PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

State Resurgence in China?

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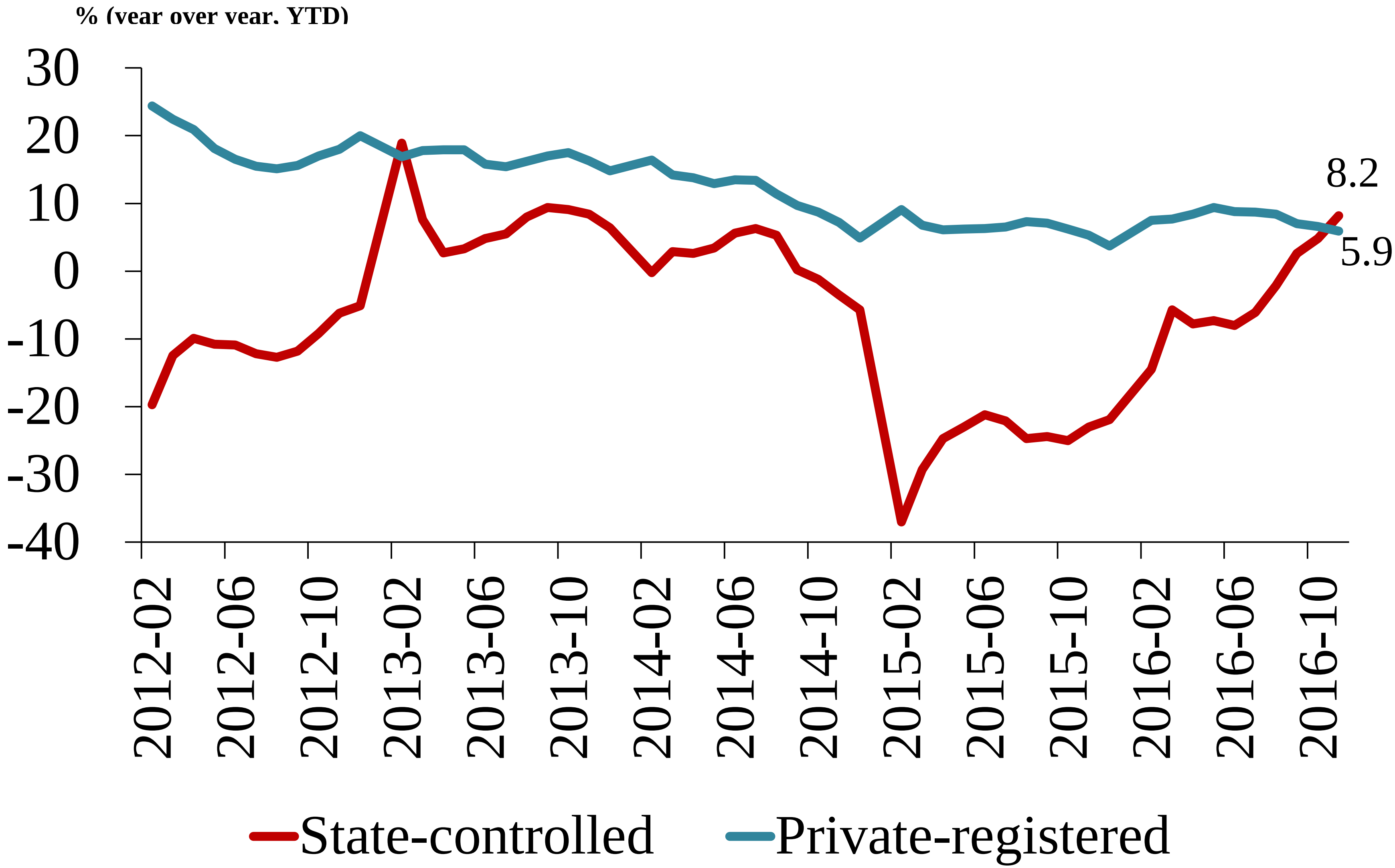
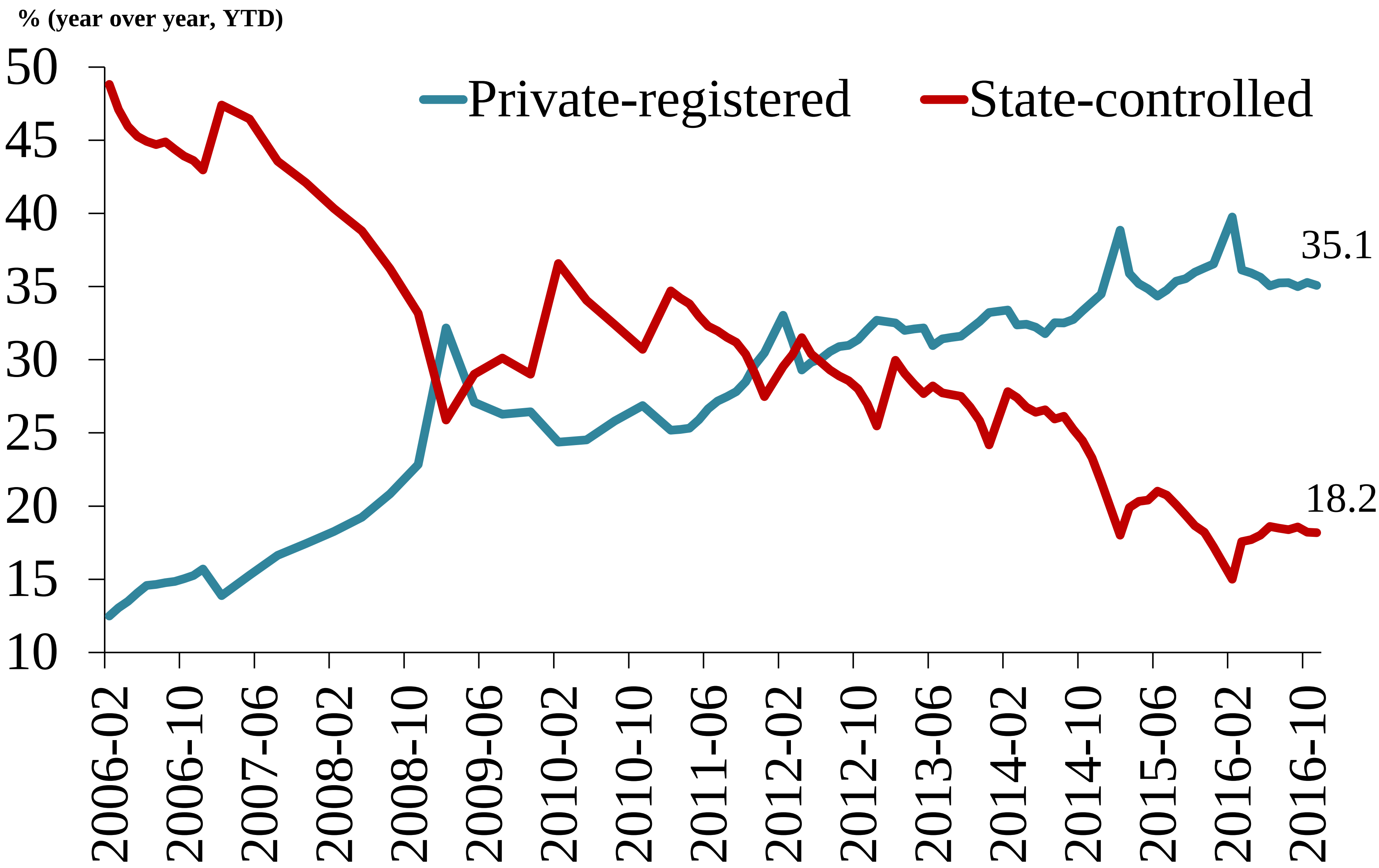
Growth of Industrial Profits, Feb 2012 – Nov 2016



