

The Enlightenment of Japanese Bubble Economy Breaking on Chinese Economic Development

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Keywords: Japanese Bubble Economy, Chinese Economy, Financial Risk

Abstract: The bursting of the economic bubble in Japan was one of the most important economic events of the 20th century, and it was also a hot research field for economists in various countries. China and Japan, as the adjacent Asian economic powers, have many similarities in the path and mode of economic development. China's macro policy makers and economists have been repeatedly studying the process of the formation and disintegration of the Japanese bubble for several years till now. This historical experience serves as a "stones from other hills" and "lessons drawn from others' mistakes" for China's economic development. This paper first explores the causes of the bubble economy in Japan and then proposes suggestions for the healthy development of China's economy.

1. Introduction

Japan is an island nation and lacks resources. During World War II, with the loss of military strength and serious injury, Japan can be described as a depression. However, historical synergies have preserved Japan's wealth plundered in World War II. The United States first did not touch Japan's "national wealth" after occupying Japan on the basis of anti-communism, and later formally fostered Japan after the Korean War and the Vietnam War. The earth has stimulated the development of Japan's domestic economy. At the same time, Japan has implemented its own economic system and the principle of "rejuvenating the country through science and education". Japan soon emerged from the ruins. From 1966 to the 20 years of 1986, it created an economic myth that attracted worldwide attention and became second only to The United States, the second largest economy in the world, reached its peak in the 1980s. Not only does the low-end product have a strong international competitiveness, but it has also become a world's largest creditor country in steel, motorcycle, home appliances, and automotive industries because it continues to expand its share of world trade because of its high quality and low price. A large amount of Japanese funds began to purchase foreign assets in foreign countries. For example, Mitsubishi invested 846 million in the purchase of a 51% stake in Rockefeller Center in New York City, which is called the U.S.-marked building. Sony bought a Hollywood Columbia film company called the soul of the United States. Panasonic funded the acquisition of Universal Studios in the United States. It bought 3/2 luxurious hotels in Pearl Harbor Beach area in Hawaii and Japan. The large number of buildings, restaurants, shopping centers and golf courses all made the United States feel great fear and threat. From 1960 to 1990, in the past 30 years, the United States has launched six large-scale trade wars on textiles, steel, color TVs, automobiles, semiconductors, and telecommunications at six levels. However, the power of these trade-level trade wars is just like The incendiary bombs that General Lee Mei had thrown at Tokyo could not hurt the bones, so Americans, like Nagasaki's throwing two atomic bombs on Hiroshima to end the war, launched a decisive trade battle to try to resolve Japan once and for all.

In 1985, under the leadership and force of the United States, the United States, Britain, France, West Germany and Japan signed the famous "Plaza Agreement" at the New York Plaza Hotel. After the signing of the "Plaza Agreement," the five countries jointly intervened in the foreign exchange market and began selling US dollars in succession, which in turn created a frenzy of selling by market investors, which led to the continuous depreciation of the US dollar. From September 1985 to the end of 1987, the US dollar depreciated against the yen by 50%. After this, the yen appreciated

sharply, and the yen rose from 360 yen in 1971 to 1 dollar to nearly 80 yen in 1995 for 1 dollar. The sharp appreciation of the yen has severely hit Japan's export manufacturing industry. A large number of domestic markets and foreign capital have flowed into the stock and property markets, stimulating the rapid growth of the virtual economy. Since 1985, land prices in six major cities in Japan have risen by double digits each year. In 1987, the price of residential land increased by 30.7%, and commercial land jumped by 46.8%. The sharp rise in land prices has resulted in an increase in the value of land guarantees, allowing landowners to borrow more money from financial institutions, and to use this principal to purchase additional land. At the same time, Japan's stock price skyrocketed and the Tokyo stock market continued to climb. The average price of the Nikkei stock rose by two times in four years. Japan's economic bubble quickly expanded. On December 29, 1989, the Tokyo Stock Exchange's closing price hit a record high, reaching 38,915.87 yen.

