

# ***Comparative Analysis Between Japan's Real Estate Economy and China's Real Estate Status***

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**Abstract:** Japan's real estate bubble economy in the 1990s caused a major blow to the Japanese economy, Japan entered the "disappearing 30 years". The causes of Japan's real estate bubble economy and the reasons why the bubble burst are worthy of the world's countries to learn from. 21st century since the rapid development of China's real estate economy, housing prices are growing rapidly. The real estate economy has been overheated in some areas, although the Chinese government has taken relevant measures to cool down, still can't relax the vigilance, people should always pay attention to the overheated areas of real estate prices, land prices. Through the comparison between China and Japan, although the economic structure and development trend are similar when the property overheating phenomenon occurs, the economic development background and international background between the two countries are different, and the governments of the two countries have adopted different strategies to deal with the property overheating phenomenon. So in conclusion, although there are some areas in China where real estate is overheating, China's real estate market will not burst the bubble. In order to prevent China's real estate bubble from bursting and its impact on economic development, China should pay attention to the reasons behind it and make targeted policy adjustments, while also drawing on the lessons learned from other countries to promote the healthy and stable development of the real estate economy.

**Keywords:** Real estate economy, macroeconomics, China-Japan comparison.

## **1. Introduction**

Since entering the 20th century, China's economy has been growing rapidly, the per capita GDP has been increasing, and people are living in affluence. People are more willing to invest their money in different industries than to put their idle money in the bank. At present, some parts of China have an overheated real estate economy, how to take effective measures to cool down the overheated real estate economy has become a problem that China should pay attention to. From the international perspective, the real estate bubble economy and the bursting of the real estate bubble in Japan in the 1980s are of typical significance in terms of academic research and experience, and the research on the Japanese bubble economy can be traced back to the 1990s. However, there are few articles comparing the economic background, international background and monetary policy at that time with the current China.

This article mainly compares the 1980s real estate bubble economy in Japan and the current situation in China, analyses the similarities and differences between the two countries, and the future development of China's real estate, puts forward targeted recommendations to related policies. Through comparison, people can see the differences between the causes of the current overheating of real estate in some areas of China and the causes of Japan's real estate bubble economy, and it can be clearly seen the differences between the two countries' real estate development, and put forward targeted suggestions for the future development of China's real estate industry as well as the formulation of related policies.

## **2. Similarities between the Causes of Japan's Bubble Economy and China's Current Economic Development**

### **2.1. Export-biased Economic Structure**

In the mid-to-late 20th century, after the Second World War, Japan created an economic miracle in 20 years on a "post-war ruin", becoming the world's second largest economy after the United States at that time. At this time, Japan has an advantage in electronic technology, automobiles, heavy industry and other industries, and the scale of exports is gradually expanding. The rapid development of Japan's economic structure in favour of export-oriented trade with other developed countries is in a surplus position, so Japan has accumulated a large amount of foreign exchange reserves.

At the same time, this led to constant friction between Japan and the United States, as well as Europe and the United States. In 1985, Japan was pressured to sign the Plaza Accord, and the demand for exports was hit, and the appreciation of the yen accelerated [1]. At the same time, international capital flowed into Japan and continued to flow into the real estate market, providing a capital base for the formation of the bubble.

After China's reform and opening up, with the advantage of abundant human resources and a cheap manufacturing industry that developed rapidly, China has been in a foreign trade surplus, formed a large amount of foreign exchange reserves. After China's accession to the WTO in 2001, the value of China's exports continued to climb, and China has become a large manufacturing and exporting country. In 2021, China's exports of goods accounted for 15.1% of total global exports, making it the world's top exporter. China replaced Japan as the country with the highest foreign exchange reserves in 2006.

This has likewise led to strong dissatisfaction in Europe and the United States, escalating trade friction, and huge appreciation pressure on the RMB, both domestically and internationally, which has attracted many international capitals into the Chinese property market. After the US economic crisis in 2008, the world economy was hit hard, and domestic idle capital coincidentally entered the property and stock markets.

### **2.2. High Investment, Growth and Savings**

After World War II, Japan's economy grew rapidly, experiencing a rapid recovery from the ashes of defeat to becoming a world economic power, with an average annual GDP growth rate of about 6% from 1961 to 1990.

