

Discussion of:

**A Tale of Two Countries
The Real Estate Crises in 1990s Japan
and Contemporary China**

Kenneth Rogoff & Yuanchen Yang

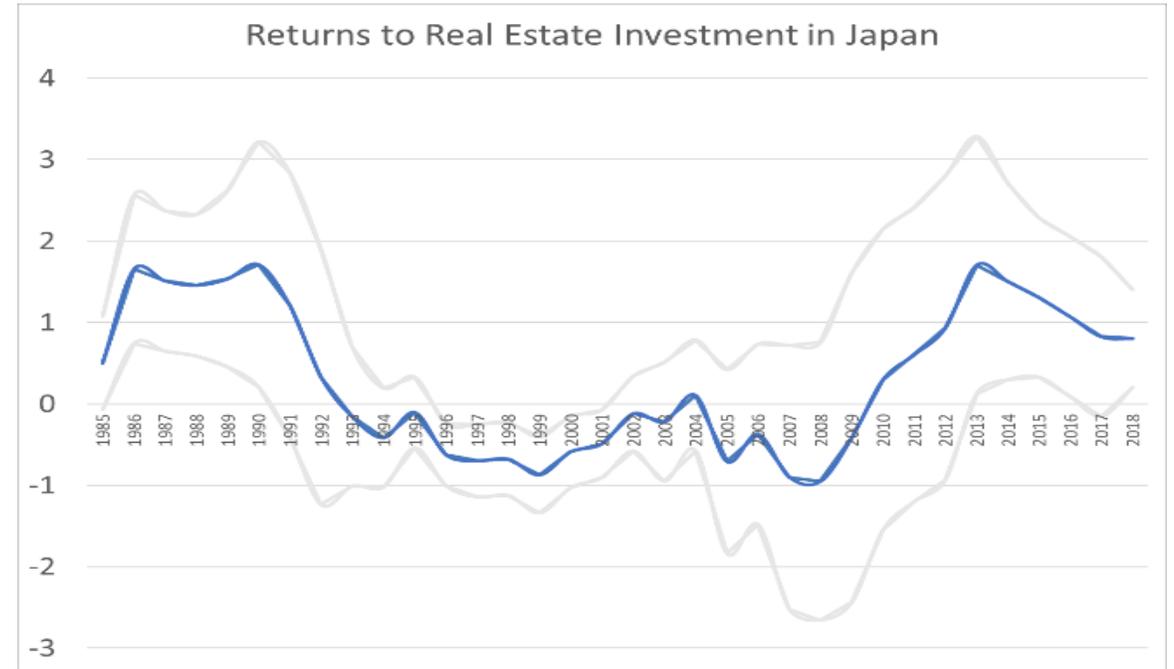
Amir Kermani
UC Berkeley & NBER

Brookings Papers on Economic Activity, March 2026

A Tale of Two Countries - Overview

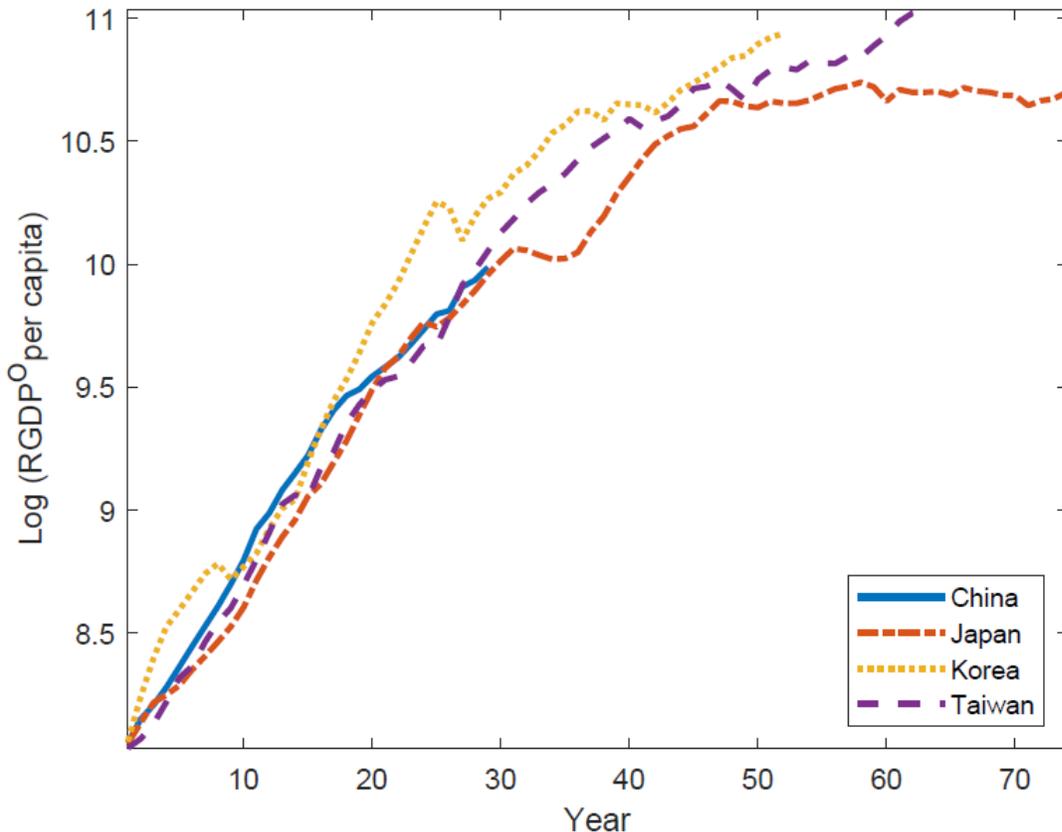
- Put together unique Prefecture City-Level Dataset for China (2000-2024, 298 prefectures) and Japan (1955-2022, 47 prefectures)
- Japan's case has the advantage of observing 3 decades since the beginning of the housing downturn.
- Use the cross-section of cities to document the importance of the housing sector for the real economy through three channels in both countries:
 - Investment channel
 - Consumption channel
 - Amplification through sentiment channel (/asymmetry results)

