



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

China

August 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4c

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Stable →

CORE OUTLOOK

- + Steady wage increases during the 2010s boosted disposable incomes and metropolitan wealth levels considerably, making the economy more consumption-guided.
- + China's public sector and central government still have a huge stock of financial and fixed capital assets.
- + China's infrastructure base and industrial networks have unique scale, and continue to support its global competitiveness.
- The enormous shock of the coronavirus was addressed through national emergency mobilisation, but - at best - will take months to recover from.
- China's financial cycle has entered a more difficult phase after at least a decade of easy credit and capital misallocation.
- The legacy of the 'one-child' policy (1979-2016) will bring one of the most accelerated ageing trends in world history and affect the economy well into the 2020s.
- The shift in US trade policy creates medium-term uncertainty for China, for at least the duration of the current US administration.

KEY DEVELOPMENT

Q2 GDP data appeared encouraging but probably reflected a financial and construction sector boom, even as employment and private investment languished.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

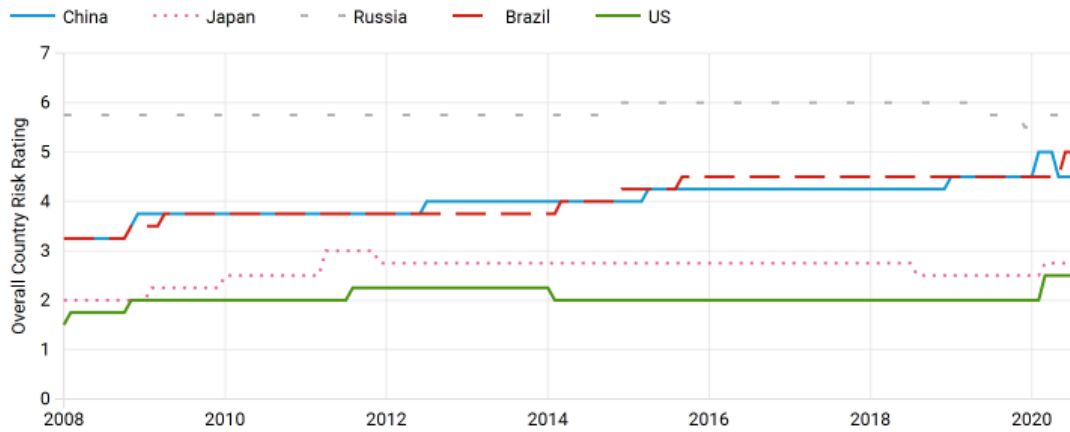
Trend: Stable →

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

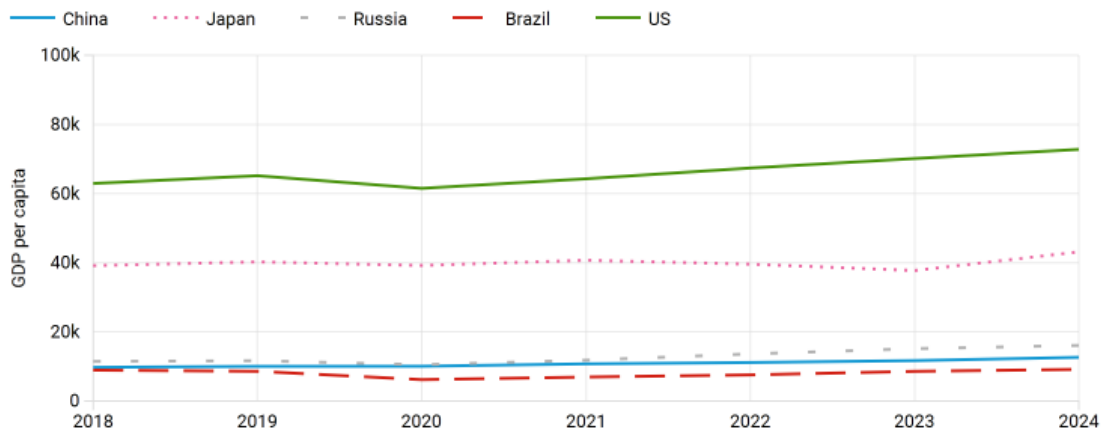
Rating History and Comparison



Source: Dun & Bradstreet

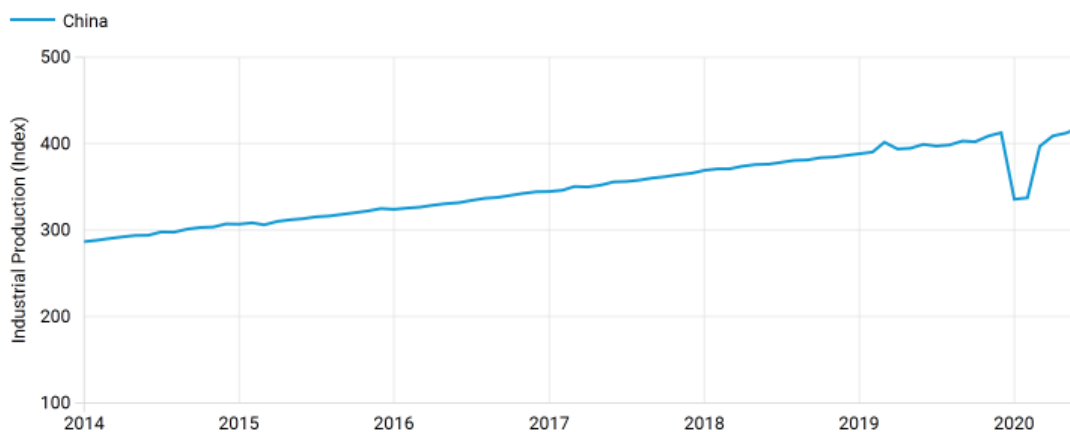
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	1.6	0.2	1.0	1.1	0.3	0.5	0.8	0.8
