

# The Real Estate Bubble in Capitalist China

*Evergrande, Fantasia, and Sinic make global investors tremble and for good reasons*

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The Great Depression of the capitalist world economy, which began in autumn 2019, has also affected China. This is hardly surprising since China constitutes a key component of global capitalism as it is the leading nation in world manufacturing (with a share of 28.7% of global output).<sup>1</sup>

As we noted in recent articles, the world economy is heading towards a second slump and China plays a central role in this development.<sup>2</sup> In the present article we will deal with one of the areas where China's crisis is evolving – its real estate sector. (For a more extensive analysis of China's capitalism we refer readers to other works of the RCIT.<sup>3</sup>)

In recent weeks, several real estate giants – e.g. Evergrande, Fantasia, and Sinic – have failed to make interest payments. Evergrande alone has unpaid bills totaling more than \$300 billion – an “amount [which] is equivalent to 2 per cent of China's GDP and probably one of the biggest debt piles in the world.”<sup>4</sup> In fact, these real estate giants are all tottering close to bankruptcy. As a result, their shares at the stock market are plunging. Evergrande's share price dropped by 80% since the beginning of the year.

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<sup>1</sup> Felix Richter: These are the top 10 manufacturing countries in the world, World Economic Forum, 25.2.2020, <https://www.weforum.org/agenda/2020/02/countries-manufacturing-trade-exports-economics/>; output measured on a value-added basis in current U.S. dollars.

<sup>2</sup> Michael Pröbsting: World Economy: Heading towards a Second Slump? 2 October 2021, <https://www.thecommunists.net/worldwide/global/world-economy-heading-towards-a-second-slump/>; see also these articles by our Argentinean comrades: Juan Giglio: A 13 años del Lehman Brothers y en el medio de la caída de Evergrande, 26.10.2021, <https://convergenciadecombate.blogspot.com/2021/09/a-13-anos-del-lehman-brothers-y-en-el.html>; Damián Quevedo, Evergrande, una burbuja a punto de explotar en nuestro continente, 5.10.2021, <https://convergenciadecombate.blogspot.com/2021/10/evergrande-una-burbuja-punto-de.html>

<sup>3</sup> The RCIT has published numerous documents about capitalism in China and its transformation into a Great Power. See on this e.g. our book by Michael Pröbsting: *Anti-Imperialism in the Age of Great Power Rivalry. The Factors behind the Accelerating Rivalry between the U.S., China, Russia, EU and Japan. A Critique of the Left's Analysis and an Outline of the Marxist Perspective*, RCIT Books, Vienna 2019, <https://www.thecommunists.net/theory/anti-imperialism-in-the-age-of-great-power-rivalry/>. See also by the same author an essay published in the second edition of *The Palgrave Encyclopedia of Imperialism and Anti-Imperialism* (edited by Immanuel Ness and Zak Cope), Palgrave Macmillan, Cham, 2020, [https://link.springer.com/referenceworkentry/10.1007%2F978-3-319-91206-6\\_179-1](https://link.springer.com/referenceworkentry/10.1007%2F978-3-319-91206-6_179-1); China's transformation into an imperialist power. A study of the economic, political and military aspects of China as a Great Power (2012), in: *Revolutionary Communism* No. 4, <http://www.thecommunists.net/publications/revcom-number-4>; How is it possible that some Marxists still Doubt that China has Become Capitalist? (A Critique of the PTS/FT), An analysis of the capitalist character of China's State-Owned Enterprises and its political consequences, 18 September 2020, <https://www.thecommunists.net/theory/pts-ft-and-chinese-imperialism-2/>; Unable to See the Wood for the Trees (PTS/FT and China). Eclectic empiricism and the failure of the PTS/FT to recognize the imperialist character of China, 13 August 2020, <https://www.thecommunists.net/theory/pts-ft-and-chinese-imperialism/>; China's Emergence as an Imperialist Power (Article in the US journal 'New Politics'), in: “New Politics”, Summer 2014 (Vol:XV-1, Whole #: 57)

<sup>4</sup> India Today: Explained: Why China's Evergrande crisis has sent global stock markets in panic mode, 21 September 2021, <https://www.indiatoday.in/business/story/china-evergrande-crisis-global-stock-markets-in-panic-mode-1855467-2021-09-21>

This development reflects that the financial sector with its characteristic elements of bubble and speculation has become a key element of China's capitalist economy. It also shows that a significant proportion of its spectacular growth in the past decades had a fictitious character. And it also demonstrates that – particularly in the past decade since the Great Recession in 2008/09 – China's growth was based on a dramatic rise of debts.

