**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.

dun & bradstreet

# Country Insight Snapshot
# China

## October 2020

Written 09 October 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 has emerged as an investment safe haven in the pandemic era with its banks processing a record of over USD600bn in inward flows to securities in January-August 2020.
+ 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, and has taken 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 both US trade and technology policy creates medium-term uncertainty for China, for at least the duration of the current US administration.

## KEY DEVELOPMENT

The business regulatory environment faces complications due to tensions with the US, China's 'unreliable entity list', and a draft export control law; but the yuan is still surging.

## CREDIT ENVIRONMENT OUTLOOK

A

***Trend:*** Stable →

Key Development has had a neutral 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 neutral impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK

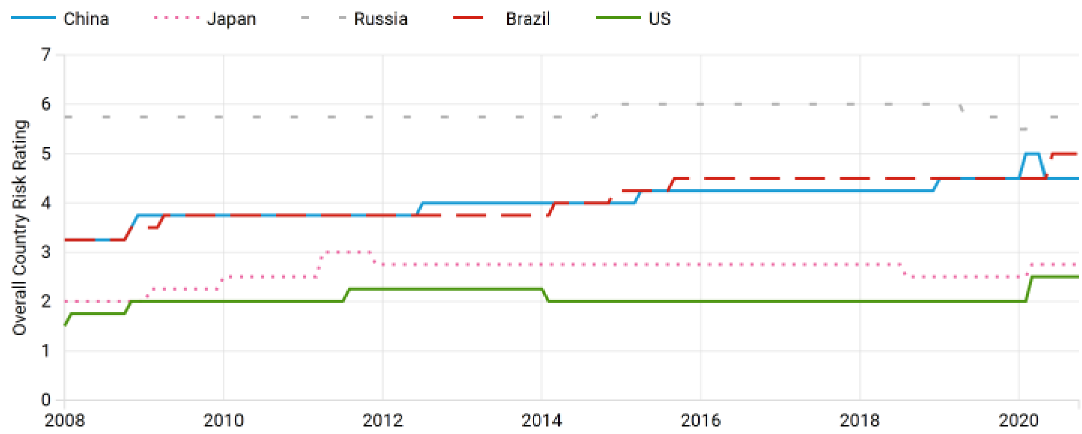
A

***Trend:*** Deteriorating ↘

Key Development has had a neutral impact on the outlook.