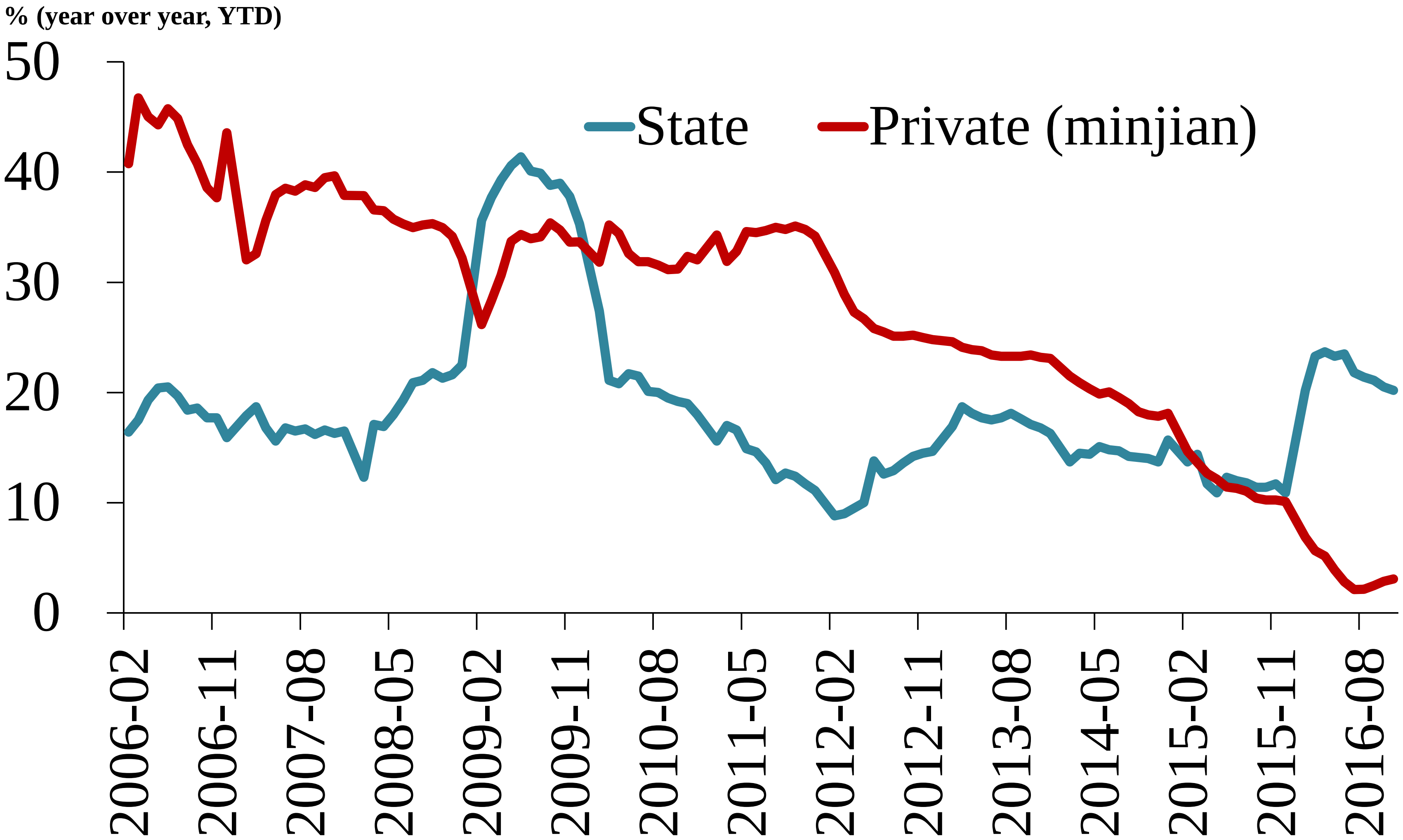
Source: China National Bureau of Statistics

