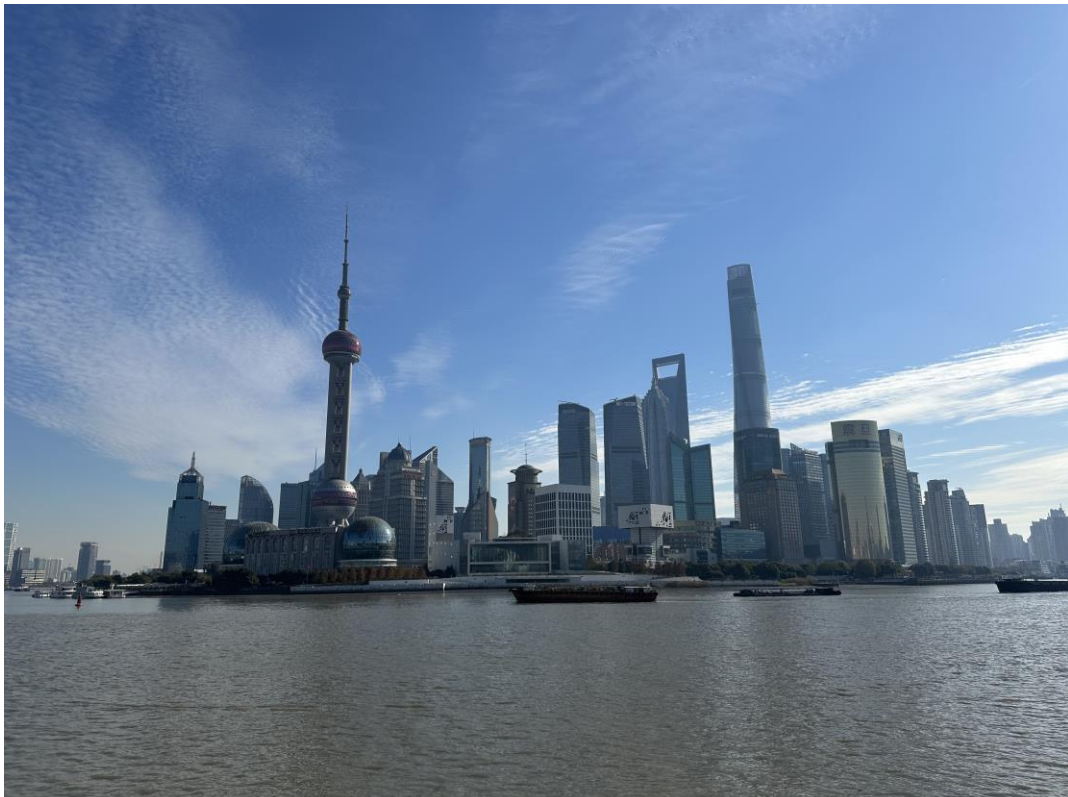


Changing trends in China: implications for NZ

for the Asia New Zealand Foundation

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Authorship

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Executive Summary

Key trends

- China is a huge market, and New Zealand has many opportunities for trade. But we've got to work for it, finding the right areas to focus in on.
- Telling our story is what consumers are looking for – being able to tell a strong story about a product, where it comes from, and why it's beneficial for Chinese consumers is becoming an increasingly important trends for goods, especially perishable items like the fruit and vegetables, dairy, meat, and other primary products exported by New Zealand.
- Climate change and environmental initiatives have been state-driven rather than consumer-driven, and this trend is expected to continue. Consumer-driven trends are often more focused on healthcare or improved personal outcomes.
- Online engagement is a key avenue for connecting with consumers, with widespread use across the population, and hours a day spent on social media and ecommerce platforms. Spending trends back up the focus on online, with a third of Chinese consumer spending occurring online (compared to around 16% in New Zealand).
- Spending patterns in China are changing, and what drives spending is also changing. Consumer spending growth in China is weaker than pre-pandemic trends, slowing back from an average annual gain of 8.1%pa over the four years to 2019 to just 3.5%pa on average in 2023. At a total spend level, spending on basic and essential items dominate spending decisions at present.
- However, there has been noticeable rapid growth in spending on outdoor equipment, sports, and fitness – likely linked to the health benefits of being active.
- Spending growth is weaker at present, with higher youth unemployment and a falling housing market, which is curbing expenditure. The housing market outlook is for further softness to continue for the next few years. Any intervention is likely to be supply-side, not demand-side.

