

A Japanification scorecard for China

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Only 9 out of 30

Category	Symptom	China score
Demand	Asset bubbles burst	2
Demand	Financial system instability	1
Demand	Tighter lending standards	1
Demand	Firms become net savers	0
Demand	Lower investment and productivity	0
Demand	Sidelined by globalisation and IT	0
Demand	Terrible demographics	2
Supply	Currency appreciation	0
Supply	Offshoring	0
Supply	Cheaper imports	0
Supply	Falling goods prices	2
Other	Inflated domestic costs	0
Other	Labour market deregulation	0
Other	Preference for sustaining employment	0
Other	Falling wages	1
OVERALL	Falling natural rate, ineffective policy	9/30

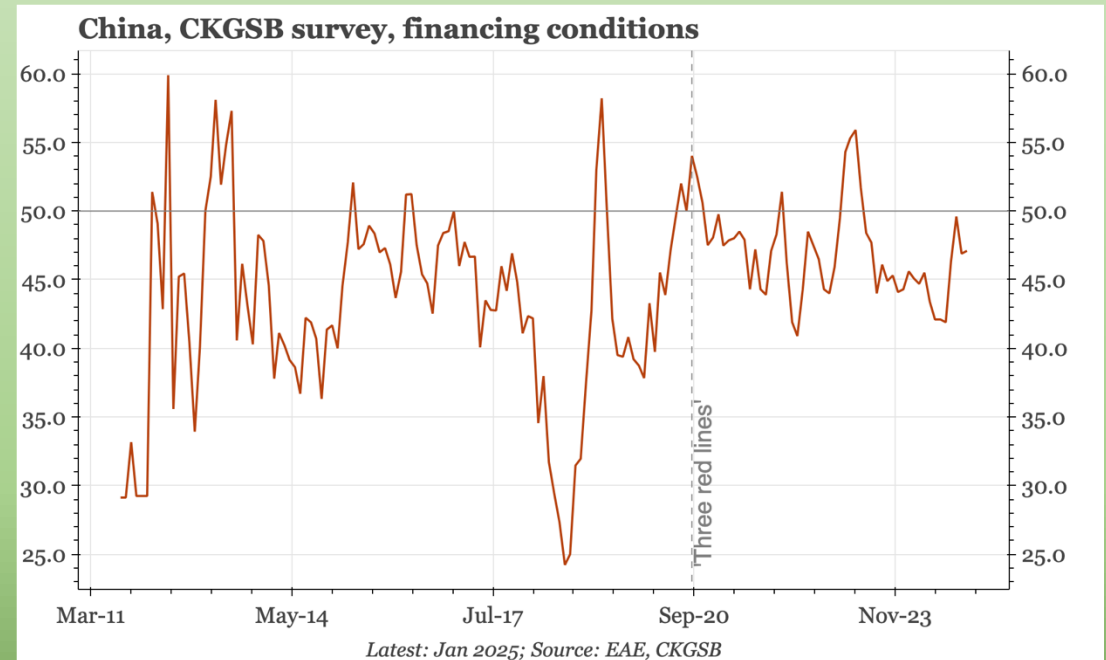
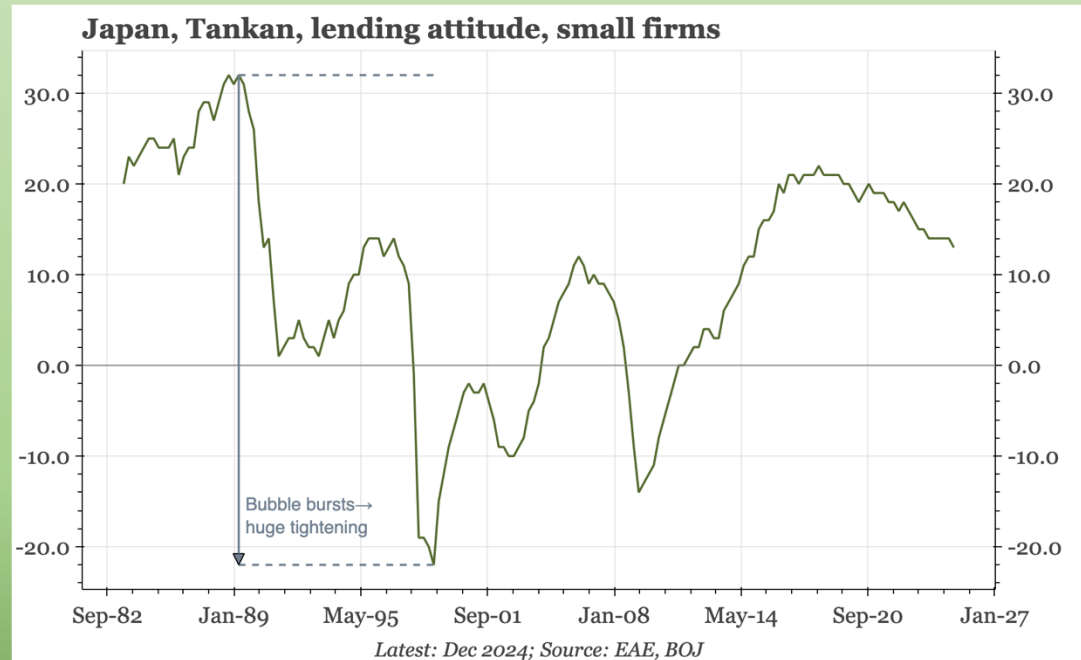
Note: Each category scored from 0 to 2

1. “Chronic shortage of demand”

