Post #24 on China's economic crisis

China's real estate crisis is entering its acute phase (economic crisis).

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China hit its demographic wall in 2020 without the world noticing. The consequences can be seen in the form of China's real estate crisis, akin to Japan's in the 1990s. The collapse of Evergrande in 2021[1] and of Country Garden[2] in 2023, China's largest property developers were warning signs of deep troubles in the real estate market, which due to its scale, will likely impact the global economy on an unprecedented scale.

The real estate crisis in China is of unprecedented scale and has been brewing under the radar since 2020. Most economists would argue that the worst of the pain has already occurred with the collapse of China's largest property developer, Country Garden, in 2023. However, I believe this is far from being the reality of the situation, which is akin to a slow-moving train wreck. This post is a rare warning that the acute phase of the crisis seems to be unfolding in the coming months.

1. The ongoing real estate crisis.

China has been growing at extraordinary rates in the last decade, similarly to Japan in the 1980s and Korea in the 1990s. The sheer size and speed of the transformation of a rural country to an industrial powerhouse was always bound to create a certain degree of poorly allocated investments. Stories abound of completely built (but empty) cities, and roads and trains to nowhere.

Until 2020, these investments (in extra capacity) were not a big problem as the population would eventually use the infrastructure and fill the cities. Now, however this is not the case anymore. As I've warned in my book "Economic Cycles, Debt and Demographics"[3], from 2020 onwards, China was going to hit a demographic wall, and its demographic dividend would disappear. The collapse of Evergrande in 2021 marked the official start of the real estate crisis and the beginning of a deep restructuring of their economy that will be a decades long ordeal.

Additionally, as I discussed in a previous article[4], China's expansion in industrial capacity rose together with a massive expansion in private debt, particularly in the last decade. Even though China's debt is internal, its debt to GDP level is very high, even by highly indebted developed countries standards, which could mean that a painful restructuring could occur.

The "cherry on the cake" comes when looking at a broader context, as Asia is currently at a dangerous junction as China hits a demographic wall, Japan starts its second demographic bust and South Korea starts its demographic decline. With geopolitical tensions on the rise, all the elements are there for the emergence of a second Asia crisis, but perhaps bigger than the previous one in 1998.

Chinese authorities are aware of these challenges and since 2021 have been trying to ameliorate the real estate crisis by increasing their reliance on exports, in particular of higher technology products, such as EVs and green energy technologies.

[1] https://www.npr.org/2024/01/30/1227554424/evergrande-china-real-estate-economy-property-collapse
[2] https://www.nytimes.com/2023/09/04/business/china-country-garden-debt-crisis.html
[3] https://www.amazon.com/Economic-Cycles-Debt-Demographics-macroeconomic/dp/B09FSCGWRP
[4] https://phinancetechnologies.com/content/2022-08-26%20LinkedIn%20Post-7%20-%20China.pdf

2. The crisis goes mainstream

Even though China's real estate crisis is openly acknowledged, it is met with an emotional content of "it's a nothing burger". The argument is, if the real estate crisis was that bad, why hasn't a visible crisis emerged yet?

As an example, a recent article from the BBC[5] (published in March of 2026) lays out China's problems quite accurately if one understands the magnitude of the underlying problem and is able to read between the lines of the article. China's real estate crisis is larger than the subprime crisis in the US in 2008 or Japan's real estate crisis in the 1990s which led to systemic economic crisis that ultimately took years to digest after its acute phase as the drop in real estate values led to the discovery of underlying demand. In China, the price mechanism has not worked so far, leaving the potential for a large reckoning "sometime in the future".

The collapse of Evergrande in 2021 and Country Garden in 2023 should have been the triggers for the unravelling, but the situation was managed through government intervention and an attempt to export its way out of trouble.

In Q4 of 2025, China's the growth rate private fixed asset investment dropped below zero[6] for the first time in its history, with the exception of the brief period of the Covid-19 lockdowns in 2020. This was an early sign that China's real estate crisis might be finally impacting the rest of the economy.

However, in early 2026, the Chinese government kept the "ball rolling" by targeting exports and providing stimulus to the primary and secondary industries, the "old tech" sectors of the economy[7]. A quick AI query provides the mainstream view of China's economic situation:

"*China's economy is navigating a managed slowdown in 2026, with GDP growth officially targeted at 4.5%–5.0%. Driven by high-tech manufacturing, green energy exports, and government stimulus, growth reached 5% in Q1 2026, though it faces headwinds from a sluggish property market, low domestic consumption, and geopolitical risks.*" – Google Gemini AI.

It appears that the Chinese government has the situation under control. However, when looking under the hood, the structural cracks are deepening, as we'll discuss below.

