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

Source: China National Bureau of Statistics
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

Source: China National Bureau of Statistics
Return on Assets of State Enterprises, 2003 – 2014

Source: Ministry of Finance
Retained Earnings as A Share of Investment, 1992 – 2014

Source: China National Bureau of Statistics
Share of RMB Loans Outstanding, 1995, 2009 & 2013

Sources: People’s Bank of China
Fixed Asset Investment by Ownership, 2006 – 2015

Source: China National Bureau of Statistics
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

Source: State-owned Assets Supervision and Administration Commission of the State Council (SASAC)

% (year over year)

Source: China National Bureau of Statistics
Share of Private Investment, 2006 – Sep 2016

% of Total Investment

Sources: China National Bureau of Statistics, and author’s estimates
Growth of Infrastructure Investment and Total Investment, 2006 – Oct 2016

Source: China National Bureau of Statistics
Fixed Asset Investment in Manufacturing, 2006 – 2015

Sources: China National Bureau of Statistics

Source: China National Bureau of Statistics
Fixed Asset Investment in Services, 2006 – 2015

Sources: China National Bureau of Statistics
State Profits and Investment, 2007 and 2014

Sources: China National Bureau of Statistics, Ministry of Finance, and author’s calculations

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>56</td>
<td>26</td>
</tr>
<tr>
<td>2013</td>
<td>46</td>
<td>39</td>
</tr>
<tr>
<td>2014</td>
<td>48</td>
<td>38</td>
</tr>
</tbody>
</table>

Sources: People’s Bank of China
Investment Financed by State Budget, 2006 – 2015

Sources: China National Bureau of Statistics
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.