

Country Insight Snapshot

China

January 2021





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: its banks processed a record USD900bn+ in inward flows to securities in January-November 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.
- Both the changes in US policy inherited by the new administration and the course of the pandemic create medium-term uncertainty for China.

KEY DEVELOPMENT

Provincial and sectoral performance varied in 2020, but the country is in the most robust position of any large economy and our minimum trade terms have improved accordingly.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Improving

Key Development has had a positive 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: Improving

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

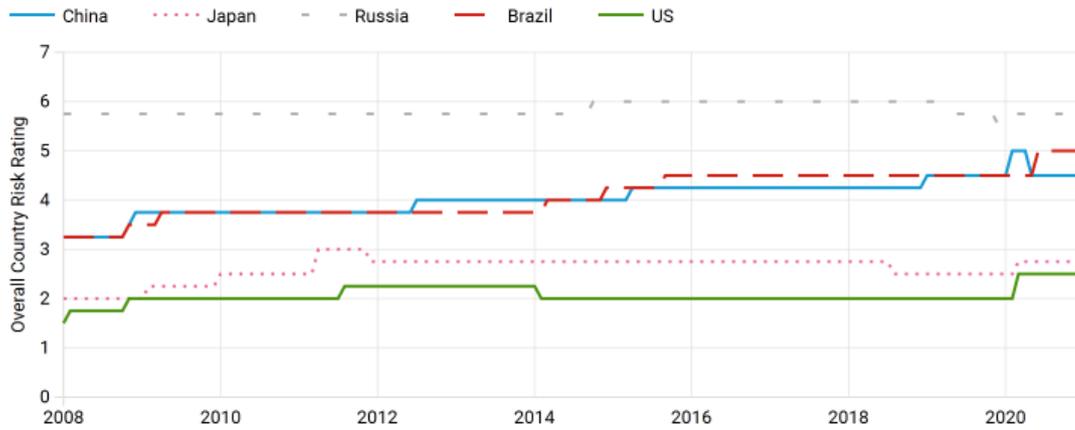
Trend: Deteriorating

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

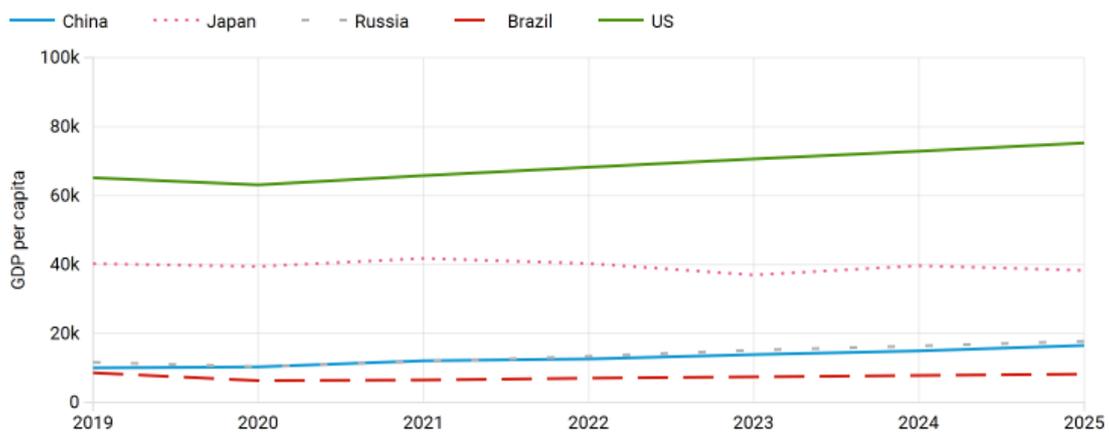
Rating History and Comparison



Source: Dun & Bradstreet

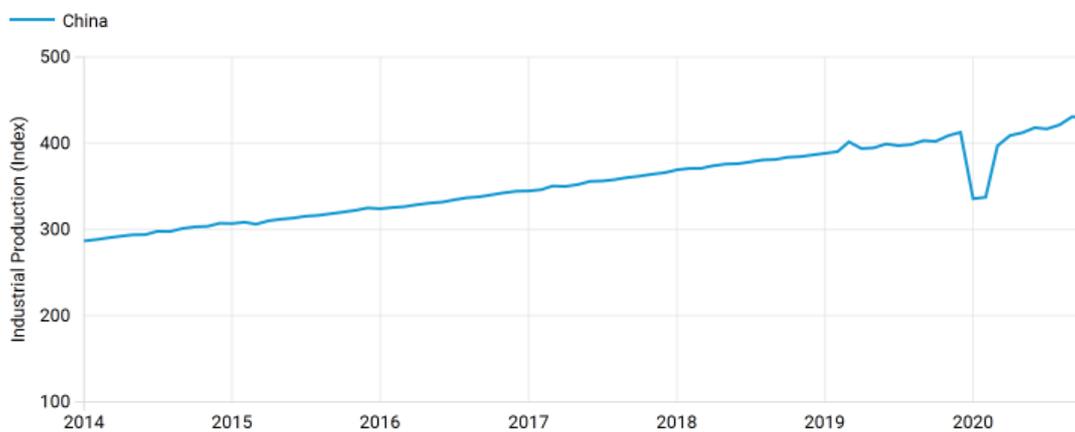
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2018	2019	2020e	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	0.2	1.0	1.8	0.7	0.5	0.8	0.8	0.8
Govt balance, % GDP	-4.7	-6.3	-11.9	-6.0	-11.4	-10.7	-9.8	-8.9
Inflation, annual avge %	1.9	2.9	2.5	2.6	1.4	3.0	2.0	4.5
Real GDP Growth, %	6.7	6.1	1.9	7.0	5.2	5.9	5.0	6.0
Urban Unemployment	3.8	3.6	4.2	4.3	4.5	4.1	4.0	3.9

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