Share of Industrial Profits, Feb 2006 – Nov 2016



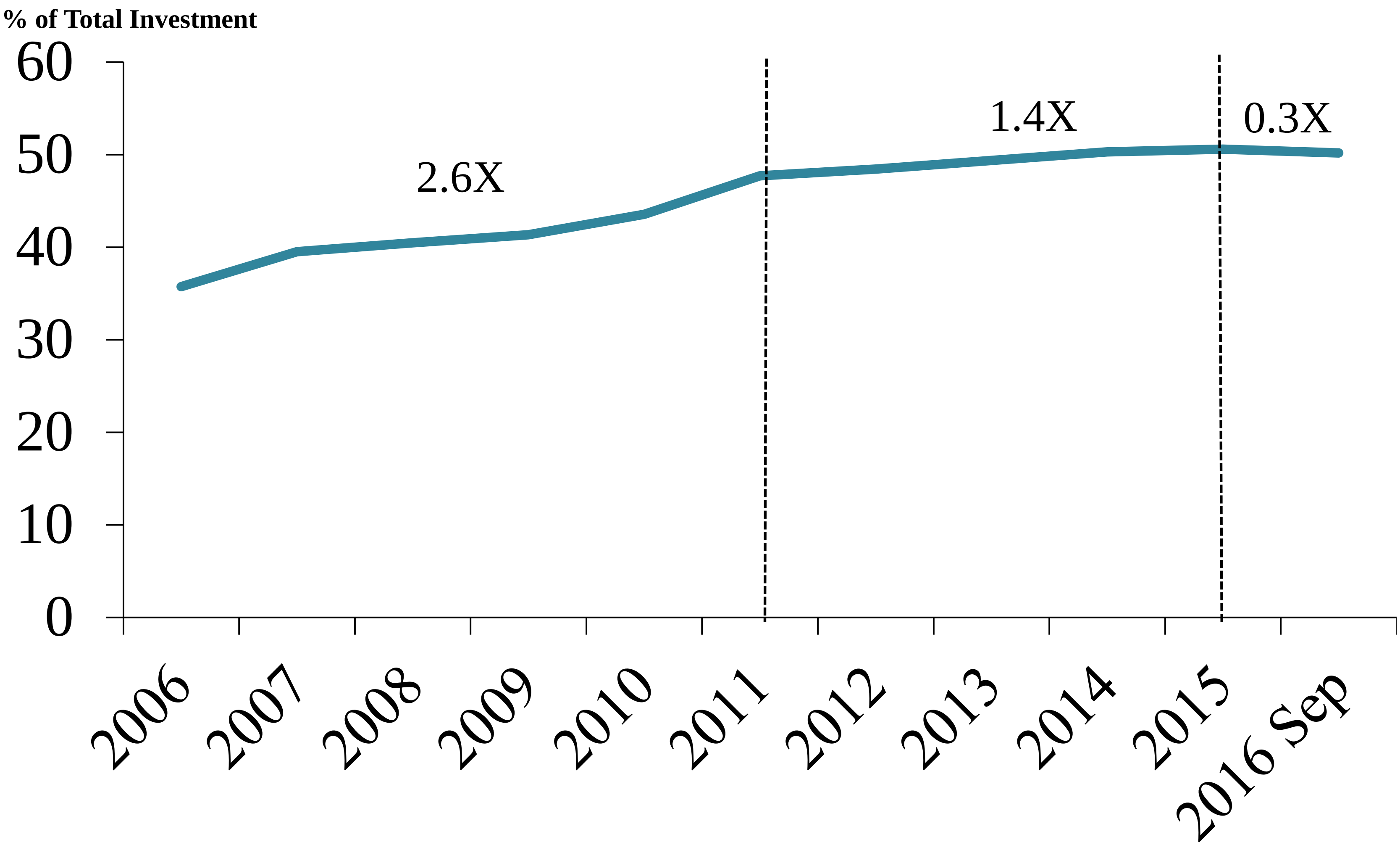
Source: China National Bureau of Statistics

Softening Private Investment Growth, Feb 2006 – Nov 2016



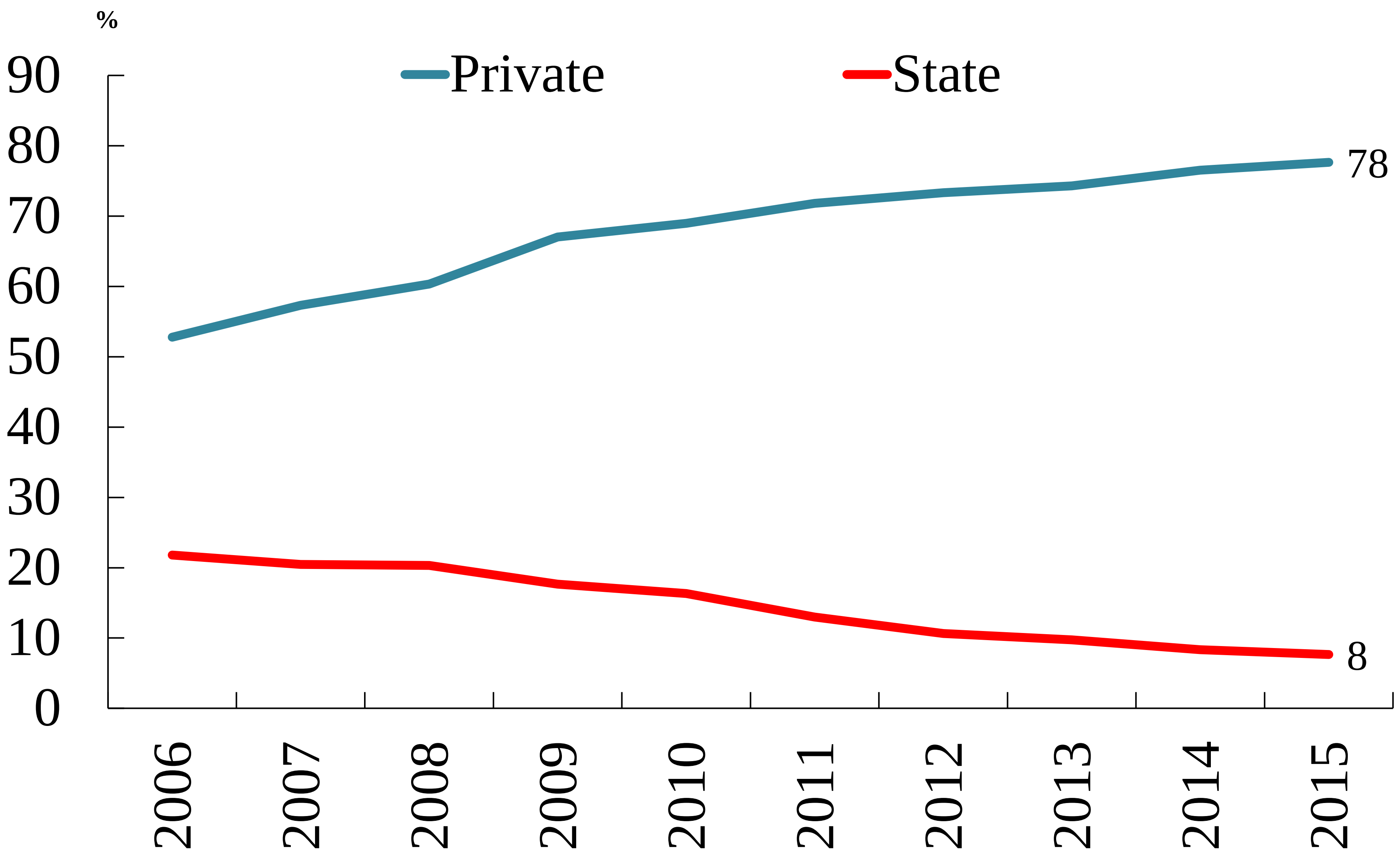
Source: China National Bureau of Statistics

