CHAPTER 9

Conclusion: Lessons for Contemporary China

Ancient Japan was a primitive aboriginal society until 400 AD, due to its isolation from the Asian mainland. But the period 200 BC to 300 AD encompasses the time during which Japan’s original aboriginal hunter-gatherer culture, the Jomon culture, transitioned to the Yoyoi culture. This transition was a technological transformation comparable to the Meiji period after 1868 when Japan began to emerge as an industrialised power. Before 712 AD there is no indigenous documentation of Japanese culture and history. However, documentation of pre-712 AD Japan was maintained by scholars of the imperial Chinese courts of the Han and the Wei dynasties. An embryonic Japanese state emerged from the fourth century AD to the eighth century AD. It was in the Nara period that the imperial court established the first permanent imperial capital at Nara, to the south of Kyoto.\(^1\) It was a capital city which was modelled on the Chinese capital.\(^2\) By the sixth century AD, under the hegemony of Prince Shotoku (592 AD to 628 AD), Buddhism diffused into Japan from China and was made the official state religion. In 604 AD, the Prince implemented constitutional government and political reform by publishing a seventeen-page constitution, which was based on Confucian thinking emphasising social harmony, moral and spiritual values. During Shotoku’s period of governance, not only was there an inflow of knowledge about Buddhist and Confucian

\(^{1}\) Ishibashi, K. (2004), Status of historical Seismology in Japan, Annals of Geophysics, Vol.47, No.2/3.
\(^{2}\) Ibid.
thinking from China to Japan but also Chinese written characters began to enter the Japanese language.

Agricultural techniques had developed during the Yoyoi Culture, the Kofun Period from 300 AD to 700 AD. This period also saw the increased use of iron tools in farming.\(^3\) As a result agricultural productivity increased. This allowed for wealth accumulation, and more food meant that the population increased at the same time. As the population increased, there was more need for better social organisation. And, in this case the Taika Reforms were launched in 645 AD.\(^4\) These reforms would, it was hoped, contribute to Japan becoming a centralised state in the mould of China.\(^5\) In 701 AD a legal system known as the Ritsuryo, which encompassed both civil and criminal code, became established across the whole of Japan except for Hokkaido which had not yet become integral to Japanese territory.\(^6\) Under the Ritsuryo, planning related to agriculture—rezoning of the size of paddy fields, the reclamation of paddy fields or changes to irrigation canals—was all under the control of the central government.\(^7\) However, between 794 AD and 1192 AD as aristocrats and the temples began to own more land, the centrally administered Ritsuryo system began to weaken.\(^8\) Landowners and farmers began to supply their own tools. They also reclaimed swampy land for agriculture at their own initiative. The supply of tools and the reclamation of land had been under the jurisdiction of the central government during the time in which the Ritsuryo legal system was in force.\(^9\) As landowners and farmers became wealthy, they armed themselves and their followers. Over time, under their powerful leaders, these autonomous armed groups came to be known as Samurai.\(^10\) And by the eighth century AD, the Yamato Clan had introduced elements of the indigenous animistic religion, Shintoism, into

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\(^3\) Ito, M., and Hiraizumi, K. (2008), Agriculture in Japan, IN Encyclopaedia of the History of Science, Technology, and Medicine in Non-Western Cultures, Selin, H.(ed), 2nd Edition, Springer.
\(^4\) Ibid.
\(^5\) Ibid.
\(^6\) Ito, M., and Hiraizumi, K. (2008), Agriculture in Japan, IN Encyclopaedia of the History of Science, Technology, and Medicine in Non-Western Cultures, Selin, H.(ed), 2nd Edition, Springer.
\(^7\) Ibid.
\(^8\) Ibid.
\(^9\) Ibid.
\(^10\) Ibid.
Buddhism. The Yamato chieftain, claiming descent from the Sun Goddess Amaterasu, became known as ‘Emperor’ and gave rise to the imperial line from which the current Japanese emperor is also drawn from. So by the twelfth century, the two well-known ‘institutions’ of Japanese culture had become established, the Samurai and the Emperor.

