dun & bradstreet

Country Insight Snapshot
China

February 2020

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB5a

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Deteriorating

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.

- 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 US administration to 2020.

KEY DEVELOPMENT

Dun & Bradstreet downgrades China's country risk rating from DB4c to DB5a due to the national public health emergency caused by the coronavirus outbreak, and the severe disruption caused both to supply chains and commercial activity.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

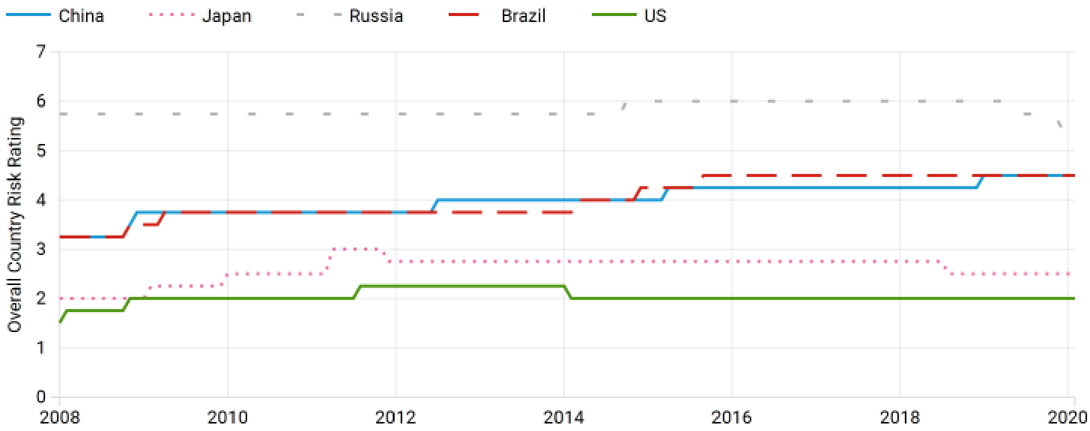
A

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

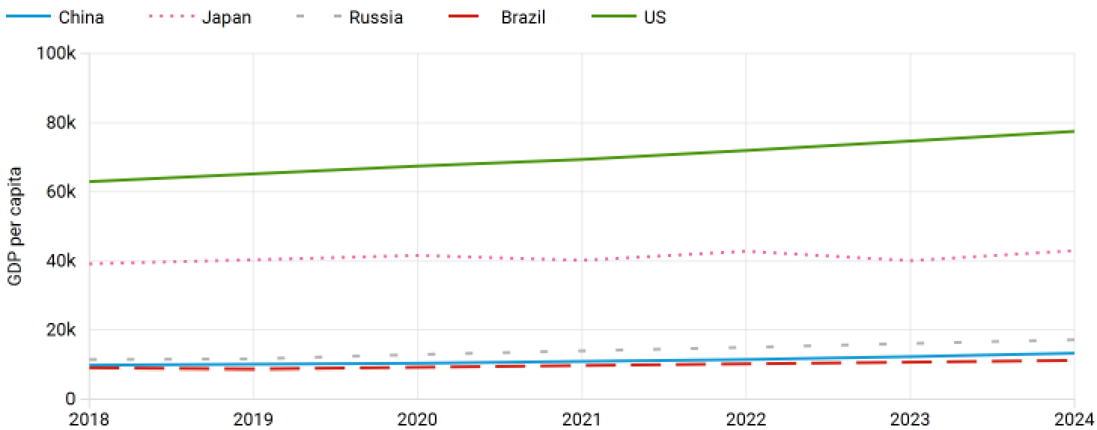
Rating History and Comparison



Source: Dun & Bradstreet

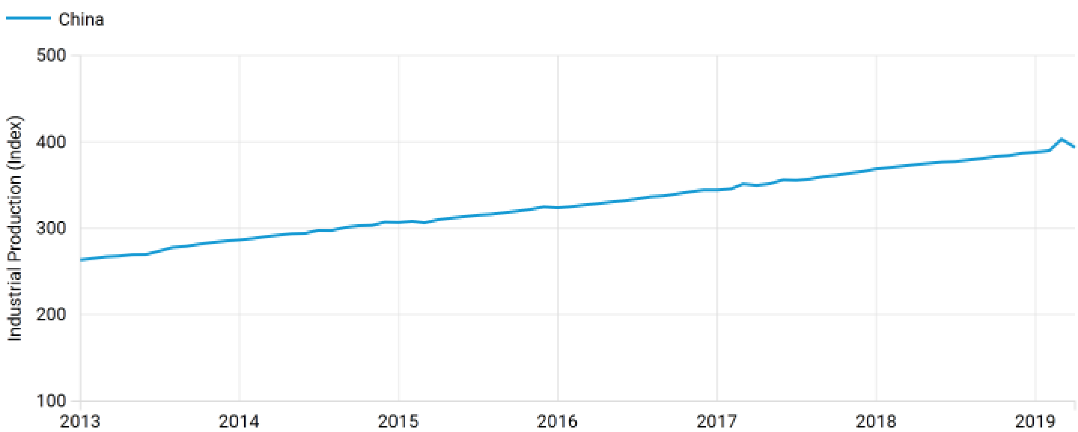
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	1.6	0.4	1.2	0.8	0.3	0.5	0.8	0.8
Govt balance, % GDP	-3.9	-4.8	-6.1	-7.2	-6.5	-6.7	-6.9	-6.9
Inflation, annual avge %	1.5	1.9	2.9	3.8	2.9	1.4	2.0	2.0
Real GDP Growth, %	6.9	6.7	6.1	4.5	6.3	5.9	5.5	5.4
Urban Unemployment	3.9	3.8	3.6	4.1	4.3	4.2	4.1	4.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The declaration of *force majeure* was anticipated or ongoing in February for China's liquefied natural gas and copper imports, due to the collapse in demand for energy and industrial metals amid the paralysis of much of the economy. At least 70% of LNG cargoes for February were expected to be delayed by *force majeure*, re-negotiations or defaults. Copper smelters were likely to seek to delay or cancel imports, and refiner crude oil demand was expected to sink by up to a quarter from 13m barrels/day in February.

