Revelation of Three Periods of Japan Economic Development on the Economic Development of China

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Abstract
For the development stage, the actuality of China economy is very similar to the initial stage of 1970s in Japan, so we can use some feasible experiences to solve economic problems by Japan at the beginning of 1970s. The research to the foam economy in the middle and late stage of 1980s in Japan induces the consideration whether China would follow the same old disastrous road of Japan in 1980s. After that, from the long term depression of Japan in 1990s, we should exactly treat the China depression theory which has been occurred. Reviewing the course from the boom at the beginning of 1970s to the formation and break of foam in the middle and late of 1980s and to the long term depression in 1990s of economic development experienced by Japan, we can get some revelations about many aspects such as macro-economic control and financial security.

Keywords: Similarity, Foam economy, Depression, Macro-economic control

At present, many people think that the foam economy has occurred in China, and it is very similar to Japan’s foam economy in 1980s, and the potential information of this adjustment think that if China doesn’t prevent the occurrence of foam, the long term depression like Japan’s will occur again. However, through the analysis of three periods with characters in the economic development of Japan, we will find that, first, the actuality of China economy at present is very different to that of Japan’s middle and late of 1980s and the difference is obviously comparable, contrarily, the present economic situation of China more likes Japan’s economic situation at the beginning of 1970s, second, because of the difference of development stage and macro control policy, China is difficult to follow the same old disastrous road in 1980s, third, though the discussion about China economic depression in the present period can be regarded as warning, but it is too early as a whole. Finally, through the track from boom to foam to depression that Japan economy experienced, we can get some revelations and considerations, such as the lesson of macro-economic control, the prevention of financial crisis and some active opinions we should have for some present problems.

1. Japan’s economy at the beginning of 1970s which is similar to the actuality of China economy deserve us to refer and use for reference

1.1 The actuality of China economy is more similar to Japan's economy at the beginning of 1970s
First, undeniably, the present China economy is little similar to Japan’s foam economy in the middle and post stages of 1980s. For example, apparently, the macro economy develops well, and the investment and export with high speed growth become into two drives for the economic growth, and the foreign exchange repertory increases very quickly, and the proportion of the usual account surplus is on the higher level, and the exchange rate increases in value, and the prices of many assets such as realty and stock rocket. But through the comparison of key development stages, more differences are embodied. Japan had entered into the post-industrialization period then, but China is still in the middle stage of industrialization at present, and the extended country market has not been completely started, and large differences still exist in the stage of economic growth and industrial structure. As viewed from development stage and macro economic situation, the actuality of China economy is more similar to Japan’s economy at the beginning of 1970s, and the similarities are mainly embodied in following aspects.

1.1.1 The macro economy gross
Since 1955 to 1972, Japan had kept the growth with double-digit high speed, and the number is very similar to China. As viewed from the position of economic gross, Japan completed the task to pursue Europe and US in 1968, and at the
 beginning of 1970s, Japan’s absolute value of GDP was at the third position in the world, which was lower than US and Former Soviet Union. And China is at the fourth position now, and it was at the fourth position with German together in 2007, which are very similar.

1.1.2 International environment

(1) Oil markup. The first oil crisis happened in 1973, and the oil price appreciated from 2.5 dollar per barrel to 10 dollar per barrel, and the markup was fourfold. But now, the trend that oil prices creep higher is upon the table, and the oil prices even exceed 100 dollar per barrel. All oils needed by Japan depend on import, and about 50% oils in China also depend on import.

(2) Exchange appreciation under exterior pressures. In August of 1971, Nixon who was the president of US suddenly declared that dollar broken away gold and required Japan and western countries implemented revaluation, which induce the Bretton Woods system blew up (Erenow, Japan implemented fixed exchange rates all along). Japan had to declare the Japanese Yen increased in value from 360 Japanese Yen to 308 Japanese Yen, and the appreciation extent was 14%. For Japan, that was the first appreciation under the force of US, and in September of 1985, the second appreciation was in “the Plaza Agreement”. Through China claims independent RMB exchange rate reform, but the threatening factor from US and western countries are should not been excluded completely.

(3) The repertory of foreign exchange. At the beginning of 1970s, much favorable balances occurred in Japan’s trades to US, and the trade friction of textile happened, and the favorable balances made Japan’s foreign exchange repertory hoik from 4.4 billion dollar in 1970 to 15.4 billion dollar in 1971, and it increased fourfold in one year, and the situation of Japan is very similar to the current situation of China.

