

This PDF is a selection from a published volume from the National Bureau of Economic Research

Volume Title: Capitalizing China

Volume Author/Editor: Joseph P. H. Fan and Randall Morck, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-23724-9; 978-0-226-23724-4 (cloth)

Volume URL: <http://www.nber.org/books/morc10-1>

Conference Date: December 15-16, 2009

Publication Date: November 2012

Chapter Title: Comment on "The Chinese Corporate Savings Puzzle: A Firm-level Cross-Country Perspective"

Chapter Author(s): Ning Zhu

Chapter URL: <http://www.nber.org/chapters/c12463>

Chapter pages in book: (p. 308 - 310)

- Rajan, Raghuram, and Luigi Zingales. 1998. "Financial Dependence and Growth." *American Economic Review* 88:559–86.
- Tong, Hui, and Shang-Jin Wei. 2011. "The Composition Matters: Capital Inflows and Liquidity Constraints during a Global Economic Crisis." *Review of Financial Studies* 24 (6): 2023–52.
- Wei, Shang-Jin. 2011. "Is There a Risk of Overvaluing the Risk of the Exchange Rate in Global Current Account Imbalances?" Unpublished Working Paper. Columbia University.
- Wei, Shang-Jin, and Xiaobo Zhang. 2011. "The Competitive Saving Motive: Evidence from Rising Sex Ratios and Savings Rates in China." *Journal of Political Economy* 119 (3): 511–64.
- Wurgler, Jeffrey. 2000. "Financial Markets and the Allocation of Capital." *Journal of Financial Economics* 58:187–214.

Comment Ning Zhu

The chapter documents the corporate savings rate at Chinese companies, compares such savings rate with companies from all over the world, and concludes that there is not much difference amid corporate savings between Chinese and international companies.

This is a very important and timely question. From an academic research perspective, understanding whether China's "high" savings rate is driving the legend of Chinese economic development helps understand whether the "East Asian Development Model" works in a broader context and bigger economy. To international economists, more precise understanding of the imbalance in savings rate across countries holds the key to understanding international capital flow and asset allocation.

It is important to point out that the question is also becoming an important one in policy debate and research. During the recent global financial crisis, US Treasury Secretary Hank Paulson made the following comments: "In the years leading up to the crisis, super-abundant savings from fast-growing emerging nations such as China and oil exporters . . . put downward pressure on yields and risk spread everywhere." (see <http://www.rothstein.economics.com/Paulson.pdf>) As a result, it is critical that scholars and policy researchers reach an agreement on whether the Chinese (corporate) savings rate is outstandingly high compared to other countries at similar development stage and if so, what is driving such a high savings rate.

Within China itself, how to stimulate domestic consumption has become

Ning Zhu is deputy director and professor of finance at the Shanghai Advanced Institute of Finance, fellow at the Yale University International Center for Finance, and the Special Term Professor of Finance at University of California, Davis, and at Guanghua School of Management at Beijing University.

For acknowledgments, sources of research support, and disclosure of the author's material financial relationships, if any, please see <http://www.nber.org/chapters/c12463.ack>.

one of the most important issues in China's attempt to transition into its next-stage development that relies less on export and labor-intensive manufacturing sectors. One crucial step of obtaining this objective is to release the high level of savings from banks into the market. Most of the current efforts have been targeted at promoting consumer finance and stimulating household consumption. However, according to some recent studies' claim (i.e., Hofman and Kuijs 2008), China's high savings rate is largely driven by the high savings rate in the corporate sector. If this is the case, it seems that Chinese government policy should be geared toward lowering the corporate savings rate (i.e., through resources tax and dividend tax), instead of reducing household savings and encouraging household consumption.

The chapter produces some novel and potentially provocative findings. Unlike the extant studies, it shows that the savings rate at Chinese corporations is not significantly higher than the savings rate at corporations in other countries. Instead, the findings suggest that the corporate savings rate in China is indeed lower than those in other countries, by almost 20 percent in some extreme years. Such conclusions leave the household savings and government savings as the major reasons for Chinese high savings rate.

One major novelty of the study is that, unlike most extant studies that take a macro-level flow-of-fund approach, the current chapter takes a micro firm-level cross-country approach. Apparently, examining firm level behavior not only has the promise of digging into microeconomic behavior at different firms but also can afford the opportunity to understand how differences in firm characteristics may explain the variations in corporate saving behavior, possibly across different countries.

It is important to point out that there is not a one-size-fits-all criterion for the optimal savings rate at the national level or the corporate level. Apparently, savings rate can fluctuate over economic cycles and depend heavily on the economic conditions that firms go through. As a result, examining savings rate at firm level in a panel-analysis framework provides unique opportunities to control for such variations and the chapter may gain sharper focus on the question of whether Chinese corporate savings rate is higher, by global standards.

Another benefit of utilizing the world scope data is that the data source takes some effort to ensure that the financial data at firm level are somewhat comparable across countries. Therefore, in addition to variations at country level, many of which are endogenous, the current study can also control for some firm level variations across the country, which should make interpretation of the results more precise.

One question that arises in reconciling the findings in the current study and extant literature is that, conceptually, if the micro-level data at firm level are perfectly representative of the macro-level flow-of-fund data, one would expect the two data sources to generate consistent, if not the same, results. After all, the flow-of-fund data are the national-level aggregation of

the firm level data. So what can explain the considerable differences between these two approaches?

I think that there are three potentially responsible reasons.

First, as the chapter points out, profits at listed companies make up 37.7 percent of GDP and 36.3 percent of all enterprise profits in China in 2008. Because listed companies tend to be the more successful among all companies, it is conceivable that listed companies may have greater investment opportunities and hence make up a smaller fraction of total savings and investments than their shares in enterprise profits. Hence, it is possible that the listed companies in China are representative of only a minority of Chinese companies when one examines corporate savings rate.

Second, it is worth pointing out that listed companies may display different savings behavior, particularly in the context of Chinese economic transition from their unlisted counterparts. It is commonly believed that unlisted companies are more likely to retain operating cash flow, because of the lack of short-term earnings pressure and lack of short-term shareholder monitoring. Such a pattern may be particularly strong in China because the parent companies of many listed state owned enterprises (SOEs) are themselves SOEs and face relatively weak corporate governance and monitoring. As a result, such parent companies, which make up a large fraction of the GDP, may have the incentives to hold a higher level of savings and retain greater private benefits than their listed subsidiaries.

Finally, even though the chapter has done a very careful job in comparing and contrasting key savings/payout decisions by state-owned enterprises and non-state-owned enterprises, the question still remains as to whether listed SOEs and listed non-SOEs are equally representative of their unlisted counterparts. Because a much larger fraction of SOEs become listed than non-SOEs, the sample of listed non-SOEs tend to be less representative of all non-SOE firms, which indeed make up an increasingly larger fraction of the economy. Because such listed non-SOEs may not fairly represent the bulk majority of unlisted non-SOEs, inferences based on only listed companies may lead to misrepresentative conclusions due to data availability.

In sum, the chapter has made some new and very important discoveries about corporate savings rate in China at the micro level for the first time. Unfortunately, because of the data limitation, the controversy regarding the high level of corporate savings in China would have to be resolved later when more data, especially micro-level corporate savings data for nonlisted companies, become available.

Reference

- Hofman, B., and L. Kuijs. 2008. "Balancing China's Growth." In *Debate China's Exchange Rate Policy*, edited by M. Goldstein and N. Lardy. Washington, DC: Peterson Institute for International Economics.