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*China 2. Capital
Market in China*

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Alicia Girón
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Crisis in the Building Chinese Sector. Could “it” Happen Again?
Institutional Investors, Evergrande and Country Garden

Session 2: China Capital Market

“Crisis in the Building Chinese Sector.

Could “It” Happen Again?

Institutional Investors, Evergrande and Country Garden

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Crisis in the Building Chinese Sector. Could “it” Happen Again?

- What does a crisis in the real estate sector mean when it has been decisive in contributing 27% of the GDP of China's economic development during the last decades?
- The objective of this paper is to highlight the importance of institutional investors, in corporations such as China Evergrande Group Co. and Country Garden Holdings Co. Ltd., for the importance of being the main players in the financial markets.
- Institutional investors, as well as mutual funds, have secured rates of return above the global benchmark interest rate.
- The main hypothesis is to demonstrate to what extent the bankruptcy of these companies could trigger a crisis in the Chinese economy, causing volatility and financial instability in the financial markets at the international level.
- We wonder if the increase in non-performing loans of real estate companies such as Evergrande and Country Garden could impact a bank failure in the same way as the subprime crisis that impacted the bankruptcy of large banks, “too big to fail, too big to safe” in the United States.
- Could it be replicated in China, the ghost that haunted Lehman Brothers in the international financial circuits, triggering a new crisis like the Great International Financial Crisis of 2007-2008? Or will there be a Minsky Moment?

Crisis in the Building Chinese Sector. Could “it” Happen Again?

- The real estate sector has been one of the most important axes of economic growth, accounting for 27% of the GDP of China's economy. The real estate and construction sector, a pillar of the urbanization of the Chinese territory, contributes 24% of GDP.
- In this sector, 'China Evergrande Group' is one of the largest real estate consortiums that have contributed 4% of GDP to the Chinese economy.
- The importance of what happens in one of the most important real estate consortiums is because China has contributed 28% of GDP globally until before the confinement and was the only country whose GDP did not fall in negative numbers and reached 2% weeks after the pandemic was declared and a year later reached an 8% growth in its GDP in 2022.
- No although growth reached 5.4% GDP at the beginning of 2024, the trend towards the next few years augurs slow growth.

. Crisis in the Building Chinese Sector. Could “it” Happen Again?

- In this paper, we are interested in demonstrating the importance of institutional investors as shareholders in real estate companies such as Evergrande and Country Garden, companies whose assets show the development of China's economic development.
- Real estate companies that have been a source of work for a part of the population that migrated from the rural sector to the urban sector. The real estate sector focused on industrial and urban areas, showing a gradual growth of a working class in the urban area demanding housing.
- The process of migration from rural to urban areas related to the growth of the industrial project within the framework of a process of global insertion allowed a sustained growth in the demand for housing. At the same time, many local governments financed real estate growth.
- Today, beyond thinking of a real estate crisis, the governance of local banks presents challenges in the default of loans, increasing non-performing loans, as well as the participation of large Chinese corporations and banks in financing the country's economic development.

.Crisis in the Building Chinese Sector. Could “it” Happen Again?

- It is important to mention that real estate companies had been presenting payment problems with their creditors prior to covid-19 as a result of structural problems in an environment of reduced interest rates during the second decade of this century worldwide.
- Since the co-financing, the Chinese government implemented drastic measures causing a decrease in housing construction and deepening the overdue portfolios of real estate companies that deepened with the post-pandemic. In the course of the last post-pandemic years, the engine of the real estate sector is important for the consumption required for construction.
- The Chinese real estate market had been an opportunity due to the increase in prices for years, which allowed a promising future for many families to acquire an apartment as well as allowed speculation in the face of the low interest rates granted by the banking sector. Nonetheless, "Evergrande's troubles – and its knock-on effects on the economy and social stability – are the biggest evidence of Beijing's renewed campaign to end debt-driven speculation and halt rising house prices as the government tries to reduce inequality and thus, keeping housing affordable for the masses." (Yu, 2023)

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- SP Global Commodity Insights notes that the real estate sector for 2023 accounted for “30.8% of steel consumption with 280 million metric tons, down from 36.2% in 2020. Steel demand from the real estate sector is estimated at 268 million metric tons by 2024, accounting for 29.5% of total consumption. In addition, this sector is the largest consumer of aluminum, with around 30% of total demand, according to market sources.
- Copper demand from the construction and appliances sectors accounts for more than 20% of the country's total demand, according to market sources. Real estate and infrastructure account for 30% of China's diesel demand, about 3.75 million b/d, according to the sources.
- The refined product is not only burned directly as fuel for construction machinery, but is also used as a transport fuel to ship machinery and materials, such as rebar, cement and wood." (Zhang, 2024 n.d. a.).

