

Losing Steam? - An Industry Origin Analysis of China's Productivity Slowdown

Harry X. Wu

Hitotsubashi University, Tokyo

harry.wu@ier.hit-u.ac.jp

The two-decade long remarkable growth of the world economy prior to the global financial crisis (GFC) could be, arguably though, attributed to two key factors, that is, an ICT-led technological advancement that speeded up maturity and spreading out of new technologies especially in manufacturing and a kind of “institutional innovation” that allowed a strong state capitalism in which China played an imperative role to expand its influences on resource allocation under the WTO umbrella. The combined or more appropriately intertwined effect of the two factors was the driving force of the unprecedented globalization of manufacturing and related input and output markets. With limited information for the post-GFC period up to 2012, early studies have showed that the GFC had a much more impact on China's productivity growth than on its output growth (Wu 2016). The interpretation of such empirical findings is that although the government's huge money injection in the wake of the GFC helped sustain the output growth, it damaged the productivity performance. This is because the easy state credit mainly if not solely benefited state enterprises or businesses with strong government connections that were less efficient yet better financed than non-state ones. However, in the absence of a strong demand from the real sector, the easy money leveraged the financial sector instead, hence further raising the cost of the real economy. In 2012 the Chinese government under the new Xi-Li administration called for a strategic shift from growth-targeted to productivity-led development through an innovation-oriented state plan called “China Industry 2025” to make China a “global innovation leader in 2030” as laid out in its 13th Five Year Plan. It is of a great interest to see whether the new state-engineered innovation campaign has resulted in a positive TFP growth since 2012. State interventions either for national security or technological advancement are industry specific by nature, hence should be investigated with economy wide industry-data. Using a revised and most recently updated CIP (China Industrial Productivity) data set, covering a period from 1980 up to 2016, and constructed in the KLEMS principles, this study scrutinizes the industry origin of the growth and productivity performance of the Chinese economy in a growth accounting framework a la Jorgenson et al. (2005). Especially, to address the highly concerned technology and institution effects, this study introduces two industry groupings or classifications of industry groups in parallel, with one grouping to investigate the role of ICT-making and using industries in comparison

with non-ICT industries and the other grouping to examine the role of state-owned or related industries with reference to non-state industries in growth and productivity performance.