Dim Sums

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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 $I/Y = 36–40\%$. 
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.