Share of Private Investment, 2006 – Sep 2016



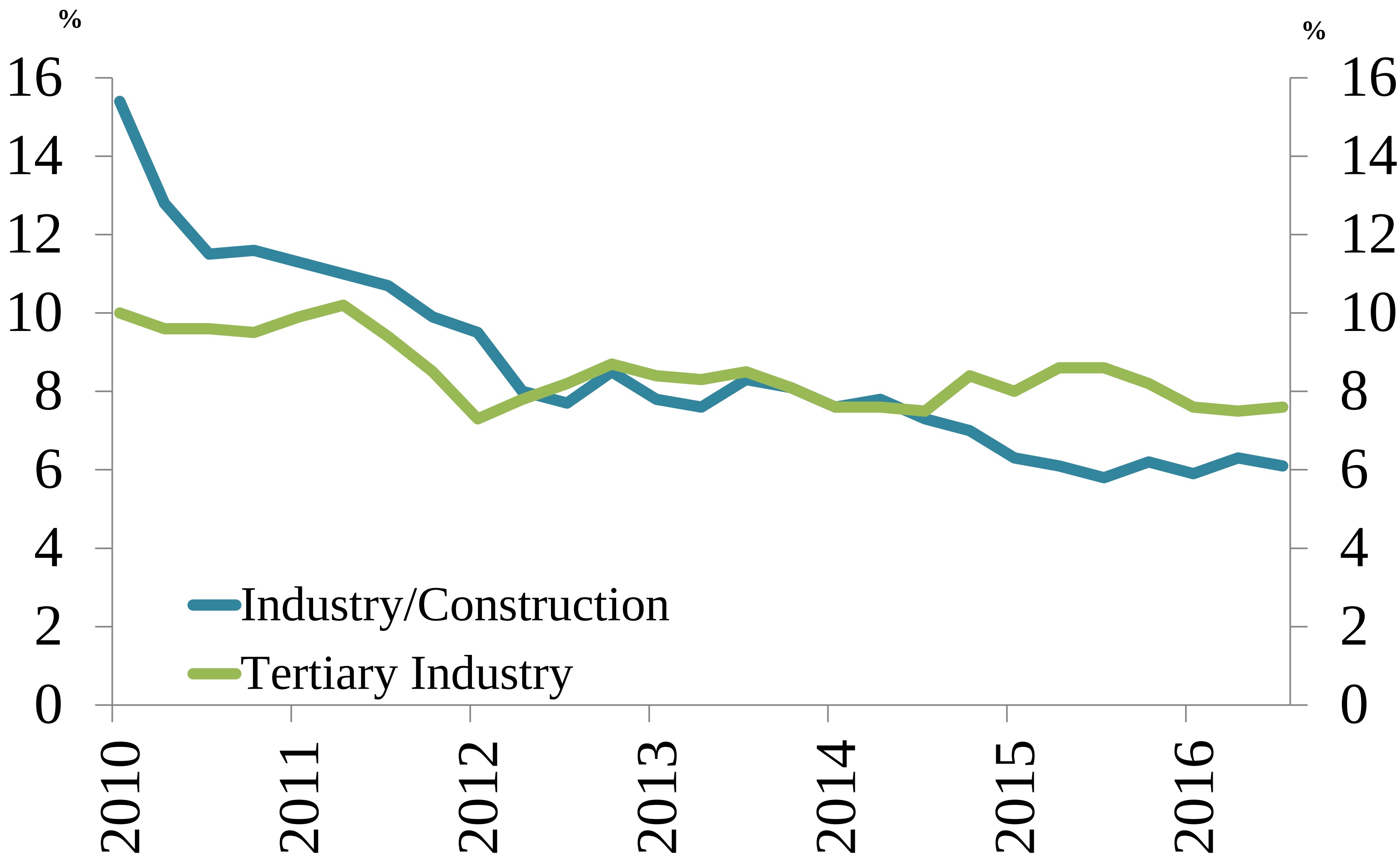
Sources: China National Bureau of Statistics, and author's estimates

