

Macro Roundup Article

Headline: [China's Economy Is Looking At A New Wave Of Japanification](#)

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Tweet: A Citigroup analysis highlights parallels between the late '80s Japanese investment bubble and recent investment trends in China: capital formation as an outsized proportion of GDP and a development strategy reliant on large current account surpluses.

Summary: Citigroup identifies several areas of similarity. Both countries entered extended phases of strong GDP growth via investment in infrastructure and the encouragement of exports. Between 2010 and 2020, capital formation represented an average 43% of Chinese GDP growth, according to the World Bank. When its bubble burst in 1990, Japan's capital formation proportion was at roughly 36%, and considered very high. Japan and China also financed their growth in a similar way. Japan's bubble era was fuelled by indirect financing provided by commercial banks, which were nudged by the authorities into funnelling soft loans towards favoured industrial sectors. Similarly, says Citigroup, China has developed a financial system mainly dependent on indirect financing. As well as the tools available to the People's Bank of China, the government can direct the lending activities of commercial banks via a series of mechanisms.

Primary Topic: China

Topics: Business Cycle, China, Factoid, GDP, News article, Savings Glut/Trade Deficit

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