



Decide with Confidence

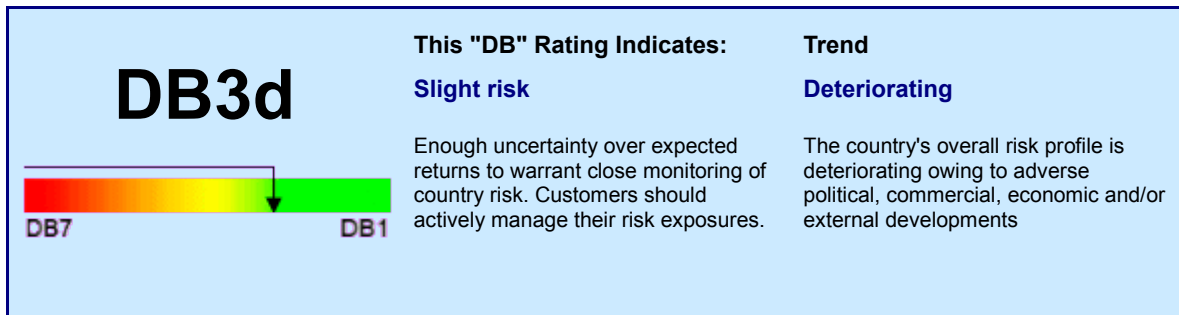
D&B Country RiskLine Report

CHINA

Region : Asia Pacific

Edition : January 2012

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:	1.35bn
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):	7.0trn
GDP per capita (USD):	5,210
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
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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

Credit risks have not yet risen sharply, outside of a few sectors such as the real estate sector and shipping/shipbuilding. Financial indicators of enterprises in Q3 showed few notable strains, with only slight signs of weakness among non-ferrous metal miners, steelmakers and communication equipment manufacturers. The collapse of credit in private sector-dominated Wenzhou in Zhejiang province in recent months is unlikely to have a major national impact, although it sparked a central government inquiry. Meanwhile, producer price inflation fell from 5.0% in October to 2.7% year on year (y/y) in November, potentially relieving firms of input cost pressures, although it also suggests a significant change in demand conditions took place in the past quarter.

Export Credit Agencies

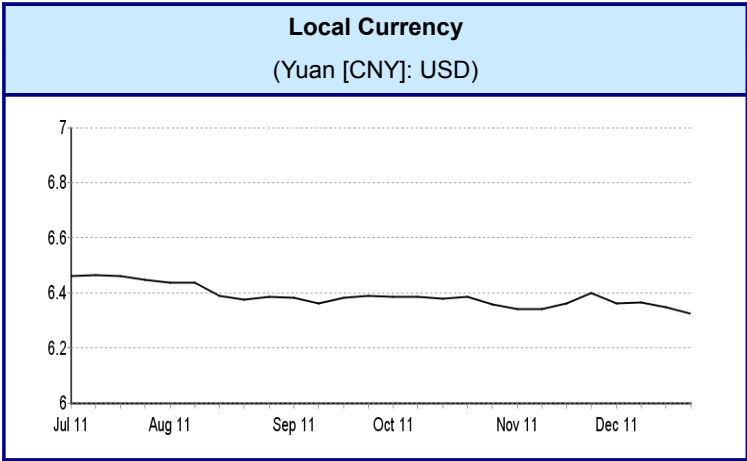
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	9.2	10.3	8.9	8.1	8.3
Inflation, annual ave, %	-0.7	3.2	6.0	5.9	5.8
Govt balance, % GDP	-2.3	-1.6	-2.0	-1.8	-1.6
Urban unemployment, %	4.3	4.1	4.0	4.0	4.1
C/A balance, % GDP	5.9	5.2	3.0	3.1	2.5