Key reflections for young leaders

Although we had both been recipients of the Asia New Zealand Foundation 25 to Watch Award in 2019, our interactions remained minimal until 2022 when we attended the Otago China History Hui. It was on the Hui that we connected and discovered our shared enthusiasm for the New Zealand-China trade relationship, particularly in the primary sector.

After the Hui, we made efforts to meet regularly in our respective regions, eventually deciding to plan a trip to China together – the moral of this story? The power of the network around you. The Foundation and Leadership Network fosters relationships with others that go beyond the surface level – if you are willing to put the time and effort into them – and the results of these relationships speak for themselves. Whether you're a new member or considering joining a group like the Leadership Network, our advice is simple: lean in.

Background

China remains New Zealand's largest trading partner, and the world's second largest economy. In 2023, there was plenty of talk about that economy slowing down - but with so many trends being upended by the pandemic, we wanted to get on the ground to see things for ourselves.

Following an offline conversation and a few casual remarks about our mutual desire to explore China post-pandemic, we found ourselves booked on a 10-day trip with a packed schedule. We both know each other through the Asia New Zealand Foundation Leadership Network, and in 2019 to mark the Foundation's 25 anniversary, the Foundation chose twenty-five young people who represent the future of the Asia-New Zealand relationship as 'ones to watch', including both of us.

Brad is the Chief Executive and Principal Economist at Infometrics, one of New Zealand's leading economic consultancies. He regularly advises central and local government leaders, businesses, and local communities about economic trends. With Brad's strategic and economic perspective complementing Millie's on-the-ground knowledge and understanding of the primary sector – and with support from the Asia New Zealand Foundation – the two of us set off to gain a better understanding of the current economic, social, and consumer trends in China. From important conversations in the capital (Beijing), to business roundtables in Shanghai, all the way through to Dong'e in mid-China - we sure got around.

Outline of the visit

The visit occurred from Sunday 26 November 2023 to Tuesday 5 December 2023. The list below outlines the various visits, meetings, and engagements undertaken while on our trip.

Beijing

- Meeting with New Zealand Ambassador to China, HE Grahame Morton.
- Roundtable with New Zealand Embassy – Beijing staff about New Zealand economic and primary sector trends.
- Lunch with David Mahon, Managing Director and Chief Investment Officer of Mahon China Investment Management Ltd.
- Site visit and bilateral with senior management and marketing staff at Kuaishou.
- Breakfast with New Zealand government agency leads.

Hohhot, Inner Mongolia

- Visit to the Yili Future Intelligence and Health Valley.

Dong'e

- Tour of Dong E E Jiao (DEEJ) Co Ltd, Ejiao (donkey-hide gelatine) production facility, museum, retail centre and donkey farm.
-

- Breakfast with Deer Industry New Zealand and Provelco China team lead.

Shanghai

- Meeting and discussion with Fonterra China staff.
- Meeting and discussion with Zespri China staff.
- Meeting with New Zealand Consul-General Ardi Barnard and Deputy Consul-General Wilson Chau at the New Zealand Consulate (Shanghai).
- Tour of the Fonterra Application Centre.
- Touch tournament with New Zealand young professionals' group.
- Lunch with leading financial and economic experts and commentators.
- Consulate roundtable with leading New Zealand exporting businesses.
- Roundtable presentation and discussion with China-based New Zealand businesses at New Zealand Central.

