Press release

EULER HERMES
Our knowledge serving your success

Chinese exports up by USD300 billion over 2014-15 but non-payment risks remains a major concern for exporters

SHANGHAI – 12 NOVEMBER 2014 – Chinese exports will grow by an additional USD300 billion over 2014-15 on the back of higher quality of products, new markets and better access to financing. This is the key finding of the latest research by Euler Hermes, the worldwide leader in credit insurance, which documents the key opportunities and challenges for Chinese exporters in the coming months.

"While textile and machinery sectors will remain key industries for exports growth, China is proactively increasing its role as a global trade hub for electronic and IT components," said Mahamoud Islam, economist for Asia at Euler Hermes. "Nearly one-third of export growth will come from the electronic sector, representing an additional USD88 billion over 2014 and 2015."

Export growth (excluding Hong Kong and Taiwan) has accelerated from +2.5% in the first quarter 2014 to +8.5% in the second quarter, and to +10.9% in August compared to the same periods last year. By the end of 2015, Euler Hermes forecast that Chinese businesses will export more than USD2.5 trillion worth of goods, maintaining the country's position as the world's export leader.

"Product quality and innovation, easier access to financing and reduced currency risks are strong determinants for a continued surge in exports. However, strong turbulence in the global economy needs to be taken into account by Chinese exporters," adds Islam.

Product quality and innovation

Chinese companies increasingly use advanced technologies to produce higher value export goods and integrate other parts of the value chain, especially in computer and telecom equipment. Acquisitions of businesses abroad, joint venture with foreign partners as well as large budgets earmarked for research and development have made this remarkable evolution possible.

Euler Hermes expects research & development expenditures in GDP terms to rise over 3% by 2025 and likely outpace the Eurozone by 2015 and the US by 2025. Demonstrating this focus on innovation is the 535,313 patents registered by Chinese residents in 2012, twice the number of patents filed by US residents. This shift to quality and innovation is timely as it parallels increased competition from Cambodia, Vietnam and to a lesser extent emerging markets Indonesia and Thailand. A further increase in Chinese labor costs, coupled with an appreciation of the renminbi could indeed push production prices up and deteriorate competitiveness.

Easier access to financing and lessened currency risks

The People's Bank of China has encouraged banks to broaden financing channels and raise the supply of credit, especially to export-oriented SMEs. From April 2014 onwards, the Central Bank unveiled targeted monetary measures, including cuts in Reserve Requirement Ratio for financial institution (2% cut for rural commercial banks in April; 0.5% cut for commercial banks in June) engaged in lending to SME. In addition, private capacities are mobilized for export credit insurance, and the development of a domestic credit information system will strengthen the availability of reliable credit information.

In addition, containing renminbi currency volatility has been a major goal for Chinese authorities. Together with pro-export monetary policies, active intervention in the foreign exchange market by the Central Bank act as another boost to exports. The renminbi is already the second most used currency for traditional trade finance, including letters of credit and collections. On August 1, 2014, the State Administration of Foreign Exchange approved a wider variety of renminbi and foreign exchange options and swaps contracts for hedging purposes. This will result in easier management of currency exchange risks for those exporters invoicing their trading partners in foreign currencies.

Managing the risks associated with new trading partners

While the US will remain the single largest destination for Chinese goods and is expected to grow its imports from China by an additional USD66 billion between 2014 and 2015, demand from Asian countries is now the key driver to export growth. The six largest Southeast Asian economies (ASEAN-6), India, Japan, and South Korea combined are indeed expected to grow their Chinese imports by nearly USD113 billion in the same period.

Frontier and emerging markets are also anticipated to increase their demand for Chinese products. Nigeria, for instance, will increase its imports from China by 40% more than most European countries. In addition, free trade agreements currently under negotiation or subject to feasibility studies (Trans-Pacific Partnership and China–Japan–South Korea Free Trade Agreement) will potentially connect China with an additional 35% of world GDP in the coming years.

"This renewed focus on being part of global supply chains means that many Chinese businesses will trade with partners they have never traded with before," remarks Xizhen Wang, CEO of Euler Hermes China. "With the number of bankruptcies still 20% above pre-crisis levels globally, Chinese exporters need to continue to equip themselves against the risk of non-payment."

In addition to the ongoing turbulence worldwide, Chinese businesses may find it difficult to cope with complexities related to collecting payments abroad. As they grow their network of customers in foreign markets, they face: (i) scarce financial information on their clients' solvency; and (ii) lack of transparency in proceedings by foreign courts.

"In practice, most companies have little chance of debt recovery once liquidation procedures started," Xizhen warns. "A credit insurance policy can cover non-payment risks in a preventive way by helping our clients: evaluate credit risks, pre-qualify customers and thus enable their entry to new markets with greater confidence."

Trade is not only expanding with partners abroad. This year has seen a number of policies aimed to break down domestic trade barriers and foster economic integration between provinces in China. Since October 1, 2014 for instance, export and import procedures for trade between Beijing, Tianjin and Hebei provinces have been streamlined to reduce delays and resulting costs. Such reforms will accelerate the Chinese government's strategy to create more integrated and business-friendly mega-regions.

# # #

CONTACTS

Euler Hermes China
Nick Zhu +86 21 6030 5905
nick.zhu@eulerhermes.com

Euler Hermes Group Media Relations
Remi Calvet +33(0)1 84 11 61 41
remi.calvet@eulerhermes.com

Euler Hermes Asia Pacific
Patience Chan +852 3665 8982
patience.chan@eulerhermes.com

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,000+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong. The company posted a consolidated turnover of €2.5 billion in 2013 and insured global business transactions for €789 billion in exposure at the end of 2013. Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.

Euler Hermes’ Asia Pacific trade credit insurance activities were established in 2000 and today are present either directly or through local partners in Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan and Thailand. More than 250 people are employed in trade credit, bonding and collection services across the Asia Pacific region. Euler Hermes’ Asia Pacific headquarters are based in Hong Kong. In 2013 and again in 2014 Euler Hermes was named best trade credit insurer in Asia Pacific in the *GTR Asia Leaders in Trade* awards by GTR (Global Trade Review) magazine and in 2013 as best credit service provider in China at the *10th China International Credit and Risk Management Conference* in Beijing. Further information: www.eulerhermes.hk