Empirical results in one graph



- Rolling window regression of regional GDP on (initial) Real Estate Investment/GDP
- 1 sd higher RE Inv/ GDP was associated with ~2-3% higher GDP growth. This turned to negative in the most recent period.
- Japan's case suggests these regions can experience lower growth for another decade.
- Consumption channel: 20% decline in house prices associated with 2% lower GDP.

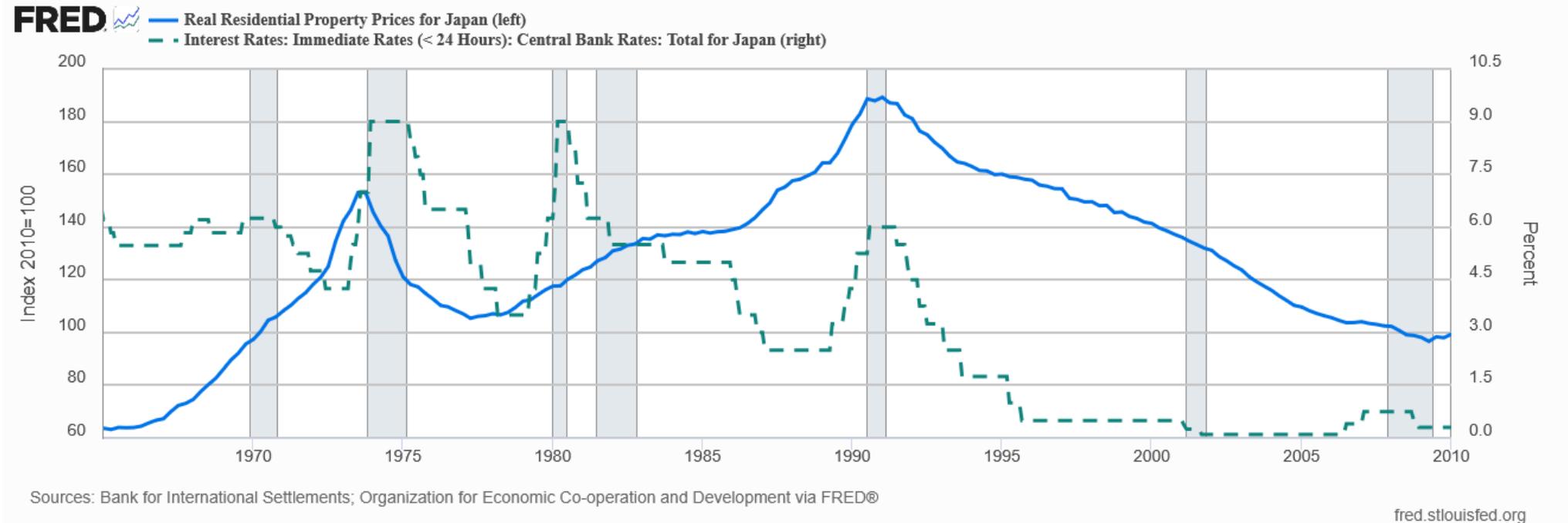
Warm up: Is China just another East Asian growth miracle story?



Source: Fern´andez-Villaverde, Ohanian and Lee 2026

- Year 0 is when each country reached the per capita income level of Japan in 1950.
 - China in 1995, Korea in 1972, and Taiwan in 1961
- The main pattern in all of these growth miracles is: TFP catch-up, capital accumulation followed by some overinvestment, and ultimately a crisis that reveals capital misallocation and ends the era of rapid growth.
 - “Mid-life” crisis of East Asian miracles?
- Main question: To what extent are the forces behind Japan’s late-1980s housing bubble present in China today?
 - Secondary question: Do crises in these countries put them on a different path, or do they return them to their “predetermined” growth path after deviations caused by manipulating market forces?

