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## 2005.04: Experiences and Lessons from Four Overheated Investments

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### Four investment overheating experiences and lessons National Bureau of Statistics

Since the reform and opening up, the country has closely centered on economic construction as the center, insisting on reform and opening up to the outside world. China's economic aggregate has grown rapidly at an average annual rate of 9.4%, and the country's economic strength and people's living standards have greatly improved. Among them, the rapid growth of investment has played a crucial role.

Investment is one of the important factors driving economic growth. When consumption and net export growth are relatively stable, to maintain rapid economic growth, investment growth has played a major driving role. However, due to the constraints of resources and conditions, the investment growth rate cannot be too fast. If it is controlled within a certain range, the investment will overheat, which will cause a series of problems, such as the shortage of energy and raw materials, Inflation, etc. Therefore, it is necessary to maintain rapid investment growth and prevent investment from overheating in order to promote stable and healthy economic development.

#### 1. Four overheated investments since reform and opening up

Since the second half of 2003, a new round of overheated investment has gradually taken shape. From January to February 2004, urban fixed asset investment increased by 53%, which further enhanced people's understanding of the investment situation.

From a macro perspective, overheating of investment means that the increase in the total amount of investment exceeds a reasonable range, which has caused a series of economic and social problems. From a micro perspective, it means that blind investment has led to excessive imbalances in supply and demand.

How to judge whether the investment situation is overheating? At present, there is no relatively uniform quantitative definition at home and abroad. For the convenience of research, we have selected fixed asset investment, investment prices, and consumer prices to calculate the current and actual growth rates of fixed asset investment since 1980.

From Table 1, it can be seen that in the 24 years from 1980 to 2003, the investment growth rate exceeded 25% for 8 years; in the 12 years from 1992 to 2003, the actual investment growth rate exceeded 20% for 3 years. The current price growth rate in each year has exceeded 25%. From the perspective of consumer prices, since 1985, prices have increased by more than 9% in six years. They are: 1985, 1988-1989, 1993-1995, which are in line with the year of rapid investment growth, and slightly Lag (such as 1989, 1994), indicating that overheating investment will generally cause prices to rise. Therefore, we define the year when the actual growth rate of investment exceeds 20% and the rapid rise in the consumer price index is the year of overheated investment, so as to define the four overheated investments in China since the reform and opening up. They are 1982-1985, 1988 Around 1993, and from 2003 to 2004.

#### Basic situation of overheating in two or four investments

##### (I) Overheated investment for the first time-1982 to 1985

In 1982, the CPC Central Committee put forward the ambitious goal of "quadruple", and China's economic growth entered a fast-rising channel. Due to the widespread disregard of conditions and eagerness to achieve success in economic development in various regions, large-scale expansion of fixed asset investment has resulted. In 1982, the total investment in fixed assets was 123 billion yuan, an increase of 28% over the previous year, and investment began to overheat. In 1985, the total investment in fixed assets was 254.3 billion yuan, an increase of 38.8% over the previous year. An investment overheated reached its peak.

The characteristics of the first overheated investment: first, the growth of fixed asset investment is much faster than the growth of national income; second, the improper ratio of productive and non-productive investments in the direction of investment, and the imbalance of the investment in agriculture and heavy investment; and third, the order of investment Re-construction and light technology reform; Fourth, super-planned arrangements for capital construction investment.

#### (II) Overheated second investment-1988

After the expansion of investment scale in 1985, the state adopted macro-control measures. At the end of September 1988, the State Council issued the "Notice on Cleaning Up Fixed Asset Investment Projects Under Construction, Reducing Investment Scale, and Adjusting the Investment Structure" and dispatched it at the end of October. Ten working groups went to various parts of the country for inspection, but in 1988 the total investment in fixed assets in the whole society still reached 475.4 billion yuan, an increase of 25.4% over the previous year.

Analyze the reasons for this overheating investment. First, the lack of restraint on macro-control measures. The first is that some investments that should be included in the management of the capital construction plan are not subject to the plan, the old ones cannot be sealed, and the new ones are opened again; the second is that a large number of extra-budgetary investments have not been controlled, so that the proportion of extra-budgetary investments has reached 80.3% Plan management actually refers to being unguided and flowing out of control. Second, after the distribution system was changed (financial "separated meals"), supporting measures did not keep up, which caused the state's macro-control capabilities to be greatly weakened. Third, after simplifying administration and decentralization, under the new structure of decentralization of construction project approval layers and multi-layered investment decision-making, the lack of effective indirect control means has led investment decision-makers to bear no decision-making risks. Fourth, in the case of distorted prices, unreliable relations, and the implementation of the "dual-track system", regions in accordance with their respective resource conditions are racing to give play to their "advantages" and pursue immediate and local benefits. Projects have been launched one after another, resulting in a substantial increase in local project investment.

Compared with the overheating of the first investment, the overheating of the second investment is more prominently manifested in the impact of the eager to achieve the guiding ideology on economic construction, mainly not from the top-down implementation, but from the meso and micro levels Horizontal spread. This is because with the continuous deepening of reform and opening up, at this time China's investment structure has undergone major changes. Under the new background of diversified investment entities, diversified funding channels and decentralized investment decisions, it is trying to use the traditional system to clean up and reduce investment. The old method is no longer effective.

