The Evergrande Crisis in China

What is the issue?

- China's construction giant, the Evergrande Group, recently ran out of money, had no options to get more loans or overdrafts. Click here to know more.
- The political and social outlook of the Communist Party of China (CPC) has had a significant influence in such recent crises and changes.

What led to the Evergrande crisis?

- In January 2021, regulators in China changed lending regulations.
- It came with an aim to strengthen the anti-monopoly push and prevent disorderly expansion of capital.
- The moves brought in more curbs in lending to big private businesses.
- While this was a delayed structural reform, it also marked the beginning of the end for Evergrande.
- Evergrande has the distinction of being the world's most debt-saddled property developer.
- Evergrande is faced with more than $300 billion in debt, hundreds of unfinished residential buildings and angry suppliers who have shut down construction sites.

What are the implications?

- At least since 2014, China's housing sector has been labelled as a "bubble waiting to burst".
- The Evergrande crisis is a significant recent development that has struck the country's ruling elites.
- China consumes 50% of the global steel and cement production. So the Evergrande crisis does have global implications.

What led to China's rise and what is the present condition?

- China's spectacular rise thus far is based on **two pillars of exports and infrastructure.**
- There is a realisation now that this has led to "unbalanced and inadequate growth."
- Recently, exports have slowed down and are not as profitable as before.
- The infrastructure sector, on the other hand, is at the centre of the guanxi (social network) induced corruption and cronyism.
- This is adding to the country's debt problem.
- Chinese youth are angry as jobs are hard to find, and recently, there have been popular protests targeting several icons.

What is the CPC's political and social outlook's influence?

- China's President Xi Jinping has spoken of a need for course correction right since 2012.
- His party felt expensive houses would make the middle class angry and it may have cascading implications for the party's credibility.

- Also, the ostentatious lifestyle of the Evergrande boss is also something the party wants to distance itself from.
- The party is now more aligned to the Common prosperity approach.

- It proposes working together and ultimately achieving common prosperity for everyone.
- For the same reason, Alibaba will invest $15.5 billion in corporate social responsibility under the party's guidance.
- There is also a strong influence of China's new left thinkers.
- They have for long argued that China is moving from being a market economy to a market society where corruption and cronyism are rampant and where distribution of social goods takes a back seat.
- In essence, the Evergrande crisis is one that is actually a party-engineered crisis to assert Chinese centrality for the world economy.

What caution should China take?

- China needs companies such as Evergrande to operate.
- Because the country has ambitious twin targets of expanding urbanisation and increasing domestic consumption.
- Today, China's construction sector directly accounts for 7% and along with allied industries accounts for close to 17% of the country's GDP.
- So, the role of the construction sector is critical in terms of employment, wealth creation, contribution to tax, and the overall expansion of the urban middle class.
- The CPC already finds it hard enough to make the Chinese middle class spend its money since it is a savings driven class.
- Any sign of contraction may further drive the middle class away from consumption and that may indeed be a bad sign for the economy.

Reference

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