

Country Insight Snapshot

China

June 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4c

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating

CORE OUTLOOK

- + The steady wage increases seen during the 2010s have boosted disposable incomes and metropolitan wealth levels considerably.
- + In the face of high debt burdens, China's state-owned enterprises, its public sector, and central government still have a huge stock of financial and fixed capital assets.
- + China's infrastructure base and industrial networks still support its global competitiveness.
- China's financial cycle has entered a more difficult phase after at least a decade of easy credit and capital misallocation.
- The legacy of the 'one-child' policy (1979-2016) will bring one of the most accelerated ageing trends in world history and affect the economy well into the 2020s.
- The shift in US trade policy creates medium-term uncertainty for China, for at least the duration of the US administration to 2020.

KEY DEVELOPMENT

The rescue of Baoshang Bank in May has raised concerns that its finances were not entirely atypical for the sector, and prompted enhanced central bank liquidity injections to keep interbank rates under control.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

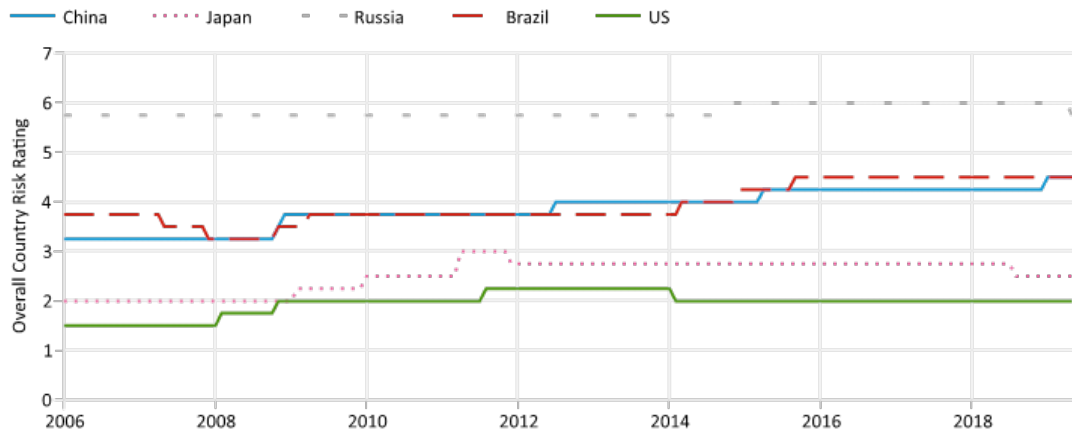
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