However, after the signing of the Plaza Accord, the appreciation of the yen accelerated and there was a massive influx of foreign capital, which had a great impact on Japan's export-oriented economic structure - the amount of products exported by Japan declined sharply, and the comparative advantage of the prices of manufacturing exports declined. In order to solidify its position in the international market and ensure the superiority of its own commodities in the international market, the Japanese government implemented a policy of low interest rates and low discount rates [2], and continued this

policy for a long time. In the period before the bursting of the Japanese property bubble, Japan had continuously lowered the discount rate.

Low interest rates were accompanied by high investment and savings, with an average annual investment rate of about 36.1% in Japan during the period 1971-1990. Japan's gross national savings rate remained stable at 30% for a long period of time, and the real economy's leverage ratio increased from 120.0% in 1971 to 207.6% in 1990, with the M2 balance growing at an average annual rate of about 12%.

Since the twenty-first century, China's GDP has grown rapidly to become the world's second-largest economy, and the average annual investment rate of Chinese nationals has exceeded 40%; moreover, Chinese people are generally accustomed to saving money in order to face future emergencies, so the national reserve rate is also high. The ratio of investment to consumption and savings is uncoordinated, and the higher savings rate is difficult to convert effectively into investment, making the problem of insufficient demand increasingly serious.

### **2.3. Urbanization Leads to Rising Expectations of House and Land Prices**

Japan's urbanization [3] grew rapidly after World War II, with urbanization reaching 75.9% in 1975, after which Japan entered the post-industrial era and the annual rate of urbanization growth declined. The decline in new urban population means that there is less new and potential demand for housing, which is less supportive of real estate. At the same time, Japan's aging population has accelerated, the growth rate of the working population has slowed down, and the total population growth rate has been negative since 2010, labour costs have been increasing and the number of people of the right age to buy a home has decreased. Japan has now become one of the most serious countries in the world in terms of population aging.

As the national income of Japan has been rising during this period and the standard of living of the people has become higher and higher, the public's demand for living conditions has been rising, and higher demands have been placed on housing and land. Japan is a country made up of islands, with less land suitable for construction and fewer land resources in the country's land area. At the same time the real estate industry holds objective expectations for housing demand [4].

Since the reform and opening up, China's urbanization process has accelerated rapidly, with China's urbanization growing from 19.9% in 1979 to 66.16% in 2023, but it is now slowing down gradually. Although China is a large country with a large population, it is also facing the problem of an aging population, with 15.4% of the total population over 65 years of age in 2023, the same as in Japan in 1996.

Despite its vast land area, China's population is unevenly distributed, with most of the population concentrated south of the Hu Huanyong Line (Heihe-Tengchong), with about 94% of the population living on about 42% of the land area. Land resources are also relatively scarce in densely populated cities.

With the continuous development of the economy and urbanization, a lot of land is used for urban construction and industrialization, and land belongs to the scarce and non-renewable resources. The price of land will only continue to rise along with the process of urbanization. People believe that land prices and house prices will not fall, and real estate is also a relatively sound investment. More and more people enter the real estate market for the purpose of living, investment and appreciation of the value of life and other purposes.

### **3. Differences between the Two Countries**

#### **3.1. Differences in the Pattern of the World Economy and Rapid Globalization**

In the mid-to-late 20th century, the GDP of developed countries was way ahead, accounting for the vast majority of the total global GDP, and the economies of developing countries were lagging behind. Meanwhile, along with the rise of socialist countries and developing countries, the world economy was developing in the direction of systematization and institutionalization. After the rise of the Japanese economy, Japan was forced by the United States and other countries to sign the Hiroshima Agreement, which stipulated that Japan must appreciate the value of its currency to a certain level within a certain period of time.

Since the beginning of the twenty-first century, with the rise of developing countries, the international landscape has changed, with emerging economies and developing countries gradually integrating into the international production system and the international division of labour through foreign trade and absorption of investment, gradually forming a pattern of economic globalization. China has become the world's largest developing country with the strongest comprehensive strength, and has become an important force in the international arena, with its status in the international arena rising and its influence in international affairs increasing. Although China is also under pressure to appreciate its currency, on the whole, it still has the initiative to decide whether or not to appreciate its currency.

