

# Country Insight Snapshot China

December 2016



Written 02 December 2016

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## 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.
- + Positive sales forecasts for a select range of services and consumer-oriented sectors are still credible in many prime urban areas.
- China's financial cycle is entering a far more difficult phase after at least a decade of easy credit and capital misallocation.
- Use of the 2007 bankruptcy law is at last rising, as part of the drive to cut excess industrial capacity.
- The legacy of the 'one-child' policy (1979-2016) will bring one of the most accelerated ageing trends in world history and affect the whole economy in 2016-25.

## KEY DEVELOPMENT

Transfer risks are rising for overseas counter-parties expecting payments from China, as the authorities increasingly scrutinise non-merchandise transfers to stop capital flight.

### CREDIT ENVIRONMENT OUTLOOK


A

**Trend:** Deteriorating 

Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK


A

**Trend:** Stable 

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

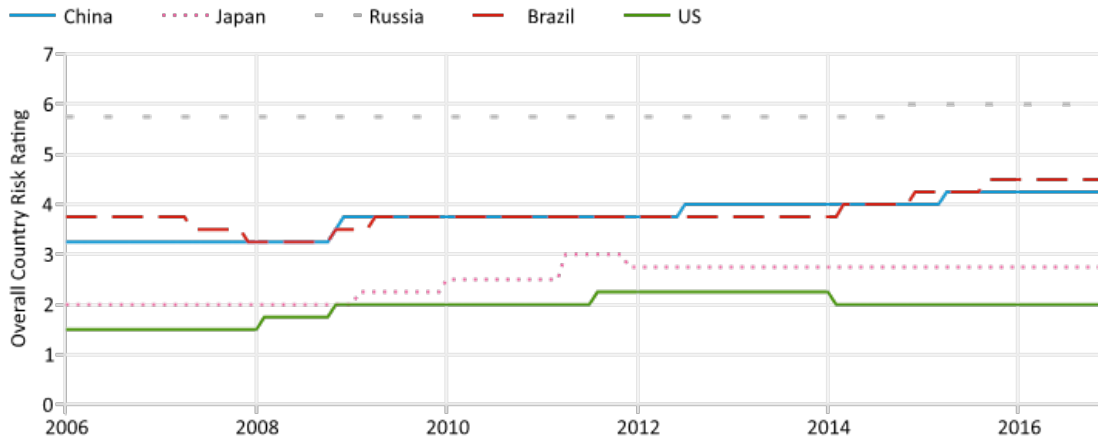
**Trend:** Stable 

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

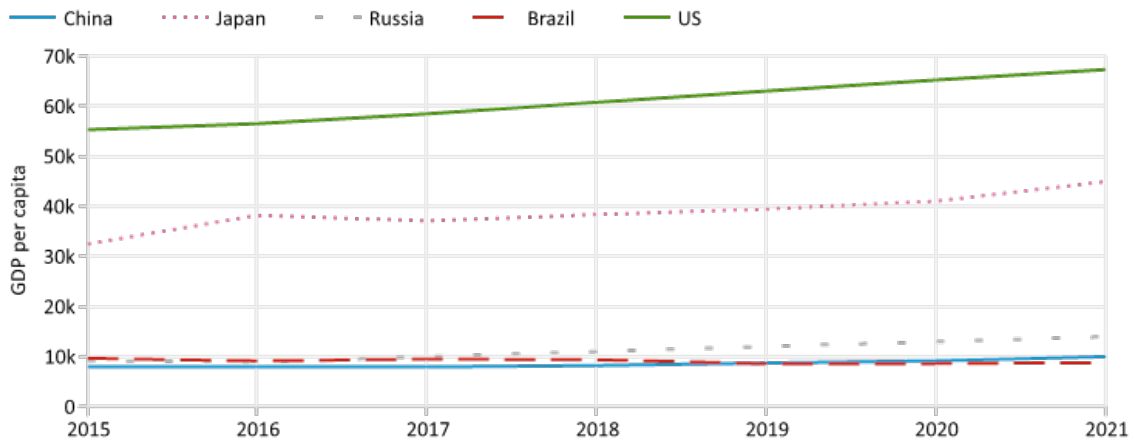
### Rating History and Comparison



Source : Dun & Bradstreet

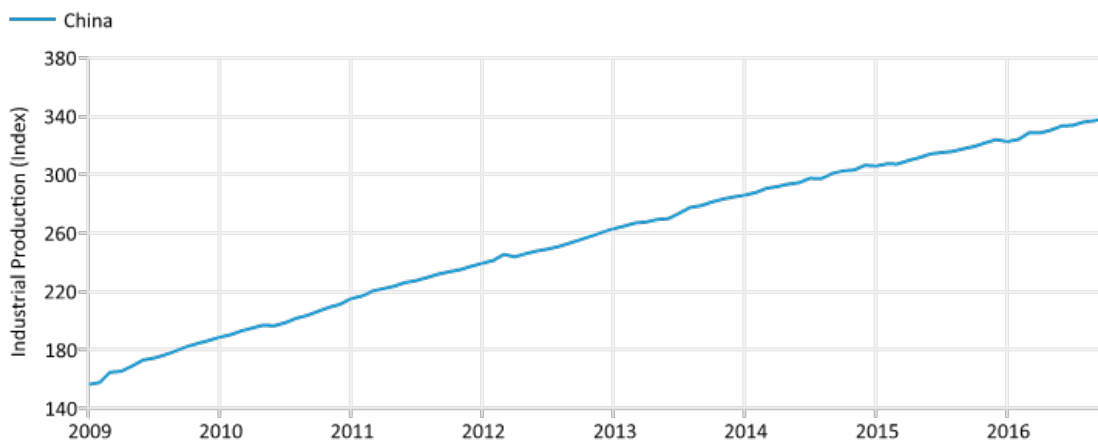
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2014	2015	2016f	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	2.6	3.0	2.3	2.6	2.2	2.2	2.3	3.3
