

Will A Resurgent State Drag Down China's Growth?

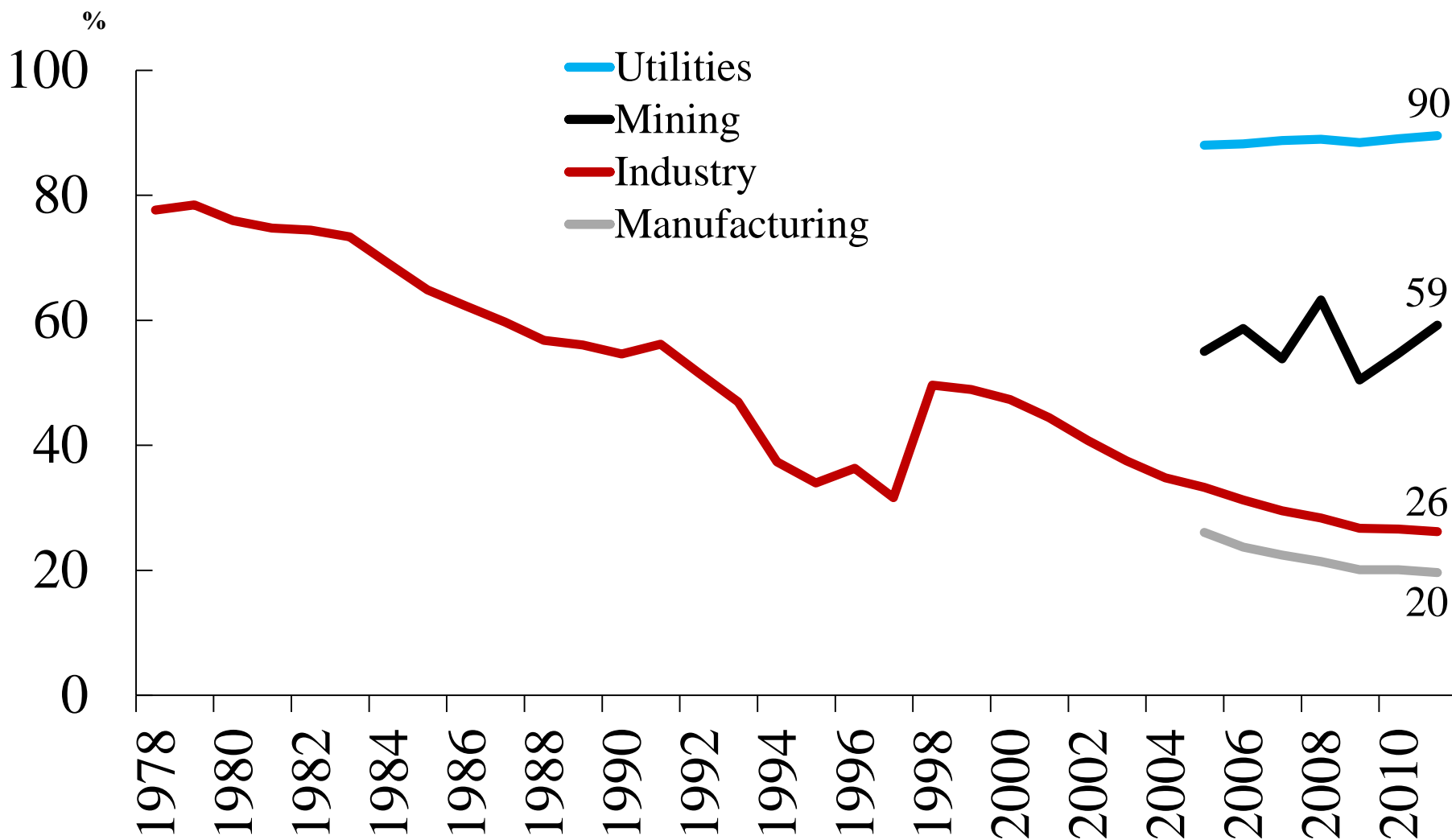
**Julis-Rabinowitz Center for
Public Policy and Finance**

Princeton University

February 17th, 2016

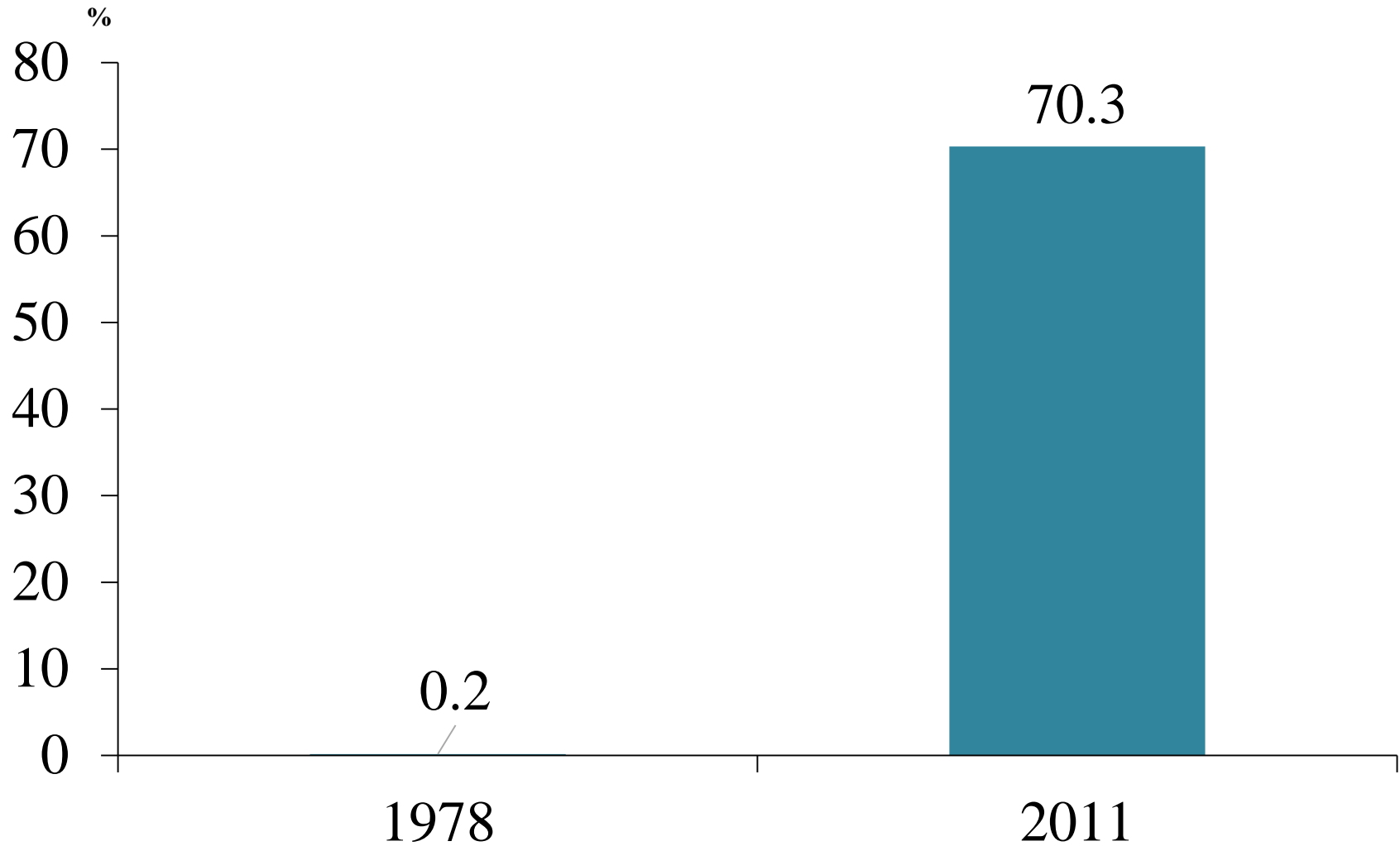
Nicholas R. Lardy
Anthony M. Solomon Senior Fellow