# KEY INDICATORS

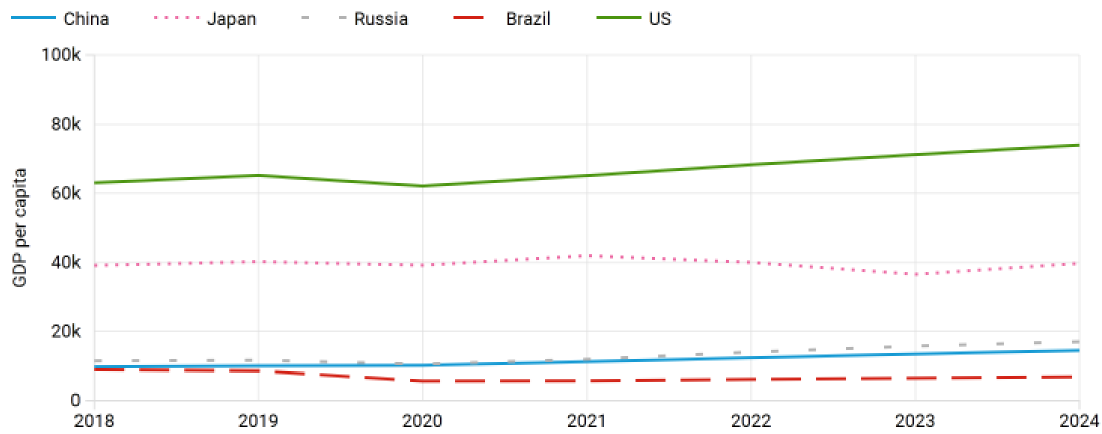
## Rating History and Comparison




Source: Dun & Bradstreet

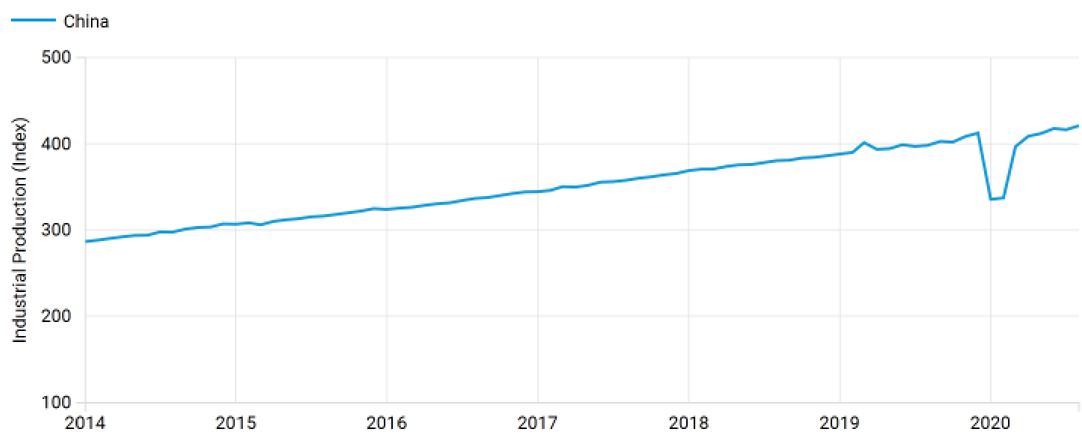
*Note: 1 = Low Risk, 7 = High Risk*

## 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 | 1.3 | 0.7 | 0.5 | 0.8 | 0.8 |
| Govt balance, % GDP | -3.8 | -4.7 | -6.4 | -8.7 | -6.0 | -6.7 | -6.9 | -6.9 |
| Inflation, annual avge % | 1.5 | 1.9 | 2.9 | 3.0 | 2.5 | 1.4 | 3.0 | 2.0 |
| Real GDP Growth, % | 6.9 | 6.7 | 6.1 | 0.9 | 5.0 | 5.3 | 5.5 | 5.0 |
| Urban Unemployment | 3.9 | 3.8 | 3.6 | 5.7 | 5.5 | 5.0 | 5.0 | 4.8 |

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Our economic growth forecast for China for 2020 has increased from 0.6% to 0.9% since October, on the assumption that real GDP will have grown 3.0% y/y in both Q3 and Q4. Even if much of the private and SME sector - and weaker peripheral economies outside of coastal China - are struggling in a mixed picture of recovery, the economy has stabilised. In a reflection of this, monetary policy has changed tone since end-July and the central bank is no longer poised for emergency easing. The shock to private sector small businesses from the earlier national lockdown continues. However, scenes of crowds at tourist hotspots during the Golden Week national holiday, during which 637m visits occurred, underlined that China has been able to attain a degree of normality that no other large economy subject to the pandemic has been able to achieve. Spending during the national holiday, however, was reportedly down 30% y/y, despite the cessation of overseas tourism trips, underlining a mood of profound consumer caution for both financial and public health reasons.

The *de facto* rescue of China Evergrande, China's second-largest real estate developer, since September, underlines ongoing financial system risks. Evergrande owed USD123bn, and its failure would necessarily have destabilised the financial system. After two of its onshore bonds were suspended from trading in September, it was able to persuade creditors to convert almost USD15bn in debts into equity in October, almost certainly with official support. Its difficulties reflect the developer's non-core property portfolio, rather than the property market, which has performed well despite the events of 2020.