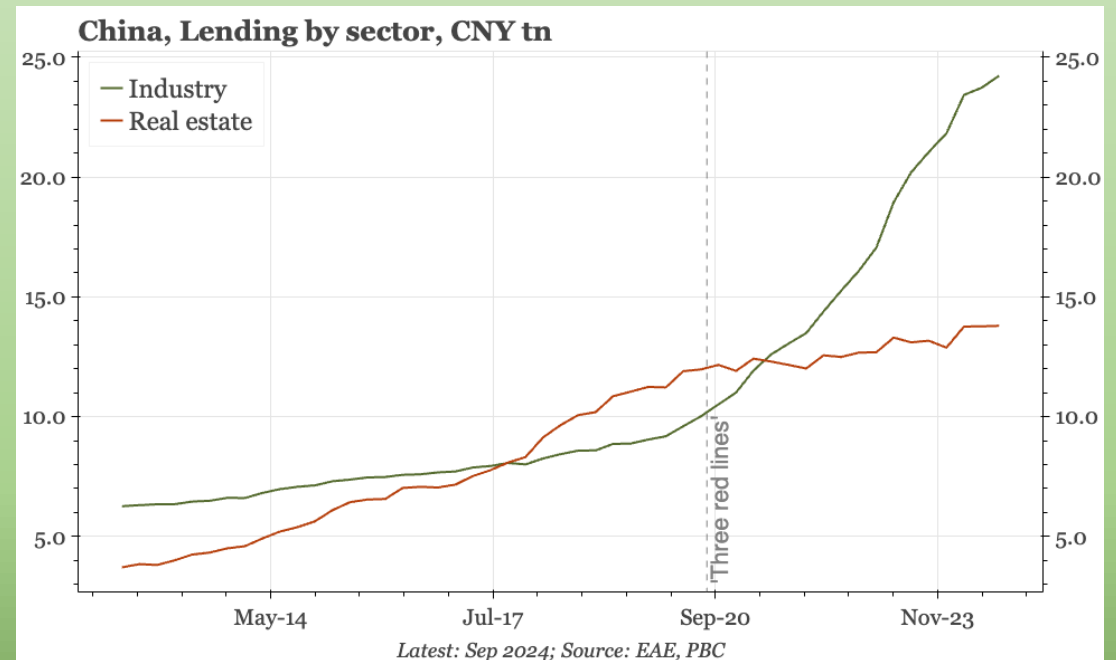
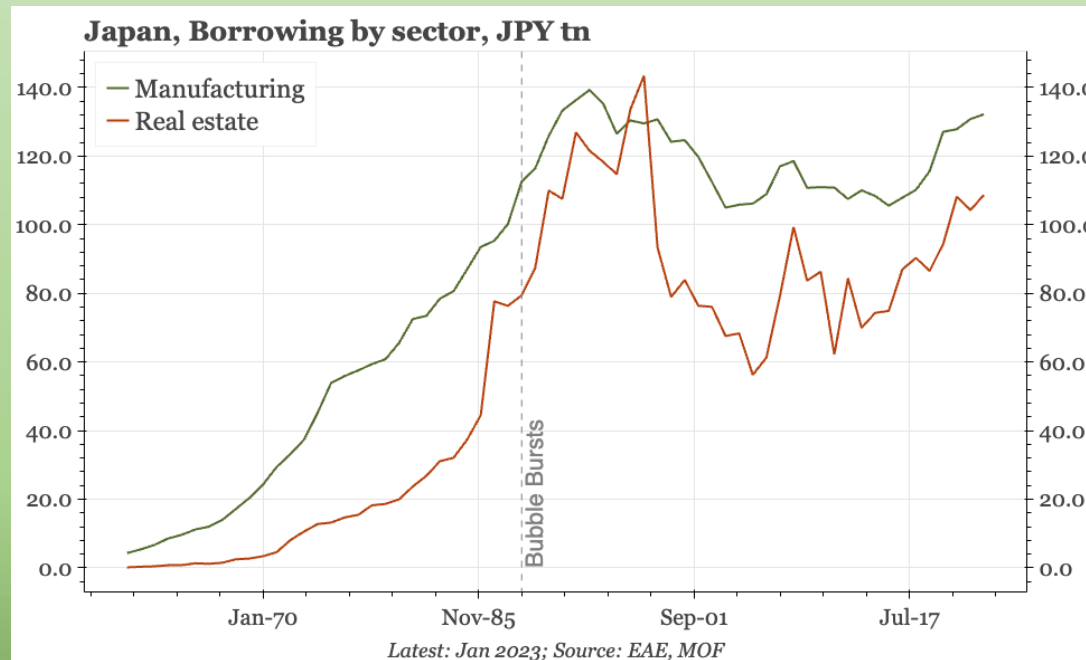
Bursting of asset bubble



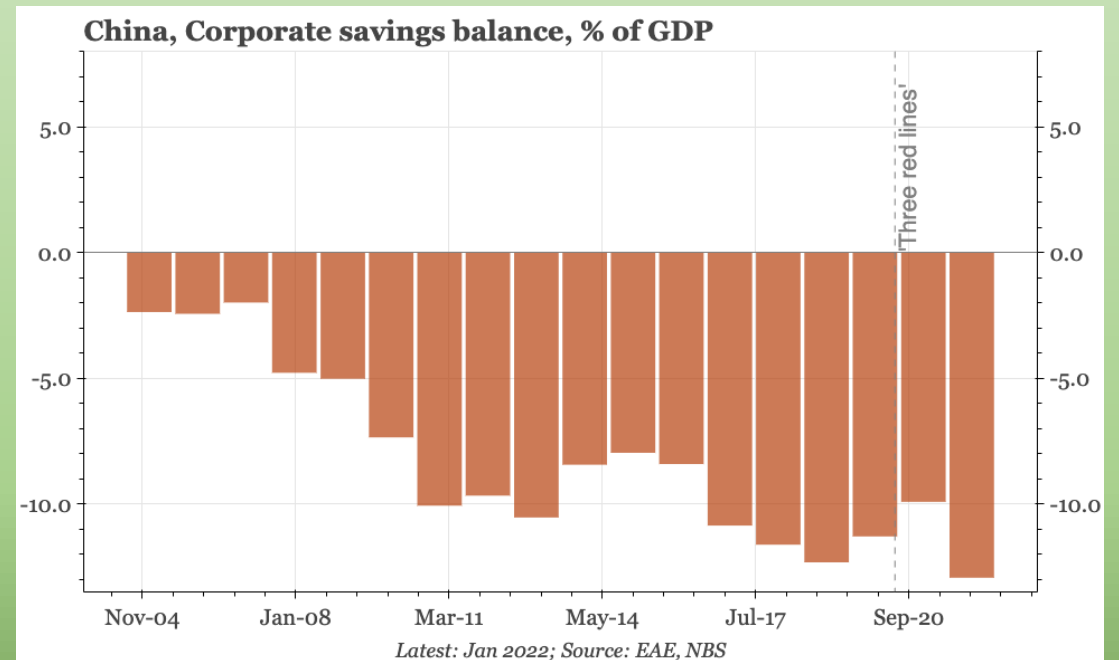
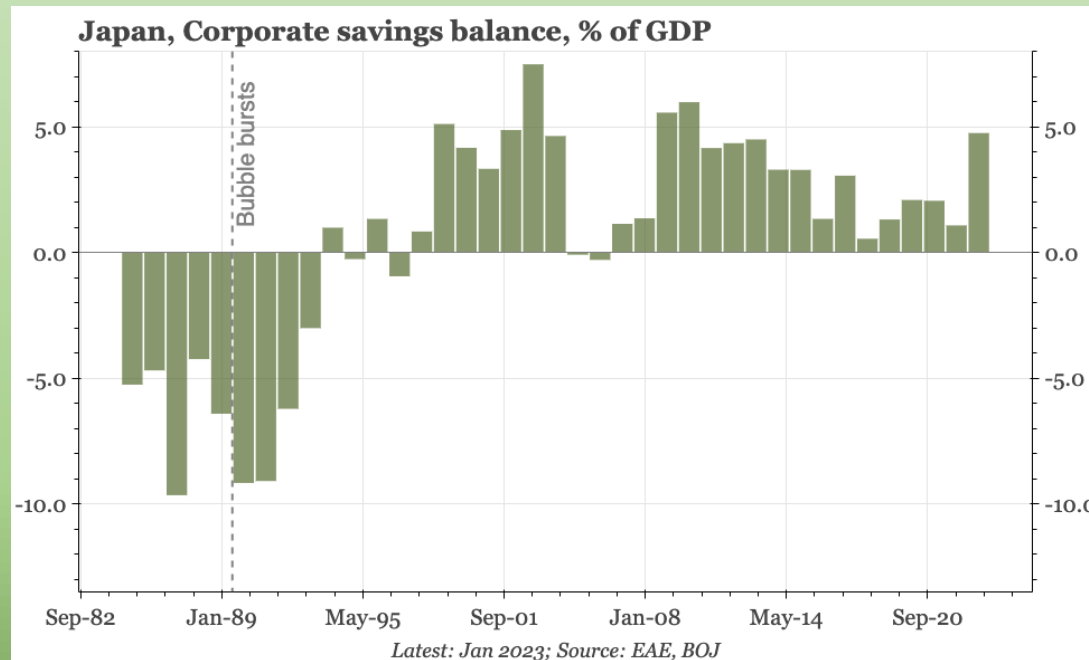
Lending standards tighten...