1.1.3 Domestic asset price and inflation

(1) The sharp rise of asset price in Japan then is very similar to the current situation of China. To eliminate the negative influences brought by the appreciation of Japanese Yen, the Japan administration adopted the policy to extend interior demands, and fully develop “the alteration plan of Japanese islands”. Under the agitation of the alteration plan, from 1972 to 1974, the land price raised 50%. The tide of island alteration is little like with current blind development of China. Not only the land price, but the stock market was also ascending, for example, the Topix index was 148.35 point in 1970, but in 1971, it was 199.45 point and it rose to 401.7 point in 1972, and in two years, the index rose 1.7 times.

(2) At the beginning of 1970s, serious inflation occurred in Japan. The inflation of Japan then mainly rooted in the oil markup which drove domestic markup, and the international oil price was quickly conducted to the domestic market. The index of CPI was 4.9 in 1972, and it was 11.7 in 1973, and it was 23.2 in 1974, until 1978, it dropped to the normal level of about 4%. That was very similar to current China. The markup of domestic price in China mainly rooted in the rises of international energy sources and raw and processed materials. When the prices of assets such as real estate and stock rose, the labor price rose, then the consumable price especially the food price would also rose, and if the price can not be controlled well, the rise of food price will conduct conversely quickly, and the structured inflation will evolve into malignant inflation.

1.1.4 Other situations of social development

Just for other problems of social development except for the economy, the first problem is the serious social effects of pollution. Japan pursued growth with high speed for a long time, but as a result, the destruction of environment and the social effects of pollution became more and more serious up to the occurrence of world-shaking “four lawsuits of social pollution” at the beginning of 1970s. The current situation of China doesn’t allow optimism, and it is even worse than Japan’s situation then. Many local governments have encountered the difficulty to give attention to economic growth and environmental protection, and the social construction with resource saving and good environment needs much endeavors. The second problem is the population old age. Japan was in the first stage of social old age then, and China also face the problem of population old age, and the problem how to avoid and possibly reduce the social insurance and the low saving rate which can influence the economic growth brought by the society of population old age deserves use to think about.

1.2 The Japan’s economy at the beginning of 1970s can be used as references for the current economic development of China

Different economic development stages should adopt different economic policies, and the results will be different. Now that the current economic situation of China is more similar to Japan at the beginning of 1970s, so we should use some experiences and lessons of Japan at the beginning of 1970s for references. Summarizing a series of problems such as oil crisis, inflation, and problems in the industrial structure adjustment and the development of economy and society of Japan at the beginning of 1970s, we can get three following revelations.

1.2.1 Strengthening the macro control and exactly establishing policies to solve the crisis

Japan’s inflation at the beginning of 1970s was quite serious, and many affairs to rob commodities happened because of
the rise of price. Aiming at very serious inflation, the Japan government rapidly adopted the countermeasure of deflation, and the central bank of Japan continually enhance the interest rate in April, May and July of 1973 with 0.5% every time until the interest rate was enhanced to 7%. The inflation was depressed in 1978 finally. Japanese economist Ryutaro Komiya pointed out that the basic experience that Japan could walk out from the crisis was “the money supply policy should be established by the stability of price which was the first factor should be considered” (Che, 2007). That offers revelation for China to solve the inflation at present, i.e. the implementation of money policy should take the price stabilization as the first objective.

The following was the oil crisis, and the whole Japan including policy authorities and enterprises produced a common understanding, i.e. “the time with infinite supply of resource has ended”. The future development should change the growth mode, i.e. from the growth of quantity to the growth of quality. At the same time, the government and enterprise achieved common understanding, and to solve the oil crisis, the government put forward the new energy source development research and the establishment of energy saving measures, and the enterprises universally adopted the mode of “downsizing operation” to reduce the production line possibly through reducing employees and superfluous equipments. Comparing with hard struggle of Europe and US with strong economy after oil crisis, Japan successfully passed the transition and entered into 1980s, which was closely linked with exact decisions of the ministration and the brave innovation of enterprises. Under the background of global oil markup, China offer allowances for oil enterprise, try to restrain the rise of oil price in the domestic market, and the aim is to reduce the more inflation induced by the rise of oil price. But the trend of global marketization is necessary, and the long-term government intervention would not exist, so how to solve the crisis and how to synchronize the world must been faced by Chinese enterprises especially the enterprises regrouped which are encouraged to enter into world list, so we can use Japan’s initial experiences for references when the government and enterprises face energy sources crisis and realize policies.