## 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.*

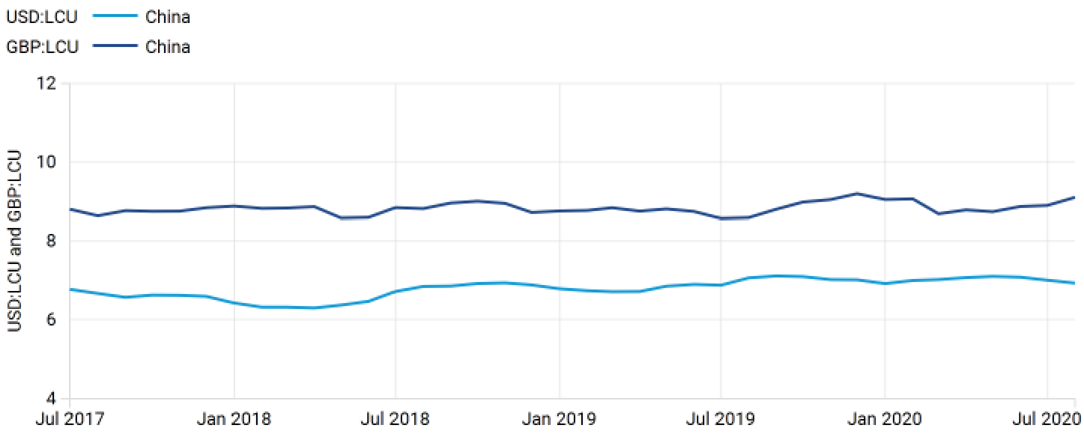
**Local Delays: 0-2 months**

*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.*

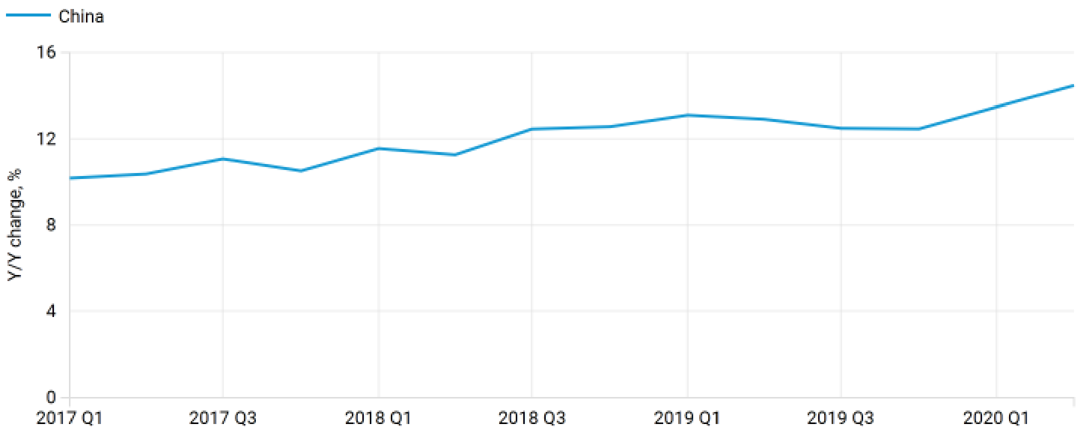
## Exchange Rate




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

## Business Regulatory Environment

### *'Entity list' and export control legislation unsheathed*

With US regulators aiming to cripple China's leading industrial technology groups Huawei and SMIC by depriving them of US-designed components from any country, among other measures, China is looking at its retaliatory options. In September, the ministry of commerce outlined its own 'unreliable entity list' after US moves in previous days, when China's global internet-based successes, WeChat and TikTok, faced new restrictions in the US. This first warning of such a list came, however, in May 2019 during the pre-pandemic trade war. No company had been added to the list as of October 2020, and the language of the ministry is sufficiently vague to preclude any obvious immediate targets. The criteria for addition to the list are: endangering China's sovereignty, security or development; or discriminating against a Chinese company, individual or organisation to contravene market principles or its legitimate rights. The sanction that follows could include bars on trade or investment, fines, restrictions of work permits or unspecified 'other measures', with all due to be calibrated according to the extent of the offences. The appeals system as outlined appears to allow for some bargaining and a grace or 'curing' period.