2. The Collapse of the Japanese Bubble Economy and the Impact on Japanese Economy

The bubble of false prosperity reached its peak between 1989 and 1990. The community was extremely dissatisfied with rising land prices. The government authorities began to be alarmed about the bubble economy. The Japanese Bank adopted a tightening monetary policy and increased the interest rate from 2.5% to 6%. In addition, it also strengthened control over real estate transaction loans, imposed land price tax and raised land transfer tax to 30%. The sudden tightening of monetary policy, the rapid withdrawal of foreign speculative funds, the instant collapse of the bubble economy of the stock market, followed by the collapse of real estate, land prices in major cities such as Tokyo and Daban fell sharply, bankruptcies soared, unemployment rose, and the Japanese economy began to in a long-term recession... (In fact, the Japanese government was wrong in not being able to wake everyone up all of a sudden. This rate hike wakes up all the Japanese in the dream of Yamato's rise...)

The impact of the bubble economy on the Japanese economy is immense and far-reaching. It is mainly reflected in: 1) It has hindered the upgrading of Japan's industrial structure, a large number of companies have gone bankrupt, and investment has lacked stamina. In the formation of a bubble economy, companies are keen to earn speculative profits. Instead of concentrating their efforts on upgrading and upgrading the industry, most funds are invested in the stock market and real estate. After the burst of the bubble economy, these stocks and real estate are in short order. During this period, it turned to nothing, hitting hard the economic strength of Japanese companies. By the end of 1991, the number of bankruptcies had reached 10,723, an increase of 68.5% over 1990, creating the highest record of post-war bankruptcy. On the other hand, the large-scale investment ability of Japanese companies in emerging industries has declined, despite the government's 6 times expansionary fiscal policy between 1992 and 1995, and the interest rate was lowered from 6.0% on August 30, 1990 to 1990. The 2.5% on February 4th still cannot effectively stimulate investment. 2 The financial system has been severely hit. The most prominent problem is the problem of bad debts. The bursting of the bubble economy has caused the prices of stocks and real estate plummeting. This has caused financial institutions that previously used mortgages and real estate as their mortgages to hold a lot of money. Debt rights increased significantly, and a large number of bad debts occurred. From 1991 to 1996, 22 financial institutions went bankrupt. Only in November 1997, Sanyo Securities, Hokkaido Takushoku Bank, Yamaichi Securities Co., Ltd. and Tokuyou City Bank closed down. In September 1998, the long-term credit bank went bankrupt, which marked the end of the postwar history of the financial system in Japan. 3 Consumer spending is low. The 1992 Economic White Paper believed that the loss of the value of stocks in 1990 caused personal investors to lose as much as 77 trillion yen. The severe asset value shrink has produced an inverse wealth effect, and residents began to cut consumer spending. According to statistics, the inverse wealth effect may make real personal consumption in 1991 fall by 1%. In fact, the final growth rate of household consumption in 1991 was only 2.8%, which was evident from the burst of the bubble.

3. The Reasons for the Bursting of the Japan's Bubble Economy

In dealing with the bursting of the bubble, the government has suffered a lot of mistakes. In the short term, the serious monetary policy deficiencies and tightening, and the ineffectiveness of policies after the burst of the bubble have intensified Japan's economic downturn and eventually evolved into a long-term downturn.

The short-term and excessive tightening of real estate credit financial policies is the direct cause of puncturing the bubble. At the end of May 1989, the Japanese government officially launched a financial austerity policy. First, the Bank of Japan continued to raise interest rates. The loan interest rate increased from 2.75% to 3.5% on May 31, 1989 and further increased to 6% on August 30, 1990, until July 1, 1991, until the bubble was closed. Completely broken. In addition, in response to the tightening policy of the Bank of Japan, in 1990, the Treasury of the People's Republic of Korea introduced a "real estate financial aggregate policy", which stipulated that the growth rate of real estate loans could not exceed the growth rate of all loans, and the target of control was to include credit banks and credit cooperatives in addition to banks. Life insurance, etc. Under a series of financial tightening policies, land prices in the three metropolitan areas began to plummet. From July 1991 to July 1992, the land price in the Tokyo metropolitan area fell by 15.1% (Tokyo City dropped by 27.5%), and Osaka Prefecture dropped by 23.8. %.

