

# *A Comparative Study of the Economic Development of China and Japan after World War II*

Xinrui Yi<sup>1,a,\*</sup>

<sup>1</sup>Adam Smith Business School, University of Glasgow, Glasgow, United Kingdom  
a. 2941470Y@student.gla.ac.uk  
\*corresponding author

**Abstract:** China's economy is currently facing difficulties such as a slowdown in development, an economic structure that is not adapted to the new world economic situation and so on. How to get out of these difficulties has become an important issue. From a historical perspective, this article compares the economic development processes of China and Japan after World War II and analyses the enlightenment that China can draw from Japan's economic development. The study of this article concludes that after World War II, the economic development models of China and Japan were highly similar. Both countries implemented a development strategy that prioritized heavy and chemical industries, introduced economic development policies that emphasized exports and adopted a government-led economic development model. Both are currently encountering similar development difficulties. Based on Japan's economic development experience and lessons, China should focus on real estate bubbles, market mechanism adjustment and improvement, etc. to adapt to the needs of the new economic situation.

**Keywords:** Economic development, comparative research, Chinese economy

## 1. Introduction

After the reform and opening up in 1978, China gradually began the process of transforming from a planned economy to a market economy. After more than 40 years of efforts, the market economy has basically established the dominant position in the operation of the national economy. Through measures such as opening up its economic sectors and implementing export-oriented strategies, China has rapidly grown into the world's second-largest economy. However, in more than 40 years of economic development, the Chinese economy has also encountered many problems that need to be solved urgently. The most critical problem is the prominent structural contradictions, which are manifested in the real estate bubble and the incompatibility of government control measures with the market mechanism.

Although China and Japan have different development paths, there are many similarities in the economic development models adopted by the two countries. It took Japan 30 years after the war to become the world's second-largest economy, and its economic development model is also called the "Japanese model." However, with the bursting of Japan's bubble economy, Japan's economic development has stagnated and entered the "Lost Decades". After the reform and opening up in 1978, China gradually began the process of transforming from a planned economy to a market economy. After years of efforts, the market economy has basically established the dominant position in the

operation of the national economy. By opening up the economic sector, introducing foreign investment, and implementing export-oriented strategies, China has achieved rapid economic growth and rapidly grown into the world's second-largest economy. However, with the rapid economic growth, problems gradually accumulated and exposed in China's economy have begun to become prominent, mainly manifested in the weak demand-pushing role in economic growth, the emergence of real estate bubbles, and other problems. The industrial structure problems that Japan has encountered and the relationship between government intervention and market regulation have all appeared in China's economic growth. Through comparative analysis and study of the post-war economic development processes of Japan and China, it can find some enlightenment about the current economic development of China.

## **2. Comparability of Economic Development between China and Japan after World War II**

### **2.1. Cultural Background**

China and Japan have had close cultural exchanges and interactions since ancient times. This long-term and close cultural interaction gives the two countries similar cultural backgrounds. China and Japan are both located in East Asia. Their geographical proximity has led to frequent exchanges between the two countries since ancient times. Japan has historically studied and borrowed a lot from Chinese culture, including writing, religion, philosophy, art, and literature. Many Japanese institutions, such as bureaucracy and law, were originally influenced by China. The long-term economic exchanges and trade exchanges between the two countries have also promoted the mutual learning of cultural elements. Although Japan has maintained a certain degree of autonomy and selectivity in the process of absorbing Chinese culture, this process of learning and reference makes Japanese culture similar to Chinese culture in many aspects. The differences in decision-making styles are small. This cultural similarity reduces the differences between the two countries and facilitates the analysis and research of the economic development processes of the two countries.

### **2.2. Similar National Conditions**

China and Japan, as two important countries in Asia, share many similarities in their national conditions. First of all, Japan and China are both countries with large populations. They are currently facing the disappearance of demographic dividend and the intensification of social aging. As of 2022, Japan's total population is approximately 124,947 thousand, of which approximately 36,236 thousand are over the age of 65. From the perspective of changing trends, Japan's population is currently showing a continuous decreasing trend, the working-age population continues to decrease, and the elderly population continues to increase [1]. As of 2021, China's total population will exceed 1.4 billion, accounting for approximately 18% of the world's total population. The total population continues to grow, but the growth rate has slowed down. At the same time, China is also facing the challenge of population aging [2]. Secondly, in terms of natural resources, the national conditions of the two countries are also similar. Although the total resource disparity between the two countries is large, the per capita resource possession of both countries is very low. In addition, there are many similarities between the two countries in terms of science and education. China and Japan have similar basic education systems and higher education examination systems, and the governments of the two countries also attach great importance to the fields of education and science and technology. Finally, the two countries also share some similar political characteristics. Both governments emphasize administrative efficiency and development and have efficient administrative systems; the policies of both countries show a certain degree of continuity and stability. These similar national conditions between China and Japan make the economic development processes of the two countries highly comparable.

