

# Country Insight Snapshot China

December 2018






## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB4b

**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.
- + Positive sales forecasts for a select range of consumer sectors are still credible in some prime urban areas.
- 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

New US tariffs on Chinese imports, alongside high corporate and local government debt burdens, mean that company profits, employment and investment are all under pressure.

### 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:** Stable 

Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

A

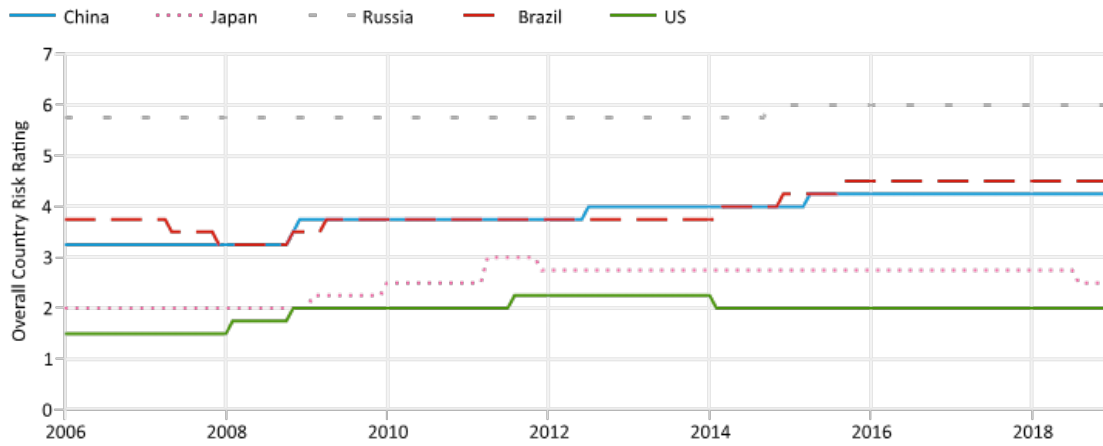
**Trend:** Stable 

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

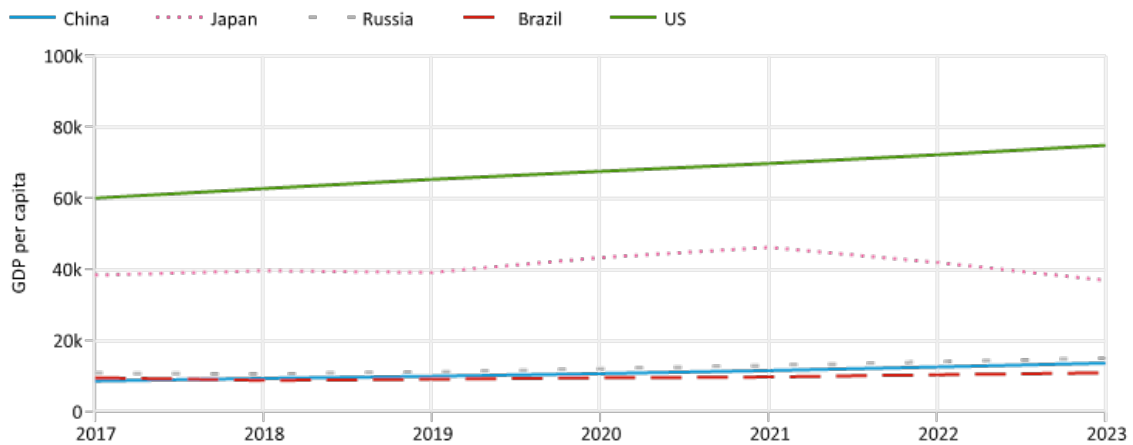
### Rating History and Comparison



Source : Dun & Bradstreet

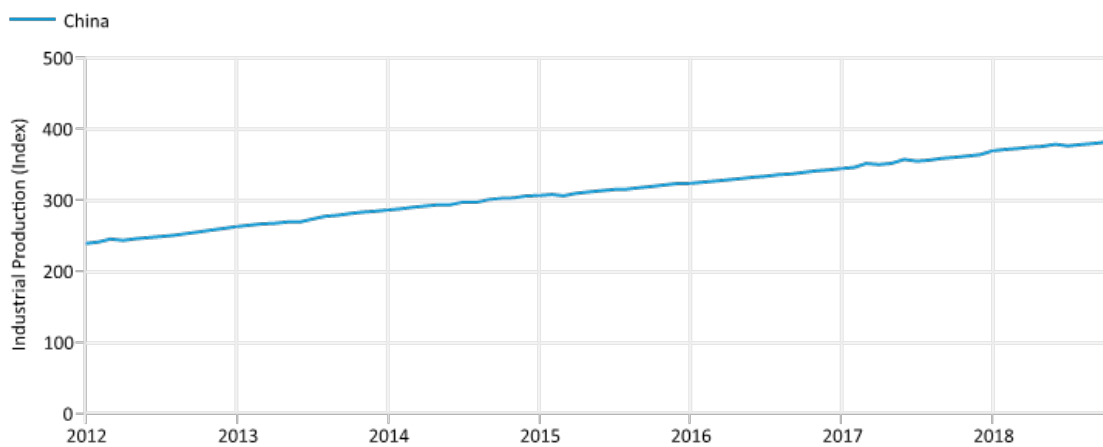
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2016	2017	2018f	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	1.8	1.3	0.4	0.3	-0.1	0.5	0.5	1.0
Govt balance, % GDP	-3.7	-3.9	-4.4	-4.6	-4.8	-4.7	-4.9	-4.5
Inflation, annual avge %	2.1	1.5	2.0	2.7	2.7	3.0	2.8	2.8
Real GDP Growth, %	6.7	6.9	6.6	6.1	5.8	6.2	5.9	6.0
Urban Unemployment	4.0	3.9	4.0	4.1	4.1	4.2	4.2	4.1

