

China: Brief Profile

September 2022

Domestic Economy

- ❖ China's real GDP growth rate expanded by 8.1% in 2021 compared to 2.2% in 2020 as the global economy picked up from the lows of Covid-19 pandemic induced slowdown.
- ❖ In absolute terms, GDP of China is estimated at US\$ 17.7 trillion in 2021, with a per capita GDP (at PPP) of US\$ 19,762 (est).
- ❖ The average consumer price inflation stood at 0.9% in 2021, decreasing from 2.5% in 2020.
- ❖ Services sector dominated the economy, accounting for 52.2% of China's GDP in 2017, followed by industry (39.5% of GDP) and agriculture sector (8.3%).

BASIC FACTS

Land area: 9,326,410 sq km

Population: 1.4 bn (2021; est)

Language: Chinese

Currency: Renminbi

GDP: US\$ 17.7 trn (2021, est)

Exports: US\$ 3.2 trn (2021)

Imports: US\$ 2.7 trn (2021)

Sovereign Rating: A+ (S&P's)

Trade and External Sector

- ❖ China's exports increased to US\$ 3.2 trillion in 2021 from US\$ 2.5 trillion in 2020.
- ❖ China's imports increased to US\$ 2.7 trillion in 2021, from US\$ 2.0 trillion in 2020.
- ❖ Accordingly, China's trade surplus increase to US\$ 562.8 billion in 2021, as compared to US\$ 511.1 billion recorded a year ago.
- ❖ Electrical machinery and electronic equipment accounted for 26.7% of China's total exports in 2021. Other principal exports in the same year were machinery and mechanical appliances (16.3% of total exports), furniture, bedding and stuffed furnishing (4.2%), plastics and its articles (3.9%), and transport vehicles (3.6%).
- ❖ Major imports of China in 2021 included components of electrical and electronic equipment, accounting for 25% of China's total imports in the year. Other principal imports in the same year were mineral fuels, mineral oils and products of their

distillation (14.7% of total imports), ores, slag and ash (10.2%), machinery and mechanical appliances (8.6%), and optical, photographic, and medical instruments (4.1%).

- ❖ In 2021, USA accounted for 17.2% of China's exports followed by Hong Kong (10.4%), Japan (4.9%), South Korea (4.4%), Vietnam (4.1%), and Germany (3.4%).
- ❖ Taiwan is the leading source of China's imports, accounting for 9.3% of total imports in 2021. Other main sources of imports are South Korea (8%), Japan (7.7%), USA (6.8%), and Australia (6.1%).
- ❖ China's current account surplus widened to US\$ 317.3 billion (1.8% of GDP) in 2021, from US\$ 248.8 billion (1.7% of GDP) in 2020.

Foreign Direct Investment, Foreign Exchange Reserves, and Exchange Rate

- ❖ According to UNCTAD's *World Investment Report 2022*, foreign direct investment (FDI) inflows to China increased to US\$ 181 billion in 2021 from US\$ 149.3 billion in 2020.
- ❖ As regards FDI outflows from China, it witnessed a moderation from US\$ 153.7 billion in 2020 to US\$ 145.2 billion in 2021.
- ❖ China's foreign exchange reserves increased to US\$ 3.42 trillion in 2021 from US\$ 3.36 trillion in 2020. Reserves reflected an import cover of over 15 months.
- ❖ The currency of China is Renminbi (Rmb). The renminbi appreciated to Rmb 6.45: US\$ 1 in 2021 from Rmb 6.90: US\$ 1 in 2020.

Country Rating

- ❖ *Standard & Poor's Sovereign Ratings* rated China as A+ (the obligor's capacity to meet its financial commitment on the obligation is strong, however, the obligations

are susceptible to the adverse effects of changes in circumstances and economic conditions) with a 'stable' outlook.

