China

August 22, 2019

Region: Asia

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• China, a CRT-3 country, has a low level of economic risk and moderate levels of political and financial system risk. China set its growth target to a range of 6% to 6.5% in 2019, the slowest expected pace in decades. Trade tensions with the US have weighed on the country’s economic outlook, as has a wider structural slowdown in the country. In response to the slowdown, the central government has adopted a number of stimulus measures, such as tax cuts and lowered reserve requirements.

• China, the world’s most populous country, is home to the world’s second-largest economy by GDP, according to the IMF. The countries pictured in the map hold a great deal of the world’s economic potential.

Vital Statistics 2018

| Nominal GDP | USD bn | 13407.40 |
| Population | mil | 1395.4 |
| GDP Per Capita | USD | 9,608 |
| Real GDP Growth | % | 6.6 |
| Inflation Rate | % | 2.1 |

United Nations Estimates

| Literacy Rate | % | 95.1 |
| Urbanization | % | 58.0 |
| Dependency Ratio | % | 39.5 |
| Life Expectancy | Years | 76.4 |
| Median Age | Years | 37.0 |

Insurance Statistics

| Insurance Regulator | China Insurance Regulatory Commission |
| Premiums Written (Life) | USD mil | 317,570 |
| Premiums Written (Non-Life) | USD mil | 223,876 |
| Premiums Growth | % | 16.2 |

Regional Comparison

Country Risk Tier

China | CRT-3
Hong Kong | CRT-2
Japan | CRT-2
Macau | CRT-2
South Korea | CRT-2
Taiwan | CRT-2

Source: IMF, UN, Swiss Re, Axco and AM Best

Regional Summary: Eastern Asia

• Eastern Asia includes economies in various stages of development, from the MSCI-classified frontier market of Bangladesh to the MSCI-classified developed market of Japan.

• Growth in the region is facing several headwinds, including slowing exports, equity market corrections, decelerating global investment, and—especially important to both the region’s and the world’s economic outlook—a moderation of growth in China. China accounts for over half of the region’s GDP; the region as a whole accounts for around one-third of global economic growth.

• Despite weakening external conditions, many of the countries in the region have proven resilient in the face of headwinds. Inflation remains moderate and the region’s economic diversification has supported ongoing job creation. Governments have bolstered growth through stimulatory measures; growth has also been sustained through the rise of private consumption. In the face of external headwinds, monetary policy throughout the region has been loosening.
Economic Risk: Low

• Currently the second-largest economy in the world, China is still classified as a developing country. Per capita income ranks relatively low, at an estimated USD 9,608.

• China has set a goal of ending extreme poverty in the country by 2020. To meet this goal, China will need to lift approximately 10 million people out of poverty this year. As poverty continues to decline, however, rising income inequality poses a challenge.

• Although the one-child policy is no longer in effect, demographics remain a long-term headwind to the country’s economic prospects.

• The US is China’s top export market and placed tariffs on USD 250 billion worth of Chinese goods in 2018, followed by an increase in these tariffs for USD 200 billion of goods in 2019. Additional tariffs on USD 300 billion of imports are planned for September. China similarly placed tariffs on US goods it imports. China’s tax cuts may be able to offset the impact of the tariffs, but the tensions have had negative implications for global economic growth.

• The government plays a dominating role in the economy, to which foreign companies can be vulnerable. Cyber security and significant state control increase the difficulty of operations for foreign business.

Political Risk: Moderate

• Under President Xi Jinping, who is also general secretary of the Chinese Communist Party, China has experienced a growing consolidation of power. The lifting of the presidential term limit in 2018 signals medium-term government stability.

• The judicial system is highly politicized, and intellectual property theft remains a risk for businesses. China’s contract enforcement is efficient, ranking sixth globally by the World Bank.

• Although curbing corruption has been one of President Jinping Xi’s top priorities, transparency is still inadequate, especially at local levels. Through the anti-corruption mandate of the National Supervisory Commission, the overview of businesses and local government is expected to be centralized.

• Social unrest is due mostly to labor disputes, land acquisition, pollution, and corruption. Given the strong central control and intolerance for dissent, the impact of protests on government stability is very low.

Financial System Risk: Moderate

• The Chinese Insurance Regulatory Commission (CIRC) regulates the insurance industry.

• China maintains a strong external financial position. It holds ample foreign exchange reserves and the current account is at a consistent surplus.

• Credit growth has been a primary driver of China’s rapid economic expansion. The IMF has warned of the need to reduce the country’s debt dependence and to continue strengthening financial sector regulation.