



Decide with Confidence

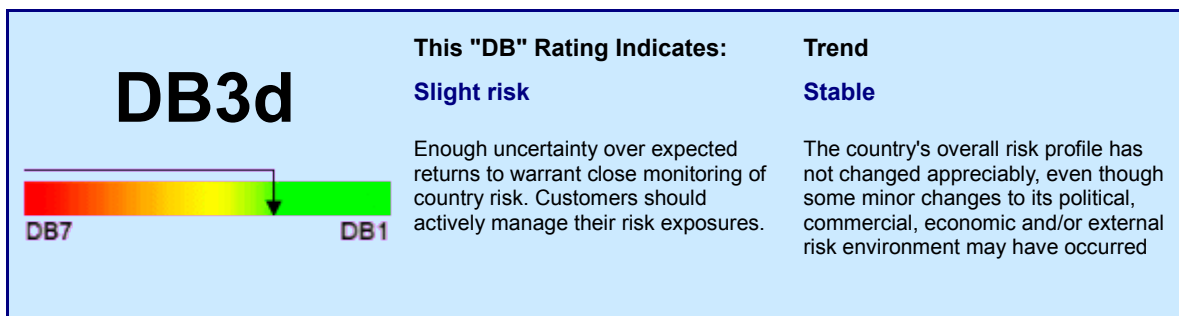
D&B Country RiskLine Report

CHINA

Region : Asia Pacific

Edition : December 2010

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:	1.3bn
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):	4.9trn
GDP per capita (USD):	3,647
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

Having raised interest rates 0.25 percentage points (pp) in October, the People's Bank of China raised reserve requirements for financial institutions 0.5pp at the end of November. This removed approximately CNY300bn, or less than 1% of currency in circulation, and will only slightly limit credit growth. However, the move is indicative of the central bank's desire to curb credit growth. Liquidity is being buoyed by strong inflows of funds from outside China, and with inflation of 4-5% y/y due, the authorities are keen to rein in lending growth and liquidity, albeit without derailing the recovery in place since 2009. A new round of credit rationing, depriving poorly-connected firms of working capital, is still possible, and D&B believes that extra lending is being advanced in anticipation of this.

Export Credit Agencies

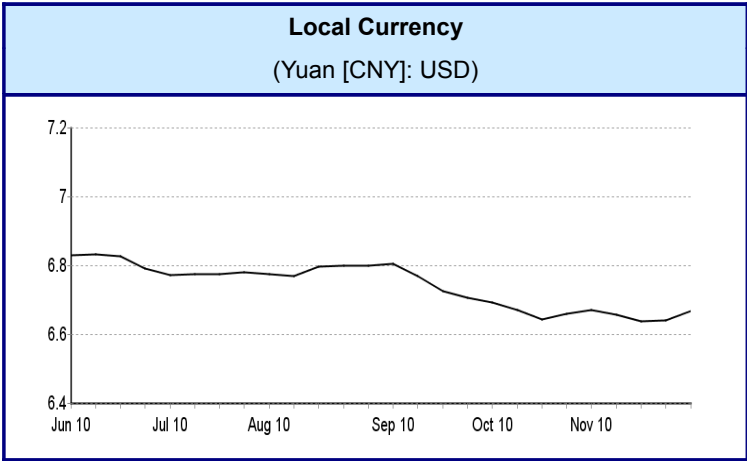
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2008	2009e	2010e	2011f	2012f
Real GDP growth, %	9.6	8.7	9.9	9.0	8.1
Inflation, annual ave, %	6.0	-0.7	3.2	3.5	4.2
Govt balance, % GDP	-0.4	-3.5	-2.8	-2.4	1.0
Urban unemployment, %	4.2	4.3	4.2	4.2	4.1
C/A balance, % GDP	9.9	6.1	5.0	4.2	4.0