The shift from the Heian Period to the Kamakura Period represented a major change in the dynamics of Japanese social and political organisation. In this case, this shift represented a shift from an aristocratic society to a feudalistic one with a greater military orientation. The political change was due to a move away from the centralisation of state power to decentralisation in which the Kamakura Bakufu devolved power to local regional war lords or Daimyos. The emergence of feudalism represented the social change in which Japan’s society was now stratified into classes. In descending order, these classes included the samurai, the aristocrats, the clergy, the farmers, the peasants, the merchants and outcasts. Due to the fact that there was increasing monetisation, although the merchants were at the lowest level of the social order, they were responsible for facilitating economic activity by converting measured quantities of rice into coinage. In effect, the merchants were acting as the intermediary between the Bakufu, the Daimyo and the farmers. At the same time, the Japanese market was expanding due to increased trade with Japan. Market expansion and increasing monetisation of the economy required the regulation of economic activity through dispute resolution. In order to facilitate this, the Joei Code was implemented in 1232 AD. The Joei Code represented the first indigenous legal code.

The Kamakura Period came to an end in 1333. And once the Kamakura Bakufu had been defeated militarily, the government was transferred back to Kyoto in what became known as the short-lived Kemmu Restoration of 1333 to 1336. However, this was followed by the establishment of two rival courts in the Nambokucho Era from 1336 to 1392 when one of the Emperor’s generals rebelled. There then followed the ascendancy of the Ashikaga Shoguns from 1392 to 1568, in a period of stability for Japan in the Muromachi or Ashikaga Period. The Muromachi Period in Japanese

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11 Ibid.
12 Ibid.
13 Shackley, M. (1986), Arms and the Men; 14th Century Japanese Swordsmanship Illustrated by Skeletons from Zaimokuza, near Kamakura, Japan, World Archaeology, 18:2, pp. 247–254.
14 Ibid.
economi and political history was one in which there were social and political changes which contributed towards the development of institutions in Japan. It was during the early Muromachi Period in 1342 that the Gozan Josselsu System of monastery-temple organisation was firmly established. The Muromachi Period was at its height between 1368 and 1394 during the tenure of the Shogun Yoshimitsu who favoured Buddhism rather than Japan’s indigenous Shinto religion. Yoshimitsu also achieved this by bringing together the governance structures and the institutions of the Bakufu and the imperial court. To some extent he achieved this by bringing court officials under his control. At the same time as bringing court officials under his control, Yoshimitsu also extended his power over the nobility by reducing their land holdings to a tenth of what they previously had, making them poorer. This would reduce the capacity of the nobility to wage war against the Bakufu by using their wealth to raise an army. However, following the death of Yoshimitsu in 1408, his son Yoshimochi undid much of his work by making appointments based on merit and tradition. This had the effect of separating the governance structures of the Bakufu and the Court. Nevertheless, the control of land by the nobility through the Shoen System began to decline through the fifteenth century. Such was the case that by the end of the fifteenth century, the nobility as Shoen proprietors of the land had given control of the land to local warriors on a contractual basis. The legal code was also extended during the Muromachi Period by supplementing the Joei Shikimoku from the Kamakura Period. One of the additions made to the Joei Shikimoku was the Kenmu Shikmoku by the Shogun Ashikaga Takauji. The demise of the Kamakura Shogunate lies with the costs which were required and incurred to defend Japan from the Mongols.