Thanks and acknowledgements

We're extremely grateful for the support provided by many organisations and individuals during our trip. This non-exhaustive list includes:

- The Asia New Zealand Foundation Te Whītau Tūhono, for contributing funding towards the cost of travel.
- The Ministry of Foreign Affairs and Trade, for providing time, support, and introductions throughout the trip. In particular, Ambassador HE Grahame Morton and Stuart Zohrab (Second Secretary, Trade and Economic) at the Embassy, and Consul-General Ardi Barnard and Deputy Consul-General Wilson Chau at the New Zealand Consulate (Shanghai).
- Felix Shen at Primary Collaboration New Zealand (PCNZ).
- Rhys Griffiths at Deer Industry New Zealand.
- James Robertson, Trade Strategy Manager – Asia at Fonterra.
- Ivan Kinsella, Vice President of Corporate Affairs, Zespri Fruit (Shanghai) Co Ltd.



Above: Millie and Brad with New Zealand Ambassador to China, HE Grahame Morton.

As well as all others who gave us their time and insights throughout our visit.

Trip images



Above: Roundtable with New Zealand exporter to China at the New Zealand Consulate, Shanghai
Below: Business lunch with leading financial and business leaders and commentators, Shanghai



Above and below: Roundtable at New Zealand Central, Shanghai, with NZ businesses



Below: Millie and Brad visit Zespri in Shanghai



Below: Brad and Millie with Deputy Consul-General (and Asia New Zealand Foundation Leadership Network member) Wilson Chau



Below: Brad and Millie visiting Fonterra's China operations, Shanghai



Below: Millie and Brad in the test kitchen at the Fonterra Application Centre, Shanghai





Above: Brad and Millie at DEEJ, Dong'e

Below: Millie (centre), PCNZ's Felix Shen (far right), and DEEJ officials on the tour of the DEEJ production facility



Below: One of the production lines at DEEJ



Below: Brad touring the production line at DEEJ



Above: A painting showing the traditional focus on the high quality water in Dong'e, now used to make the ejiao **Below:** Part of the ejiao museum showing historical manufacturing and purchases



Below: Another of the production lines at DEEJ



Below: Brad and Millie touring the nearby donkey farm



Our observations

Telling our story is what consumers are looking for

We visited one of China's largest dairy producers (and also owner of Westland Milk Products) dairy and health valley based in Hohhot, Inner Mongolia. Yili has developed the facility we toured as an industrial tourism project to showcase the story of milk production, the innovation and research being carried out, and the manufacturing that goes on too.

A theme we picked up on visiting both Yili and DEEJ was the concept of "story telling". There appears to be strong demand and buy-in from consumers to understand more about the products they are purchasing, and the story behind that item.

At the Yili Health Valley Factory, consumers are taken on a journey through educational engagements about the animals, interactive technology on processes, and then into an open-glassed production line to see production activity in real time. All these factors ensure that the consumer receives a better understanding of the product journey. The trust model is a clear priority for the company, and it is a critical one to maintain to ensure success in the market seeing things up close and understanding the importance of storytelling was invaluable.

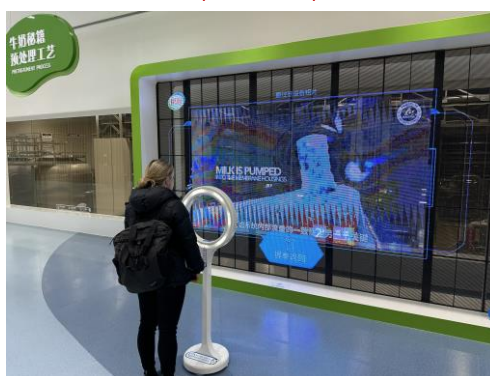
Similarly, the DEEJ operation in Dong'e included both a series of production lines that we toured, understanding the process of each product along the way. Alongside this production line was a museum outlining the history and process of donkey gelatin, and a separate museum on the donkey themselves. Our conversations with the organisation highlighted that around a million consumers a year visited these museums.

The big takeaway from our visit to DEEJ in the Shandong province was the value placed on the consumer experience when telling the story of the brand and



Above: Millie and Brad inside the production facility for dry product at Yili.

Below: Millie utilising the interactive stations to learn about the milk production process.



Below: Brad and Millie in the -14°C temperatures in Inner Mongolia



product. This consumer experience focus was evident in the facilities we toured but also in the packaging of the different products. Customer experience was clearly thought through, from the manmade lake to help illustrate the traditional TCM production process to donkey meat dinners, and lunches served at the hotel – the customer is there to have an enriched experience which in turn creates a strong relationship of the brand.

