

Has the Chinese Growth Model Changed? A View from the Credit Market

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Abstract

A cornerstone of the Chinese growth miracle has been the opening of its economy to private competition. The first two decades after the new policy in 1978 witnessed a steady development of the private corporate sector in China and, subsequently, a gradual diminution in the role of the large state owned enterprises (SEO) in the Chinese economy. A milestone in the path towards a market economy was the accession of China into the WTO in 2001. For many, Chinese WTO membership was seen as a sign of its continued commitment along the path towards a market economy.

During the post accession decade, however, many have criticized China for straying off this path by increasingly promoting its 'national champions', in particular the SEOs, thereby compromising competitive fairness. Due to the opaqueness of the Chinese policy framework, even such a major shift in policy has been hard to verify.

We are able to look inside the vermillion walls of economic policy making by studying credit supply to Chinese listed companies, the drivers of the growth miracle, before and after China's WTO accession. In China, the credit channel is the main policy instrument used by the government for macroeconomic control. The analysis is based on the relatively recent discovery that credit supply constraints can be quantified from borrower data by standard econometric techniques under relatively mild assumptions.

The econometric analysis corroborates the critical view: we find a strong improvement in credit supply conditions to government firms relative to other firms after China's WTO accession. This trend has been present throughout the whole post-accession period, and it strengthened significantly during the global financial crisis. The estimations also yield evidence that Chinese banks increasingly favor large firms over smaller ones. On a positive note, the estimations confirm a general improvement in credit availability across the Chinese industrial landscape. There has also been a geographic equalization in the credit availability in line with the stated government objectives.

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