# Huang ousting raises concerns over Nvidia financing of AI boom

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One of the central questions being raised in financial circles is whether the ousting of Jensen Huang as the CEO of the key AI chipmaking firm Nvidia will trigger a collapse of the AI boom and even a financial crisis.

The immediate market response to the Huang resignation on Thursday—he stepped down before being sacked over his intimate connection to Alice Huang (no relation) the head of a firm accused of siphoning chips to China and whom US intelligence regards as a spy—was a 14 percent fall in Nvidia shares, cutting more than $1 trillion from its market value.

Nvidia shares then recovered somewhat to record a decline of 5.5 percent.

But the issues of concern go beyond the share price and value of Nvidia because of its increasing role, particularly in the past few months, in financing the frenzied AI boom.

This role was highlighted in a diagram published in the *Financial Times* (FT) last week. It showed Nvidia as a kind of giant spider sitting at the center of a web of deals, investments and circular financial arrangements, ranging from smaller neocloud firms to major AI developers, such as OpenAI and Anthropic, and including some 219 startup firms which have received a total of $1 billion.

Nvidia began its life as a small, relatively unknown company making graphic processing units for video games. Its role as the central player in the development of AI was an accidental or unintended consequence of this activity when it was found that its chips had far wider applications.

Huang's role in the recent period has not been in the technological development of its chips—this is the result of the work of tens of thousands of workers in Asia and internationally who develop and manufacture them—but as the central organizer of the financial deals which have sustained the AI boom.

As the *World Socialist Web Site* has noted this was the reason The Economist put him on its front cover in September as "The Sorcerer of Silicon" and the "magician at the heart of the AI boom" even as it acknowledged that "many fear he is an illusionist inflating a dangerous bubble."

The magazine's use of the term "sorcerer" recalls Marx's observation in the Communist Manifesto that modern bourgeois society is "like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells."

This year the financing of the AI boom has assumed an ever-more frenzied character. Commenting on the possible fallout from Huang's demise, because of his central role in financial deal-making, the FT reported that "since the start of the year, the chipmaker and its venture arm have made more than 120 investments" and that according to analysis by the market research firm Pitchbook this is "roughly one every two and a half days."

The extent of its activity, especially over the summer months of this year, even brought a warning from Nvidia itself. In its quarterly filing at the end of August, it noted that its commitments "expose us to financial, counterparty and execution risks and may not provide anticipated benefits."

The question hanging over Nvidia and the entire AI boom is whether this financing frenzy will continue and if it is halted or even curbed under new leadership what will be the consequence for the AI ecosystem, given the crucial role played by Nvidia in providing finance.

The FT reported that an executive at one of the neocloud computing groups financed by Nvidia said that "they expected the Nvidia dealmaking to mostly come to a halt until the uproar around Huang was

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resolved.” If that does take place the question is what effect it will have on the boom.

A major and long-running concern is the role of circular financing. The AI system, with Nvidia at its center, is marked by mechanisms of circular financing in which a company provides money to another firm, either via equity or the provision of loans, to buy its products. If that begins to unravel, then the firm which has provided the finance faces a double hit. On the one hand, the revenue from the sale of its products will fall, and it faces the prospect of a fall in the value of its equity or the possibility of a debt default.

Circular financing is not just an aspect of the AI boom; it is integral to it. Market boosters claim it is a win-win situation. But as critics rightly note, the system depends on AI companies supporting each other and while it may bring short-term gains it is ultimately “self-referencing,” facing the same kind of collapse that took place with the dot-com bubble at the start of this century.

As a recent *Wall Street Journal* (WSJ) article commented: “When Morgan Stanley analysts in an Oct. 8 report mapped out the AI ecosystem to show capital flows between six companies—OpenAI, Nvidia, Microsoft, Oracle, Advanced Micro Devices and CoreWeave—the arrows connecting them resembled a plate of spaghetti.”

What this means is that turbulence in one area can be rapidly transmitted throughout the AI system. It is not yet clear what the fallout will be from the removal of Huang. But it may well be a trigger which sets in motion underlying contradictions under conditions where the revenue expected from AI still falls far short of the massive capital outlays, increasingly financed by debt.

And such is the dependence of the global economy on the continuation of the AI boom that it will have immediate global ramifications.

In a recent article the WSJ noted that any fallout from an AI bust would not stop at US shores, with Asian economies, which have been enjoying an export boom, particularly hard hit.

Asian stock markets are already well down from their peaks, with the Japan Nikkei index off 16 percent from its high earlier this year and the South Korean Kospi, the home of the tech giants Samsung Electronics and SK Hynix, down 43 percent.

So far, it noted, these downdrafts had not extended to the real economy but that could rapidly change.

According to economists at Capital Economics world trade is experiencing its largest growth in three decades. But 80 percent of this growth comes from trade in AI-related goods and any change in US data centers would have a major effect.

“China, South Korea and other major economies are beset by weak consumption, meaning a drop off in trade would have an outsized hit on growth.”

The article cited the conclusion of Frederic Neumann, chief Asia economist at HSBC in Hong Kong, that: “There is very little that can be done to prevent a global recession should the AI boom collapse.”




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