

The role of Japan in the development of emerging markets in Asia. Key lessons learned for China

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Abstract. *Japan and China are two countries whose development strategies have led to high rates of economic growth. Japan managed to reinvent itself quickly after the Second World War, while China started to promote some of the principles of the market economy as late as the 1980s. Japan has already experienced a long period of economic slowdown and slump starting at the end of the previous century, while China is still growing at a fast pace, although growth rates have been more subdued in the last few years. Nevertheless, both countries show signs of significant disbalance which may have a negative impact on their future development. Even though the two developmental models are far from being identical, there might be some similar trends. Our paper details the features of the Eurasian developmental models, particularly that of China and Japan, in order to provide a possible explanation for the significant growth rates experienced by the two countries, as well as to identify potential future growth trends.*

Keywords: emerging economies, macroeconomic policy, Asian growth, economic development.

JEL Classification: E02, E60, F63.

Introduction

The economies of Asian countries have been the focus of a large number of specialized research studies. Asian markets have certain specific characteristics which are derived from their particular cultural, behavioral and educational background.

East Asia countries have reported rapid economic growth rates generated by developmental models based on three main pillars: agricultural reform, export-oriented manufacturing and financial repression (Kroeber, 2016). Economists such as A. Kroeber and R. Wade have emphasized the idea that rapid economic growth rates are the result of the close links between governments, banks and companies, in what is known as the developmental state model (Wade, 2003).

Agricultural reform actually consisted in the breaking up of big estates and the setting up of a new class of small rural estate holders. In countries with abundant supply of rural labor, the yields of small farms are higher than the yields of large farms worked by tenant farmers or wage laborers, so, when farm ownership is fragmented, it is much easier for the state to capture a part of the significant agricultural surplus created than it would be if it were dealing with more powerful land owners. The resources thus captured would be then used by the state for basic industry and infrastructure investments.

Poor countries lack access to technology and that is why their output per worker is significantly lower. In order to be able to get rich, poor countries must engage in a process of technological catch-up, in which they will acquire technology from rich countries and use it to accelerate their own workforce productivity. Exports assist this catching-up process in two main ways. On the one hand, when a country is poor, foreign technology is expensive and exports (initially, agricultural products, handicrafts and other low-value manufactures) will bring in the foreign currency needed to purchase the equipment required for higher productivity. On the other hand, later on, when the country already has an established industrial base, exports will ensure that the country is keeping up with the latest technologies. The sale of products on international markets entails competition with other producers and the only way to stay competitive on the market is to have not only the technological resources needed, but also high quality management techniques, licenses, trade agreements, etc. Producers who mostly rely on domestic markets often have less incentive to invest in technology, since they might find it cheaper to resort to political influence to use the market in their favor.

Financial repression refers to a set of practices whereby the state becomes able to gear capital towards certain sectors which are of interest for its development strategy. These practices usually include:

- Low key interest rates, so that cash flows generated from economic growth are not used to support rentiers who want to live off interest income, but to subsidize borrowings for government investments in infrastructure.
- A tightly managed and usually undervalued foreign exchange rate, to make the country's exports cheaper on global markets.
- Capital controls, to prevent companies and rich individuals from making investments abroad and force reinvestments into the domestic economy.

With certain variations, Japan, South Korea, and Taiwan have implemented the developmental model above with rigor. Governments fostered the transfer of bank capital to the industries they wanted to develop, thus contributing to rapid industrialization and limited both the direct and portfolio investments of international companies, thus offering their economies protection against disruptive external factors (Gilpin, 2004, p. 121). According to some authors, financial repression and capital controls have actually triggered the fast economic growth rates reported by the three countries referred to above during the second half of the 20th century: each country reported an average real GDP growth rate of 8-10% per annum for three consecutive decades before slowdown (Kroeber, 2016, p. 12). Nevertheless, both China and Japan had their own developmental models characterized by specific individual features.

The specific features of the developmental model in Japan

In his book “The Global Minotaur: America, the True Origins of the Financial Crisis and the Future of the World Economy”, Yanis Varoufakis, former Minister of Finance in Greece and internationally renowned economist, shows that Japan was, in fact, one of the central pillars for the United States in Asia, after the Second World War. Both Germany and Japan were deemed dependable countries, due to the overwhelming presence of the US military. Both countries also had sound industrial bases and offered highly skilled workforces, as well as populations who were willing to rise, phoenix-like, from their own ashes. Moreover, they “offered considerable geostrategic benefits vis-à-vis the Soviet Union” (Varoufakis, 2017, p. 77). Yanis Varoufakis highlights the fact that Germany was undergoing a process of deindustrialization (as punishment for losing the war) and the Allies, via the Allied Control Council, ordered the dismantling of steel plants to reduce Germany’s output in the steel and car industries. But things were different in the case of Japan: the country was administered by General Douglas MacArthur, supreme commander of the allied forces in the Pacific region and thus, the US policy could be dictated directly. The United States transferred huge amounts of money to Japan (even from the first day, the transfers amounted to almost 30% of the country’s total trade), but also assisted in the establishment of new institutions. As Varoufakis explains, “Within Japan, the United States wrote the country’s new constitution and empowered the famed Ministry for International Trade and Industry to create a powerful, centrally planned (but privately owned), multi-sectoral industrial base” (Varoufakis, 2017, p. 85). At the same time, US politicians pushed Japan’s admission to the General Agreement on Tariffs and Trade (the ancestor of today’s World Trade Organization), so that Japanese products might be sold to other countries with minimal restrictions.