Problem statement

- At the end of January, a Hong Kong court ordered the liquidation of 'China Evergrande Group' after being unable to reach a restructuring agreement with its creditors. News that took the front pages of the different media worldwide. The implications of this decision have not only been affecting a significant part of China's consumption of steel, aluminum, diesel, copper, bitumen and some petrochemical products but also institutional investors that could trigger a sharp fall in the share price of Evergrande's suppliers and creditors in the international financial circuits.
- The main investors in this real estate corporation are large investors in non-bank institutional funds that invest in both Chinese companies and countries around the world. The most important international investment funds participate in China's corporate funds. Among those that stand out are Vanguard All-World (ex-US) Shares Index ETF; MGI Funds Plc - Mercer Passive Emerging Markets Equity Fund; Aviva Invs. - Global Emerging Markets Index Fund; KLP AksjeFremvoksende Marked Indeks; DFA TA World ex US Core Equity Portfolio; St. James's Place Unit Trust - Global Equity; BlackRock ISF - iShares Edge EM Fun. Weighted Index Fund (IE); John Hancock II - International Strategic Eq. Allocation Fund; Invesco China Real Estate ETF; John Hancock II - Strategic Equity Allocation Fund. At the end of January, a Hong Kong court ordered the liquidation of 'China Evergrande Group' after being unable to reach a restructuring agreement with its creditors. News that took the front pages of the different media worldwide. The implications of this decision have not only been affecting a significant part of China's consumption of steel, aluminum, diesel, copper, bitumen and some petrochemical products but also institutional investors that could trigger a sharp fall in the share price of Evergrande's suppliers and creditors in the international financial circuits.

Hypothesis

- The central hypothesis of this essay is to ask ourselves to what extent the bankruptcy of 'China Evergrande Group Co.', 'Country Garden Holdings Co.', and other real estate companies could have an impact on an economic and financial crisis within China and have an impact as Lehman Brothers was worldwide. In order to carry out the hypothesis, it is important to first consider the theoretical assumptions of the causes of the crisis of 'China Evergrande Group', taking into account the employment policies of the Chinese government; Second, to carry out an analysis of the main institutional investors in these two corporations, as well as the possible impact of the restructuring of the real estate sector and the suppliers of raw materials for the real estate sector. The research attempts to raise several questions, among which the following stand out: what is the importance of the real estate sector in the economy?; what are the implications of the bankruptcy of Evergrande, Country Garden and the rest of the companies in the real estate sector?

China Evergrande Group						
	Name	Shares Held	% Shares Out	Change In Shares	% of Assets	As of Date
<i>Mutual Funds</i>	Vanguard All-World (ex-US)	3,687,461	0.03%	3,687,461	0.00%	11/30/21
	MGI Funds Plc - Mercer	1,977,000	0.02%	0	0.00%	06/30/23
	Aviva Invs. - Global Emerging	1,437,080	0.01%	1,437,080	0.00%	10/31/23
	KLP AksjeFremvoksende	1,320,000	0.01%	1,320,000	0.00%	03/31/23
	DFA TA World ex US Core	1,051,000	0.01%	490,000	0.00%	07/31/21
	St. James's Place Unit Trust -	1,033,000	0.01%	1,033,000	0.00%	03/31/23
	BlackRock ISF - iShares Edge	809,000	0.01%	0	0.02%	07/31/22
	John Hancock II - International	667,935	0.01%	0	0.00%	08/31/23
	Invesco China Real Estate ETF	644,706	0.01%	-58,436	0.54%	2/12/2020
	John Hancock II - Strategic	447,035	0.00%	209,000	0.00%	02/28/22
<i>Institutions</i>	Global X Management Co.	53,068,600	0.40%	0	0.78%	11/30/22
	BlackRock Fund Advisors	47,879,388	0.36%	0	0.00%	12/29/23
	Charles Schwab Investment	44,077,011	0.33%	-7,014,000	0.00%	12/29/23
	APG Asset Management NV	18,200,653	0.14%	0	0.03%	12/31/22
	BlackRock Advisors (UK) Ltd.	12,550,813	0.10%	4,755,501	0.00%	12/29/23
	Invesco Capital Management	10,984,037	0.08%	0	0.11%	11/30/22
	Krane Funds Advisors LLC	7,894,000	0.06%	0	0.00%	12/29/23
	DWS Investments (UK) Ltd.	6,680,754	0.05%	0	0.00%	12/29/23
	Sjunde AP-fonden	5,683,290	0.04%	0	0.22%	05/31/23
	Northern Trust Global	4,647,000	0.04%	-494,471	0.00%	10/31/23