Govt balance, % GDP	-1.8	-3.4	-4.8	-5.0	-5.5	-5.0	-3.9	-3.3
Inflation, annual avge %	2.1	1.5	2.1	2.5	0.8	1.9	2.7	3.0
Real GDP Growth, %	7.3	6.9	6.5	6.0	5.8	6.0	5.5	5.1
Urban Unemployment	4.1	4.1	4.6	5.4	5.5	6.0	5.7	5.5

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The offshore yuan, which is not subject to central bank daily trading limits, had already hit CNH6.95:USD in the last week of November. We expect the onshore CNY:USD rate to cross CNY7 fairly early in 2017. It is true that the Chinese currency was more stable against the US dollar than many prominent currency pairs in 2016, but its effect on international supply chains is more profound given China's currency widely sets pricing expectations inside and outside of China. Domestically, there has been no major shift in factory surveys of purchasing manager sentiment, but the inflection back into y/y producer price inflation is significant. While helping corporate cashflows in industry, the switch owes at least as much to government stimulus as to official efforts to cut capacity, with wild retail speculation also crucial. Shortages of natural gas and of coal-carrying freight capacity over the winter into 2017, could also help raise inflation more firmly past the 2% mark.

## 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

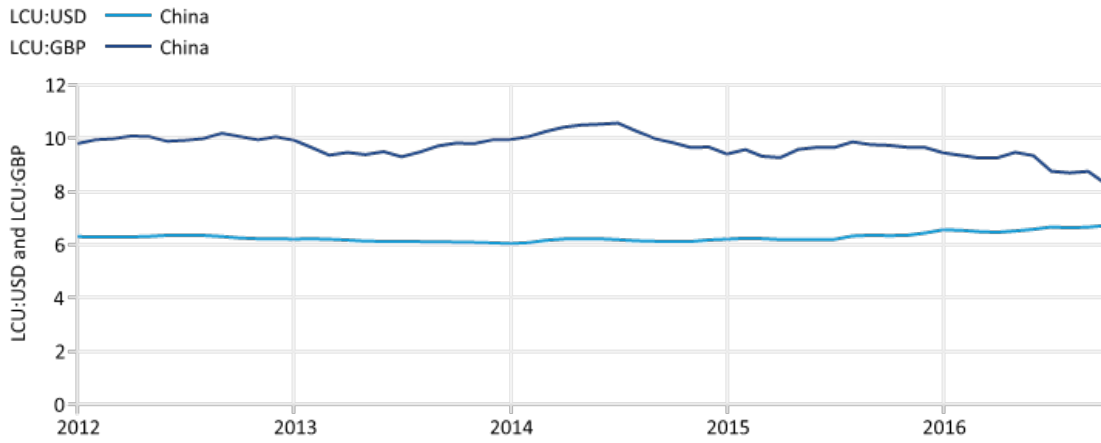
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