## Growing Debts

China's real estate sector has grown in the past decades by extraordinary proportions. In the period from 1995 to 2019, real estate investment – calculated as a share of economic output (GDP) – rose from 5% to over 13%. This is a much higher share than the U.S. ever had in recent history! At the peak of the real estate bubble in the U.S. – before the spectacular wave of bankruptcies which began with Lehman Brothers in 2008 – the figure was 7%.<sup>5</sup>

China's massive real estate expansion was largely financed by increasing debts. Many people – largely from the urban middle class – bought new homes by incurring debts. As a result, China's household leverage ratio (the ratio of household debt to GDP) has risen rapidly from 18% in 2008 to 60% at the end of 2018. Today, outstanding mortgage debt makes up over 70% of total household debt.<sup>6</sup>

In many cases, new homes have been bought by people from the middle class or the bourgeoisie in order to sell them later for profit. In other words, the growing real estate sector was not only financed by growing debts but its whole purpose has become not so much to build new living space for people but rather to make profit via speculation. In 2008, "only" 30% of new homebuyers did already possess one or more dwellings. Ten years later, this share had increased to 87%. In other words, nearly 9 out of 10 new homebuyers did so not in order to find a place for living but rather to get another dwelling either for renting or for selling to someone else.

To understand this phenomenon, one needs to know that there is hardly any place in the world where urban housing – relative to income – is more expensive than in China's cities. If we take the Home Price-to-Rent Ratios, four of the five most expensive cities in the world are Chinese! (Shenzhen, Beijing, Hong Kong and Shanghai). Shenzhen ratio is two times as large as that of Tokyo and London and four times as large as New York and San Francisco!

If China's real estate giants collapse, it will have massive consequences for the whole economy. In 2016, real estate and construction industries combined accounted for around 29% of China's GDP. These sectors have also been crucial for job creation, making up around 20% of urban non-private

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<sup>5</sup> The figures on China's real estate sector, if not indicated otherwise, are taken from a highly informative research paper which has been recently published by a U.S. and a Chinese analyst from the *National Bureau of Economic Research*: Kenneth S. Rogoff and Yuanchen Yang: Peak China Housing, NBER Working Paper Series, Working Paper 27697, <http://www.nber.org/papers/w27697>

<sup>6</sup> See on this also Martin Wolf: The economic threats from China's real estate bubble, *Financial Times*, 5.10.2021, <https://www.ft.com/content/1abd9d4b-8d94-4797-bdd7-bee0f960746a>

employment. According to Bloomberg, “about 41% of the banking system assets were either directly or indirectly associated with the property sector by the end.”<sup>7</sup>

Given the global weight of China’s economy, capitalist speculators and financial institutions all over the world fear the consequences of a default of the real estate market. France’s BNP Paribas – the largest bank in the Eurozone – published a note to investors: “We estimate less than USD50bn of Evergrande’s USD300bn outstanding debt is financed by bank loans. ... Suggesting the Chinese banking sector will have a sufficient buffer to absorb potential bad debts. (...) Over the past week, investors have become increasingly worried about the contagion risks to supply chains (commodities), social stability (construction workers, homebuyers), and credit stress (de-risking on Chinese high yield bonds), as the central government has been relatively muted on the Evergrande situation.”<sup>8</sup>

### **Soft Landing?**

Given the huge weight of the real estate sector, it is quite possible that China’s Stalinist-capitalist regime will do everything it can in order to ensure a “soft landing”. A first sign for such a development is the fact that China’s central bank injected about \$123 billion of liquidity into the system in the last two weeks.<sup>9</sup>

If the regime does not intervene massively, large sectors of the capitalists and the middle class as well as workers in related industries will suffer drastic consequences. Needless to say that such a scenario would have explosive consequences in the already tense political situation. Li Guangman, a prominent retired newspaper editor with close ties to the regime, recently warned that without proper intervention, “China’s economy and society will be set on the crater of the volcano where all may be ignited any time.”<sup>10</sup>

