



## China is facing many of the problems Japan encountered as it strives for growth

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The People's Republic of China needs to refocus its economy to avoid slipping into an economic downturn that could be worse than the one Japan has suffered for more than the past 2 decades.

Comparing the experience of the two countries shows that China faces many of the same issues that prompted the beginning of Japan's long economic slide in the early 1990s.

While some differences could help China avoid Japan's pitfalls, others could make it even worse.

Some economic fixes are needed, and quickly.

Those are the conclusions of noted economists who contributed to the Asian Development Bank Institute's latest book, *Slowdown in the People's Republic of China, Structural Factors and the Implications for Asia*.

Yang Yao, a professor at China's National School of Development and the China Center for Economic Research at Peking University; Kyoji Fukao, professor at the Institute of Economic Research at Japan's Hitotsubashi University; and Tangjun Yuan, a researcher in the Department of World Economy at China's Fudan University argue that China has many hurdles ahead if it is to achieve economic hegemony.

They focus on Japan's economic experience since the Second World War and find that China's rapid growth is similar to that of Japan's.

China, too, grew out of the ashes of defeat, an economy centered on exporting finished goods to developed countries, lifted millions out of poverty, and became a world economic leader.

China now faces the same sort of issues that hit Japan in the early 1990s.

Its working force is rapidly aging, its industries have lost some of the competitiveness that led to their success, and its trade partners seem likely to clamp down on access to their markets.

China's income levels have reached what Japan's were in the early 1970s, leaving its people much less prepared for a prolonged slump than were the Japanese.

China's success has relied much more on capital investment than on improvements in technology and its workforce.

That means its economy is weaker overall than Japan's was at a similar stage in its development, but it also means there is room for improvements that could help stave off a long downturn.

Perhaps most promisingly, China is a vast country and its recent economic progress has mostly been concentrated in the south and east.

Yearly incomes in Shanghai average about \$15,000 per person, while those of Guizhou, the country's poorest province, are one-seventh as much.

That makes the difference between Shanghai and Guizhou greater than that between New York City and Shanghai.

If it were easier for people to move where they could find jobs, and if the government promoted domestic consumption that could at least partly be met by production in the poorer provinces, bridging that income gap could help China grow by 6% to 6.5% a year.

But China needs to act fast.

It needs to refocus its economy on domestic consumption, reform large state-owned enterprises, and change the system that prevents workers from being able to move freely within the country.

Otherwise, it may face the same long economic downturn from which Japan is trying to extricate itself.

This episode was based on contributions by Yang Yao, a professor at China's Peking University; Kyoji Fukao, professor at Japan's Hitotsubashi University; and Tangjun Yuan, a researcher at China's Fudan University, published in the Asian Development Bank Institute's latest book, [\*Slowdown in the People's Republic of China, Structural Factors and the Implications for Asia\*](#).

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