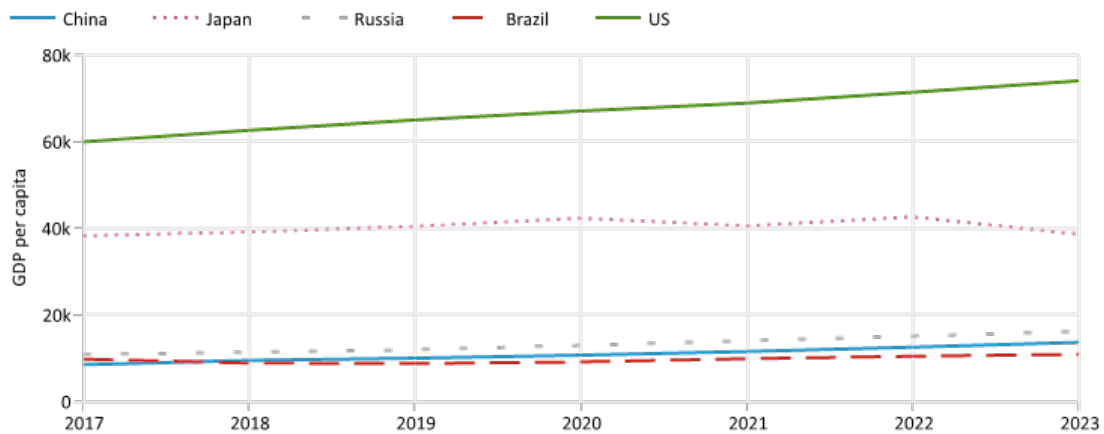
Rating History and Comparison



Source: Dun & Bradstreet

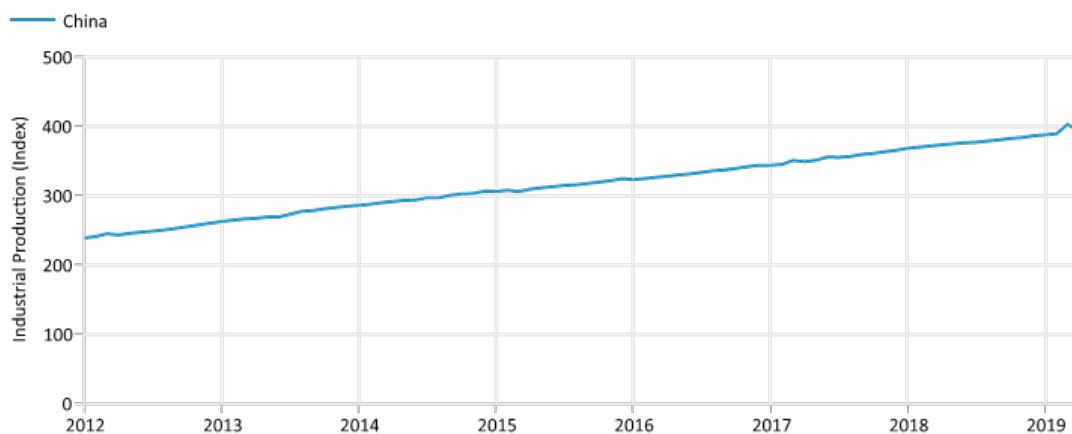
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	1.8	1.6	0.4	1.0	0.7	0.3	0.5	0.8
Govt balance, % GDP	-3.7	-3.9	-4.8	-5.8	-5.7	-5.6	-5.9	-6.1
Inflation, annual avge %	2.1	1.5	1.9	3.4	3.6	2.8	2.7	2.8
Real GDP Growth, %	6.7	6.8	6.6	6.1	5.8	6.2	5.9	6.0
Urban Unemployment	4.0	3.9	3.8	4.2	4.3	4.3	4.2	4.1

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The planned and threatened US tariffs will raise credit and supply chain risks from Q3 as the adjustment capacity of Chinese and foreign-owned firms based in China will not match the speed of the tariff increases. Existing US 'Section 301' tariffs have already accelerated relocations of supply chains out of China. If the US follows through on its 'List 4' 25% tariffs on the remaining half of its imports from China as yet unaffected by the trade war, it will affect consumer items which are not readily sourced in such large scale from other countries. Over the short term, this may add to US consumer bills more than it will reduce Chinese order books. However, the reprieve will only be temporary if the trade war persists into 2020 as is increasingly likely.

Based on industry-sourced shipping data and its identity resolution methods, Dun & Bradstreet estimates at least 100,000 Chinese shippers and a further 120,000 associated US consignees would be affected if 'Section 301' US tariffs were imposed on all Chinese exports to the US. This is apart from the effects of US export controls on trading with firms on its 'Entity List', due to include Huawei from August.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

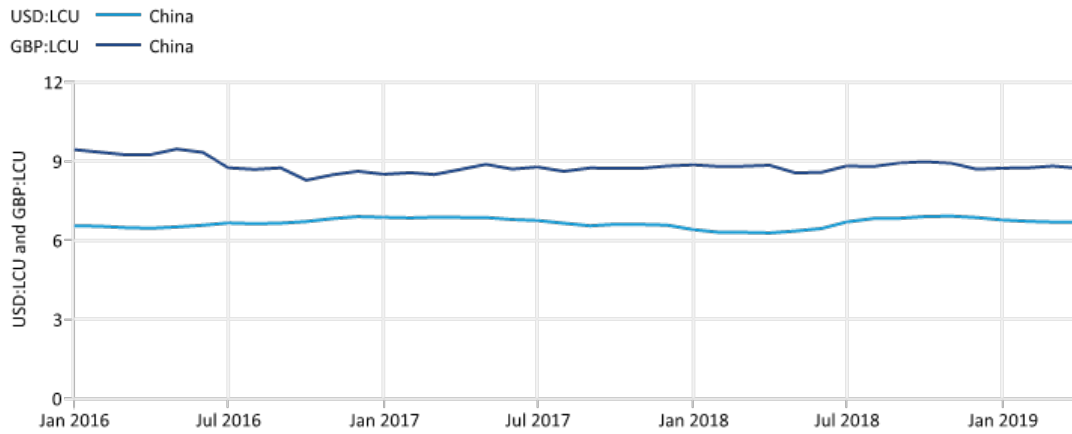
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