We note the economic output of the 50 top cities (accounting for 55% of national GDP) was projected by the 21st Century Economic Research Institute to have grown by 3.8% in 2020. Growth is forecast to have varied, from Harbin in the depressed northeast (0.5% growth), the initial outbreak centre of Wuhan (1.3%), and the southern provincial capital Guangzhou (with growth of just 1.6%) to much faster growth in Xi'an (7.5%) and the southwest metropolis of Chongqing (6.5%). With nominal GDP growth put at 2.8% nationally in 2020, this suggests that smaller cities and non-urban areas experienced a bigger shock and weaker recovery, with nominal GDP growth at just 1.6%. This fits in with the y/y falls in rural retail spending in 2020 and reports of local governments' fiscal distress outside the prime southern and eastern coastal provinces, also evident in a series of bond defaults that included state-owned issuers in late 2020.

Info-tech, and financial and real estate services enjoyed a powerful boom in 2020, but transportation and hospitality sectors were in recession. Provincial and sectoral performance accordingly varied widely in 2020, a pattern that is likely to extend into 2021. However, we expect export manufacturing to continue to perform well and contribute to growth in 2021 irrespective of the course of the pandemic after goods exports rose 18% y/y in December. China's scale, infrastructure and sophistication will cement its role in global manufacturing supply chains despite all the 'trade war' debates of the pre-pandemic period. While small-scale firms, especially retailers, remain credit risks, our minimum terms have improved to SD.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

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

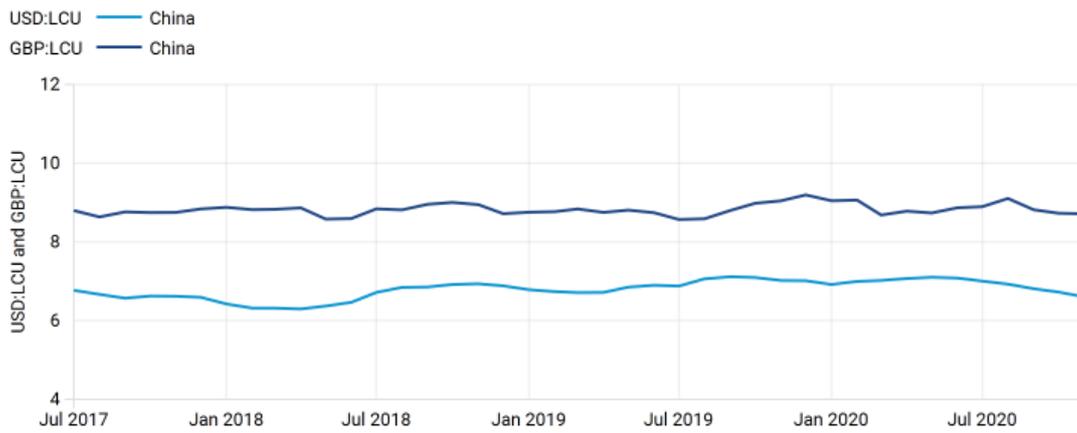
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