Fixed Asset Investment in Manufacturing, 2006 – 2015



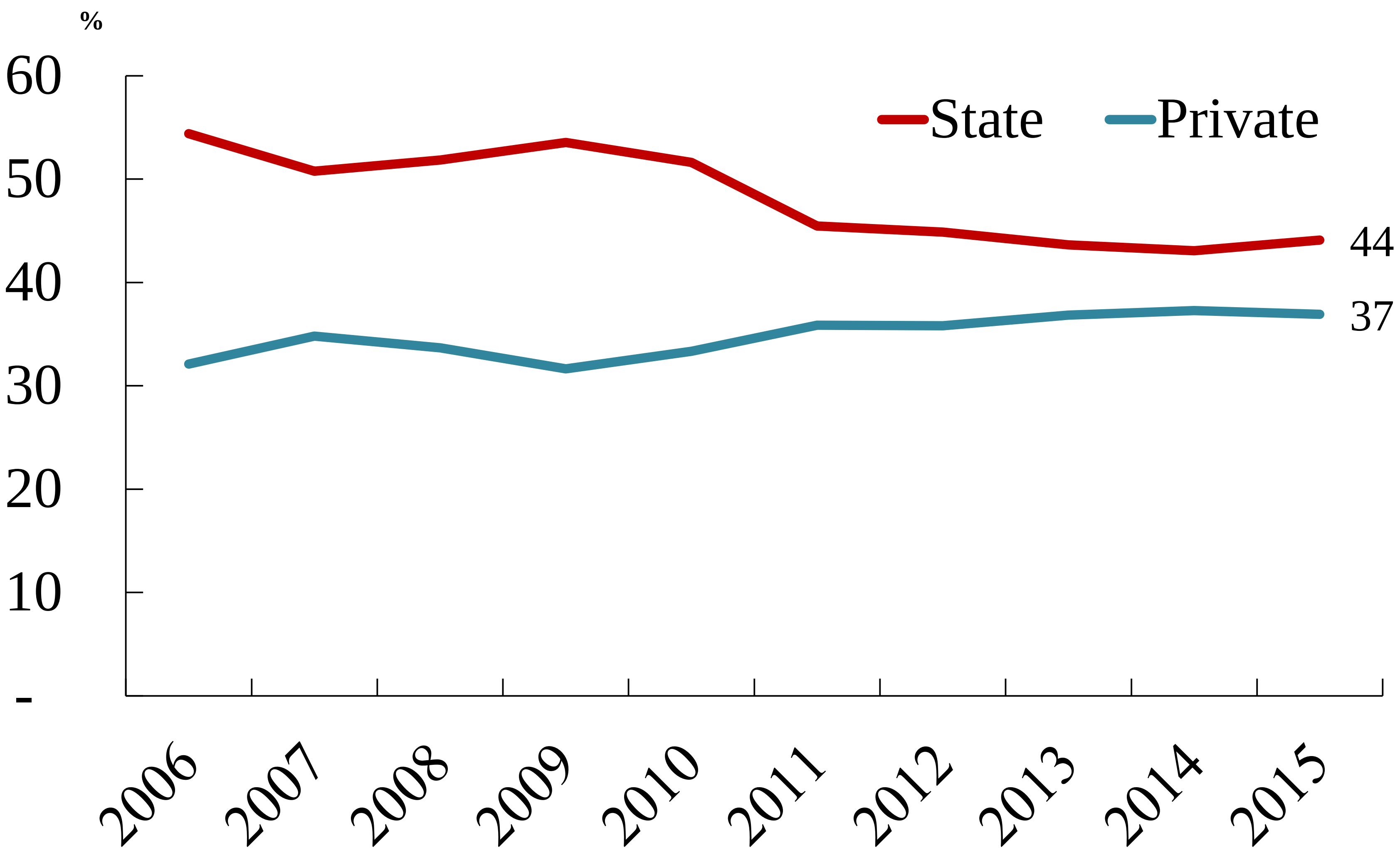
Sources: China National Bureau of Statistics

Growth of Industry/Construction and Tertiary Industry, Q1 2010 – Q3 2016



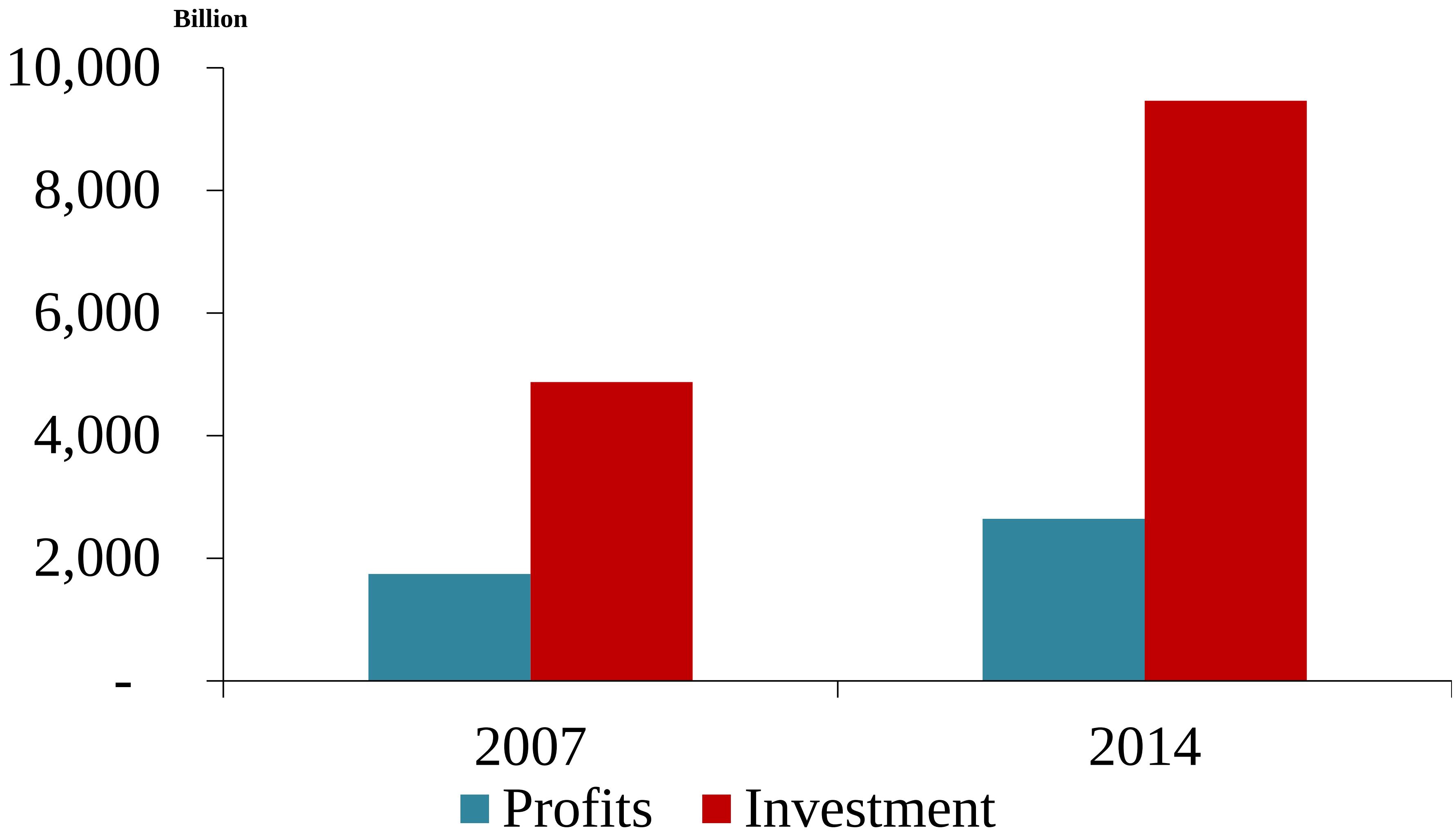
Source: China National Bureau of Statistics