After the bubble burst, it responded to weak policies, which exacerbated the economic downturn in Japan and eventually evolved into a long-term downturn. First, it overestimated the role of loose monetary policy and did not break the crux of the economic downturn. After the burst of the bubble, the Japanese government quickly adjusted the benchmark interest rate to stimulate the economy, from 5.5% on July 1, 1991 to 2.5% on February 4, 1993, and to the benchmark interest rate on September 8, 1995. Has dropped to 0.5%. Since September 19, 2001, it has maintained an ultra-low interest rate of 0.1% for a long time. However, the rapid downward adjustment of the benchmark interest rate in the short term has rapidly reduced the marginal effect of economic stimulus, and the Japanese economy has not been able to get rid of the persistent downturn.

Second, the premature implementation of the fiscal consolidation policy has caused the domestic demand to remain sluggish and the economy to fall into a recession again. Before the demand for Japanese corporate loans was fully recovered in 1997, the Japanese government implemented "financial consolidation", including raising the consumption tax rate from 3% to 5%, reducing the 15 trillion yen budget deficit and suspending a special reduction. Tax bills and measures to increase taxpayers' share of social security spending have resulted in a rapid contraction of demand across the society. Economic growth has declined for five consecutive quarters, becoming another serious economic recession experienced by Japan after the burst of the bubble.

Third, the introduction of land tax taxes and other taxes, increase the holding costs, further hit the real estate market. Japan began to implement land price tax in April 1992. The tax rate is 0.3% (0.2% in the first year). Exemption is relatively large. There is no tax payment for homesteads that are inhabited or leased, and land that is valued at 30,000 yen per square meter or less. After the bubble burst, the Japanese government continued to insist on the land price policy of "suppressing land prices" until 1997, when it was changed to "promote the effective use of land". In 1998, the land price tax was completely stopped.

4. Enlightenment from the Bursting of Japan's Bubble Economy

Thirty years later, with the rise of the East Asia model, China has also come to Japan's situation. After the burst of the stock market bubble in 2008 and the 2015 stock market disaster, people have been overstretched by the sudden rise and fall of the stock market, but the housing bubble remains high. It is also facing the asset bubble that has plagued Japan that year. In terms of population aging, industrial restructuring, large-scale overseas investment, and deregulation of the financial industry, China is increasingly showing similarities with Japan.

On the other hand, since the 1990s, the United States has successively imposed pressure on China on the grounds of human rights, intellectual property rights, exchange rates, and cyber

security issues, and requested China to make corresponding policy adjustments and changes. The result is that with these adjustments and changes, China has not only grown into the world's second-ranked economy, but also the US trade deficit with China has reached hundreds of billions of dollars. In 2018, China and the United States were in full swing in trade and Trump signed a memorandum aimed at large-scale tariffs on Chinese products that China plans to focus on in the advanced manufacturing and high-tech fields. It is clear that the United States intends to stifle "made in China 2025." This dragon Is the fight for tigers to reenact the old Japanese-American semiconductor war? The same set of routines and traps will be a shocking step for China in every moment of the future. Therefore, as a whole, it is natural for China to study and learn from Japan's development history, and it is also necessary.

Based on the analysis of the Japanese bubble economic crisis and the current situation, the author believes that the current problem that should be solved in the process of economic development in China is to prevent financial risks. Our future risks will be mainly in the financial sector. This is a very important issue in the future Chinese economy. How to prevent financial risks? In combination with international lessons, we can prevent and strengthen the five directions.

To prevent house prices from rising too fast. But the bubble we want to curb is real estate, not the stock market. Because after two stocks disasters, securities regulators have made monitoring the top priority. With respect to internal transactions, buying shells, and selling shells, the behavior of capital gentry is extremely concerned. Coupled with big data, regulators can find out where any stock has abnormal fluctuations at any time. Second, regulators are on the floor. Outside distribution is very concerned. Now the state monitors the pool of funds outside the two capital markets, insurance funds and bank funds, and it is in place. Third, the IPO is rapidly advancing. At the fastest time, there are ten companies in one week and one or two in a week or two. With such a speed of listing, it is estimated that there is little possibility that the stock price will rise too much. Therefore, the most urgent concern is the real estate bubble. The author believes that it can be suppressed in three aspects: on the one hand, strict control on speculative demand and investment demand, and continued limited purchases; on the other hand, strict restrictions on the development of funds and new housing prices. The third is to introduce long-term mechanisms such as joint ownership, rental and sale of rights, adjustment of the spatial layout of first-tier cities, and property taxes. Adjusting the layout of first-tier cities, taking the lead in setting up the Xiong'an New District from Beijing, and announcing the construction of a free trade trial zone in Hainan Island in April 2018. The pattern of "North Xiongan and South Hainan" is in the process of being formed; real estate tax will gradually enter the two sessions. In the legislative process, as long as the meeting is on, the role of the policy will emerge and people will know that they cannot hold too many houses. Therefore, the suppression of the real estate bubble cannot continue to blow big; second, it cannot be squeezed now, otherwise it is very troublesome.