#### (3) The third investment overheated-around 1993

In 1989, under the influence of the state's macroeconomic regulation and control, fixed asset investment experienced a negative growth. In 1990, the growth rate of fixed asset investment in the whole society was only 2.4%. In 1992, Comrade Xiaoping delivered an important speech during his inspection tour to the south, taking this as an opportunity to launch a new round of nationwide construction boom. This boom reached its peak in 1993. In the three years of 1992, 1993, and 1994, the fixed investment in the whole society increased by 44.4%, 61.8%, and 30.4% respectively. After deducting the price factor, the actual investment growth reached 25.3%, 27.8%, and 18.1%, regardless of the current price. The growth rate of investment is also the actual growth rate of investment, which was the highest point since the reform and opening up in 1993.

The characteristics and problems of overheated investment: First, there are many newly started projects and the investment has grown too fast. Taking 1992 as an example, the planned total investment in newly started capital construction projects increased by 75% year-on-year, and a large number of new projects started to cause investment expansion. Second, the investment structure was irrational, and investment in the energy industry and raw materials industry in capital construction investment weakened. The proportion has dropped, and the investment in the processing industry has grown too fast. Third, there has been a boom in real estate development. In 1992 and 1993, the growth rates of real estate development investment were 117.5 and 165%, respectively.

In response to the overheated economy in 1993, the Chinese government adopted a number of measures, including strict restrictions on new construction projects, strengthening the source control of investment in fixed assets, strengthening the management of real estate and development zones, encouraging technological transformation of enterprises, and organizing the formation of relevant units to be fixed. The Asset Investment Working Group went to relevant regions for investment inspections, etc. These measures have achieved results and investment growth has been effectively controlled.

#### (4) The fourth overheated investment-2003 to 2004

Since 2003, China's fixed asset investment has shown a rapid growth momentum, and the investment growth rate has accelerated significantly. In 2003, the investment of the whole society was 556.6 billion yuan, an increase of 27.7%, and the actual investment increased by 25%, which was close to the actual investment growth rate when the previous investment was overheated. In the first three quarters of 2004, the cumulative growth rate of fixed assets investment in the whole society reached 43%, 28.6% and 27.7%, of which the actual growth rate in the first half of the year reached 26.8%.

The characteristics of this round of investment growth are: new construction projects and investment have increased significantly; investment in various economic types such as state-owned, collective, and individual has soared; investment has accelerated in most regions; and industry, especially the raw material industry, has become a new investment hotspot Domestic loans increased rapidly, increasing by 36% in 2003, and by 57.4% and 27.2% in the first and second quarters of 2004, respectively, becoming the most important channel to support investment growth.

However, the overheated investment this time is based on the low-speed investment growth that has continued for many years after the Asian financial crisis in 1997. It has a certain degree of recovery and is still tentative in nature. The rapid growth of investment has not yet triggered large-scale inflation. In 2003, consumer prices in China rose by 1.2%, and the average increase in the first 11 months of 2004 was only 4%. The highest

point was a 5.3% increase in July-August. There is still a certain gap between the increase in consumer prices in the previous years of overheated investment, which were greater than 9%.

#### Analysis of the reasons for overheated investment

From the perspective of China's economic operation since the reform and opening up, the strange cycle of "benign expansion-contraction-re-expansion-re-contraction" has always existed. Each cycle starts with overheated investment in fixed assets. As a result, it has caused tight supply of materials, rising prices, unbalanced economic structure, and a large number of semi-later projects and bad assets in banks.

##### (I) Too low investment cost is the main reason for overheating investment

The important reason for blind investment and low-level expansion is that the relevant mechanisms and rules are not perfect, and the cost of blind investment is relatively low. It can also be said that the performance projects and face-saving projects of local governments are one of the reasons for overheating investment. In an ideal market economy, investors are rational and fully responsible for their actions. However, some current situations are that investment entities (governments at all levels) do not take risks on their actions while enjoying investment returns, or the risks they take are much smaller than the returns they may obtain. Some local governments have offsites and dislocations in their administrative management systems and functions, pursuing political achievements one-sidedly, participating in a large number of microeconomic activities, and intervening in markets and enterprises. The government obtains investment funds through administrative means at a very low cost, which increases the supply of funds and enables the construction of some infeasible investment projects. The land is transferred by agreement without reflecting the real land price through market-based transactions. Demolition compensation standards are too low, even compensation is often in arrears, policy implementation is inadequate, and lack of restraint mechanisms; the necessary environmental protection and resource paid use standards are lacking, and construction projects are almost irrelevant for environmental and resource use costs. In this way, a large number of "image projects" and other projects are invested at very low cost, which contributes to the overheating of investment.

