

BEST'S COUNTRY RISK REPORT

China CRT-3

August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. 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. The country has experienced rapid economic expansion in recent years—real GDP growth in 2017 was 6.9%. Growth is expected to decelerate slightly, moderating around 6% over the next five years. Inflation has been moderate but is rising and is now 2.5%. Recent trade protectionism in the US could have a material influence on China's export-oriented growth and future trade policy.
- China, the world's most populous country, is home to the world's second-largest economy by total GDP, according to the International Monetary Fund. The countries pictured in the map hold a great deal of the world's economic potential.



- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Eastern Asia

- Eastern Asia is home to some of the world's largest and most advanced economies. China (the second-largest economy in the world), Japan (third-largest), and South Korea (twelfth-largest) dominate much of Eastern Asia's economy as measured by gross domestic product (GDP) by the International Monetary Fund at year-end 2017.
- Tailwinds to the region include robust global growth and the resulting increase in demand for exports, growing domestic consumption, low interest rates, favorable labor market conditions, and government investment in infrastructure.
- Eastern Asia is particularly vulnerable to the rise in global trade protectionist policies and the resulting disruption in regional production networks. Additional risks for the region include an increase in geopolitical tensions, tighter global financial market conditions, potential capital outflows, exchange rate and financial market volatility, aging demographics and the resulting associated costs, government intervention in the private sector, and rising government debt levels.

Vital Statistics 2017

| | | |
|-----------------|--------|----------|
| Nominal GDP | USD bn | 12014.61 |
| Population | mil | 1390.1 |
| GDP Per Capita | USD | 8,643 |
| Real GDP Growth | % | 6.9 |
| Inflation Rate | % | 1.6 |

United Nations Estimates

| | | |
|------------------|-------|------|
| Literacy Rate | % | 96.4 |
| Urbanization | % | 57.9 |
| Dependency Ratio | % | 37.7 |
| Life Expectancy | Years | 75.7 |
| Median Age | Years | 37.4 |

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 (2016 - 2017) | % | 16.4 |

Regional Comparison

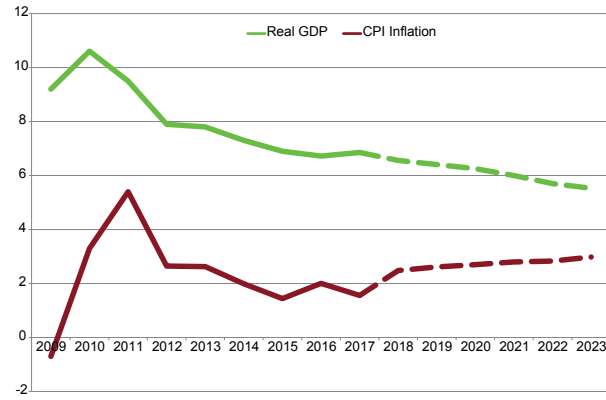
| | Country Risk Tier |
|-------------|-------------------|
| China | CRT-3 |
| Hong Kong | CRT-2 |
| Japan | CRT-2 |
| Macau | CRT-2 |
| South Korea | CRT-2 |
| Taiwan | CRT-2 |

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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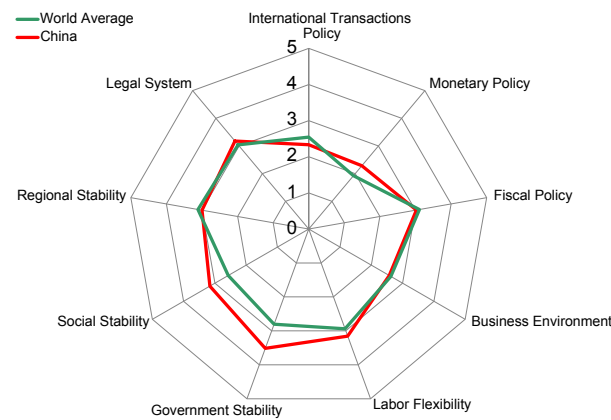
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

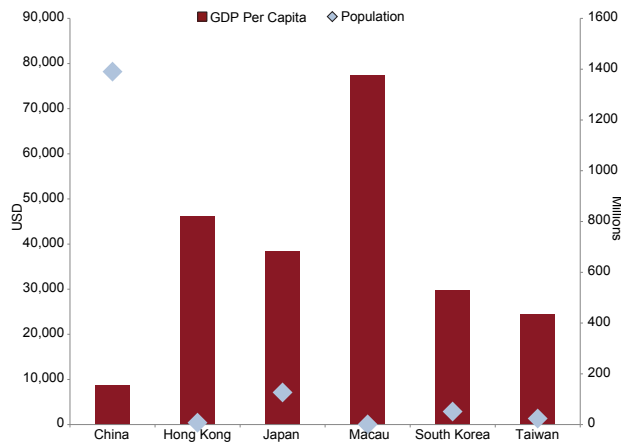
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- China is becoming a market-oriented economy and has expanded rapidly, but growth has recently slowed and requires policy adjustments to remain sustainable.
- China remains an attractive market to investors owing to its abundant labor force and large market potential.
- Currently the second-largest economy in the world, China is still classified as a developing country. Per capita income ranks low and rapid urbanization over the past two decades has fostered high income inequality. The government terminated its one-child policy to prevent its population from aging further.
- In July, the US imposed levies on USD34 billion of Chinese goods. Although trade conflict with the US is likely to escalate over the near term, China signed a significant trade agreement with India lowering tariffs on pharmaceuticals and capital flows, which could help mitigate the US tariffs.
- 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

- China has experienced a growing consolidation of power in the Chinese Communist Party after the two sessions meeting in March 2018, when the presidency term limit was lifted.
- The National Supervision Commission was recently established to strengthen party allegiance. It is capable of causing commercial disruptions through political means, raising operational risks.
- The judicial system is highly politicized, and intellectual property theft remains a risk for businesses, despite recent efforts for improvement. China's contract enforcement is efficient, ranking fifth 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.
- Social unrest is due mostly to labor disputes, land acquisition, pollution, and corruption. Given the strong central control and intolerance for dissent, the protests' impact 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, but excessive lending weakens the country's resilience to shocks. Reforms to transition growth from credit towards consumption should mitigate this risk. Furthermore, China has been working to strengthen the supervision of financial institutions.