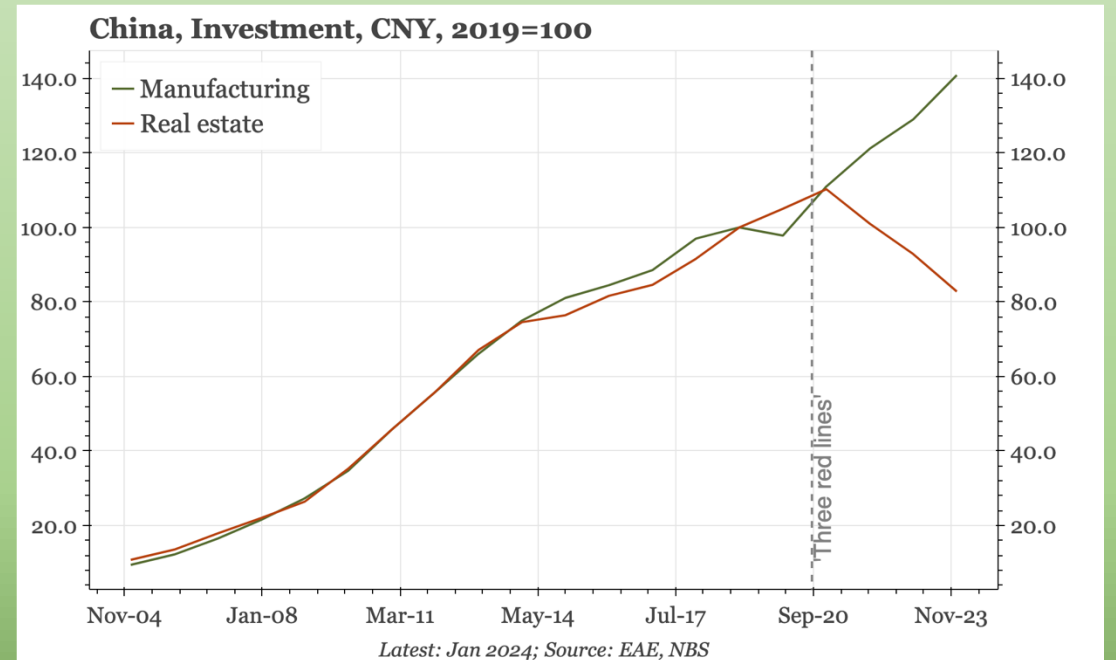
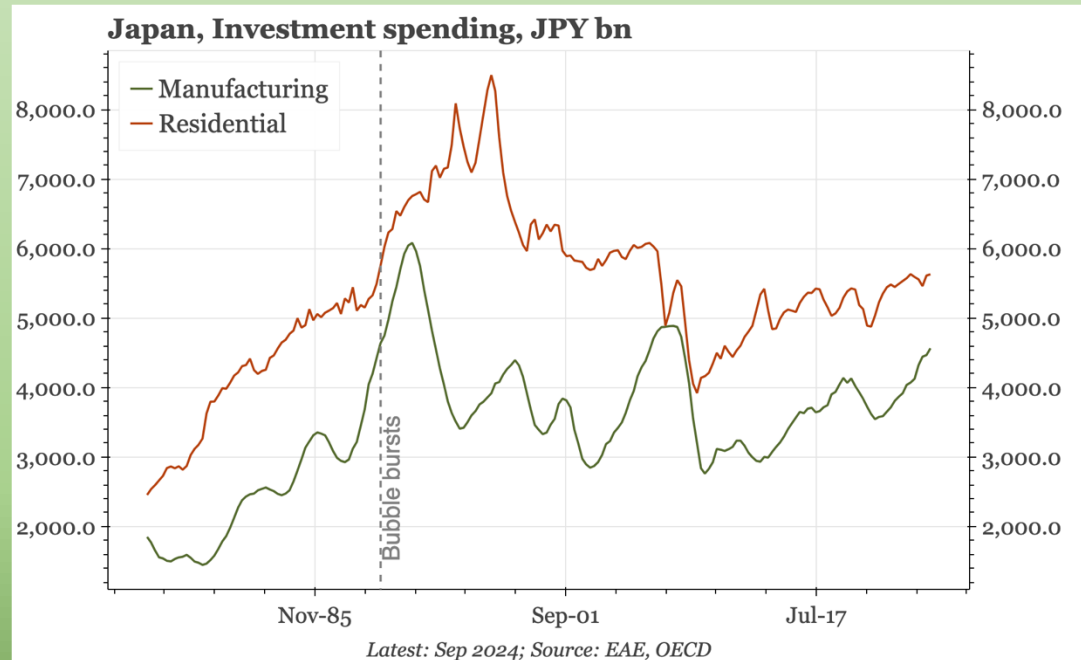
...causing firms to prioritize financial soundness rather than investment...



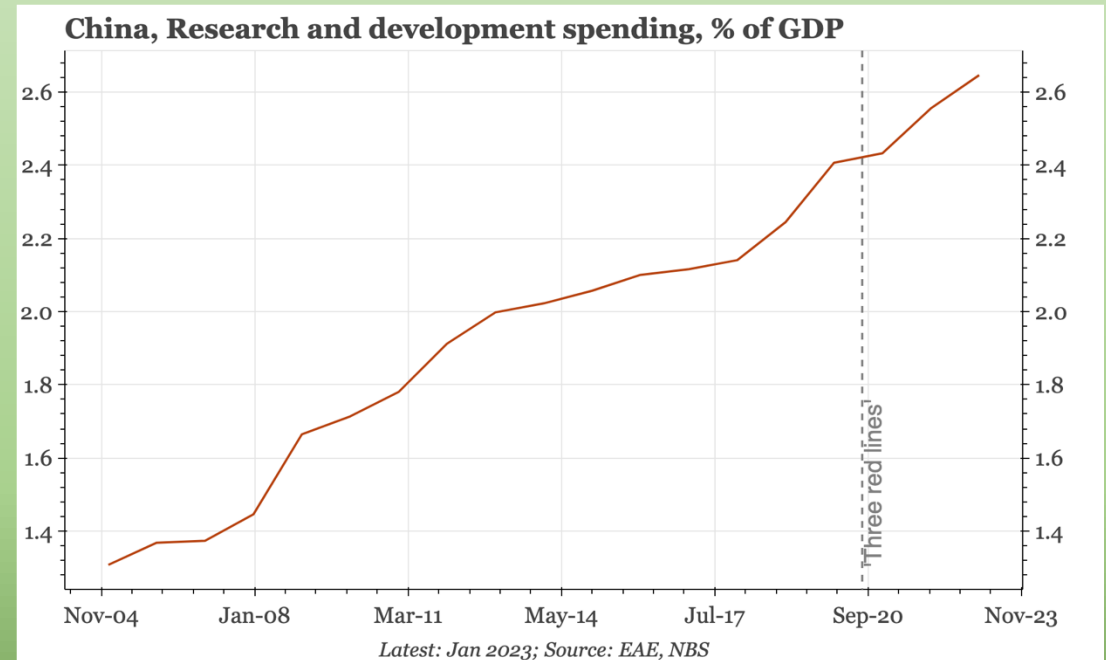
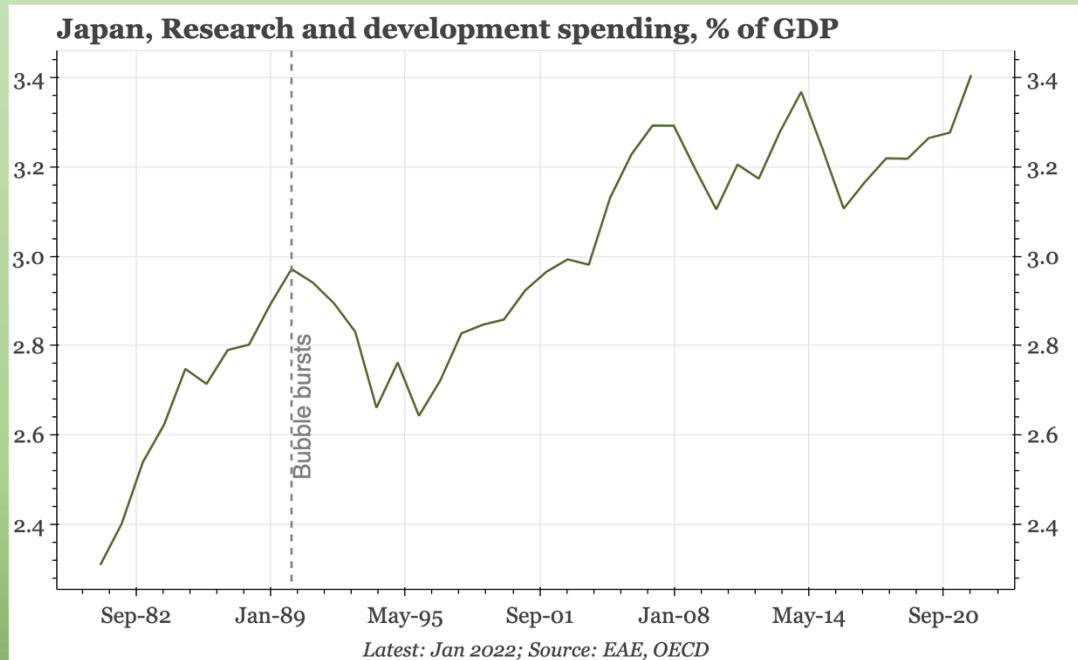
...and become net savers



