Gmail

Carsten Holz <carstenholz@gmail.com>

Emerging Markets Finance and Trade - Decision on Manuscript ID EMFT-2016-0317

3 messages

Emerging Markets Finance and Trade <onbehalfof+akutan+siue.edu@manuscriptcentral.com> Thu, Mar 30, 2017 at 7:00 AM

Reply-To: akutan@siue.edu
To: carstenholz@gmail.com

29-Mar-2017

Dear Professor Holz:

Your manuscript entitled "China's Investment Rate: Implications and Prospects", which you submitted to Emerging Markets Finance and Trade, has been reviewed. The reviewer comments are included at the bottom of this letter.

The reviewer(s) would like to see some revisions made to your manuscript before publication. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

When you revise your manuscript please highlight the changes you make in the manuscript by using the track changes mode in MS Word or by using bold or coloured text.

To start the revision, please click on the link below:

*** PLEASE NOTE: This is a two-step process. After clicking on the link, you will be directed to a webpage to confirm. ***

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This will direct you to the first page of your revised manuscript. Please enter your responses to the comments made by the reviewer(s) in the space provided. You can use this space to document any changes you made to the original manuscript. Please be as specific as possible in your response to the reviewer(s).

This link will remain active until you have submitted your revised manuscript. If you begin a revision and intend to finish it at a later time, please note that your draft will appear in the "Revised Manuscripts in Draft" queue in your Author Centre.

IMPORTANT: Your original files are available to you when you upload your revised manuscript. Please delete any redundant files before completing the submission.

Because we are trying to facilitate timely publication of manuscripts submitted to Emerging Markets Finance and Trade, your revised manuscript should be uploaded by May 29, 2017.

Once again, thank you for submitting your manuscript to Emerging Markets Finance and Trade and I look forward to receiving your revision.

Sincerely,
Ali Kutan
Editor, Emerging Markets Finance and Trade
akutan@siue.edu

Reviewer(s)' Comments to Author:

Reviewer: 1

Comments to the Author

This is a fine paper that warrants publication in Emerging Markets Finance and Trade.

Reviewer: 2

Comments to the Author
1. This study describes the recent trend of China's investment and relates to the economic growth of the country. It's important to study such trend and the implication for economic development. However, the study should be placed within a theoretical framework to make implications for academia and practitioners, such as economic growth, economic development, transitional economics, etc.

2. Some empirical evidences cited in the article need clarification. For example, foreign-funded investment is 1% of total investment (Page 13, 3rd paragraph), while foreign firms' investment is cited as 4% (Page 19, section 5.4; Page 15, 2nd paragraph). What's the underlying reason for this difference? Is it because foreign firms are using "own-fund" (retained earnings) generated by Chinese subsidiaries to invest instead of using headquarter fund? Or are they using local debt financing? Why? Trade policy? Restrictions by Chinese government on repatriated profit? RMB appreciation/depreciation? Looking forward, how will host country government policy impact foreign investment? And, what's the implication for multinationals and for local competing firms?

3. Some interpretation of official statistics in China is dubious given the context of China's economic structure.

3.1. Section 4.2, Page 12, of the 70% "own-fund" and 13% "other fund", a substantial proportion of these funding could be from debt financing (various forms of shadow banking), especially at local (provincial and municipal) level. To draw implications on China's investment composition, more accurate numbers on debt financing are needed. According to Victor Shih, an expert on China's debt financing, China's debt level has reached 300% of GDP as of 2016 (Barron's, Nov 2016, "China's Debt Addiction Could Lead to a Financial Crisis"). More citations should be added to give a more accurate estimation of China's debt in total investment.

3.2. Section 4.3, Page 14, many of the share-holding companies (32%) are SOEs owned by different levels of government, central, local, and ministries. A more precise estimation of state-ownership should be given on these companies. Such data should be available from the stock exchanges in China.

4. There seem to be several theoretical frameworks involved in using the investment/capital ratios as the measurement of economic growth. Each theory might provide different interpretation and prediction on the trajectory of investment and development. The changes in capital-output ratio and capital-labor ratio depend on the industry structure of the country of interest. The interpretation of China's investment ratios should be placed within the proper theoretical framework(s) and linked to the possible change in the country's industry structure.

Given that China's capital output ratio is relatively high, while capital labor ratio is much lower compared with developed countries (one-fifth of Germany's), does this mean China is developing or still underdeveloped? If China's service sector is making up a larger proportion of GDP, will this lead to lower capital-output ratio? If China is using more automation in manufacturing due to higher labor cost and lower supply, will this lead to higher capital-output ratio? If both trends are happening, will this lead to ambiguous sign on the change of capital-output ratio?

I hope these comments are useful for your study!

GUEST EDITOR'S Comments

I would like to ask the author to respond to all the comments by the referee and list them one by one indicating also where and how the manuscript has been improved.

The paper is a descriptive study. While it is valuable, I agree with the referee that there should be a theoretical context to the explanation.
It would be helpful to frame questions and arguments.

My fundamental question about China is this: While China's economics size may not be comparable to the US, its GDP per capital is relatively low reaching a middle income status between Malaysia and Thailand. Is there a middle income trap for China? The paper suggests otherwise and indicates a sustainable trajectory for China. Are there any potential pitfalls? This is an interesting question especially given the relative size of China in the world economy. Again some theory to guide us here would be helpful.

Carsten Holz <carstenholz@gmail.com> Fri, Apr 7, 2017 at 10:13 AM
To: "Kutan, Ali" <akutan@siue.edu>

Dear Professor Kutan,

thank you very much for the decision.
I will upload my revised manuscript and comments by the deadline of 29 May 2017.

Sincerely,
Carsten Holz
[Quoted text hidden]

Kutan, Ali <akutan@siue.edu> Fri, Apr 7, 2017 at 10:24 AM
To: Carsten Holz <carstenholz@gmail.com>

Thank you!

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From: Carsten Holz <carstenholz@gmail.com>
Sent: Thursday, April 6, 2017 9:13:14 PM
To: Kutan, Ali
Subject: Re: Emerging Markets Finance and Trade - Decision on Manuscript ID EMFT-2016-0317

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