北京大学国家发展研究院
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Breaking China's Risk Trinity

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Is China trapped in the “risk trinity”?

- BIS recently discussed the situation of risk trinity in many countries after the global financial crisis:
  - Falling productivity
  - Narrowing policy room
  - Rising leverage

Limited room for fiscal policy

- Role of China Development Bank in supporting growth
- The ICOR increased from 3.5 in 2007 to 5.9 in 2015.
- Stimulus policy won't be as effective as before.
- If this continues, the risk of Japan-style stagnation would rise.

China's Incremental Capital-Output Ratio

Effects of EPU on corporate leverage

- Statistical analysis show, an increase in EPU by one standard deviation increases SOE debt-asset ratio by 3 ppt and lowers non-SOE debt-asset ratio by 2 ppt
- Divergence is greater where financial policy is more repressive

Economic Policy uncertainty index (horizontal axis) and debt-asset ratios of SOEs versus non-SOEs (vertical axis).

Zombies crowd out private investment

- Empirical analyses confirm that zombie firms not only raise funding costs for non-zombie firms but also lower their investment rates

	OLS	FE	2SLS
Non-zombie dummy * proportion of zombies	0.013***	0.012***	0.041***
Proportion of zombies	-0.010***	-0.009***	-0.018**
Non-zombie dummy	0.023***	0.011***	0.053*
Firm size	-0.001***	0.009***	0.013***
Establishment date	-0.000***	-0.000***	-0.000
Fixed-asset proportion	0.030***	0.003***	-0.002
Profitability	-0.009***	-0.022***	-0.066***

Determinants of enterprises' funding costs

Source: Yuyan Tan, Yiping Huang, Wing Thye Woo, 2016, "Zombie firms and the crowding-out of private investment in China", *Asian Economic Papers*.

Growth moderated further in 2016

- Since 2010, China's GDP growth slowed steadily.
- In 1H 2016, it dipped further to 6.7%.
- How long will this last and where will be the bottom?

China's annual GDP growth rate (%)

Battle between new & old economies

- Alongside the cyclical and structural factors, there is a battler between old and new industries.
- New industries, such as telecom equipment, large machineries, internet companies, are growing.
- But they are not big enough.

New Economy Index (NEI) and official manufacturing PMI.
Source: Caixin.

Free fall of private investment

- Recent rapid deceleration of private investment attracted a lot of attention.
- Why?
  - Bad economy
  - Light-asset industry
  - Crowding-out

Year-on-year growth of total fixed asset investment and private fixed asset investment

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Thanks 感谢