



Decide with Confidence

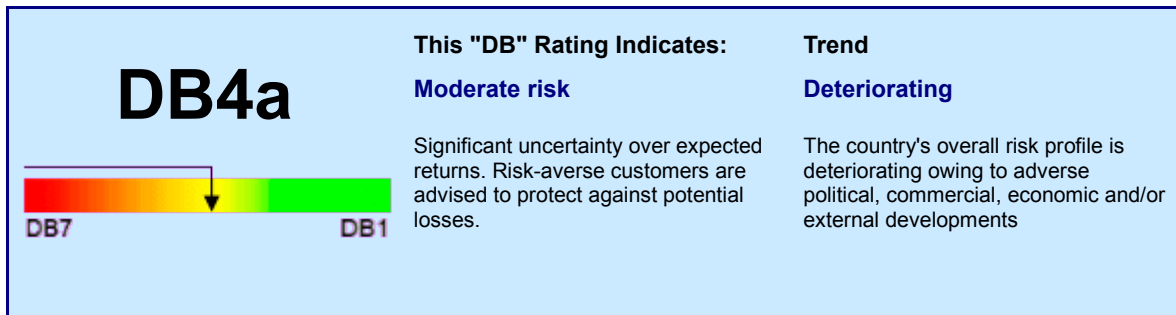
D&B Country RiskLine Report

CHINA

Region : Asia Pacific

Edition : September 2014

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	1.39bn
Surface area (sq km):	9,598,060
Capital:	Beijing
Timezone:	GMT +08:00
Main languages:	Mandarin
Head of state:	President Xi Jinping
GDP (USD):	9.2trn
GDP per capita (USD):	6,626
Life expectancy (years):	75
Literacy (% of adult pop.):	90.9

Country 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 a small long-range missile capability.

The economic reforms that began in the late 1970s have transformed China into a powerhouse of the international economy. Hundreds of billions of US dollars in FDI have entered China, which has exported well over USD1trn in goods annually since 2007.

However, the labour force has already ceased growing in the 2010s, reflecting the One-Child Policy introduced in 1979 and only slowly being loosened. Meanwhile, the central government's plans to combat problems ranging from pollution, corruption, misallocation of capital in the boom period and energy wastage remain in their infancy.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	LC
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D&B'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
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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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
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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.

Trade & Commercial Environment

Some 14% of firms listed on the Shanghai and Shenzhen exchanges posted losses in Q1-Q2. Airlines and liquor-makers were among the new sectors to feel the brunt of decreasing government spending on officials, joining those sectors suffering from over-capacity, such as steel, cement, aluminium, shipbuilding and marine freight services. Loan rates are rising, anecdotally to as high as 10%, towards actual and perceived credit risk levels. Unusually, but with welcome alertness to market conditions, large state-owned coal and aluminium producers have scaled back production by millions of tonnes. Steel and a range of other commodity traders present risks given inventory levels. In shipbuilding, orders recovered 78% year on year in Q1-Q2, but at the expense of pricing and profits.

Export Credit Agencies

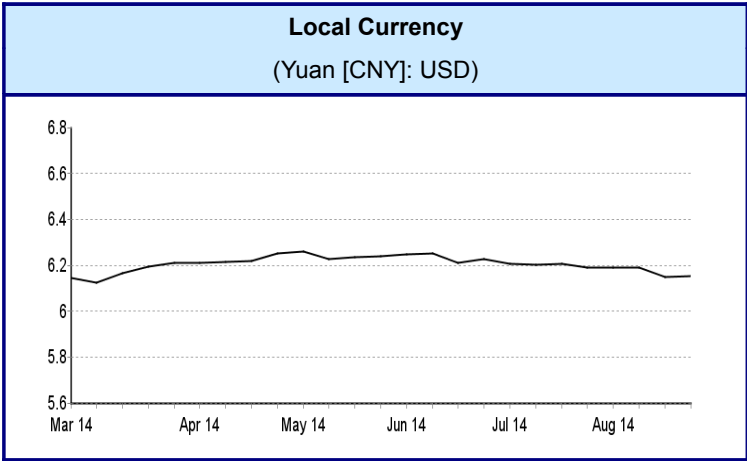
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	9.3	7.7	7.7	7.3	6.8
Inflation, annual ave, %	5.5	2.6	2.6	2.4	1.5
Govt balance, % GDP	-1.1	-1.6	-1.9	-2.5	-3.0
Urban unemployment, %	4.1	4.1	4.1	4.1	4.3
C/A balance, % GDP	1.8	2.6	2.0	2.3	1.6