State Share of Industrial Output, 1978 – 2011

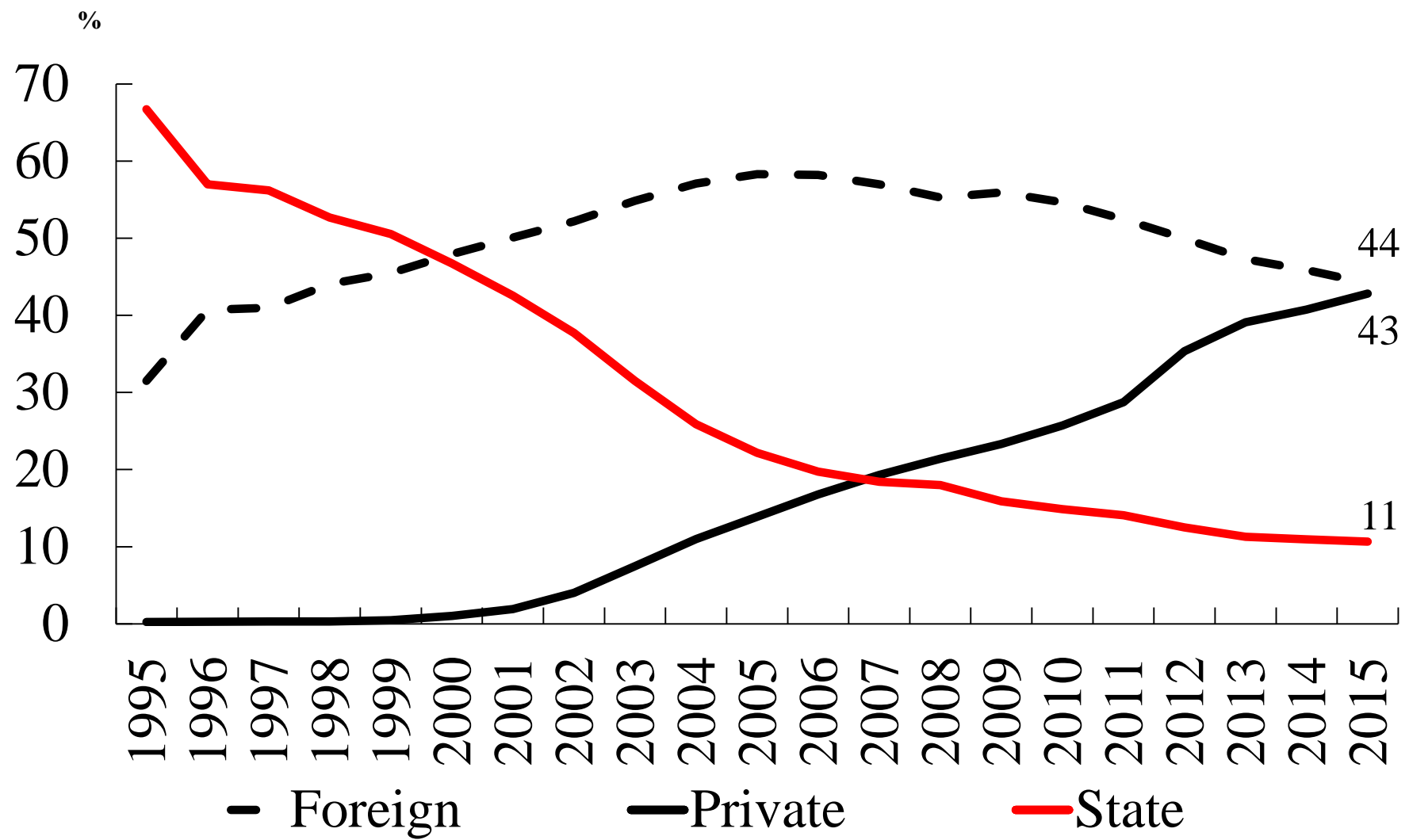




Share of Private Employment, 1978 & 2011

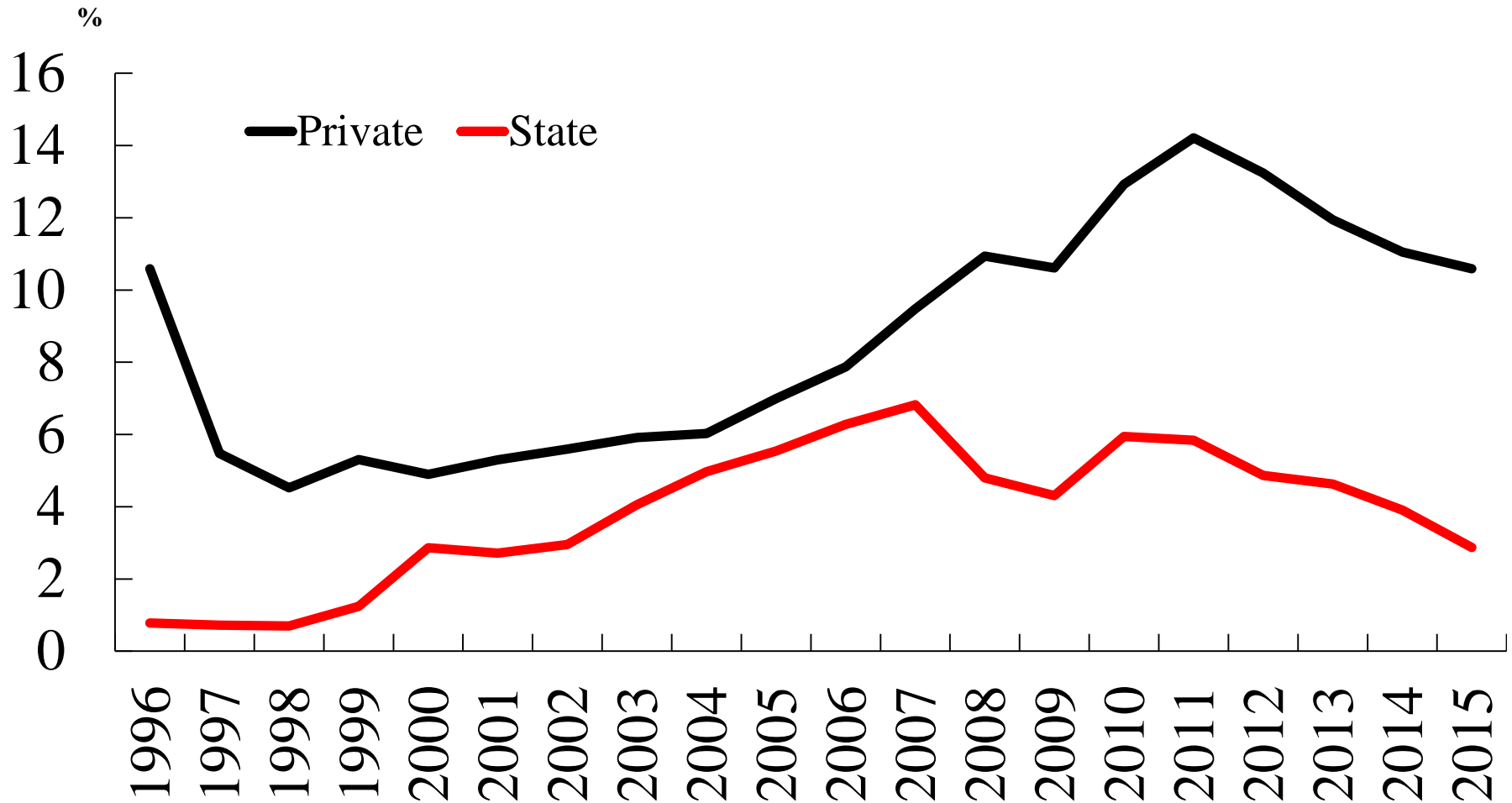


The Sources of China's Exports by Ownership, 1995 – 2015

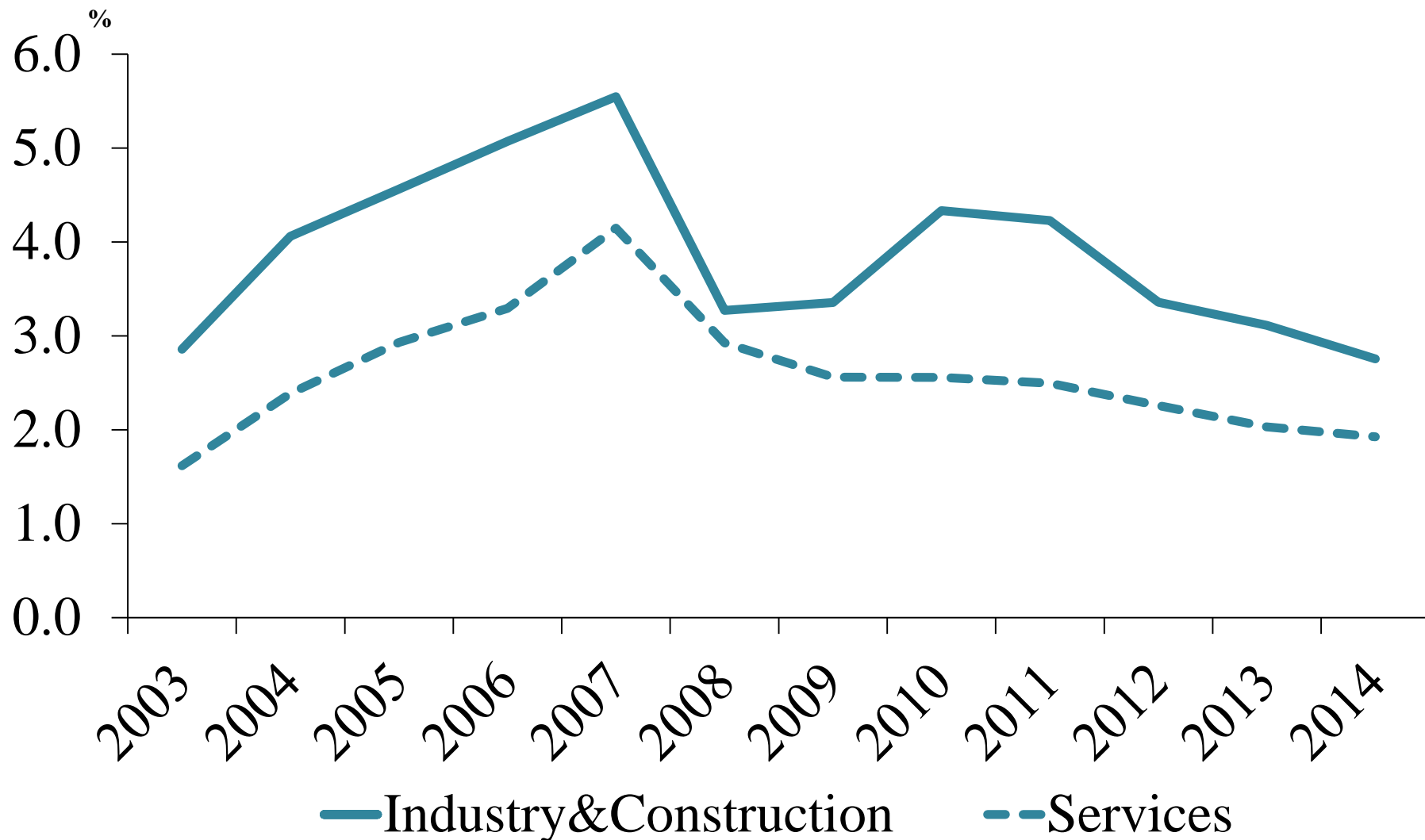