Although DEEJ and Yili illustrated the importance of storytelling to the Chinese consumer, it appears the story is almost irrelevant if there is no 'impact' or 'benefit' for the consumer. The story behind a brand is critical when it comes to choosing the final product, but the product must have a clearly communicated benefit for the consumer in the first place. For example, the KOLs promoting the DEEJ products are focusing on the impacts the product has on your skin to help with anti-aging and staying youthful (a huge value in Chinese consumers). The KOLs leverage the benefits of the product to get the initial buy in of the consumer, and then tell the story to convert this to a sale.

We witnessed a KOL in action first hand during our museum tour at DEEJ, where the KOL we bumped into had 13 million followers! She was taking her followers for a live tour through the production facilities and the museum – the reach and engagement she was having on her livestream was undeniable.

Consumption appears weaker – and with different focuses

One observation that occurred time and time again on our visit across China – both in major cities and in smaller areas – was that consumption appeared more limited than last time we had experienced China (in 2019, pre-pandemic). Discussions with business leaders and others often saw us both ask what the population was focused on when it came to spending. Instead of certain product categories being mentioned, as we had expected, often the response was "the essentials". An interesting observation however was what consumers considered "essential" could be quite different to what we would consider essential back home.

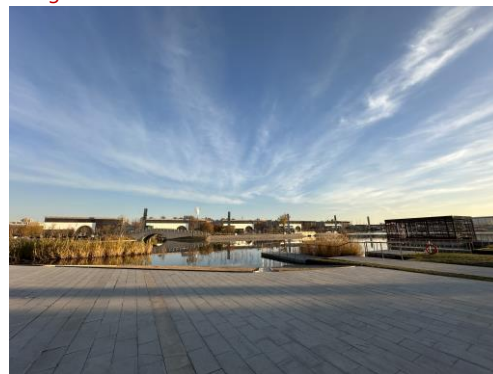
Regardless, a focus from consumers on spending on "the essentials" is usually a sign of economic challenges. If people are focused on necessity buying, they are clearly not focused on more non-essential spending that often signals rising real incomes. Given the disruptions of the pandemic, trying to establish spending trends is difficult.

Despite this difficulty in establishing recent trends, spending growth hasn't been as swift as prior times. Spending in 2019 was 37% higher than four years prior (2015), representing annual average growth of 8.1%pa. But spending in 2023 (which wasn't



Above: Manufacturing lines at the Yili production facility

Below: The DEEJ complex, with manufacturing sites in the background, and the lakefront in the foreground



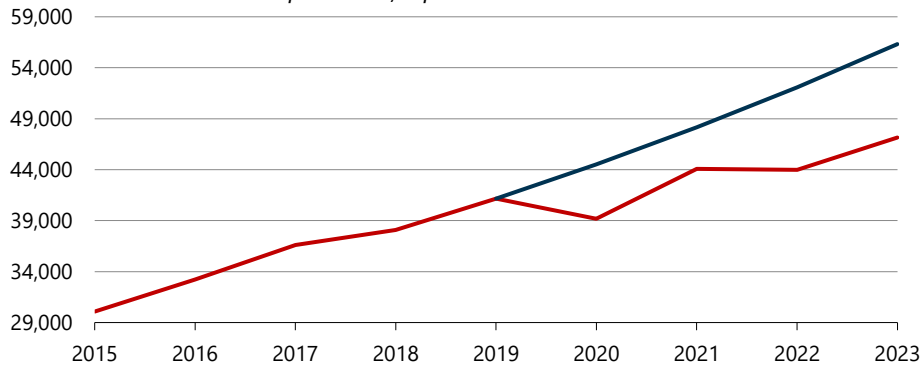
affected by the pandemic) was just 15% higher than four years prior (2019), at an average annual gain of 3.5%pa.

Graph 1

Spending is up, but below pre-pandemic trends

Annual Chinese retail sales, billions yuan

Source: National Bureau of Statistics, Infometrics



More spending on sports and entertainment (incl. fitness?)

