

# Implications of Japan's Financial Bubble for China's Financial Development

## -- Based on CiteSpace Visual Analysis

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### Abstract

After the "Plaza Accord", the policies implemented by the Japanese government in response to the appreciation of the yen, however, triggered a huge financial bubble. In the 1990s, after Japan's financial bubble was pricked, the financial crisis also broke out shortly afterwards, and Japan's economic development has always been in a state of depression, and the intricate reasons behind it deserve in-depth analyses and reflections. This paper will be based on CiteSpace visual analysis, and literature review perspective, focusing on the analysis of the causes of Japan's financial bubble, the financial crisis after the bubble burst, and discuss its inspiration to promote China's future financial development.

### Keywords

Japan's Financial Bubble; Financial Crisis; Direct Financing; Indirect Financing; Revelation.

## 1. Introduction

After the "Plaza Accord", Japan, a neighbouring country with similar cultural traditions to China, experienced the so-called "Japanese Miracle" in the 1990s when it went from a period of high-speed growth to a "lost decade" after the bursting of the financial bubble, and even until now is still almost in a state of economic stagnation. Japan's government in order to target 2% inflation rate and multi-pronged but never see the expected "splash". This is the "result" of the intricate "cause" behind it, which is caused by both external and internal factors.

Against the background of the pressure of an ageing population, scholars from all walks of life in China are actively exploring the issue of coping with ageing and developing elderly services. In terms of financial structure, China has long been dominated by indirect financing, while Japan's financial institution system is different from China's but also dominated by indirect financing. Since China and Japan have similar cultures and face the same pressure of ageing, it is of great significance for China's future financial development to analyse in depth the process of Japan's slow development from the financial bubble generated by its high growth rate to the recession.

## 2. Overview of Domestic Research and Hot Trends

### 2.1. Research Methodology, Data Sources and Data Processing

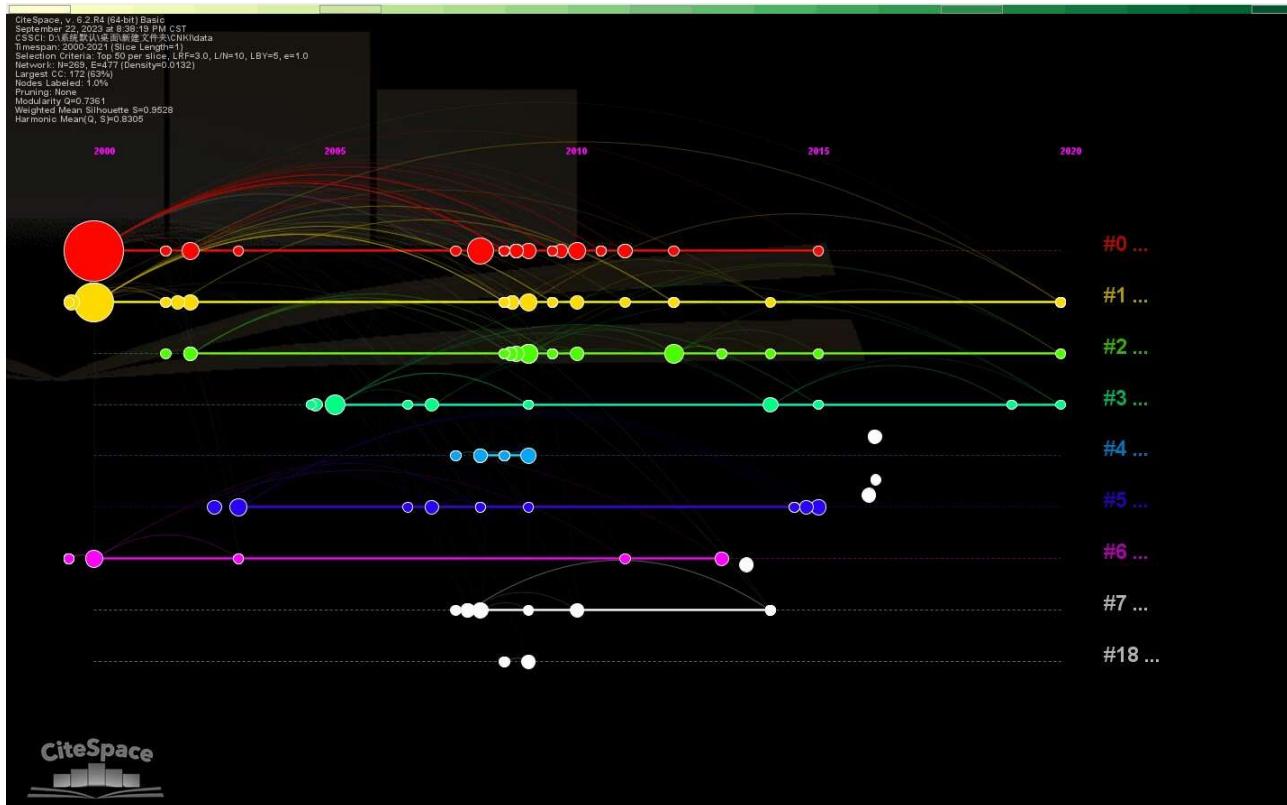
This article uses version CiteSpace.6.2.R2. CiteSpace explores deeper into collaboration between authors, making it easier for researchers to understand and conduct further research through visualization.