#### **3.2. Structural Changes in the Economy with Different Intrinsic Needs**

The outbreak of the financial crisis in the United States in 2008 and its worldwide impact also had an impact on China's net export trade, which further highlighted the irrationality of China's economic structure, which has long been a problem for China's economic development. The decline of foreign trade and exports has become the main reason dragging down the growth of the national economy. The Chinese government then introduced the policy of adjusting economic structure to boost domestic demand, which became another major driving force for economic growth. The 2008 financial crisis also brought opportunities for China to speed up economic adjustment, and under the premise of a large reduction in external demand, it was necessary to expand domestic demand in order to maintain economic growth, which brought opportunities for adjusting the relationship between internal and external demand. Through continuous adjustment in advance, China's export-oriented economy is slowly changing to a "troika" of consumption, investment and export to jointly drive the economy.

With its vast land area and large population, China has the advantage of a super-sized market, and although consumer spending as a percentage of GDP has declined in recent years due to the impact of the epidemic, it still has a lot of room for improvement.

Japan has a relatively small population and a small market, and domestic demand has a small pull effect on the economy. Along with the increasing penetration rate of consumer goods in Japan, the pull of domestic demand on the economy is relatively insufficient.

#### **3.3. Differences in the Intensity of Macroeconomic Regulation and its Methodology**

In the decade or so prior to the formation of the real estate bubble in Japan, the Japanese government did not take relevant measures to cool down the heat of the real estate industry. Instead, the Japanese government thought that it should not control the rapidly developing real estate market and did not regulate the large amount of capital invested in the real estate market, so it further led to the gathering of too much capital in the real estate market. As a result of the low discount rate policy, Japan's accelerated currency issuance, more than the real economy at the time of the demand, brought much capital into the financial market. The financial reforms undertaken by Japan in the twentieth century

accelerated the liberalization of finance [5], the effectiveness of government macro-control of finance declined, and the financing capacity of financial markets increased.

The current Chinese government's macro-control capability is higher than that of the Japanese government in the 1980s. The Chinese government is highly concerned about the overheating of the property market in some areas, and since 2010, the Chinese government has introduced a series of policies to control the overheating of the property market in some areas and to regulate property prices. And because of China's socialist market economy, the Chinese market is free to develop while government policies are in place to protect it and regulate it when necessary.

#### **4. Implications for Contemporary China**

In the face of an overheated real estate market, the Japanese government finally chose to take the initiative to burst the bubble method. In a short period of time, quickly and continuously tightened monetary policy, in 1989 and 1990 for four consecutive times to raise the discount rate and lending rates, so a short period of time to tighten the policy led to a large number of bad debts of the bank appearing, and this is also the most direct cause of the bursting of the Japanese real estate bubble economy.

At present, the phenomenon of overheating of real estate has appeared in super first-tier cities and first-tier cities where China's population gathers, and the analyses of the formation of Japan's real estate bubble as well as its bursting have a great deal of lessons for China on how to promote the stable development of the real estate market. In view of the current situation of China's real estate and economic status, we should develop a long-term mechanism for the real estate market under the premise of stabilizing prices and developing the economy, and gradually reduce the real price of housing in order to avoid a crisis. In this regard, the following recommendations are made.

##### **4.1. Policies for Steady Progress**

The main reason for the emergence of the property bubble economy in Japan is that the interest rate is too low and has been in place for too long, the central bank has raised interest rates sharply, and monetary policy has risen and fallen sharply in a short period of time, which is not conducive to the stability of the market.

So for China, there have been some areas of real estate overheating phenomenon. To be in the development of the precise implementation of the policy, take the initiative to squeeze out the bubble. But whether to choose to take the initiative to prick the bubble or dissipate and absorb the bubble depends on the specific national conditions and the current state of development. From the Japanese real estate bubble burst causes, a brake burst bubble is a relatively risky way, monetary policy ups and downs for the real estate market system, and the social security system is a big test, otherwise, it will bring turmoil for the market and society.

At the current stage of some parts of China's real estate overheating situation, people can not take too fast and too fierce means; they should continue to maintain a prudent and neutral monetary policy, flexible and moderate; a firm steady progress tone, seize the opportunity to take the initiative, for different types of housing, different supply and demand contradictions of the city for the development and implementation of targeted policies [6].

In addition, it is more important to sound macro-prudential supervision to curb the pro-cyclical behaviour of banks, preventing them from over-issuing credit during the period of loose monetary policy and reducing credit risks, thus reducing the formation of real estate bubbles at source.



