December 11: Country Risk - China, Playing It Safe

Location: **New York**
Author: **Lenny Broytman**
Date: **Tuesday, December 11, 2007**

Ever since the People's Bank of China raised the amount of funds banks are required to keep on reserve to an astonishing 13.5 percent, the booming nation's banking sector has been dancing on the world's financial stage.

And on Monday, for the tenth time in 2007, Chinese officials announced that the minimum amount of liquid capital their banks would be required to hold on reserve was jumping a full percent, to 14.5. It would be the most significant reserve ratio move for the nation in four years.

Beijing, who is preparing to host the 2008 Olympic Games, has grown extremely conscious of just how bad the worldwide subprime situation has gotten and many economists point to the numerous reserve ratio moves as a sign that China is very aggressively doing its best to cover its own neck.

Although the country insists that it has allowed its currency to appreciate over the course of the past couple of years, it has refused to give in to pressure from the international community who has urged it to speed up that process.

US Treasury Secretary Henry Paulson will be in the region later in the week to begin a series of talks with China's leaders in an effort to get them to appreciate their currency faster. A lot of the meetings' focus will also revolve around food and product safety as a result of the recent recalls of toys and seafood, among other things, that the US has imported from the booming nation.

After going on and on about just how the communist nation is poised to rule international finance by 2050, it has become rather apparent to me that while it is plausible, it will not be easy. And China knows this. The what-goes-up-must-come-down maxim is something Chinese officials are becoming more and more wary of and are becoming increasingly worried about their indexes suddenly collapsing. In just the last few weeks, although they have since rebounded, Chinese stocks dropped more than 15 percent. This comes after a few years of a blossoming market that saw their exchanges rise over 300 percent.

In a report released this week, Hong Liang, an economist at Goldman Sachs, noted that while the newly raised reserve requirement ratios would grant the Central Bank a lot more credibility, share prices would in fact take a substantial hit.

In effort to curb some of these fears and prevent future ones, the Chinese government has announced that it will offer oil subsidies to some industries in order to assist them in running their businesses amid the escalating fuel prices. Officials in Beijing have also stated that they will grant insurance to some pig farmers because of alarmingly increasing inflationary pressure.