A ghost city in China. Towering apartment blocks. Never finished, never sold. College grads delivering food on scooters. Banks quietly freezing withdrawals. And the world's second largest economy sleeping into deflation. Sounds like Japan in the 1990s. Think again. Because this isn't a lost decade. This is the start of a full-blown economic collapse that could make Japan's stagnation look like a gentle nap. And here's the uncomfortable truth. China's crash will be deeper, darker,

and far more devastating than Japan's long stagnation. Let me show you why. To understand China's predicament, we need to revisit Japan's cautionary tale. Japan in the 1980s was an economic rocket ship. The Tokyo skyline filled with cranes, stock prices doubling, and real estate so hot that at one point the land beneath the Imperial Palace was set to be worse. more than all of California. The frenzy peaked in 1989 when the NIK stock index almost hit 39,000. But then reality came crashing down. The

Bank of Japan hiked interest rates to prick the asset bubble and prick it did. The NIK collapsed in 1990, plummeting by more than uh 60% from its peak within two years. Property prices followed, sinking for years after. Japan entered a prolonged funk, the infamous lost decade of the 1990s, which later morphed into two lost decades of stagnation. During the 1990s, Japan's GDP growth averaged a measily 1.3% per year. Deflation set in. Prices actually fell year after year, and the once unstoppable Japanese economy flatlined.

The 2000s were even worse with growth averaging just.5%. It was as if the second largest economy hit pause for two decades. But here's the crucial part. Japanese society modeled through. Unemployment stayed relatively low and there was no financial apocalypse. Why? Japan had buffers, a wealthy populace, high savings, and a government willing to spend and bail out banks. Critically, Japan was already rich when the bubble burst. The country had the world's highest per capita GDP in the 80s.

When hard times hit, the social safety nets kicked in and people tightened belts without outright breaking. The government ramped up social security spending to about 25% of GDP to support people uh through the dojun. Poverty and inequality crept up, but gradual redistribution and a cultural emphasis on stability kept society intact. Yes, Japan had a bad handover, but survived. Now, let's turn to China and why it's coming handover could be a whole lot worse. For the past 30 years, China's growth

story has been the stuff of legend. Right. Doubledigit GDP gains turned fishing village into mega cities. Hundreds of millions rose out of poverty. If Japan in the 80s was a rocket, China in the 2000s was a moonshot. But this miraculous rise came with a familiar red flag, a massive asset boom, especially in real estate. Construction cranes became China's national sport and uh property developers sprang up like wild sh bamboo shoots. Ordinary Chinese poured their savings into apartments, fueling a speculative frenzy. By 2020,

real estate and related sectors made up as much as 30% of China's GDP and an astonishing 38% of local government revenue. Home prices in big cities soar to insane levels. Price to income ratios in Shanghai or Senzen now dwarf, you know, what Tokyo were at the peak of Japan's bubble. This isn't just a bubble. It is a baroon balloon on steroids. The warning signs started flashing recently. China's real estate bubble began bursting around 2021 when Ever Grande, a property giant with over $300

billion in debt, defaulted and countless building projects stalled. Today, the country is littered with ghost cities, eerie new urban areas with dozens of highrises, and hardly any residents. As of late 2024, China had 80 million unsold homes. Roughly half the total housing stock of the entire US. Think about that. Half of of America's homes sitting empty. Developers are going bankrupt. Construction sites are abandoned, meat built. And the families who sunk their life savings into apartments that may

never be finished are panicstricken. The wealth destruction is staggering. Housing prices have fallen so much that an estimated 18 trillion dollars in household wealth has been wiped out since the bubble popped. Yes, trillions with a T that dwarfs the hit US home owners took in the 2008 subprime subprime crisis. No wonder Chinese consumers are keeping their wallets shut tight. Their nest eggs are evaporating. It's not just real estate. China's overall growth rate has plummeted. Officially, GDP still rose 5% last year,

