1.	Record Nr.	UNINA9910779593603321
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	Titolo	Is China Over-Investing and Does it Matter? / / Il Lee, Murtaza Syed, Liu Xueyan
	Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2012
	ISBN	1-61635-791-6 1-4755-9471-2 1-283-94781-1
	Descrizione fisica	1 online resource (23 p.)
	Collana	IMF Working Papers IMF working paper ; ; WP/12/277
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	Soggetti	Investments, Chinese - Econometric models Economic development - China - Econometric models Banks and Banking Finance: General Macroeconomics Money and Monetary Policy Industries: Financial Services Investment Capital Intangible Capital Capacity Welfare Economics: General Intertemporal Consumer Choice Life Cycle Models and Saving Banks Depository Institutions Micro Finance Institutions Mortgages Macroeconomics: Consumption Saving Wealth General Financial Markets: General (includes Measurement and Data) Interest Rates: Determination, Term Structure, and Effects Monetary Policy, Central Banking, and the Supply of Money and Credit: General Financial Institutions and Services: General

Finance
Monetary economics
Consumption
Emerging and frontier financial markets
Real interest rates
Credit
Financial sector
Financial markets
National accounts
Financial services
Money
Economic sectors
Financial services industry
Economics
Interest rates
China, People's Republic of

Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	"November 2012" -- verso of t.p. At head of title: Asia and Pacific Department -- verso of t.p.
Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	Cover; Contents; I. Introduction; Figure; Figure 1. Gross Capital Formation, in percent GDP; II. Investment in China: Literature Review; III. Neoclassical Model Approach; Figure 2. Capital- and Investment-to-Output Ratio; Figure 3a. Growth and Capital-to-Output Ratio; Figure 3b. Growth and Investment-to-Output Ratio; IV. A Theoretical Framework of Optimal Investment; Figure 4a. Capital- and Investment-to-Output Ratio; Figure 4b. Capital- and Investment-to-Output Ratio; Figure 5a. Contribution of Investment to GDP growth; Figure 5b. Contribution to Growth (in percent of total) Figure 6. Production Function V. What Can Aggregate Cross-Country Data Tell Us?; Table; Table 1. Investment Equations 1/ 2/; Figure 7. China: Investment-to-GDP; Table 2. Probit: Probability of crisis; Table 3. Evolution of variables in the lead-up to crisis (5-years); VI. Estimating the Hidden Costs of China's Investment; Figure 9. Profit Margin and Credit allocation between LCs and SMEs; Figure 10. Resource transfers and dead weight loss; Figure 11. Estimated Amount of Resource Transfer from Households to Large Corporate (In percent of GDP); VII. Conclusion; Data Appendix; References
Sommario/riassunto	Now close to 50 percent of GDP, this paper assesses the appropriateness of China’s current investment levels. It finds that China’s capital-to-output ratio is within the range of other emerging markets, but its economic growth rates stand out, partly due to a surge in investment over the last decade. Moreover, its investment is significantly higher than suggested by cross-country panel estimation. This deviation has been accumulating over the last decade, and at nearly 10 percent of GDP is now larger and more persistent than experienced by other Asian economies leading up to the Asian crisis. However, because its investment is predominantly financed by

domestic savings, a crisis appears unlikely when assessed against dependency on external funding. But this does not mean that the cost is absent. Rather, it is distributed to other sectors of the economy through a hidden transfer of resources, estimated at an average of 4 percent of GDP per year.