Fixed Asset Investment in Services, 2006 – 2015



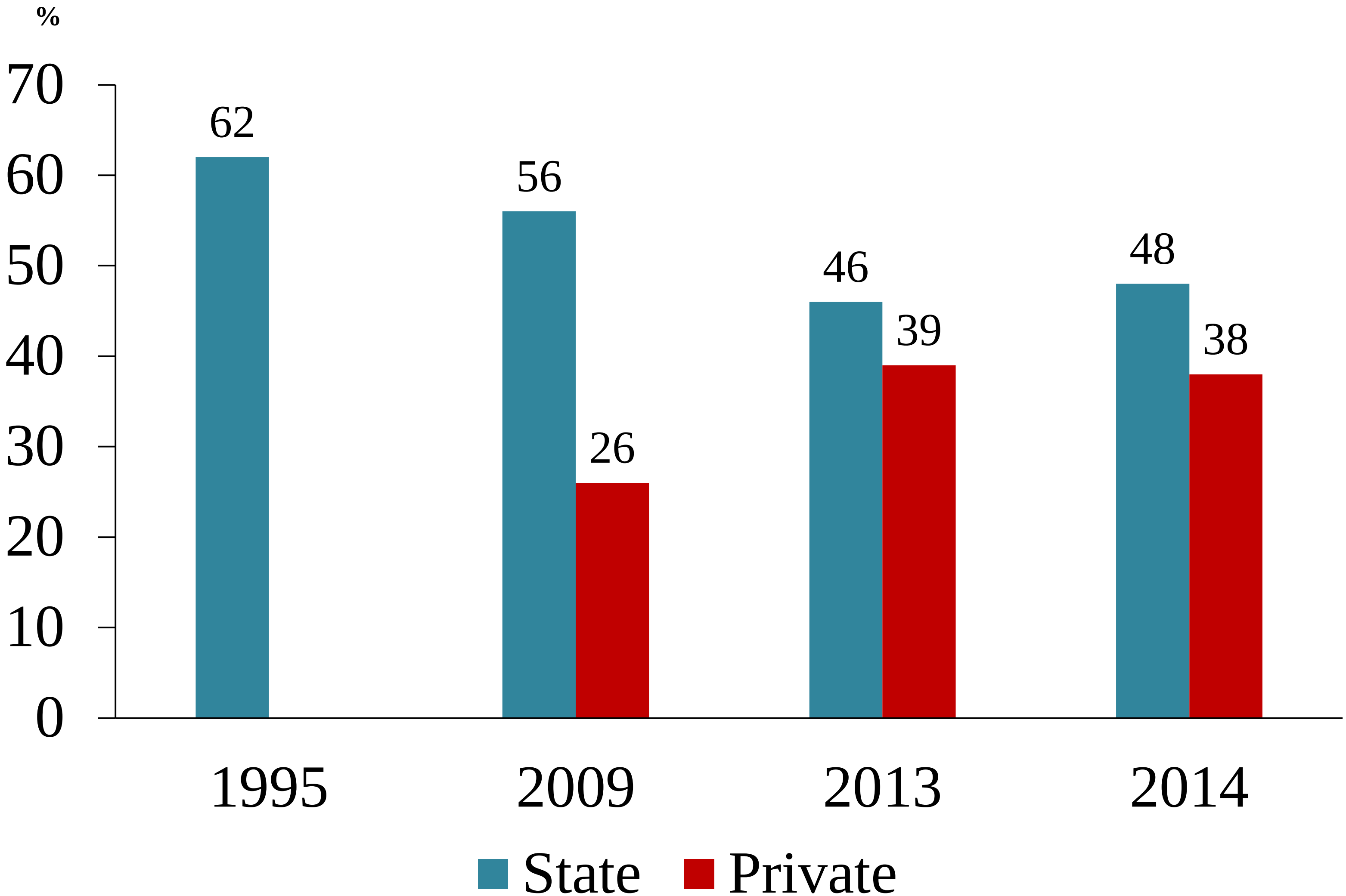
Sources: China National Bureau of Statistics