Source: Wall Street Journal (n.d.). China Evergrande Group. Retrieved January, 31st 2024, from:

<https://www.wsj.com/market-data/quotes/EGRNQ/company-people>

Country Garden Holdings						
	Name	Shares Held	% Shares Out	Change In Shares	% of Assets	As of Date
<i>Mutual Funds</i>	Schwab Fundamental Emerging Markets Large Company Index ETF	187,839,456	0.67%	52,205,743	0.35%	12/29/23
	Vanguard Emerging Markets Stock Index Fund	178,865,995	0.64%	0	0.02%	11/30/23
	Vanguard Total International Stock Index Fund	176,243,898	0.63%	176,243,898	0.00%	10/31/23
	iShares Core MSCI Emerging Markets ETF	107,784,733	0.39%	0	0.02%	12/29/23
	Stichting Pensioenfonds ABP (Global Equity Portfolio)	102,953,170	0.37%	51,704,860	0.00%	12/31/22
	Vanguard Institutional Total Intl. Stock Market Index Tr. II	82,561,975	0.30%	82,561,975	0.00%	09/30/23
	Vanguard Global ex-U.S. Real Estate Index Fund	53,797,163	0.19%	-336,000	0.13%	11/30/23
	iShares Tr. - MSCI China ETF	39,258,727	0.14%	-3,806,000	0.07%	12/29/23
	iShares MSCI Emerging Markets ETF	31,162,939	0.11%	0	0.02%	12/29/23
	iShares plc - Core MSCI Emerging Markets IMI UCITS ETF	29,786,000	0.11%	0	0.02%	12/29/23
<i>Institutions</i>	UBS Asset Management Switzerland AG	1,936,160,093	7.49%	819,394,674	100.00%	44754
	BlackRock Fund Advisors	207,841,162	0.74%	46,632,695	0.01%	12/29/23
	Charles Schwab Investment Management, Inc.	203,583,627	0.73%	184,071,338	0.03%	12/29/23
	Hang Seng Investment Management Ltd.	192,575,023	0.69%	0	0.19%	12/29/23
	State Street Global Advisors Asia Ltd.	139,445,459	0.50%	0	0.21%	12/29/23
	UBS Switzerland AG (Investment Management)	138,506,531	0.54%	128,295,564	100.00%	44754
	APG Asset Management NV	102,953,170	0.37%	51,704,860	0.04%	12/31/22
	Norges Bank Investment Management	91,074,678	0.35%	0	0.01%	12/31/22
	BlackRock Advisors (UK) Ltd.	72,500,556	0.26%	37,900,690	0.01%	12/29/23
	Principal Global Investors (Asia) Ltd.	39,670,000	0.14%	0	0.34%	06/30/23

Source: Wall Street Journal (n.d.). Country Garden Holdings Co. Ltd. Retrieved April 12, 2024, from <https://www.wsj.com/market-data/quotes/CTRYF/company-people>

Crisis in the Building Chinese Sector. Could it Happen Again?

