



# **China: expected upsurge in trade credit risk raises awareness of trade receivables insurance**

**Atradius Payment Practices Barometer**





trading partners

**Top 5**

USA  
South Korea  
Japan  
Hong Kong  
Taiwan

Source: Atradius

imports

**Top 5**

Electrical machinery, equipment  
Mineral fuels including oil  
Machinery including computers  
Ores, slag, ash  
Optical, technical, medical apparatus

Source: WTEEx

exports

**Top 5**

Electrical machinery, equipment  
Machinery including computers  
Furniture  
Plastics, plastic articles  
Vehicles

Source: WTEEx

It is too early to say whether the recent improvement in the outlook for China's economy will be temporary or long lasting. What is certain is that, despite this unexpected trend inversion, the world's second-largest economy will still be facing many challenges in the near future.



**Hong Lin,**  
Country Manager for China commented  
on the report:

“  
*China’s recent rebound brings hopes for a more stable domestic and global economy, however, many challenges remain for Chinese businesses going forward. Thus the best protection for businesses to safe guard their profitability is to plan ahead in a strategic manner.*

*Our survey shows that over the past year many businesses resorted to self-insurance because they thought they could operate their credit and risk management on their own. However, a solid risk assessment is much more complex in today’s economic climate than in the past. Seeking professional support in this respect is paramount to safe trade and business growth.*

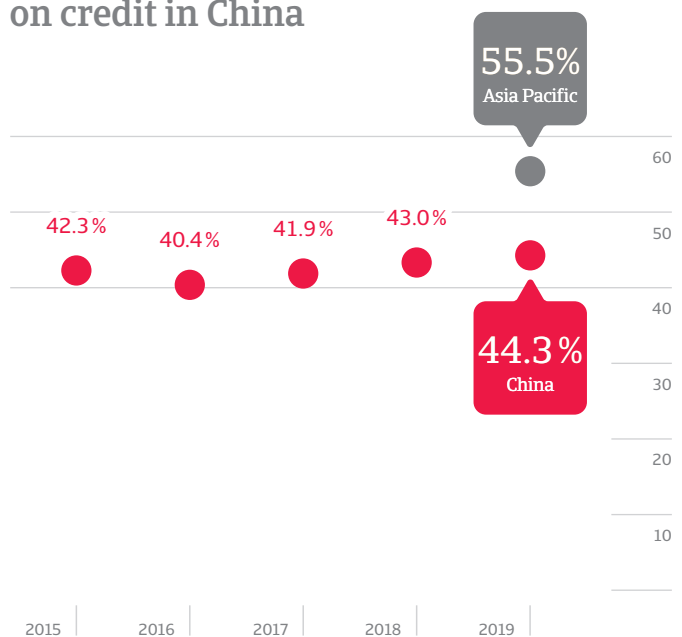
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## Chinese respondents use trade credit more often than in the past to stay competitive

China’s success in becoming a more consumption led economy and less dependent on export, especially as global demand weakens, should have a significant impact on whether the recent improvement is long lasting. The uncertainties added by the still unsolved trade conflict with the US, the effects of which ripple across the Asia Pacific region, exacerbate the already strained Chinese business environment. Here insolvencies are expected to further increase over the coming months, despite easier access to financing for businesses.

Survey respondents in China have historically shown a greater preference for selling to their B2B customers on a cash basis than on credit terms. Current survey findings confirm this behaviour; however, they also show a trend of increasing use of trade credit in B2B transactions. 55.7% of the total value of Chinese respondents’ B2B sales was on a cash basis (down from 57.0% last year, and 58.1% in 2017) and 44.3% was on credit terms (up from 43.0% one year ago and from 41.9% in 2017). In response to the domestic economic slowdown and the ongoing global trade tensions, Chinese respondents appear to place more emphasis on the use of trade credit to maintain their competitiveness and gain market share, both domestically and abroad. This is a logical reaction to the more challenging business environment.

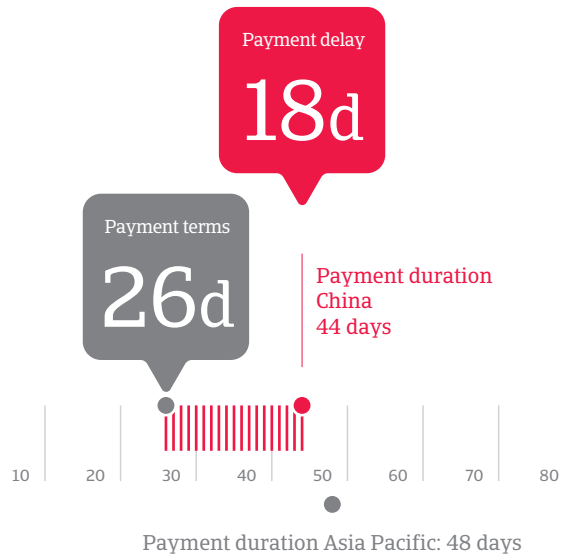
### Proportion of total B2B sales made on credit in China



