

## **DRAGONOMICS – THE JAPANIZATION OF CHINA?**

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After several quarters of weak economic data and years of poor market performance, on Sep. 24, the People’s Bank of China unveiled its latest stimulus package in a last-ditch effort to curb further decline.



Announced by Pan Gongsheng, the governor of the People’s Bank of China, the package included lower interest rates to stimulate borrowing and growth, reduced reserve requirements for banks to increase lending and liquidity, mortgage support to alleviate the country’s enormous real estate crisis and—borrowing from Japan’s playbook—even an 800 billion yuan (\$113) “stock stabilization fund” to support the stock market directly.

The announcement sent the Shanghai Shenzhen CSI-300 index soaring within minutes, sparking further gains in the following days. However, analysts remain skeptical.

The issue?

China’s history of failed interventions (2007, 2015) has not resolved its deeper economic problems, such as widespread excessive

leverage, decades of malinvestment, a rapidly aging and declining population, and persistent deflation.

The intervention conjures up the specter of Japanese economic and market fallout that started in the 1990s and has persisted to this day.

The stark similarity between the Chinese and Japanese markets, in contrast to the US, is hard to ignore: After peaking in Dec. 1989 around 1,000, the ratio of Japan’s Topix index to the S&P 500 plummeted to the low double digits by year 2000 and now hovers around low single digits—ouch! Eerily, the ratio of China’s CSI-300 to the S&P 500 has followed a similar path, peaking just below 400 in the late 2000s before collapsing and trending towards the low single digits—dragon ouch!

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Source: Bloomberg

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