

Signs that China's property bubble is imploding

John Chan
4 January 2012

There is mounting evidence that China's massive real estate speculation "bubble" has begun to burst. The result will destabilise the country's banking system, slow its economic growth and impact heavily on the world economy, which has relied on China as a major source of growth since the global financial crisis began in 2008.

An article in the US *Foreign Affairs* magazine warned last month that "sudden, steep price reductions" were "upending real estate markets across China." It cited industry data showing that new home prices in Beijing dropped 35 percent in November alone, and that developers had built up 22 months' worth of unsold inventory in Beijing and 21 months' worth in Shanghai.

Written by an academic at Beijing's prestigious Tsinghua University, the article noted: "Everyone from local landowners to Chinese speculators and international investors are now worrying that these discounts indicate that the 'biggest bubble of the century,' as it was called earlier this year, has just popped, with serious consequences not only for one of the world's most promising economies—but internationally as well."

Fuelled by housing construction, the country produced 627 million tonnes of steel in 2010, or 44.3 percent of the world's output. It produced 1.87 billion tonnes of cement—60 percent of the world's total. China manufactured 43 percent of the world's construction machinery such as excavators and bulldozers. The speculative housing boom also bolstered spending by the urban middle class, driving up the demand for cars—China's automotive output was

18.2 million vehicles in 2010, or one quarter of the world's production.

Significant global corporations, such as iron ore miners in Australia and Brazil, and equipment manufacturers in Germany and Japan, are likely to be the first to suffer heavy blows from a sharp downturn in China's real estate. China is looming as another shock, on top of the predicted recessions in Europe and other parts of the world.

The current real estate bubble has its roots in the 2008-09 worldwide financial crisis. The Chinese Stalinist regime released trillions of dollars of cheap credit in a desperate attempt to stem social unrest after 23 million migrant workers, especially in export industries, lost their jobs. The main result, however, was a borrowing spree by local governments, developers and industrial companies to speculate in the property market.

Led by the construction boom, capital investment currently accounts for nearly 50 percent of China's gross domestic product—a recipe for a major crisis. In the first 10 months of last year, 3.6 billion square metres of property were under construction—compared to sales of just 709 million square metres, pointing to massive overcapacity about to hit the market.

At the same time, unaffordable housing has become a highly politically charged issue in China. Based on prices earlier last year, it would take the average wage earner in Beijing 36 years to pay for an average residence, compared to 18 years in Singapore, 12 in New York and five in Frankfurt.

Yet, up to 65 million homes are estimated to be “idle”—kept empty on speculation of securing even higher prices in the future. This social irrationality is most graphically expressed in smaller cities, such as Inner Mongolia’s Ordos, where property investment recorded average growth of 69 percent during the past four years—compared to 27.6 percent nationally. Large parts of Ordos have become “ghost” towns, with speculators leaving behind empty and unfinished apartment blocks.

In late 2010, Beijing sought to placate public discontent over soaring housing prices by imposing restrictions on bank lending and house ownership. These measures only exacerbated the intensifying financial instability, as many operators turned to other sources for highly leveraged loans. The developing economic crisis has been compounded by the lack of recovery in China’s main export markets—the US, Japan and the European Union.

Businesses in the export hub of Wenzhou borrowed heavily from dubious underground lending schemes charging interest rates up to 150 percent a year. The sell-offs in real estate threatened to unleash a domino effect, wiping out large numbers of small and medium enterprises. More than 80 debt-laden entrepreneurs have fled the city, and a shoe factory owner jumped to his death last year.

Property market collapses have become a new source of discontent. Last weekend, thousands of small investors protested in Anyang city’s train station, in an attempt to bring their grievances to the Beijing leadership. They had lost their savings in failed Ponzi investment schemes based on real estate and other projects. Since October, the operators of many such schemes had fled after their projects—based on duping depositors with promises of high returns—unravelling.

The first quarter outlook published by the Bank of China last week pointed to the huge debts incurred by local governments to finance property and infrastructure projects as part of the 2008 stimulus package. “The actual scale of the debt is likely even larger [than the official estimate of \$US1.69 trillion], and much of the debt is due soon,” it wrote. A slump in

land sales, which had accounted for up to 40 percent of the local government revenue, was hitting their finances. From January to November last year, 24,000 plots of land use rights were sold for 1.18 trillion yuan—a 30.5 percent fall in value from the same period in 2010.

To offset the downturn in the property market, Beijing is pinning its hopes on building 36 million subsidised flats by 2015. This “one stone-two birds” strategy seeks to provide affordable housing for low-income earners, while maintaining investment-led growth. Surveys show, however, that most developers have no incentive to build housing that is going to further drive down property prices. Municipal governments are also suspected of inflating the numbers of such projects, counting holes in the ground as the “commencement” of construction. Bank loans on such projects, especially for rentals, are likely to become another source of bad debts in the coming years, due to the low-yield rents.

The Bank of China predicted an economic growth rate of 8.8 percent this year, down from 9.3 percent for 2011. However, Andy Xie, a leading Chinese economist, warned last week that given the vast distortions created by the property bubble, a “correction” would last until 2014 and could halve China’s growth rate to just 4-5 percent. “If you think 2008 was bad enough,” Xie wrote, “tighten the seat belt in the upcoming 2012.”

Such dramatically slowing growth, not to mention an outright financial crisis, would inevitably lead to rising unemployment, triggering a social explosion in China, with immense implications for global capitalism.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact