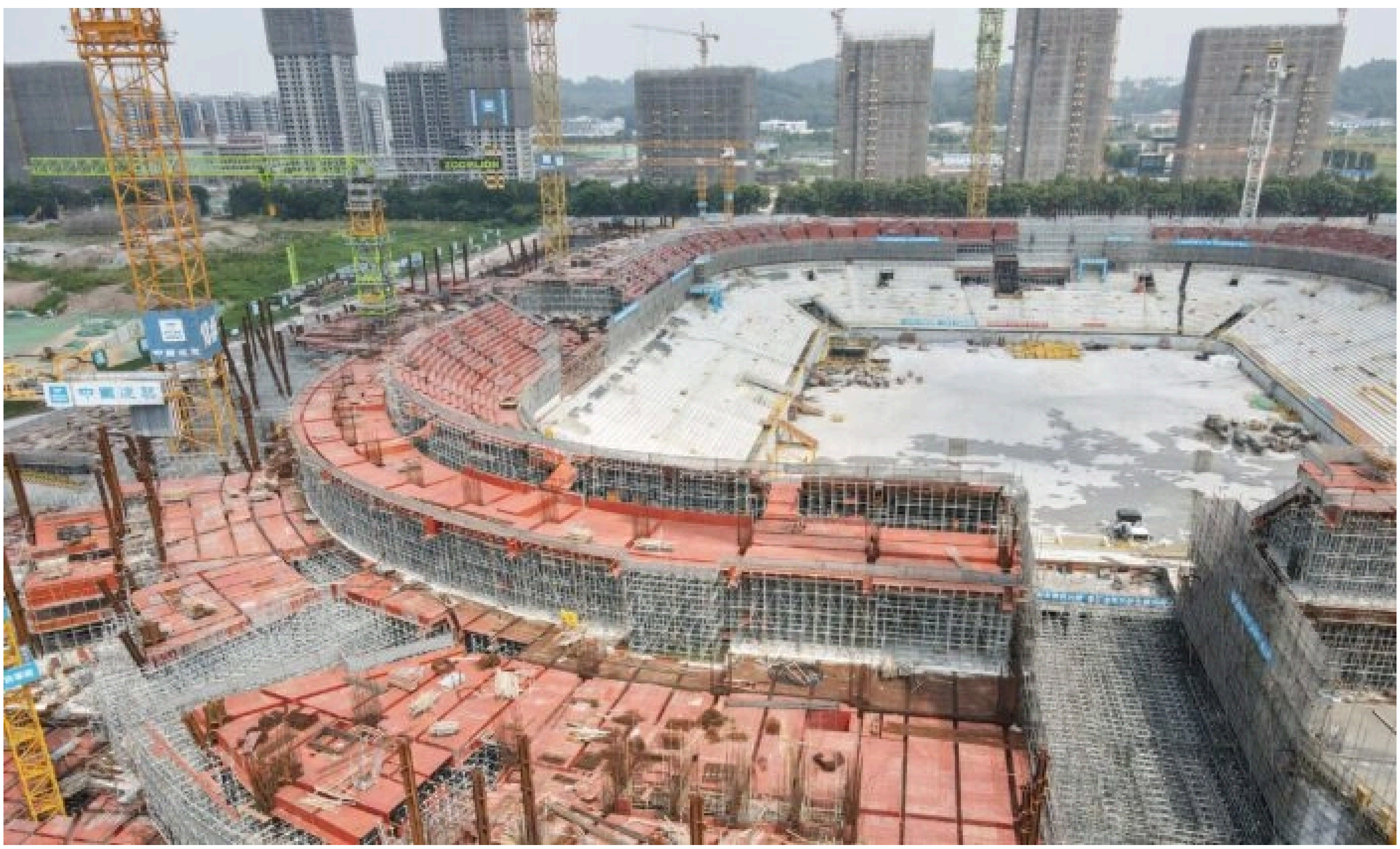
Local Governments in China Face Huge Problems

Adding to China's increasingly intense economic and financial problems is how local governments face insolvency and a dangerous public backlash.



Under-construction Guangzhou Evergrande football stadium in China's southern Guangdong Province on Sept. 17, 2021. STR/AFP/Getty Images

By Milton Ezrati

12/20/2024 Updated: 12/20/2024

Commentary

If China did not have big enough economic troubles, the plight of its local governments has added to them. Like much else in China, the exuberance accompanying the years of rapid growth created today's problems.