Source: General Administration of Customs of China

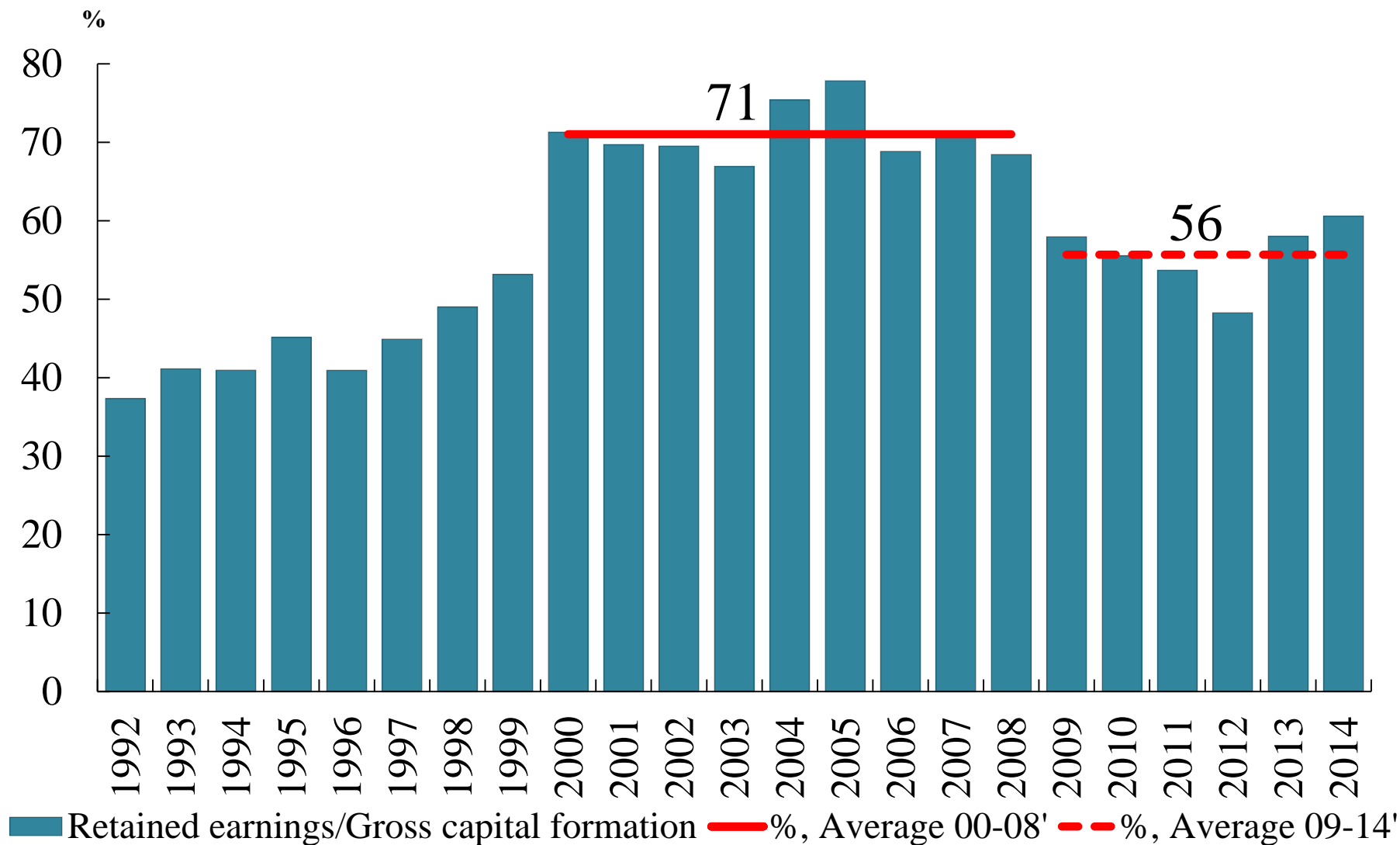
Return on Assets of Industrial Enterprises, 1996 – 2015



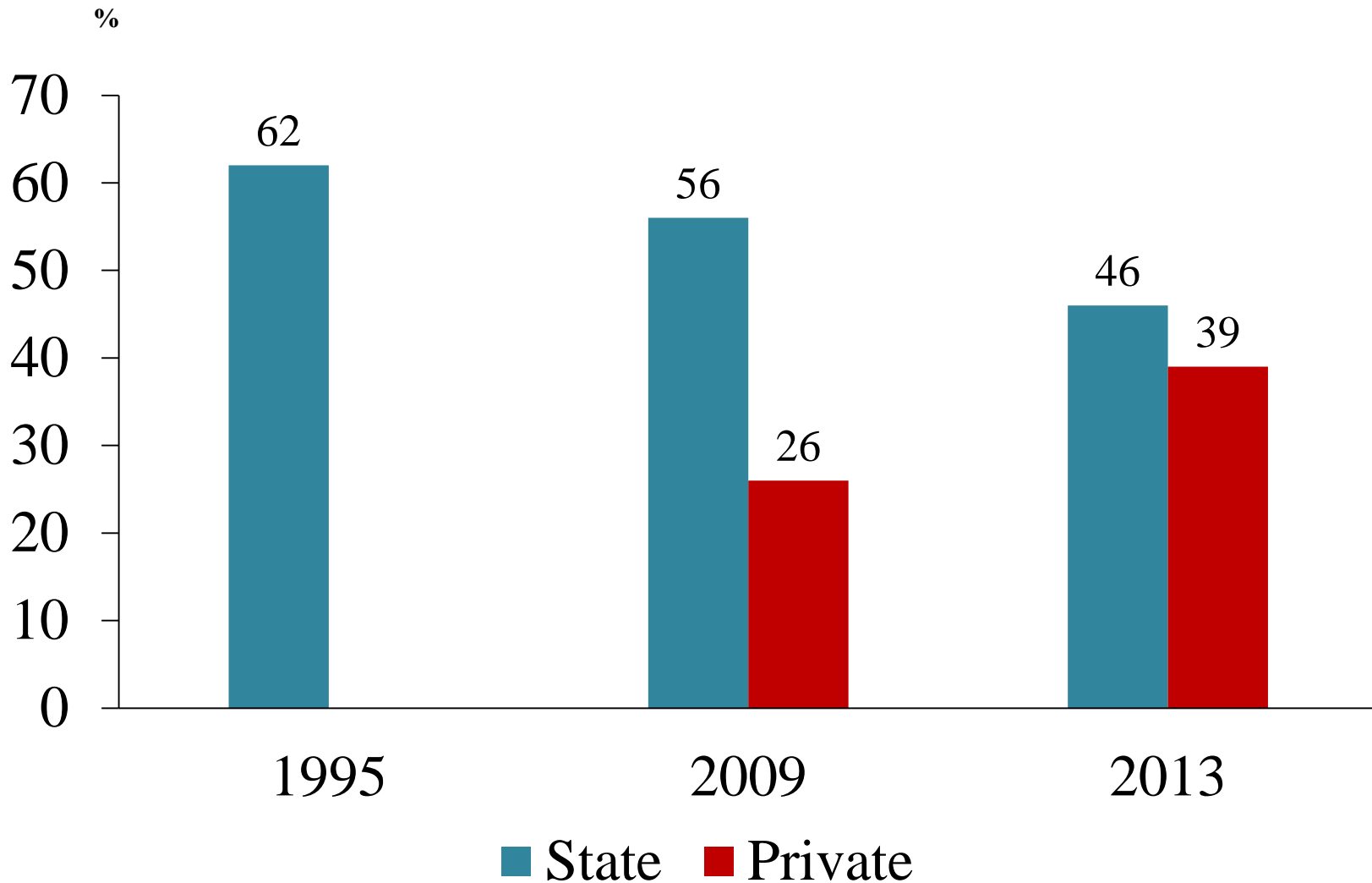
Return on Assets of State Enterprises, 2003 – 2014



