

PEOPLE'S REPUBLIC OF CHINA

MAY 2008

IES 02/ ATTACHMENT N

CREDIT GUARANTEE COUNTRY PROFILE:

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
2B	→/ ↓	→	The use of a good collection agent is advised.

Credit Guarantee Experience

Cover in this market is restricted to Letter of Credit. We are however, willing to consider cover on open account terms on a case by case basis. Our experience in this market remains favourable, but it is important for exporters to understand the market and pitfalls that may exist when conducting open account business here.

Political Highlights

- ❑ Chief of state since March 2003 has been President Hu Jintao. The president is elected for a five-year term. The Chinese communist Party (CCP) has governed China since 1949 and retains an iron grip on politics. Corruption continues to damage the CCP's reputation.
- ❑ China voiced strong dissatisfaction after EU foreign ministers discussed the unrest in Tibet. China stated that the Tibet issue was internal, but the EU ministers expressed concern over violence in the Beijing-ruled region. The EU called for talks between China and the Dalai Lama but did not agree on any boycott of this year's Beijing's Olympics. Tibetans began protesting on March 10 in the region's capital, Lhasa, against what they call repressive Chinese rule. Exiled Tibetan leaders say more than 150 people have been killed in the ensuing crackdown by China, but Beijing insists that security forces have not killed anyone.
- ❑ China praised a breakthrough meeting between President Hu Jintao and Taiwan's vice president-elect, saying the contact could boost the rival neighbour's strained relations. The meeting was the first direct contact between a Chinese head of state and a high-ranking elected figure from the self-governed island which Beijing considers a renegade province. China wants direct transport links between the mainland and Taiwan as soon as possible. Taiwan's president-elect Ma Ying-jeou has pledged to end a five-decade ban (since the end of the Chinese civil war in 1949) on regular flights to China's mainland as soon as he takes office in May. Links have been limited, forcing passengers to travel via Hong Kong or another destination. The restrictions were increasing the costs of Taiwanese businesses.
- ❑ Beijing will implement a series of temporary measures to stop construction and close heavy industries, all aimed at cleaning the city's notorious polluted air when the Olympics begin in four months. Pollution and the violence in Tibet and other human rights issues have been a major concern for China before the games. Officials are also expected to ban Beijing's 3.3 million vehicles during the August 8-24 Olympics. Nineteen heavy-polluting companies have also been told to cut their emissions in the same period by a further 30%.

Economic Trends

- ❑ China's economy grew 11.9% in 2007, exceeding initial estimates and putting the country closer to overtaking Germany as the world's third-largest economy. A report on the National Statistics Bureau's website puts China's GDP at 23.94 trillion yuan (R28 trillion). The IMF estimates that China's economic expansion last year accounted for 20% of global growth. The Asian Development Bank expects China's export growth to slow from 26% in 2007 to 18% in 2009, largely due to weaker global demand and cuts in export rebates. The Bank projected an economic growth 7.8% and inflation rate of 5% in 2009.

Key Indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	11.9	9.8	9.0	9.0	8.6	8.4
Consumer price inflation (%; average)	4.8	4.5	3.9	3.7	3.8	3.8
Budget balance (% of GDP)	0.1	0.2	-0.2	-0.2	-0.3	-0.3
Current Account balance (% of GDP)	11.6	10.4	10.0	9.8	8.9	7.6
Commercial bank prime rate (%; year-end)	7.6	8.0	7.8	7.6	7.8	7.8
Exchange rate Rmb US\$ (average)	7.61	7.05	6.77	6.50	6.25	6.03

Source: Economist

- ❑ China's consumer confidence index dropped in Q1'08, affected by inflationary pressure. The index fell 1.7 percentage points from the previous quarter to 94.8. Consumer confidence hit an 18-month low of 94.3 in February following reports that the consumer price index had surged to a 12-year high of 8.7%, well above the annual target of 4.8% set by the central government for 2008.
- ❑ Ice storms in January-February disrupted transport, power generation, manufacturing and pushed up food prices. With food prices spiraling, the government has rolled out a series of measures to fight inflation. It introduced temporary price intervention measures and increased farm subsidies to boost production and curb grain price hikes. A government official said the price intervention measures will be lifted in time; the intervention is expected to be over in six months. The government has also decided to prolong its highway toll exemptions for trucks carrying food to the end of this year, extending the deadline from March 31. The move came amid the government's efforts to step up its support the country's agricultural sector and further reduce the transportation cost for fresh agricultural products.
- ❑ The yuan rose after the central bank said China will let the yuan appreciate and may increase interest rates to temper inflation. The yuan appreciated by 7% the whole of last year compared with 4.4% gains since the beginning of 2008. The expectation of yuan appreciation and the rate difference with the US has fueled demand for the Chinese currency. China's foreign exchange reserves climbed a record \$153.9bn to \$1.68 trillion at the end of March from the end of December. China has allowed faster gains by the yuan and pushed bank reserve requirements to a record high, to tackle inflation. Inflation and overheating are the biggest threats to the economy this year.