1.2.2 Accelerating the adjustment of industrial structure and perfecting the economic law system

This stage faced many problems which are mainly embodied in a series of energy and economic problems brought by the oil crisis, Japan economy begun to accelerate the adjustment of industrial structure. Wash out the industry with high energy consumption, change the industry with energy denseness and make the industrial structure transform from past “heavy, deep, long and big” to “light, think, short and small”, fully develop the third industry, and realize the soft industrial structure with servicing and high additive values. The updating of China industrial structure faces the obstacles of system, policy and repertory structure all along, and it is the difficulty faced by China industrial development to how to accelerate the industrial update and optimize the industrial structure, and that needs the government exactly leads the development, and the enterprises innovates bravely.

Japan is one of countries with the most mature economic law system. The character of economic law is to continually emend laws with the change of economic situation. In this stage, the most obvious establishment and edit of economic laws are about the environmental laws. In the process of “four lawsuits of social pollution”, the public in various regions developed the anti-pollution activities and flinty social problems occurred, and under that situation, the government had to decide to father the pollution and protect the ecological environment. Under common struggle of country, enterprise and government, Japan’s environmental problems were basically solved and recognized by the international society at the beginning of 1980s. At present, China has achieved delightful advancement to perfect economic law system, for example, the “Real Right Law of the People's Republic of China” issued on October 1 of last year and the “Labor Contract Law of the People’s Republic of China” executed in this year, but for the environment protection, especially the law construction of environment protection, we should make larger efforts.

1.2.3 Changing the mode of growth and development, and actualizing the economic policies

At the beginning of 1970s, the economic growth mode of Japan had gradually transformed from extensive mode to intensive mode, and the economic character of “large consumption and large investment” had been changed, and the transformation of growth mode and economic development had been basically completed at the middle stage of 1980s.

China also put forward similar policies and concepts with Japan’s at the beginning of 1970s, for example, the transformation of development mode, “energy saving and pollutant reduction”, “green GDP”, and the establishment of circle economy, and these policies are very similar to Japan whether for policies or for the backgrounds of theses policies. For the future, we should actualize above exact policies and strategic ideas in deed and better realize them.

2. Whether China will follow Japan’s same old disastrous road of 1980s

2.1 Japan’s foam economy at the middle and post of 1980s

Japan’s foam economy formed at the middle and post of 1980s, and it was the most intense stage of the foam economy from 1987 to 1989. With the subscription of “The Plaza Agreement” in 1985, Japanese Yen begun to increase in value very quickly. In 1988, the exchange rate of Japanese Yen rose to 1: 120 for dollar, and comparing with Japanese Yen under the fixed exchange rate system in 1971, it increased in value for two times. The result induced the export commodities of Japan rose in price, and weakened Japan’s competition force in the global trade market, but a series of
financial measures adopted by the government made the domestic demands quickly increase. The formation of Japan’s economic foam was that “the land price and the stock price drive each other and rise circularly. The land price rises, and the asset values of enterprise and family rise with the rise of the stock prices of enterprises, then the land guarantee value rises, so the banks will acquire more loans. The anticipations of enterprise profit and economic growth rise, the essential interest rate and risk discount decline, and the investment passions of resident consumption, realty investment and enterprise equipment run up, and the asset price and entity economy rise mutually, then the large form forms.” In 1990, with the first breaking of Japan’s stock market, Japan’s reality foam was dashed to the ground. And Japan’s economy entered into the long-term depression.

2.2 China will not follow Japan’s same old disastrous road in 1980s

Just as what most people worry about, some phenomena such as exchange rate appreciation, the price rise of realty and stock exist at present are very similar to Japan’s in 1980s, so many people begun to worry about China economy, i.e. whether China will follow Japan’s same old disastrous road, and the author think we can give the negative answer. The reasons mainly include two aspects.