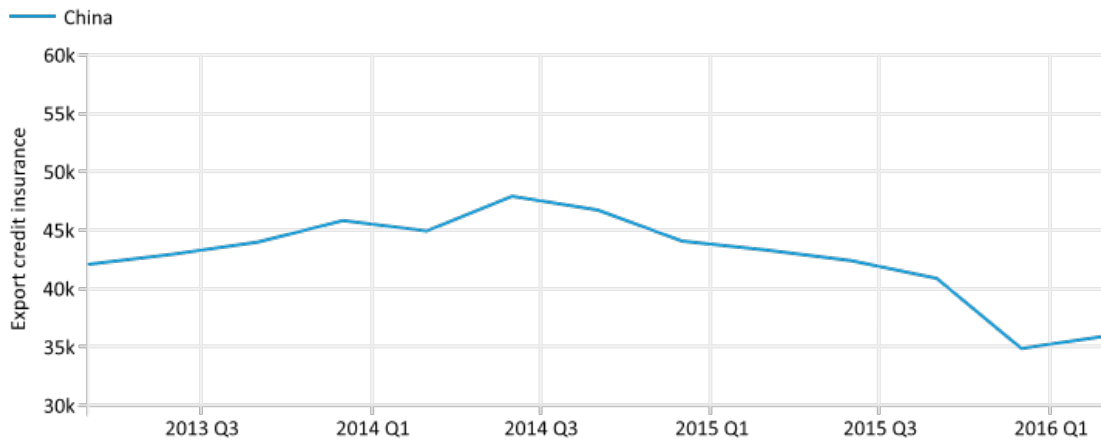
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Chinese yuan*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, short-term, USDm*



## RISKS AND OPPORTUNITIES

### Transfer Risk

#### *Unreported capital controls accelerate in scope*

Dun & Bradstreet has reported increasing exchange controls since 2015. Almost never gazetted as official, these have taken the form of 'window guidance' on banks to block, delay or investigate outward cross-border transfers, in retail and corporate banking. They affect capital account transactions such as buying property overseas, and royalty, dividend, loan and service payments. The context is the near-25% fall in official FX reserves since mid-2014 from almost USD4trn; the punctuated downward glide in the CNY:USD rate since the devaluation of August 2015; and the vast increase in domestic liquidity. M1 (narrow money) was up close to 25% y/y in Q3, while broad money rose the equivalent of USD16.1trn in 2007-15.

Uncertainty for overseas counter-parties has increased since the yuan began to weaken more quickly in October. The wave of higher US interest rate and inflation expectations since the US elections has conceivably exacerbated pressure on the yuan. Chinese authorities are also bracing for the renewal of the annual USD50,000 per capita FX-buying quota for citizens in January 2017. Legitimate payments for predictably-priced goods imports with a clear business case are likely to proceed, but anything more complex, involving cross-border investment, loan repayments or profit repatriation could be in limbo for an indefinite period.

The shift is visible in the multi-agency nature of the effort. The State Council in November drafted restrictions on outbound mergers and acquisitions. State agencies will vet all overseas acquisitions of over USD10bn (and USD1bn for non-core acquisitions and purchases of real estate by state-owned enterprises). This is after non-financial acquisitions of USD146bn in January-October, over the record USD121bn in 2015. Gold imports have also been restricted; and the authorities will directly vet all FX purchases of over USD5m, down from a previous USD50m, a step we have anticipated for months. Moreover, the central bank will block domestic companies from transferring more than 30% of their net equity into offshore renminbi. The rationale of FX stability is clear but the transfer risk could result in China's downgrade to DB4c in 2017.