One spending trend that was mentioned more than once was a rising interest by Chinese consumers in outdoors-based spending and health and fitness purchases – both goods and services. Discussions with experts and commentators on the ground implied the focus on fitness is linked to the pursuit of better health, which retains a higher focus as a result of the pandemic.

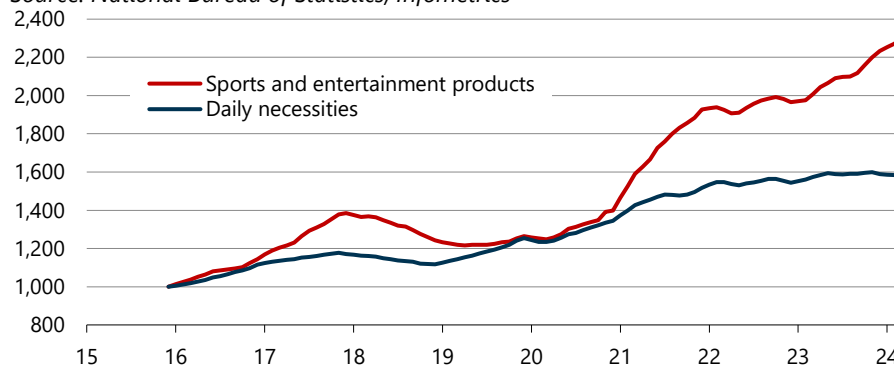
This trend is also borne out in spending data, which shows that between 2015 and 2019, annual spending on “daily necessities” rose 25%, in line with spending on “sports and entertainment products” which rose 26%. But by 2023, annual “sports and entertainment products” spending was 77% higher than four years ago, compared to “daily necessities” annual spending growth of 27% over the same period.

Graph 2

Stronger growth in sports and entertainment spend

Index, 1,000 = year end December 2015, annual spending by type

Source: National Bureau of Statistics, Infometrics



Although spending on daily necessities remains considerably large in value terms than spending on sports and entertainment products, the growth pathways are stark.

Intervention is likely to be supply-side, not demand-side

Many Western economic commentators have been wondering aloud as to when demand-side support might be announced to support higher spending and consumption. Demand-side economic policies attempt to stimulate demand, by supporting households to spend more money through cash payments (“helicopter money”) or tax relief/household tax incentives.

Business and economic experts we spoke to on the ground were firmly of the view that demand-side support was viewed as quite unlikely to occur. Instead, the focus is set to remain supply-side policies, where government support is enabled to boost investment in the production side of the economy (for example, manufacturing), and business tax incentives or loan support.

State level not consumer level driven

During our visits to China pre-pandemic, we both respectively noticed the lack of recycling options available or even composting bins during our day-to-day travels. Our 2023 visit illustrated a complete change in position, with hotel rooms, metro stations, and other public areas all kitted out with general waste, green waste, and recycling waste options available at almost every rubbish station.

We have heard anecdotally that this change happened virtually overnight and was very much driven by government orders. Although consumers abide by the change in rubbish treatment, this shift was not a consumer-driven change. This simple change in approach clearly highlights how China is willing to put systems and processes in place, often at haste, to ensure progress can be made in light of climate goals.

Climate change a different focus

However, broader interest in climate change actions were not as prominent as we might have expected them to be.

In our conversations with locals and contacts during our visit, the focus of climate change actions was seen as a selling point for consumers only in limited circumstances. Changes that would benefit or be seen to benefit the health and wellbeing of a person are seen as positive and are in demand, as are changes that will positively benefit the environment.

If that environmental change is seen as enhancing better health and wellbeing outcomes for the person too. Put another way, if a better environment produced healthier products (with fewer toxins for example), then this outcome would be in-demand by consumers.

But more general view of supporting lower emissions to reduce impact of climate change at an aggregate level didn’t appear to be a driving force behind consumer spending and preferences in the engagements we had.

When we probed these discussions, personal wellbeing was a stronger motivating factor for people’s spending behaviour at present.

Online engagement of critical importance

Our trip included a site visit and bilateral with senior staff at Kuaishou, the video app developer. According to public regulatory filings, in 2023 Kuaishou had over 650m monthly active users in China, and an average of 2+ hours use a day.

