

Giant Chinese property developer Evergrande given stay of execution

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The ultimate fate of the bankrupt Chinese property developer Evergrande continues to hang in the balance after a Hong Kong judge granted the company a stay of execution on a move by one of its creditors to liquidate it.

On Monday Judge Linda Chan said liquidation proceedings would be held over until January 29 next year to give the failed company more time to come up with a restructuring plan that met the agreement of creditors.

The suspension of proceedings, which came as a surprise to other creditors many of whom would have opposed it, came as the company that brought the liquidation petition, Top Shine Global, said it would not oppose the move.

Evergrande's lawyers said in court the company was considering a deal that involved giving "certificates" to creditors which would "neither be a share nor a bond but a right to distribution based on certain assets."

The certificates would allow creditors to be repaid money when some of Evergrande's assets were sold.

One of the lawyers representing other creditors, Neil McDonald, said the adjournment had come as a "surprise." He had been expecting that the company would have been wound up at Monday's hearing and only heard about the change 15 minutes before it began.

Judge Chan's decision clearly reflects fears in legal and financial circles about the liquidation of Evergrande which has \$300 billion in debts. In a liquidation process there is always a scramble by creditors to grab what they can with the possibility of legal suits and counter suits with unknown consequences in a collapse of this colossal size.

Judge Chan indicated that there was still a way to go before a deal might be agreed to.

She said "crucial details" of the new plan were

missing and Evergrande should have "direct discussion with relevant authorities" to make sure it was "doable." Evergrande's lawyer said: "We will try our best."

Chan was referring to the situation which developed in September when a deal with offshore creditors collapsed when the company's founder, chairman and chief shareholder Hui Ka Yan was detained by Chinese authorities because of as yet unspecified financial irregularities.

According to company filings, Hui has paid himself and his wife more than \$7 billion in dividends since the company went public in 2009.

The deal had been more than a year in the making, involving a series of complex negotiations. After the detention of the company chief, however, Evergrande said it could not go ahead because of new regulations which prevented it from issuing notes that would facilitate the restructuring.

The liquidation of Evergrande, which seems at this stage to be the most likely outcome, would bring little or no return for its creditors. Analysts have said they anticipate a recovery rate of below 5 percent on its debts.

While domestic creditors will get little, the Chinese government will be anxious to insure than foreign creditors can agree to some kind of restructuring because liquidation will cast a pall over the raising of credit by Chinese companies in international markets.

The government will also be concerned about the political consequences. There are an estimated 1.5 million homebuyers who have paid the company for their still unfinished apartments. When Evergrande's problems first surfaced there were angry protests outside its offices that rang alarm bells in Beijing which is acutely sensitive to signs of social protest and discontent.

There are concerns that an Evergrande liquidation could call into question the position of other highly indebted real estate developers.

Among those is Country Garden which was touted as an exemplary real estate firm, but it too has defaulted on loans. The group has said it will not be able to meet all its overseas debt repayment obligations. It has total liabilities of around \$200 billion of which some \$11 billion are international debts.

It has been reported that most of the top ten real estate developers in China have been experiencing sharply falling sales.

According to estimates by Bloomberg, more than half of the biggest 50 developers in 2020 have defaulted. It has said that Chinese developers have defaulted on around \$115 billion of \$175 billion of outstanding offshore loans since 2021.

There are also significant domestic financial ramifications involving the so-called shadow banking system, estimated to be around \$3 trillion, and which is exposed to the crisis in the property sector.

In a letter to investors last month, Zhongzhi, one of the larger companies in the system, revealed that it confronted a shortfall as high as \$34.6 billion and was “severely insolvent.”

Its problems first came to light back in August when it missed payments on several products. It blamed its problems on the 2021 death of its founder and the departure of “multiple senior executives” after which it said “internal management ran wild.”

“The group’s investment products have defaulted one after the other, and we deeply apologise to investors,” it stated. Most of those investors are high-wealth individuals so it is considered very unlikely that there will be state intervention. The amount involved is large but is small relative to the entire trust industry. But it is nonetheless a warning as to how quickly events can turn and companies that had seemed to be secure turn out to be a house of cards.

The crisis in real estate development and associated financial interests is bound up with the broader structural shift which the Xi Jinping regime is trying to effect in the Chinese economy.

The real estate boom began in the aftermath of the 2008 financial crisis when the government initiated a massive infrastructure and real estate development program based on stimulus spending, estimated to be

around \$500 billion and an expansion of credit.

The result was that real estate and construction, together with its associated industries, is estimated to account for between 25 and 30 percent of the Chinese economy.

The troubles for the real estate sector began in mid-2020 when the government introduced new regulations, dubbed the “three red lines,” which restricted access to credit. It was aimed at lessening the dependence on real estate and infrastructure development.

The result has been a marked slowdown in growth, which has been reflected in the rise of unemployment, particularly among youth aged 16 to 24 years old where it is running at more than 20 percent. As a result, the government has halted the publication of youth unemployment figures.

Worse may still be to come. In a speech to bankers in Hong Kong last week, the governor of the central bank, Pan Gongsheng, warned that the economy was on a “long and difficult journey” away from its reliance on property and infrastructure investment.

In a sign of the political sensitivity of the government to the prospect of lower growth, the Chinese transcript of Pan’s speech omitted the phrase “long and difficult.”

The official growth target for this year is just 5 percent, one of the lowest levels in decades. After the lifting of COVID restrictions at the start of the year there was increase in consumer spending. But since then, consumer confidence has fallen, investment is down, and export earnings have been described as “disappointing.”

Minor measures have been introduced to try to stabilise the property market but there is no stimulus package in sight and the focus will be on what growth target the government sets for 2024 and how it intends to achieve it.



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