Yanis Varoufakis also shows that the stabilization of global capitalism was a key prerequisite for increased power and prosperity in the USA, so the US administration created zones for the Deutschmark and the yen, allowing its former enemies to receive the liquidity necessary to restart their industrial engines and to establish the political institutions allowing them to develop and to provide long-term support for the dollar. “Never before in history has a victor supported the societies that it had so recently defeated in order to enhance its own long-term power, turning them, in the process, into economic

giants” (Varoufakis, 2017, p. 86), the economist argues. The US administration was very flexible and managed to adapt its policies according to the particular features of each region. For instance, it was able to use the Korean War (started in June 1950, when North-Korean and Chinese communists attacked South Korea, looking to unify the peninsula under their command) and turn it into an opportunity to generate demand for the Japanese industrial sector. The US administration also used its influence over its own allies to allow Japanese products to be imported freely on their domestic markets. Another inspired decision was to turn the US market into Japan’s vital space by allowing Japanese imports – cars, electronic goods and even services – on the US market, with the consent and support of the Washington administration. Last but not least, the successor of the Korean War, the War in Vietnam, also provided support for Japan. Moreover, the industrialization of South East Asia further strengthened Japan by providing it with the missing link – a commercial vital zone in close proximity (Varoufakis, 2017, p. 94). Robert Gilpin also stresses the importance of regionalization and states that Japan has played a significant role as world economic power, since the Japanese investments, trade and Official Development Assistance (ODA) mechanism were essential to the dynamics of the region and the development of the Pacific Asia region as an emerging economy (Gilpin, 2004, p. 199). Robert Gilpin states that developments in the region can only be understood by reference to Japan’s efforts to become the economic driving force of the East Asia region.

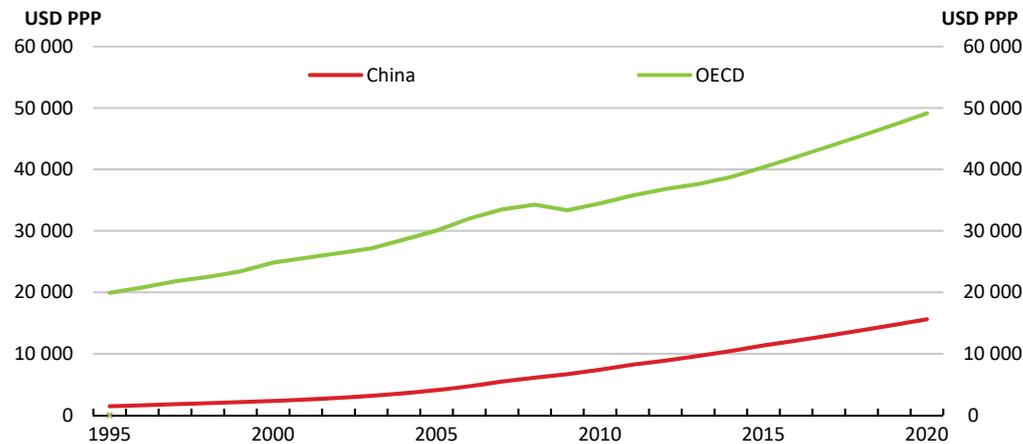
Japan’s lack of interest in the region came to an end with the significant appreciation of the yen (*endaka*) following the Plaza Accord of September 1985 (which forced Japan to substantially increase the value of the yen, thus making Japanese exports more expensive). The appreciation of the Japanese yen by approximately 30% versus the US dollar made Japan the greatest financial power of the world, by significantly increasing the value of its financial assets, with dramatic side effects, such as reduced profitability and international competitiveness for various Japanese products, particularly in more traditional industries. Even though several Western experts predicted that the high yen (*endaka*) and the economic crisis would compel Japan to choose the Western developmental model, the local elite opted for an alternative strategy, as it did several other times in the post-war era (Gilpin, 2004, p. 201). Japan’s East Asia strategy was motivated not only by Japan’s desire to maintain and strengthen its economic status, but also by its wish to reduce its excessive reliance on the US market. At the beginning, Japan was more interested in its close neighbors - Taiwan, South Korea and Hong Kong, but when the higher wages and the appreciation of exchange rates made North East Asia countries less attractive for the purpose of investments, Japan became more interested in the South East Asia region. The investments of the Japanese *keiretsu* (industrial groupings) were used as a means to enter the East Asia market and extend Japanese influence in the region. By the end of the 1990s, Japanese companies had invested approximately 100 billion US dollars in the region, with more than 4,500 individual or joint venture Japanese enterprises employing almost one million persons in the region; moreover, Japanese investments were accompanied by a significant technology transfer amounting to around one billion US dollars (Gilpin, 2004, p. 202). According to Gilpin, Japan had become the most important sponsor in the region, with almost 35% (about 4.5 billion US dollars) of the country’s entire budget earmarked as foreign aid to other countries in the region between 1991 and 1992.

