https://www.wsj.com/articles/a-chinese-echo-of-1980s-japan-1501025798

OPINION | REVIEW & OUTLOOK

A Chinese Echo of 1980s Japan

Beijing cracks down on a dollar-asset buying spree.

PHOTO: GETTY IMAGES

By The Editorial Board
July 25, 2017 7:36 p.m. ET

Chinese leaders recoil at any comparison between their economy and 1980s Japan before Tokyo's bubble burst. But one sign of similar irrational exuberance has them spooked: Since 2015 Chinese companies have gone on a buying spree for trophy assets much like the Japanese did three decades ago.

Beijing has blocked several big deals this year, leading to a dramatic decline in transactions. Regulators also warned banks last month to stop lending to five private conglomerates that have spent $57 billion on foreign hotels, entertainment companies and other assets over the past two years. The government actions caused investors to sell off the companies' stocks and bonds.

One concern is that Chinese companies are overpaying and lack the expertise to manage the assets, much like the Japanese in the 1980s. The Wanda Group paid a startling $3.5 billion last year for Legendary Entertainment, the Hollywood studio that produced "The Dark Knight" and "300." It has since made several flops, including the China-themed "Great Wall." That's reminiscent of Sony 's disastrous 1989 purchase of Columbia Pictures for $3.4 billion, most of which was written off in the 1990s.

Anbang Group, an insurance-led conglomerate, has paid eye-watering prices for buildings in Manhattan. That recalls Mitsubishi Estate ’s $1.4 billion deal for 80% of Rockefeller Plaza. Five years later it turned over the stake to its creditors to avoid default, losing $600 million.

In both Japan and now in China, loose monetary policy and a weak dollar started the trend. In order to prevent their currencies from appreciating too much against the dollar, Beijing and Tokyo encouraged companies to acquire foreign assets.

The parallel isn’t exact, since China’s outbound investment boom started relatively late in the cycle. The frothiest deals came after 2015, when the value of the yuan peaked. Companies are also acting rationally to reduce their exposure to an overvalued yuan by stocking up on dollar assets. There’s also a uniquely Chinese political aspect, as some of the most risk-prone companies boast political connections that allow them better access to credit.

That doesn’t mean Beijing can be sanguine. Capital flight carries its own risks, and Beijing’s crackdown on the five companies is part of a wider effort to prevent the yuan from depreciating too rapidly.

The Chinese government can avoid a Japan-style lost decade if it takes the right lesson from this episode. While Beijing may be able to rein in its companies’ foreign deals, that doesn’t mean the danger is over. Their acquisition mania is a symptom of an economy whose fundamentals are out of kilter.

The excessive risk-taking by companies has its roots in government policy. As regulators play Whac-a-Mole with systemic risks, China’s government continues to prop up economic growth with fiscal and monetary stimulus. That has caused debt to grow at twice the rate of GDP. China’s present may not repeat Japan’s history, but it could rhyme.