Sample: companies interviewed (active in domestic and foreign markets)  
Source: Atradius Payment Practices Barometer – May 2019



## Payment duration in China



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – May 2019

### Perception of trade credit risk is significantly higher in China than in Asia Pacific overall

Despite being more inclined to offer trade credit than in the past, Chinese respondents do not appear similarly inclined to set looser payment terms for their B2B customers. Based on survey findings, most Chinese respondents (85%) requested fast payment of invoices, with terms averaging 26 days (average for the region: 32 days). These are the second shortest in Asia Pacific, after Australia (24 days). The tight payment terms observed in China, which remained almost unchanged over the past year, are at the core of respondents' strict credit policies. There is clearly recognition of the risks associated with credit sales and the more challenging trade environment. The short terms are used to offset the financial impact of having the cash from higher sales volumes tied up in accounts receivables for an extended period of time.

### Check of the buyer's financial profile done more often in China than in Asia Pacific overall

Consistent with what mentioned earlier on, it is not surprising that Chinese respondents' credit management policy rotates around the prospective buyer's financial profile, and its assessment prior to any trade credit decision. On average, Chinese respondents (51%) perform this significantly more often

than their Asia Pacific peers do (39%). The same can be said in regards to reserving against bad debts, which is done to offset potentially inaccurate screening of the buyer's financial position (37% of respondents in China vs. 33% at regional level) and to monitoring the credit risk associated with buyers (32% of respondents in China vs. 29% in Asia Pacific). Of note is that a staggering 36% of Chinese respondents reported to have decided to self-insure over the past year (well above the 23% of respondents in Asia Pacific).

### Payment behaviour in China worsened significantly over the past year

Over the past year, there was a significant increase in the value of overdue and uncollectable invoices in China. This is reflected in an average 36.3% of the total value of B2B invoices issued by survey respondents remaining unpaid at the due date (well above the 29.8% regional average). On average, it takes respondents from China 18 days longer than the invoice due date to turn these overdue invoices into cash (no marked change over the past year). In order to remain financially sound and avoid liquidity issues caused by buyers paying late, most Chinese respondents (45%) reported they were forced to delay payment of invoices to their own suppliers and to take various measures to correct cash flow (40%). 3 in 10 respondents pursued additional financing from external sources to reduce financial pressure on the business. On the more positive side, 1.9% of B2B receivables were written-off as uncollectable (2.1% regional average), the same as one year ago.

### Chinese respondents expect trade credit risk to increase over the coming months

Most Chinese respondents (46%) do not expect payment practices of B2B customers to change over the coming months. 22% anticipate an improvement, while 31% expect a worsening in the form of an increase in late payments including in long overdue invoices (more than 90 days overdue). To protect their business against the risk of payment default by their customers, 48% of Chinese respondents will increase their use of credit management software over the next 12 months. 46% will increase the usage of self-insurance, while 45% will perform more regular checks of their buyers' creditworthiness, and more actively reserve against bad debts. Of note, nearly 30% will begin offering discounts for early settlement of invoices. This within the frame of already short payment terms.





41.7%

of total value of B2B invoices paid late

**The Chinese manufacturing sector is the hardest hit by late payment from B2B customers**

## Overview of payment practices in China

By business sector

**Longest average payment terms in the services and ICT/electronics sectors. Shortest in the wholesale/retail/distribution and consumer durables sectors.**

Chinese respondents from both the services and the ICT/electronics sectors extended the longest average payment terms (averaging 43 days and 31 days from the invoice date respectively). The shortest average payment terms were extended by respondents in the wholesale/retail/distribution and the consumer durables sectors (averaging 24 days and 22 days respectively).

**Trade credit risk is high in the Chinese manufacturing, machines and construction sectors**

The value of overdue invoices in the Chinese services sector amounts to 23.3% of the total value of B2B invoices issued by Chinese respondents. This compares to an average of 41.7% in the manufacturing sector and of 29.9% in the wholesale/retail/distribution sector. Both the machines and the construction sectors recorded high of 42.0% of past due invoices, while the chemicals sector a low of 22.9%.

**Proportion of uncollectable receivables highest in the manufacturing sector and in the consumer durables industry**

The manufacturing, consumer durables, machines, construction and agri-food sectors in China all reported that 2.1% of their B2B receivables were written off as uncollectable, the highest proportion in the country. At the other end of the scale, the wholesale/retail/distribution and services sectors reported that 1.5% of their B2B receivables were written off as uncollectable and ICT/electronics, that 1.1% was written off.