but even state affiliated e economists doubt that some respected analysts believe actual growth last year was as low as 1%. Essentially, near recession for China, deflation has arrived, too. Consumer prices are flat and factory gate prices have been falling for over two years straight. In late 2024, long-term interest rates in China dropped below Japan's for the first time ever. A startling sign that investors expect decades of slow growth ahead. It's like watching the Japan movie all over again,

but on fast forward and with an extra plot twist or two. So the question is, if both China and Japan hit the same wall, a bubble, a bursting bubble, and economic stall, why do I expect China's crash to be worse? Let's break down the reasons one by one. First, China's bubble was bigger. Much, much bigger. Japan's 1980s bubble was huge relative to its economy. But China's real estate bubble makes Japan's look tame. Consider this. At its peak, residential property investment reached

1.5 times the share of GDP in China around 2020 than it did in Japan in 1990. In other words, China devoted far more of its uh national resources to building apartments, uh malls, and office towels than Japan ever did. And Chinese households doubled down on property. Roughly 70% of Chinese household wealth is tied up in real estate compared to about 50% for Japanese households. This means when a crash comes, it hits Mr. and Mrs. Lee in China harder than it hit the Suzukis in Japan. Losing value in homes punches a hole in

Chinese consumers balance sheets and their confidence about the future. We've already seen housing wealthize. One estimate finds that a mere 5% job in home prices erases almost three trillions in wealth because so much of China's savings are in property and prices in many cities have dropped 30% from their peak with entire new districts uh resembling ghost towns. The result, consumers stop spending on anything they don't absolutely need. A recipe for long-term stagnation. The scale of overbuilding in China is

unprecedented. It's estimated China has 65 million to 70 million empty apartments, enough to house the entire population of France. Entire mega projects like the 100 billion dollars forest city in Malaysia, beautiful Chinese buyers s largely wakened. Domestically, developers like Ever Grande and Country Garden have left hundreds of thousands of pre-sold homes unfinished. Each of Lo's unfinished projects represents families who put down payments or took out mortgages now hanging in financial limbo. In Japan's

case, the real estate crash was brutal, but it didn't leave millions of middle class families fearing that their new condo might literally never be completed. In China, that nightmare is real. The social trust in the housing market once locked solid because prices just only went up. That belief has been shattered. That is a core pillar of China's growth now cracked beyond repair. Now let's talk about demographics. Japan's bubble burst in 1990 just as its population was aging, which

certainly didn't help. But Japan had a crucial advantage. It got rich before it grew old. When Japan's working age population started shrinking in the late 90s, it was already a wealthy society that could care for its seniors. China has no such luck. China is getting old before it gets rich. In fact, China's population is now shrinking outright. And this decline hit earlier and harder than Japan ever did. Japan's total population didn't peak until 2010, nearly 20 years after the bubble burst.

China's population peaked around 2021 and has already begun falling with official data showing a drop of 2 million people in 2023 alone. And many experts suspect the real decline is even larger. That gives China a nearly 20-year head start on population decline versus where Japan was at a uh comparable point in its economic trajectory. This demographic crunch matters because a shrinking aging workforce makes it incredibly hard to revive growth. Fewer workers mean lower potential output. More retirees mean higher social

burdens. And China's demographics are in some ways worse than Japan ever were. China's fertility rate has plummeted to around 1.1 births per woman, far below the replacement level and even below Japan's 1.37 rate. Despite ending the one child policy, China faces a future with far fewer young people. In Japan, there was a bit of a second wi a mini baby boom in the late 90s meant a second wave of home buyers um which arrived to stabilize housing demand. In China, no such reprive is coming. The

number of prime firsttime home buyers is now declining fast as the one child generation ages through with no baby bone behind them. The number of 20somes in Chinese cities which is the lifeblood of housing demand and entrepreneurialship is set to collapse in the next decade. And what is the upshot? All the economic challenges China faces, the debt, the deflation, etc. are harder to fix while your society is aging rapidly. Japan at least had huge pools of savings and a culture of stability to lean on.