3. Peak China?

The narrative of China's economic might and resiliency is starting to be questioned. Economies of scale can provide an advantage when markets are growing, but represent a large risk once demand is not there due to a change in status quo (trade wars and lack of internal demand). At that point, scale becomes a liability as all the installed capacity and supply chains unwind.

One of the tell-tail signs that the Chinese economy has not been living up to its "economic miracle" since 2020 is that it has been diverging substantially relative to the US. Figure 1 shows the times series comparison of nominal GDP (in USD) for China, the US and Europe. The chart refers to annualised quarterly GDP in USD, using IMF data.

The pandemic lockdown in 2020 led to an unprecedented drop in nominal GPD across the three major economic areas, as shown in Figure 1. From 2021 onwards these economies rebounded strongly, particularly in China that became the factory for the globe. However, when comparing GDP growth denominated in USD, China's GDP in 2025 was at the same level as at 2020. China's growth in international units (USD) stagnated while nominal GDP in the US steamed ahead, driven by the inflation surge from 2021 to 2024.

While China's GDP was about 80% of US GDP in 2020, it was only about 60% of US GDP in 2025. This goes against the established "fact" that China's economy is growing faster than the US and that if not already, then soon, China will surpass the US as the largest economy in the world.

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5 https://www.bbc.com/news/articles/cqxddwl93qjo
6 https://www.linkedin.com/posts/carlos-alegria-b68878a_china-risk-of-economic-slowdown-activity-7394469310699597824-vq-P
7 https://www.cnbc.com/2026/04/16/china-gdp-growth-first-quarter-exports-property-retail-sales-iran-war.html

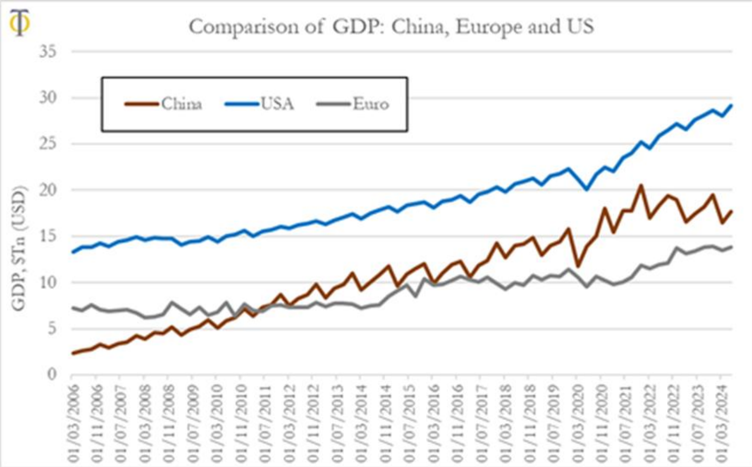

Figure 1 – Quarterly nominal GDP (in USD) for China, Europe and the US from 2006 to-2025. Source: IMF

China still has a relatively low GDP per capita relative the US and Europe and consequently a large potential for becoming the largest economic region of the world at some point in the future, however, the relative stagnation from 2020 onwards is a reflection of its underlying internal problems which stem from its declining demographics (lower consumer demand), over investment in real estate and infrastructure and industrial capacity, most of which was financed by internal debt.

4. Acute phase of the real estate crisis is emerging (economic crisis).

The "management" of the real estate crisis by Chinese authorities only delayed the necessary economic restructuring, as throwing good money after bad towards a broken model, only increases the size of the problem once it all unravels. But when will it unravel?

In Q4 of 2025 it appeared that China's economy was finally cracking, with the yearly growth rate of fixed asset investment falling below 0%. However, the latest economic news[8] for the economic performance in Q1-2026 was reassuring for most economists, which believed that the temporary slowdown was countered by government stimulus.

We believe however, that the latest government stimulus was a desperate last resort attempt to continue to "extend and pretend" its structural economic problems. A tell tail sign is the output of China's construction sector output, which tells a different story. Figure 2 shows the yearly growth rate in the output value of the construction sector, where the 4-quarter average output is also shown to smoothen the seasonal effects.

The construction sector has been kept afloat by the expansion of export capacity, in particular in China's growing high-end products of which one example is the export of automobiles which boomed since 2022. Building export-related capacity implies construction of all the infrastructure that allow the flow of those exports, including the trains and port facilities.

However, as shown in Figure 2 since Q4-2025 the construction sector output started to decline, which accelerated in Q1 of 2026, at a yearly rate of close to -8%. While the slowdown in the output value of the construction sector is intimately related to the slowdown in the real estate sector, the latest datapoints are a sign that the contagion effects have reached the rest of the economy and likely the acute phase of the crisis is starting.