China and Japan have similar development histories. Japan's economic development after World War II can be roughly divided into five stages, namely postwar economic reconstruction (1945-1955), rapid growth (1955-1970), oil crisis (1971-1979), real estate bubble (1980-1989), and disappearance. 20 years (1990-2010). In the post-war economic reconstruction stage, the national system established during the 1940 war promoted Japan's post-war recovery. The government economic departments that operated Japan's economy during the war were mostly retained after Japan's defeat in 1945. Officials in the nationwide system promoted by the reformists before the war were still not dismissed after the war, but a large number of government officials in the military, administrative, public security, and other departments were dismissed. Because the occupying forces had little understanding of Japanese culture and national operating mechanisms, they were even used as puppets to promote the reconstruction of the Japanese economy after the war. During the high-speed growth stage, the national system played a powerful role in achieving strong and high-speed growth of the Japanese economy. During the oil crisis, Japan's economic growth was still very good compared to other developed countries such as the United Kingdom and the United States. During the real estate bubble stage, the Japanese economy experienced a crisis, economic growth was weak, and it entered a long-term downturn, that is, the "Lost Decades" [3].

From the post-World War II period to the reform and opening up in 1978, China was in the era of a planned economy, with the government leading economic development. After the reform and opening up in 1978, China's economy entered a period of rapid growth. After the outbreak of the global financial crisis in 2008, China's economic development gradually slowed down due to its impact. At the same time, the real estate market was extremely prosperous.

Japan started from the ruins after World War II and developed into the world's second-largest economy after thirty years of development. Starting from a comprehensive backwardness during the reform and opening up in 1978, China has developed for nearly 40 years and has now replaced Japan as the world's second-largest economy. Throughout the development process of the two countries, the development speed and final level reached by the two countries are very similar, which makes Japan's development process more valuable for China.

### **2.3. Similar Problems Currently Encountered**

As the two major economies in Asia, China, and Japan are currently facing some similar development challenges. The first is the issue of population aging. After World War II, both China and Japan experienced a baby boom, which enabled the two countries to enjoy huge demographic dividends and promoted the development of economic construction in both countries at that time. However, both China and Japan are currently experiencing rapid growth in the aging of their populations brought about by the baby boom. This puts pressure on both countries' labor markets, social security systems, and overall economic growth. Along with the problem of population aging, there is also pressure on social welfare. With the arrival of an aging society, the pressure on social welfare expenditures in both countries is increasing, and there is a need to find sustainable social security solutions. Secondly, both China and Japan are currently facing the problem of slowing economic growth. As the two countries' economic development enters a more mature stage, economic growth will naturally slow down. Both China and Japan are seeking new growth points to maintain economic vitality. In addition, the economies of both countries are relatively dependent on exports and face the risk of external market fluctuations. In recent years, both China and Japan have made efforts to enhance domestic demand to reduce dependence on external markets. Finally, both China and Japan face huge environmental and resource pressures. Affected by the national conditions of large populations, both countries face severe challenges in environmental protection and resource utilization and need to find a balance between protecting the environment and maintaining economic growth.

### **3. Similar Economic Development Factors between China and Japan**

#### **3.1. Development Strategy Giving Priority to Heavy and Chemical Industries**

Both China and Japan have chosen to prioritize the development of heavy and chemical industries in their economic development, forming a capital-intensive industrial structure. The key to Japan's rapid economic development after World War II was to break through the pre-war economic structure dominated by light industry and enter the era of heavy chemical industry. During this period, the Japanese government's policy of emphasizing the heavy chemical industry drove the development of basic industries such as raw materials and equipment. It provides impetus for the development of the entire industrial system, thus greatly promoting the development of the national economy [4,5]. From the 1950s to the 1960s, Japan's per capita output growth rate remained at a high level of 8.0% per year, compared with 2.1% in the United States [6].

