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- June 25, 2009, 5 pm
 - HS II (lecture room II)
Institute for Advanced Studies
Stumpergasse 56, A – 1060 Wien
<http://economics.ihs.ac.at/seminars>

JOINT VIENNA MACROECONOMICS SEMINAR

Fabrizio Zilibotti,
University of Zurich and CEPR:

“Growing like China”

China has been growing at a high rate and has at the same time accumulated a staggering foreign surplus. We construct a theory that explains these seemingly puzzling observations, while being consistent with salient features of the Chinese growth experience since 1992: high output growth, sustained returns on capital investments, extensive reallocation within the manufacturing sector, falling labor share and accumulation of a large foreign surplus. The theory makes only minimal deviations from a neoclassical growth model. Its building blocks are financial imperfections and reallocation among firms with heterogeneous productivity. Some firms use more productive technologies than others, but low-productivity firms survive because of better access to credit markets. Due to the financial imperfections, high-productivity firms - which are run by entrepreneurs - must be financed out of internal savings. If these savings are sufficiently large, the high-productivity sector outgrows the low-productivity sector, and attracts an increasing employment share. During the transition, low wage growth sustains the return to capital. The downsizing of the financially integrated sector forces a growing share of domestic savings to be invested in foreign assets, generating a foreign surplus. We test some auxiliary implications of the theory and find robust empirical support.

with Zheng Song (Fudan University) and Kjetil Storesletten (University of Oslo and CEPR).