Currency Information

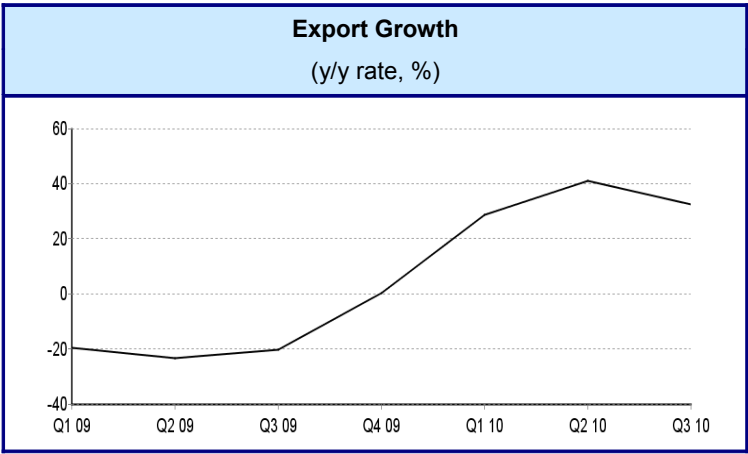
Exchange Rates	
(London, 29 Nov 10)	
EUR	8.8114
GBP	10.4093
JPY*	7.9337
USD	6.6675
*(x 100)	



Local Currency
(Yuan [CNY]: USD)

	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10
Week 1	6.829	6.771	6.775	6.804	6.691	6.671
Week 2	6.832	6.774	6.768	6.769	6.671	6.657
Week 3	6.826	6.775	6.796	6.724	6.641	6.637
Week 4	6.790	6.780	6.798	6.706	6.659	6.640
Week 5			6.798			6.668

Export Growth



Data Table

Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
-19.68	-23.39	-20.46	0.15	28.76	40.9	32.3

Risk Factor

China's policymakers are fretting that consumer confidence and public satisfaction with the economy will sour if the CPI continues to rise at rates of above 4%, year-on-year (y/y). In October, the inflation rate was 4.4% y/y, a 25-month high, in a development driven mainly by food prices but additionally by rents (as a glut of homes bought for investment purposes has constricted supply of new housing for urban residents). Our estimate for average CPI inflation in 2010 is 3.5%, the same figure issued in November by a thinktank reporting to China's top-level economic policymaking body, the National Development and Reform Commission. However, we expect higher inflation to be sustained in 2011 at an average 4.2%. Our expectations for inflation in late 2010 already take into account the measures that the State Council (China's state-level cabinet) decreed in November. They included requiring local authorities to grant poor families temporary subsidies, better-targeted price controls, stronger market supervision, and continued sales from state grain and sugar reserves.

The State Information Council, a research body, asserted that inflation will be 'within the tolerance of society', indicating the level of concern within party echelons. Recent economic growth is only partly responsible for inflation: supply shocks in the international cotton and sugar markets are also factors, as is the vegetable oil market, where demand is growing at over 3% per annum globally. The grain market in China is somewhat detached from the rest of the world's, but cereals' farm-gate prices have been rising at double-digit y/y rates since start-2010, due to drought and flood. Meanwhile, ultra-loose US monetary policy weakens the US dollar, inflating global commodity prices. The Chinese central government's energy-use targets for end-2010 and moves to cut water use will also see consumer costs rise and increase inflation. In addition, incentives in the housing market to build homes for wealthy buyers push up affordable-cost housing prices and rents, and so contribute to inflation. We expect the latter to reach over 5% in early 2011; if inflation manages to undershoot this level, this will reflect price controls.

The outlook remains stable for shippers, because profits are still in positive territory with a favourable short-term outlook for Q1 2011. However, multiple factors appear to be at work behind the rise in inflation, in comparison to earlier episodes where food price inflation spikes were followed by quarters of low inflation, in the 2000s. The government's haste to put off any serious bout of food inflation has been obvious from the large scale of sales from official grain reserves of wheat and rice since October, equal to over 10% and 4% of annual consumption, respectively. Inflation has yet to hurt China's economic growth decisively, but its policymakers are clearly concerned. Consumer confidence fell in Q3 2010, the first drop in five quarters, and could have receded further in Q4.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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:

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

Local Delays:

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

F/X Bank Delays:

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.

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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