- ❖ *Dun and Bradstreet's (DB) Country Risk Indicator*¹, September 2022 rated China as DB4a (moderate risk, which implies – significant uncertainty associated with expected returns, risk-averse customers are advised to protect against potential losses) with a 'stable' outlook.
- ❖ *Moody's Investor services*², as on July 29, 2022, rated China as A1 (obligations are judged to be upper-medium grade and are subject to low credit risk.) with 'stable outlook'.
- ❖ According to *Organization for Economic Co-operation and Development (OECD)*³ country risk classifications of July 2022, China was placed at category '2'.

Macroeconomic Outlook

- ❖ The real GDP growth is expected to ease to 3.6% in 2022, from 8.1% in 2021. China's zero-covid policies have kept domestic demand subdued until mid-2023, depressing household spending over this period, while the ongoing property sector crisis is likely to constrain investment in the housing market. Real GDP is expected to rebound moderately to 5% in 2023. Growth, however, would remain on a decelerating trend over the medium to long term, rapid demographic ageing is a primary factor.
- ❖ Inflation is expected to average 2.4% in 2022 and 2.8% in 2023, reflecting the cyclical upswing in pork prices, a major component of China's consumer price basket. Global

¹ The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

² Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

³ The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

oil price shocks are unlikely to push up headline consumer price inflation significantly in China, while ample grain stocks is expected to keep food prices low as global food prices soar. Inflation is expected to soften in 2024-26, on account of stabilizing household consumption in the medium term.

- ❖ Domestic weaknesses and slowing exports are likely to weigh on the renminbi:US dollar exchange rate in 2022. Accommodative domestic monetary policy and weak Chinese economic prospects would encourage capital outflows, particularly amid policy tightening in the US. The renminbi would be averaging at Rmb6.61:US\$1 in 2022, reaching Rmb6.75:US\$1 by year-end.
- ❖ Trade growth is expected to slow in 2022-23. Supply-chain shocks and logistics disruption could recur occasionally as long as the pandemic persists and zero-covid policies remain. High inventories in advanced economies (notably the US) and monetary and fiscal tightening across the world is expected to push downward pressure on global demand. However, robust external demand for semiconductors, machinery and cars would provide support. Calls for supply-chain reshoring is expected to grow in Western economies in 2022-25, although a corporate exodus from China is unlikely. The current-account surplus is expected to average the equivalent of 2.2% of GDP in 2022 and 1.7% in 2023.

China: Economic Structure

Economic Indicators	2017	2018	2019	2020 ^a	2021 ^e	2022 ^f	2023 ^f
Nominal GDP (US\$ bn)	12,265	13,842	14,341	14,863	17,683	18,607	19,697
Real GDP growth (%)	6.9	6.8	5.9	2.2	8.1 ^a	3.6	5.0
Consumer price inflation (av., %)	1.5	1.9	2.9	2.5	0.9	2.4	2.8
Population (bn)	1.4 ^e	1.4 ^e	1.4 ^e	1.4 ^e	1.4	1.4	1.4
Merchandise exports fob (US\$ bn)	2,216.2	2,417.4	2,386.6	2,510.0	3,215.9 ^a	3,530.5	3,622.1
Merchandise imports fob (US\$ bn)	1,740.3	2,037.4	1,993.6	1,998.9	2,653.1 ^a	2,882.1	3,018.4
Current account balance (US\$ bn)	188.7	24.1	102.9	248.8	317.3 ^a	406.4	336.5
Total international. reserves (US\$ bn)	3,235.9	3,168.0	3,222.9	3,356.5	3,426.9 ^a	3,430.4	3,499.6
Total external debt (US\$ bn)	1,704.5	1,961.5	2,114.2	2,349.4	2,919.5	3,184.2	3,506.2
Average exchange rate (Rmb: US\$)	6.76	6.62	6.91	6.90	6.45 ^a	6.61	6.67
Local currency is Renminbi							

Note: ^a- Actual ^e-Estimate; ^f- Forecast

Source: EIU Country Report.