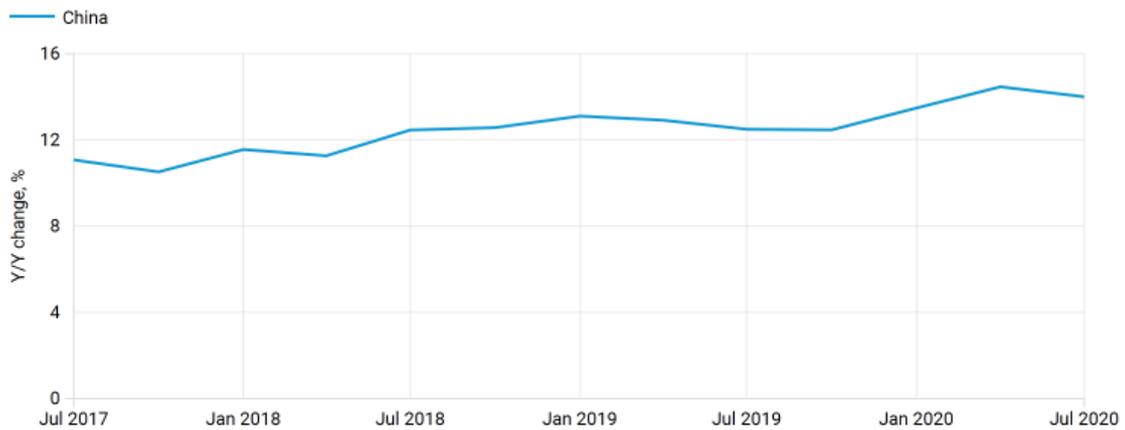
Exchange Rate



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

Economy headed for central bank's 'mild shock' pandemic impact scenario

China's Q4 real GDP growth surprised on the upside at 6.5% y/y, taking real GDP growth for the year to 2.3%. While this was the lowest since the end of the Cultural Revolution and the year of the Tangshan earthquake in 1976, it was undoubtedly the best and more resilient performance of any major economy, with the result owing to China's epidemiological record and effective fiscal and credit stimulus as the recovery broadened and deepened from Q2.

The growth figure may have been flattered by the annual revision of the 2019 base down by CNY435bn. The growth mix in 2020 was surely skewed towards non-residential construction and public investment, and export manufacturing. Private investment declined, and retail sales for the year in fact fell by close to 4%, although they had picked up to post 4.6% growth y/y by December. Infrastructure was the prime driver of investment, given that building floorspace under construction or completed in 2020, up 3.7% and down 4.9% respectively, in fact posted a weaker performance than in 2019. The fiscal stimulus was crucial to carrying the economy through the shock of the national lockdown, with tax and fee cuts put at close to 2.5% of GDP, and central and local government bond issuance up 60.8% and 47.7% in 2020.

Our expectations are for growth of close to 7.0% in 2021. The fiscal deficit inclusive of all government levels and types of borrowing is due to be somewhat smaller than a likely 12-15% of GDP in 2020. The macroprudential policy emphasis of 2018-19 is back in effect, restraining the property market. Although provincial governments are still actively planning new public works, China's own leading metallurgical institute projected that domestic steel output would grow only 1% in 2021, against its 10% rise in 2020, and that construction steel demand is due to increase only 1% - against 13% in 2020. For example, China's railways authority plans to put only 3,700km of track into service in 2021, against over 4,900km in 2020.