Digital marketing is a huge thing in China, and something that we observed first-hand in the video studios at Kuaishou (including our appearance via green screen). Digital marketers and influencers were constantly streaming out on the platform with products. The live streaming studios, green screen studios, and more that we observed are all integral parts of creating engaging content to generate sales of products.

More broadly, the importance of the “trust economy” became abundantly clear on our visit, where key opinion leaders (also known as KOLs) are increasingly important marketing tools and sales avenues for businesses.

Live streaming is a new pathway to sell products to consumers, utilising KOLs to create a special relationship with their audience and curate a trusted reputation like no other. However, the app serves as more than just an eCommerce platform, with an estimated 20 million users in China learning how to read and write through the platform.

In New Zealand, often the focus of online content on social media platforms is more simplistic, with most social media content being recreational in nature (think cat videos). Increasingly, there is sponsored content on New Zealand platforms, showcasing products and services “in action”, through pre-recorded videos, sometimes with links to directly purchase.

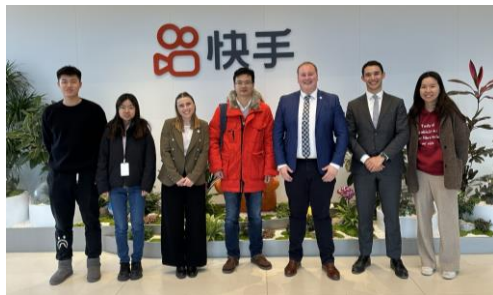
In China, these trends are supercharged, with livestreaming and direct e-commerce now the usual way of accessing and promoting some products.

The focus on online platforms and engagement is clear to see in China. At the end of 2023, a third of total annual Chinese retail spending occurred online, compared to only 16% of New Zealand’s total spend.



Above: Brad and Millie at a bilateral with senior staff at Kuaishou

Below: Group photo with staff from Kuaishou, including Stuart Zohrab (Second Secretary, Trade and Economic – NZ Embassy in Beijing)



Below: Millie and Brad in a Kuaishou recording studio, with graphic elements superimposed on the green screen

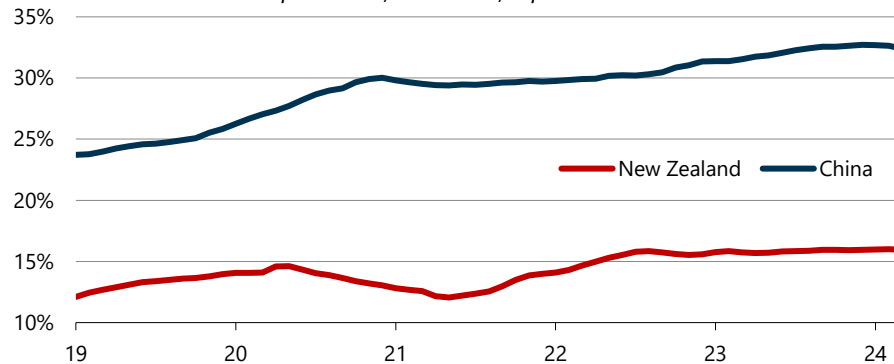


Graph 3

A third of Chinese spending is made online

Online spending as share of total retail sales, annual running totals

Source: National Bureau of Statistics, Datamine, Infometrics



The app is seeing everyday people, particularly in rural China, having huge reach in Tier 2-3 cities because of the content created. We are seeing rural China utilising technology and video content to sell their product to a consumer they previously would never have reached. The key to this success? Authenticity and trust – the consumer is able to connect to the creator and learn before considering a monetary transaction.

Although appetite and budget for similar approaches in New Zealand are more limited, there are opportunities that New Zealand should explore. Although Kiwi consumers are not yet interacting with sales in this way, New Zealand marketing to Chinese consumers via these usual, trusted, routes should be considered in how we tell our story into the Chinese market.