Two tales of Japan's housing boom and bust



[Fred](#)

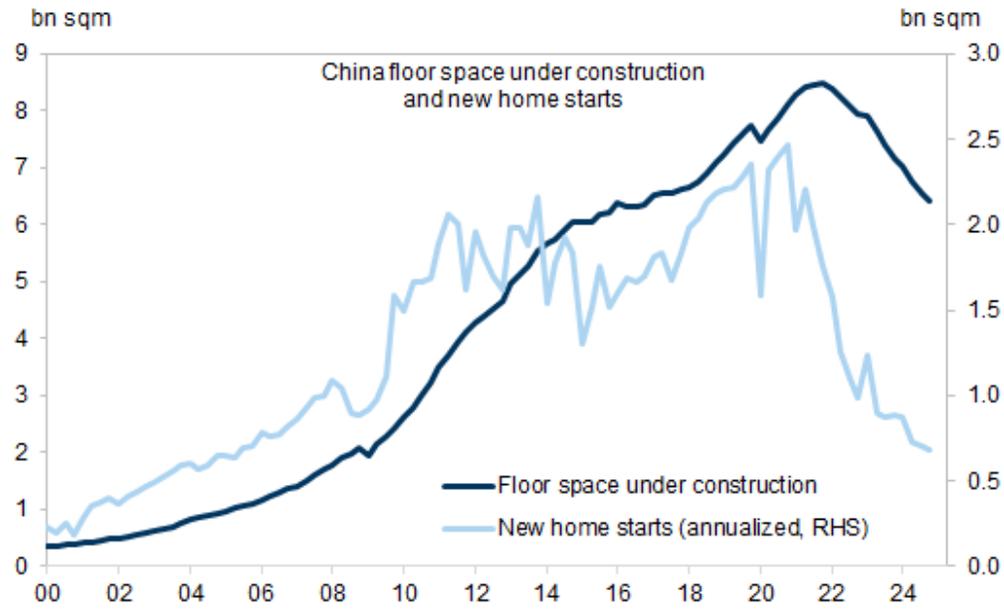
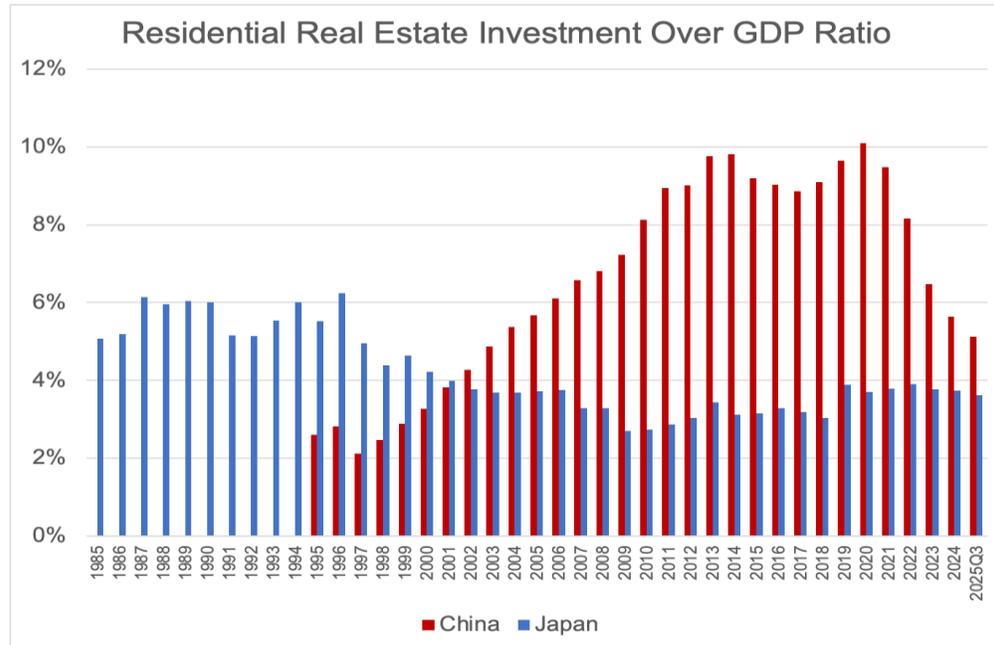
1970s housing boom-bust-boom:

- Rapid rise of urbanization, Middle income growth
- Accommodative Monetary Policy perhaps accelerated the growth.
- Fast growth ended by tightening monetary policy due to 73 oil embargo
- Monetary tightening is particularly effective when housing is overvalued (see Biljanovska et al. 2026)

1980-2010 housing boom-bust:

- Japan “entered” Plaza Accord → lost exports as the main engine of growth
- Yen appreciated, then BoJ cut rates from 5% to 2.5% to fight a possible recession → both shocks made housing a perfect asset for speculation.
- BoJ responded to the asset price bubble.
- First lost the export engine then lost domestic investment engine + aging, zombie loans → lost decade(s).

