Chinese politics & policy

Beijing seeks to orchestrate slow-motion collapse for Evergrande

Officials face challenge untangling heavily indebted group while minimising damage to property sector

An Evergrande development in Wuhan. The developer's shares fell to a record low on Monday after it said it might not be able to meet its financial obligations © Getty Images

Tom Mitchell in Singapore, **Sun Yu** in Changzhou and **Thomas Hale** in Hong Kong
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Any pretence that Hui Ka Yan, once China's richest man, remains in control of events at China Evergrande Group ended this week as state representatives took the majority of seats on a new risk management committee established by the heavily indebted developer.

In a statement issued on Monday night after shares in Evergrande fell to a record low in Hong Kong trading, Hui said the new committee would not report to the board "but will play an important role in mitigating and eliminating the future risks of the group".

While Hui is nominally chair of the seven-seat committee, four slots are held by representatives of state-owned enterprises controlled by either the central government or regional governments in southern Guangdong province. Evergrande is headquartered in Shenzhen, the high-tech manufacturing and services centre bordering Hong Kong.

Liu Zhihong, a senior executive from Guangdong Holdings, a conglomerate controlled by the Guangdong provincial government, was named co-chair of the committee. According to two people involved in Evergrande's restructuring, the Guangdong government has assumed responsibility for Evergrande in part because the officials in Shenzhen have been preoccupied with similar problems at Baoneng, a local property conglomerate based in southern Hainan province that was effectively taken over by local officials early last year.

But none have been as big as Evergrande, whose total liabilities exceed $300bn, or as interconnected with the Chinese economy. Untangling its debts while minimising collateral damage to the rest of the property sector will be a daunting challenge.

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Chen Long at Plenum, a Beijing-based consultancy

"The working group will take over Evergrande and find third parties, especially state-owned developers, to take over its development projects," said Chen Long at Plenum, a Beijing-based consultancy. "After that Evergrande is done. Original shareholders including Hui Ka Yan will be wiped out.

"This is how Beijing has managed highly indebted companies over the past three to four years," Chen added. "There were multiple times they could have saved Evergrande. They could still save Evergrande today. But there is no political motivation for anyone to do that."

HNA was one of four "grey rhinos" — a term used to described highly leveraged groups that officials believed posed unique risks to the country's financial stability — that were brought to heel by the Chinese government in 2017 after regulators grew concerned about the scale of their overseas buying sprees. HNA and another rhino, Anbang Insurance, were both the subject of government-administered restructurings that were so lengthy and opaque that they eventually faded from view without sparking market panics.

Evergrande's statement on Monday night suggested that the state representatives on its new risk management committee would oversee a similar process. "[Evergrande] believes that the experience of the committee members, as well as the resources they would be able to utilise, will be beneficial for the group to overcome the challenges it currently faces," the developer said.

After markets closed on Friday, Evergrande revealed that it would struggle to repay a previously undisclosed guarantee obligation of $260m. Such guarantees are just one channel through which the group's collapse could send shockwaves through China's economy. Evergrande said in its interim annual report in August that it had issued guarantees totalling Rmb557bn ($87.4bn) on behalf of property buyers and business partners.

China's central bank, securities regulator and banks regulator all issued statements on Friday asserting that the developer's woes stemmed from management errors and its crisis would not destabilise the financial system. On Monday night, the Chinese Communist party's Politburo said it would take steps to "boost public housing and support the housing market".

That helped assuage market nerves even as Evergrande bondholders said that they had not received overdue repayments totalling $82.5m, potentially signalling a formal default that the group has narrowly avoided on three other occasions over recent months.

The total value of the debts was $343m — the same amount of money Hui raised by selling 9 per cent of his controlling stake in Evergrande late last month. But neither he nor Evergrande have said if the proceeds would be used to pay international bondholders or domestic creditors, including tens of thousands of retail investors and suppliers that government officials worry could erupt in widespread protests.

Eswar Prasad, a China finance expert at Cornell University, said the Politburo statement and simultaneous measures by the central bank to boost liquidity in the banking sector signalled Beijing's intention "to support growth but without a broad expansion of credit that could fuel a resurgence of financial market imbalances".

Zhiwei Zhang, chief economist at Pinpoint Asset Management, added that "the message from the Politburo was important; it indicates the government may loosen policies in the property sector". But even if it does, it will probably be too late to