

THE REAL ESTATE CRISIS IN CHINA IMPACTS TOURISM



Chinese tourists were the top travelers in the world in 2019. They spent over \$250 billion collectively abroad, almost twice as much as their closest rivals, the Americans. Additionally, they recorded more than 150 million departures on international flights that year.

COVID-19 has extensively impacted the Chinese travel industry and the global tourism sector. Despite the relaxation of pandemic-related measures and the tourism industry's recovery worldwide, Chinese tourists need more time to resume traveling abroad. Experts attribute this to the ongoing real estate crisis in the country, which has worsened in recent times.

To fully comprehend the problem, one needs to understand China's current real estate crisis.

China's largest property developer, Country Garden, has reported a loss of US\$7.1 billion for the first six months of 2023. This has caused investors to worry about a potential debt default, leading to a company's share price decline.

Another primary developer, China Evergrande Group, has also been struggling financially, with a loss of \$4.5 billion over the same period. The company has filed for bankruptcy protection in the United States last month. It gained international attention in 2021 after defaulting on \$300 billion in debt, which has resulted in the present crisis.

Sales of new homes in China by the country's top 100 developers fell by 33 percent in July compared to last year. This has resulted in a decline in prices as well. The impact of this situation has rippled throughout the Chinese economy. In the short term, there has been a decrease in demand for building materials and labor, which has led to a slowdown in hiring and a decline in consumer spending. Moreover, local governments need help to cope with reduced revenues, with some provinces having to cut government salaries and benefits to stay afloat.

Stays suddenly dropped

Homeowners are facing a challenging situation as their wealth is declining alongside the fall in property prices. This has led to a ripple effect on consumer spending as people become more cautious with their money and prioritize saving. This has created a more extensive economic challenge for businesses across the country. Unsurprisingly, what happens in China has a global impact on the economy.

The global tourism industry has suffered mostly due to budget-conscious China's new homeowners cutting back on travel and leisure expenses. As a result, Chinese tourism to popular European destinations like France, Switzerland, Greece, and Spain has also witnessed a significant decline. This year, China's outbound travel spending is expected to decrease by almost 70% from its pre-pandemic peak.

Also, Chinese travel agencies have closed in large numbers in recent years. Between January and April 2022, approximately 8,500 tourism agents and businesses filed for bankruptcy.

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