Japan's strategy in Asia followed the "flying geese paradigm" put forward by the Japanese economist Kaname Akamatsu in the 1930s. According to the paradigm, economic development was fueled by the diffusion of capital, technology and management capabilities from Japan, the most developed economy in the region, to the other countries in the same region. Technological and economic diffusion allows developing economies to permanently improve their exports and industrial structures. As they become more industrialized, the same countries will export increasingly more sophisticated products to Japan and other countries. The "flying geese model" is based on a cooperative developmental pattern and regional integration in Asia, with benefits for both Japan and the other economies in the region (Gilpin, 2004, p. 202). At the end of the 1970s, Saburo Okita, then Minister of Foreign Affairs in Japan, was promoting the idea that East Asian countries should follow the "flying geese paradigm". Okita was of the opinion that Japan played the role of regional leader in the pattern, leading the way to industrialization and economic development. The other Asian countries, from the more developed industrialized countries in North East Asia to the poorer countries in South East Asia, would also fit in the "flying geese model", according to their economic power and technological development, including more advanced countries such as Taiwan and Korea, as well as ASEAN countries. Thus, through investments, trade policies, and foreign aid, Japan has transferred to East Asia its post-war sustainable growth model driven by exports, an economic development strategy based on technological catch-up and an industrial policy focused on providing support to developing industrial sectors.

The specific features of the developmental model in China

China is one of the 14 countries in the world which, after the Second World War (i.e. in the period between the 1970 and 2010), managed to increase their income per capita versus the United States by more than 10 percentage points. In a study examining the reduction of growth gaps, A. Batson argues that seven of the 14 countries benefited either from the post-war economic boom or their accession to the European Union (Austria, Spain, Greece, Finland, Portugal, Italy, and Romania). Another country with spectacular growth rates was Israel, who also benefited from its close proximity to Europe. The other six countries (Taiwan, Japan, South Korea, Malaysia, China, and Thailand) were all East Asia countries, with Taiwan, South Korea, and Japan reporting the highest levels of income (Batson, 2011, p. 4). But the rapid economic growth experienced by these countries ended at a certain moment in time. The catching-up process slowed down and reached an average 55% of the US GDP per capita (20% of the US GDP per capita in Thailand, around 40% in Portugal, around 50% in South Korea, around 70% in Austria, and around 80% in Finland). Will we witness a slowdown of the Chinese economy as well? Is there a slowdown/stagnation pattern?

China is celebrating 40 years of great economic reform. It's been 40 years of changes for the Chinese economy which became more open. China is now the second largest economy in the world and the largest exporter of all. According to the World Bank, the weighted mean of tariff rates in China has gone down from 14.1% in 2001 to 4.3% in 2016, with the country opening many of its economic sectors to investments from foreign countries (World Bank database, 2018). The Chinese economy continues to grow at a fast pace despite slower growth rates in recent years, while GDP per capita is still on the rise (see Figure 1).

Figure 1. *GDP per capita, current Purchasing Power Parities*

Source: OECD.

As regards the development of China, Yanis Varoufakis argues that Deng Xiaoping's strategy was inspired by Japan and the South East Asia tigers (Varoufakis, 2017, p. 231). The guiding principle behind China's development plan was based on the idea of a dual economy with special economic zones resembling Singapore or Hong Kong, namely islands of intense capitalist activities, within a country of unlimited labor power. The central government would direct investments (as in the Japanese model) and would negotiate technology transfers and foreign direct investments with Western European and Japanese multinational corporations. As regards China's global positioning, it would be similar to that of South East Asia, in terms of looking for resources of demand for its export-led economy in the United States and Japan. Yanis Varoufakis also argues that US, European and Japanese multinationals played a key role by establishing factories in China and using its low costs to export products to the rest of the world, particularly to the United States.

Varoufakis suggests that, as China learned how to deal with the United States and the Japanese experience, the country was able to resist the pressure coming from the United States to revalue the national currency (renminbi - RMB). The economist argues that, in the aftermath of the 2008 Crash, the United States is pushing for the revaluation of the renminbi for the same reasons it pushed Japan to sign the Plaza Accord – the US government is trying to correct low demand levels on the domestic market by doing what all the governments are doing in times of economic recession: drive up demand on foreign markets, usually by revaluating the national currency (or by trying to persuade other countries to revalue their own).

The key differences between the developmental models of China and Japan

There are also key areas where the developmental model of China differs from that of Japan. First, China has relied a lot on state-owned enterprises (SOE). In post-war Japan, the state laid down the rules and controlled the resources, but most companies and banks

were privately owned. Due to its communist background, China started its economic growth in 1979 with almost all of its assets in the hands of the state; at present, China continues to have one of the largest state-owned economic sectors of all major markets.