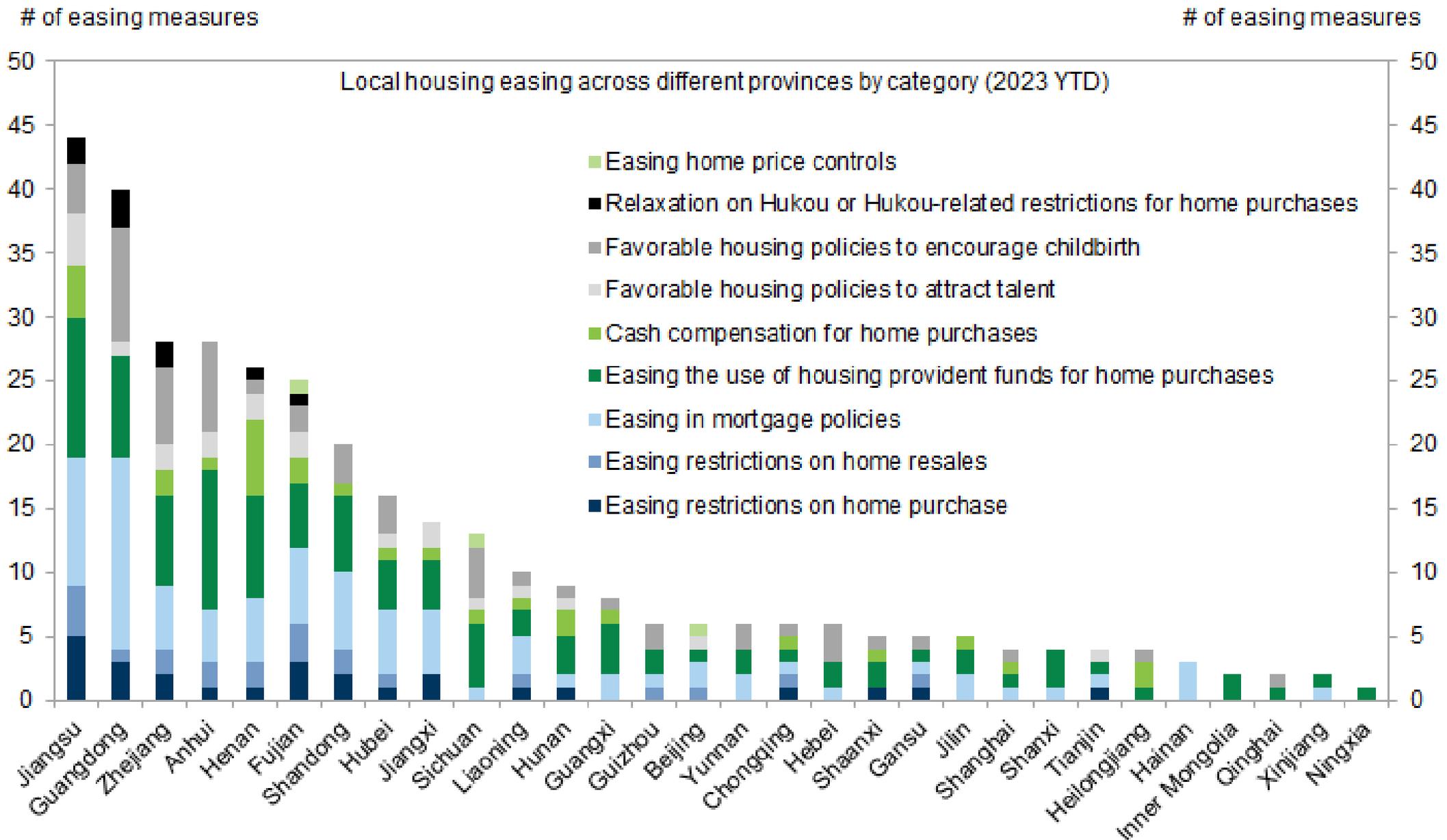
How severe is the decline of housing in China?



- New home starts are down by almost 80%
 - And that is the most important factor for local government revenues.
 - 25-30 mil new houses vs. < 8 mil
- This will show up in total construction with some delay.
- Real estate investment is already down from 10% of GDP to 5% of GDP.
 - Even from an accounting point of view, housing downturn reduced GDP growth by 2-3% (compared to 2018).

