

Country Insight Snapshot

China

May 2022





Overall Country Risk Rating: DB4a

Last change: March 2021



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

Rating Outlook: Stable

WorldWatch Headline

Easier credit conditions to support consumption, small businesses and housing may not be enough to prevent a growth hit - Beijing is poised to go into lockdown, just as Shanghai nears exit.

Recent Changes

- Easier credit conditions may not be enough to prevent a growth hit.
- Q1 growth has come in at 4.8% y/y, but growth is likely to slow sharply in Q2 as indicated by the April Purchasing Managers' Index (PMI) - services seemed to have contracted the most since 2020.
- Large-scale lockdowns in economically important centres in quick succession have elevated risks to business continuity and led to a reduction in projected GDP growth in 2022 to 4.8%.
- China has reinforced commitment to its strict containment policy, with some flexibility introduced to shield the economy under a 'dynamic' zero Covid approach.

Events to Watch

- Watch for signs of the changing stance of Chinese companies' compliance with Western sanctions towards Russia and Russian entities.
- Watch for signs of another negative spiral of US-China trade actions, especially on tech.
- Watch for signs of stronger economic stimulus to shore up growth, now at significant risk of falling short of the announced 2022 growth target.

Call to Action

- Note that small businesses should benefit from easier credit, tax cuts and fee reductions.
- Focus on provinces such as Hainan and Hubei with high growth targets for 2022.
- Expect business to move slowly as companies navigate an evolving international sanctions regime against Russian entities.
- Note that a Chinese invasion of Taiwan Region is a remote possibility; however, in a geopolitically charged environment, either side could miscalculate reactions.



Country Insight Headlines

Credit Environment

Score: DB3b



Last change: April 2022 (DB3a→DB3b)

Rating Outlook: Stable

Risks and Opportunities

- Rate cuts so far are nominal, but have set the People's Bank of China (PBoC) on a divergent course from the US Federal Reserve, which has hiked twice since March.
- Authorities have directed banks to ease credit conditions, especially for consumers and small businesses.
- Provincial targets for GDP growth in 2022 are in line with 2021 targets (6%); the overall economy target is set at about 5.5%, the lowest in three decades but is still hard to meet.
- Frequent and widespread outbreaks of Covid-19 are testing the authorities' zero-tolerance approach - especially with the virulent Omicron variant.
- Small-sized businesses and the revival of domestic demand will remain the focus of policy support in H1 2022.
- President Xi's proposed 'dual circulation' strategy for the economy entails countering China's international constraints through domestic production and consumption.

Trade Terms

Description	
Minimum Terms	SD
Recommended Terms	SD
Usual Terms	30-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available, conditions apply
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Full cover available, conditions apply

Source: Export Credit Agencies

Call to Action

- Though monetary and fiscal policy support, specifically targeted at small businesses, has been ramped up, credit transmission may remain slow.
- Note that the draft financial stability law is credit positive for the financial sector.
- Note that the weak growth outlook and divergent monetary policy with US Fed raises depreciation pressure on the yuan.
- Monitor [payments performance](#) of companies that operate in or are closely linked to the real-estate development sector, because the stress in the sector persists.



Supply Environment

Score: DB4b

Last change: May 2022 (DB4a→DB4b)



Rating Outlook: Deteriorating

Risks and Opportunities

- China's zero-Covid policy makes it a global outlier on movement restrictions: tight border controls and large-scale, successive shutdowns of economically important centres are set to hurt growth.
- Via a dynamic zero-covid policy, flexibility has increased, but so has uncertainty for business continuity as even small absolute numbers could result in lockdowns.
- The Russia-Ukraine conflict is likely to disrupt supply chains and slow businesses as they enhance due diligence to maintain compliance with newly imposed sanctions.
- China has sought membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the newly formed Digital Economy Partnership Agreement (DEPA).

Call to Action

- Monitor case numbers in your city and province and ensure work-from-home strategies are robust.
- Prepare for energy prices to remain elevated and the supply chain from Ukraine to remain disrupted because the ongoing Russia-Ukraine conflict seems to be drawing out for the long term.
- Expect business to move slowly as companies react with enhanced due diligence on existing business ties to an evolving international sanctions regime.



Market Environment

Score: DB4b



Last change: May 2022 (DB4a→DB4b)

Rating Outlook: Stable

Risks and Opportunities

- China is willing to ease regulatory policies in 2022 in order to shore up a sharply slowing economy.
- Small Chinese businesses are looking to fill the void in Russian markets as Western firms exit; large and globally integrated Chinese firms will maintain a balancing act.
- China's role in Russian sanctions and on human rights such as in Xinjiang province will remain under the spotlight.
- Targets under the US-China phase 1 deal remain unmet and focus has shifted to the next phase of engagement.
- The Regional Comprehensive Economic Partnership (RCEP) became live on 1 January; China continues to pursue tariff reductions under new and existing free trade agreements (FTAs).
- China continues to open itself to foreign investments by trimming the negative list and reducing investment caps, but scrutiny over security and data sharing remains high.

Call to Action

- Expect foreign investment opportunities to open in research and development, and regionally, in central, western and northeastern regions.
- Monitor developments on trade agreements, especially with new signatories under the Belt and Road Initiative in the Middle East and Africa.
- Benefit from reduced tariffs implemented under the RCEP and from bilateral FTAs.
- Be aware that suppliers in countries that support Taiwan Region's autonomy will continue to face trade barriers: Lithuania and Australia are currently top targets.



Political Environment

Score: DB5a



Last change: October 2021 (DB4c→DB5a)

Rating Outlook: Stable

Risks and Opportunities

- China is under the spotlight for its role in enforcing Western sanctions on Russia; in practice, it will likely maintain a fine balance to protect its own interests.
- Cross-strait tension with Taiwan Region remains elevated, compounded by Chinese airspace movements and testing of hypersonic capabilities.
- The US has raised concerns about China's growing nuclear arsenal.
- The sixth plenum of the Communist Party of China (CPC) ended with a historical resolution, elevating President Xi in stature as a precursor to his record third term.
- President Xi's 'dual circulation' strategy for the economy entails countering China's international constraints through domestic production and consumption.
- Under President Biden, there is scope for US-China dialogue; however, there is also scope for more synchronised Western hostility towards China, on display during the Russia-Ukraine crisis.

Call to Action

- Expect targeted monetary and fiscal policy support to avoid a sharp economic slowdown, which would be an embarrassment in a politically important year.
- Be aware that opening new sectors to investments is not a free pass: China will retain tight controls on the flow of information, data and capital.
- Expect actions against exporters from countries that disagree with China's interpretation of Taiwan Region's status.
- Be aware that a Chinese invasion of Taiwan Region is a remote possibility, but that the risk of miscalculating reactions from either side remains.



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