Using the China Knowledge Network (CNKI) database as the data source, a total of 280 articles were retrieved through the search function without specifying the starting and ending time,





from bottom to top sequentially indicates the time, the higher the position, the closer to the end time. Timeline view from top to bottom cluster size decreases from large to small, the larger the cluster size, the more important the cluster area. A horizontal line places the same cluster, and the evolution timeline shows the research and evolution process of a specific cluster. The timeline of keyword co-occurrence in the study of Japan's domestic economic revelations from 1996 to 2023 is shown, divided into eleven cited clusters, the most important of which is the Financial Crisis (Cluster #0 in Figure 3), which includes the study of the Japanese model from the early days of the stock price to the present day.



**Figure 3.** Timeline view of keyword co-occurrence in domestic Japanese financial crisis literature

### 3. Causes and Consequences of the Financial Bubble in Japan

Most domestic scholars can basically reach a consensus on the turning point of Japan's financial market development, namely, the "Plaza Accord". In the 1970s, Japan was experiencing a period of rapid economic reconstruction after the Second World War, the economic growth rate is amazing, foreign trade is active, the capital market is also the rapid development of the so-called "Japanese miracle". However, at this time, the United States as the leader of the Western capitalist countries are experiencing since the 1929 financial crisis after another major crisis, high inflation and unemployment rate along with low economic growth rate of "stagflation" crisis has become the main trouble. Subsequently, the United States dollar began to gradually decouple from gold, and the Bretton Woods system collapsed. During this period, the U.S. was running fiscal deficits in order to get out of the "stagflation" crisis, and was facing trade deficits in import and export trade. However, at that time, Japan was in the stage of rapid economic development, active foreign investment, and gradually became the United States of America's most important creditor, and at the same time is the United States of America's largest trade deficit source country. In order to maintain the balance of payments and exchange rate stability, the U.S. had to devalue the US. Dollar, so the U.S. asked Japan, the Federal Republic of Germany,

France and the United Kingdom to sign an agreement with the U.S. for the active devaluation of the U.S. dollar and the active appreciation of the currencies of other countries, i.e., the "Plaza Accord".

After the signing of the "Plaza Accord" in 1985, the Japanese government, in order to cushion the impact of the yen's appreciation on the economy, implemented an expansionary monetary policy to cope with the appreciation of the yen. Loose monetary policy, however, led to a substantial increase in domestic liquidity assets and even excess, 1985-1991, a large amount of money in Japan led to overheated investment, private capital have flowed into the stock market, housing market, stocks, real estate asset prices grew rapidly, and then attracted a large amount of capital inflow, the land price and stock prices intertwined, was a spiral of upward momentum, a huge asset bubbles in the A huge asset bubble is born in the process of increasing asset value of residents and enterprises.[2].

#### **4. The "Cause" of the Shift from the Japanese Financial Bubble to the Financial Crisis**

When the Japanese government realized the situation of overheated domestic investment, it began to implement a tight monetary policy, and raised interest rates sharply several times in a short period of time, bursting the financial bubble.[3] Followed by the collapse of the stock market and the housing market, a large number of non-performing loans make many financial institutions overwhelmed and closed, Japan's economy has entered the "lost decade"[4]. Until now, Japan's development is caught in a similar Keynesian "liquidity trap" state, the development of the financial market struggles, has been an indisputable fact[5]. However, after the "plaza agreement", several other countries and Japan also carried out the active appreciation of the currency, but did not appear like Japan this economic downturn for many years, the outbreak of the financial crisis situation. By studying the reasons for the outbreak of the financial crisis in Japan, it can be found that a variety of factors hidden behind the intricate and complex, which jointly led to the capital market downturn in the following three decades, this paper mainly from the macro and micro levels of the outbreak of the financial crisis of the deeper reasons.