The three to four decades of instability during the Azuchi Momoyama Period was brought to an end in 1600 AD with the start of the Tokugawa period and the start of the longest period of stability and economic development in Japanese history. However, it was not until 1615 that Ieyasu was able to cement and consolidate his authority as Shogun, following the victory of his forces over those of the feudal lords at the Battle of Osaka. In the time period approaching the commencement of the Tokugawa period, European ships began arriving in Asia. These ships brought traders and missionaries. At this time the Shogunate was fearful of losing its control over Japan due to the influence of the foreigners. As a result, the Shogunate expelled all foreigners from Japan and closed its borders, starting a policy of isolationism which lasted for over 200 years. During the
period of isolation from the rest of the world, Tokugawa Japan developed a number of distinct features. The first was the implementation of a social structure through which it was difficult but not impossible to move. In this case, the Tokugawa social structure in descending order was composed of the samurai, the peasants, the artisans and the merchants at the bottom. Secondly, it was in the Tokugawa period that the institutions and the structures of a market economy began to be laid. In this case, the Shogunate mandated that the families of the feudal lords or daimyos should reside in Edo where the Shogun was based. Moreover, the daimyo himself was mandated to stay in Edo for up to 6 months of the year, with the rest of the year spent in his domain. Edo became a generic ‘castle town’ in which samurais from rural areas were also expected to reside. The samurai depended on the Shogunate for their income. The castle town elite were becoming more and more urbanised and represented the primary consumers in Tokugawa Japan. Merchants were drawn to the castle towns, and a trading system developed between Edo, Osaka and Kyoto with Osaka at its centre. This was because it was in Osaka that coinage emerged. Due to increasing economic activity and trade, the merchants were becoming wealthier than the Samurai. However, the Samurai depended on the local Daimyo for income. And the local Daimyo collected tax from local farmers as a proportion of the rice harvest in their domains. But as such revenues were less than expenditures, the Daimyo’s payments to the Samurais were falling. Consequentially, Samurais were becoming poorer. Thirdly, as a result of an increase in food production, there was a significant increase in Japan’s population between 1600 AD and 1700 AD.

By the mid-nineteenth century, the European powers and America were again drawn to Japan for trade. However, Tokugawa Japan had been closed to trade with the outside world except with Korea and China for over 200 years. And as a result, Japan had fallen behind militarily, technologically and economically. It was not in a position to defend itself from attack. And the Tokugawa Bakufu had to make unfavourable agreements with the Europeans and the Americans, to open the country to international trade, in order to merely keep the country’s sovereignty. However, unfavourable trade agreements, the fear of European and/or American colonisation in the face of China’s experience at the time, drove the lower

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15 Jansen, M. (1992), China in the Tokugawa World, Harvard University Press, Cambridge, Massachusetts.
Samurai to back the reformers who wanted an end to the Tokugawa Bakufu and the restoration of the authority of the Emperor over the country, in association with political, economic and technological modernisation. This became known as the Meiji Restoration of 1868. This encompassed a constitutional government with the Emperor at its head, an elected parliament, industrialisation and the development and strengthening of the country’s Army and Navy. However, the policy direction of the country was very much dependent on public attitude and the power of the military, a nationalistic and military synergy, whose attractiveness and electability were determined by economic circumstance. In this case, economic crises which negatively impacted on Japanese society and people facilitated an increase in the support for nationalism which enhanced the role of the military in the governance of Japan. Moreover, Japanese industry was centred on the Zaibatsu with government support and the use of private capital. There was also a close relationship between the politicians and those who controlled Japanese industry, the Zaibatsu Oligarchs. At the same time, there was an increase in the income disparity between the rich and the poor. The military were drawn from the poor. As a result of the increased social divide and deprivation as the Japanese economy industrialised and grew, the individualism and the respect for the democratic system which had been growing since the Meiji Restoration of 1868 became more and more threatened in the subsequent Taisho Period by the Japanese military. In other words, at times of severe economic crisis and distress, democracy is hijacked by the forces of the far right. The beliefs associated with this political spectrum delve deep into the dark side of humanity and into an evil with no matching parallel. But at the same time, through the Taisho Period increased industrial capacity and increasing industrial production resulted in an increased need for raw materials. As a result, Japan acquired Korea, Manchuria and Taiwan through military power and negotiation.

The Showa Period began in 1926 at a time of economic crisis in Japan which was doing nothing to address the widening disparities of income between the rural poor and the urban rich.

Economic crisis was a common feature of the Japanese economy in the few years before the start of the Showa period and for the first few years after it began. Politicians were seen as corrupt, because of their close association with the Zaibatsu Oligarchs, and ineffective in formulating effective long-term economic policies to reduce the income divide. The Japanese military’s solution featured two strands. Firstly, to take control of
governing Japan and turn it into a militaristic bureaucratic planned economy. And secondly, in doing so, prepare to challenge American and largely the European hegemony of Asia through military means. Once defeated, as the Chinese and the Russians had been, Japan could then negotiate with the Europeans on what parts of their Asian colonies Japan could keep in order to expand the market for its goods and in order to increase its hegemony. The result of this strategy was Japan’s defeat in World War 2 by the allies and its subsequent defeat, surrender and occupation by the United States. After signing a peace treaty with the United States in the early 1950s and regaining its sovereignty, the Japanese economy then grew to become the second largest economy in the world after the United States towards the late 1980s.