“

*For 2019 we expect real GDP growth to reach 6.2%. This still means a growth slowdown from last year, but the original soft landing scenario is intact.*

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**Source: Atradius Economic Outlook**



# Overview of payment practices in China

## By business size

### SMEs in China extended the longest average payment terms to B2B customers

Respondents from SMEs in China extended the longest and those from large enterprises the shortest average payment terms to B2B customers (averaging 28 days and 21 days from the invoice date respectively). This emphasises the relative leverage that the supplier has in the transaction.

### Chinese SMEs took the longest to cash on overdue invoices

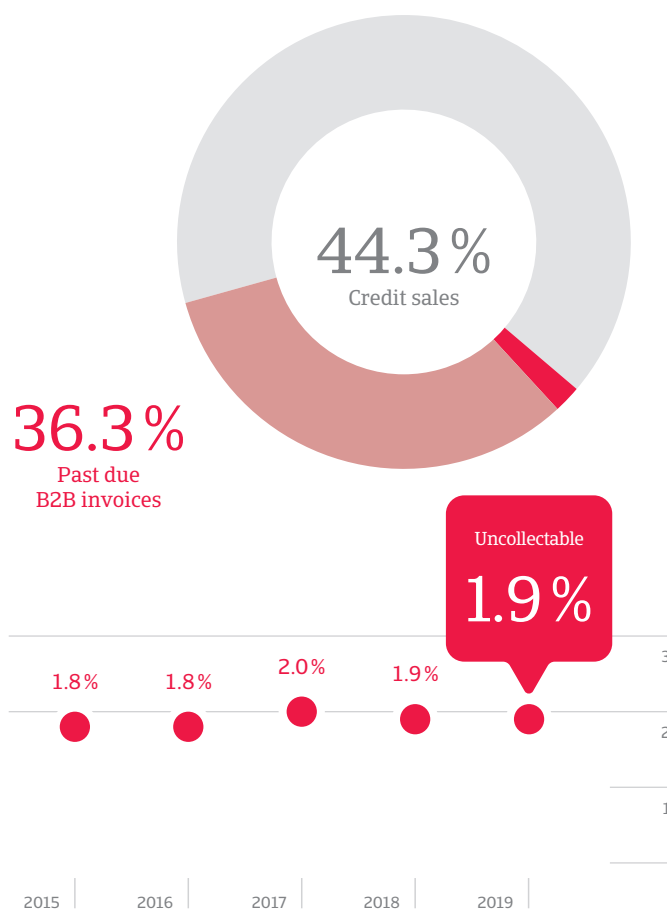
Over the past year, large enterprises in China recorded the highest increase in the proportion of B2B invoices paid on time (+25% on average). Due to this change, overdue invoices in large enterprises now account for 35.2% of the total value of B2B invoices. In contrast, on time payment of the B2B invoices of SMEs decreased 8% on average. The average time it takes to convert invoices into cash is 46 days from the invoice date for SMEs and 39 days for large enterprises.

### Chinese SMEs recorded the highest rate of uncollectable receivables

SMEs in China recorded the highest proportion (2.1%) of B2B receivables written off as uncollectable. The average for large enterprises is 1.6% and for micro-enterprises 1.4%.

## Uncollectable B2B receivables in China

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)  
Source: Atradius Payment Practices Barometer – May 2019

**Atradius · Key Findings**

**3 in 10**  
Chinese respondents pursued additional financing from external sources to reduce financial pressure on the business.

Atradius Payment Practices Barometer – May 2019

# Survey design for Asia Pacific

## Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on Asia Pacific, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from eight countries (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan) have been surveyed. Due to a change in research methodology for this survey, for some of the presents results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 1,718 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

## Survey scope

- Basic population: companies from eight countries (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=1,718 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q1 of 2019.

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## Sample overview – Total interviews = 1,718

Country	n	%
Australia	219	12.7
China	218	12.7
Hong Kong	209	12.2
India	219	12.7
Indonesia	219	12.7
Japan	212	12.3
Singapore	210	12.4
Taiwan	212	12.3
Industry	n	%
Manufacturing	539	31.4
Wholesale trade/ Retail trade / Distribution	872	50.8
Services	307	17.8
Business size	n	%
Micro enterprises	701	40.8
SME (Small/Medium enterprises)	550	32.0
Large enterprises	467	27.2

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.



## Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia Pacific. This is part of the May 2019 Payment Practices Barometer of Atradius, available at [www.atradius.com/publications](http://www.atradius.com/publications)

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For more **insights into the B2B receivables collection practices in China** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on [www.atradiuscollections.com](http://www.atradiuscollections.com)

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