

Dim Sums

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Keep growing

- Chinese government worries that the investment booms is out of control
- Due to the government policy (減溫政策), “investment in fixed assets was up **only** 24%”
- Most people believe that China’s investment is still too high. It may end in a cyclical bust, and inefficient investment may drag down long-term growth rate.

Investment statistics

- Official statistics: investment/GDP ratio is over 45%
- However, **this figure can not be right**
- If $I/Y = 45\%$, and $\Delta I/I = 24\%$, then Y will increase by at least 10.8%
- C and $X - M$ contribute another 6% to GDP growth, so Y will increase by about 17%.
Too high!

Investment and saving

- $S = I + (X - M)$
- Current account surplus ($= (X - M)$) is about 7% of GDP
- So $S/Y = 52\%$. **Too high!**
- World Bank: China's saving rate is about 44%.
If this number is correct, then $I/Y = 37\%$.

Level and growth rate of I

- Economist at Goldman and Sachs in HK concludes the both level and growth-rate of Chinese investment are overstated.
- Chinese fixed-asset investment includes purchases of land, which reflect only changes in ownership, **not** increases in value-added.
- Consumer spending is higher than official figures suggest, **because** services are still poorly covered. Hence GDP may be underestimated. If so, maybe $I/Y = 36\text{--}40\%$.

Overinvesting?

- In developed economies, $I/Y = 21\%$.
- In developing countries, K/L is low, MPK is high, and so is returns on capital.
- If China were massively overinvesting, then return on capital would be falling.
- **But** corporate profit margins in China have been rising. This suggests that there is **no** industrial overcapacity.