State Profits and Investment, 2007 and 2014



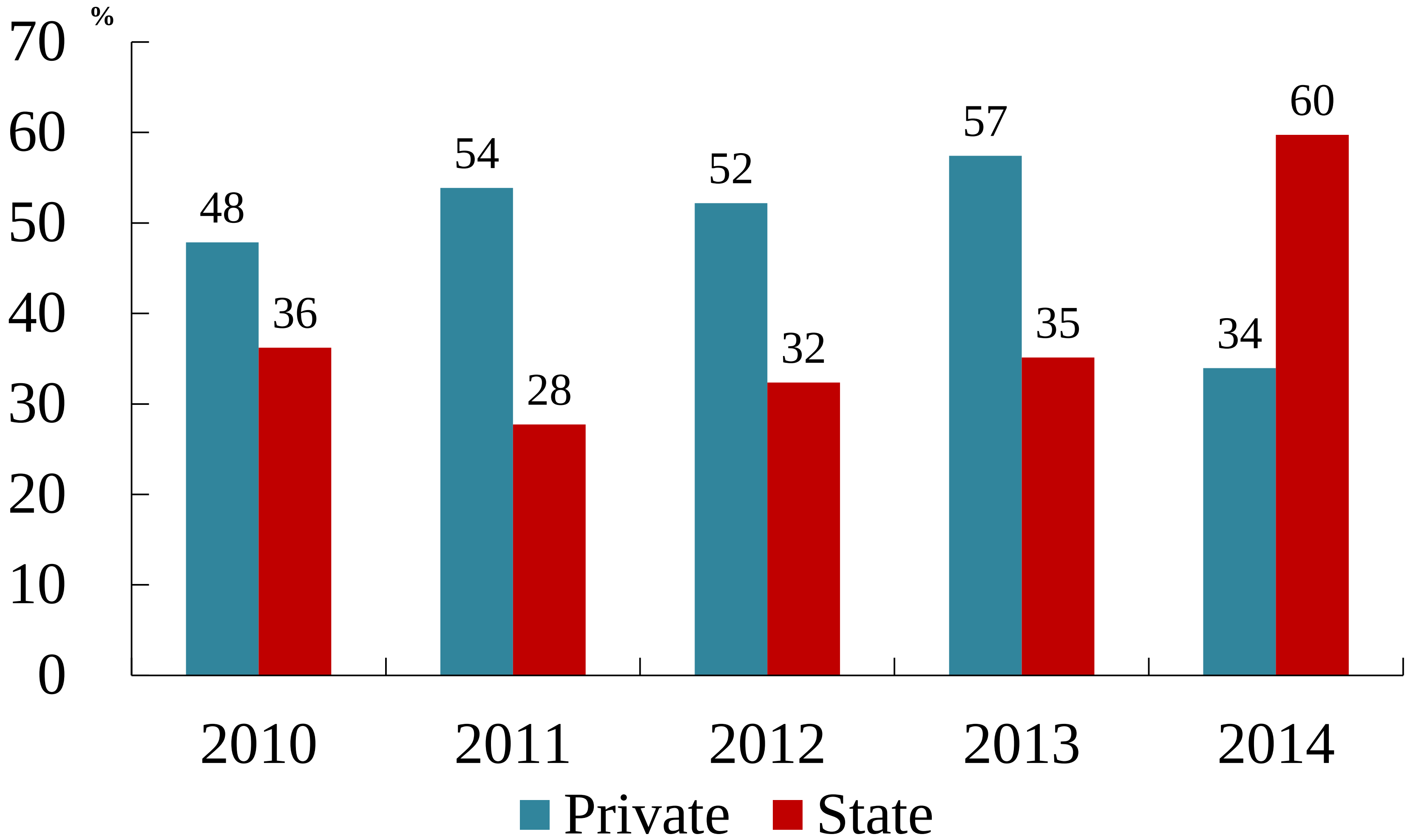
Sources: China National Bureau of Statistics, Ministry of Finance, and author's calculations