The second key difference lies in the use of foreign direct investments (FDIs). FDIs had basically no role in the development of the Japanese economy after the Second World War, but they were critical to the development of China. At the beginning of the 1980s, one of the most significant economic reforms entailed the involvement of foreign companies in the production of output for export purposes. Foreign direct investments became practically an obsession after Deng's southern tour of China in 1992, with annual inflows going up from an average 2 billion US dollars in the previous decade to 37 billion US dollars between 1992 and 2001; moreover, in 2001, when China became a full member of the World Trade Organization, greenfield investments increased to more than 80 billion dollars per year until 2010. From 1993 to 2002, foreign direct investments accounted for approximately 10% of total investments in China. The significant amount of FDIs led to more than half of China's exports and two thirds of its high-end technology exports actually being produced by foreign companies.

Another key difference is that the two economies had very different driving forces: the Japanese economy relied on US capital, the same as Germany after the Second World War, while China had its own centrally-planned national program.

Miracle or myth?

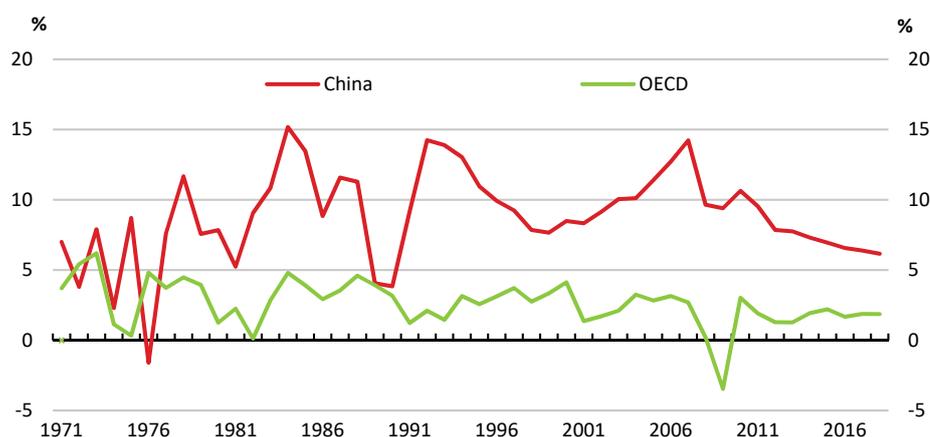
The main question is whether, following the East Asian developmental model of Japan, China will be facing the same problems which made the Japanese economy stall. In 1980, Japan had a GDP per capita 30% lower than that of the United States, while ten years later, the difference was only 17%. But, in the 1990s, Japan's economic growth slowed down. Between 1991 and 2003, Japan's GDP was up a mere 0.7% (versus 4.6% in the past three decades), and analysts began to refer to the period as "the lost decade". When examining the causes for the lost decade, the arguments that come to mind are the aging population (the year 1990 was a turning point for Japan's working-age population which started to decrease), the increase in public debt or the collapse of the real estate market. On top of it all, a more in-depth analysis shows that a significant slowdown in productivity was also one of the main causes for the entire economic slowdown. One decade earlier, between 1983 and 1991, overall productivity went up by an average 1.88% per annum, while in the period between 1991 and 2003, the growth rate was only 0.23% up on average, per annum (according to the data in the Asian Productivity Organization Productivity Database).

China also reported spectacular growth rates in the past, but developments in recent years made analysts wonder if the Chinese economy would find itself in a situation similar to that of Japan in the years before the lost decade.

Although still high, China's growth rates are slowing down as the population is aging, and the economy is shifting from an investment to a consumption-based model, from foreign demand to domestic demand and from production to services. After a period of growth

rates exceeding 8% between 2000 and 2011, the Chinese economy has slowed down to less than 7%, while economists are expecting growth rates to fall even further.

Figure 2. *Real GDP growth*



Source: OECD.

The slowdown of economic growth translates into lower corporate gains and more pressure for increased efficiency. At the same time, slower income growth means limited resources for a more inclusive growth process.