However, even if the regime intervenes and bails out the capitalists, this would also have long-term negative consequences for the economy as it would result in a further massive rise of public indebtedness. By the 3<sup>rd</sup> quarter of 2020, China’s total debt as a share of GDP had increased to 288% - nearly double the share of 2008 (about 150%).<sup>11</sup> In its latest China report, the World Bank warned: “At current market interest rates, China’s large debt stock implies a significant aggregate interest burden, exceeding

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<sup>7</sup> Bloomberg: China's banks downplay risks after Evergrande misses payments, 23 September 2021, <https://www.thenationalnews.com/business/2021/09/23/chinas-banks-downplay-risks-after-evergrande-misses-payments/>

<sup>8</sup> Quoted in Reuters: What analysts have to say about Evergrande as default risks rise, 21 September 2021, <https://www.reuters.com/article/china-evergrande-debt-idCNL4N2QN127>

<sup>9</sup> William Pesek: Xi plots prudent response to Evergrande crisis, Asia Times, 4 October 2021, <https://asiatimes.com/2021/10/xi-plots-prudent-response-to-evergrande-crisis/>

<sup>10</sup> Quoted in Alexandra Stevenson, Michael Forsythe and Cao Li: China and Evergrande Ascended Together. Now One Is About to Fall, Sept. 28, 2021, <https://www.nytimes.com/2021/09/28/business/china-evergrande-economy.html>

<sup>11</sup> World Bank: China Economic Update, December 2020: From Recovery to Rebalancing: China’s Economy in 2021, Washington 2020, p.28; Desmond Lachman: Is this China’s Lehman Brothers moment? 21.09.2021, <https://thehill.com/opinion/finance/573102-is-this-chinas-lehman-brothers-moment>

10 percent of GDP. It is estimated that more than one-third of new credit to the non-financial sector is used to service the existing debt.”<sup>12</sup>

The increasing speculative activities are an unmistakable sign that China’s capitalists find it more and more difficult to generate high profit rates in the productive sector. In fact, China’s profit rate has constantly declined since the mid-1990s (See the Figure in the Appendix)

## Some Conclusions

Let us draw a few conclusions.

1. First, it is obvious that China is close to another recession. As we did already point out in our recent article on the second slump of the world economy, its industrial production has declined in the past months, it faces power cuts and its real estate sector – the fastest growing sector of its economy in the last decade – is close to bankruptcy. The Stalinist-capitalist regime must massively intervene in the economy in order to avoid a deep recession. However, additional debt will result in higher interest payments and lower growth in the next years.

2. These developments will have dramatic political consequences. Already in the last period, Beijing tightened political control. Its brutal intervention against the pro-democracy movement in Hong Kong<sup>13</sup> as well as the draconic Lockdown policy were result of the desire of the Stalinist-capitalist regime to retain undisputed domination.<sup>14</sup> Likewise, the regime clamps down on all forms

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<sup>12</sup> World Bank: China Economic Update, June 2021 : Beyond the Recovery - Charting a Green and Inclusive Growth Path, Washington 2021, p. 30

<sup>13</sup> See on this e.g. RCIT: China / Hong Kong: The Beginning of the Counterrevolution. The new National Security Law represents a full-scale assault on democratic rights by the Stalinist-Capitalist regime! 1 July 2020, <https://www.thecommunists.net/worldwide/asia/china-hong-kong-the-beginning-of-the-counterrevolution/>