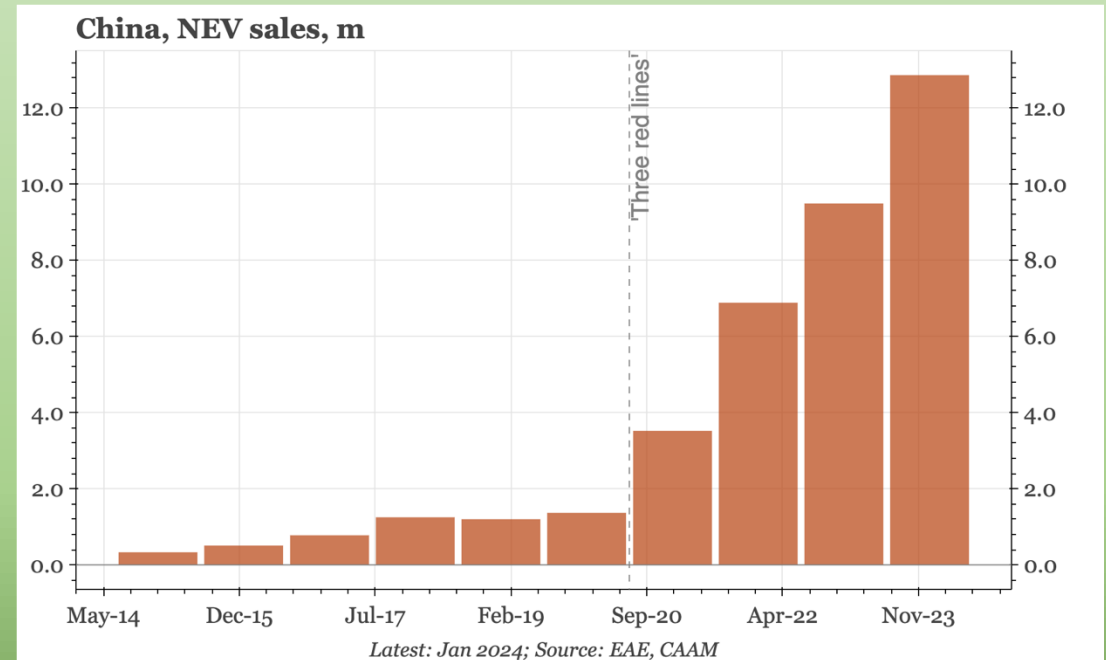
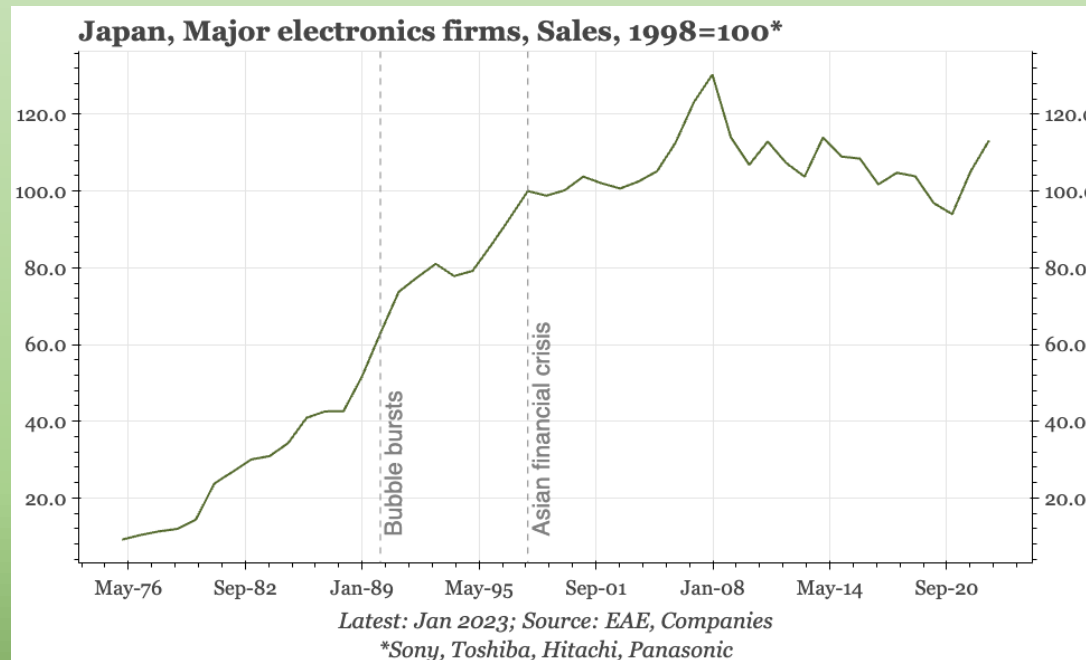
Productivity slows, because of less accumulation of physical capital...