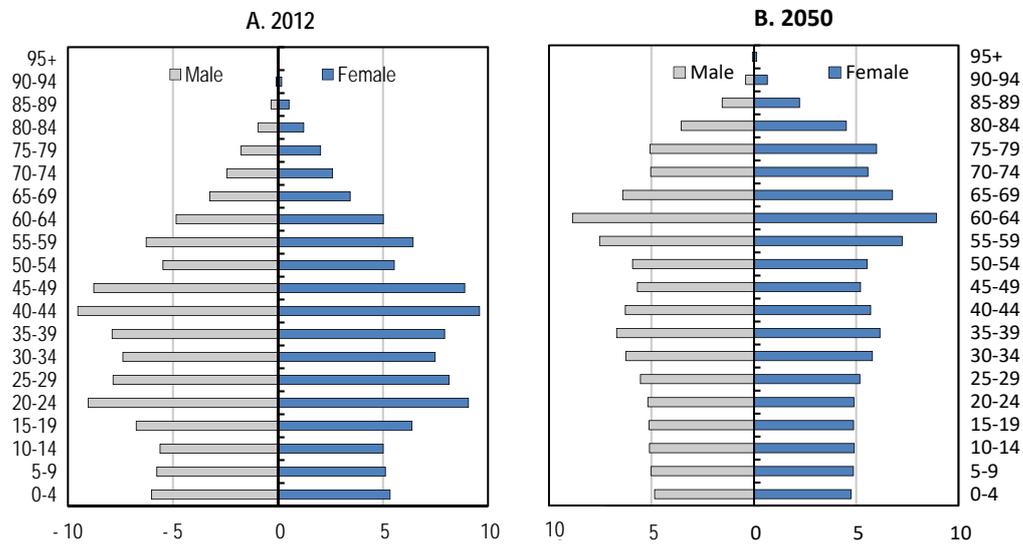
The aging of the population is one of the common features in the development of the two countries. With 33% of the population aged 60 years or more, Japan is “the oldest” country in the world, (United Nations, 2015, p. 11) and the impact of aging population and falling fertility rates on economic growth is similar to the latest developments in China.

Research (Maestas et al., 2016, p. 32) has shown that a 10% increase in the population aged above 60 years equals a decrease in the country’s GDP per capita of 5.5%. For instance, a 16.8% increase in senior population in the period between 1980 and 2010 resulted in a 9.2% decrease in GDP per capita. In other words, a 0.3 percentage point drop in the annual growth rate in a period of time when the average growth rate was 1.8 percentage points.

As far as fertility rates are concerned, lower rates may have short-term benefits (such as increased productivity, higher female inclusion on the labor market, etc.), but the downsides are more prominent in the long run (labor shortages, low productivity, pressure on the pension and social security system).

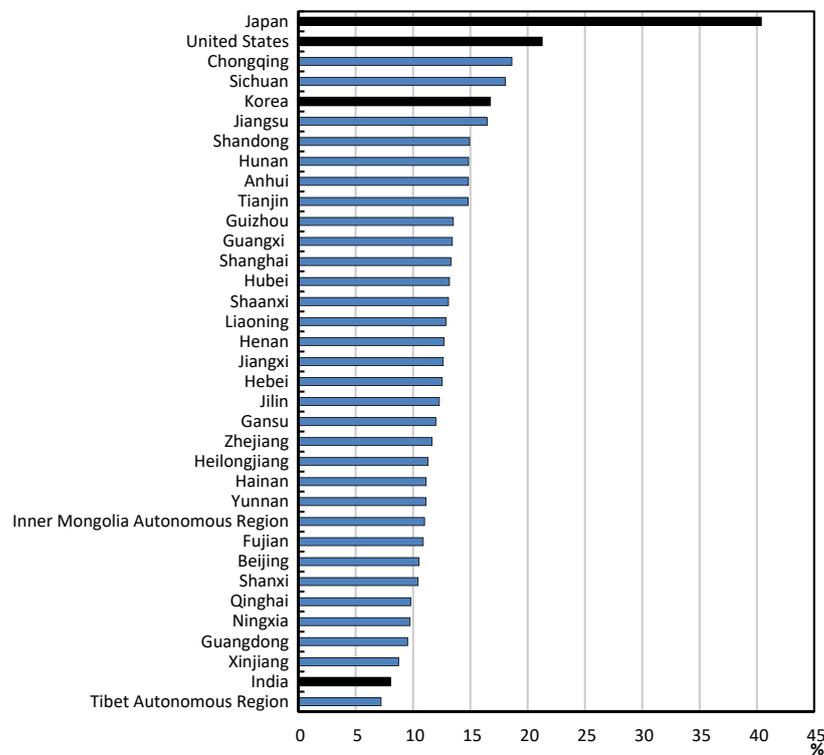
Fertility rate and population aging projections show that, in the next decade, China will experience profound demographic changes. Research (Das and N’Diaye, 2013, p. 2) also indicates that, between 2020 and 2025, the Chinese economy will reach the Lewis Turning Point, when most labor force is concentrated in urban areas, working in the industry and services sector, and economic growth is generated only by the intensive use of production factors. At the same time, the old-age dependency ratio is also expected to rise. Nevertheless, dependency ratios differ widely from one province to another, with some provinces as “old” as the United States or Korea, and other as “young” as India (OECD, 2015, p. 27).

Figure 3. Population structure between 2012 and 2050



Source: CEIC and United Nations Department of Economic and Social Affairs: World Population Prospects: The 2012 Revision.