Institutional Investors, Evergrande and Country Garden

Mutual Funds in the Building Sector			
Total Shares Held			
<i> Holders</i>	<i>Country Garden</i>	<i>Evergrande</i>	<i>Total</i>
Aviva Invs. - Global Emerging Markets Index Fund	0	1,437,080	1,437,080
BlackRock ISF - iShares Edge EM Fun. Weighted Index Fund (IE	0	809,000,000	809,000
DFA TA World ex US Core Equity Portfolio	0	1,051,000	1,051,000
Invesco China Real Estate ETF	0	644,706	644,706
iShares Core MSCI Emerging Markets ETF	107,784,733	0	107,784,733
iShares MSCI Emerging Markets ETF	31,162,939	0	31,162,939
iShares plc - Core MSCI Emerging Markets IMI UCITS ETF	29,786,000	0	29,786,000
iShares Tr. - MSCI China ETF	39,258,727	0	39,258,727
John Hancock II - International Strategic Eq. Allocation Fund	0	667,935	667,935
John Hancock II - Strategic Equity Allocation Fund	0	447,035	447,035
KLP AksjeFremvoksende Marked Indeks	0	1,320,000	1,320,000
MGI Funds Plc - Mercer Passive Emerging Markets Equity Fund	0	1,977,000	1,977,000
Schwab Fundamental Emerging Markets Large Company Index E	187,839,456	0	187,839,456
St. James's Place Unit Trust - Global Equity	0	1,033,000	1,033,000
Stichting Pensioenfonds ABP (Global Equity Portfolio)	102,953,170	0	102,953,170
Vanguard All-World (ex-US) Shares Index ETF	0	3,687,461	3,687,461
Vanguard Emerging Markets Stock Index Fund	178,865,995	0	178,865,995
Vanguard Global ex-U.S. Real Estate Index Fund	53,797,163	0	53,797,163
Vanguard Institutional Total Intl. Stock Market Index Tr. II	82,561,975	0	82,561,975
Vanguard Total International Stock Index Fund	176,243,898	0	176,243,898