Govt balance, % GDP	-3.8	-4.7	-6.4	-7.8	-6.6	-6.7	-6.9	-6.9
Inflation, annual avge %	1.5	1.9	2.9	3.2	2.5	1.4	2.0	2.0
Real GDP Growth, %	6.9	6.7	6.1	2.0	5.5	5.0	5.5	5.4
Urban Unemployment	3.9	3.8	3.6	6.2	6.1	5.6	5.0	4.8

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Data on individual enterprise activity levels from the national statistics bureau and ministry of commerce suggested that close to a third of manufacturing firms had not returned to more than 80% activity levels by May, and that no more than 10% of services sector firms were still closed in late June. These inactive firms were probably small and have a lesser impact, but it is still difficult to reconcile with the economic data, including that on industrial output and industrial profits, which respectively rose in June, and in Q2. Research from Renmin University, based on Zhaopin.com data, suggested jobs posted fell 10% y/y and jobseekers rose 25% y/y in number in Q2. The fall in new jobs created, in official data in Q1-Q2 (by almost a quarter to 5.6m) and the drop in retail sales in June (-1.8% y/y) are also difficult to reconcile with other official data. The sudden cessation of daily figures on coal-fired consumption since July also makes identifying the macro-trend harder. In this context, we expect the rate of non-performing loans to rise further, especially at rural and city commercial banks, where they had reached 4.1% and 2.5% as of end-Q1, while existing non-performing loans will continue to fall in value in the distressed debt market.

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

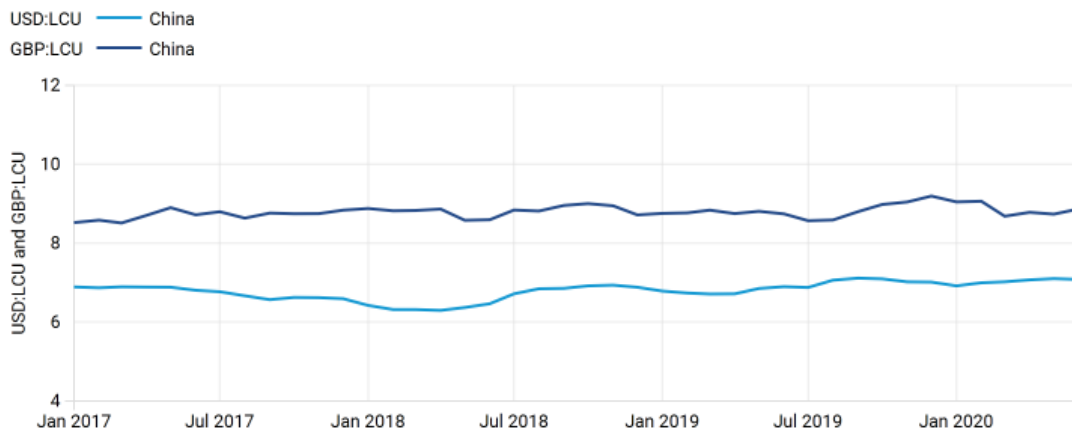
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