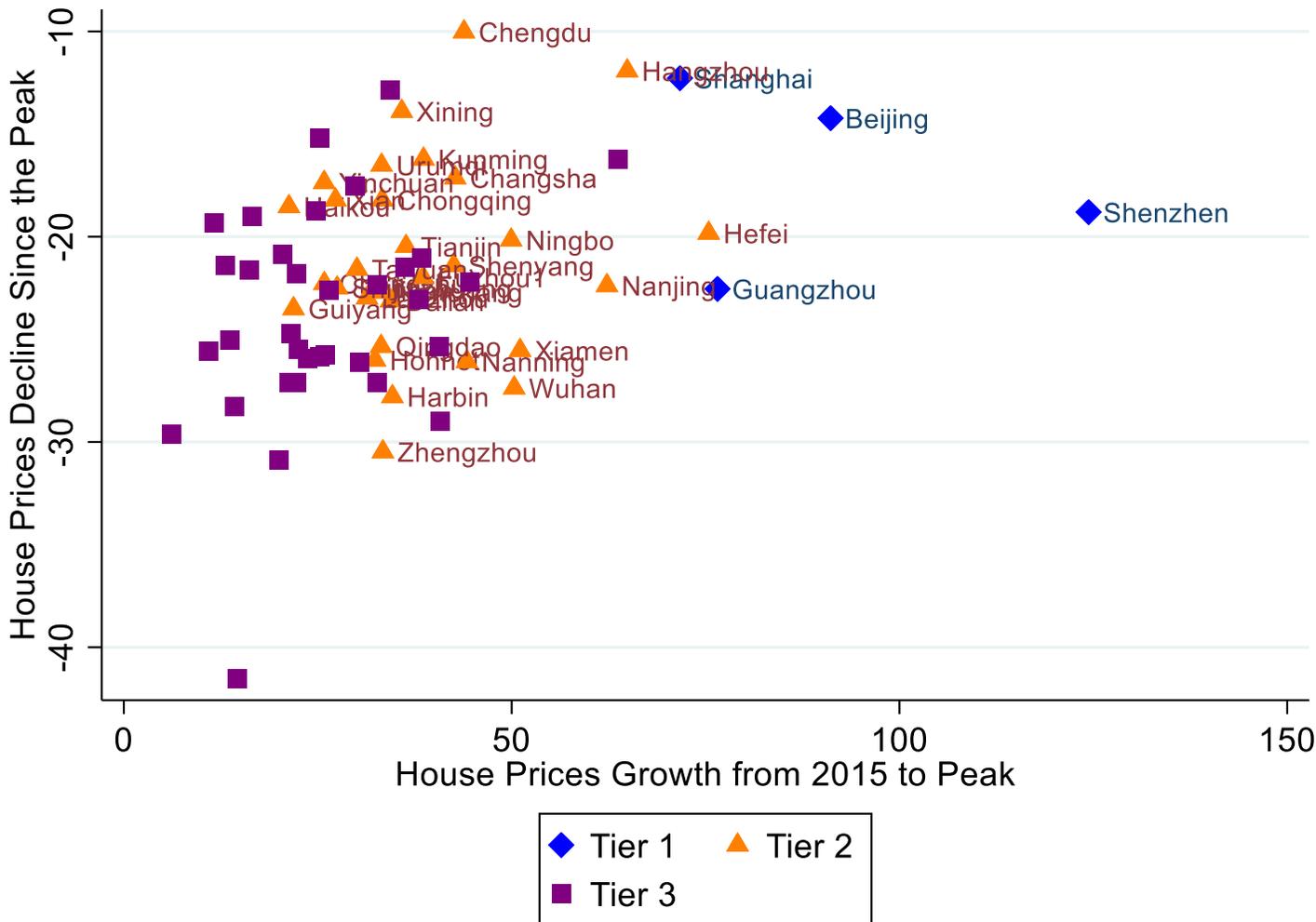
What triggered the downturn?

- Before 2020: “Houses are for living, not for speculation”, Xi Jinping Dec 16
 - Hukou-related restrictions
 - Higher down payment requirements and higher interest rates for second homes
 - Pre-sale controls, price controls, increase land supply (fuel to the fire?)
- 2020: Three red lines
 - Overall leverage < 70%, Net debt-to-equity ratio \leq 100%, Cash-to-short-term debt ratio \geq 1
- 2021-afterward: Default of Evergrande+ COVID \rightarrow loss of confidence
- Since 2023: opposite of the policies before 2020