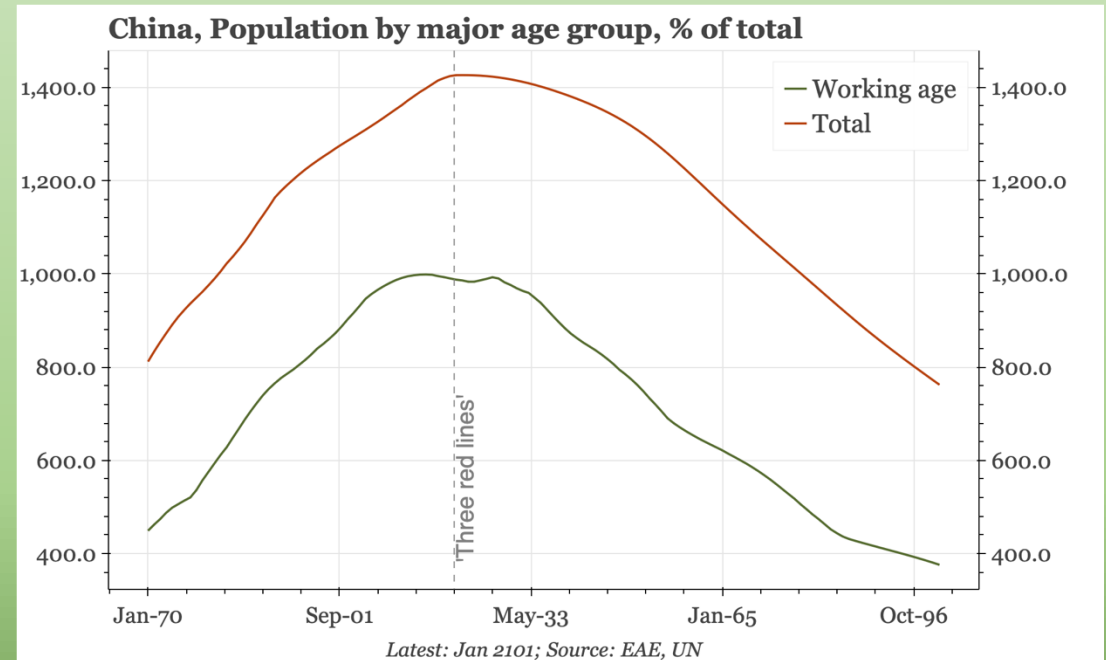
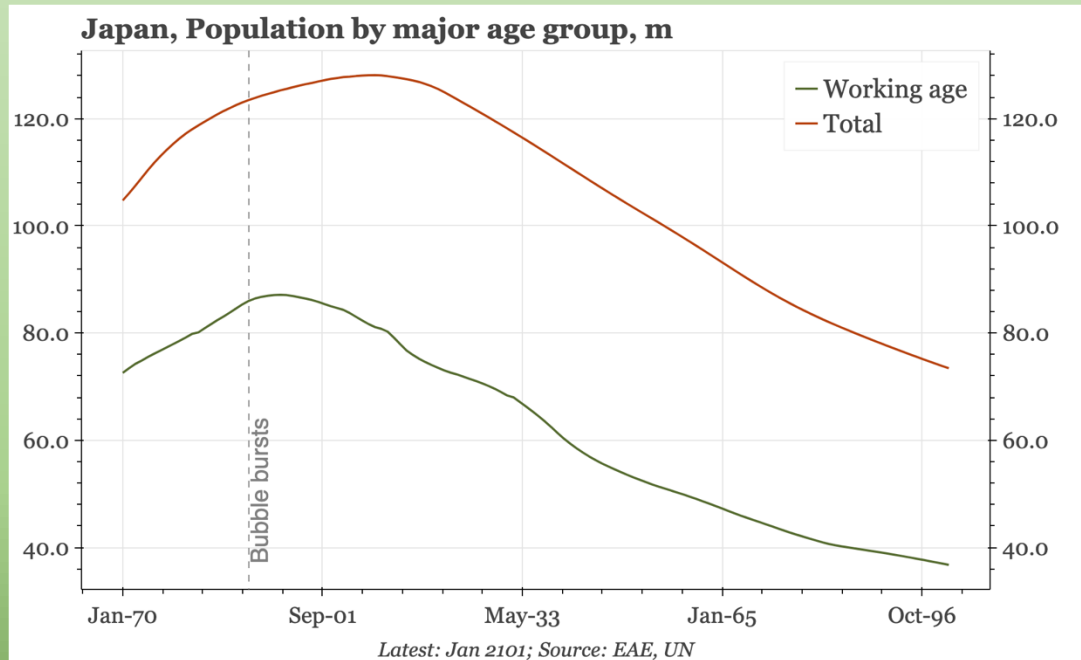
...as well as less R&D and investment in human capital