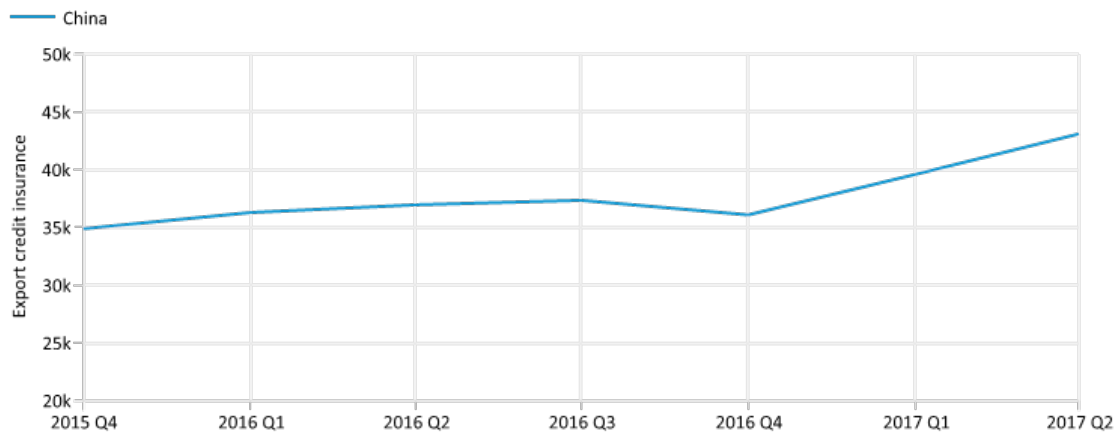
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Chinese yuan (CNY)

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, short-term, USDm; part of the increase going into 2017 reflects methodology changes.



RISKS AND OPPORTUNITIES

Transfer Risk

Private bank rescue sparks fears of 'mini-Lehman-Brothers' moment

In addition to a further tightening of controls on accessing US dollars for individuals and companies in 2019, the commercial banking sector is under pressure from rising non-performing loans, especially in peripheral areas with weaker economic growth, and among smaller financial institutions. The failure in May of Baoshang Bank, an Inner Mongolia-based lender with USD60bn in assets and 8,000 employees, triggered a rescue by China's central bank, in the first such intervention in 18 years.

Regulators pointed to an illegal diversion of funds by a major shareholder - the bank is owned by a group linked to a tycoon disappeared from Hong Kong in 2017 in what appears to have been an extra-judicial extradition by state authorities. Yet the concern is that many other small city-level and rural banks have similarly understated their problems: 19 small banks had failed to report their 2018 accounts as of May (in Baoshang's case, this also applied to its 2017 accounts) and Baoshang's last reported non-performing loan ratio was 1.7%.

According to Barclays, these 19 banks had USD647bn in assets. Accordingly, new failures in their ranks would be big enough to shock the financial system and have significant impacts at provincial level. The terms of the rescue, which imposed 'haircuts' on inter-bank creditors beyond CNY50m (USD7m), raised concerns as a precedent, in what remains a grey area in regulatory terms. Moreover, China Construction Bank, China's second largest bank, took over Baoshang operations, but the legal difficulties around inter-provincial rescues could complicate future rescues. Accordingly, 1- and 2-week Shanghai interbank rates rose by almost a quarter-point in May, following the rescue, before the People's Bank of China supplied financial institutions CNY500bn (USD72bn) in medium-term funds. In this context, we would expect only 'big 6' names (China's six largest banks) to reassure foreign shippers fully as LC guarantors.

Short-Term Economic Outlook

African Swine Fever and pests to drive-up inflation past 2019

Cases of African Swine Fever (ASF), lethal to pigs, first appeared in China in 2018 and have since been reported in all its provinces and autonomous regions. Estimates of the number of pigs due to perish from ASF or be culled in 2019 range from 20-50%, of the estimated 433m herd. After widespread under-reporting of the scale of the outbreak, the government is admitting the impact with its forecast of a 70% y/y rise in pork prices in Q3-Q4 2019. Given the centrality of pork in the national protein intake, CPI inflation is likely to exceed 3% into 2020. However, with the UN Food and Agriculture Organisation in May revealing that ASF is endemic in the autonomous western regions of Tibet and Xinjiang, eradicating ASF could be difficult or impossible over the medium term. The result is likely to be a structural rise in pork prices rather than a spike.

A new pest, the fall armyworm, has also spread in 2019 and could have national impacts on food prices following unseasonably warm spring weather, including the armyworm affecting corn. Cost-push inflation from food prices could further hit consumer confidence and spending, which is being weakened by downturns in hiring amid falling business confidence.