The collapse in traffic volumes, given that tens of millions of citizens remain subject to controls on movement and even if not, are avoiding all except the most essential retail expeditions, is causing corporate earnings in discretionary sectors - such as the luxury segment - to plummet. As for supply chains, we expect much of the automotive and technology manufacturing sectors to be paralysed by delays in full restarts, as well as by the sundering of supply chains with other provinces. The stock markets are being supported by 'national team' buying by brokerages and insurance companies acting on government orders, and companies buying their own stock. Without these factors the stock markets would have fallen more than 10%.

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.

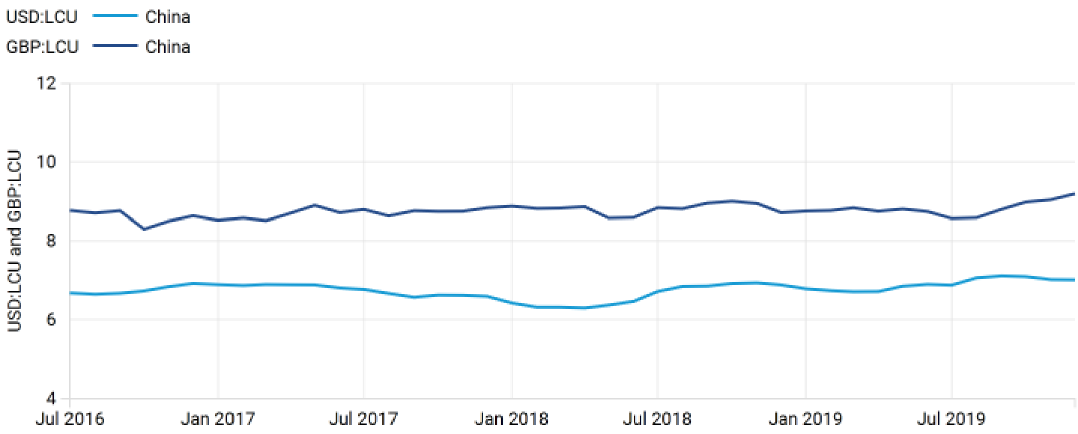
Local Delays: 0-2 months

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.

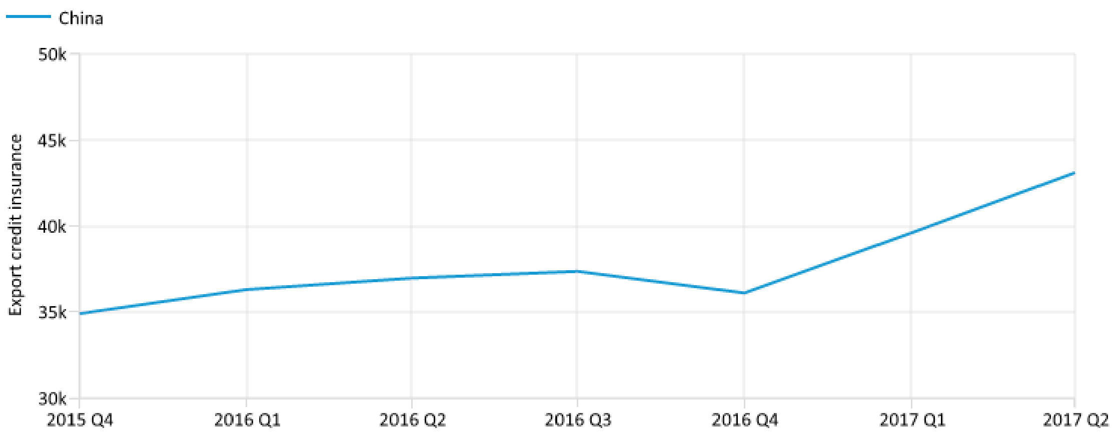
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

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

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, short-term, USDm; part of the increase going into 2017 reflects methodology changes.