Adaption to globalization and IT revolution is slow

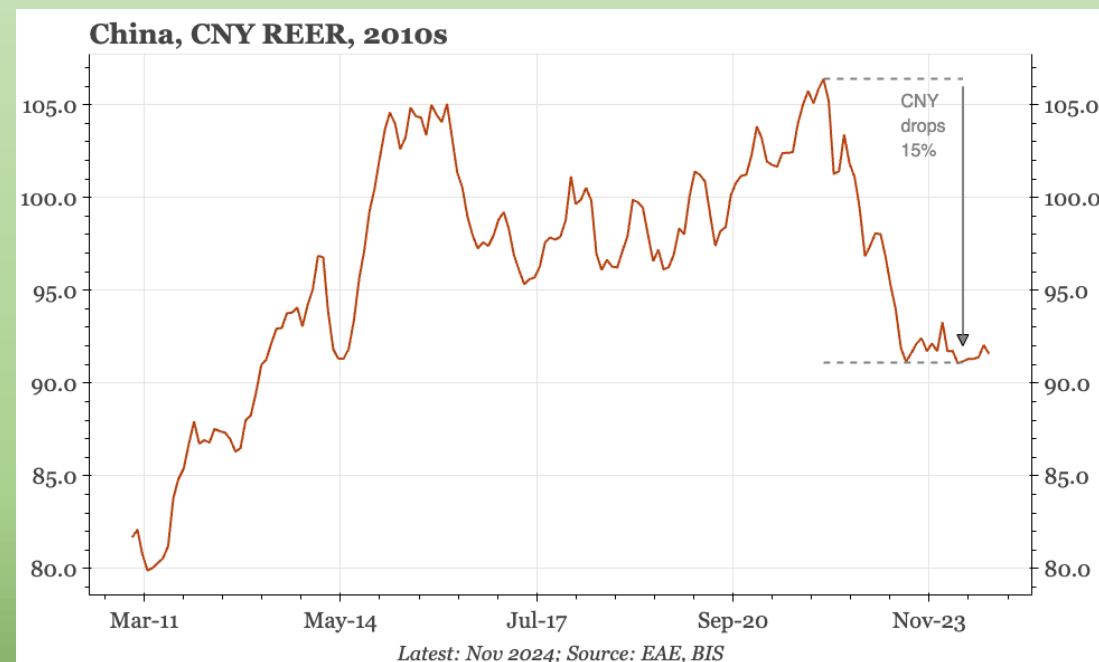


Demographics→ higher savings, lower investment

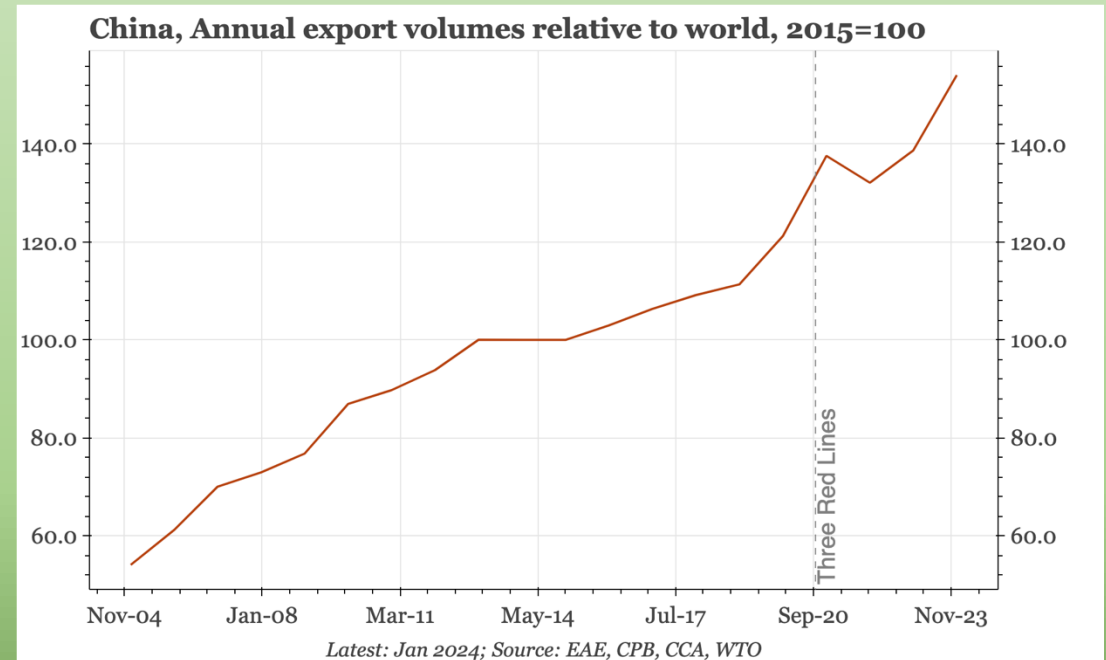
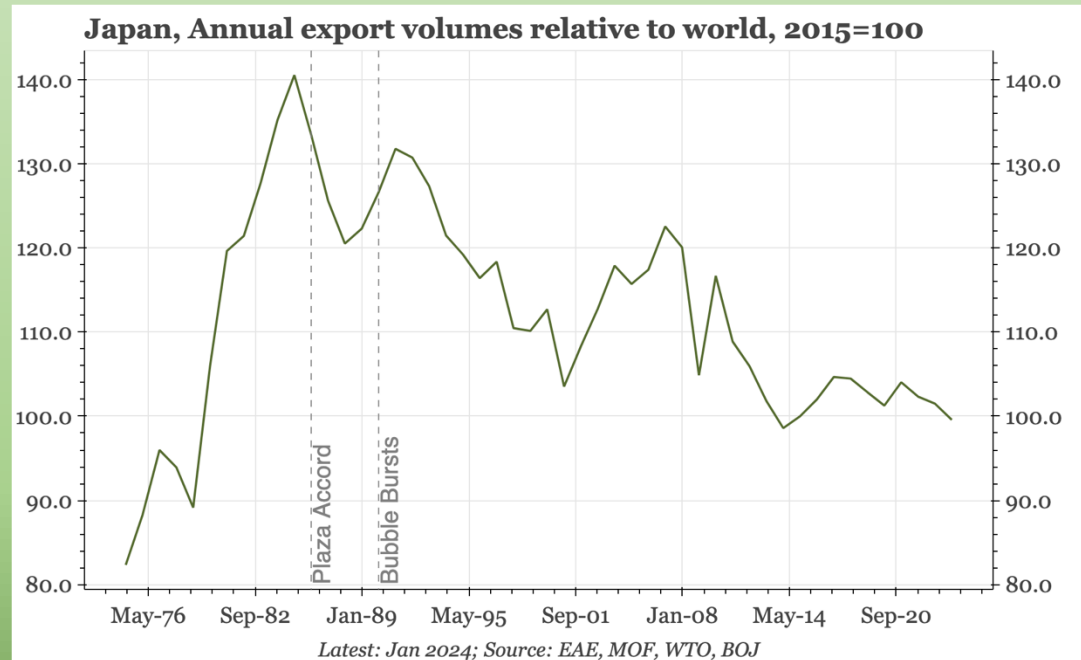


2. “Increasing downwards pressure on prices from the supply side”

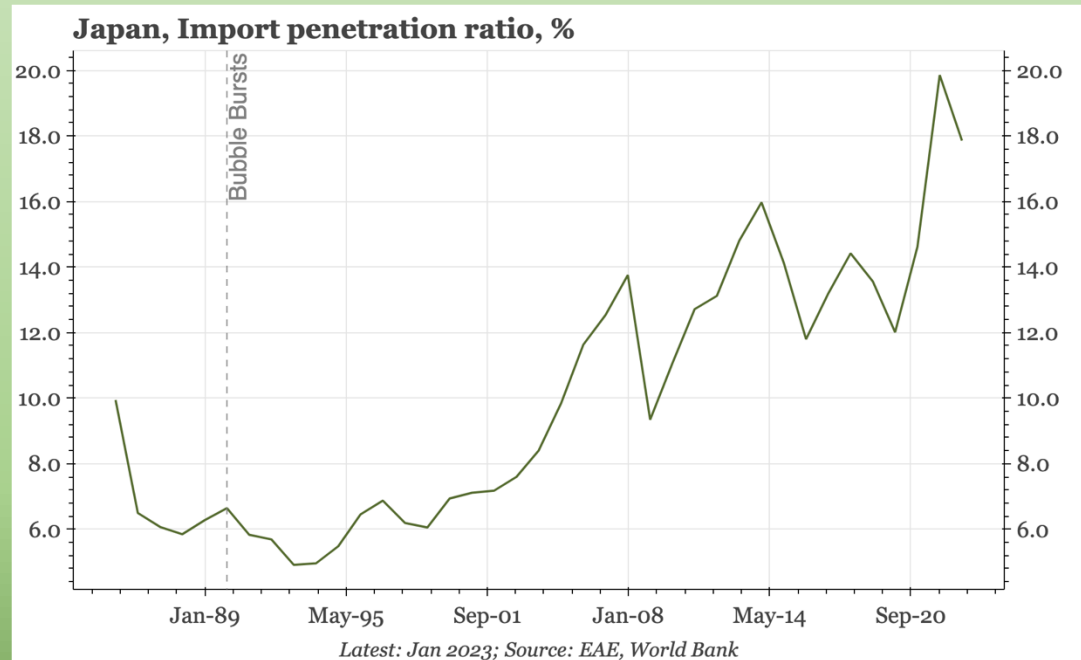
Continuing currency appreciation...



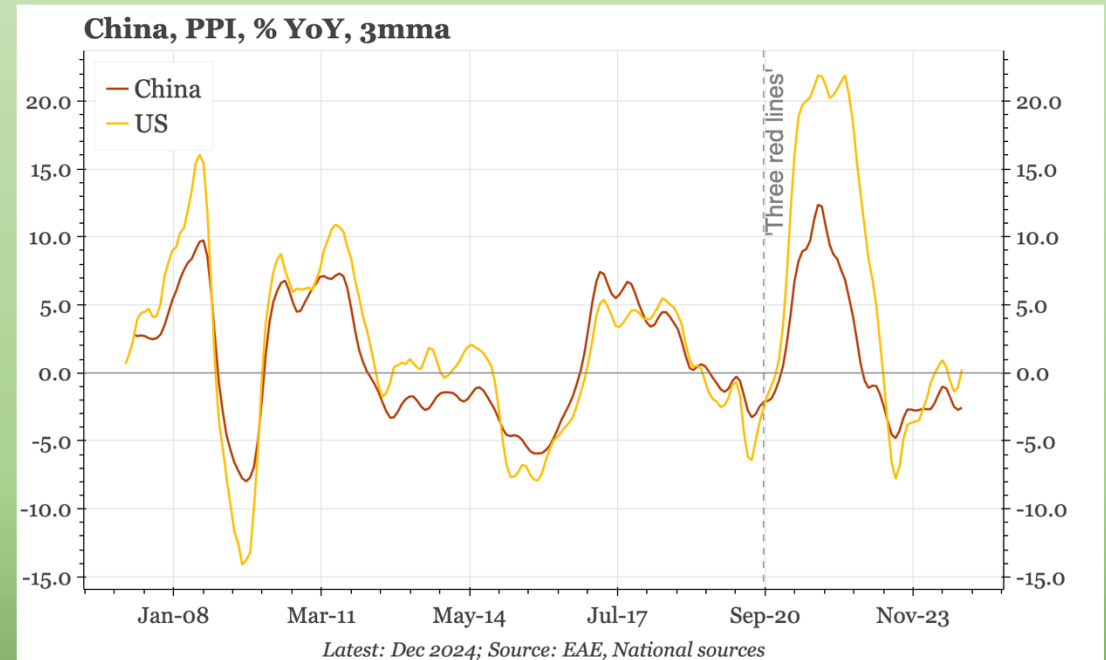
...and shift of production overseas...