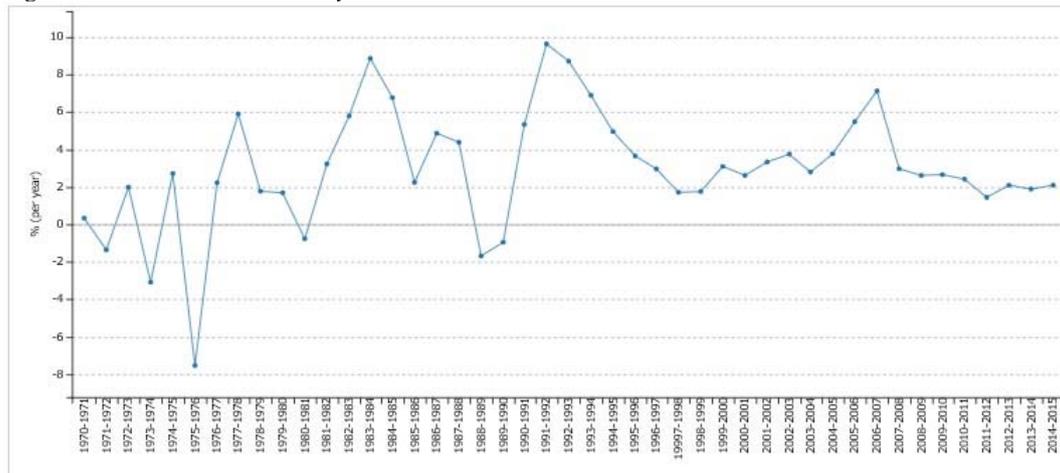
Figure 4. Dependency ratios in various Chinese provinces. Population over 65 years to population between 15-64 years



Source: CEIC database, World Bank World Development Indicators database and OECD historical Population Data and projections.

Another concern regarding the Chinese economy is the slowdown of productivity, a key driver of long-term competitiveness and growth. China's development was accompanied by economic inefficiency, while the slowdown in Total Factor Productivity (TFP) rates indicates an ineffective use of production factors.

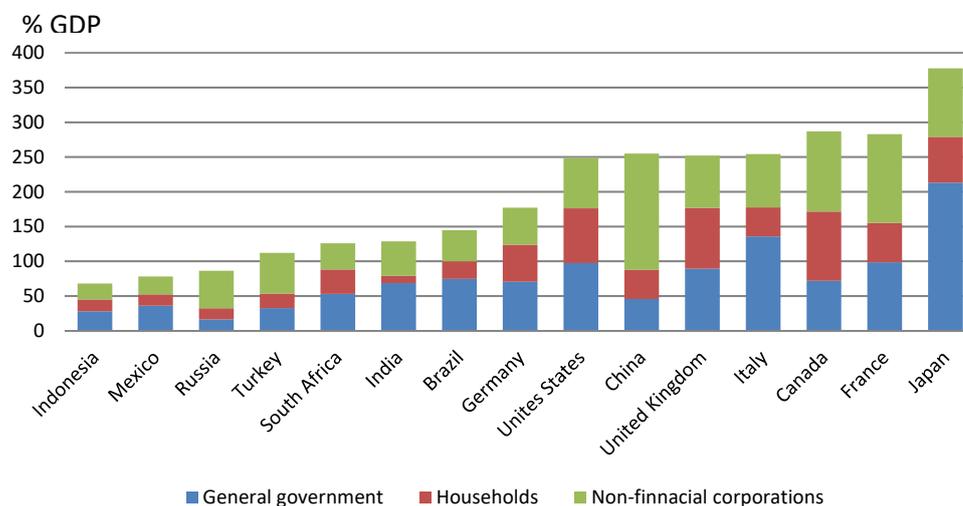
Figure 5. Total Factor Productivity in China



Source: Asian Productivity Organization Productivity Database.

While the Chinese labor force became more and more efficient as a result of better education and training, capital productivity has declined, as shown by the Incremental Capital Output Ratio (ICOR) which is a measure of the economic efficiency of investments, showing the amount of capital needed to produce a one-unit increase in Gross Domestic Product. Thus, if in 2008, the amount of capital needed for a one-unit increase in GDP was equal to 2 yuan, the amount of capital needed for the same increase in 2015 was almost 9 yuan (Kennedy and Johnson, 2016, p. 17).

Once its capital productivity began to dwindle, China was forced to invest increasingly more significant amounts of money to generate economic growth. But, the ineffective use of investments led to a more significant debt burden, the same as in the case of Japan. In the aftermath of the 2008 financial crisis, China continued to add to its debt burden which reached incredible highs. Public and private debt are now in excess of 250% of GDP, up from 150% of GDP before the 2008 crash (OECD, 2017, p. 18).

