

China 'unlikely to suffer Japanese-style bubble burst'

BY GABRIEL CHEN
FINANCE CORRESPONDENT

A SENIOR official from China's sovereign wealth fund told a forum here yesterday that China's booming economy is unlikely to suffer the same fate as Japan's dramatic 1990s bubble burst.

China Investment Corp's deputy chief operation officer Fan Yifei argued that while there are similarities in economic conditions between China now and the Japan of the late 1980s, there are also fundamental differences.

For example, China's economic output per capita is still very low today, whereas Japan's was higher in 1985 when the latter signed the Plaza Accord in New York.

That agreement called for the depreciation of the greenback against the yen and was supposed to increase US exports by making them cheaper. It also arguably kicked off what was Japan's age of gilded

excesses and unparalleled prosperity.

But Japan then slumped into a decade or more of stagnation as deflation – falling prices – strangled economic activity.

Speaking at the Wee Cho Yaw Singapore-China Finance and Banking forum at the National University of Singapore yesterday, Mr Fan said he believes the outcome for China will be different than it was for Japan back then.

This is because China is still urbanising, whereas during its boom years Japan was more advanced in that regard.

And Japan's service sector back then was more developed than China's is now.

Mr Fan also noted that the yuan's current speed of appreciation is much less than the rise of the Japanese yen following the Plaza Accord.

Back then, Japanese banks lent generously to individuals who speculated heavily in real estate at home and abroad.

But the big expensive party had to end.



Mr Fan Yifei of China Investment Corp says China will learn from the lessons of Japan's 1990s bubble burst and "adopt appropriate monetary policies". PHOTO: REUTERS

"In the wake of continued monetary tightening by the Bank of Japan, the bubble burst, and this was followed by prolonged low growth and deflation," Mr Fan said.

He also insists China will learn from the lessons of Japan and will "pursue gradual yuan appreciation to minimise shock

to the economy".

"China will adopt appropriate monetary policies and fight asset bubbles and focus on the competitiveness of Chinese companies to sustain long-term growth," he said.

"I'm confident that China will not be the next Japan."