

Comparison of Real Estate Bubbles in China and Japan

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Abstract. China has experienced a huge housing boom in recent decades. However, many experts point out that since China's real estate marketization, real estate investment has increased rapidly, real estate prices are gradually rising, and there is a bubble phenomenon in the industry. Some scholars think that China could follow the same solutions as Japan's towards Japan's real estate bubble. Thus, the essay will use the method of contrastive analysis, through the comparison of the land system, monetary policies and national development and system of China and Japan to point out the differences in the real situation of the two countries. It is not appropriate for China to copy Japan's solutions and China needs to make appropriate adjustments according to the national conditions.

1 Introduction

Since 1998, China has stopped implementing the housing distribution system and gradually applied the monetization of the housing system [1]. The real estate industry has become one of the most important industries of China and this industry has made a great contribution to the rising of the development of the national economy [2]. However, since the slowdown of the global economic situation, China has implemented a loose monetary policy, which has raised the prices of real estate and other assets [3]. The real estate market began to show the phenomenon of bubble. Therefore, many scholars have researched and investigated the bubble of real estate industry in China. Zeng Wuyi and Li Xiang used mathematical analysis to analyze real estate prices in 35 large, medium, and small cities and they want to test whether there was a bubble in our real estate market, but the final result showed that China's property sector was beginning to bubble [4]. It is known that Japan had a bubble in the 1990s, and then through a series of measures, the real estate sector came back into recovery. Therefore, this passage will firstly expound the cause of the Japan's real estate bubble, use the contrastive analysis to show the differences between China and Japan, give some suggestions based on the actual situation. In addition, the research significance of this article is to let China draw lessons from Japan and then work out its own unique solutions according to the national conditions.

2 Main body

2.1 The cause of Japan's real estate bubbles

The appreciation of Japanese yen is directly related to

Japan's real estate foam. After World War II, Japan became the second largest economic entity in the world, second only to the United States. Due to the rapid development of Japanese economy, Japan's economy is in a trade surplus with the United States, Britain, and other European and American countries. In 1985, Japan signed the Plaza Accord, which accelerated the pace of yen appreciation. A lot of international money flowed into Japan and eventually into the real estate market, preparing the capital base for the formation of its real estate bubble [5]. The aim of the Plaza Accord is to reduce global trade imbalances, especially between the US and Japan. As a result, the Japanese yen began to appreciate against the dollar, the appreciation amounting to 61% between September 1985 and September 1988 [6].

Japanese people's economic expectations of rising land and house prices

Over the past three decades, Japan's national income and personal income have continued to grow, the people's living standards have continued to improve, and new and higher demands have been put forward for land and housing [5]. What is more, Japan was gradually carrying out urbanization construction, and the population is concentrated in cities, which promotes the development of urban real estate. However, Japan is an island country with a large population and few land resources. Therefore, the real estate suppliers will increase the price of land and house because of the shortage of these resources. What's more, enterprise also expects that the market demand for commercial housing is rigid. As a result, people have higher expectations about the price of land.

Lack of government supervision and regulation

In the decades leading up to the bubbles, the Japanese government does not intervene in land and real estate prices, nor does it regulate large amounts of capital invested in the real estate market. What's more, the government also misconducted its policies. After the "Plaza Agreement", international capital poured into

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Japan in large quantities. The balance of international payments was in surplus, and the yen had the expectation of appreciation. At this time, the appreciation of the yen brought huge pressure on enterprises relying on exports. These enterprises put pressure on the government to make the government realize the harm of the rising yen to local enterprises, while those enterprises relying on imported raw materials benefited from the appreciation of the yen, and they would not tell the government, so the government, in order to solve the most prominent contradiction, adopted ultra-low interest rates and ultra-loose monetary policies to try to affect the appreciation of the yen. The loose monetary policy had resulted in excess domestic liquidity, and the competition in the use of funds was extremely fierce. A large amount of capital flows into the stock market and the real estate market, resulting in a sharp rise in the prices of these two markets [7].

2.2 The current situation of China's real estate bubble

According to the research done by Fang, Gu, Xiong and Zhou in 2015, between 2003 and 2013, real property in China's major cities increased by 13.3 percent a year [8], and between 2004 and 2015, real land prices in China's 35 major cities increased fivefold [9]. The income of residents, especially the disposable income of urban residents, directly affects residents' purchasing power and investment ability in various types of housing. In recent years, especially after the improvement of the residents' wage system, the income growth of urban residents can barely keep up with the growth of housing prices, but the increase of rural residents' disposable income is slow, and the gap between the growth and housing prices is widening [10]. The market has been unable to meet the domestic residents' demand for housing. The housing contradiction has gradually expanded. In the world, house prices and per capita annual income generally remain at four to six times, while many cities in China have exceeded eight times, especially in coastal areas [10]. We know that the real estate bubble can be measured by dividing the growth rate of real estate investment by the growth rate of GDP, dividing the total real estate investment by the total fixed asset investment, the vacant space and vacancy rate of housing, dividing the housing price income by the ratio of housing rents to sales, and bank credit indicators [11]. The investment in real estate development is the most direct reflection of the real estate supply and demand. The abnormal growth of the investment may mean the formation of speculative demand and inflated prices. It is generally believed that this index should not exceed 2. According to the data of several years, the number of years in which this index exceeded 2 is the majority, indicating that China's real estate investment is overheated and showed a relatively obvious bubble process. The housing vacancy rate is appropriate to meet the housing problem of the floating population, but it is too large. Vacancy rates portend disaster. In 1999, our country has drawn up vacancy rate warning chart, the vacancy rate is between 14% and 20%,

which represents vacancy rate is too high. According to relevant statistics, the housing vacancy rate in recent years is generally 10% ~ 15%, and there are signs of bubbles in our real estate. The price-to-income ratio is the ratio of the average house price of a country or city to the average income of each household. The World Bank thinks that the developing countries are generally between 3 to 6 times (average house price = commercial housing sales, commercial housing sales area), our country this index has crossed the warning line, are above 7 [11]. Therefore, the degree of real estate bubble is relatively serious.