Large market still, but we'll have to work for it

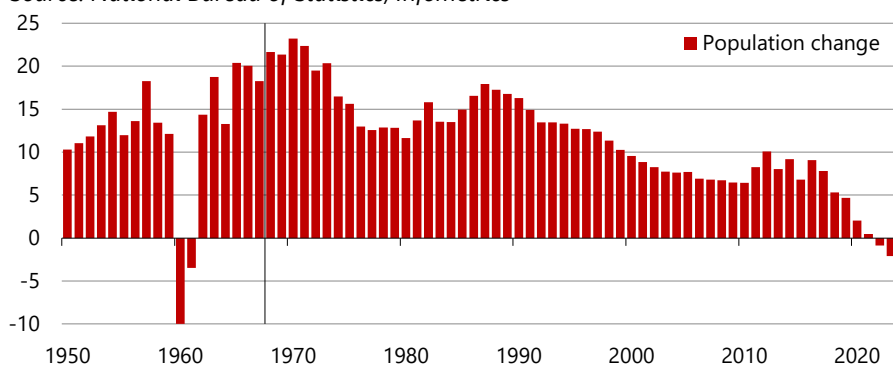
There's a lot of moving parts to the Chinese economy – the second largest economy in the world, and the top trading partner for New Zealand. China's population is now in decline, with two years of consecutive decline in 2022 and 2023. This decline is the first for the Chinese population since the Great Chinese Famine of the 1960s.

Graph 4

A declining population

Annual population change, millions of people

Source: National Bureau of Statistics, Infometrics



The birth rate in 2023 was half the rate it was a decade earlier is half the rate was in 2014, and the death rate has edged up to its highest since 1974. These two factors are outcomes of demographics. Birth rates have been on a long-term decline as a result of the “one-child” policy until 2015 and is combining with China’s slowing but surely aging population.

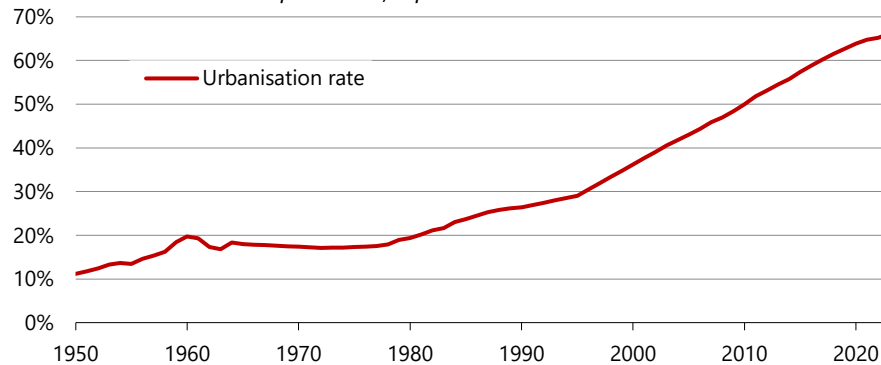
Yet the urbanisation rate continues to rise, and with it, sustained demand for New Zealand products.

Graph 5

Urbanisation continues in China

% of China's population living in an urban setting

Source: National Bureau of Statistics, Infometrics



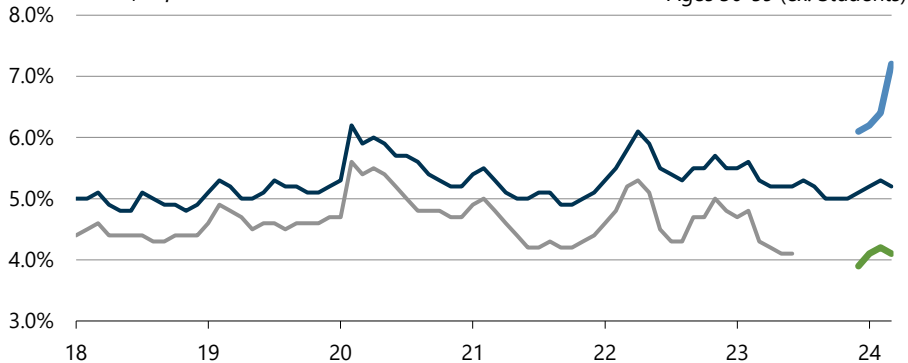
But people are interacting with products and making purchasing decisions in different ways. Although the overall unemployment rate remains around normal rates seen pre-pandemic, younger people are finding it harder to find work.