Figure 6. Debt service Q3 2016

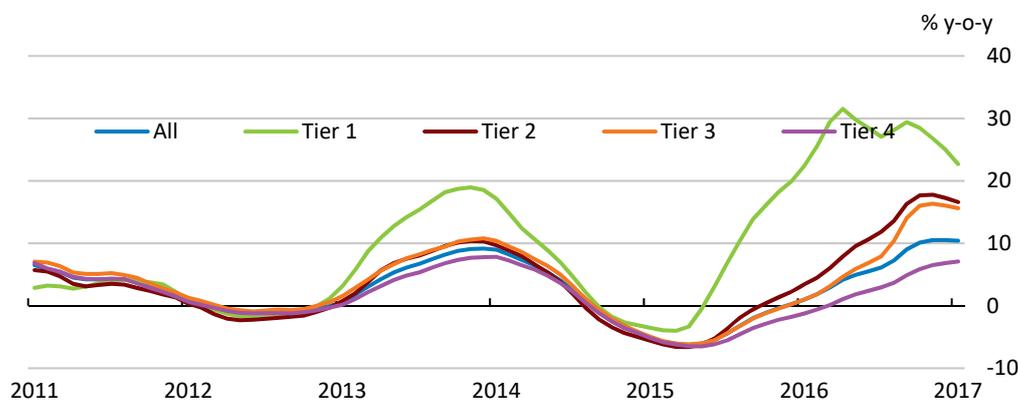
Source: OECD.

Given the concerns regarding the future of the Chinese economy, Moody's decided last summer to downgrade China's long-term debt in local and foreign currency from "Aa3" to "A1", with a stable outlook. The credit rating agency announced that its decision to downgrade China's rating was based on the expected further deterioration of China's economic position in the following years, with more significant debt burdens in the context of diminishing potential growth rates. Moody's argued that, in the past few years, the Chinese economy had slowed down, from 10.6% GDP growth in 2010 to 6.7% GDP growth in 2016, while in the next five years, estimates show that the country's growth will fall to around 5% (Moody's, 2017).

Corporate debt has climbed from less than 100% of GDP at the end of 2008 to 170% in 2016, largely due to the arrears of state-owned enterprises (SOE). Household debt has expanded from 30% of GDP at the end of 2012 to 40% of GDP in mid-2016 (OECD, 2017, p. 20), mainly due to higher demand for mortgage loans, which also led to higher property prices in large cities. In fact, the developments on the real estate market are also similar in China and Japan.

Investments in real estate property and infrastructure supported China's economic growth, but the hike in residential property prices started in 2015 made housing less and less affordable, particularly in Tier 1 cities such as Beijing, Shanghai, Shenzhen, and Guangzhou. Prices also increased as a result of a shortage in the supply of land for new residential properties. In Shanghai, for instance, the percentage of land available for residential property development is lower than in Tokyo and New York, so the Chinese authorities decided in March 2016 to impose restrictions on the purchase of residential property by non-residents in Shanghai and Shenzhen, followed by similar measures in Beijing and Tier 2 cities such as Hefei, Xiamen, Suzhou, Wuhan, and Chengdu (OECD, 2017, p. 11).

Figure 7. Higher residential property prices in the largest cities



Source: OECD.

Cities in China are usually classified into 6 tiers, according to their economic and administrative significance. Tier 1 includes four cities (namely, Beijing, Shanghai, Shenzhen, and Guangzhou), while Tier 2 has eight, Tier 3 – eleven, and Tier 4 – forty-seven.

Future prospects for economic growth

Both Japan and China have detailed action plans for future economic growth, such as *Abenomics* or the 13th Five-Year Plan of the Chinese Communist Party.

In Japan, the rise to power of the Government led by Prime Minister Shinzo Abe at the beginning of 2013 was accompanied by the adoption of measures whose aim was to boost the economy and provide support for local companies. The plan dubbed “*Abenomics*” was based on three “arrows”: an aggressive monetary policy implemented by the Bank of Japan (BoJ), including quantitative easing, and an inflation target of 2%; appropriate fiscal measures, allowing the financing of public works; reforms aimed at supporting economic growth by stimulating investments in the private sector, the fight against unemployment and the modernization of the country’s infrastructure. The Japanese economy expanded by 2.5% in Q3 2017 (in Japan, the financial year starts on the 1st of April and ends on the 31st of March), exceeding analysts’ expectations. It was the seventh quarter of consecutive growth and one of the longest periods of economic boost after the 1990s, with estimates indicating that the GDP will continue to grow in Q4 as well. According to the representatives of the Japanese Ministry of Finance (MoF), the 2017 GDP was expected to go up by 1.8% in real terms and approximately 2.5%, in nominal terms, with the GDP already reaching as high as 549.2 trillion yen (in July-September 2017), versus 493 trillion yen (in October-December 2012) prior to the implementation of the *Abenomics* (1).

In the financial year 2018, the Japanese economy was expected to recover, with support coming from increased private demand. The measures included in Japan’s New Economic Policy would extend the country’s economic boom cycle, with improved employment rates and higher wages. The unemployment rate hit 2.7% (in November 2017), the lowest in the

past 24 years, 1.6 percentage points less than in the pre-*Abenomics* era (4.3% in December 2012). The third record number announced by the MoF representatives was the Japanese corporate profits figure which reached 20.4 trillion yen in Q2 of the previous year (July-September 2017). The representatives of the Ministry of Finance claimed that the structural reforms implemented by the Government were aimed at boosting economic growth, while also addressing certain social issues. Thus, the budget for the financial year 2018 was based upon three pillars: a human resources reform, increased productivity and fiscal consolidation. The human resources reform aimed at increasing investments in human capital by expanding the capabilities of childcare institutions, increasing wages in the childcare sector, offering free pre-school education and increasing child allowance by offering various non-refundable scholarships.