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The economy would probably be decelerating even without the additional shock from the US tariffs in place, in phases, since July. The 90-day reprieve on an increase in the unilateral US tariff on USD200bn in annual Chinese exports (2017 data) from 10% to 25%, from start-January to end-March, announced from the sidelines of the G20 summit, will help to prevent a broader and deeper shock in 2019, but a full resolution of all US demands is highly unlikely. The best, plausible scenario is a series of postponements of the threatened US tariff step during 2019 as the two sides negotiate on China's raw materials imports, IP environment and industrial structure and policy, in order of increasing controversy. The tariff war with the US is generally causing breaks with normal seasonal supply-chain patterns in and out of China, with goods for the 2018 holiday and 2019 spring season being shipped to China's biggest market earlier than usual to build inventories and avoid US tariffs. This has kept export volume growth higher than actual demand and trans-Pacific spot freight rates elevated since 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

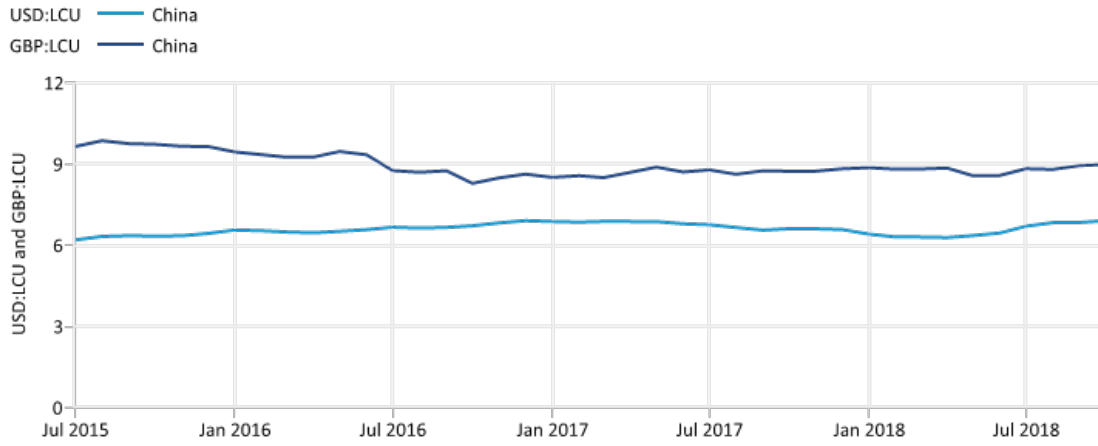
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



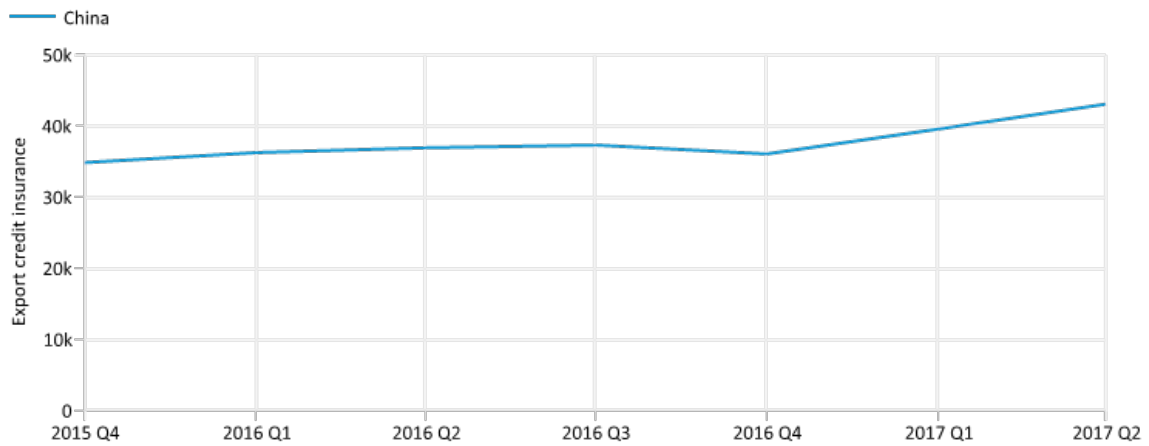
## Exchange Rate



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*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***General slowdown masks local, sectoral recessions***