Graph 6

Headline unemployment looks normal...

Urban unemployment rate, monthly

Source: NBS, Infometrics

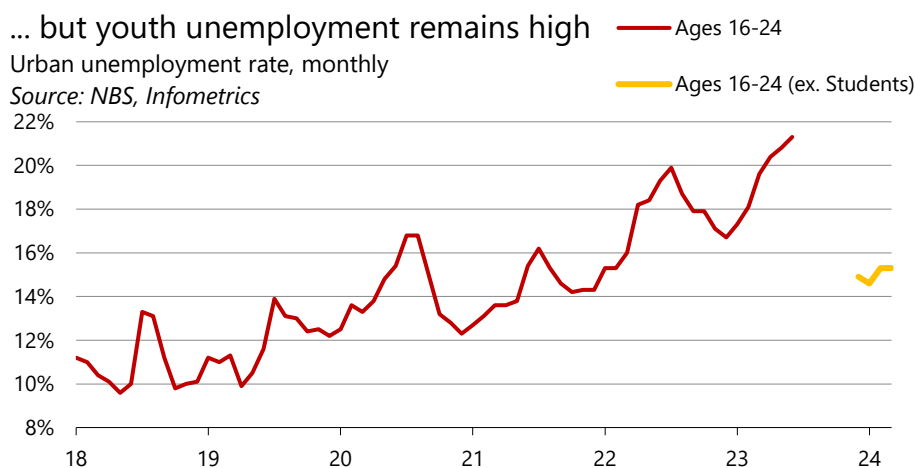


The youth unemployment rate (for 16- to 25-year-olds) rose to 21.3% in June 2023, before the age-group unemployment figures were discontinued pending review.

In December 2023, new unemployment data was published, with a refinement to the types of people counted in the population for unemployment. Excluding students, the

youth unemployment rate for 25–29-year-olds was 6.1% (compared to a total population unemployment rate of 5.1%).

Graph 7



The new series for 16- to 24-year-olds (excluding students) sat at 14.9% in December 2023. These higher unemployment rates for young people have increased caution around spending.

Housing market outlook still down for next few years

The housing and property market in China is a considerable part of the overall economic system. Estimates suggest that around 22% of China's GDP stems from real estate, rising to 25% including imported elements, and to 31% if network infrastructure is included.¹

The Chinese property sector has been struggling in recent years, dragging economic performance in China lower. A number of property developers have faced considerable financial difficulties, with the most prominent being the downfall of Evergrande. Overextended borrowing has seen a significant slowdown and outright decline in various real estate indicators, with flow-on effects for construction activity and related imports (like New Zealand forestry products).²

Falling property prices are limiting further investment and resulting employment, alongside general consumption as spending activity remains subdued. Our conversations with financial and business experts made it clear that the property downturn in China is expected to continue for some time, perhaps up to the next two years. This sustained downturn is seen as a contributor to weaker economic growth, but our conversations on the ground were that the downturn was an important longer-term pivot away from uncontained debt-fuelled construction investment that had overextended itself.

¹ Rogoff, Kenneth, and Yuanchen Yang. "Rethinking China's growth." In *Economic Policy Conference Working Paper*. 2023. Retrieved from <https://www.economic-policy.org/wp-content/uploads/2023/10/Rogoff-Yang.pdf> (accessed 3 March 2024).

² Hoyle, H., & Jain-Chandra, S. (2024). *China's Real Estate Sector: Managing the Medium-Term Slowdown*. IMF. Retrieved from <https://www.imf.org/en/News/Articles/2024/02/02/cf-chinas-real-estate-sector-managing-the-medium-term-slowdown> (accessed 3 March 2024).

Bank for International Settlements data on real residential property prices in China show an inflation-adjusted fall of 10.2% between the housing market peak in the third quarter of 2021 and the end of 2023.

Graph 8

House prices continue to fall in China

Chinese real house prices, annual % change

Source: BIS, FRED, Infometrics