<i>Total Shares Held</i>	990,254,056	13,074,217	1,003,328,273

Source: Own elaboration with data from Wall Street Journal (n.d.) Country Garden Holdings Co. Ltd. Retrieved July 15, 2024. <https://www.wsj.com/market-data/quotes/CTRYF/company-people>; China Evergrande Group. Retrieved July, 15 2024. <https://www.wsj.com/market-data/quotes/EGRNQ/company-people>

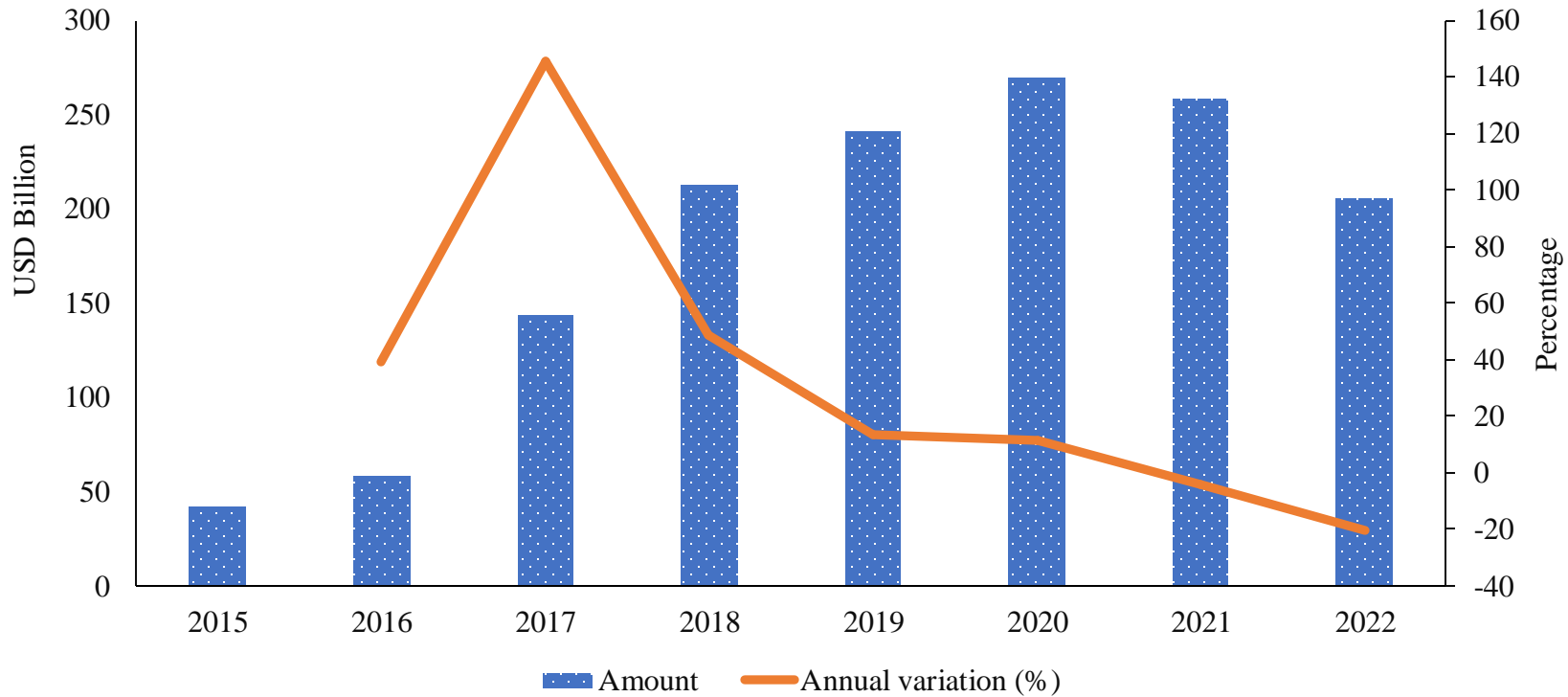
Institutional Investors in the Building Sector			
Total Shares Held			
<i> Holders</i>	<i>Country Garden</i>	<i>Evergrande</i>	<i>Total</i>
APG Asset Management NV	102,953,170	18,200,653	121,153,823
BlackRock Advisors (UK) Ltd.	72,500,556	12,550,813	85,051,369
BlackRock Fund Advisors	207,841,162	47,879,388	255,720,550
Charles Schwab Investment Management, Inc.	203,583,627	44,077,011	247,660,638
DWS Investments (UK) Ltd.	0	6,680,754	6,680,754
Global X Management Co. LLC	0	53,068,600	53,068,600
Hang Seng Investment Management Ltd.	192,575,023	0	192,575,023
Invesco Capital Management LLC	0	10,984,037	10,984,037
Krane Funds Advisors LLC	0	7,894,000	7,894,000
Norges Bank Investment Management	91,074,678	0	91,074,678
Northern Trust Global Investments Ltd.	0	4,647,000	4,647,000
Principal Global Investors (Asia) Ltd.	39,670,000	0	39,670,000
Sjunde AP-fonden	0	5,683,290	5,683,290
State Street Global Advisors Asia Ltd.	139,445,459	0	139,445,459
UBS Asset Management Switzerland AG	1,936,160,093	0	1,936,160,093
UBS Switzerland AG (Investment Management)	138,506,531	0	138,506,531
<i>Total Shares Held</i>	<i>3,124,310,299</i>	<i>211,665,546</i>	<i>3,335,975,845</i>