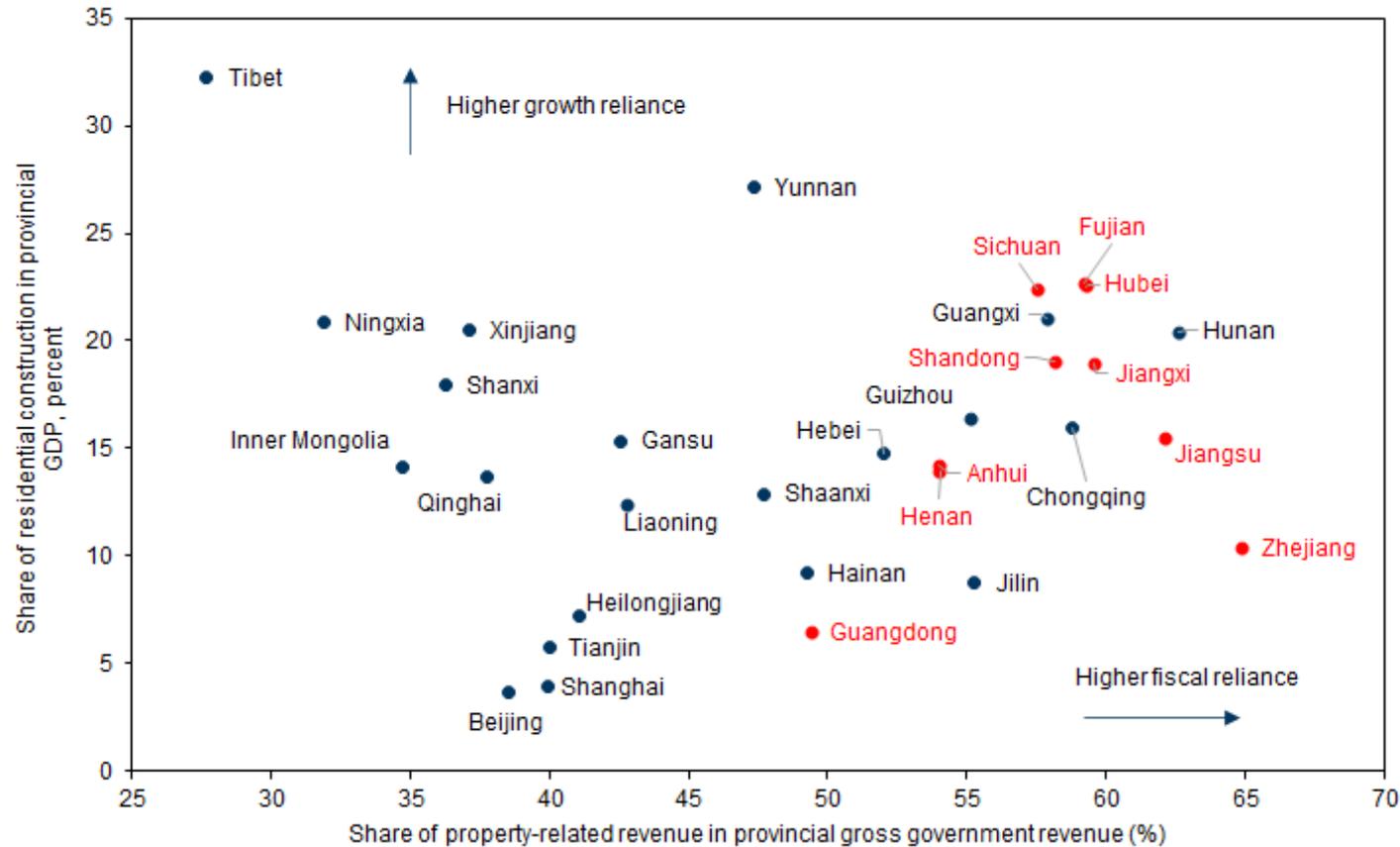
• Source: GS report

Which tale of housing boom-bust is the Chinese one?



- Cities that experienced the largest increase in house prices are not necessarily the ones that experienced the most decline.
- Tier 1 cities downturn started during COVID whereas almost half of Tier 2 and Tier 3 cities reached their peak before COVID.