Due to increased productivity, the country will see sustainable wage increases and will put an end to the long-lasting deflationary slump. The measures implemented by the Government include: investments in human capital by Small and Medium Sized enterprises (SMEs), fiscal reforms aimed at higher wages and improved productivity, support to the research and development sector through cooperation between private companies, the Government and the academia, and public investments in infrastructure. At the same time, by increasing the number of nurseries, women will be encouraged to work, while the additional expenditure for the Government will be compensated by an increased VAT rate. The representatives of the Ministry of Finance also contended that, in order to address the problem of the country's aging population, the employment rates for both women and the elderly need to go up. The number of persons over 75 years of age (6.3 million in 2017) will accelerate after 2020, when the first baby boomers will go beyond the 75 year threshold. By 2025, the number of persons over 75 years of age is expected to reach 21.8 million.

In the case of China, despite the *laissez faire* approach, the economy is centrally planned to the smallest detail. The Five-Year Plans establish the guidelines for central and local authorities, which direct companies, financial institutions, and the society as a whole towards the centrally-planned objectives (Kennedy and Johnson, 2016, p. 3).

The significance of each Five-Year Plan depends on the period of time when it was developed. For instance, the 9th Five-Year Plan (1996-2000) was an opportunity for Jiang Zemin to establish the concept of the "socialist market economy" introduced during the 14th Congress of the Communist Party in 1993. In the same manner, Hu Jintao and Wen Jiabao took the opportunity of the 11th Five-Year Plan (2006-2010) to highlight the need for more significant investments in infrastructure. The 12th Five-Year Plan aimed at achieving the objectives set by the previous Plan, including the increase of consumption and the provision of support for locally developed technology. Nevertheless, since the global financial crisis led to a more severe slowdown than anticipated, expenditure in infrastructure remained a major component of Government policy. When Xi Jinping took over as leader of the Chinese Communist Party (CCP) during the 18th CCP Congress in November 2012, he inherited the 12th Five-Year Plan, so the 13th Five-Year Plan (2016 - 2020) is now an opportunity to consolidate the proposed policies (Kennedy and Johnson, 2016, p. 14).

For the first year of the 13th Five-Year Plan, the Prime Minister Li Keqiang has already announced in the National People's Congress a 6.7 GDP growth rate to 74.4 trillion yuan, 13.14 million new jobs in the urban area and a 24.5% growth rate per annum in newly-established businesses (15,000 new businesses each day). The report delivered by the Chinese Prime Minister showed that consumption was the main driver of economic growth, but also announced that 1,900 km of high-speed railway, 6,700 km of express highway, and 290,000 km of rural roads will become operational as part of the "Belt and Road Initiative" (Xinhua, 2017). The report also highlighted that education expenditure reached 4% of the GDP, while the number of students from poor rural areas had risen by 21.3% in 2016, with the Government offering scholarships amounting to more than 84 million yuan. One of the key programs of the 13th Five-Year Plan is dubbed "Made in China" and targets technological development and investments in various forward-looking sectors, the automation of manufacturing processes, in particular. The Chinese authorities are planning to use this program as a local substitute for state-of-the-art technology imports.

Conclusions

Despite its ambitious agenda, China still has to prove it is able to adopt a more balanced developmental model. In any event, falling capital efficiency rates, real estate issues, and demographic problems still need to be properly addressed. If, in the case of some of the matters above, such as the issue of low fertility rates, the Chinese Government chose to forego on its restrictions (the one-child policy being replaced by the two-child policy in 2015, with current talks on lifting restrictions altogether), in other cases, such as the real estate market, new regulations and restrictions are being prepared. Another matter that needs to be addressed is the integration of the *laissez faire* approach in the Five-Year Plans.

Japanese authorities are interested in the manner in which technological advances can contribute to developments in infrastructure, better health or enhanced company productivity. The innovations brought about by Industry 4.0 – the Internet of Things, big data, automation, and the sharing economy – will help the Government address various social issues. For instance, certain medical tests may be done at home due to the advent of telemedicine and technological advances in the healthcare sector.

As already explained, the development paths of China and Japan display both common features and differences. The Chinese authorities have already proved that they are able to get insights from the developmental models implemented by China's neighboring countries, so the lessons learned by Japan may also serve as an example on how to avoid the economic slowdown experienced by the Japanese economy.

Last but not least, China's size is also a matter of utmost importance. A quote by Chinese economist Justin Lin, attributed to Prime Minister Wen Jiabao (Kroeber, 2016, p. 34), states that "when you multiply any problem by China's population, it is a very big problem. But when you divide it by China's population, it becomes very small". In other words, no matter how big the problems, China will always have huge amounts of resources to address each one of them.

Note

- ⁽¹⁾ Meeting with the MoF representatives at the headquarters of the Ministry of Finance in Kasumigaseki, Tokyo, 24 January 2018, <http://www.revistabiz.ro/economia-soarelui-rasare/>

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