China: Brief Profile
March 2009

Domestic Economy

- Real GDP growth of China moderated to an estimated 9.1% in 2008, as compared to the growth of 11.9% in 2007. The moderation in growth rate of GDP is mainly attributed to weak global demand due to global economic slowdown.
- In absolute terms, China's GDP stood at an estimated US$ 4,196 bn in 2008, with a per capita GDP of US$ 3,157.
- Consumer price inflation increased to an estimated 5.9% in 2008 from 4.8% in 2007, mainly due to soaring agricultural prices, which were pushed up by rising fuel and fertiliser costs and supply problems in the pork sector, prevailed during the first half of 2008.
- Industrial sector is the largest sector in the Chinese economy accounting for 48.6% of the total GDP of the country in 2007*(as per latest data available)*. Services accounted for 40.1% in GDP while agriculture's share in GDP was 11.3% in the same year.

Trade and External Sector

- China's exports stood at an estimated US$ 1,435.9 bn in 2008, representing an increase of 17.7% over the previous years figure of US$ 1,220 bn, primarily owing to higher exports of electrical machinery and equipment, and clothing and garments.
- Electrical machinery and equipment dominated exports, accounting for 10.5% of total export revenue in 2007*(as per latest data available)*. Other principal exports in the same year were clothing and garments (9.5% of total exports), yarn and textiles (4.6%), and petroleum products (1.0%).

- In 2007 *(as per latest data available)*, the US accounted for 19.1% of China's exports followed by Hong Kong (15.1%), Japan (8.4%) and South Korea (4.6%).
- Imports registered an increase of 19.8% from US$ 904.6 bn in 2007 to an estimated US$ 1,083.4 bn in 2008, mainly due to higher import of electrical machinery, and petroleum crude and products.
- Electrical machinery is the main import item, accounting for 21.9% of total imports in 2007*(as per latest data available)*. Other principal imports are petroleum crude and products (10.3%), industrial machinery (3.2%) and textiles (3.2%).
- Japan is the leading origin of China's imports, accounting for 14.0% of total imports in 2007*(as per latest data available)*. Other main sources of imports are South Korea (10.9%), Taiwan (10.6%) and the US (7.3%).
- In 2008, trade surplus rose to an estimated US$ 352.5 bn from US$ 315.4 bn in 2007, due mainly to higher exports.
- The current account surplus stood at an estimated US$ 429.9 bn in 2008 as compared to US$ 371.8 bn in the preceding year, mainly on account of a rise in merchandise foreign trade balance.

Currency, Foreign Exchange Reserves & External Debt

- The currency of China is Renminbi (Rmb). In July 2005 the Peoples Bank of China (PBC) adopted a new exchange rate regime for the renminbi, scrapping its peg to the US dollar and replacing it with a managed float. The initial central point against the US dollar was set at Rmb 8.11: US$ 1. In 2008, exchange rate appreciated by 8.7% to an estimated Rmb 6.95: US$ 1 from Rmb 7.61: US$ 1 in 2007, owing to the recent weakness of US dollar and huge capital inflows during the first half of 2008.
- Foreign exchange reserves increased sharply to an estimated US$ 1,980.6 bn in 2008 from US$ 1,534.4 bn in 2007, representing an import cover for 23 months.

- Total external debt stood at an estimated US$ 392.9 bn in 2008, up from US$ 350.1 bn in 2007.

Country Risk Ratings

- *Euromoney*, in its September 2008 risk ratings of 186 countries, placed China at 50th position, which is an improvement of four places from its rating in March 2008. India was placed at 56.
- *Institutional Investor's*, in September 2008 rankings of 177 countries placed China at 33rd position, which is a rise of one place from its ranking in March 2008. India was ranked at 54.
- *The Export Credit Guarantee Corporation of India Ltd. (ECGC),* ranks countries in seven groups, A1, A2, B1, B2, C1, C2 and D, according to increasing order of risk. It placed China in Group A2 of countries in December 2008 rankings.

Bilateral Trade and Investment Relations with India

- China is the **3rd largest** destination for India's exports and accounted for 6.8% of India's total exports in 2007-08.India's exports to China increased by 30.1% in 2007-08 to US$ 10.8 bn from US$ 8.3 bn in 2006-07, primarily due to rise in exports of iron ore, raw cotton, dyes intermediates, and machinery and instruments.
- China has emerged as the **largest source** of imports for India with a share of 11.4% in total in 2007-08. India's imports from China grew sharply by 55.3% in 2007-08 to reach US$ 27.1 bn from US$ 17.4 bn in 2006-07, mainly as a result of higher imports of electronic goods, non-electrical machinery, iron and steel, and organic chemicals.
- India maintains a trade deficit with China. India's trade deficit with China in 2007-08 went up to US$ 16.3 bn from US$ 9.2 bn in 2006-07.