##### **4.1. Decision-making Failures of the Japanese Government: Wrong Timing, Lack of Continuity**

"Plaza agreement" requires the appreciation of the yen itself is not the direct cause of Japan's economic depression in the 1990s, precisely after the Japanese government in order to cushion the appreciation of the yen on the financial market, the economic market in all aspects of the impact of the implementation of the policy mistakes, so that the economy at that time a hard landing[4], for the outbreak of the financial crisis in Japan. The outbreak of the financial crisis in Japan laid a "landmine". This is the almost unanimous view of domestic scholars such as Zhang Jifeng (2023), Yan Kun (2022), Zhang Hongwu (2022), Cai Fang (2021), Li Hanyun (2013), Mao Yan (2013) and Haruhiko Kuroda (2004).According to the IS-LM theory, there is nothing wrong with an expansionary monetary policy to cope with the pressure of currency appreciation, but the Japanese government's excessively loose policy lasted from 1985 to 1990, which triggered the financial bubble, but then raised interest rates sharply several times in 1990-1991, which quickly burst the financial bubble, and Li Hanyun (2013) pointed out that the policy had missed the optimal time 6 also the factor that triggered the outbreak of financial crisis that cannot be ignored. Scholars such as Zhang Hongwu (2022), Qiao Xinyan (2021), Xu Mei (2020), Li Hanyun (2013), Mao Yan (2013), and Wan Zhihong (2011) emphasised that the wavering policies and lack of continuity caused by the government's regime change were more important reasons for the outbreak of the financial crisis in Japan.

## 4.2. Malfunctioning of Resource Allocation Due to the Financial System

In the process of studying the deep-rooted causes of Japan's financial crisis, scholars who go straight to the level of Japan's traditional financial system mainly include Yuan Junqi (2018), Liang Chen (2012), Liang Jun (2013), Yan Kun (2022), Zhang Jifeng (2023), Cai Fang (2021), Deng Yu (2013), and Zhang Hongwu (2022). Some scholars have analysed Japan's severe job market and always difficult to grow income level from the perspective of employment system, while others have discussed Japan's traditional institutional drawbacks that cause obstacles to financial development from the perspectives of the main banking system and the government-led economic system. Liang Jun (2013) argues that Japan's traditional government-led system, the main banking system, the mutual shareholding system of enterprises and other multiple financial systems have caused Japanese politicians, bureaucrats and enterprises to collude with each other over a long period of time, and have gradually concluded into an interest group with intertwined power. In order to maximise their interests, these interest groups have led to the malfunctioning of the rational allocation of resources in the financial market: the government has set a large number of lending targets for banks in order to ensure the survival of enterprises with which it has interests tied; banks are forced to issue subprime loans to enterprises that are not enterprising and should have been eliminated from the market in order to fulfil a large number of lending targets, so that the enterprises that should have been eliminated from the market continue to take up a large amount of assets and resources but are unable to contribute to the market, and the whole financial system has failed to contribute to the market. In order to fulfil the large number of loan targets, banks are forced to issue subprime loans to uninspiring enterprises that should have been eliminated from the market. The rigid financial system, resulting in the failure of the market's resource allocation function to play its role, is one of the fundamental reasons for the economic downturn for many years and the outbreak of the financial crisis [7].

## 4.3. Primary Banking System as a Catalyst" for Credit Bubbles

The essence of a financial bubble is a credit bubble, and the essence of a financial crisis is a credit crisis.

In Japan, the "catalyst of the credit crisis was the master bank system. According to Liang Chen (2012), Japan's master banking system once tied up the relationship between banks and enterprises in depth, which gave Japan great impetus in the period of creating the "Japanese Miracle". However, since the 1990s, it is precisely under the main banking system that the close tie between banks and enterprises has become a major obstacle to Japan's economic development and financial development. When the financial and economic situation was favourable, there was a positive transmission of capital supply and demand between the main bank and enterprises. and they shared the fruits of economic development and financial prosperity; but if the economy was in recession, there was a negative transmission of non-performing claims between enterprises and banks, and there was an imbalance in the supply of credit in the financial market, and enterprises and banks went through the recession together [8].

Yuan Junqi (2018) pointed out that during the period 1985-1990, in order to obtain higher returns, from private investors to small, medium and large enterprises have injected their funds into the soaring stock market and property market, and then collateralised them with stocks and properties with increasing book value, obtained loans and then re-invested them in properties and stocks again with a view to obtaining higher returns [2]. Banks lent more money for the sake of profit margins. and the number of credits soared, especially under the Japanese master bank system, where the master bank of a group granted loans to enterprises in the group, leading to the emergence of a large number of "zombie" enterprises in the market, which consumed capital resources but were unable to stimulate new innovations. Under the "catalyst"

of the master bank system, banks ignored credit ratings when granting loans, leading to the rapid growth of non-performing credits and the gradual "fermentation" of a credit-related financial bubble.