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



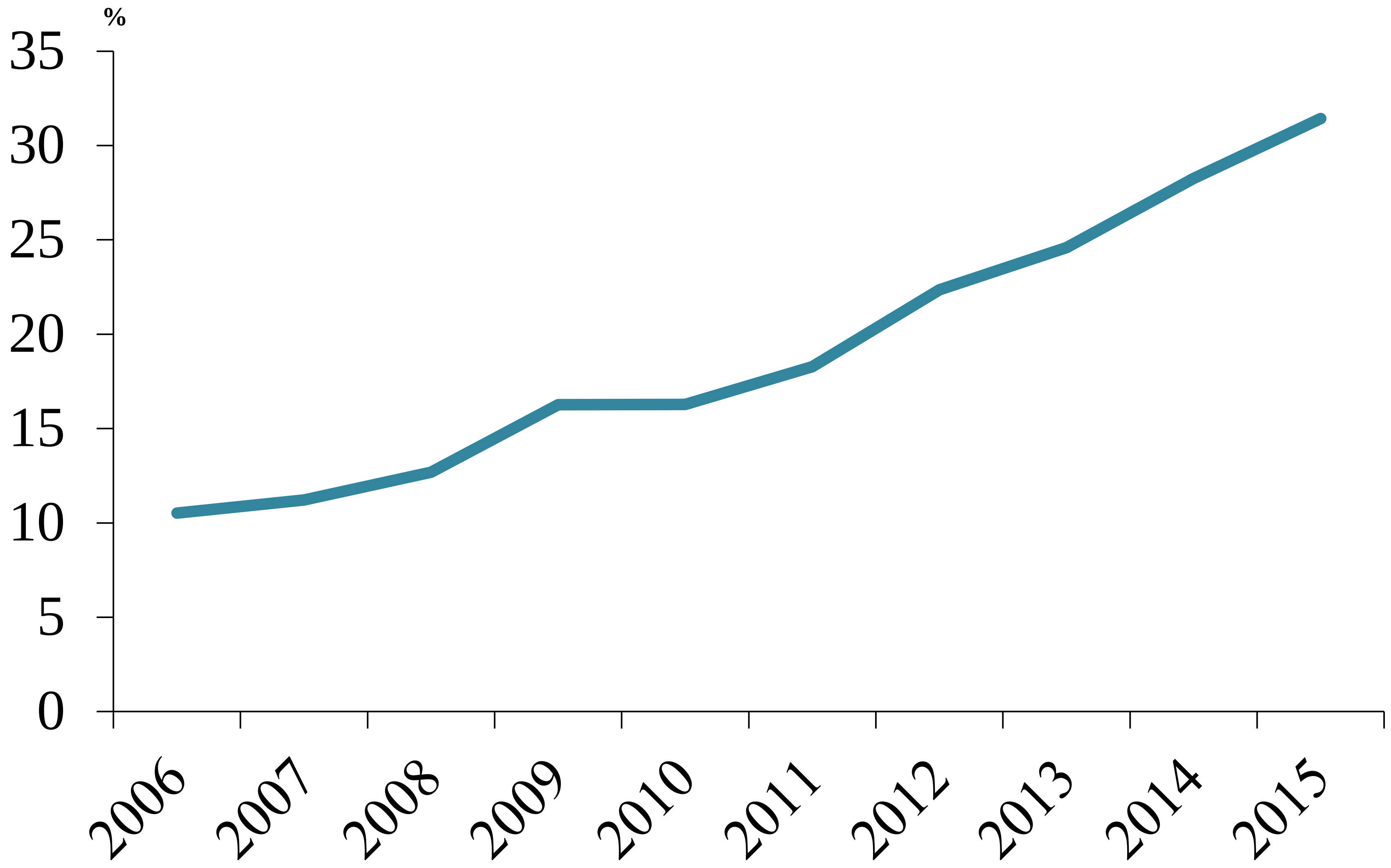
Sources: People's Bank of China

Share of RMB Corporate Loans (Flow), 2010 – 2014



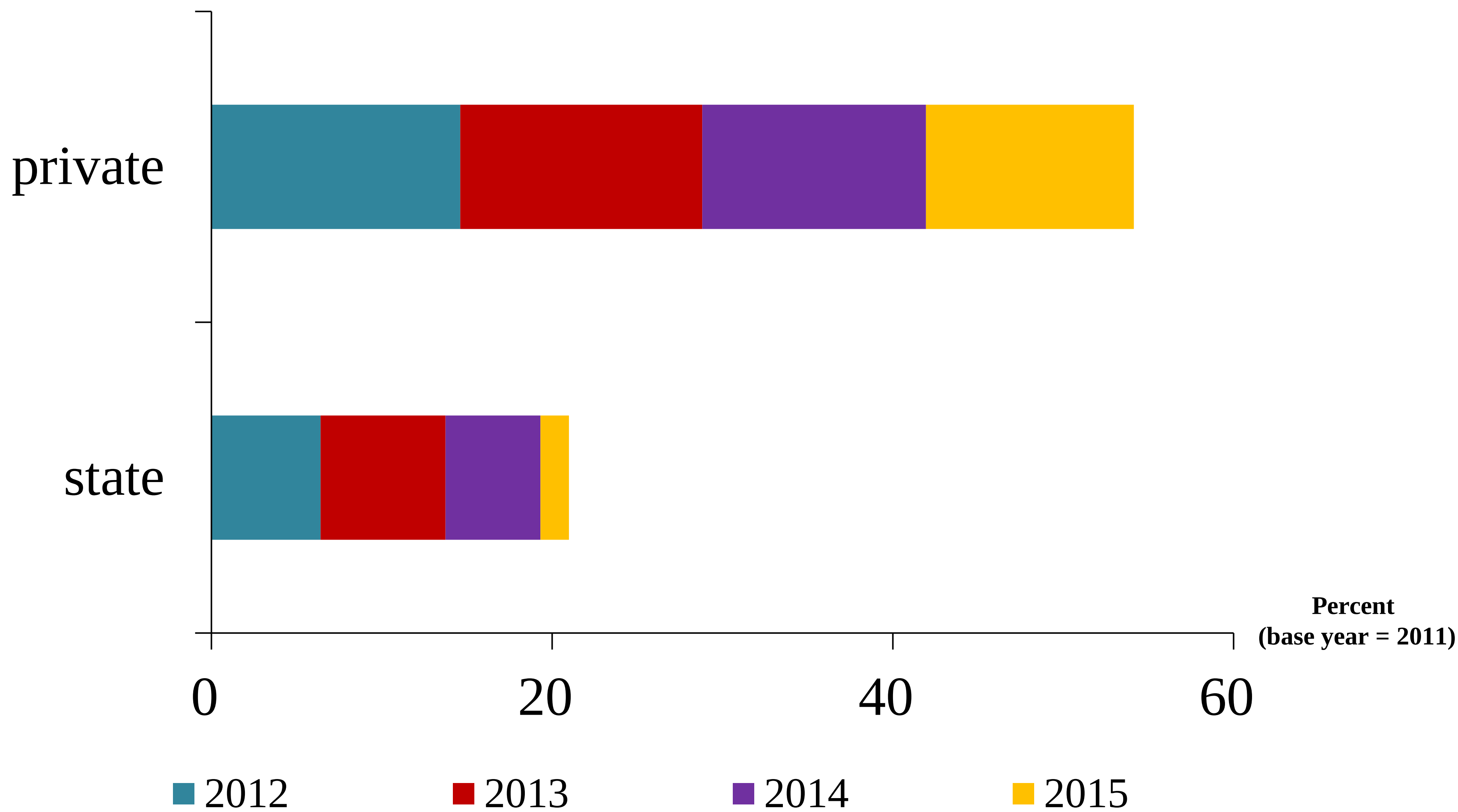
Sources: People’s Bank of China

State Investment Financed by State Budget, 2006 – 2015



Sources: China National Bureau of Statistics

Industrial Value Added Growth, 2012 – 2015



Sources: China National Bureau of Statistics, and author's calculation

Takeaways

- The resurgence of state profits in 2016 is entirely cyclical
- The resurgence of state relative to private investment since 2011 is potentially far more adverse for China's long-term growth and financial stability
- Slowing of private investment is due to a combination
  - restrictions on entry into the service sector and
  - crowding out of private investment
- The appropriate policy response is to
  - ease entry restrictions in services and
  - to create a more competitive financial sector