...together with competition from EM imports...

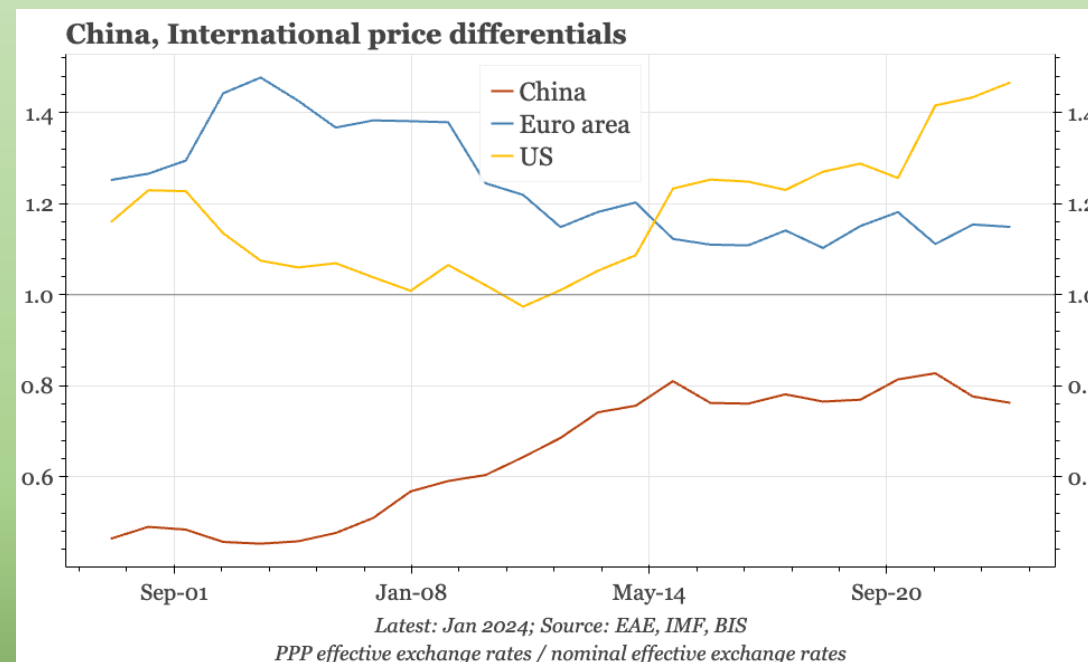
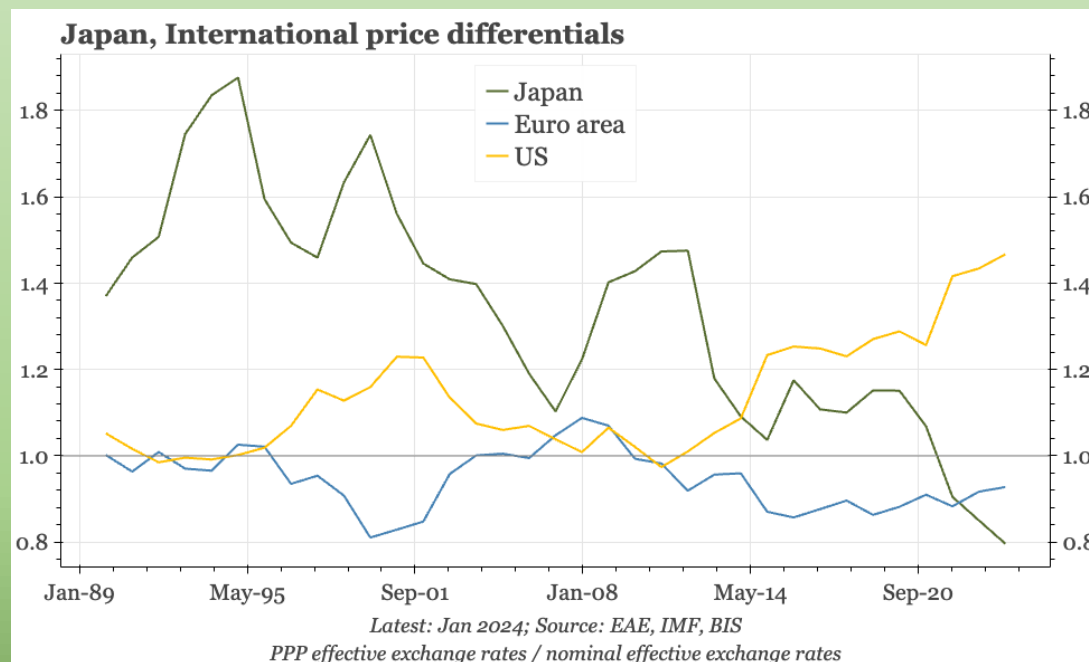


