

Faculti Summary

<https://faculti.net/corporate-foreign-bond-issuance-and-interfirm-loans-in-china/>

This video discusses the post-global financial crisis landscape regarding dollar liquidity, particularly in emerging markets, with a focus on China. After the crisis, companies in emerging markets began borrowing in dollars due to low interest rates, resulting in a significant increase in bond issuances by non-financial corporations—from about \$300 billion in 2007 to over \$1 trillion by 2016. A notable trend was the "carry trade," where entities borrowed in low-interest currencies to invest in higher-yield currencies.

China emerged as a major player in this trend, growing from 3% of international bond stock in 2007 to over 50% in 2016. However, China's financial system is not a full market economy, and lending is influenced by government regulations that direct funds toward specific sectors while limiting others deemed at risk, such as mining and real estate.

The regulations, aimed at curbing overcapacity and fostering greener industries, influence how firms borrow and lend. Large corporations often issue bonds abroad and then lend these to smaller firms in their sectors rather than investing the funds back into traditional banking. This video behavior is contrasted with Brazilian firms that typically deposit foreign funds in local banks.

Despite these actions, the speaker suggests that little risk management occurs in this inter-firm lending, presenting potential problems for financial stability. Recent measures taken by Chinese authorities indicate a recognition of the underlying risks associated with these regulatory practices. In summary, while increased borrowing behavior has led to substantial financial flows and sectoral lending shifts in China, it has also introduced complexities and risks that may not be effectively managed.