Currency Information

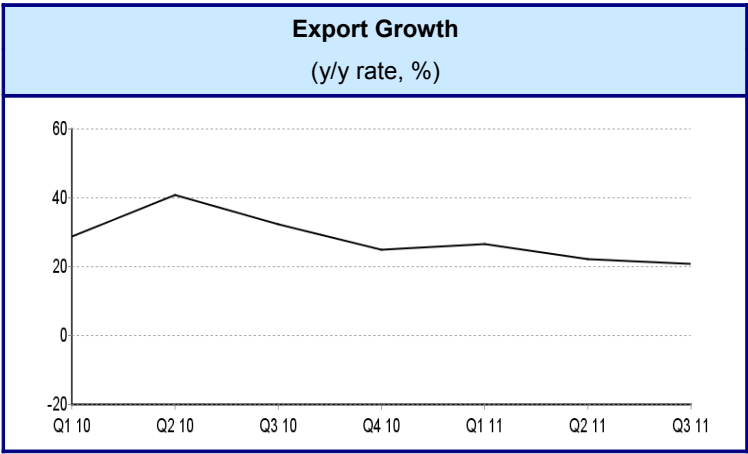
Exchange Rates	
(London, 19 Dec 11)	
EUR	8.2828
GBP	9.8572
JPY*	8.1693
USD	6.3484
*(x 100)	



Local Currency
(Yuan [CNY]: USD)

	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11
Week 1	6.460	6.437	6.383	6.386	6.339	6.360
Week 2	6.465	6.436	6.361	6.386	6.342	6.365
Week 3	6.461	6.390	6.383	6.378	6.360	6.348
Week 4	6.446	6.376	6.389	6.384	6.399	6.323
Week 5		6.387		6.359		

Export Growth



Data Table

Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
28.7	40.8	32.1	24.9	26.4	22.1	20.6

Risk Factor

By reducing banks' reserve requirement ratio by 0.5 percentage points to 21.0%, and 17.5% for small and medium-sized banks in November, effective December, the People's Bank of China signalled a sharp reversal in monetary policy, towards loosening. The move came amid signs of slowing economic activity. The official *Purchasing Managers' Index* (PMI) fell to 49.0 in November, its lowest level since 2009, while the HSBC Market PMI, surveying more small and medium-sized firms, fell to 47.7, a low likewise not seen since March 2009 (at the height of the US crisis-led recession that hit emerging markets). Meanwhile, there have been other indications, such as a 9.8% year-on-year (y/y) decline in FDI into China to USD8.8bn in November. Another worrying sign for policy-makers at the December Central Economic Work Conference, an annual event, has been the weakness of the yuan, which needed official intervention to maintain its value below the CNY6.4:USD mark. This could be due to capital flight on the part of Chinese individuals and companies; if so, it is the first sign of capital flight since the early 2000s.

The downturn in the property market saw more than half of cities surveyed report falls in property prices on a month-on-month basis in December, and this may have encouraged pessimism regarding the yuan. The central government is determined to enforce an artificial deflation of the property market to prevent a bigger future shock. However, with signs of mobile capital being scared out of the country, the land market locked up in many metropolitan centres, and local governments facing plummeting revenues as a result, the authorities are likely to loosen policy from Q1 2012 with some alacrity. Worryingly, if capital flight continues it will offset the additional liquidity looser monetary policy could provide. The fact that the government is willing to countenance this suggests central policy-makers believe that the luxury development-heavy construction seen in recent years is a flawed development model that could (if unchecked) lead to a financial system shock and endanger the social compact on which the party's legitimacy rests.

Total bank lending rose 14.2% y/y in November; far from a credit 'recession' but still the lowest y/y level since the last months of 2008. M2 growth of under 13% recently may be due to capital flight. FX reserves fell USD1.9bn in September (the most recent data), and central bank US dollar sales in December indicated that downward pressure on the yuan continued. With USD3trn in FX reserves, US dollar liquidity is no problem, but negative pressure on the yuan is a challenge that China did not face at the time of the 2008 financial crisis. The lowering of reserve requirements in December will add less than 1% to domestic liquidity, and we expect further reductions to be needed soon.

Glossary & Definitions

DEFINITIONS

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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

Customer Service & Support

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