Just as the Japanese economy was challenged as it went into recession in the early 1980s by an ascendant American neoliberal order, the same is true of China in 2019. There are also similarities between the economy of Japan in 1989–1990 and that of China in 2019–2020. Firstly, just as Japan’s economy featured government intervention, regulation and bureaucracy, so does the Chinese economy. Secondly, just as easy money was made available in Japan following the appreciation of the Yen after the signing of the Plaza Accord by the G5 countries in 1985, credit was made readily available to state-owned enterprises in China following the aftermath of the global financial crisis of 2008. The results were essentially the same. In Japan from 1985 to 1989, the availability of cheap money led to excessive borrowing by investors for speculation in the stock market as well as in real estate. This led to a stock market bubble and a property bubble which ‘popped’ as the Bank of Japan decided to end a decade of cheap credit by easing up interest rates, incrementally a number of times, from May 1989 to August 1990. At the same time, the Japanese Ministry of Finance implemented laws and regulations which constrained the transfer/sale of land. Land featured heavily in the assets of firms, often serving as collateral for loans, and whose value was linked and rising in tandem to the value of the stock market. In the last day of trading in Japan in December 1989, the Nikkei 225 hit a peak of 39,000, and subsequently, the Nikkei 225 collapsed in value over the subsequent months and years. Similarly, in contemporary China following the global financial crisis of 2008, the Chinese government instigated a fiscal stimulus amounting to US$580 billion in November 2008. This stimulus was exercised by the Chinese government instructing the four state-owned banks to increase ‘soft’ lending to Chinese state-owned enterprises, particularly in the
constructions sector. As a result, a bubble began to form in China’s real estate sector and in its stock market. A third similarity between Japan after 1989 and contemporary China is that the population is ageing dramatically. This may lead to labour shortages which could impact on either the agricultural sector or the manufacturing sector. However, in contrast to Japan, the advantage for China is that its base population from which the decline is starting is much higher at over 1.3 billion people. A third similarity between Japan after 1989 and contemporary China is that local Chinese authorities were using land and shares in state-owned companies as collateral for loans. Firms in Japan used land as collateral during the period 1989 to 1989. And as land was firms’ assets, land prices and share prices rose in tandem. Similarly, when the Japanese stock market crashed in early 1990, both land prices and share prices crashed in tandem leading to prolonged and sustained economic stagnation. The fourth similarity between the Japan of the late 1980s and contemporary China is that in order to curtail the real estate bubble, property began to be regulated. In Japan, in the late 1980s, the Ministry of Finance implemented laws and regulations which constrained the transfer of property. And this in association with the increases in the discount rate implemented by the Bank of Japan burst the real estate bubble and the stock market bubble sending the Japanese economy into a prolonged stagnation. Similarly, cities in China began to regulate and legislate against the purchase and transfer of real estate in a bid to restrain speculation in the sector. Tighter regulation began in China’s big cities where real estate prices are high, but in 2018 medium and smaller cities followed with regulating the real estate market in order to control speculation and stabilise prices. In this case, forty cities released fifty regulations in May 2018 alone. The fifth similarity between the Japan of the late 1980s and contemporary China is that local government is very dependent on central government for fiscal sustenance through tax transfers. Local government in China was given a fixed share

