

# [***China's Real Estate Nightmare Isn't Over Yet, Professor Warns***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6B95-1HK1-JBR6-900C-00000-00&context=1516831)

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**Highlight:** China's recovery from its property sector crisis depends largely on Xi Jinping's willingness to shoulder some of the responsibility, one analyst says.

**Body**

China's real estate crunch represents a much broader problem for the country than the fall of Evergrande Group and the question of creditor repayment.

Recovery depends on Chinese leader [*Xi Jinping*](https://www.newsweek.com/topic/xi-jinping?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships)'s willingness to give up the blame game and take the lead in patching long-term economic cracks the central government helped create, China law expert and University of Michigan professor Mary Gallagher wrote for World ***Politics*** Review this week.

In January, a Hong Kong court ordered Evergrande, the world's [*most heavily indebted developer*](https://www.newsweek.com/china-evergrande-ordered-liquidate-1864782#:~:text=Evergrande%20is%20the%20world's%20most,strong%20regulatory%20reaction%20from%20Beijing.?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships) and the face of the property sector crisis, to liquidate its assets. Evergrande was the first overleveraged megadeveloper to default on its debt, but it [*wasn't the last*](https://www.newsweek.com/china-economy-real-estate-trouble-recovery-default-1836048?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships), and the shockwaves continue to reverberate through the nation, where some 70 percent of household wealth is invested in property.

"Given the scale of the current crisis—over 1.5 million home purchasers are still waiting for residences that they have already paid Evergrande for—it's possible that local governments will still be held responsible for finding other viable real estate developers to take over the unfinished projects in their regions," Gallagher said.

However, local governments are also mired in [*debt*](https://www.newsweek.com/topic/debt?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships), both from "the same frenzy of real estate development and land sales" and from the costs of carrying out [*China*](https://www.newsweek.com/topic/china?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships)'s stringent policies and regular population-wide COVID-19 tests of the pandemic era.

Compounding the woes of cash-strapped local authorities are mandates for social security and public services such as schooling, she pointed out.

The academic acknowledged that corrupt local officials did indeed enrich themselves from corruption and overinvestment during the bubble.

However, the pressure on local governments without adequate funding from national revenues is what led them to become dependent on land speculation and real estate development during the bubble as housing prices were shot upward, she said: it provided much-needed revenue.

"Any long-term solution will require changes to the tax system, so that they have sufficient tax revenue to pay for the disproportionate amount of governance they are tasked with," Gallagher said.

Xi's [*crackdown on corruption*](https://www.newsweek.com/china-officials-arrest-anti-corruption-campaign-xi-jinping-1855609?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships) has been one of his flagship policies since he rose to power in 2013.

But now it is time for him to accept "these problems are not only rooted in the bad behavior of corrupt officials, greedy capitalists or overextended households," Gallagher said. Rather, the bad actors motivated by incentives set up by China's development model: rapidly developing land and real estate to maintain sky-high economic growth.

"Fundamental demand for new housing is expected to decline by almost 50 percent over

the next 10 years," the International Monetary Fund wrote in a report released this month, with even more dramatic drops in some localities.

The [*property*](https://www.newsweek.com/topic/property?utm_source=Synacor&utm_medium=Attnet&utm_campaign=Partnerships) sector contraction, though necessary, will hit many Chinese hard in their wallets, Gallagher pointed out. This is being compounded by the associated blow to the industries dependent on the real estate construction, from landscaping to interior design, she said.

Consumer confidence and spending can be expected to plummet, driving down the already tepid domestic demand. This will lead China to more aggressively pursue foreign markets, many of which are already wary of their yawning [*trade deficits with China*](https://asia.nikkei.com/Politics/International-relations/Xi-seeks-to-defuse-China-EU-tensions-over-trade-imbalance).

Here too, Gallagher said the central government must do more to shore up "China's underfunded and shallow welfare state."

[*Link to Image*](https://d.newsweek.com/en/full/2346769/sun-sets-over-chinas-jinshan.jpg)

**Graphic**

Sun Sets Over China's Jinshan

AFP via Getty Images

The sun sets over a construction site of a housing complex in Jinshan, a suburb of Shanghai, on October 20, 2022. The IMF has forecast demand for housing in China could drop further by as much as 50 percent over the next decade.

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