RISKS AND OPPORTUNITIES

Business Continuity

China enters DB5 range and the supply environment outlook is placed on 'red'

Dun & Bradstreet has downgraded China's country risk rating to DB5a with a 'deteriorating' outlook, a two-quartile drop from a previous DB4c. The country's supply environment outlook was also downgraded from 'amber' to 'red', with a 'deteriorating' outlook. These downgrades reflect the severity and extent of the dislocation and uncertainty imposed by the national public health emergency caused by the 2019-nCov coronavirus outbreak emanating from central China's Hubei province in January. Almost two-fifths of all corporate identities known to Dun & Bradstreet were located in cities subject to partial or total controls on resident and visitor movements as of 10 February.

The partial and sporadic return to work after the twice-extended lunar new year holiday - enforced by at least 21 provinces and tier-one municipalities - is evident, as major employers delay full or partial restarts to operations, and with commercial and business districts deserted across major cities. While the State Council had ordered a return to work for public and private sectors, subject to suitable preparations for epidemic control, even factories that restarted activity were hampered by a lack of orders, inventories and migrant workers. Expectations were for, at best, half of factories to return to activity.

The complete or partial lockdown on free movement in at least 53 cities in 17 provinces - as of 10 February - indicates that the containment programme remains at a critical stage. Dun & Bradstreet data indicates that lockdowns, which practically freeze much economic activity, include the cities in which at least 9.4m companies were located in February, close to 40% of the national total. The list includes all four national apex cities of Beijing, Tianjin, Shanghai and Chongqing - which report directly to the central government - and the capital of Guangdong province, adjoining Hong Kong; this outcome was only recently seen as a worst-case scenario.

The outlook for the progress of the disease outbreak is still highly uncertain. The capacity to confirm cases was still limited by deficits in public healthcare resources in Hubei province in February. Much about the disease is unclear, with the asymptomatic phase put at up to 24 days, up from an earlier estimate of 14 days, and it is emerging that the progress to a critical stage requires as long as three weeks, making predictions based on existing data potentially invalid. The lack of gene sequencing tests and the use of cheaper, faster nucleic acid tests in Hubei province is still resulting in false negatives, and case fatality rates among those admitted to hospitals in the worst-affected cities ranged up to 4.0%.

Short-Term Economic Outlook

Downside risks to demand and supply elevated as disease peak awaited

The multiple barriers to the functioning of normal national logistics in January and February, combined with pre-emptive hoarding of foodstuffs and other supplies by anxious consumers, saw CPI inflation rise to 5.4% y/y in January. This figure only partly reflected the near-doubling in pork prices in 2019 due to the African swine fever epidemic halving the nation's pork herd. All indications are that any rapid containment of the coronavirus outbreak is receding in probability, which makes the likely impact on industrial activity and discretionary private consumption extremely substantial.

Our tentative real GDP forecast for 2020 is 4.5% and assumes a very limited impact in Q2, which remains optimistic. It is still possible that even in a benign scenario of containment by end-Q2, real GDP growth will fall by at least 2.5 percentage points, making 2020 the worst year economically since 1990, when the economy was overcoming political turmoil. The economic impact is already likely to be far larger than that of the SARS virus crisis in 2002-03, which unlike the present crisis failed to interrupt industrial output, and never necessitated the closure of financial and FX markets, or require the lockdown of multiple cities and an extension of *de facto* curfews across much of the country.

COUNTRY PROFILE AND STATISTICS

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 long-range ballistic missile capability.

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 even 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. Meanwhile, the central government's efforts in tackling problems ranging from pollution and corruption to 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	2019e
Real GDP growth (%)	6.9	7.3	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	53.3	172.4
Current Account (% of GDP)	2.8	1.8	1.6	0.4	1.2
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	-3.9	-4.8	-6.1

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	4.5	6.3	5.9	5.5	5.4
Nominal GDP in USDbn	14,813	15,653	16,479	17,747	19,093
Nominal GDP in local currency (bn)	104,873	112,703	121,123	130,441	140,334
GDP per Capita in USD	10,291	10,839	11,377	12,221	13,211
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	7.2	7.4	7.4	7.4
Current Account in USDbn	115.5	47.0	82.4	133.1	143.2
Current Account (% of GDP)	0.8	0.3	0.5	0.8	0.8
FX reserves (year-end, USDbn)	2,900.0	3,000.0	3,150.0	3,000.0	3,000.0
Import Cover (months)	15.2	15.0	17.4	15.8	15.0
Inflation (annual avge, %)	3.8	2.9	1.4	2.0	2.0
Govt Balance (% GDP)	-7.2	-6.5	-6.7	-6.9	-6.9

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	10,291	41,618	12,830	9,122	67,428
Country Population (m)	1,439.3	125.5	145.9	211.4	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	-0.5 - 1.2	1.5 - 3.0	1.0 - 2.0	1.8 - 2.5

Source: Various sources/Dun & Bradstreet

LINKS

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