[8] https://www.cnbc.com/2026/04/16/china-gdp-growth-first-quarter-exports-property-retail-sales-iran-war.html

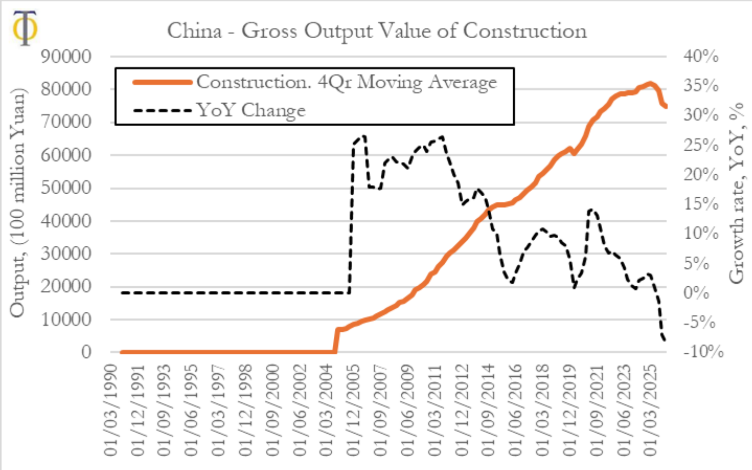

Figure 2 - China - Output value of the construction sector. Left scale: 12m moving average. Right Scale: Growth rate. Source: National Bureau of Statistics, Phinance Technologies computations

5. Death by a thousand cuts

China attempted to manage its real estate crisis by using the age-old strategy of "extend and pretend", with the goal of maintaining economic growth and social stability at all costs. Instead of restructuring its economic model, since 2020 Chinese authorities focused on exports, taking advantage of its economies of scale and installed capacity, in similarity to Japan in the 1990s. However, due to China's sheer size, the perpetuation of its economic (and social) model to the world is a systemic risk for "free" countries around the world. In particular, the consumer of last resort was the US. The "Trump" trade tariffs on the 2nd of April 2025 put a wrench in China's model as I explain in a previous post[9].

China's economic crisis is like a slow-motion train wreck which is similar to a series of dominoes falling on each other. The main underlying factor (the elephant in the room) that led to the crisis was China hitting its demographic wall, which started to manifest itself in 2015 as weak internal consumer demand and which intensified from 2020 onwards.

Since 2020, China was on shaky grounds and ripe for the dominoes to fall. The acute stage of the crisis was held back by increasing exports of higher value-added products (high tech such as EVs, smart phones, etc) and by keeping real estate projects and construction going (in industrial capacity such as ports, railways and roads and internationally through the belt and road initiative). This led to increased internal debt, more over-capacity and survival of zombie giants.

The Trump trade tariffs were like the first domino to be pushed over. The second domino was the loss of control over the Panama Canal. The third domino was the loss of cheap energy sources from Venezuela and Iran. The remaining dominoes will likely fall on their own accord as China's economic crisis unfolds reaching its acute phase.

This set the stage for the recent Trump visit to China from the 13 to 15 May 2026 and in my opinion, the reason for the warm reception to the US delegation.

> During the opening remarks of the talks[10], Xi said that "the whole world is watching our meeting. Currently, a transformation not seen in a century is accelerating across the globe, and the international situation is fluid and turbulent".

[9] Direct Link: https://phinancetechnologies.com/content/2025-4-13%20-%20Post-21%20-%20The%20impact%20of%20the%20US%20trade%20tariffs.pdf

[10] https://en.wikipedia.org/wiki/2026_state_visit_by_Donald_Trump_to_China

> He added asking whether China and the US could escape the Thucydides trap and create a "new paradigm of relations". He congratulated the US on its 250th anniversary and added that China and the US "should be partners not rivals"

China's economy is on the verge of a serious economic crisis that will lead to a restricting of its economic model. It will be a decade long ordeal, as was the case for Japan's two lost decades in the 1990s. China will need the cooperation of the rest of the world, in particular the US, in order to withstand the impact of the acute phase of the crisis without major social unrest. Due to China's size and its scale on global supply chains, it's economic implosion could lead to a global crisis, akin to the great depression of the 1930s. This is the "Thucydides trap" that President Xi was alluding to.

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Our report on the outlook for the China's economy in 2026[11] explains the scope and scale of China's problems, and why China is on the verge of entering an acute stage of its crisis. Due to China's size, the spillovers across the globe would be profound.

[11] https://phinancetechnologies.com/Product_ChinaEconomy_Outlook2026.htm