANZ Research

CPI of 2.0%

The chance for a lower inflation target of 2% is higher as many provinces have lowered their local figure to 2%. But the authorities set a 3% CPI target last year when the deflation pressure was even higher than this year. They could also repeat this impractical figure as the number does not really guide monetary policy setting. In our view, a 2% CPI target for 2025 will be reasonable and in line with the targets of major central banks.

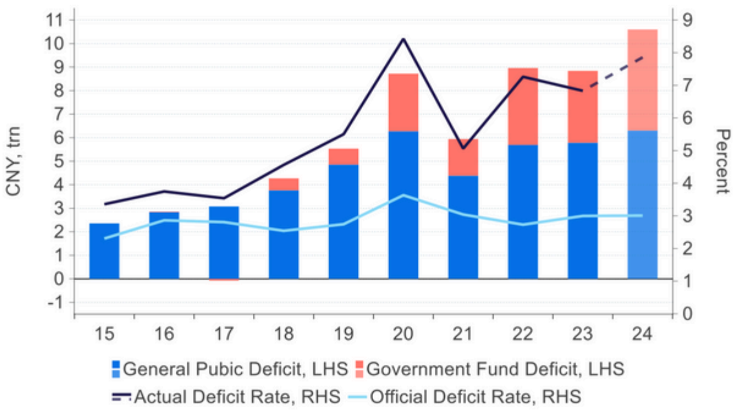
However, reflation may not be as important as employment and growth. The People's Bank of China (PBoC) vowed to take the price level as an important reference in monetary policy decision, suggesting it is far from inflation targeted. The big gap between 'reference' and 'target' implies that the PBoC will not respond directly for low CPI prints going forward.

Fiscal Budget

Official Deficit of 4%

Official deficit based on the general public budget book may break the '3% rule'. In the past, the government maintained 3% deficit through borrowing from other budget books, carryover balances and budget stability funds, showing China's fiscal sustainability. However, we do not see it can borrow as usual in 2025, because the abovementioned sources may have been drying up due to the fiscal difficulty in the past years.

Figure 5. Official and actual deficit



Source: MOF, NBS, NDRC, Bloomberg, Macrobond, ANZ Research

Ultra-long Special Treasury Bonds at CNY3trn

The CNY1trn funds from 2024 special treasury bonds were allocated as follows:

- CNY300bn for equipment and consumption goods trade-in programs
- CNY200bn for key national strategies and key security fields construction
- CNY500bn transfers to local governments

We expect the spending in these three areas to double in 2025, which will cost CNY2trn. In addition, the government will add capital to state banks by the funds raised from ultra-long special bonds. The capital injection will likely be CNY1trn in 2025.

Special Local Government Bonds at CNY6.5trn

This includes CNY2trn local hidden debt swap. We expect the policymakers to be cautious on the increase in local government debts. The CNY4.5trn new quota may have been allocated to property and land buying. The recent Vanke saga implies there is demand of direct financial support from local governments. The spending on local infra investment may be limited in our view. Quasi-fiscal activities will play a big role in 2025. In November 2024, the State Council approved two central state-owned enterprises to issue CNY500bn special bonds. The debt-to-asset ratio of central enterprises still has room to grow. In addition, the authorities announced 1 million units of shanty town renewal, which will likely require CNY2trn Pledged Supplementary Lending support from the PBoC.

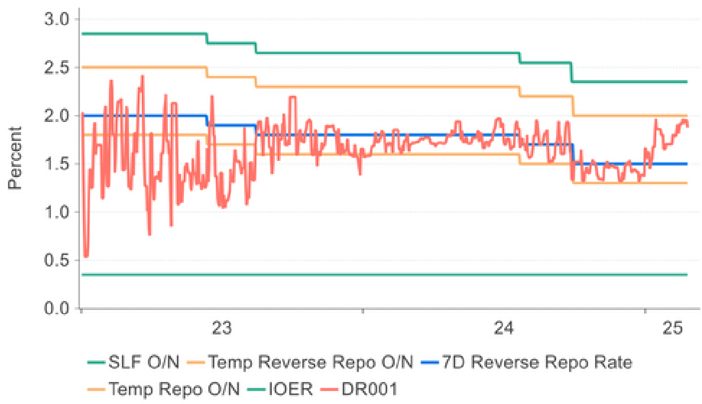
A Press Conference on Economic Policy

We will likely see a press conference on economic policy, with the presence of several ministries such as the National Development and Reform Commission (NDRC), Ministry of Finance (MoF), Ministry of Commerce (MofCom) and the PBoC for a deep dive into the Government Work Report delivered at the 14th NPC.

The policy pivot will drive investors to seek a full understanding of China's stimulus at the press conference. The authorities have pulled back some policy supports after seeing last quarter's 5.4% GDP. The overnight repo rate DR001 jumped close to 2% upper bound of the interest rate corridor since the start of this year (Figure 6). We highlighted the liquidity squeeze due to the good GDP data and below consensus US tariff in our previous report.

We expect the ministers to place focuses on the recent developments. The NDRC will likely mention the progress in the 14th Five Year Plan, as China is yet to achieve the ambitious 2025 climate target. The MoF may explain the details on special local bonds to buy property and land. The MofCom may announce China's trade figures earlier than the data release, but the market will focus on China's strategy against possible US tariffs and the likelihood of a deal. The PBoC will likely be questioned on the timing of required reserves ratio (RRR) cut and rate cut, given the recent liquidity squeeze. A reform to the RRR system is in expectation. The authorities may allow banks to pay required reserves in short-dated treasury bonds instead of cash, which will help small banks in liquidity management.

Figure 6. The interest rate corridor



Source: CFETS, PBoC, NBS, Bloomberg, Macrobond, ANZ Research

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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