...pushes down prices on the supply side

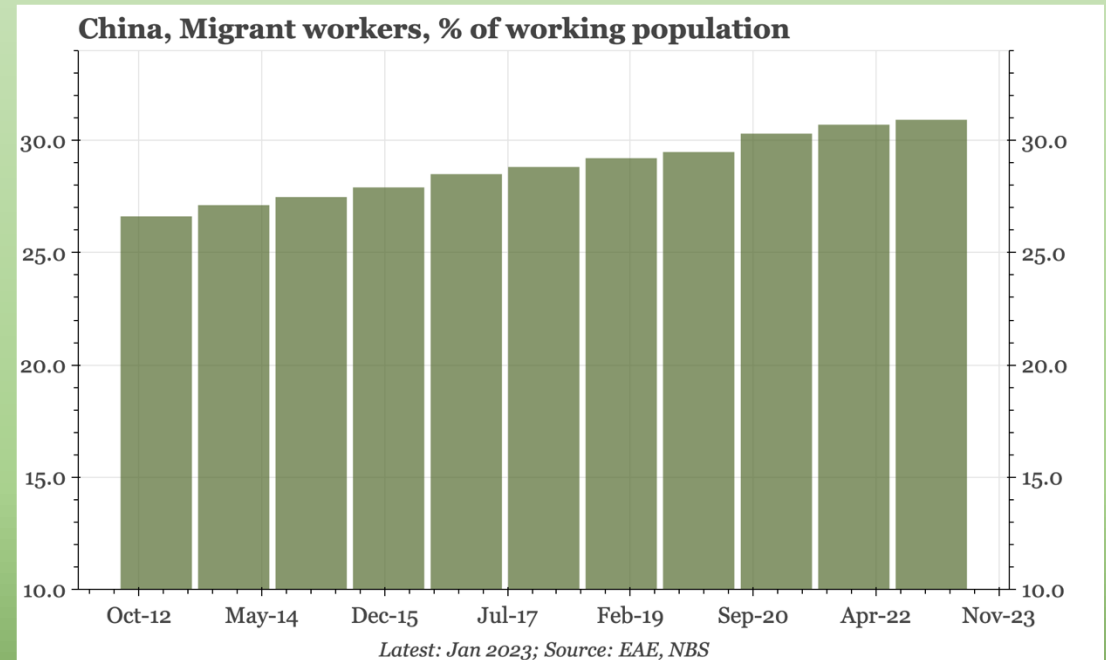
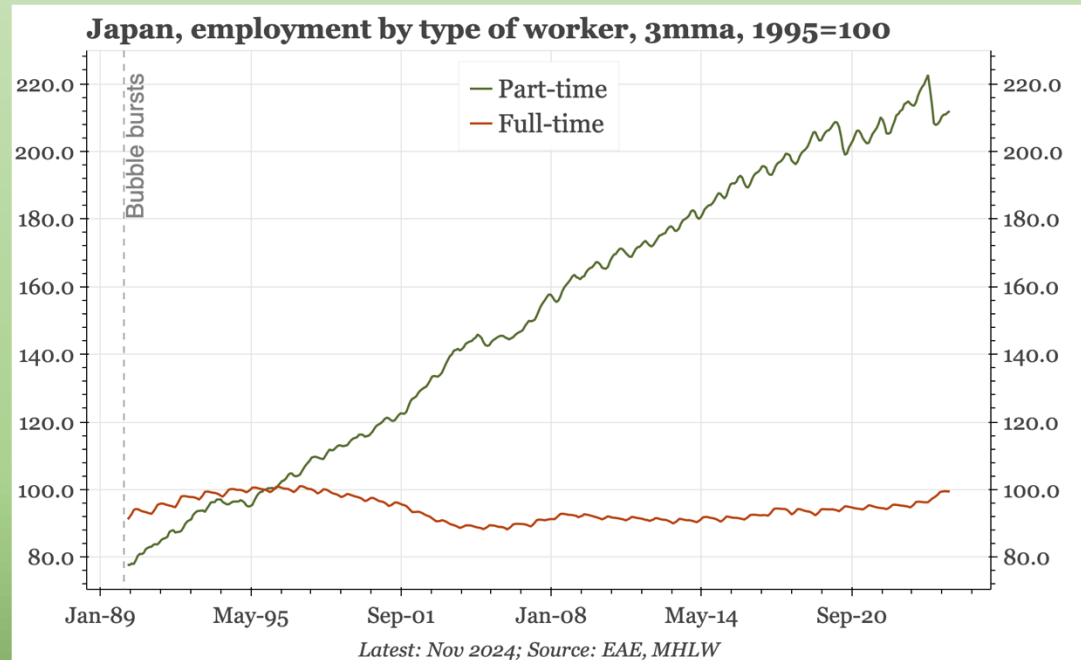


3. “Entrenchment of behaviour and mindset based on assumption that wages and prices will not increase easily”

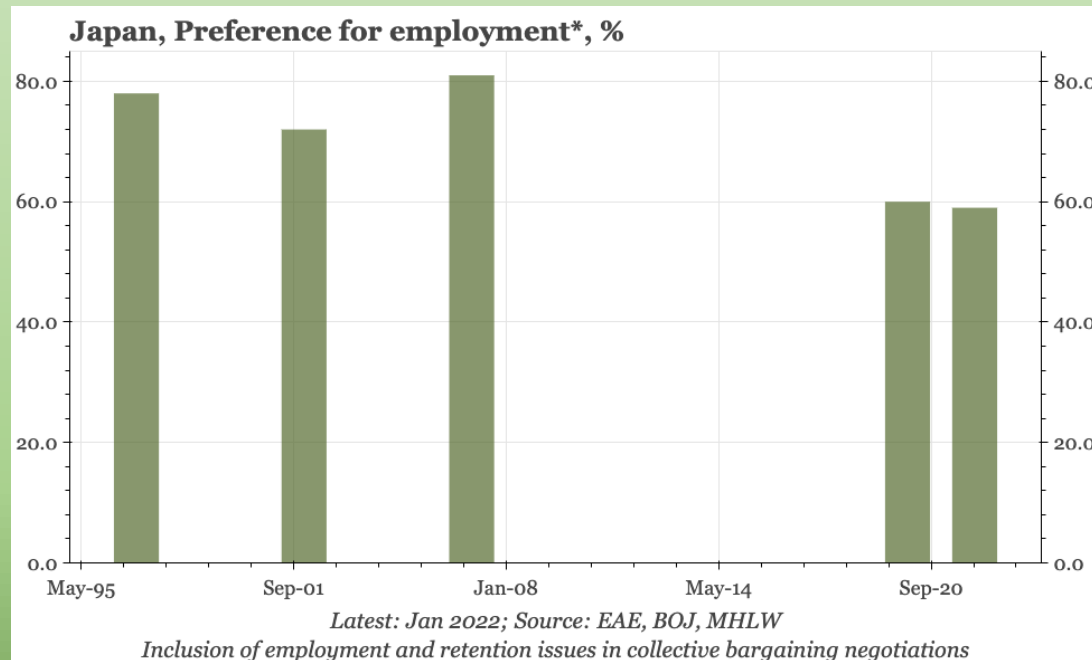
Correcting the price differential between domestic and overseas markets...



...causes pressure to cut costs via labour market deregulation



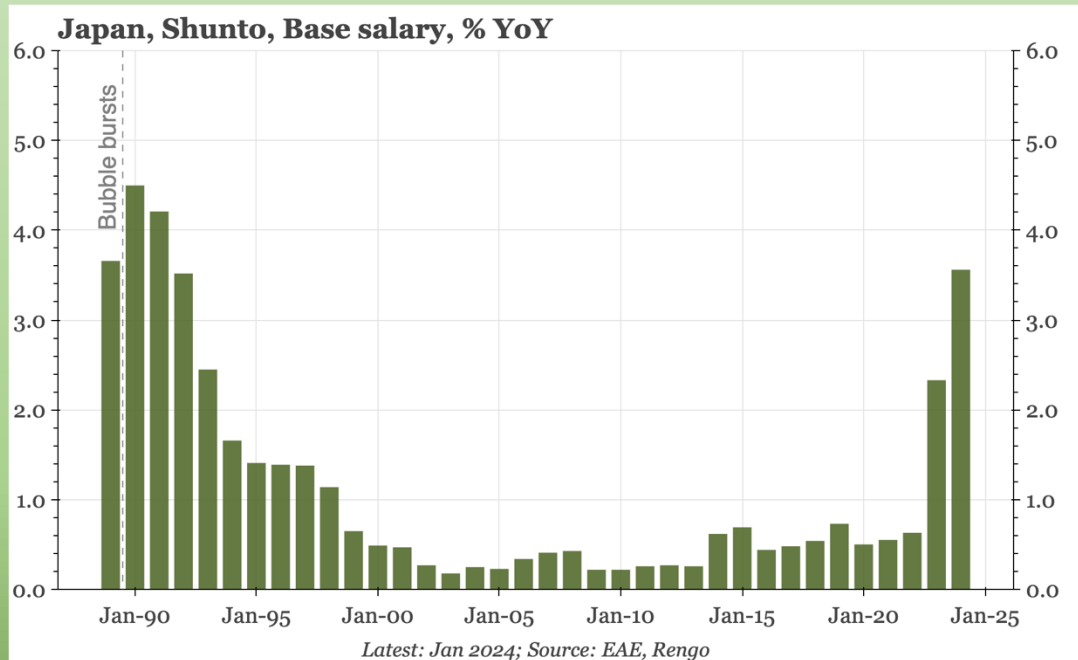
Societal preference for sustaining employment...



Downturn causes 20m job losses in China

Xiaomi layoffs: Thousands of tech jobs cut as China's unemployment crisis deepens

...creates further downwards pressure on wages



4. With a declining natural rate of interest, conventional monetary policy measures were unable to simulate the economy

Natural rate falls below zero

Chart 1-1-1: Natural Rate of Interest