Currency Information

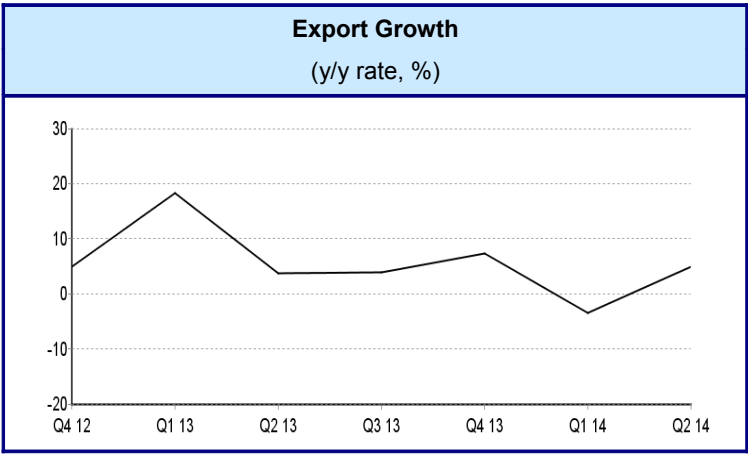
Exchange Rates	
(London, 08 Sep 14)	
EUR	7.9581
GBP	10.0228
JPY*	5.8552
USD	6.1412
*(x 100)	



Local Currency
(Yuan [CNY]: USD)

	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14
Week 1	6.145	6.212	6.259	6.247	6.204	6.192
Week 2	6.126	6.212	6.228	6.250	6.204	6.192
Week 3	6.163	6.219	6.233	6.211	6.207	6.147
Week 4	6.195	6.253	6.239	6.226	6.192	6.153
Week 5	6.212					

Export Growth



Data Table

Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
4.94	18.32	3.79	3.92	7.37	-3.42	4.94

Risk Factor

Short-Term Economic Outlook: D&B maintains its 'Deteriorating' outlook for China and is closer to a downgrade to the DB4b level than at any stage since the financial crisis of 2008. Despite the selective credit easing that began in Q2, partly to redirect credit away from over-capacity state-owned sectors, and to shore up flagging rural banks and regions, China is entering a more difficult phase of its financial cycle, which will bring deleveraging and incrementally rising credit risks, in a range of sectors, if not nationally. The 45% year-on-year (y/y) and 64% month-on-month fall in new bank lending in July was arresting, and reflected how banks are reining in loans to defend versus a wave of under-reported defaults and to shore up their capital in advance of Basel III requirements due to be implemented by 2018. August will see a rebound in loans, but with shadow financing also becoming scarcer, banks' lead will have enormous repercussions for the availability of working and investment capital going into 2015. Regulators are moving where they can to open up financing channels and improve business liquidity in policy steps that are partly counter-cyclical, and partly intended to liberalise the credit system. However, D&B does not see these as holding back the financial cycle's turn into a phase of deleveraging.

Officially reported non-performing loans were CNY694bn at end-Q2 (1.08% of banking system loans). This figure has been artificially depressed by the under-reporting of rolled-over loans and repackaging of risky loans into short-term, high-yield products. Bank of China, one of the 'big four' state-owned banks, saw its bad loan provisions more than double y/y in Q2. Banks plan to raise USD64bn in bonds in 2015 to meet the Basel requirements of a 9.5% weighted-average core capital adequacy ratio by end-2018. As the average for Chinese banks was 10.1% at end-Q1 and a range of over-capacity industries are poised to spawn bad loans for several years, there is urgency despite the medium-term horizon of the Basel criteria. Accordingly, moves to allow local governments and property developers to sell bonds directly, or to increase quotas for rural lending and lenders, seen in Q3 will only mitigate the lower availability of credit.

Market Potential: Headline growth, exports and retail sales do not suggest a recession or crisis. But, the property market is just at the start of a correction that will prove the most extended since China's liberalisation of mortgage finance in 1997. In second-tier cities, such as Changsha, average house prices have already fallen 5.0-7.0% since April. The land sales required to service local government debts will suffer. The *HSBC Purchasing Manager Index*, which more closely reflects the activity of small- and medium-sized firms, was 50.2 points in August, just over the boundary between expansion and contraction.

Glossary & Definitions

DEFINITIONS

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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