The first aspect is that the economy with foams is unequal to the foam economy. Most economists thinks that the economic foams means the unbalance phenomena often occurred in the economic development, and its root is the contradiction of total demand and supply in the society, and the fluctuation with the fluctuation of commercial cycle. When the economic foam develops to certain degree, it will form the foam economy, but it is a process from quantitative change to qualitative change. The economic foam is unequal to the foam economy. The foam economy specially means the phenomena that induce the serious fluctuation of market price because of gamble activities (Zhou, 2007). Though the foams occurred in some localities of China economy or on some layers are truths, but it is not exact and objective to confirm the occurrence of foam economy. For the growth potential, the potential of Japan economic growth begun to drop and the labor increase rate also turned from positive growth to negative growth in 1980s. Before that, the shift of labor from country to city supported the high increase of economy, and the end of labor force transfer in the foam time induced the parabola of growth quickly went to drop. At the opposition, the economic growth potential of China is still strong, and we can feel hearty consumptions and enough growth potential when we walk on the road of big city in China. The supply of rural labor force in China is still abundant, and the technical level of China enterprise is far lower than the world level, and the space of technical advancement is still large.

The second aspect is that the macro control policies are completely different. Japan administration made three serious policy errors at least at the middle of 1980s, at the same time, the errors of these policies were thought as the essential reason to induce Japan’s depression by most scholars, and the problems such as the revaluation and the formation of foam that the policies wanted to solve were only the idea of the problem. The mistake of these three macro policies was mainly embodied in following aspects. The mistake in the exchange rate policy made Japanese Yen rise with large extents, and in the process of foam formation, the loose monetary policy was falsely implemented, and the over strict deflation money policy was adopted in the extrusion of foams. When the similar economic situation occurs, the policies of China government are more stable. First, when RMB faced the pressure of appreciation, the central bank of China made RMB slowly rise and tried to reduce the disadvantageous impacts to domestic industries. Second, when both the stock price and the house price rose, the central bank of China still persisted in stable money policy and put forward deflation money policy in this year. Except for controlling the house market and the stock market by the money policy, we also adopt other measures such as taxation and administration to avoid the economic fluctuation brought by deflation money policy.

3. Japan’s long-term depression in 1990s and the depression economics of China

3.1 Japan’s long-term depression and the forming reason

Since the beginning of 1990s, with the breaking of the foam economy, Japan’s economy got in serious depression. Individual consumption had no force to rally, and the financial reform got severe illness, and the economic growth stagnated, and the economic resurgence had a long time to go. Some experts thought Japan economy had “Japan disease” since 1990s comparing with Japan’s economy with energies in 1960s and 1970s. The depression was mainly embodied in six aspects including that the consumption demand could not recover after a setback, the deflation was increasingly serious, and the unemployment rate was on the high level all long, the bad creditor’s rights accumulated as a hill, the national finance was heavily in debt, and the macro control was inefficient.

3.2 It is too early to discuss the depression economics of China in the current stage

Some people compared the economic actuality of China with the situation before the big depression of US in 1929, and because both are very similar, so they got the conclusion that China would walk the old road of US in 1929, and the most representative theory was Krassimir petrov’s economic depression of China, “I trust the foam of China will be broken at some moment from 2008 to 2009 (Krassimir Petrov, 2005).” Petrov’s theory was based on the business cycle theory of Austria School, and the core of the theory was the credit boom of inflation. The theory thought that over
investment must induce the credit boom of inflation, and the foam breaking certainly occurs after the credit boom of inflation. In fact, the instances with over investment exist in China, but the over-heat investment is not foam, and it is only the reason to induce the foam. As viewed from the policy, the government has realized the important credit, and the deflation money policies in 2008 and various measures in 2007 were to directly or indirectly restrain and reduce the credit.

Another fear about China depression is based on the comparison of Japan economy, i.e. if the foam economy occurs in China, the long-term depression like Japan will happen. In fact, the fear is unnecessary. First, the situation of China is very different to Japan’s, and the same consequence in the late of 1980s and the beginning of 1990s won’t happen. Second, the foam economy unnecessarily induces long-term depression. The breaking of foam is one reason to induce long-term depression of Japan, or it is only a fuse, and the deep reason that Japan got in the long-term depression is its own structured contradiction. We should not equate the foam economy with long-term depression, the relationship existed in them, but they had no necessary relationship.

Finally, for the development potential and space, China is in the middle stage of industrialization, 7%-8% or more growth rate many be kept to first “25 years” in the 21st century, i.e. the high growth rate of economy can be sustained for 15 to 20 years. So it is too early to talk about the depression.

4. Some revelations and considerations

The several stages with obvious characters from the beginning of 1970s to the late of 1990s offer references and revelations for the economic development of China. From boom to the forming of foam, the breaking and the depression, the road Japan walked is like the theory of economic cycle, i.e. boom-decline-depression, and the economic situation in the stage can offer some revelations and considerations in the boom stage of China.

