

COUNTRY PROFILE:**PEOPLE'S REPUBLIC OF CHINA****DATED:****MAY 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>Export Department Comment/Opinion</i>

Rating 2B. Cover is considered on an open basis. We have fair underwriting experience. We have not paid any claims in this market***Recent Political Highlights***

- President Hu Jintao has been chief of state since March 2003 with Premier Wen Jiabao as head of government since March 2003.
- The president and vice-president are elected by the National People's Congress for a five year term and eligible for a second term. The next election will be held in March 2013.
- According to the EIU there is little chance of significant political reforms in the 2011-15 forecast period, as China's leaders will concentrate on maintaining stability and the Chinese Communist Party will monopolise political power and suppress any challenge, real or perceived, to its authority

Recent Economic Highlights

- China's population is estimated at 1.3bn. In 2010 China became the world's largest exporter. China also overtook Japan to become the second-largest economy in the world after the US. The country's per capita income is still below world averages and the Chinese government still faces numerous economic challenges including: reducing its high domestic savings rate and corresponding low domestic demand, sustaining adequate job opportunities for tens of millions of migrants and new entrants to the workforce, reducing corruption and containing environmental damage.
- Real GDP growth increased from 9.1% in 2009 to 10.3% in 2010. GDP composition by sector: industrial sector 47%, services sector 43% and the agricultural sector 10%.
- The government adopted the 12th Five-Year plan in March 2011 that will among other things focus on increasing domestic demand to reduce the country's dependence on exports for GDP growth. Current economic problems include: persistently increasing inflation and local government debt which swelled as a result of stimulus policies.
- In Q1'11 China's GDP grew 9.7% year-on-year with industrial production, consumer demand and fixed asset investment showing strong growth, although at a lower level than seen in 2010. Imports and exports increased in the first three months of 2011 by 32.6% and 26.5% respectively resulting in a trade deficit of \$1.02bn.
- The World Bank expects growth to ease in 2011 with real GDP growth expected to reach 9.3% in 2011 and 8.7% in 2012 and inflation increasing from 3.3% in 2010 to 5% in 2011 and easing to 3.4% in 2012. China's biggest challenges are the inflationary pressures on the economy and reducing inflation remains a policy priority. Inflation increased to a 32-month high of 5.4% in March mainly as a result of higher food prices caused by problematic weather domestically in 2010 and increases in international food prices. The government took several steps to contain inflation as it took measures to boost food supply and reduce the cost of production and logistics and increasing subsidies to farmers. The government also limited the increases in domestic fuel prices due to higher international oil prices. In 2011 the People's Bank of China increased the reserve ratio three times and the benchmark interest rates twice in recognition of continuing concerns that the economy is overheating.
- The property market is also a particular source of concern as tension between the upward housing price pressure and the policy objective to contain price rises could lead to a more abrupt downturn in the real estate market than expected. This could have significant consequences as this sector could have a large impact on other sectors including steel and cement.
- The 2011 budget is considered cautious with a budget deficit of 1.5% of GDP expected compared to 2.3% of GDP in 2010, suggesting some withdrawal of fiscal stimulus.
- The EIU stated that China suspended its nuclear-power plans in the wake of the Fukushima accident but does not expect this to be final given the scale of the country's energy needs.

Latest Trade Developments

- Total exports increased from \$1.2 trillion in 2009 to \$1.5 trillion in 2010. Export commodities include: electrical and other machinery including data processing equipment, apparel, textiles, iron and steel and optical and medical equipment.
- Total imports increased from \$954bn in 2009 to \$1.3 trillion in 2010. Import commodities include: electrical and other machinery, oil and mineral fuels, optical and medical equipment, metal ores, plastics and organic chemicals.
- Main trading partners include: US, Japan, Hong Kong, South Korea, Germany and Taiwan.
- SA's exports to China equalled R48bn in 2009, R58bn in 2010 and R11bn up to February 2011.
- SA's imports from China equalled R70bn in 2009, R84bn in 2010 and R14bn up to February 2011.

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