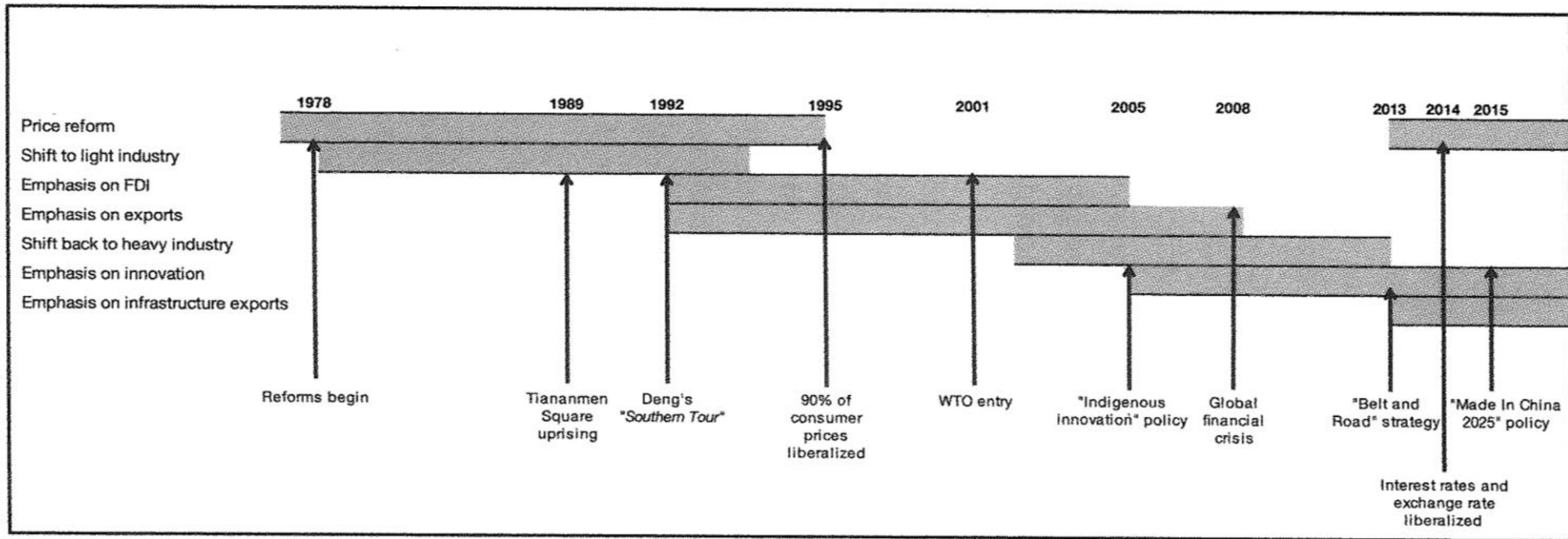
But housing is/was much more than housing in China



- Land sales were the most important source of revenue for most local governments.
- It played an (/the most) important role in aligning the incentives of the central government, local governments, private sector and households.
 - It turned local governors to investment bankers.
- Hard to imagine how budgetary discipline yardsticks for promotion can align the incentives of the private sector and the government.

Source: GS report, red dots red indicate provinces with more property easing measures

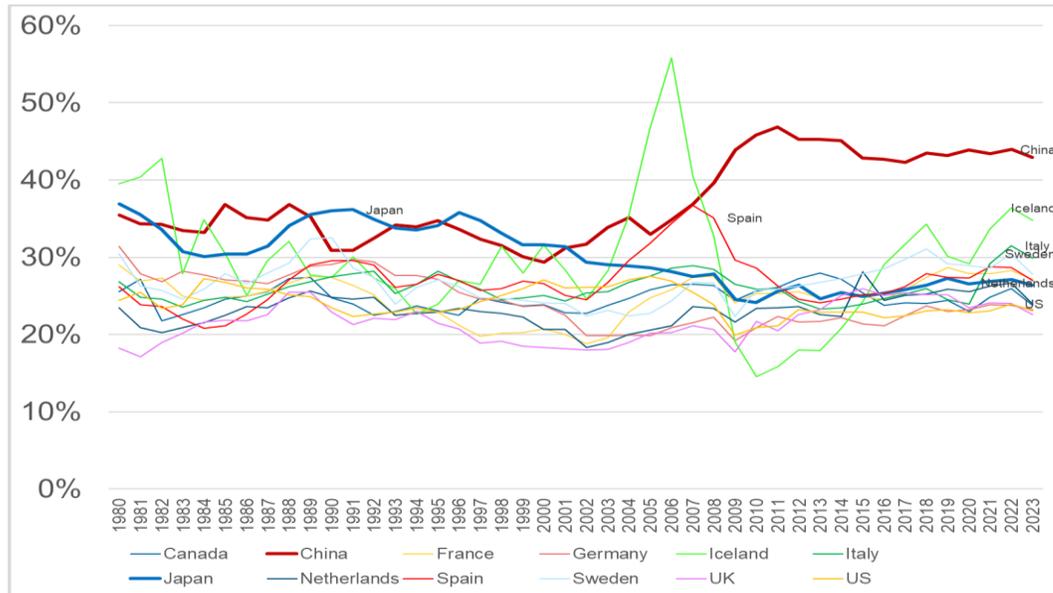
But the main engine of growth in China has changed several times in the last decades



Source: Kroeber, 2020

- At least since 2015, it seems that China has been thinking of a new engine of growth and that was “Made in China 2025”/high-tech manufacturing.

Made in China: A poisonous cure



- Promotion of (high-tech/green technology) manufacturing resulted in almost no significant decline in aggregate investment as well as historically high trade-surplus (~\$1.2 Tr)

- But a bifurcation of the economy

- China installed more than half of global new industrial robots installation (~300k).

- Most importantly: No trickle down

- If anything there is decline in manufacturing jobs thanks to massive automation.
- Lowest wage growth in decades, 7.5m fewer manufacturing jobs.



Can China stimulating domestic consumption?