4.1 Actively treating the problems of appreciation and fluidity

For the appreciation of RMB, we can combine the situation of Japan after the Plaza Agreement to discuss the appreciation. The appreciation of Japanese Yen at the middle and late of 1980s induced and strengthened the stock market which was the largest bull market in 1970s and 1980s. Japan’s economic growth with high speed could not completely deny the historical function of money appreciation, and the serious shock of “The Plaza Agreement” was the undeniable fact for the export industry of Japan, but the fortune effect brought by the appreciation of Japanese Yen to Japan induced Japan became into the financial empire, the largest trading country, the largest investment country, the largest creditor’s rights country at the late of 1980s. The revolution of exchange rate offered the capital headspring for the special bull market. The process of the money appreciation was the process of common development for the house property and stock market of Japan, and its extent and energy were very rare in the economic development of the world. The essentials reason of Japan economy and financial crisis were not in the exchange rate appreciation, and it was the false money policy in the process of exchange rate appreciation to induce the breaking of asset foam.

The problem of the fluidity surplus is not only the pressure but the opportunity for the economic development of China. The negative influences of fluidity to economy are obvious, but we must pay attention to other aspects of fluidity influencing the economy. First, for China with deficient capital consciousness, it is necessary to establish capital consciousness and investment consciousness in the process of economic development. Second, surplus fluidity and surplus capital are very rare opportunities for China capital market especially for the direct financing market. Third, the surplus fluidity drives the rise of asset price. The bull market with capital drive is propitious to come into the market for the stated and civilian enterprises, reduce the pressure of inflation, and acquire precious time for the slow appreciation of RMB and the stable growth of China economy with high speed. Finally, the surplus fluidity promotes the diversification of the business of China bank industry and the diversification of the financial market (Jiang, 2007).

4.2 Clearly recognizing the economic actuality and avoiding entering into the financial difficult cycle

Through the 29 years’ large depression of US and Japan’s long-term depression in 1990s, we can see a process. After the entity economy quickly develop to certain level, the financial inflation occurs, and the financial asset crisis induces the fluidity crisis and the credit deflation, and the entity economy declines, which can be called as the financial difficult cycle (Zhao, 2007).

As a large economic entity, China’s economic development degree comes to light in the world, and the imperfection of financial system and the truth that the financial system is in the stage of transformation make us realize the actuality of financial inflation and consider whether the possibility of financial asset crisis exists. Three largest Chinese commercial banks have entered into the strongest bank list in the world, and we need more calmness and wariness to face the situation. The development or the growth of the financial market of China is not mature, and the ability of financial institutions facing the crisis is not strong, and the confusion of current financial market has produced the sign of financial inflation, and we should notice that once the economy enters into the financial inflation estate, the central bank must interdict the alternation system of bank credit and financial asset inflation to reduce the extent and speed of future price fall of financial assets and the impact to bank credit when the future financial asset inflation breaks, so the credit
deflation won’t occur because the bank credits are transformed into non-performing loans. Japan’s long-term depression in 1990s had close relationship with large of non-performing loan after the foam broken. To strengthen the risk management of China realty loan is the important measure to prevent the occurrences of the economic foam and the crisis of the financial assets.

4.3 The government macro control should assimilate past lessons and strengthen the time efficiency of macro control

The government should cautiously use the money policy and financial policy when facing the pressure of appreciation, the inflation and the asset inflation. Japan’s money economy was too loose in the forming process of the foam, and it was too strict in the extrusion of the foam, which could not reduce but prick up the foam economy. China should assimilate the lesson of Japan and especially reduce the destroying influence of the foam economy when extruding several foams.

At the same time, for the tight money policy implemented in this year, though the government advocates it early, but it still fears for the policy. The worry is not in the frequency and intensity of the implementation, but in the validity of the money policy. In fact, the tight policy has come into force early, and in 2007, the control frequency and intensity of the money policy were infrequent, and the inflation and fluidity still exist and even be more and more serious. If the validity and the time efficiency the money policy of 2008 are not good, or the useless of the money policy still exists, the sensitive degree of control will incline to nothing for the public and enterprises, which is not the result what we want to see. (The data in the article are from the Japan Economy Database of Chinese Academy of Social Sciences and Academician and the China Statistical Yearbook).

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