16 The Economist (2017), What a debt crisis in the provinces says about governing China, https://www.economist.com/china/2017/11/16/what-a-debt-crisis-in-the-provinces-says-about-governing-china
17 Lingqing, Z. (2018), Shenzhen announces tighter property market regulation, http://www.chinadaily.com.cn/a/201808/01/WS5b61463ea31031a351e91735.html
18 Xinhua (2018), Economy Watch: China sticks to tight property market regulation, http://www.xinhuanet.com/english/2018-06/12/c_137249459.htm
19 Ibid.
of taxes on goods and on income in a 5:4 ratio, respectively. However, while local government in China receives half of central government tax revenues, they are responsible for two-thirds of central government spending. This inevitably acted as an incentive for local government to seek unorthodox sources of finance. And as a result, the ‘Local Government Financing Vehicle’ (LGFV) was created. The LGFV was a shadow unregulated investment company through which local government was able to acquire loans for infrastructure investment using state-owned land and shares in state-owned enterprises as collateral. Moreover, the LGFVs were established as state-owned enterprises, which allowed them to benefit from a soft budget, in that borrowed money would not have to be paid back because central government would take care of it. Furthermore, another advantage of registering the LGFVs as state-owned enterprises was that their valuations could be kept off balance sheet of local government finances and in effect hidden from central government regulatory review and control. By 2013, the central government had become so concerned with LGFVs that it conducted an audit which revealed that there were over 10,000 LGFVs in China with a total borrowing of $1.1 trillion or 13% of Chinese GDP. But by 2015, local government debt in China, most of which was accounted for by LGFV debts, amounted to 24% of GDP. However, in order to control LGFVs in 2014, the central government ordered local governments to issue bonds and then used the money raised to refinance the LGFVs, with the process to be completed by 2018. But, in addition the other purpose of the money raised through the issuance of these special bonds was to finance infrastructure projects and not pay for the general expenditure of local governments. For 2018,

20 The Economist (2017), What a debt crisis in the provinces says about governing China, https://www.economist.com/china/2017/11/16/what-a-debt-crisis-in-the-provinces-says-about-governing-china
21 Ibid.
22 The Economist (2017), What a debt crisis in the provinces says about governing China, https://www.economist.com/china/2017/11/16/what-a-debt-crisis-in-the-provinces-says-about-governing-china
23 Ibid.
24 Ibid.
25 Ibid.
26 Ibid.
27 Ibid.
28 Wildau, G., and Jia, Y. (2018), China floods debt market with new bond to boost infrastructure, https://www.ft.com/content/8e3e2dae-ba58-11e8-94b2-17176fbf93f5
the central government approved the issuance of these special purpose bonds equivalent in value to $197 billion.\textsuperscript{29} The central bank also injected more monetary liquidity into the economy so that the sale of the special purpose bonds could be observed.\textsuperscript{30} Nevertheless, the special bonds issued by local governments are unattractive to investors compared to other types of bonds because they have a lower yield.\textsuperscript{31} Consequentially, local governments have put pressure on the banks, by only depositing money in the banks which purchase the bonds.\textsuperscript{32}

In order to stop the dubious financing of local governments, the central government began to include borrowing decisions of local government officials in career profiles, the banning of questionable incentives to entice private investors as well as a new revenue-sharing scheme in the 2016 Five Year Plan.\textsuperscript{33} And in order to increase the tax raising potential of local governments, a property tax was proposed in 2013.\textsuperscript{34} However, local and central governments have not reached any fiscal transfer agreement, and the imposition of a property tax may cause the real estate market to crash.\textsuperscript{35} But government efforts were not working in order to constrain local government borrowing as admitted by President Xi in July 2017 because China’s financial and macroeconomic stability was being undermined by mounting local government debt.\textsuperscript{36} It is also unlikely that if the LGFVs defaulted, then it is highly unlikely that local governments would be able to bail them out.\textsuperscript{37} In addition to local government debt, the other type of debt which is a threat to China’s financial and macroeconomic stability is the accumulated debt of state-owned enterprises.\textsuperscript{38} In fact, Qinghai Provincial Investment Group, a state-owned company, defaulted on an

\textsuperscript{29} Ibid.  
\textsuperscript{30} Ibid.  
\textsuperscript{31} Ibid.  
\textsuperscript{32} Ibid.  
\textsuperscript{33} The Economist (2017), What a debt crisis in the provinces says about governing China, https://www.economist.com/china/2017/11/16/what-a-debt-crisis-in-the-provinces-says-about-governing-china  
\textsuperscript{34} Ibid.  
\textsuperscript{35} Ibid.  
\textsuperscript{36} Ibid.  
\textsuperscript{37} Wildau, G., and Jia, Y. (2018), China floods debt market with new bond to boost infrastructure, https://www.ft.com/content/8e3e2dac-ba58-11e8-94b2-17176fb93f5  
\textsuperscript{38} The Economist (2017), What a debt crisis in the provinces says about governing China, https://www.economist.com/china/2017/11/16/what-a-debt-crisis-in-the-provinces-says-about-governing-china
$11 million interest payment on a $300 million bond, the first in twenty years.\textsuperscript{39}