2.3 The difference between China and Japan

Different land systems. In the process of real estate commodity production, land in Japan, as a typical capitalist country, is owned by private property rights and there is no centralized control of land supply by the state. As a result, the acquisition of land by real estate enterprises is a simple market transition with high efficiency [12]. By contrast, China's land is a state property right, and the state centrally controls the primary land market. The system of "bidding, auction and listing" is implemented in land trade, with complicated procedures and efficiency to be improved [12]. As a developed country, Japan has no urban-rural dual structure in the land market, but a comprehensive land market. This market makes the land supply freer and easier to circulate. China has long implemented the urban-rural dual system, and rural collective land cannot be freely transferred. It must enter the land market through national expropriation. However, the cost of expropriation and transfer is high, and the efficiency is low, forming the land supply. At the same time, a large number of people with limited property rights can not enter the market, so the market demand cannot be met. Therefore, Japan's real estate foam can be solved by the market after it bursts, but China's real estate market cannot be recovered by the market once the foam bursts due to land restrictions.

Different monetary policies. Japanese yen is a freely convertible currency. Japan has implemented financial liberalization reform for the internationalization of the yen, and foreign capital can freely enter and leave the Japanese market. In contrast, RMB is a non-convertible currency and needs state control. In addition, the Chinese government is very cautious in the regulation of macroeconomic policies. Most of the adjustment of interest rates adopts the fine-tuning mode, with the purpose of curbing economic overheating and preventing asset foam. The difference between Japan and China is that they lowered the official interest rate five times in a row to stimulate economic development. After the economic situation improved, they failed to restore the interest rate in time, which greatly stimulated the speculative psychology of consumers and was the main factor leading to the bursting of their real estate foam.

Differences in national systems and levels of national development. First of all, we learned that China and Japan have different systems. China is a socialist country while Japan is a capitalist country. Secondly, China is currently in the process of accelerating

urbanization, and the level of urbanization is increasing at a rate of 1%-2% per year. In the process of urbanization, a large amount of land will be used for urbanization construction, which will have a great impact on land price and house price [5]. In comparison, Japan has a different condition. After World War II, Japan's urban population share grew rapidly to 37.3%. In 1950, the subsequent urban population continued to grow, and rural population continued to enter the city. In 1975, the urbanization rate reached 75.9%, and in 2005, it reached 86.3% [13]. This means that Japan has urbanized. Therefore, urban developments in China and Japan are at different stages, so the solutions to the real estate foams are different.

2.4 Some suggestions that related to the national conditions to solve the problem of China's real estate bubble

Based on the analysis of the real estate foam in Japan and the comparison between China and Japan, I propose the following solutions. First is to crack down on speculation. Speculation has not only driven up prices but also displaced rigid demand. China's urbanization rate is at a low level, and after later development, the demand for housing is expanding. This rigid demand will largely offset the market bubble. Therefore, property tax and residential vacancy tax can be timely introduced to crack down on excessive speculation or speculation in the real estate market. Second is to continue to implement interest rate intervention and exchange controls to control the appreciation of the RMB [14]. The continued implementation of the policy of non-convertibility of the RMB will reduce the real estate inflation caused by foreign arbitrage investment, to a certain extent, and reduce the excess liquidity that drives domestic funds to flow into the real estate market. Thirdly, it is necessary to reform China's public financial system and improve the land income distribution system. Therefore, it can be considered to include local land extra-budgetary revenue into the budget, and directly supervise by the central finance, so that the government can get rid of the dependence on land finance and the real estate market. However, considering that property tax may inhibit the housing demand of owner-occupieds. therefore, in the process of property tax collection, the owner-occupieds. should be treated differently from other participants, and the residential vacancy tax rate should not be set too high to avoid tax evasion The fourth is to include the control of asset price inflation in China's monetary policy. From the financial crisis in the United States, it can be drawn that asset price fluctuations are likely to have a huge impact on the real economy, and the sharp change of asset prices, especially real estate prices, from inflation to collapse is likely to trigger long-term economic recession and deflation. Therefore, in addition to controlling general inflation, the central bank should also take controlling asset price inflation as its important macro adjustment target. On the other hand, central banks should forestall and prevent asset price bubbles from bursting, especially in countries with more developed mortgage and asset markets. Finally, we should strictly manage the land

system and actively prevent the risk of land financing. Local governments use land as collateral for urban development and construction through government-owned companies. The mortgage land is often land reserved by the government, which is easy to bring fiscal and financial risks to the government. Both the local government and the central government should take active preventive measures: The government reserve land shall be strictly limited to stock land, and the expropriated rural collective land shall be prohibited from being included in the scope of land reserve; The mortgage of the land is assessed, and the amount of the loan is based on the value of the land rather than government credit.

3 Conclusion

This essay has done several things. It expounds the cause of the real estate bubble in Japan; elaborates the current situation of China's real estate bubble; compares China with Japan in three different aspects; and puts forward the solutions for China to face the real estate bubble. We know that different countries have different national policies and situations, so we need to consider the solutions relating to the nation's own situation. What's more, this essay just using the comparison between the two countries through national polices and monetary policies, so I think it is somewhat ambiguous. If you want to further study the causes and measures of the real estate bubble, I think you can get a more accurate report by referring to some mathematical formulas or statistical charts. Also, you can re-investigate from the recent five years and record the data. At the same time, the measures can be put into some areas to test whether it is suitable for the national conditions.

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