- ❑ Lawmakers of the ruling DPP pledged to give full support to the revision of regulations to liberalise the exchange between Taiwan and Chinese currencies before July. The outgoing Taiwan government has insisted that a joint financial supervisory mechanism be established by signing a memorandum of understanding.
- ❑ Once a leading export-industry in China, many textile businesses have been pushed to the brink of bankruptcy by rising costs and unfavorable government policies. Chinese textile exporters are turning to US dollar currencies in pricing and settlement to offset rising losses from the yuan's appreciation against the greenback. The majority of 1,000 textile producers said they had switched to other currencies and others who were still pricing in the yuan had cut the validity of their contracts from two months to just a week.
- ❑ China is expected to consume 62.5% more oil in 2020 compared with 2006 as fast economic growth will continue to fuel domestic demand. China's oil consumption would rise from 346.6 million tons in 2006 to 407 million tons in 2010 and 563 million tons in 2020. China's crude oil output was 186.7 million tons last year, up 1.6% from 2006, while imports surged by 12.4% to 160 million tons. The country's oil producers plan to find 10 new oilfields with reserves of more than 100 million tons each by 2010, in an effort to boost domestic supply. The Aluminium Corporation of China together with US based Alcoa has bought a 12% stake in Rio Tinto, one of the world's largest mining companies, partly to secure supplies of iron ore.

Trade Developments

- ❑ Main trading commodities: machinery and equipment, plastics, optical and medical equipment, iron and steel, oil and mineral fuels and organic chemicals.
- ❑ Major trading partners: US, Hong Kong, Japan, South Korea, Germany and Taiwan.
- ❑ SA exports to China totaled R28bn in 2007 from R14bn in 2006 and R8.7bn in 2005. SA imports from China totaled R60bn in 2007 from R47bn in 2006 and R31bn in 2005. The South African government has launched a series of events aimed at promoting domestic tourism and priority industries in China in a bid to increase trade relations which currently favour the Asian giant. Agriculture Minister Lulama Xingwana officiated at the first SA Week in the capital of Guangdong Province in April. The SA Week concept will also be hosted in Hong Kong, Shanghai and Beijing later this year.
- ❑ Africa-China trade volume boomed to \$65.9bn by the end of 2007 and is forecast to reach \$76bn in the near future. The record high trade registered between Africa and China has risen by 31% compared to 2006. The co-operation has gradually extended to finance, aerospace, and telecommunications. Although East African countries have mainly been exporting agricultural products, analysts say this is likely to change in the near future as China plans to invest in the oil, gas, and mineral sectors of Uganda, Tanzania, Ethiopia and Kenya. A World Bank study says increased exports to China and higher commodity prices have led to increased income for African countries, especially those exporting raw materials.



- ❑ A humanitarian de-mining training course for Sudan sponsored by the Chinese government was inaugurated in Nanjing, capital of the eastern Jiangsu Province in April. About 20 military officers from north and south Sudan are participating in the six-week training. It showed the Chinese government's firm support for the national reconciliation process in Sudan, its willingness to further develop friendly and cooperative relations with all Sudanese and an active attitude to help the African country's construction and development.
- ❑ China Road and Bridge Corporation will undertake rehabilitation work on Mbanza Congo airport in Angola. The US\$10 million project will begin in May and last six months. The aim of the airport upgrade is to enlarge the runway from 1,800 to 2,730 meters to allow national carrier TAAG to operate its recently acquired Boeing 737-800 and 777-200 airliners to the region. China's second-largest telecoms equipment maker ZTE, said it had struck a deal with the government of Kenya to help construct a network covering the western part of the country. The large scale optical network is expected to bolster Kenya's business communication structure.

- ❑ During 2007, China passed Canada to become the US's biggest importer when imports from China to the US amounted to \$322bn. In the last six years, Chinese exports of flat-panel televisions, computers, appliances, toys and clothing to the US tripled. If this momentum is maintained, China will become the largest exporting economy in 2009. China has become Brazil's third-largest machinery equipment supplier, with its machinery exports surging nearly 150% to \$364 million in the first two months of 2008. The president of the Brazil-China Chamber of Commerce and Industry, said made-in-China machinery equipment is gaining popularity due their high quality and low prices. Media reports predict that China will overtake Germany to become the second largest machinery supplier to Brazil (after the US) by the end of this year.
- ❑ New Zealand and China have signed a free trade agreement. China and Chile signed a free trade agreement covering 23 sectors in China, including computers, management consulting, mining, sports, environment, and air transport on free trade in services, following talks between the two presidents. The target date of implementation is January 1, 2009.

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