### Market Potential

#### *China's potential response in a trade war*

Even if the Trump campaign rhetoric of 45% tariffs on Chinese goods is abandoned, more pinpoint trade measures are feasible; for example to defend breaches of American intellectual property rights, or as occurred with US tariffs on Chinese steel earlier in 2016. The scope for Chinese policymakers to respond in a US-China trade war is, in any case, vast. Boeing and Apple have been cited as potential losers, but farm states in the US are also vulnerable. Chinese policymakers could impose further anti-dumping/countervailing duties on US grain exports, which would rile the US farm lobby. US soybean exporters are already at risk. Anti-monopoly and straight-up criminal investigations could also intensify. Qualcomm's almost USD1bn fine imposed by Chinese authorities in 2015 demonstrated the risks.



## COUNTRY PROFILE AND STATISTICS

### Overview

China is the world's most populous sovereign country and the third-largest by land area (9.6m km squared). 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 well over USD1trn in goods annually since 2007. However, the labour force already ceased growing in the 2010s, reflecting the one-child policy introduced in 1979 and only finally curtailed in 2016. Meanwhile, the central government's plans to combat problems ranging from pollution, corruption, misallocation of capital and credit in the boom period, to energy system reform, remain in their infancy.

### Key Facts

Key Fact	Detail
Head of state	President XI Jinping
Capital	Beijing
Timezone	GMT +08-00
Main languages	Mandarin, Cantonese,
Population (millions)	1,376
GDP (USD billions)	11,008.0
GDP per capita (USD)	8,000
Life expectancy (years)	75
Literacy (% of adult pop.)	95.1
Surface area (sq km)	9,598,060

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2012	2013	2014	2015	2016f
Real GDP growth (%)	7.8	7.8	7.3	6.9	6.5
Nominal GDP in USDbn	8,560	9,607	10,484	11,008	11,023
Nominal GDP in local currency (bn)	54,037	59,524	64,397	68,551	73,578
GDP per Capita in USD	6,316	7,051	7,656	8,000	7,974
Population (year-end, m)	1,355.4	1,362.5	1,369.4	1,376.0	1,382.3
Exchange rate (yr avge, USD-LCU)	6.31	6.2	6.14	6.23	6.68
Current Account in USDbn	215.5	148.3	277.7	330.6	257.2
Current Account (% of GDP)	2.5	1.5	2.6	3.0	2.3
FX reserves (year-end, USDbn)	3,311.6	3,821.3	3,843.0	3,330.4	3,100.0
Import Cover (months)	20.5	21.6	20.4	19.5	20.6
Inflation (annual avge, %)	2.6	2.6	2.1	1.5	2.1
Govt Balance (% GDP)	-1.6	-1.8	-1.8	-3.4	-4.8

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	6.0	5.8	6.0	5.5	5.1
Nominal GDP in USDbn	11,025	11,497	12,218	12,892	14,090
Nominal GDP in local currency (bn)	79,102	84,041	91,638	100,258	109,581
GDP per Capita in USD	7,942	8,249	8,736	9,190	10,018
Population (year-end, m)	1,388.2	1,393.7	1,398.6	1,402.8	1,406.4
Exchange rate (yr avge, USD-LCU)	7.18	7.31	7.5	7.78	7.78
Current Account in USDbn	281.1	249.5	270.2	295.2	463.6
Current Account (% of GDP)	2.6	2.2	2.2	2.3	3.3
FX reserves (year-end, USDbn)	2,995.0	2,900.0	3,050.0	3,110.0	3,111.0
Import Cover (months)	20.7	20.1	21.2	24.3	23.9
Inflation (annual avge, %)	2.5	0.8	1.9	2.7	3.0
Govt Balance (% GDP)	-5.0	-5.5	-5.0	-3.9	-3.3

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	8,000	32,486	9,233	9,717	55,326
Country Population (m)	1,376	127	143.5	208.8	321.8
Internet users (% of population)	50.3	93.3	73.4	59.1	74.5
Real GDP Growth (% p.a., 2017 - 2026)	3.5 - 6.5	-0.5 - 1.2	1.5 - 3	1 - 2	1.8 - 2.5

Source : Various sources/Dun & Bradstreet





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