In 2019, China’s economic growth rate is tipped to fall to 6%, the lowest level for nearly thirty years.\textsuperscript{40} However, even though the Chinese economy is growing, albeit not in double digits but in single-digit growth, there is growth inequality amongst China’s provinces.\textsuperscript{41} This may cause the resulting impact of economic growth on local government debt to vary from one region of the country to another. Moreover, at the end of 2017 China’s debt as a percentage of its GDP was 260%.\textsuperscript{42} At the same time China’s trade deficit in future years will be either into small surpluses or even into deficits.\textsuperscript{43} This is in contrast to the previous two and a half decades in which China’s trade account featured significant surpluses.\textsuperscript{44} However, as China transitions from a low-income country to a middle-income country and its economic growth model shifts from an investment, export led one to a domestic consumption-driven model, there has been a shift to greater imports such as soybeans, energy, aircraft and cars.\textsuperscript{45} Moreover, China’s services component of the trade balance was $230 billion for the first three quarters of 2018.\textsuperscript{46} This represented the entire services deficit for 2016.\textsuperscript{47} While China was running a trade surplus, the United States was able to benefit because Chinese investors were able to finance US debt by buying US government bonds and corporate bonds. In this case, in January 2019 China held the equivalent of $1.3 trillion of US government and corporate debt as well as US equities, real estate and

\textsuperscript{39} Nin, G. (2019), A Chinese government-owned company just defaulted on its debt. It’s a worrying sign for the country’s economy, https://nordic.businessinsider.com/china-economy-qinghai-first-state-owned-firm-debt-default-since-1998-2019-2/

\textsuperscript{40} Lockett, H. (2019), China GDP growth tipped to slow to 6% in Q1:State Paper, https://www.ft.com/content/3051c8e-2d94-11e9-8744-c7016697f225

\textsuperscript{41} Bloomberg (2018), China’s Regional Growth Divergence Adds to Debt Policy Dilemma, https://www.bloomberg.com/news/articles/2018-08-09/china-s-regional-growth-divergence-adds-to-debt-policy-dilemma

\textsuperscript{42} Bloomberg News (2019), China to Propose Wider 2019 Fiscal Deficit Amid Slowdown, https://www.bloomberg.com/news/articles/2019-01-09/china-is-said-to-propose-wider-2019-fiscal-deficit-amid-slowdown

\textsuperscript{43} Campbell, B. (2019), China’s appetite for US assets imperilled at worst possible time, https://www.ft.com/content/f2a386b8-495a-11e9-8b7f-d49067e0f50d

\textsuperscript{44} Ibid.

\textsuperscript{45} Ibid.

\textsuperscript{46} Ibid.

\textsuperscript{47} Ibid.
assets of a different nature. However, as China’s trade surplus begins to decline, Chinese investors will have less financial resources to invest in US debt and assets at a time when the level of US debt financing is growing. In 2019, US treasury issuance will amount to anything between $1.3 trillion and $1.7 trillion, while US firms will need to roll over $700 billion in 2019. The economic situation that the United States and China find themselves in today is similar to the US–Japan economic relationship prior to 1985 when Japan was running a trade surplus with the United States, and the United States was running a budget deficit as well as a trade deficit with Japan. In an effort to reduce the trade deficit with Japan, the United States was going to launch protectionist measures against Japanese imports, just as it has been done with Chinese imports, unless Japan restructured its economy to make it more competitive. However, in order to mitigate this prospect, Japan took immediate steps to comply beginning with the Plaza Accord of 1985 by which it explicitly allowed the Yen to appreciate in value. However, even though the US trade deficit began to decline after 1987, Japan remained a relatively closed economy even until 2007. But the advent of Abenomics in 2013 has ensured that Japan has embraced free trade since then implementing the TPP and EU–Japan free trade agreement in December 2018 and February 2019, respectively. In the context of contemporary, US-Chinese economic and trade relations, both countries have imposed tariffs on each other’s goods in an escalating trade war. In this case, just as in the early 1980s, the United States wanted Japan to restructure its economy to make it more competitive so that the United States would not suffer sustained trade deficits, similar demands are being placed on China by the United States in