China will have to deal with rising elderly care costs, pension shortfalls, and a uh smaller workforce to shoulderly burdens. A stock indicator from 1997 to 2025, as Japan's over 65 population share rose steadily, Japan's GDP grows averaged only 6% per year. China will undergo an equivalent aging surge in a shorter time and at a lower income level. By 2040, China's senior share will match levels that took Japan decades longer to reach. Unless something miraculous hap changes, this points to even worse growth prospects

than Japan endured. truly a recipe for lost decades on steroids. Now, let's talk about debt and deflation. The double whammy Japan avoided. Remember Japan's deflation prices fell, but interestingly, the Japanese yen strengthened in the9s. That meant Japan's global purchasing power remained high, somewhat softening the blow for consumers. China however is facing a far more uh dangerous mix deflation and a weakening currency. It's a just a toxic duel that Japan never had to deal with. As China's

growth stalls, consumer prices have flatlined and producer prices are deeply negative. Classic deflationary signs. At the same time, the Chinese yuan has been under pressure, sliding against the dollar. Deflation plus devaluation is nasty because deflation increases the real burden of debt while currency weakness limits the central bank's ability to cut rates or print money because doing so would crash the Chinese yuan even further. So Beijing's policy makers are caught. stimulate the economy and you risk

capital flight and a currency collapse. Hold back and you sink deeper into deflation. This policy dilemma is arguably tougher than what

Tokyo faced in the 90s where the strong yen actually gave consumers more purchasing power even amid the uh falling prices. And then there's debt. If you think Japan had a debt problem, China is larger in key ways. By now, it's well known that Japan's government debt eventually soared to over 200% of GDP. After years of stimulus and bailouts, but at the start of the last decade,

Japan's government debt to GDP was only about 60%. Chinese government debt today is already uh in a 80 to 90 percentage uh GDP range officially and that is not counting the huge hidden debts of local governments. Add all those in and um some estimates put China's true government liabilities near Japanese levels already before the worst of the downturn has even hit local governments in China gorged on offbook uh borrowing during the boom through various local financing vehicles and now many are virtually bankrupt with

falling planned sales revenues. This severely limits China's ability to respond with fiscal stimulus or bank bailouts when things get ugly. Japan, by contrast, had much more fiscal room in the early 90s to maneuver and it used it running massive deficits to prop up banks and uh kickstart growth even though with very limited uh success. Private debt tells a similar story. Chinese households and companies are far more leveraged now than their Japanese counterparts were in the 1990. China's

total debt to GDP, public plus private, is nearly 300% and climbing, you know, expected to surpass uh the 300% within a couple of years. Household debt alone is about 70% of GDP in China compared to just 35% in Japan in 1990. That's double. And this matters because an indebted population has less capacity to borrow and spend when the economy stalls and instead they're stuck deleveraging paying down loans which jacks on growth. In Japan's last decade, households weren't as deathstared and uh

uh could at least trap water. In China, that burdens could pull many under outright. Imagine uh owing a big mortgage on an apartment that is now worth 30% less and might never be finished. That's the reality for countless Chinese families. It's a vicious cycle that makes the downturn worse and the downturn makes the debt harder to service. Now, perhaps the biggest difference between China and Japan and the scariest is the potential social fallout. Japan's society went through hot times

in the 90s and early 2000s. Unemployment edged up. Sery men endured pay cuts. A lost generation of young people struggled to find secure secure jobs. Social issues like higher suicide rates and lower marriage rates did emerge. But overall, Japan remained stable. China and crime stayed low there. There was no mass protest in the streets over its economy and the government mostly um maintained public trust. A key reason was Japan's strong social safety net and the fact that as discussed earlier it was rich developed

already when stagnation hit. The Japanese government continued and even expanded the generous uh social programs like health care, pensions, unemployment support, cushioning the blow for me. Case in point, Japan's social security spending stayed above 20% of GDP throughout the last decade versus China's mere 7.7% of GDP today. The result, while inequality in market incomes rose in Japan, redistributions through taxes and transfers kept the after tax inequality nearly unchanged over 30 years. So, Japan bought social