In the earlier good times, land sales for explosive property development fueled a flood of revenues for local governments, and this flood inspired a debt-dependent spending boom, often on projects of dubious economic aspect. Now, amid a property crisis and significantly slower overall growth, land sales and revenue flows have ebbed, leaving local governments unable to meet their financial obligations and, in some cases, unable even to provide basic public services. The ensuing cutbacks have presented a dangerous prospect of social unrest but, at the very least, yet another hurdle in the way of Beijing's efforts to restore the economy's former momentum.

The fiscal-financial situation facing local governments can only be described as dire. The debt they built up during the good years is hard to measure because much of it is connected to complex arrangements that take it off government balance sheets. It is, however, estimated at a minimum of the dollar equivalent of $2 trillion, with some estimates ranging as high as $7–11 trillion. As much as $800 billion is estimated to be at risk of default. According to analyses conducted by Victor Shih, professor of political science at the University of California, San Diego, debt servicing obligations alone amount, in some cases, to 125 percent of local government revenues.

Faced with this intense financial squeeze, many local governments have had to cut back on public services. Wuhan, Dalian, and Guangzhou have made cuts in medical benefits and other health care services. Other localities have delayed paying the wages of civil servants and the fees owed to contractors for things such as road maintenance and cleaning.

Not surprisingly, public protests have erupted. In the city of Shanwei in late October, doctors and nurses interrupted their workday to gather in the hospital's public space and complain about a loss of pay and bonuses. Elsewhere, retirees have protested delays in their pension payments. So far, in 2024, China has seen some 1,200 such protests about unpaid wages or other forms of compensation. There were some 1,600 such protests in 2023. Both figures are way up from the slightly more than 700 such protests averaged each year in 2021 and 2022.

A few weeks ago, Beijing stepped in to mitigate these pressures. As readers of this column know, the national authorities put forth a program to swap the equivalent of $1.4 trillion in new bonds underwritten by Beijing for some of this local government debt. The new bonds cannot lessen the ultimate financial burden on these local governments. Still, they marginally reduce the interest on the debt and, by extending maturities, postpone the immediate burden of repayment. That relief should enable some of these localities to meet the demands for back wages and payments to contractors. Otherwise, all they do is delay the day of reckoning. Even considering this modest ambition, the program falls short of the need. To some extent, Beijing has engineered the plan with this inadequacy in mind. According to thinking in Zhongnanhai, more relief would only invite more of the profligate borrowing that created the problems in the first place.

However little or much help the Chinese Communist Party has offered, and whatever the reasoning behind it, there can be no mistaking how these local financial problems add to Beijing's difficulties in restoring the economy's growth momentum. These debt difficulties certainly add to the unwelcome fallout from the property crisis, the declines in Chinese household wealth and how that has depressed consumer spending, and how, in such uncertain circumstances, private businesses in China have grown reluctant to hire and invest in expansion or modernization. And coming soon are President-elect Donald Trump's planned tariffs on Chinese goods entering the United States. It will take a herculean effort to overcome these impediments to growth, and it will take a long time.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

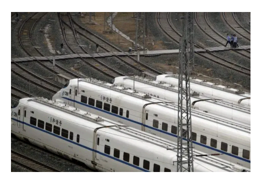
Milton Ezrati
Author

Milton Ezrati is a contributing editor at The National Interest, an affiliate of the Center for the Study of Human Capital at the University at Buffalo (SUNY), and chief economist for Vested, a New York-based communications firm. Before joining Vested, he served as chief market strategist and economist for Lord, Abbett & Co. He also writes frequently for City Journal and blogs regularly for Forbes. His latest book is "Thirty Tomorrows: The Next Three Decades of Globalization, Demographics, and How We Will Live."

Author’s Selected Articles

CCP’s Transformation of Hong Kong in Its Own Image Is Becoming More Apparent
Dec 12, 2024

China’s High-Speed Rail System: Exciting, Headline Grabbing, and a Mistake
Dec 04, 2024



China Issues Dollar Bonds in Saudi Arabia—A Strange Move
Nov 29, 2024

Impact of Trump’s Upcoming China Tariffs Will Depend on Currency Reaction
Nov 25, 2024