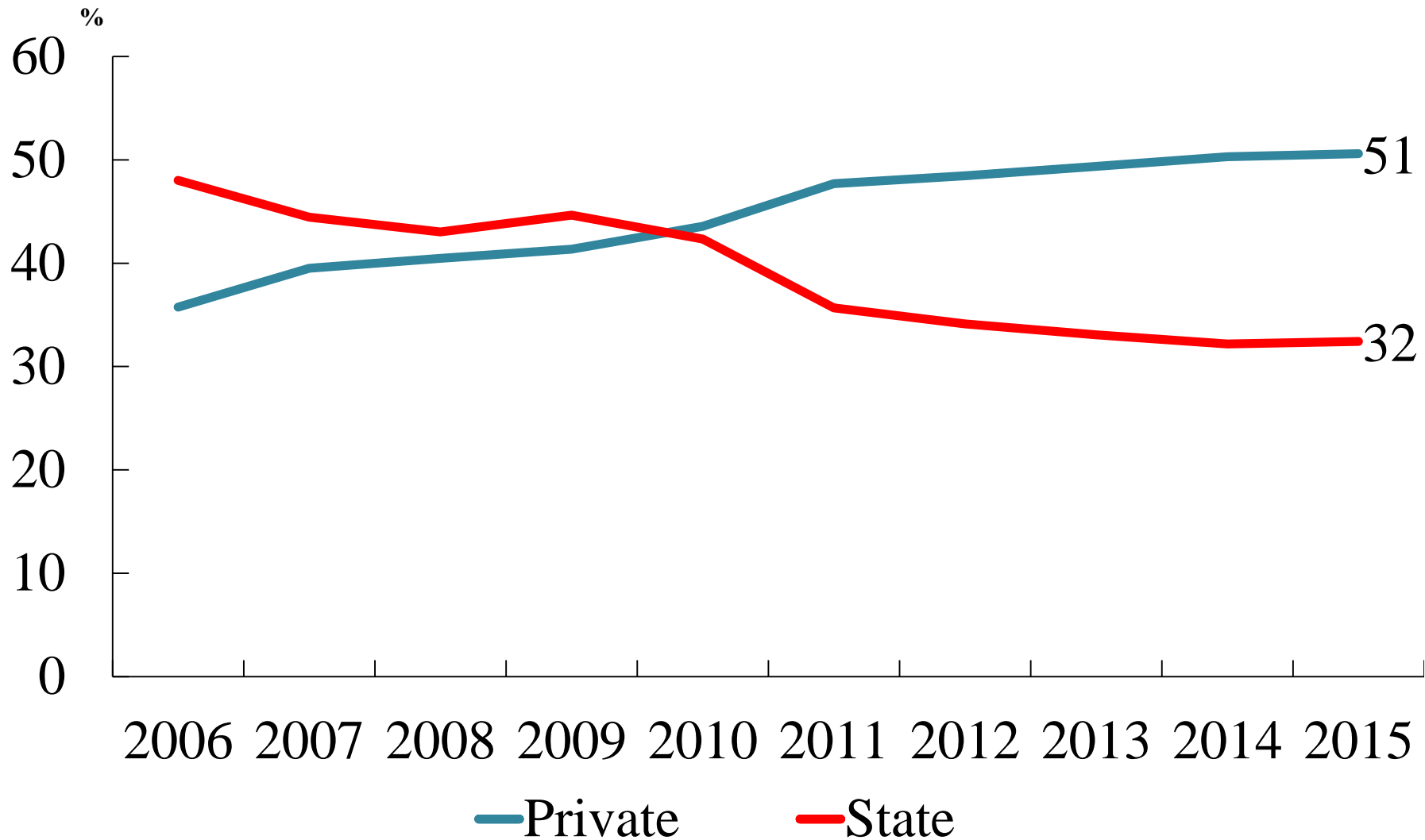
Retained Earnings as A Share of Investment, 1992 – 2014



