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Decision on Your Submission WD-11098

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World Development

Ref: WD-11098

Title: China's Investment Rate: Characteristics and Implications

Authors: Carsten Holz, PhD

Dear Professor Carsten Holz,

Thank you for submitting your manuscript for consideration at World Development. I regret to inform you that the reviews we received on this manuscript are insufficiently positive for us to proceed with a publication decision.

I am enclosing the comments of the referees, please see below. Given the overall nature of their comments, we are unable to continue to consider this manuscript further. I regret this outcome and want to thank you for considering World Development and for giving us an opportunity to send out your paper for review. I hope you will find the referees' comments useful.

Thank you for your interest in World Development, and I will welcome future submissions of your research papers.

Yours sincerely,

Arun Agrawal

Editor in Chief

World Development

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Reviewers' comments:

Reviewer #1: This paper tries to document some of the important stylized facts about China's fixed asset investment over time and across industries, and to debunk some popular myths about China's investment-driven growth through cross-country comparisons. It has largely achieved its goal. The paper finds that investment has indeed been a key driver of China's growth, but it is in line with the experience of other East Asian economies, and the level of capital per worker is still only a fraction of that for developed countries, leaving plenty of room for further catching-up. Moreover, the paper shows that China's investment is broad-based and balanced across all industries, presumably due to a large size of the economy, and that foreign investment has become increasingly insignificant.

There is of course a significant literature on the contribution of investment to China's growth, but few authors have carefully documented various stylized facts about China's investment from a cross-country comparative perspective. And as stated earlier, this paper has rather convincingly debunked a few popular myths about the health of the Chinese economy. For example, the paper makes a very important point that such measures like aggregate and incremental capital-output ratios and debt to GDP ratios suffer from severe deficiencies and are misleading indicators of the efficiency and sustainability of a country's investment. Therefore, I think it deserves publication in World Development.

The only reservation I have about the paper is with the demand-side analysis (2.1), which I think is difficult to interpret. For example, the paper states that "In Germany, the average annual contribution of GCF to economic

growth in the period 1992-2017 was zero..." This statement would sound strange to a growth economist. Demand side analysis makes some sense when we talk about various contributing demand factors to a particular year's GDP growth rate over the previous year, but it does not make much sense to average such numbers over decades. I would suggest the author to drop the whole subsection.

Reviewer #2:

This is a descriptive paper with a lot of "statistical facts". Its scholarly contributions are not clear if not minimal. The paper is more suitable for outlets like consultancy companies' business reports or a non-academic audience as the knowledge is not new to academic readers. I am sorry I do not meant to be offensive.

Reviewer #3: Referee report on "China's Investment Rate: Characteristics and Implications" (Ref: WD-11098)

Summary

This paper provides a comprehensive overview of the characteristics of China's investment patterns and of their implications. It is suggested that investment has been an important driver of economic growth and is likely to remain high for the time being. Furthermore, investment has occurred across all sectors of the economy, leading to a large capital-intensive industry, with only a small role played by foreign investors. However, going forward, industrial policies tend to favour investment in specific industries. Finally, it is argued that concerns about rising capital-output ratios, excessive debt funding of investment, and inefficiency of investment due to state ownership are exaggerated.

Comments

The paper, which is mainly descriptive, deals with an interesting and policy-relevant research question. It also provides interesting comparisons of the Chinese case with that of the US/Germany. However, there are a few issues that need to be dealt with. They are listed below in order of appearance.

1. At the end of the introduction, it would be helpful to have a roadmap with details of what will be discussed in the remaining parts of the paper.
2. At line 4 of page 2, a colon should appear after "three components".
3. At lines 4 and 5 of page 2, we should have "including government consumption" and "including government investment", instead of "including by the government".
4. On page 2, when comparing the US case to the Chinese case, for consistency, consumption should include government consumption.
5. The last two lines of the second paragraph of page 3 should read: "The growth in China's labor force is about to turn negative. As a result, all future growth will have to come from TFP growth and capital accumulation."
6. At line 6 of page 5, we should have; "starting in 1980".
7. The last sentence of the third paragraph of page 5 should read: "In other words, continued urbanization drives some investment."
8. Throughout the paper, the authors should avoid starting sentences with "But".
9. The second sentence in the third paragraph of page 10 should read: "In other words, state ownership may extend beyond "state units"". Similarly, throughout the paper, the authors should avoid stating sentences with "I.e.".
10. The third sentence of the third paragraph of page 10 is too long and unclear. It needs rewriting.
11. The authors should explain what is meant by implicit residual in Figure 10 (discussed on page 10). The sentences in the "Source" relative to Figures 8 and 10, which refer to the implicit residual, are also unclear and need rewriting.
12. Footnote 15 is unclear and needs rewriting.
13. With reference to the "Source" relative to Figure 11, the authors should explain what is meant by "long-form" employment.
14. In the first paragraph of page 12, the author should mention what are the 30 fastest growing sectors (or at least some examples of those) in a footnote.
15. The authors should provide more explanation for Figure 11. In the penultimate paragraph of page 12, which refers to the Figure, they mention investment per employee in several industrial sectors, which cannot, however, be seen in the Figure.
16. Throughout the paper, the authors should replace the word "labourer" with "employee".
17. The last sentence of the "Source" relative to Figure 8 is unclear and needs rewriting.