In the early 1950s, China embarked on a total of 156 key engineering projects, covering key industries such as electricity, coal, petroleum, steel, nonferrous metals, and chemicals. The implementation of these projects has promoted the rapid growth of China's economy. The original economic structure dominated by agriculture has gradually transformed into a system with relatively complete industrial categories, and the economic structure has also experienced significant changes [7]. The heavy chemical industry has the following characteristics: First, the products have high-profit margins and large potential market demand. Secondly, the heavy chemical industry has a strong spillover effect, and its development can drive and accelerate the development of other industrial sectors. Therefore, the heavy chemical industry has great traction in the development of the entire national economy. In addition, the development of the heavy and chemical industry can significantly increase production to meet the expanding demand by expanding and upgrading production capacity. The continuous improvement of labour productivity reduces production costs and the relative prices of products, thereby further stimulating the expansion of demand and accelerating economic development. These characteristics of the heavy chemical industry mean that its development can promote the development of other sectors of the national economy and provide an impetus for economic development; it can also improve technical strength and strengthen the international competitiveness of commodities; it can increase national income and increase capital accumulation. Therefore, the heavy chemical industrialization of the industrial structure is an important factor for China and Japan to change the old economic structure and realize economic modernization.

#### **3.2. Economic Development Policies that Emphasize Exports**

In terms of economic development policies, both China and Japan attach great importance to exports. After the war, Japan adopted a development strategy that emphasized foreign trade, actively participated in the international division of labour, and achieved industrial modernization by continuously expanding exports. The role of exports in Japan's economy is reflected in two aspects. The first is to provide foreign markets for products and expand effective demand; the second is to improve the international balance of payments structure and expand its import capabilities. The essence of the strategy of "building a nation through trade" is to exchange industrial products produced by Japan's rich and high-quality human resources for the production raw materials that Japan urgently needs and lacks. Due to the scissor gap between industrial products and agricultural products, Japan is in a very favourable position to participate in the international division of labour, which greatly promoted Japan's post-war economic development.

Since the implementation of the reform and opening-up policy in 1978, China has established special economic zones and other measures to attract foreign investment, promoting the rapid development of its export-oriented economy. What followed was a surge in foreign trade volume and

a significant increase in trade dependence. These changes had an extremely critical impact on China's economic progress.

### 3.3. Government-led Economic Development Model

The governments of China and Japan have played important roles in formulating industrial policies and adjusting industrial structures. The government-led economic development models adopted by the two countries have effectively promoted economic growth.

As an island country with a large population, little land, and scarce resources, Japan will not be able to achieve rapid economic growth in a short period if it only relies on the natural evolution of industry or its resource endowment advantages to develop its economy when all industries are in decline after the war. The boosting effect on economic growth is one of the important driving forces for Japan's economic growth. After the war, the Japanese government formulated and implemented industrial policies with Japanese characteristics, including industrial structure policies, industrial organization policies, and industrial technology policies, based on the objective realities of Japan's relatively backward economic development, low industrial technology level, and lack of resources. The core of Japan's industrial structure policy is to select leading industries and pillar industries to support at different times, thereby stimulating economic growth. The Japanese government selected the heavy chemical industry, which has a strong diffusion effect, can sustain long-term rapid growth, and can continue to progress through the development of science and technology, as the leading industry for a long period after the war to support, and as the economic development stage changes, The Japanese government has selected different industries as leading industries to support in different historical periods. The main content of Japan's industrial organization policy is to support large-scale enterprise groups with international competitiveness so that they can develop as quickly as possible and participate in international competition. On the other hand, Japan provides support to small and medium-sized enterprises that are temporarily not internationally competitive. and industry sectors to implement protection to ensure that they will not be impacted by foreign companies and products before they grow and expand. Japan's industrial technology policy mainly provides support by selecting key industrial technology fields with development potential. At the stage when Japan achieved high economic growth, the Japanese Government successively chose three sectors, namely, the energy industry, basic industry, and new industry, and the Government supported them using credit and taxation to import a large amount of advanced technology from overseas to be digested and assimilated and to innovate based on such technology. This enabled the technological level of these sectors to gradually catch up with that of other Western developed countries.