Source: Own elaboration with data from Wall Street Journal (n.d.) Country Garden Holdings Co. Ltd. Retrieved July 15, 2024.

<https://www.wsj.com/market-data/quotes/CTRYF/company-people>; China Evergrande Group. Retrieved July, 15 2024.

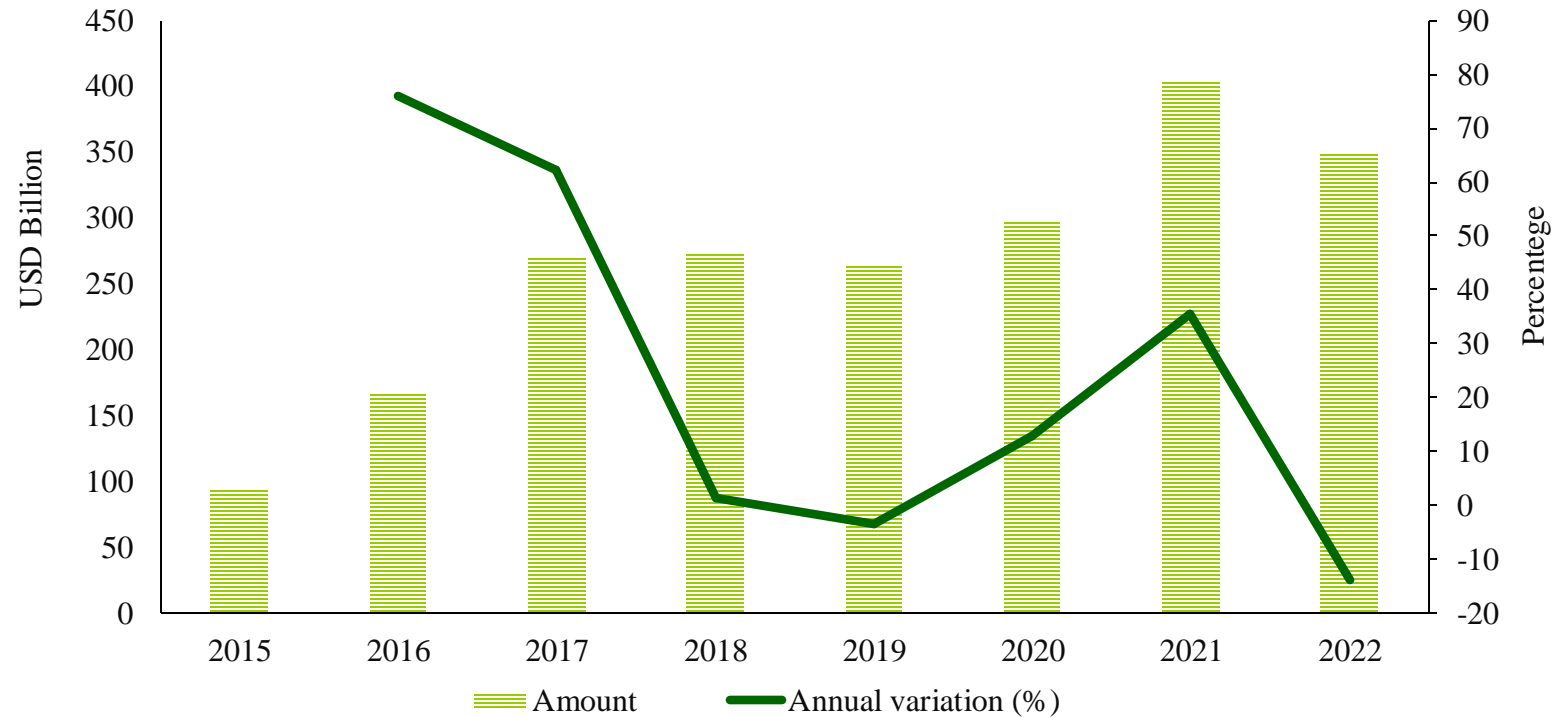
<https://www.wsj.com/market-data/quotes/EGRNQ/company-people>

Country Garden' Total Liabilities 2015-2022



Notes: Figures in USD have been calculated with the annual official exchange rate from the International Monetary Fund.
Source: Own elaboration with data from Country Garden Annual Reports. Accessed May 25, 2024, from:
<https://countrygarden.com.cn/en/investor/financial>

Evergrande Group' Total Liabilities 2015-2022



Notes: Figures in USD have been calculated with the annual official exchange rate from the International Monetary Fund.
 Source: Own elaboration with data from Evergrande Group Annual Reports. Accessed May 25, 2024; from <https://www.evergrande.com/ir/en/reports.asp>

Company Efficiency				
<i>Year/Country</i>	<i>Evergrande</i>		<i>Country Garden</i>	
	<i>ROA</i>	<i>ROE</i>	<i>ROA</i>	<i>ROE</i>
2015	2.29	12.20	2.68	10.87
2016	1.30	9.15	2.31	16.74
2017	2.10	15.30	2.74	24.66
2018	3.54	21.56	2.98	27.99
2019	1.52	9.36	3.21	28.00
2020	1.36	8.96	2.68	21.06
2021	-32.57	145.06	2.10	13.63
2022	-6.84	21.00	-0.17	-0.96

Source: Own elaboration with data from Evergrande reports. Accessed May 25, 2024; from <https://www.evergrande.com/ir/en/reports.asp>; Country Garden Annual Reports. Accessed July 15, 2024, from: <https://countrygarden.com.cn/en/investor/financial>

Reflection

- . Crisis in the Building Chinese Sector. Could “it” Happen Again?
 - Institutional Investors, Evergrande and Country Garden
- Today, the situation we are experiencing from the pandemic, surrounded by several crises, including the rebirth of the term 'polycrisis', fixes our gaze on China for the economic development it has had prior to the pandemic, by promoting large investments in communications infrastructure within its country;
- secondly, the heavy investments made through the 'Belt and Road' in colonial countries on the African continent and in the Latin American region;
- third, the rapprochement with Russia as a result of the war makes the People's Republic of China a very powerful power on the map of economic and political disputes, including over investments in the digital economy and climate change.