

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Chinese Real Estate and the Next Financial Crisis

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The 2008 Financial Crisis and Great Recession started with the mortgage crisis in the USA. Subprime mortgages exploded over the first decade of the 21<sup>st</sup> century. When “subprime borrowers” were unable to pay and started to default the results in the financial system brought down banks and investment houses. The crisis spread across the globe. Today we are concerned about Chinese real estate and the next financial crisis.

### Evergrande and the Chinese Debt Crisis

*The Japan Times* has a thoughtful piece about how [China’s economy is threatened](#) about the debt problems of Evergrande, a huge real estate developer that is in trouble.

*Every once in a while a company grows so big and messy that governments fear what would happen to the broader economy if it were to fail. In China, Evergrande, a sprawling real estate developer, is that company. Evergrande has the distinction of being the world’s most debt-saddled property developer and has been on life support for months. A steady drumbeat of bad news in the recent weeks has accelerated what many experts warn is inevitable: failure.*

Evergrande, like many Chinese companies, relied on heavy borrowing, the belief that the Chinese economy would steadily grow, and the belief that the government would bail them out if they got in trouble. As China’s debt has grown, the government is cracking down on this behavior. Today it is very possible that Evergrande will not get the sort of bailout that it needs. The ripple effects of this company going under could be substantial for the Chinese economy and for foreign investors who have profited from lending to Chinese companies.

*Panic from investors and homebuyers could spill over into the property market and hit prices, affecting household wealth and confidence. It could also shake global financial markets and make it harder for other Chinese companies to continue to finance their businesses with foreign investment. Writing in *The Financial Times* last week, billionaire investor George Soros warned that an Evergrande default could cause China’s economy to crash.*

*Chen Zhiwu, a professor of finance at the University of Hong Kong, said a failure could result in a credit crunch for the entire economy as financial institutions become more risk averse. An Evergrande failure, he added, was “not good news to the financial system or the overall economy.”*

### Debt and the Future of the Chinese Economy

*Fortune* writes that [debt will be a bigger problem than demographics](#) for the Chinese economy going forward. They note that as China ages there will be fewer workers to pay off more and more debt.

*Total debt in China represents at least 280% of China's GDP, according to government figures. If China's future GDP growth requires the same level of credit growth as it has in the past, then China's debt-to-GDP ratio must rise to somewhere between 400% and 500%: an unprecedented level of debt, especially for a developing country.*

*Adjusting for a declining working population makes the numbers even worse. As the working population declines by 0.5% to 0.6% a year, the amount of debt per worker rises by an additional 2% to 3% of GDP every year.*

Their point is that China's debt and growth model is no longer tenable and the time they have to fix the situation is shrinking as the number of workers declines.

### **Chinese Real Estate and the Next Financial Crisis**

Every financial crisis has two aspects, the basic problem or problems at its core and the single issue that ignites the crisis. Rising inflation made the ever-increasing debt in the housing market in the USA unbearable. The collapse of a giant real estate developer in China could likewise be the last straw for an over-extended real estate market in China. Investors have lots of things to worry about including the [persistence of Covid](#), [extreme weather](#), the [political dangers of investing in China](#), and now, an increasingly unstable Chinese real estate market who collapse could spread economic chaos far and wide.

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