The economy is slowing, with some sectors already likely to be in outright recession in Q4 or coming quarters and with higher credit risks. The authorities, who have averted an immediate financial crisis by lowering short-term market interest rates, have only limited policy options to the end of the long phase of credit-driven growth. Despite four cuts to bank reserve requirements in 2018 and repeat liquidity injections by the central bank, M2, broad money, has continued to decelerate (to 8.0% y/y in October), while new bank credit in October fell to half September's level. Liquidity support is not evenly translating into new lending. Directives for banks to lend to the private sector and small firms have not been able to protect them from the deleveraging policy installed in 2017 to curtail the non-bank financing sector and shore up financial stability, a policy which hit their key sources of working and investment capital.

The concern is not so much over exports per se, which could hold up into 2019 as Chinese shippers try to keep market shares and absorb the unilateral US tariffs in place since July, as much as over debt sustainability, employment and corporate profits. More highly leveraged private firms will face solvency issues in 2019-20, regardless of the US-China trade war. Industrial profit growth (a dataset with opaque methodology in any case) declined to 3.6% y/y in October, with only 13 of 41 sectors reporting y/y improvements, mostly in consumer-facing sectors. Meanwhile, a state council policy paper was published in December as a template for provincial governments. It offers firms that retain workers refunds of half of their mandatory 2% unemployment insurance payments in the past year and more if they enter financial difficulties, showing that the government is openly concerned about jobs. Anecdotal information suggest hiring is already contracting in export manufacturing hubs.

### Market Potential

#### ***Smartphone, auto sales slump***

While broader consumer demand is still holding up, smartphone sales fell 15% y/y in January-October, and automotive wholesale deliveries fell 8% y/y in Q3 and 12% y/y in October. Tax cuts for individuals will help shore up demand in 2019, but the cooling property market - as the boom in lower-tier cities expires, and with balance sheet pressures for real estate developers - will hold back consumer confidence and the construction sector, which drives multiple sectors. Indeed, a 20% fall in construction steel prices since August and the ban on new coal imports to end-2018, intended to protect domestic producers, are signs of returning deflation pressures.

We note that 19 of 31 provinces failed to hit their real GDP growth targets for Q1-Q3. Even if they expedite projects, the growth quality achieved will be low, as the targets are unrealistically high. The government is already allowing provinces to bring forward CNY2trn from their 2019 debt issuance quotas, after the quota for 2018 was exhausted. However, we believe almost half of the USD195bn in special infrastructure bonds issued for 2018 have not been spent on projects but on land acquisition, which have few economic multipliers, illustrating the lack of levers to spur investment.



## 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 remain ambitious and 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)	1,409.5
GDP (USD billions)	12,245.0
GDP per capita (USD)	8,688
Life expectancy (years)	76.0
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	2018f
Real GDP growth (%)	7.3	6.9	6.7	6.9	6.6
Nominal GDP in USDbn	10,484	11,065	11,198	12,245	13,327
Nominal GDP in local currency (bn)	64,397	68,905	74,359	82,712	90,891
GDP per Capita in USD	7,542	7,921	7,979	8,688	9,418
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	6.8
Current Account in USDbn	236.3	304.3	201.1	164.2	53.3
Current Account (% of GDP)	2.3	2.8	1.8	1.3	0.4
FX reserves (year-end, USDbn)	3,843.0	3,330.4	3,010.5	3,139.9	3,010.0
Import Cover (months)	20.6	19.9	18.5	17.1	14.8
Inflation (annual avge, %)	2.1	1.5	2.1	1.5	2.0
Govt Balance (% GDP)	-0.9	-2.8	-3.7	-3.9	-4.4

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	14,253	15,328	16,610	18,088	19,715
Nominal GDP in local currency (bn)	99,625	107,296	116,272	126,618	138,006
GDP per Capita in USD	10,037	10,760	11,628	12,633	13,742
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)	7.0	7.0	7.0	7.0	7.0
Current Account in USDbn	47.0	-13.8	74.7	90.4	197.2
Current Account (% of GDP)	0.3	-0.1	0.5	0.5	1.0
FX reserves (year-end, USDbn)	2,960.0	3,050.0	3,250.0	3,010.0	3,050.0
Import Cover (months)	14.2	15.0	15.2	15.2	14.7
Inflation (annual avge, %)	2.7	2.7	3.0	2.8	2.8
Govt Balance (% GDP)	-4.6	-4.8	-4.7	-4.9	-4.5

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	9,418	39,713	10,690	8,882	62,795
Country Population (m)	1,415.0	125.5	144.0	209.2	326.8
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





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