China's government-led economic development model is a special kind of market economy. Under this model, the Government plays a leading role in economic development through macroeconomic regulation and policy guidance. The Government not only invests in infrastructure development, important industries, and key sectors but also guides the flow of private capital and market activities through legal and policy frameworks. This model emphasizes the Government's decisive role in resource allocation, industrial planning, and economic stability, while also using market mechanisms to improve economic efficiency. After the founding of the People's Republic of China in 1949, China adopted a planned economic system in which the government controlled the allocation of resources and decision-making on economic activities. During this period, the government-led model helped China build the foundations of industrialization. In 1978, China embarked on a policy of reform and opening up, which marked a major shift in the country's economic development model. The government promoted the construction of a market economy while continuing to play a role in macro-control and policy guidance. In 1992, China further deepened its reforms, established the goal of a socialist market economy, and pushed forward the transformation of its economic system. During this period, the government continued to play a key role in restructuring industries and guiding the

direction of economic development. In 2001, China joined the World Trade Organisation (WTO), an event that accelerated the internationalization of the Chinese economy while promoting further optimization of its economic structure. At the beginning of the 21st century, China's economy continued to grow at a rapid pace, and the government-led model continued to evolve in the new international and domestic environment, with an emphasis on innovation and high-quality development. China's economic model combines government activism and market effectiveness, aiming to achieve rapid economic development and long-term social stability. This model has transformed a planned to a market economy over the past decades, while its role has been continuously adapted and optimized, thus helping China to achieve significant economic growth and industrialization.

## **4. What China can Learn from Japan's Economic Development**

### **4.1. Preventing and Defusing Real Estate Bubbles**

After the Plaza Accord, the yen appreciated sharply and Japanese asset prices rose. By 1989, Japan's land prices had risen by almost 70 percent. Against this backdrop, the Japanese government began to restrict real estate, and the Japanese economy has been in a prolonged depression ever since [8]. The formation of the Japanese real estate bubble was due to several important factors in addition to the appreciation of the yen. In the 1980s, Japan's economic development entered a new phase with a slowdown in urbanisation and an aging population, factors that led to a weakening of the fundamental underpinnings of the real estate market. In response to the international economic environment and the appreciation of the yen, the Bank of Japan implemented an accommodative monetary policy, leading to an increase in the money supply, which in turn pushed up asset prices. The land tax reform and policy adjustments at the time failed to effectively check land investment speculation and instead fuelled the expansion of the property bubble [9]. In the context of financial liberalization and deregulation, commercial banks and investors, based on the motive of maximizing profits, invested heavily in the real estate market, forming a capital operation mechanism that supported the generation and expansion of bubbles. The global market that Japan's manufacturing industry can capture is becoming saturated and the market cannot expand. Domestic manufacturing costs have risen due to high housing prices and long-term economic growth, which has affected economic health. The interaction of these factors ultimately led to the overheating of the Japanese real estate market and the formation of bubbles.

Along with the continuous deepening of China's housing monetisation reform and the continuous expansion of the scale of the real estate market, the phenomenon of overheating of the real estate market has appeared from time to time in China in recent years, with 2016 being the most urgent case of serious overheating of the real estate market in parts of the country. There are many similarities with the behaviour of Japan in the mid-to-late 1980s during the period of soaring land prices and inflated property bubbles. Firstly, the macro-environmental triggers of the severe overheating of China's property market at the beginning of the 21st century are similar to those in Japan back then. With decades of rapid economic growth after reform and opening up, China's economic strength and residents' income levels have been greatly improved. Coupled with a high national savings rate, private wealth accumulation has become increasingly large, and the investment demand has continued to grow. Further supported by favourable economic fundamentals and strengthened by the expectation of the continuous rise in property and land prices in the previous period, China's real estate has become the object of a large amount of capital, as it was in Japan at that time. Secondly, in terms of financial credit, the importation of huge amounts of capital was the main source of localised overheating in China's real estate market in the 1990s. Since 2015, China's central bank has implemented a series of proactive monetary policies to promote the recovery and growth of the real

economy. Against this backdrop, banks and related market players have taken advantage of policy preferences and government regulatory gaps to engage in so-called "financial innovation", moving huge amounts of capital to the property market in key cities through credit and financial products, driving up demand for property investment and speculation and driving up property prices. Finally, in terms of government regulation and intervention, the local government's control of land and housing prices is incompatible with its incentives to run the city and improve its financial capacity, thus delaying and missing the best time to regulate. In the context of China's institutional environment, where land finance is the main source of local revenue, the lack of regulatory and coordination mechanisms for property market regulation has led to inefficiencies in the operation of the system of local responsibility for property regulation and control. Overall, the deep roots of the localised overheating of China's property market in recent years lie in the interest mechanisms that drive market actors to support or engage in property investment speculation. In sum, the emergence of a real estate market bubble in China, similar to that in Japan, is the result of self-interested behaviours of the government and the market in a particular macro-environmental and institutional context [10].