<sup>14</sup> The RCIT has analysed the COVID-19 counterrevolution extensively since its beginning. Starting from 2 February 2020 we have published nearly 90 pamphlets, essays, articles and statements plus a book which are all compiled at a special sub-page on our website: <https://www.thecommunists.net/worldwide/global/collection-of-articles-on-the-2019-corona-virus/>. In particular we refer readers to the RCIT Manifesto: COVID-19: A Cover for a Major Global Counterrevolutionary Offensive. We are at a turning point in the world situation as the ruling classes provoke a war-like atmosphere in order to legitimize the build-up of chauvinist state-bonapartist regimes, 21 March 2020, <https://www.thecommunists.net/worldwide/global/covid-19-a-cover-for-a-major-global-counterrevolutionary-offensive/>. See also a new RCIT Manifesto: “Green Pass” & Compulsory Vaccinations: A New Stage in the COVID Counterrevolution. Down with the chauvinist-bonapartist police & surveillance state – defend democratic rights! No to health policy in the service of the capitalist monopolies – expand the public health sector under workers and popular control! 29 July 2021, <https://www.thecommunists.net/worldwide/global/green-pass-compulsory-vaccinations-a-new-stage-in-the-covid-counterrevolution/>; In addition, we draw attention to our book by Michael Pröbsting: The COVID-19 Global Counterrevolution: What It Is and How to Fight It. A Marxist analysis and strategy for the revolutionary struggle, RCIT Books, April 2020, <https://www.thecommunists.net/theory/the-covid-19-global-counterrevolution/>. See also our very first article on this issue by Almedina Gunić: Coronavirus: "I am not a Virus"... but WE will be the Cure! The chauvinist campaign behind the “Wuhan Coronavirus” hysteria and the revolutionary answer, 2 February 2020, <https://www.thecommunists.net/worldwide/global/wuhan-virus/>; Michael Pröbsting: The Second Wave of the COVID-19 Counterrevolution. On the ruling class strategy in the current conjuncture, its inner contradictions and the perspectives of the workers and popular resistance, 20 July 2020, <https://www.thecommunists.net/worldwide/global/the-second-wave-of-the-covid-19-counterrevolution/>; by the same author: The Police and Surveillance State in the Post-Lockdown Phase. A global review of the ruling class’s

on “unpatriotic” behavior and “extravagant” public personalities (including pop stars, social media influencer and “effeminate” so-called “sissy boys”). In order to deflect public attention from the domestic crisis, the Stalinist-capitalist regime wipes up chauvinism and threatens war against Taiwan. In the last days, it set one record after the other by sending an increasing number of fighter jets over the island. *Global Times* – the English-language mouthpiece of the regime – threatened in a recent editorial with the telling title “Time to warn Taiwan secessionists and their fomenters: war is real”. “If the US and the DPP authorities do not take the initiative to reverse the current situation, the Chinese mainland’s military punishment for “Taiwan independence” secessionist forces will eventually be triggered. Time will prove that this warning is not just a verbal threat.”<sup>15</sup> In short, China – and the same is true for other imperialist Great Powers like the U.S. – could be increasingly tempted to provoke an external crisis as all major capitalist economies face the danger of a second slump.<sup>16</sup>

3. The huge proportions of the speculative real estate sectors, the declining profit rate, the desire of the regime to help the corporations, all this demonstrates once again what the RCIT and other Marxists have explained since many years: China’s state and economy were, are and will be capitalist (as long as the working class does not overthrow the regime). Only Stalinist fools and pseudo-Trotskyists – like the so-called Spartacist tradition or forces allied with the Argentinean PO – can imagine that the country with the largest number of billionaires and the largest number of top capitalist corporations in the world could be a ... “non-capitalist” or even a “socialist” state!

4. All this is also vindicated by the well-known close relations between the “red billionaires” and the “Communist” Party. Xu Jiayin, the boss of the China Evergrande Group, is a symbol for this. He has well-known close ties with the leading group in the party. He himself admitted in a 2018 speech:

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plans of expanding the bonapartist state machinery amidst the COVID-19 crisis, 21 May 2020, <https://www.thecommunists.net/worldwide/global/police-and-surveillance-state-in-post-lockdown-phase/>; COVID-19: The Great Barrington Declaration is indeed Great! Numerous medical scientists protest against the reactionary lockdown policy, 11 October 2020, <https://www.thecommunists.net/worldwide/global/covid-19-the-great-barrington-declaration-is-indeed-great/>; Michael Pröbsting: COVID-19: The Current and Historical Roots of Bourgeois Lockdown “Socialism”. Police State and Universal Basic Income are key elements of the new version of reformist “War Socialism” of 1914, 19 December 2020, <https://www.thecommunists.net/theory/covid-19-the-current-and-historical-roots-of-bourgeois-lockdown-socialism/>. See also a number of Spanish-language articles of our Argentinean comrades: Juan Giglio: La izquierda de la “Big Pharma”, dejó de defender las libertades, 1.10.2021, <https://convergenciadecombate.blogspot.com/2021/10/la-izquierda-de-la-big-pharma-dejo-de.html>; Juan Giglio: ¿Por qué la izquierda no cuestiona las políticas de la OMS? 8.9.2021, <https://convergenciadecombate.blogspot.com/2021/09/por-que-la-izquierda-no-cuestiona-las.html>

<sup>15</sup> *Global Times*: Time to warn Taiwan secessionists and their fomenters: war is real, *Global Times* Editorial, 4 October 2021, <https://www.globaltimes.cn/page/202110/1235638.shtml>