- During 2008-09 (April-September), India's total exports to China increased by 16.6% to US$ 4.5 bn, as compared to US$ 3.9 bn during the same period in the previous year.
- During 2008-09 (April-September), India's total imports from China also increased by 33.5% to US$ 16.8 bn, as compared to US$ 12.6 bn during the same period in the previous year.
- The main products in India's export basket to China in 2007-08 were iron ore (49.5% of total exports), raw cotton (9.3%), other ores and minerals (8.6%), non-ferrous metals (3.8%), plastic and linoleum products (3.1%), dyes intermediates and coal tar chemicals (3.0%), and machinery and instruments (2.2%).
- India's major imports from China during 2007-08 included electronics goods (28.2% of total imports), non-electrical machinery (12.0%), iron and steel (7.1%), organic chemicals (6.3%), coal, coke and briquettes (4.5%), fertiliser manufactured (4.3%), and electrical machinery (3.8%).
- China is the largest market for India's exports of iron ore (93%), raw cotton (62.8%), mica (32.5%), processed minerals (30.4%), and ferro alloys (20.8%).
- China is also the second largest market for India's exports of guargum meal (12.2%), primary and semi finished iron and steel (11.5%), and inorganic/organic/agrochemicals (10.7%).
- China is the third largest market for exports of castor oil (15.2%), oil meals (12.8%), project goods (11.9%), plastic and linoleum goods (11.6%), non-ferrous metals (8.8%), and finished leather (5.5%).
- China is India's largest source for the import of electronic goods (37.6%) and organic chemicals (24%). China is the second largest source for the import of non-electrical machinery (16.5%), and also the third largest source for the import of coal, coke and briquettes (18.8%)

Macroeconomic Outlook

- China's real GDP growth is expected to decelerate sharply to 6% in 2009, primarily caused by very gloomy outlook for global demand and resultant decrease in export growth in 2009-10. However, GDP growth is expected to rise to 7.2% in 2010, supported mainly by strengthening domestic demand.
- Inflation is expected to remain suppressed in 2009-10, as high investment growth leads to continued rapid production growth and, given that external demand is weak, the additional goods will be channeled into the domestic market, which is itself decelerating. Thus, consumer price inflation is expected to be zero in 2009 and 2.5% in 2010.
- Chinese renminbi is expected to appreciated to Rmb 6.81: US$ 1 in 2009 and further to Rmb 6.58: US$ 1 in 2010. However, the growth of appreciation relative to the US dollar is expected to slow dramatically in 2009-10, as China's economic growth rate falls.
- Merchandise export is expected to contract in 2009 in response to a very poor outlook for global demand. However, the trade surplus is expected to remain huge in 2009-10, as the falling oil price and slower growth in domestic demand for raw materials will suppress import growth. Weak global economic growth is also expected to cause the number of international tourist arrivals in 2009-10 to fall, ensuring that the services account remains in deficit. As a result, the current-account surplus is expected to narrow to the equivalent of 7.8% in 2009 and further to 5.8% in 2010.
- According to official figures, China's FDI inflows totalled around US$ 40 bn per year in the late 1990s. Inflows picked up to average US$ 65 bn a year in 2003-06, before surging to US$ 138 bn in 2007- underlining China's position as the largest emerging-market recipient of FDI. Increasingly, FDI is targeted at selling to the domestic market or acquiring domestic companies, rather than manufacturing for export.

China: Economic Structure

Economic Indicators	**2004**	**2005**	**2006**	**2007**	**2008[b]**
GDP (US$ bn)	1,936	2,303	2,780	3,460	4,196
GDP at current market prices (Rmb bn)	16,028	18,869	22,165	26,324	29,149
Real GDP growth (%)	10.1	10.4	11.6	11.9	9.1
Consumer price inflation (av., %)	3.8	1.8	1.8	4.8	5.9
Population (mn)	1,300	1,308	1,314	1,321	1,329
Merchandise exports fob (US$ bn)	593.4	762.5	969.7	1,220.0	1,435.9
Merchandise imports fob (US$ bn)	534.4	628.3	751.9	904.6	1,083.4
Current account balance (US$ bn)	68.7	160.8	253.3	371.8	429.9
Total intnl. reserves (US$ bn)	618.6	825.6	1,072.6	1,534.4	1,980.6
Total external debt (US$ bn)	247.7	281.6	322.8	350.1	392.9
Average exchange rate (Rmb: US$) Local currency is Renminbi	8.28	8.19	7.97	7.61	6.95

[b]– *Estimates*
Source: EIU.