Decide with Confidence

D&B Country RiskLine Report

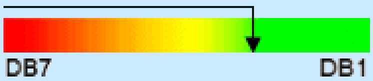
CHINA

Region : Asia Pacific

Edition : May 2011

D&B Country Risk Indicator

DB3d



This "DB" Rating Indicates:

Slight risk

Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

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:	1.4bn
Surface area (sq km):	9,598,060
Capital:	Beijing
Timezone:	GMT +08:00
Main languages:	Mandarin, Cantonese,
Head of state:	President HU Jintao
GDP (USD):	5.9trn
GDP per capita (USD):	4,388
Life expectancy (years):	72
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 1970s have transformed China into a powerhouse of the international economy. Tens of billions of US dollars in FDI have entered China, which exported almost USD1trn in goods in 2007. The labour force will cease growing in the 2010s, reflecting the One-Child Policy introduced in 1979. Meanwhile, the central government's plans to combat pollution, corruption and energy wastage remain in their infancy.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD

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

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

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

Transfer Situation

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.

Trade & Commercial Environment

Tighter credit in the rest of 2011 will most affect the availability of credit for smaller, private sector firms; larger, more profitable firms will be less affected and large state-owned firms affected least of all. We recommend LC terms for privately run smaller firms. Commodity prices are unlikely to crash, so the risk of any wave of dishonouring of LCs by raw materials importers is unlikely in the short term. Input prices are also rising, ranging from fuel, to electricity, to wages, to imported raw materials. However, productivity rises in most sectors should be sufficient to prevent major falls in profits. This said, sectors suffering from overcapacity, such as steel-making and communications equipment makers, will see further pressures on profits, unless firms have lower-than-usual costs.

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

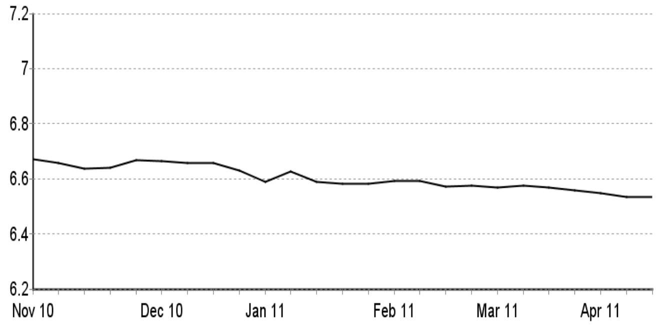
	2008	2009e	2010e	2011f	2012f
Real GDP growth, %	9.6	9.2	10.3	8.9	8.4
Inflation, annual ave, %	6.0	-0.7	3.2	5.0	4.8
Govt balance, % GDP	-0.4	-2.3	-1.6	-2.4	0.8
Urban unemployment, %	4.2	4.3	4.1	4.0	4.0
C/A balance, % GDP	9.6	5.9	5.2	4.2	4.0

Currency Information

Exchange Rates (London, 18 Apr 11)	
EUR	9.4186
GBP	10.6509
JPY*	7.8511
USD	6.5325
*(x 100)	

Local Currency

(Yuan [CNY]: USD)



Local Currency

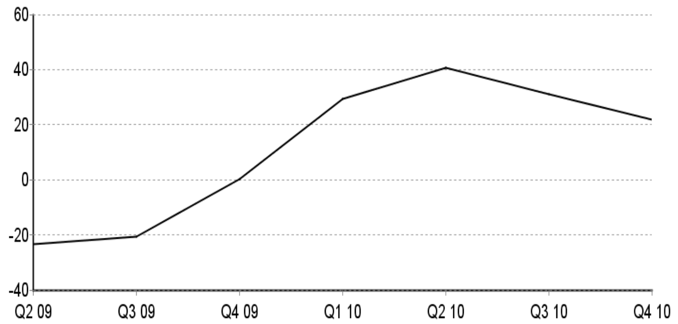
(Yuan [CNY]: USD)

	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11
Week 1	6.671	6.663	6.590	6.594	6.569	6.548
Week 2	6.657	6.656	6.628	6.592	6.575	6.535
Week 3	6.637	6.656	6.590	6.573	6.569	6.532
Week 4	6.640	6.631	6.583	6.575	6.558	
Week 5	6.668		6.582			

Export Growth

Export Growth

(y/y rate, %)



Data Table

Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
-23.39	-20.7	0.25	29.4	40.5	31.1	21.8

Risk Factor

A tightening direction for policy since 2010, rising inflation, and China's higher import bill in 2011 (due to rising demand and commodity prices) should reduce real GDP growth. We expect a fall from 10.3% in 2010, to real GDP growth of 8.5% in China in 2011, but for a return to 9.0% in 2012 as China's inland provinces continue to expand powerfully. Despite the 9.7% year-on-year (y/y) real GDP growth announced in Q1, an 8.5% outcome is realistic. The trade surplus should fall by 37% in 2011 from 2010 levels, and indeed China ran its first trade deficit in seven years in Q1, albeit one of less than USD1bn (compared to the USD9bn deficit in Q1 2004). The import bill will rise as oil and raw materials prices stay elevated, and import volumes expand. In 2011, China's iron ore imports should rise another 40m tonnes, on top of the more than 600m it imported in 2010.

Monetary policy has been tightened as inflation has returned and lending exceeded targets. State-set lending rates have been raised four times and bank reserve requirements seven times since Q4 2010, most recently in April; taking reserve requirements to a record 20.5%. The central bank, the China Banking Regulatory Commission and bodies such as Central Huijin, with capital from the Ministry of Finance (and which holds stakes in major state-owned banks), are keen to head off any US 2008-style credit crisis with prudential measures. Banks' capital requirements are to be raised, even if details will be subject to keen negotiations; and at least one further quarter-point interest rate rise is due in 2011. CPI inflation reached 5.4% y/y in March, and producer prices were up by 7.3% y/y in March. So far, food inflation has dominated, as grain prices have risen by about 15% y/y in Q1. But inflation seems to be broadening into housing prices and, recently, the price of medicines. Upstream producer prices are beginning to feed into non-food core inflation, state-set fuel prices have been raised twice so far in 2011, and the government's top economic decision-making body raised electricity prices in 16 provinces in April. With wages already rising fast, it will be necessary to curb inflationary expectations, otherwise the 2010s could prove much more inflationary than the 2000s.

The effect of policy tightening phases for China's economic cycle is usually disproportionately negative for the private, as opposed to the state-owned sector. Accordingly, shippers should examine their customers' status; as state-owned firm will have preferential access to credit. Privately-held, small and medium-sized enterprises are further back in the queue. Those that are larger and more profitable should be better placed to get credit for working capital and imports. Our risk outlook for China is still stable but shippers should be aware of how tightening will affect individual customers differently. Some state-owned firms may even benefit from the difficulties of private sector firms in obtaining credit.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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Recommended Terms:

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Usual Terms:

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Local Delays:

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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

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Rest of World
You can contact your local D&B Customer Services departments by clicking here.