The history of Japan's property bubble provides important policy lessons for contemporary China. Firstly, China needs to be wary of excessive credit expansion and speculative home purchases, which could lead to a property bubble. Timely regulation and moderate market intervention can help avoid bubble formation. Secondly, China should implement differentiated regional policies. As China's regional development is uneven, real estate policies should be formulated and implemented by the specific conditions of each region to ensure the stable and healthy development of the market. Thirdly, a long-term real estate market control mechanism should be established and improved, including various aspects such as finance, land, and taxation, to promote the stable and healthy development of the real estate market. Fourthly, the relevant Chinese government departments need to optimize the structure of the real estate market, promote a balance between supply and demand in the real estate market, and rationally guide real estate development to meet housing demand at different levels, to avoid the concentration of risks caused by a single market structure. Fifthly, China should strengthen regulation and risk early warning, enhance supervision of the real estate market, establish effective risk early warning and response mechanisms, and identify and deal with potential risk points promptly. Sixthly, it should focus on the functional positioning of the real estate market, clarify the residential property attributes of properties dilute their asset attributes, and ensure the healthy development of the real estate market through policy guidance. Seventhly, the government should maintain the stability and continuity of the market, by maintaining the continuity and stability of the real estate market policy, to avoid the frequent changes in the policy leading to the market ups and downs.

#### **4.2. Focusing on the Adjustment and Improvement of Market Mechanisms**

After the Second World War, the government-led catching-up economic system enabled Japan to achieve high economic growth and become a major economic power. However, with the completion of the catching-up task and changes in the economic environment, the Japanese catching-up economic system did not make timely changes and adjustments, and excessive government intervention in the economy caused problems such as rigidity in the economic structure, financial bubbles, and high fiscal deficits.

China has also succeeded in achieving rapid economic growth over a long period after making a major change from a planned economy to a market economy. However, no economic system is immutable and should be readily adjusted in response to changes in economic conditions and the economic environment. At present, China's economy is facing a new economic development background of slowing economic growth, industrial structure transformation and upgrading, and the disappearance of the demographic dividend, etc., and the corresponding economic management system should be changed accordingly to avoid falling into Japan's historical mistakes. Efforts should

be made to build and improve the competitive market structure and create a fair and competitive market environment. In the process of adjusting the industrial structure, the establishment of a market mechanism for fair competition should be taken as the first prerequisite to ensure that enterprises, regardless of their size, can enter any industrial field equally and freely. Monopolistic barriers to industry and restrictions on market access to industry should be further eliminated, so that enterprises of all sizes and ownerships can compete in a truly fair market environment.

## 5. Conclusion

This paper uses the methods of literature research and data analysis to compare the economic development of China and Japan and to analyse what China can learn from Japan's economic development history. Both China and Japan experienced a period of high economic growth after World War II, but both encountered difficulties in their development and a decline in their development rate. This paper first analyzes the comparability of the post-World War II economic development history of China and Japan and finds that they are highly comparable. Then, this paper analyses the similar economic development factors of China and Japan, and finds that both China and Japan chose to give priority to the development of the heavy chemical industry in their economic development strategies, which greatly promoted the development of the national economy; in terms of economic development policies, both China and Japan attached great importance to exports, and achieved industrial modernization by continuously expanding exports; in terms of choosing the mode of economic development, China and Japan chose the government-led economic development model, the government plays an important role in industrial policy formulation, industrial structure adjustment, etc. The government-led economic development model adopted by both countries has effectively promoted economic growth. Finally, based on Japan's post-World War II economic development history, this paper puts forward relevant suggestions for China's future economic development, including preventing and resolving real estate bubbles and focusing on the adjustment and improvement of the market mechanism to meet the needs of the new economic situation.

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