<sup>16</sup> The RCIT has dealt on numerous occasions with the inter-imperialist rivalry of the Great Powers. See e.g. the RCIT document: World Perspectives 2021-22: Entering a Pre-Revolutionary Global Situation, 22 August 2021, <https://www.thecommunists.net/theory/world-perspectives-2021-22/>; see also: RCIT: The Meaning of the AUKUS Pact. The U.S. escalates the inter-imperialist Cold War against China and provokes the EU, 18 September 2021, <https://www.thecommunists.net/worldwide/global/the-meaning-of-the-aukus-pact/>; Russia Fires Warning Shots against UK Warship in the Black Sea. Down with Cold Warmongering! No support for any imperialist Great Power – neither UK, US nor Russia! 24 June 2021, <https://www.thecommunists.net/worldwide/global/russia-fires-warning-shots-against-uk-warship-in-black-sea/>; see also the following two pamphlets by Michael Pröbsting: “A Really Good Quarrel”. US-China Alaska Meeting: The Inter-Imperialist Cold War Continues, 23 March 2021, <https://www.thecommunists.net/worldwide/global/us-china-alaska-meeting-shows-continuation-of-inter-imperialist-cold-war/>; Servants of Two Masters. Stalinism and the New Cold War between Imperialist Great Powers in East and West, 10 July 2021, <https://www.thecommunists.net/theory/servants-of-two-masters-stalinism-and-new-cold-war/>; for more works on this issue see these sub-pages: <https://www.thecommunists.net/theory/china-russia-as-imperialist-powers/> and <https://www.thecommunists.net/worldwide/global/collection-of-articles-on-the-global-trade-war/>.

*“All I have and all that Evergrande Group has achieved were endowed by the party, the state and the whole society.”* <sup>17</sup> Desmond Shum, a well-connected Chinese businessman, describes in a recently published book (*“Red Roulette”*) the deeply corrupted world of millionaires, billionaires and politicians. <sup>18</sup> Again, only those blinded by Stalinism or Semi-Stalinism can claim that this would be “socialism”!

5. Finally, the nervous reactions of the global stock markets to the looming bankruptcy of Evergrande and other real estate giants reflect that China’s economy has become a powerful factor in world capitalism. Napoleon famously said *“China is a sleeping giant. When she awakes, the world will tremble.”* The nervous state of the global stock markets hearing the news about Evergrande and the central place of the Cold War between the Washington and Beijing in world politics fully confirm this. Still, self-proclaimed Trotskyists like the Argentina-based PTS/FT or the Brazil-based PSTU/LIT deny the imperialist character of China, claiming that Beijing would have a kind of dependent or subordinated position to the Western Great Powers. We ask these comrades: *“Would a real estate bubble in Argentina or Brazil, or in Malaysia or Indonesia cause such a jittery at Wall Street, London or Frankfurt? Certainly not! But Evergrande, Fantasia, and Sinic do!”* This demonstrates the difference between a dominant and a dominated country in the capitalist world economy, between an imperialist and a semi-colonial state! We repeat once more that it is impossible for Marxists to find a correct orientation without understanding the imperialist nature of China and without such a recognition it is impossible to take a revolutionary position in any conflict between these states, i.e. consistently opposing all of them! <sup>19</sup>

## Appendix

### China: Internal Rate of Return <sup>20</sup>

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<sup>17</sup> Quoted in Alexandra Stevenson, Michael Forsythe and Cao Li: *China and Evergrande Ascended Together*

<sup>18</sup> Desmond Shum: *Red Roulette. An Insider's Story of Wealth, Power, Corruption, and Vengeance in Today's China*, Simon & Schuster, New York 2021

<sup>19</sup> For our programmatic approach on inter-imperialist conflicts see e.g. RCIT: *Theses on Revolutionary Defeatism in Imperialist States*, 8 September 2018, <https://www.thecommunists.net/theory/theses-on-revolutionary-defeatism-in-imperialist-states/>; see also chapters XVI to XX in the above-mentioned book by Michael Pröbsting: *Anti-Imperialism in the Age of Great Power Rivalry*.

<sup>20</sup> Michael Roberts: *China at a turning point?* 5 October 2021, <https://thenextrecession.wordpress.com/2021/10/05/china-at-a-turning-point/>

China: internal rate of return