Figure 1. Household Savings Rate
(Percent of GDP)

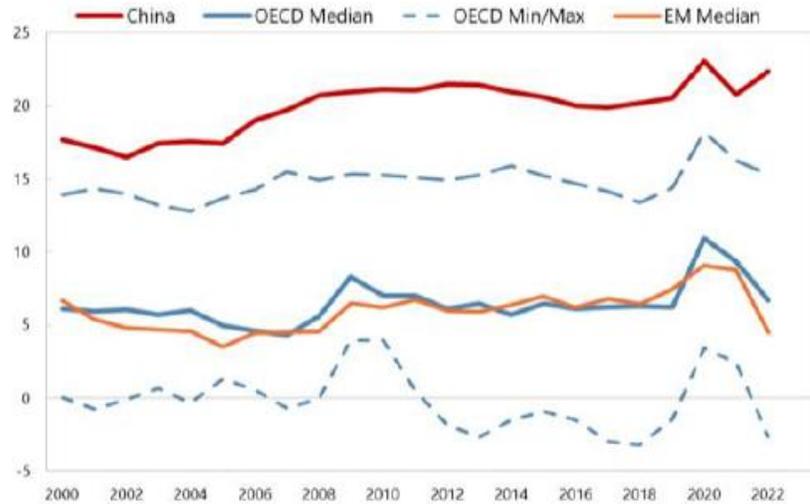
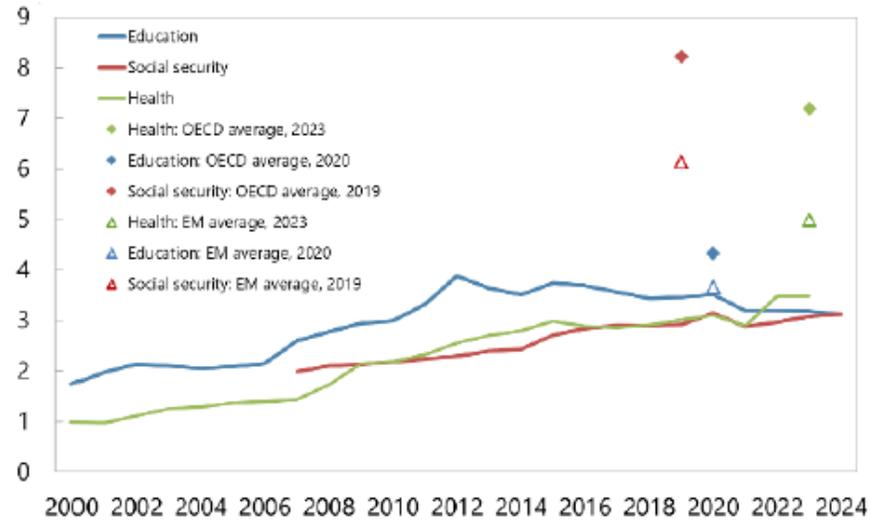
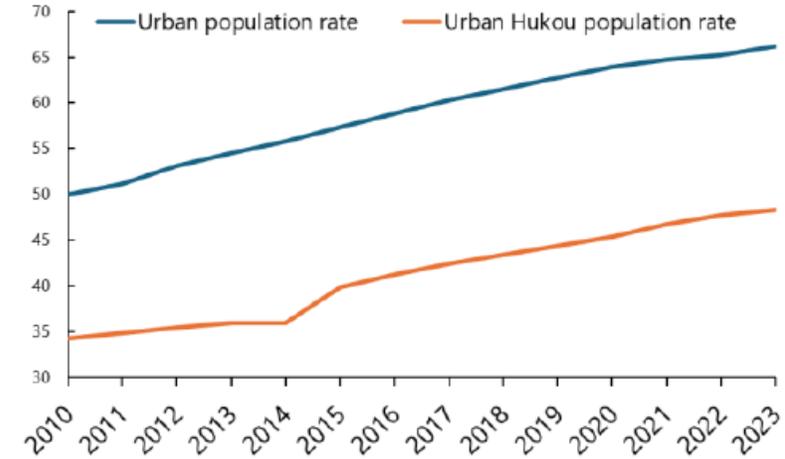


Figure 2. Cross-Country Comparison of
Government Social Spending
(Percent of GDP)



China: Urbanization Rates
(Percent of total population)



Source: Xu, Zhang, Cui and Hua (IMF WP 2025)

- Stimulating private consumption is the top economic priority of the party.
- Obtaining urban hukou (i.e. receiving better safety net) is associated w. 7% decline in household saving rate.
- Opposite impact of declining house prices on saving rate of homeowners and renters.
- Can gender imbalance become a source of stimulating consumption instead of saving?

Conclusion

- Very interesting work that provides new data on housing boom-bust experiences of China and Japan and highlights the importance of real channels.
- One story may not fit all cities' experiences: boom-bust-boom vs boom-bust
- Regional inequality and the direct impact on local governments' budgets seem to be first-order problems, both through their direct impact on local government expenditures and, more importantly, from an incentive design perspective.
- Over the last five decades, China has switched the main engine of growth several times. The main question now is: **can they induce more domestic consumption ?**