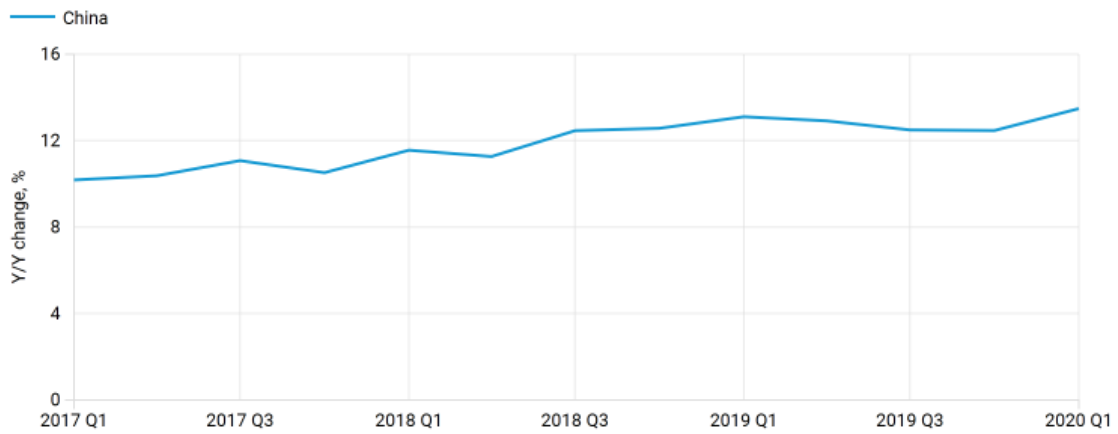
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Chinese yuan (CNY)

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Financial boom, stagnant employment as Q2 data signal growth

There is no strong consensus as to whether China's return to real GDP growth of 3.2% y/y in Q2 was a guide to likely performance in Q3-Q4. However, growth of at least 1.7% for 2020 would mean doubling of GDP per capita since 2010, a long-standing target and ambition for the party, in terms of attaining a 'moderately prosperous society'. The employment, investment and credit targets outlined at the National People's Congress in June, albeit without an explicit GDP growth target, implied a 2-4% 'tacit' growth target. Our new growth forecast, assuming a similar performance in Q3 and then an acceleration to year-ago levels in Q4, puts 2020 growth at 2.0%. But the assumptions, including a decisive recovery from the pandemic at home and abroad by end-2020, are highly fragile.

First, much of the bounce in exports in Q2 was from orders cancelled or unfulfilled during China's Q1 lockdown, and the surge in exports for disease control, which saw shipments to the EU of 'other ready-made textile items' vault by 707.7% y/y. Most pent-up domestic demand in manufacturing and services will have been satiated by end-Q2. Second, it is not clear if the economic activity that drove the revival in growth was at all sustainable or 'high-quality': much of the push in Q2 was real estate construction, not even infrastructure. Fixed asset investment fell y/y in infrastructure and manufacturing in Q2. The new controls in prime cities such as Ningbo and Shenzhen since July will limit the impulse from construction in Q3, after provinces informally relaxed controls on the housing construction and sales sector in Q2.

Third, it is not clear that the 3.2% y/y figure accurately reflected the situation on the ground. Analysis of satellite and other alternative data shared with the German magazine *Der Spiegel* suggested that pollution in industrial districts, port-based freight activity and private consumption all contracted in Q2. It is still possible that such data missed growth. In GDP terms, falls in imports of goods and services support growth, and China's domestic demand went through a profound shock in Q1-Q2. Many shipments to pandemic-affected countries were airlifted, not shipped by sea. The construction sector activity building apartments or coal-fired power stations will have had only a limited impact on employment, private consumption and foreign trade.

The most likely scenario is that China in Q2 underwent a construction and financial sector boom, but that its recession in employment and private investment continued. M2 money supply in Q1-Q2 grew 11.1% y/y and bank lending reached a record CNY12.09trn (USD1.73trn). The domestic stock market approached USD9trn in value. Funds entering the Shenzhen and Shanghai stock exchanges via Hong Kong hit record levels in July with a turnover of over CNY3trn. However, as with other economies in the pandemic era, financial activity is not a reliable guide to the real economy. That would explain how private investment in fixed assets fell by 7.2% y/y, and job creation fell 23.3% in Q1-Q2 even as the stock market boomed and credit accelerated.