## **4.2. Establishment of Short-term Regulatory Policies and Long-term Mechanisms for the Healthy Development of the Property Market**

Governments at all levels should maintain the stability and continuity of regulatory policies in regulating the real estate market to prevent frequent market turbulence caused by fluctuations in regulatory policies; strengthen the cooperation and coordination between the central government and local governments [7], accelerate the soundness of the fiscal and taxation system, and make a reasonable division between the roles and functions of the market and the government in policy regulation and control, so as to improve the effectiveness and pertinence of policies; pay attention to the mutual influence between different cities, and support the local governments to strengthen communication and co-operation, and to establish synergistic and co-operative relationships.

From the perspective of the central government, the establishment of a long-term mechanism for real estate can firstly make plans for the long-term development of the real estate market [8], including but not limited to forecasting the long-term demand for housing, demand for land for construction, the system of purchasing houses, the system of renting houses, etc.; secondly, it can push forward the construction of the system of the real estate market by deepening the reforms, including the soundness of the relevant tax system, and the formulation of the system of market supervision, etc.; lastly, it can push forward the improvement of the relevant laws and regulations of the real estate market. and the improvement of the relevant laws and regulations of the real estate market.

As China's real estate market presents regional characteristics, local governments can be guided to strengthen the construction of real estate market mechanisms, encourage and support bold innovations, and promote the rule of appropriateness for the city, while also giving full play to the enthusiasm and creativity of each local government. This is an important way to promote the construction of a long-term real estate system.

## **4.3. Combating Property Speculation and Improving the Rental System**

For China's property market, the public is very passionate about housing. Since ancient times, the Chinese have been talking about living in peace and having a family, and a house has become an important symbol of the Chinese people's pursuit of a sense of security and stability. It is a common belief among the Chinese that owning a house means having a sense of security and a stable future, hence the Chinese obsession with houses. This has led to many people being willing to take out a loan to buy a house and repay the loan for 20 or even 30 years. Therefore, in order to satisfy the people's willingness to buy a house, the real estate tax system can be improved to facilitate the purchase of the first home, but for the purchase of the second home and above, the government can charge a higher percentage of the tax and charge the tax in different parts of the process, such as in the transaction process and the transfer of the higher tax, to reduce the real estate transaction profit space, to inhibit speculation, and to effectively combat speculation in the real estate behaviour.

It is also possible to combine administrative and market regulation to promote the development of the housing rental market [9]. By sounding out the relevant policies for the housing rental market, it is possible to ensure the rental of high-quality, moderately priced dwellings, so that people's enthusiasm for home ownership can be transformed into enthusiasm for renting. In addition, it is necessary to improve the relevant laws to protect the rights and interests of tenants, such as limiting rent increases and providing subsidies to tenant groups.

## **5. Conclusion**

Through comparison, it can be seen that Japan's economic development in the 1980s has a lot in common with contemporary China, but there are differences between China and Japan in the 20th century in terms of policy strength, the world economic landscape, etc. These differences also allow

China's real estate economic bubble to not burst, and is gradually reducing the heat. Drawing on the lessons learned from the bursting of the Japanese bubble, China can continue to implement policies that seek progress while maintaining stability, formulate policies for overheated areas, and ultimately reach a long-term mechanism for real estate.

The shortcomings of this paper are that it does not explore the extent to which the causes of the causes of the property bubble economy had an impact on the formation of the property bubble, and it only compares the economic situation of Japan and China, lacking a comparison with other countries where property bubbles have occurred.

Comparisons with countries that have not experienced property bubbles, such as Germany, can be increased in terms of policy, so that we can learn from the actual cases of these countries that have successfully avoided bubbles how to deflate them, and reduce the risk of trial and error in policy.

Future research could focus on the impact of different factors on the bubble economy. We can collect the data of the short-term interest rate, long-term interest rate, discount rate, inflation target, real inflation rate, etc. of Japan in the 15 or 30 years before the bursting of the real estate bubble economy and carry out regression analysis to analyse the ratio coefficients of the different data so as to find out which data have the greatest influence, and thus find out which aspect of the policy is more effective. In addition, China's data over the same period of time will be analyzed in order to find out what policies are most suitable for China's situation in the context of the current international environment and based on the lessons learnt from other countries.

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