

China and the subprime finance crisis

Mixed reviews about the impact of the subprime crisis on China crisscross many **financial** dailies. There is no doubt that China's neighbor, Japan, is taking on a substantial hit in the sub prime crisis but what exactly can investors in the Chinese markets expect? Let's evaluate some facts!

1) **Bank** of China Ltd (Claim to fame other than its large holdings: Largest IPO on Chinese bourses in 2006) holds \$9.7 billion securities which are related to the subprime sector in the US. This constitutes 3.5, 2007 came close at hand at 90%....not only these rises are unnatural, they do not offer any support point to the index. Subprime may just be the one issue which can topple China's wild stock run.

6) **Bank** of China Ltd has set aside a mere \$150 million to help set off losses due to sub prime. Needless to add, analysts are not even considering this figure while doing the math!

China's dependency on the American economy is higher than that of its neighboring country and thus sub prime is likely to have a lasting impact on the economy. The current situation of the Chinese markets is just the starting and is giving a taste to Chinese investors as to time to come. Not only are Chinese **companies** overvalued, they are dependant and rarely do many of them have a Plan B.

China's large dollar reserve and direct holding of more than \$700 billion dollars of US debt is the real threat as what is considered to be **assets** are actually losing its value over passage of time. Minor irritants such as constant beating down of China on terms of quality of production, lack of high quality research and development and failed mergers and acquisitions feel small in front of the sub prime and US debt giants. The rise in cost of debt internationally and inflation by way of rise of prices in basics such as food grains does nothing to help matters at this stage.

However, there is a growth story in China which comes from within and is not directly affected by the sub prime crisis. Chinese Government needs to work hard at absorbing some of the sub prime loss via its huge foreign exchange reserve (and dump some of the dollars while it is at it) and gets its own [finance companies](#) and institutions back in line. As United States loses its sheen as an investors' haven for Eastern financial managers, the East will see lot more Foreign Direct Investments coming in in the next few quarters.

About the Author

Richard Jefferies has worked in the finance and lending market for over 10 years and is owner of Finance Ezi, a large asset based [finance broker](#) operating Australia wide. Finance Ezi currently organizes over 10 million a month in bank finance loans. He has over fifteen years experience in the [car financing](#) for the automotive industry.

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