Business Continuity

Southern floods fall short of 20th century records

By August, the extent of flooding since unusually heavy rains began in early June had spread to affect 54.8m people in 27 provinces, and trigger evacuations of 3.7m people, according to China's emergency ministry; the ministry estimated flood damage at CNY144.4bn, 14.4% above the five-year average for flooding in China. The peak of the heavy rains saw 433 rivers rise past danger levels in July. Although the floods fall short of their extents in 1931, 1954 and 1998, they could affect agricultural output slightly given that the Yangtze river basin accounts for 70% of China's rice production. The authorities have already had to release official rice reserves after CPI inflation, at 2.5% y/y in June, reflected double-digit food price inflation, due to African swine fever in 2019 and the supply shocks from Q1's lockdown. The imminent arrival of Typhoon Hagupit, the fourth of the year, in August, on top of the floods, caused the national meteorological centre to issue a 'yellow alert' for Shanghai, Zhejiang and Anhui provinces. However, no significant destruction or injuries were subsequently reported by AIR Worldwide's ALERT system.



COUNTRY PROFILE AND STATISTICS

Overview

China is the world's most populous sovereign country and the third-largest by land area (9.6 million 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 long-range ballistic missile capability and is actively developing its ability to project air and naval power in the South China Sea and the Pacific.

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 over USD2trn in goods annually since 2012. China's digital economy has scale the US can no longer match. However, the labour force ceased growing in the 2010s, reflecting the one-child policy introduced in 1979 and only curtailed in 2016. The central government's efforts in tackling problems ranging from climate change preparedness and pollution, to corruption, regional inequalities and fiscal and debt imbalances remain in their early stages.

Key Facts

Key Fact	Detail
Head of state	President Xi Jinping
Capital	Beijing
Timezone	GMT +08-00
Main languages	Mandarin, Cantonese.
Population (millions)	1,433.8
GDP (USD billions)	14,367.0
GDP per capita (USD)	10,020
Life expectancy (years)	76.3
Literacy (% of adult pop.)	96.8
Surface area (sq km)	9,598,060

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	7.0	6.8	6.9	6.7	6.1
Nominal GDP in USDbn	11,062	11,241	12,318	13,904	14,367
Nominal GDP in local currency (bn)	68,886	74,640	83,204	91,928	99,087
GDP per Capita in USD	7,863	7,949	8,668	9,739	10,020
Population (year-end, m)	1,406.8	1,414.0	1,421.0	1,427.6	1,433.8
Exchange rate (yr avge, USD-LCU)	6.2	6.6	6.8	6.6	6.9
Current Account in USDbn	304.3	201.1	194.2	29.8	141.6
Current Account (% of GDP)	2.8	1.8	1.6	0.2	1.0
FX reserves (year-end, USDbn)	3,330.4	3,010.5	3,139.9	3,072.7	3,107.9
Import Cover (months)	19.9	18.5	17.1	14.5	15.2
Inflation (annual avge, %)	1.5	2.1	1.5	1.9	2.9
Govt Balance (% GDP)	-2.8	-3.7	-3.8	-4.7	-6.4

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	2.0	5.5	5.0	5.5	5.4
Nominal GDP in USDbn	14,468	15,518	16,122	16,961	18,248
Nominal GDP in local currency (bn)	102,000	108,625	115,753	124,661	134,121
GDP per Capita in USD	10,052	10,745	11,130	11,680	12,626
Population (year-end, m)	1,439.3	1,444.2	1,448.5	1,452.1	1,445.3
Exchange rate (yr avge, USD-LCU)	7.1	7.0	7.2	7.4	7.4
Current Account in USDbn	155.8	46.6	80.6	127.2	136.9
Current Account (% of GDP)	1.1	0.3	0.5	0.8	0.8
FX reserves (year-end, USDbn)	3,166.0	3,150.0	3,250.0	3,000.0	3,000.0
Import Cover (months)	16.7	14.3	13.8	11.8	11.4
Inflation (annual avge, %)	3.2	2.5	1.4	2.0	2.0
Govt Balance (% GDP)	-7.8	-6.6	-6.7	-6.9	-6.9

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	10,052	39,195	10,501	6,176	61,499
Country Population (m)	1,439.3	125.5	145.9	212.6	331.0
Internet users (% of population)	53.2	92.0	76.4	59.7	76.2
Real GDP Growth (% p.a., 2020 - 2029)	4.5 - 6.5	-0.8 - 1.3	-0.5 - 3.5	1.5 - 2.5	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

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