Share of RMB Loans Outstanding, 1995, 2009 & 2013



Fixed Asset Investment by Ownership, 2006 – 2015

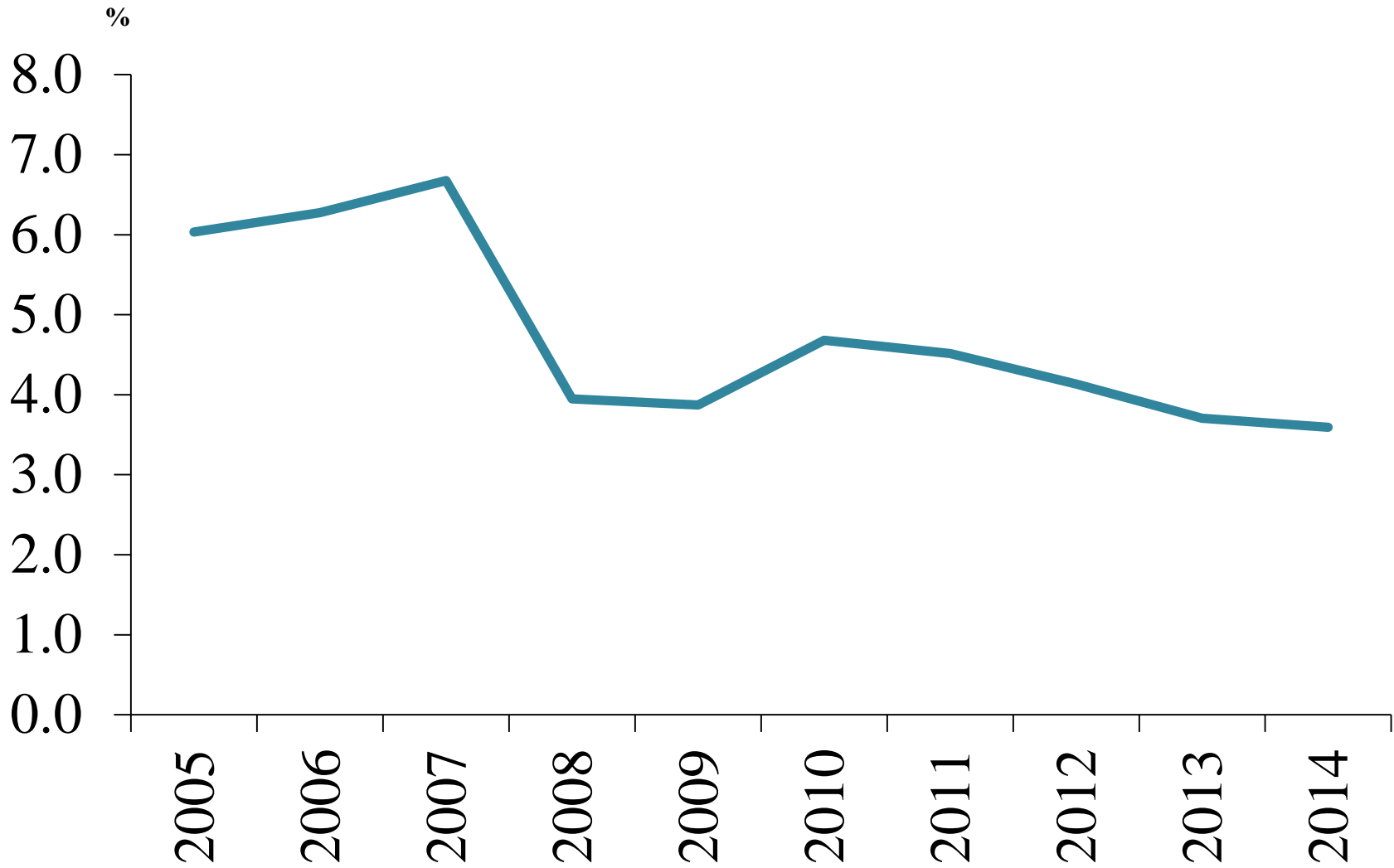


SOE Reforms: Recent Mega Mergers

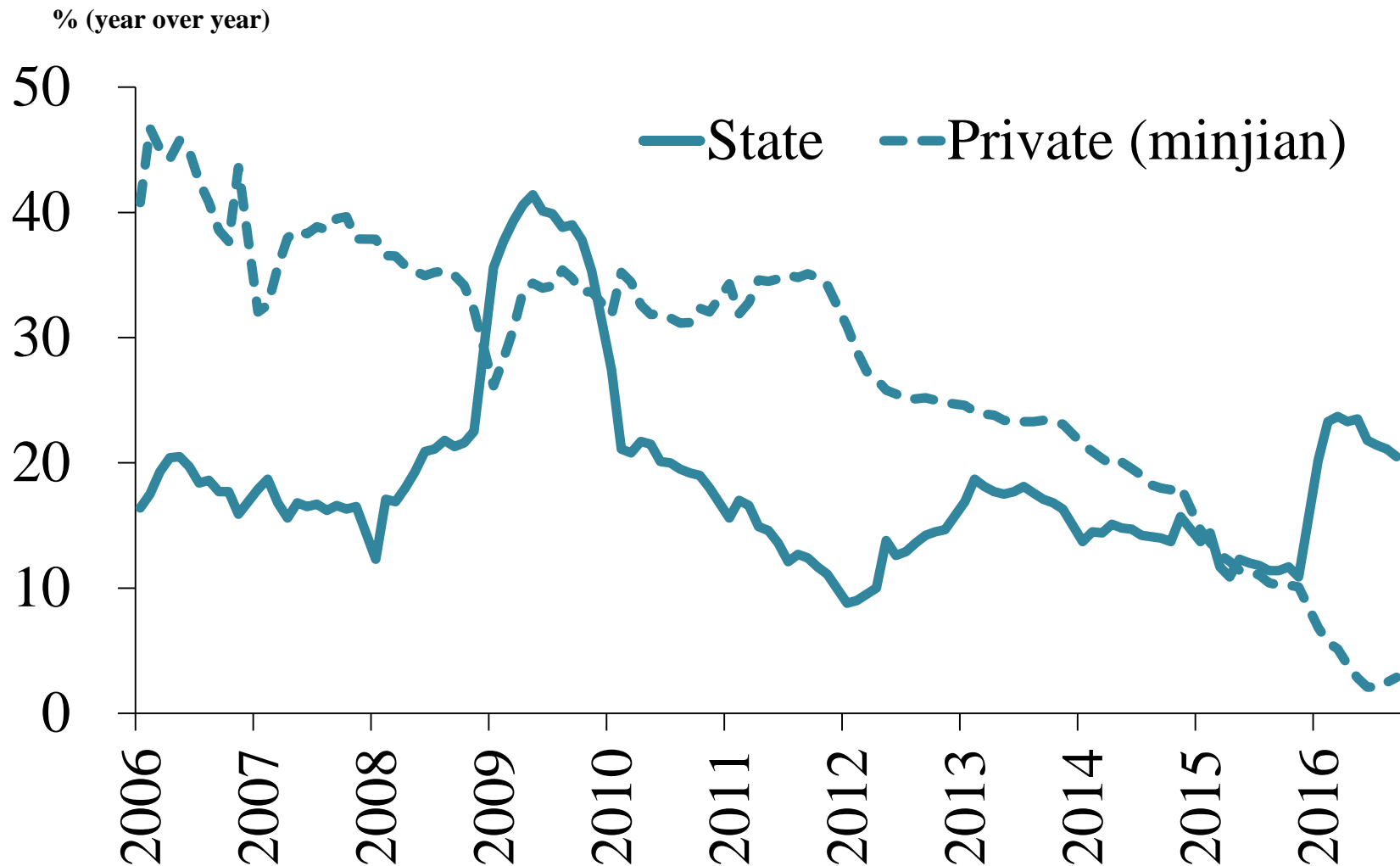


- China International Travel Services Group Corp & China National Travel Service (HK)
- CNR Corp & CSR Corp
- China Metallurgical Group & China Minmetals Corp
- China Ocean Shipping Group (COSCO) & China Shipping Group
- China Power Investment Corp & State Nuclear Power Technology Corp

Return on Assets of Central SASAC Firms, 2005 – 2014



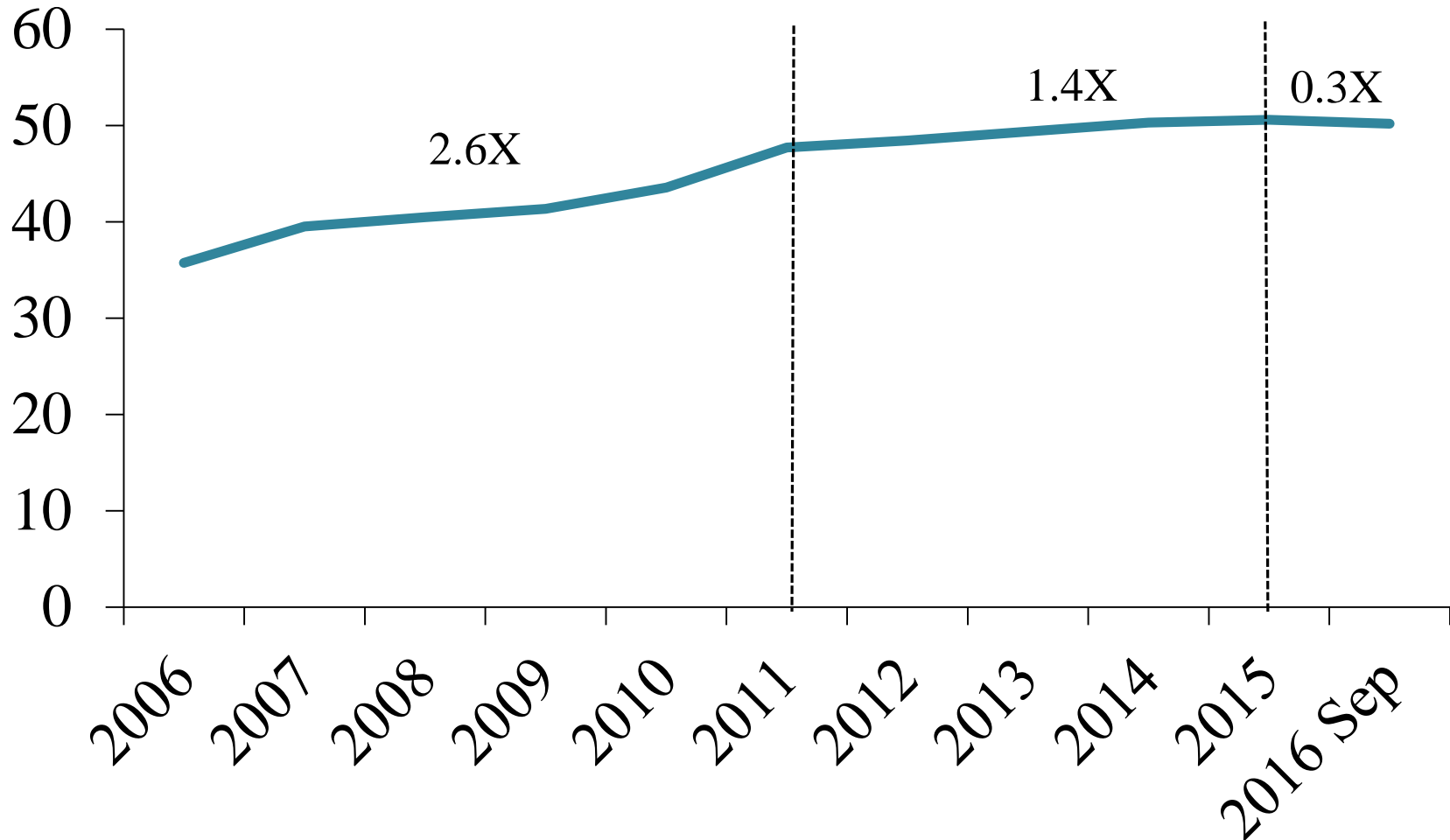
Softening Private Investment Growth, Feb 2006 – Oct 2016