peace. China's situation is far more fragile. China is still a middle income country. Its GDP per capita is maybe like one quarter of Japan's. Its social welfare system is very weak. Pensions and health insurance exist but are patchy, especially in rural areas and often meager. unemployment insurance covers only a fraction of workers. So when the economy stalls, millions of Chinese have very little to fall back on except personal savings which as we have seen are getting decimated by the

housing crash. Already we are seeing signs of social strain. Use on primary in China spiked above 20% in 2023, a record high, and the government stopped publishing uh the data when it became too embarrassing. By some measures, including rural joblessness, youth unemployment may have hit 40% or more. This is a potential powder cake. Imagine being a young college graduate in China who did everything right only to find no job or a crappy job and no affordable housing. Many are responding with just utter

disillusionment even a live flat movement meaning ting uh opting out of the rat race in Japan's 90s lifetime employment norms meant many youth still find stable if you know lower uh paid jobs in China today the gig economy and a contracting private sector offer fewer safe harbors. Afraid making the rounds in China describes the moved. It it says that there's full of vibrant old people, lifeless young people, and desparing middle-aged people in China. It's a very green reality. Social

stability is the cornerstone of China's regime legitimacy. The unspoken deal for decades has been the Communist Party delivers growth and rising living standards and the people accept the one party rule. What happens if this deal falls apart? Unlike Japan where voters could went by voting out politicians and society is generally orderly and homogeneous. China's one party system faces a crisis of expectations. If growth stalls for years, we could see rising public anger, protest by disenfranchised groups like the home

buyers protest that already erupted when developers stopped construction and a government response that might lean heavily on censorship and repression to maintain control. None of that bodess well for the economy either. Cracking down on descent can spook investors and stifle innovation. China needs these innovation to climb out of the hole. And finally, China's external environment is much more hostile than Japan's wars. Japan in the 90s was a close ally of the US, still exporting to the world. China today faces trade wars,

tax sanctions, and suspicions from almost every country in the world. If China's economy tanks, it can't count on the same uh goodwill or external demand that Japan enjoyed, foreign might pull out rather than stick around. Global investors might not rush to buy Chinese assets the way they once would a troubled but friendly Japan. This means China has fewer lifelines as it navigates this downturn. It truly is just alone at a lower income level with more internal pressures. Just very dangerous combination.

So, as we can see from the writings on the wall, China's coming economic collapse has the ingredients to be far worse than Japan's last decades. Japan taught the world how painful a postbubble handover can be, right? Years of slow growth, deflation, and disillusionment. But China is facing that and more. A bigger bubble implosion wiping out household wealth on unprecedented scale, a rapidly aging and soon shrinking population, a debt deflation trap with fewer escape hatches, and a spectre of

social instability in a society less cushioned against hard times. It is the difference between a controlled burn and a raging wildfire. Now, none of this is to cheer for doom. It's just a sober warning. For years, China optimists said that China would land softly and avoid Japan's mistakes by learning from Japan. Right? Well, instead Beijing doubled down on the same playbook that field investment, property speculation and top down control even as cracks appeared. Now time is nearly up. As as of this

moment, Chinese leaders still publicly insist they can hit around 5% growth with sound touting a return to 8%. a fantasy if there ever was one. They're resorting to short-term moves, more construction and monetary easing inflating a stock market bubble that feel like Dja Wu of Japan's missteps. It brings to mind that famous saying that the only thing we learn from history is that we learn nothing from history. Is it Hegel that said that China's history isn't fully written yet and it has remarkable resources and

resilience, but the parallels with Japan are now hard to ignore. And the differences are even more alarming. For investors, analysts, and anyone interested in a global economy, keep your eyes on China. The coming uh collapse or great stagnation if you prefer a polite turn won't just be a replay of Japan's. It is likely to be harsher and messier with ripple effects worldwide. If Japan's last decades were a slow bleed, China's could just be a hemorrhage. And as finance watchers, we have to ask, is the world prepared for that? Fasten your seat belts because the fallout of China's reckoning will be the story of the next decade and it is going to rewrite the economic map in ways that we're only beginning to fasten. China's reckoning is coming and it will make Japan's last decade look like a footnote in comparison.