The rise in inter-bank and repurchase interest rates in Q3-Q4 was partly a welcome sign of normality but also presents some debt servicing risks after credit growth exceeded output growth by over 30 percentage points in 2020. The large SME base of companies that are too small to contribute to official statistics will also continue to be financially challenged in 2021, judging by regulators' permissions to delay repayments on 'financial inclusion loans' targeted at such firms past Q1 2021. Precautionary savings rates will stay high after the radical scares of 2020 and even the slight uptick in Covid-19 cases could lead to further lockdowns and lessen consumer spending in 2021. Nevertheless, the overall policy stance and both short- and medium-term performance will be far more robust and encouraging than in any other G20 or OECD economy.

Business Continuity

Power cuts reflected cold weather and shortages of imported coal

There was a spike in coal prices due to a combination of cold weather and shortages of imported coal in late 2020. The moderation in producer price index deflation from a -1.5% y/y drop in November to -0.4% y/y in December in part reflected the broadening industrial recovery and the construction-fuelled reboot of upstream industry. However, it also reflected a negative supply shock from shortages of coal as import quotas were lifted in Q4, but a ban on Australian coal imports continued, with Mongolian coal, the best substitute, logistically challenging to ship to demand centres in southern China. Coal prices rose by more than 50% m/m from USD100/tonne in November. By December, at least five provinces across the south, east and northwest had reported power shortages, with some rationing for factories and brief blackouts for a number of urban districts. The threat of blackouts also reflected the rapid rise in demand during the recovery, with electricity consumption up 9% y/y in November and 11% y/y in December, but the interruptions in supply were a reminder of China's dependence on imported energy. Nervousness in the ruling party about long-term food security is also evident, with provincial party chiefs and governors tasked with old-fashioned grain output as a performance metric from 2021.



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)	1,439.3
GDP (USD billions)	14,837.0
GDP per capita (USD)	10,308
Life expectancy (years)	76.6
Literacy (% of adult pop.)	96.8
Surface area (sq km)	9,598,060

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020e
Real GDP growth (%)	6.8	6.9	6.7	6.1	1.9
Nominal GDP in USDbn	11,241	12,318	13,904	14,367	14,837
Nominal GDP in local currency (bn)	74,640	83,204	91,928	99,087	102,369
GDP per Capita in USD	7,949	8,668	9,739	10,020	10,308
Population (year-end, m)	1,414.0	1,421.0	1,427.6	1,433.8	1,439.3
Exchange rate (yr avge, USD-LCU)	6.6	6.8	6.6	6.9	6.9
Current Account in USDbn	201.1	194.2	29.8	141.6	270.0
Current Account (% of GDP)	1.8	1.6	0.2	1.0	1.8
FX reserves (year-end, USDbn)	3,010.5	3,139.9	3,072.7	3,107.9	3,216.5
Import Cover (months)	18.5	17.1	14.5	15.2	16.6
Inflation (annual avge, %)	2.1	1.5	1.9	2.9	2.5
Govt Balance (% GDP)	-3.7	-3.8	-4.7	-6.3	-11.9

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	7.0	5.2	5.9	5.0	6.0
Nominal GDP in USDbn	17,439	18,258	20,145	21,591	23,932
Nominal GDP in local currency (bn)	112,483	119,589	130,944	140,341	155,555
GDP per Capita in USD	12,075	12,605	13,873	14,939	16,528
Population (year-end, m)	1,444.2	1,448.5	1,452.1	1,445.3	1,447.9
Exchange rate (yr avge, USD-LCU)	6.5	6.6	6.5	6.5	6.5
Current Account in USDbn	115.1	91.3	151.1	161.9	179.5
Current Account (% of GDP)	0.7	0.5	0.8	0.8	0.8
FX reserves (year-end, USDbn)	3,300.0	3,420.0	3,490.0	3,350.0	3,500.0
Import Cover (months)	14.4	13.8	12.7	11.8	11.2
Inflation (annual avge, %)	2.6	1.4	3.0	2.0	4.5
Govt Balance (% GDP)	-6.0	-11.4	-10.7	-9.8	-8.9

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	12,075	41,764	11,862	6,501	65,781
Country Population (m)	1,444.2	125.0	145.9	214.0	332.9
Internet users (% of population)	54.3	84.6	80.9	67.5	87.3
Real GDP Growth (% p.a., 2021 - 2030)	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

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