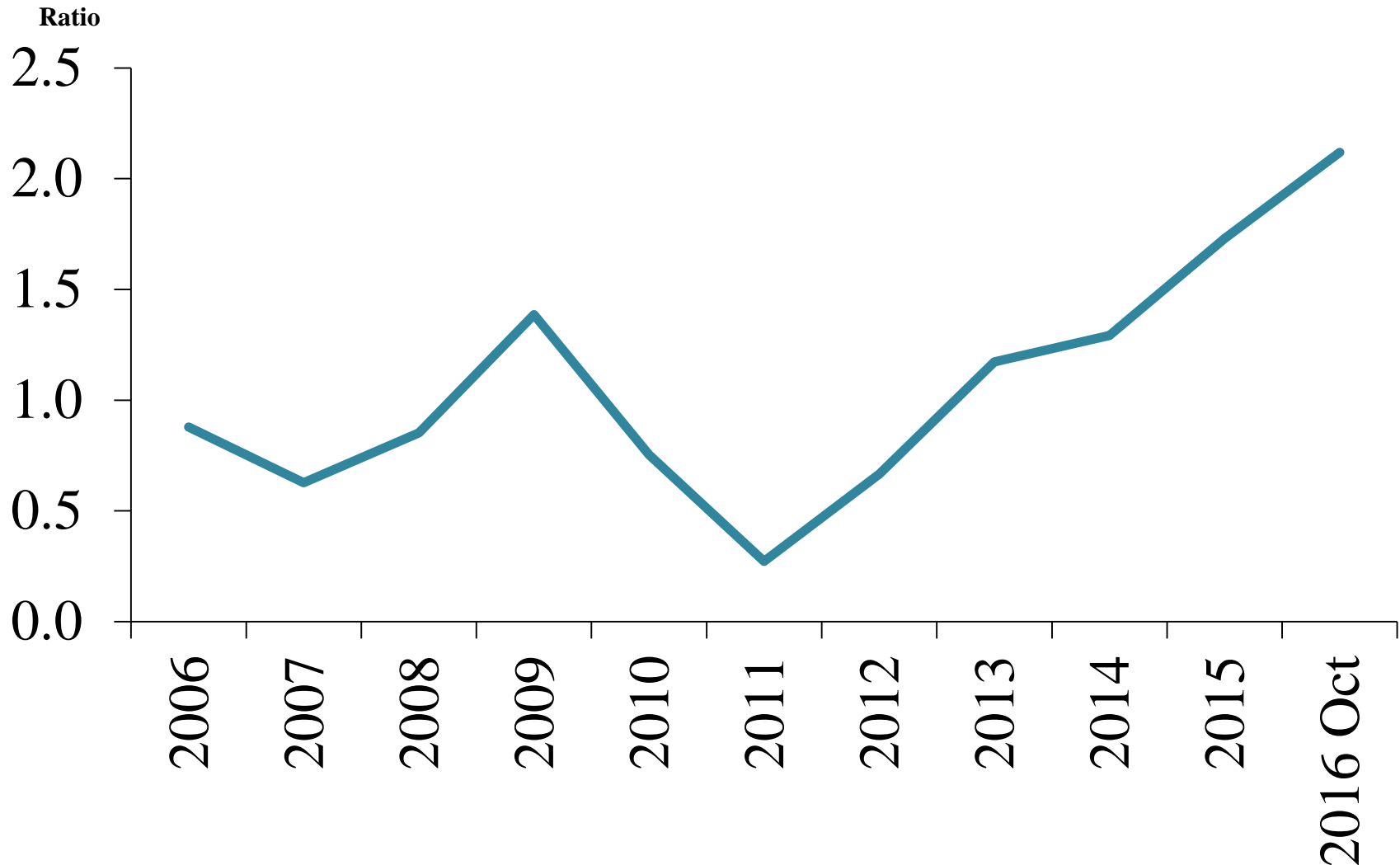
Share of Private Investment, 2006 – Sep 2016



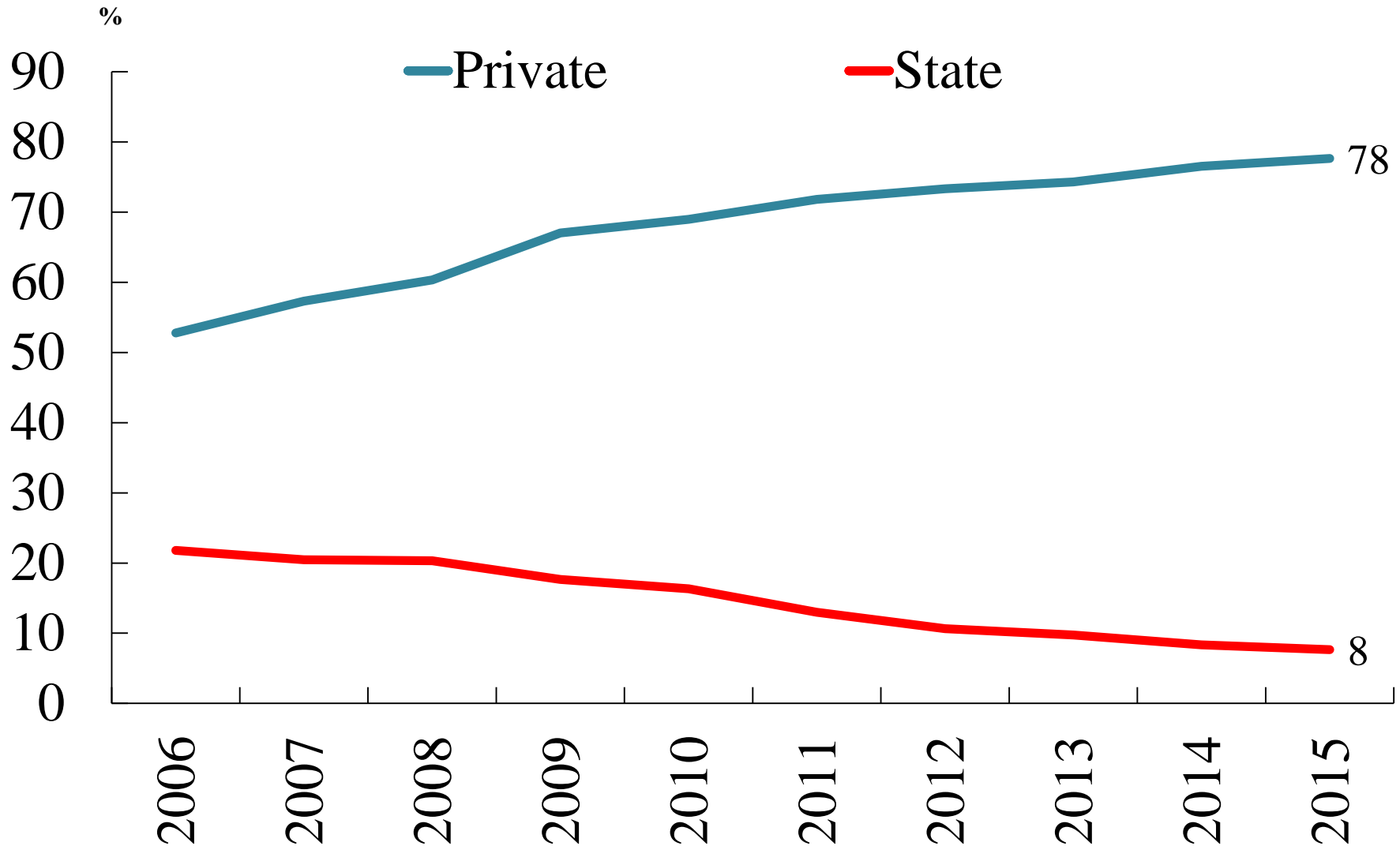
% of Total Investment



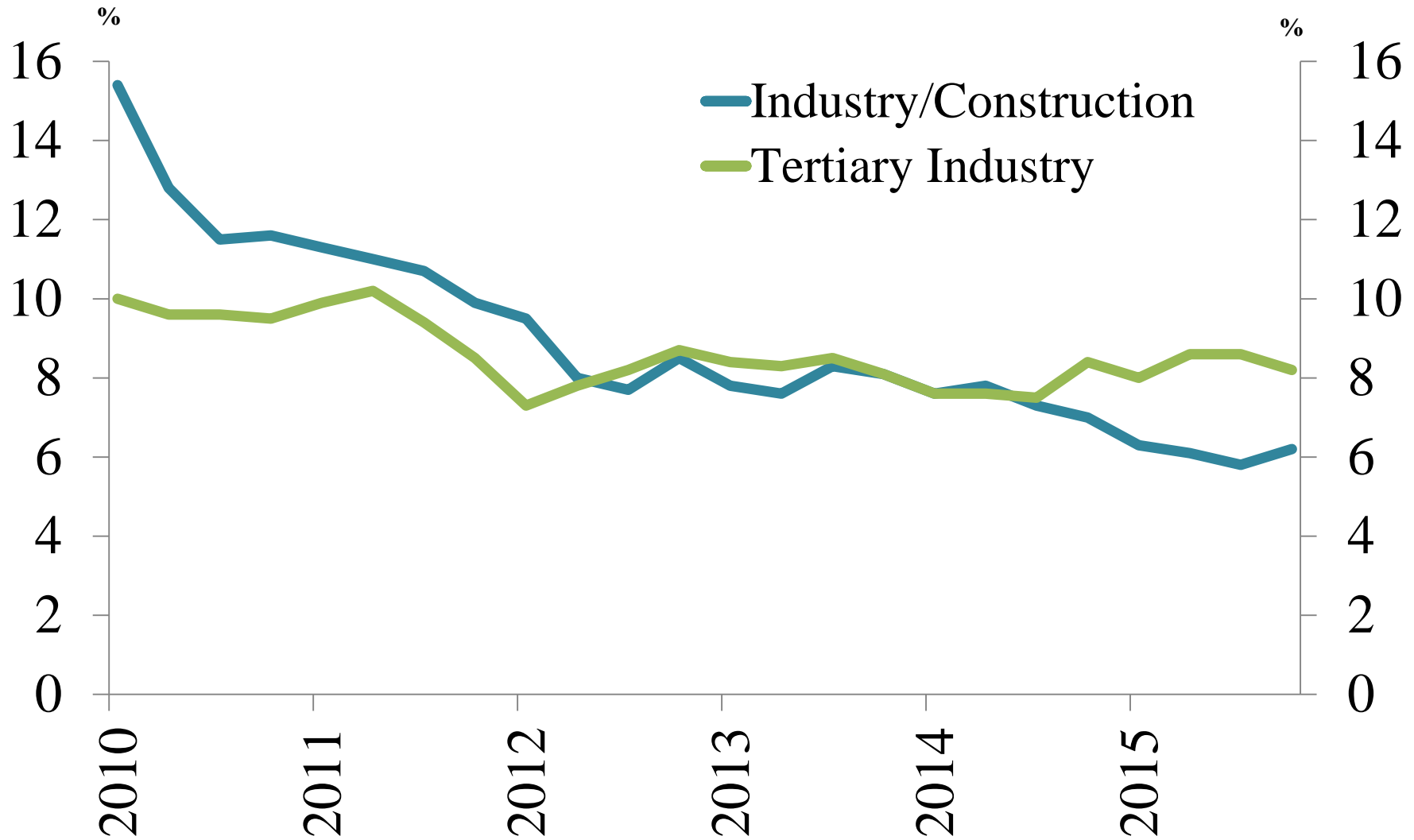
Growth of Infrastructure Investment and Total Investment, 2006 – Oct 2016