The over-expansion of credit created a credit bubble. and as a result, the entire Japanese financial market was caught in a vicious circle of "bubbles increase lending, and lending creates bubbles" [2].

## **5. Implications of Japan's Financial Bubble for China's Financial Development**

### **5.1. Policy Implementation to Ensure Coherence, Consistency and a Soft Landing for the Economy**

Reviewing the policy of the Japanese government after the "Plaza Accord", the frequent change of monetary policy and fiscal policy, repeated horizontal jumps is an important feature, coupled with the frequent change of government, so that the coherence and consistency of the policy cannot be guaranteed, resulting in a hard landing of the economy, the long-term chronic disease and the sudden bursting of economic bubbles, resulting in the outbreak of the financial crisis. The central government of China has always emphasised the smoothness and consistency of its policies, and the need to achieve a soft landing for the economy in order to enable the smooth development of China's financial market.

### **5.2. Grasping the Boundaries of Macro-control**

Japan's government-led industrial policy, the main banking system and other policies and institutions, the initial period did make Japan in the period of rapid development occupies a great advantage. But excessive government intervention, the main banking system after the exposure of the shortcomings, but also caused the industry "hollowing out" [4], the lack of innovation, "zombie enterprises" occupy most of the funds but always slow transformation, seriously affecting the economic development and financial development. Learning from the lessons of Japan, our government also emphasises to grasp the boundaries of macro-control and strive to create a fair and transparent investment environment, the mechanism of survival of the fittest to be able to play in order to ensure that the resource allocation function of the financial market to give full play to.

### **5.3. Increasing the Share of Direct Financing to Optimise the Financial Structure**

The financial structure of both China and Japan is based on indirect financing [4], the difference is that the financial structure of indirect financing in Japan is based on the main banking system. After Japan's financial bubble was punctured by the government's policy of multiple large interest rate hikes, the original high book value assets shrunk dramatically, a large number of non-performing debts appeared, and the fact that a large number of banks failed due to inability to bear the burden under the main banking system reveals that our country should strengthen the prevention of financial crises as well as actively increase the proportion of direct financing. In the Fifth Plenary Session of the 19th Central Committee of the Communist Party of China (CPC), increasing the proportion of direct financing was one of the major decisions and deployments during the 14th Five-Year Plan period, with a view to maintaining the balance of the financial structure; and in May of the same year, the State Administration of Financial Supervision and Administration (SAMA) was established based on the China Banking and Insurance Regulatory Commission (CBIRC), with a view to placing emphasis on financial supervision and financial security, and to promoting the The State Financial Supervision and Administration Bureau was established in May of the same year on the basis of the China

Banking and insurance Regulatory Commission, with an emphasis of financial supervision and financial security, to promote the development of China's financial market.

#### 5.4. "Double-cycle" Strategies to Address Population Ageing and Trade Frictions

Japan has one of the world's largest populations in terms of the number of children and the trend of population ageing, which can be both a social and an economic problem. Against the backdrop of an ageing population, Japan has also been actively investing in foreign countries and developing an export-oriented economy, but it has not been spared by the two oil crises, the financial crisis in South-East Asia or the subprime mortgage crisis in the United States in 2008. From a domestic perspective, China is also about to enter an aging society in the next few decades, and experts and scholars from all walks of life are paying close attention to the topic of pension finance. From an international perspective, over the past decade or two, China's rapid economic development has been accompanied by increasing trade frictions with other countries. Both the aging of the population and the increase in trade friction are the inevitable "by-products" of China's economic and financial development. China should learn from the lessons of Japan's financial crisis and actively promote the implementation of the "double-cycle" strategy, with a view to smooth economic and financial development.

### 6. Summary of the Full Text

According to the results of CiteSpace visual analysis, the study of financial crisis in Japan is a hot research topic. Recalling the end of World War II, with the U.S. and Japan, Germany, Britain and France signed the "Plaza Accord" in 1985 as a turning point, Japan from the period of rapid economic development into the period of financial bubbles, the gradual economic depression began in 1991, the financial crisis broke out around 1997, and until today is still mired in the development of the "Ouagmire". The main factors in the study of the emergence of the financial bubble and the outbreak of the financial crisis in Japan are: governmental decision-making mistakes, institutional factors (including government-led policies, the main banking system, and the employment system), and over-expansion of credit. In addition, some scholars point out that population aging and cultural factors are also key factors [7]. China's economy, society, and culture have some similarities with Japan in a sense, but there are also many differences. For example, following the example of Japan, the government has always emphasised policy consistency and coherence, and grasping the boundaries of macro-control. In the first half of 2023, it also emphasised measures such as increasing the proportion of direct financing, focusing on national financial security and implementing a "double-cycle" strategy in order to promote the economic and financial development of the country.

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