##### (II) Changes in the industrial structure are the incentives for rapid investment growth

Taking 2003 as an example, the new round of economic growth stems from the rapid development of real estate and automobile industries. Compared with traditional industries, the real estate, automobile and other industries have a much larger demand for basic industries such as industry and energy transportation, and are more closely related to it. The rapid development of the real estate and automobile industries has generated huge demand for steel and cement. In 2003, steel and cement investment increased exponentially. In 2004, under macroeconomic control, steel and cement investment in projects with more than 5 million yuan in urban areas also accounted for 40%. The above rapid growth has led to the rapid development of industry; the development of industry has also created huge demand for basic industries such as coal, electricity and oil transportation. These have led to a new gap between supply and demand in the market, which has led to rising prices of raw materials and transportation, which has stimulated investment growth in related industries and has become a concrete manifestation of overheated investment.

##### (3) Out of control of credit funds and excessive land investment are the direct factors driving investment overheating

Domestic loans are an important part of the source of funds for investment in fixed assets. Practice has shown that in years when investment is overheated, it is also often a year in which domestic loans are rapidly increasing, and the proportion of domestic loans in total investment funding sources is usually higher than in other years (see Table 2). A large amount of credit funds have become the source of overheating investment.

Land abuse is another major incentive for overheating investments. One manifestation of overheated investment is that there are many newly started projects and the stalls are too large, which is closely related to the inadequate land control. New non-agricultural construction occupied 230,000 hectares of arable land in 2003, an increase of 33,000 hectares or 17% over the previous year. In 2004, the central government decided to clean up large-scale land occupation and implement the strictest control over land, with a view to "paying bottoms" and weakening the ability of some localities to develop civil engineering from the source, followed by a decline in investment growth.

The direct consequence of over-investment in the tropics is excess production capacity, making it difficult to give full play to investment benefits. In 1988, the overheated investment caused a large amount of idle production capacity of flat glass and televisions. In 1992 and 1993, the excessive development of real estate caused countless "rotten tails", and the waste was hugely painful.

Overheating investments may trigger financial risks. Sources of real estate investment funds in 2003 were 313.8 billion yuan in domestic loans, accounting for 23.8%, an increase of 41.3% over 2002, indicating that bank credit funds accounted for a large proportion of real estate development funds, and potential financial risks cannot be ignored.

Overinvestment has also caused a huge waste of resources. According to estimates, in 2003 China's GDP was less than 5% of the world, but coal consumption accounted for about 30% of the world, power consumption accounted for about 13% of the world, and steel consumption accounted for about 25% of the world. Extensive economic growth with high investment, high consumption, high emissions, inconsistency, difficulty in recycling, and low efficiency has caused a huge price for China's resources and environment, and also brought severe challenges to the sustainable development of the economy.

#### Fourth, countermeasures to prevent and respond to overheated investment

The first is to continue to deepen the reform of the investment system. In the future, we should continue to deepen the reform of the investment system, improve the investment project approval and filing system, clarify investment risk responsibilities, strengthen the role of enterprises as investment subjects and the role of market-leading investment, strictly limit the scope of government investment, and improve government investment decision-making mechanisms and project legal person constraints. Mechanism and social supervision mechanism.

The second is to effectively transform government functions. The key is to transform the government's economic management functions to mainly serve market participants and create a good development environment for enterprises. Efforts should be made to reduce the proportion of direct investment in general production projects by the government, and in particular to limit the investment behavior of local governments. This should be an effective means to prevent problems in economic construction.

The third is to introduce a competition mechanism to encourage private investment. With the continuous development and improvement of China's market economy, the main body of investment has gradually evolved from the state-owned economy in the early stages of reform and opening up to the current comprehensive development of state-owned, foreign-invested, and private economy. Private investment has grown into a contribution to China's economic construction and social development. Great contribution to the new army. However, in terms of policy environment, market environment, information consultation and service environment, there is still an unfair treatment of private investment, which should be changed as soon as possible.

Fourth, multiple macro-control measures are used in combination, with indirect control as the mainstay. Compared with the previous macro-control measures in which over-invested countries mainly depended on administrative measures, the current control focused more on the use of economic and legal measures. Adopt measures to strictly control land and strengthen credit management. At the same time, increase the adjustment of weak links in the socio-economic structure, and focus on supporting the development of agriculture and food production, as well as the development of public welfare and service industries such as society, health, education, science and technology. And received good results. It can be seen that indirect regulation, supplemented by necessary administrative measures, and a combination of multiple macro-control measures are the correct methods for effective management of investment and the economy.

Fifth, change the mode of extensive economic growth. To fundamentally prevent overheating of investment, we must effectively implement the scientific concept of development, reform the traditional mode of extensive growth, and strive to complete the transition from the mode of extensive economic growth to the mode of intensive economic growth in the short term to ensure the sustainable and healthy development of the economy.

Group leader: Qiu Xiaohuahua

Deputy group leader: Ji Fengxiang Xu Xianchun Li

Xiaochao Zhang Shuying Group members: Jin Guifang Jia Hai Geng Chunpu Li Wanmao Li Jiao Zhao Peiya Wang Mingliang Zhai Shanqing Xu Chunwei Wang Minghua and Shufen Fan Xiaoyu Liu Changcui Shi Faqi Wang Haiyan 阎 Haiqi Liu Bingma rock



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