What happens to the investment in China?

Or rather: why?

Janne Niemi & Badri Narayanan G.
• Once upon the time...
• ... there was Mr K. Hat ...
• ... who jumped in his Lamborghini ...
• ... and took off for China.
Or, is it all about the growth, after all?

- Low GDP growth, whilst endowments increasing
  - Shock TFP in the baseline instead of GDP
    (TFP growth rates from Poncet 2006)
    6% - 3% per annum for China
  - Different results...

  ... but the investment puzzle remains.

- KHAT for China 0.13 cf. 0.05 for the next highest
Dynamics

• Story remains pretty much the same, but KHAT and TFP-shock matter.

• Difference in growth rates of investment and capital enhance ERG, but change in normal rate of growth of capital limits it!
RORGE < RORGA $\Rightarrow$ RORGE has to grow, but...
... difference in the actual and normal growth rates of capital limits the growth.
• Lower KHAT to begin with → slower fall in normal growth rate → Investment doesn’t collapse
• Higher, capital-hungry growth slows down the KHAT decline
Capital & investment growth

qcgds

qk

Self explanatory
Difference in growth rates of investment and capital enhance ERG, but change in normal rate of growth of capital limits it!
What happens to prices and rentals?

Rental declines ➞ capital goods go cheaper, but not in high-KHAT-no-TFP case in 2020, why?
\[ ps(CGDS) = STC \ast pf(*, CGDS, CHN\_TWN) \]
pf[serv, CGDS, CHN_TWN]
\text{ps(serv)}
Or... is it the oil?

pf[extract,CGDS,CHN_TWN]