48 Ibid.
49 Ibid.
50 Ibid.
51 Hiroshi, N. (2002), Japanese Relations with the US, IN The Golden Age of US, China-Japan Triangle, 1972-1989, Vogel, E., Ming, Y., and Akihiko, T. (Eds), Harvard University Press, Cambridge, Massachusetts.
52 Hiroshi, N. (2002), Japanese Relations with the US, IN The Golden Age of US, China-Japan Triangle, 1972–1989, Vogel, E., Ming, Y., and Akihiko, T. (Eds), Harvard University Press, Cambridge, Massachusetts.
53 Ibid.
54 Lawrence, R. (2007), How Open is Japan? IN Trade with Japan Has the Door Opened Wider? Krugman, P. (Ed), University of Chicago Press, Chicago.
55 Politi, J. (2019), Robert Lighthizer aims to tackle Japan as US farmers suffer, https://www.ft.com/content/f1ac531e-497a-11e9-8b7f-d49067e0f50d
contemporary times. The Trump administration wants China to prevent enforced transfers of US technology to Chinese firms, and it wants China to make its market more competitive by removing barriers to entries for US firms as well as stopping Chinese government subsidisation of Chinese firms.\footnote{Politi, J., and Mitchell, T. (2019), US-China trade talks: What does the US want? https://www.ft.com/content/a747e98e-1f5c-11e9-b126-46fc3ad87c65} The EU has also woken up to China’s economic power, with countries like Italy joining the ‘One Belt, One Road’ Project,\footnote{Ghiglione, D., Sevastopulo, D., Peel, M., and Hornby, L. (2019), Italy Set to Formally Endorse China’s Belt and Road Initiative, https://www.ft.com/content/17f91d24-3f60-11e9-b896-fe36ec32aece} in viewing the country not as a lucrative market for its goods, but as an economic threat.\footnote{Peel, M., Hornby, L., and Sanderson, R. (2019), European Foreign Policy: A New Realism in China, https://www.ft.com/content/d7145792-4743-11e9-b168-96a37d002cd3}

In order to stimulate the economy, the government has proposed lifting the budget deficit target to 2.8% for 2019, compared to 2.6% in 2018.\footnote{Bloomberg News (2019), China to Propose Wider 2019 Fiscal Deficit Amid Slowdown, https://www.bloomberg.com/news/articles/2019-01-09/china-is-said-to-propose-wider-2019-fiscal-deficit-amid-slowdown} This follows a cut in the budget deficit from 3% to 2.6% from 2017 to 2018.\footnote{Reuters (2018), China should tolerate bigger budget deficit in 2019 to boost economy: State media, https://www.reuters.com/article/us-china-economy-fiscal-policy/china-should-tolerate-bigger-budget-deficit-in-2019-to-boost-economy-state-media-idUSKBN1O60EC} The cut in the budget deficit was made in an attempt to cut rising debt levels which had fuelled credit-led investment in the economy.\footnote{Ibid.} However, with the ongoing downturn in the economy, infrastructure investment needs a boost in order to maintain economic growth.\footnote{Ibid.} As central government is the key contributor of funds for infrastructure investment, there is a need for an increase in the budget deficit so that infrastructure investment recovery can take hold.\footnote{Ibid.} However, China’s economic future depends on how much economic growth falls, the ability of central government to prevent/bailout local governments and state-owned enterprises defaulting on debt, and what will happen when the
Renminbi is allowed to freely float. When this happens if the Renminbi appreciates in value, the Bank of China may have to cut interest rates. But this will make it easier for firms and households and speculators to borrow money and so risk a further escalation in the valuation of real estate and equities. If interest rates are then raised to cool these sectors, then the result may be that China’s property bubble may burst and along with it equities, giving rise to colossal local government debt and state-owned company debt which will trigger Japanese style economic stagnation and deflation. The Covid-19 pandemic of 2020 may be the trigger of significant economic upheavals not only in China but throughout the world.

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