

# Nevergrande

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China has advanced its status and power in the capitalist world by creating such corrupt companies that their failure could bring down the world financial system. Evergrande is such a company, described as China's biggest property developer, it also has branched out into the latest 'new thing' craze by founding the New Energy Vehicle Group to manufacture electric cars for the elite.

Given that building homes is a far cry from mass producing complex road-worthy machines it's no surprise that its dream of quickly surpassing Tesla, a company already making cars in China but at a low output, was a task beyond its capability. The NEVG, once with a market cap that surpassed the combined value of Ford and GM, has lost 93% of that value since its February high. That financial stress was then heaped upon its parent company that is the most indebted property developer in the world. Thus China's contribution to capitalist financial crisis history.

The US business model is to allow the free market to determine a feasible financial transaction. A company wants to borrow in order to expand its business and increase its profits. It consults with banks and/or other investment enterprises in order to obtain the necessary funding. It's up to those financial entities to determine the credit worthiness of the borrower and the sum they can safely lend. But lenders also want to increase their profits and the only way they can do that is by lending money and collecting interest and fees. It's all really based on the over optimistic view that the transaction will profitably succeed as designed. But under capitalism optimism is usually overwhelmed by avarice and greed.

The US GFC (Great Financial Crisis) centered on the threatened collapse of three major financial institutions. Bear Stearns had sufficient unencumbered assets to make it a worthwhile purchase at a discount by JP Morgan Chase. Probably the greatest risk for contagion was the American International Group because of its close ties to major American and dozens of European banks. It was bailed out (de facto purchased) by the federal government for \$180 billion. The third

troubled company was Lehmann Brothers. After a long torturous process in which several banks searched for a profitable way to make a purchase it was dissolved because much of its assets were too encumbered to unwind into a profit. The most undeserving was AIG because it made huge sales of credit default swaps without backing them with collateral -- setting aside reserves or otherwise hedging against default. But, thanks to the American taxpayer, it is the only one of the three that exists as an independent entity today.

China is a capitalist nation that is two thirds private (based on GDP) combined with very interventionist state that believes its infinitesimal degree of Marxist insight gave them the capacity to confine and squelch financial crises before they do much damage. It had previously set up a 3-red line borrowing scheme that would prevent companies from being swamped by debt because of over exuberant greed. Companies could increase their debt by 5% in 3 increments where borrowing would then be closed at 15%. Very neat and workable if only China, like all major capitalist states, didn't have a huge unofficial and unregulated off the grid banking system.

Evergrande's defaulted debt is \$305 billion. Bonds are coming due. A small \$35 million bond was honored on Wednesday -- probably by an exchange of property. One for \$85 million was due Thursday and has not been paid, but it takes 30 days before there is an official default. What makes this default an especially critical issue is that \$200 billion of the debt was paid by purchasers of land and homes that were never delivered. It's inconceivable that thousands of innocent victims of capitalist thievery could be left in the lurch by their supposedly 'benevolent' state.

China bailed out state owned [Huarong](#) bank. It will probably have to broaden their bailouts to include 'to big to fail' private enterprise. It will probably will include a solution similar to that used by the US. It put enough money into companies like AIG and GM to have technical ownership while at the same time appointing private management. Stay tuned for more intense excitement as the system muddles through another crisis that it has no clue as to a solution.

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