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The Return to Capital in China

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China's investment rate is one of the highest in the world, which naturally leads one to suspect that the return to capital in China must be quite low. Using the data from China's national accounts, we estimate the rate of return to capital in China. We find that the aggregate rate of return to capital averaged 25% during 1978-1993, fell during 1993-1998, and has become flat at roughly 20% since 1998. This evidence suggests that the aggregate return to capital in China does not appear to be significantly lower than the return to capital in the rest of the world. We also find that the standard deviation of the rate of return to capital across Chinese provinces has fallen since 1978.

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