We must stop the liberalization; strictly control individual overseas investment, support overseas mergers and acquisitions of technology, and strictly review non-technical categories, such as overseas real estate, buying hotels, buying wineries, buying football clubs, and so on; "One Belt One Road" investment, insist on using RMB investment.

Stabilize the debt. First, personal debt, pay attention to the problem that the personal debt ratio is rising too fast. In 2015, the personal debt ratio was 30% of total GDP, and it rose to 45% by the end of 2016. An increase of 15 percentage points a year is mainly due to the fact that mortgage loans have risen too quickly. Therefore, we must strictly control personal mortgages. The second is state-owned enterprise debt. At present, corporate debt is obviously high, which is already 167% of GDP, far exceeding the red alert line. This is mainly because state-owned enterprises have high liabilities. They must focus on solving the problem of high state-owned debt and the issue of state-owned enterprises' deleveraging. The third is local government debt. It is necessary to control the potential increase in local potential debt.

Governance of financial chaos: At present, financial risks are highly complex and severe, and corporate credit bonds are significantly more likely to be breached, shadow banking risks are higher, illegal fundraising is more than prohibitive, and financial technology innovations, mobile payments

and other Internet finance, and sharing are used. New forms of business related to finance, such as the economy, have sprung up rapidly. The corresponding regulatory rules are lacking, supervision is not able to keep pace, and there are inevitably hidden risks. In the face of these problems, from the perspective of a sound regulatory system, it is necessary to achieve full coverage of financial supervision without leaving corners, integrate financial supervision resources, strengthen regulatory accountability, resolutely curb implicit debt increases, and ensure that there is no systemic financial risk.

The two-pillar regulatory framework for monetary policy and macro-prudential policies is sound: This is a financial policy initiative that reflects on the lessons of the international financial crisis and combines China's national conditions. To improve this regulatory framework, the key is to deepen the fundamental and key reforms in the financial sector, innovate the financial control methods, improve the financial control system, and reform and improve the financial supervision system. First, we will unswervingly implement a stable and neutral monetary policy and improve the monetary policy decision-making and transmission mechanism. Improve the monetary policy decision-making mechanism to improve the scientific and forward-looking monetary policy. The second is to strengthen the financial macroprudential management system. Establish a macro-prudential management framework, draft major laws and regulations for the financial industry, formulate a basic system for prudential supervision, and establish a sound financial consumer protection basic system. Guide the development, supervision, and supervision of local financial reforms, and supervise financial management departments and local governments. Form a good pattern of coordination and cooperation between monetary policy, macro-prudential management and micro-prudential supervision.

5. Conclusion

In fact, the history of human economic development for hundreds of years has been accompanied by the continuous emergence and destruction of the economic bubble, but the results of the bubble have been very different. For example, it is also a large-scale asset bubble. The 1929 crash of the US stock market led to a long-term global recession. The burst of the real estate bubble in 2008 caused a global economic recession. However, the burst of the Internet bubble in 2001 caused only a brief and relatively mild recession in the economy. Alan Greenspan, the former chairman of the Federal Reserve, has always believed that the bubble cannot be avoided. It is difficult for management to better predict the bubble and control bubble. The most important thing is how to deal with the problem effectively after the bubble bursts. The consequent chaos, how to deal with the various difficulties of financial institutions, and how to deal with the various criticisms of public opinion. If we say that the formation of China's asset bubble has become a reality, it may be difficult to avoid the bursting of the future bubble. For China now, the more important thing is probably not to argue whether there is a bubble in the economy or how big the bubble is. We should spend more energy and focus our research and attention on the prevention of the bubble burst and the countermeasures after it is shattered. The adverse impact and losses caused by the impact, as much as possible to avoid the policy to deal with the possible errors, so that the Chinese economy smoothly through this barrier and avoid the result of the long-term stagnation of the Japanese economy.

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