COUNTRY PROFILE AND STATISTICS

Overview

China is the world's most populous sovereign country and the third-largest by land area (9.6m square kilometres). Over 80% of the population is concentrated in the eastern half of the country, especially in coastal provinces. Bordering 13 countries, including India, Pakistan and Russia, China has immense political and economic significance. It is the only Asian nuclear power still a signatory to the Nuclear Non-Proliferation Treaty; China has long-range ballistic missile capability.

The economic reforms that began in the late 1970s have transformed China into a powerhouse of the international economy. Some USD1trn in FDI has entered China, which has exported over USD2trn in goods annually since 2012. China's digital economy has scale even the US can no longer match. However, the labour force ceased growing in the 2010s, reflecting the one-child policy introduced in 1979 and only curtailed in 2016. Meanwhile, the central government's efforts in tackling problems ranging from pollution and corruption, to regional inequalities and fiscal and debt imbalances remain in their early stages.

Key Facts

Key Fact	Detail
Head of state	President Xi Jinping
Capital	Beijing
Timezone	GMT +08-00
Main languages	Mandarin, Cantonese.
Population (millions)	1,415.0
GDP (USD billions)	13,617.0
GDP per capita (USD)	9,623
Life expectancy (years)	76.2
Literacy (% of adult pop.)	96.4
Surface area (sq km)	9,598,060

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	7.3	6.9	6.7	6.8	6.6
Nominal GDP in USDbn	10,440	11,016	11,145	12,151	13,617
Nominal GDP in local currency (bn)	64,128	68,599	74,006	82,075	90,031
GDP per Capita in USD	7,510	7,885	7,941	8,621	9,623
Population (year-end, m)	1,390.1	1,397.0	1,403.5	1,409.5	1,415.0
Exchange rate (yr avge, USD-LCU)	6.1	6.2	6.6	6.8	6.6
Current Account in USDbn	236.3	304.3	201.1	194.2	53.3
Current Account (% of GDP)	2.3	2.8	1.8	1.6	0.4
FX reserves (year-end, USDbn)	3,843.0	3,330.4	3,010.5	3,139.9	3,072.7
Import Cover (months)	0.0	19.9	18.5	17.1	14.5
Inflation (annual avge, %)	2.1	1.5	2.1	1.5	1.9
Govt Balance (% GDP)	-0.9	-2.8	-3.7	-3.9	-4.8

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	6.1	5.8	6.2	5.9	6.0
Nominal GDP in USDbn	14,391	15,024	16,149	17,578	19,160
Nominal GDP in local currency (bn)	97,861	104,418	113,045	123,047	134,117
GDP per Capita in USD	10,134	10,547	11,305	12,277	13,355
Population (year-end, m)	1,420.1	1,424.5	1,428.5	1,431.9	1,434.7
Exchange rate (yr avge, USD-LCU)	6.8	7.0	7.0	7.0	7.0
Current Account in USDbn	93.5	-7.5	72.7	87.9	143.7
Current Account (% of GDP)	0.7	-0.1	0.5	0.5	0.8
FX reserves (year-end, USDbn)	3,022.0	3,000.0	3,050.0	3,150.0	3,200.0
Import Cover (months)	14.7	15.6	15.0	16.7	16.2
Inflation (annual avge, %)	2.3	2.0	2.9	2.7	2.8
Govt Balance (% GDP)	-5.6	-5.2	-5.6	-5.9	-6.1

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	10,109	40,537	12,087	8,871	65,115
Country Population (m)	1,420.1	126.0	143.9	210.7	329.1
Internet users (% of population)	53.2	92.0	76.4	59.7	76.2
Real GDP Growth (% p.a., 2019 - 2028)	4.5 - 6.5	-0.5 - 1.2	1.5 - 3.0	1.0 - 2.0	1.8 - 2.5

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 (0)1628 492700
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet
Marlow International
Parkway
Marlow
Bucks SL7 1AJ
United Kingdom
Tel: 01628 492000
Fax: 01628 492929
Email: countryinsight@dnb.com

Dun & Bradstreet provides information relating to more than 285m companies worldwide. Visit www.dnb.com for details. Additional information relevant to country risk can be found in the online *International Risk & Payment Review*, which provides timely and concise economic, political and commercial information and analysis on 132 countries. This subscription-based service (www.dnbcountryrisk.com) carries essential information on payment terms and delays. It also includes the unique Dun & Bradstreet Country Risk Indicator to help monitor changing market conditions

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

© All rights reserved. No part of this publication may be reproduced or used in any form or by any means graphic, electronic or mechanical, including photocopying, recording, taping, or information storage and retrieval systems without permission of the publisher.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.