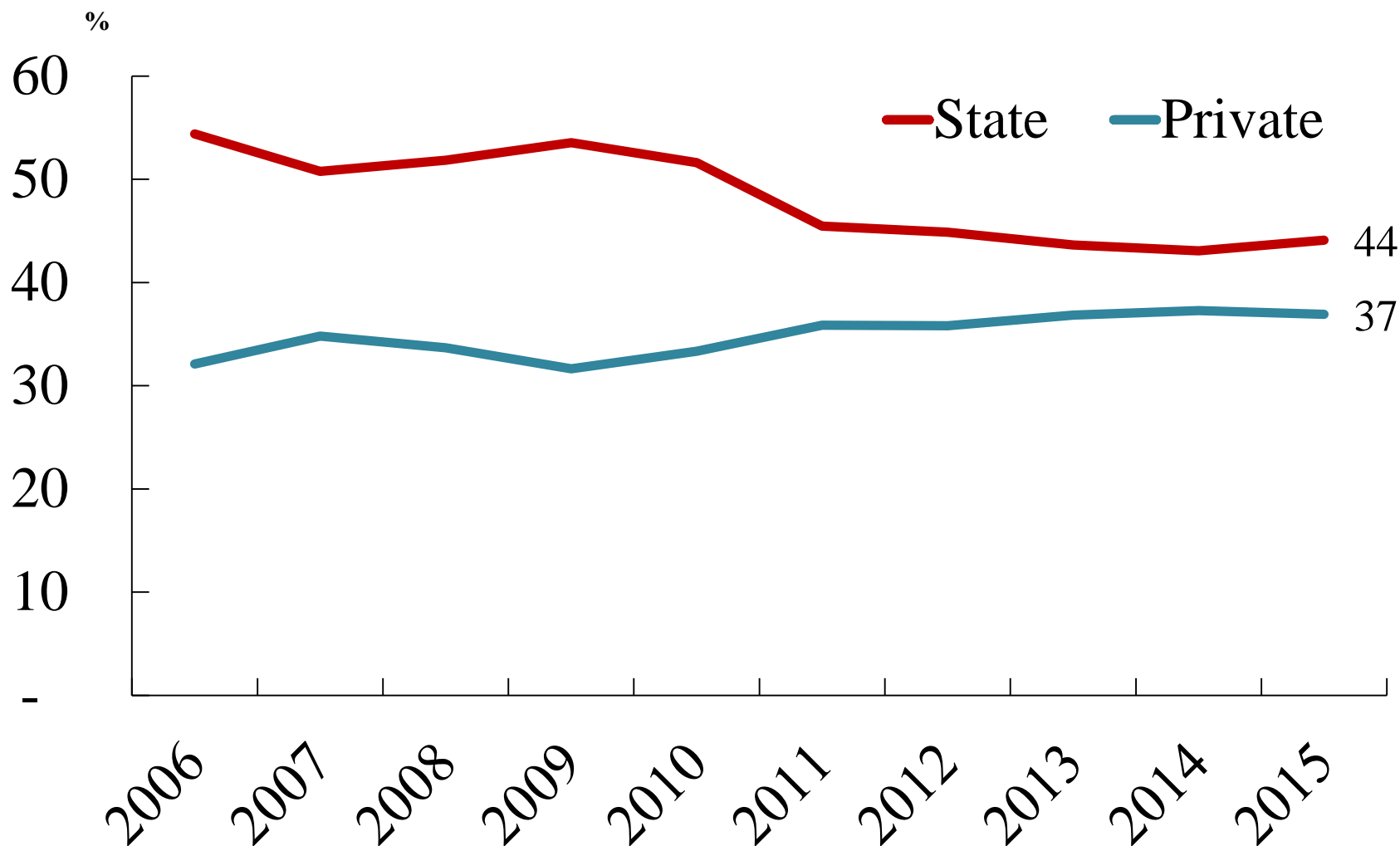
Fixed Asset Investment in Manufacturing, 2006 – 2015



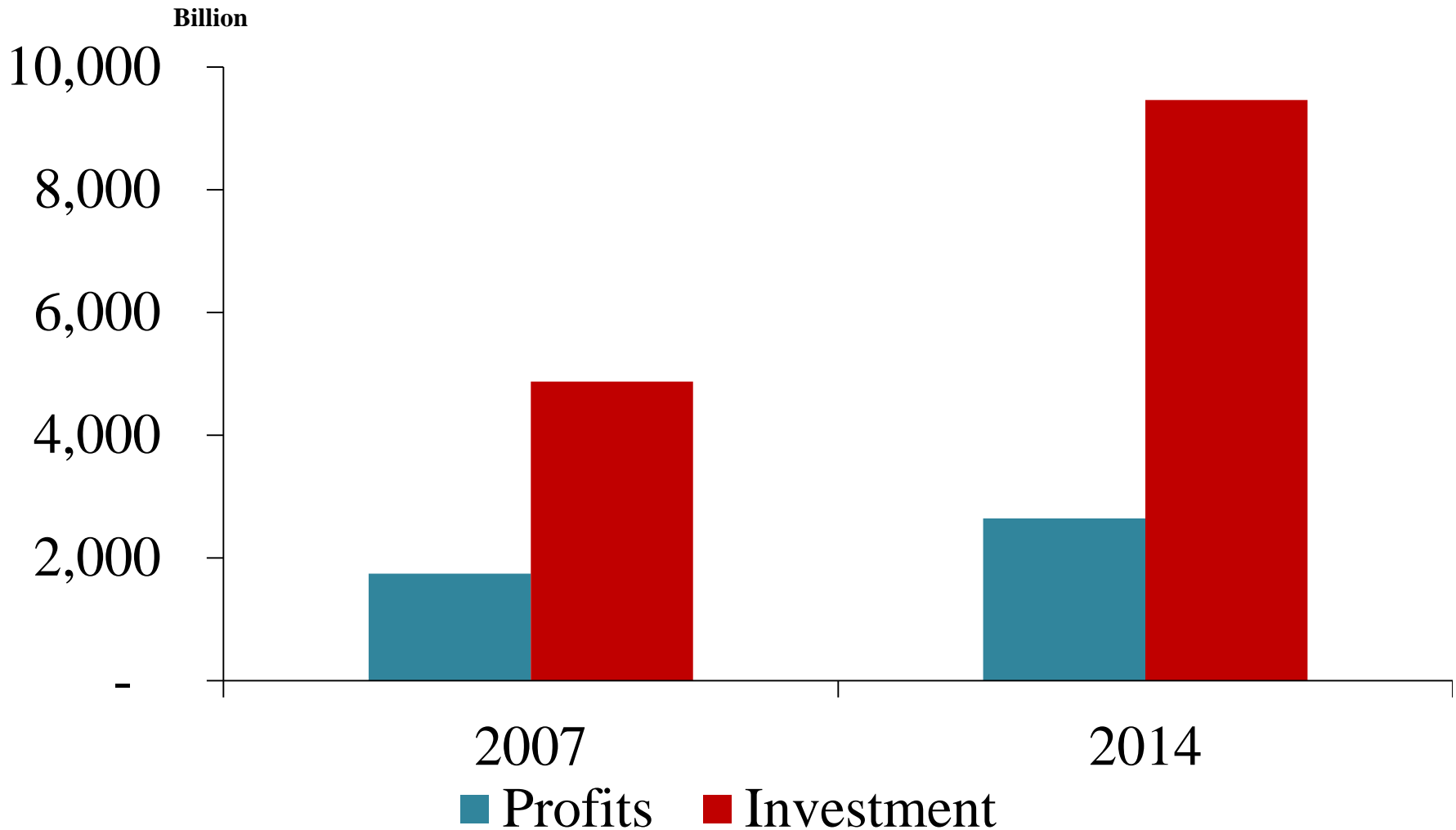
Growth of Industry/Construction and Tertiary Industry, 2010 – 2015