It is likely that China will hold fire until at least the results of the US elections are clear. However, it is possible that at least one foreign company will be added to the list by end-Q4 and before the change of administration in the US in January 2020. This would likely be a company against which the ruling party may harbour a special grievance, possibly HSBC or FedEx, if either is deemed to have unduly co-operated with US sanctions-busting investigations or US agencies respectively. Further targets could include those with large Chinese competitors, including in PC and network technology manufacturing. It is unlikely that any non-US headquartered firms will be in the first round of targets.

The general consensus is that Boeing, Microsoft and Apple are out of range of the entity list. However, the risk of corporations being caught between irreconcilable US and Chinese regulations has increased as the US expands its net of controls and bans. Meanwhile, China is growing its own export control regulations. In October, the NPC Standing Committee will meet to pass the Export Control Law, the first draft of which appeared in June 2017. Controls may extend from military and nuclear technology to AI algorithms and rare earths (which trade partners Japan and the US depend on China acutely for, to meet both civilian and military applications). The export control law is expected to take effect from 2021. We anticipate no major impacts in the near term. However, in this context, our supply, market and political environment outlooks remain on 'amber', with the last of these set on a 'deteriorating' trend.

## FX Risk

### *Yuan jumps, China beckons as global investment safe haven*

The yuan strengthened by almost 1.5% to below CNY6.70:USD in intra-day trading after the week-long public holiday in October suspended onshore trading. The strengthening trend has become increasingly evident since end-Q2 and is broadly due to US dollar weakness, given the US dollar index against major currencies has weakened more than the dollar has against the yuan. However, China-specific factors are also clearly at work, including a much-enhanced goods and services trade surplus in Q2 (up 237% y/y to USD132bn), the evaporation of outward tourism spending worth over USD250bn in 2019, and a queue of foreign portfolio investment. China's almost unique disease control success and the lack of any obvious end to the pandemic abroad has supercharged an inward investment boom that is just beginning. Capital controls on outward investment, meanwhile, even if less necessary than in the pre-pandemic 2010s, will also continue to apply and shore up the yuan. Further moves to broaden China's quotient by large global indices will only accelerate the process, as will any less confrontational US administration from 2021. The People's Bank of China's move in October to reduce the cost of betting against the yuan (by dropping the reserve requirement for FX forward contracts) will only mitigate the trend. As a result, our forecast for the CNY:USD rate has moved below CNY7 for our forecast horizon out to 2025.

## 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 (%) | 0.9 | 5.0 | 5.3 | 5.5 | 5.0 |
| Nominal GDP in USDbn | 14,608 | 16,179 | 17,878 | 19,504 | 20,904 |
| Nominal GDP in local currency (bn) | 101,378 | 109,208 | 116,206 | 126,776 | 135,877 |
| GDP per Capita in USD | 10,149 | 11,203 | 12,343 | 13,431 | 14,464 |
| 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) | 6.9 | 6.8 | 6.5 | 6.5 | 6.5 |
| Current Account in USDbn | 187.7 | 106.8 | 89.4 | 146.3 | 156.8 |
| Current Account (% of GDP) | 1.3 | 0.7 | 0.5 | 0.8 | 0.8 |
| FX reserves (year-end, USDbn) | 3,200.0 | 3,205.0 | 3,300.0 | 3,490.0 | 3,350.0 |
| Import Cover (months) | 16.6 | 14.0 | 12.7 | 12.2 | 11.3 |
| Inflation (annual avge, %) | 3.0 | 2.5 | 1.4 | 3.0 | 2.0 |
| Govt Balance (% GDP) | -8.7 | -6.0 | -6.7 | -6.9 | -6.9 |

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

| Indicator | China | Japan | Russia | Brazil | US |
|---|---|---|---|---|---|
| Income per Capita (USD) | 10,149 | 39,196 | 10,501 | 5,687 | 62,066 |
| Country Population (m) | 1,439.3 | 125.5 | 145.9 | 212.6 | 331.0 |
| Internet users (% of population) | 54.3 | 84.6 | 80.9 | 67.5 | 87.3 |
| 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

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