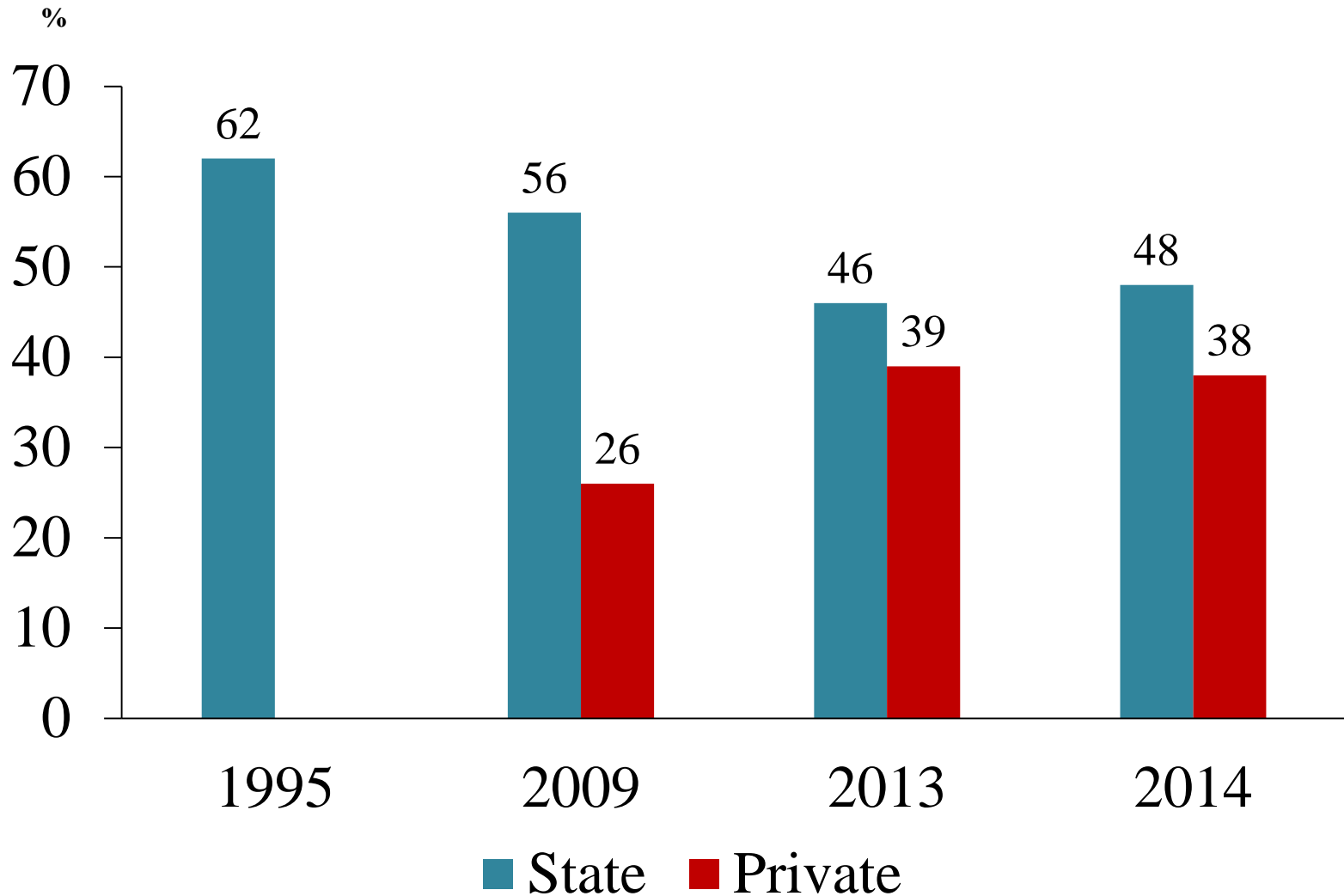
Fixed Asset Investment in Services, 2006 – 2015



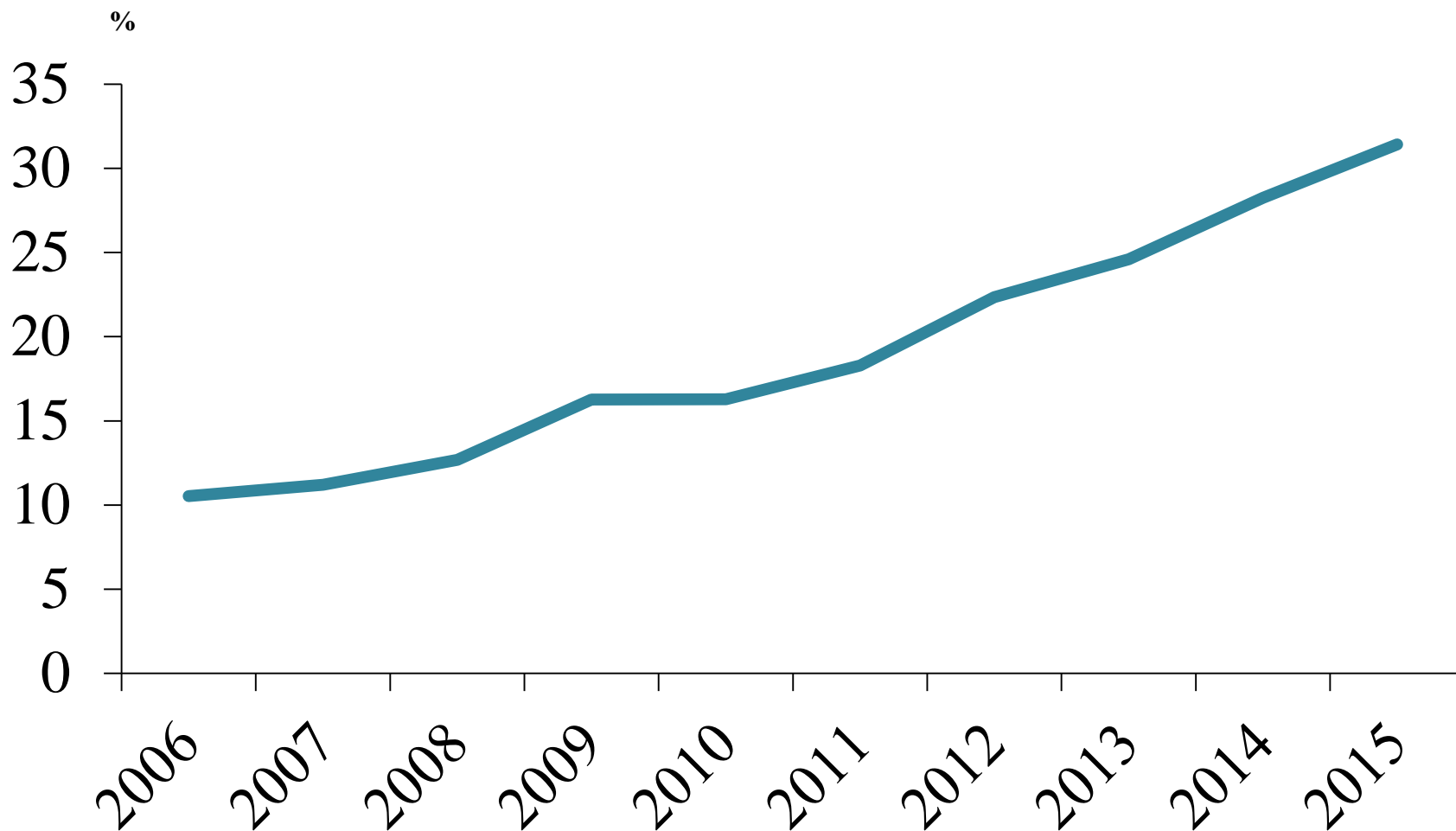
State Profits and Investment, 2007 and 2014



Share of RMB Loans Outstanding, 1995, 2009, 2013, & 2014



Investment Financed by State Budget, 2006 – 2015





Takeaways

- The long-term growing share of private investment has been the major driver of China's economic growth in the reform era.
- The recent slowing relative of growth of private investment, if sustained, is negative for China's medium term growth and its financial stability.
- To sustain growth the government must open up more of the services sector to private investment and create a more competitive financial system.