

How China Grows

Investment, Finance, and Reform

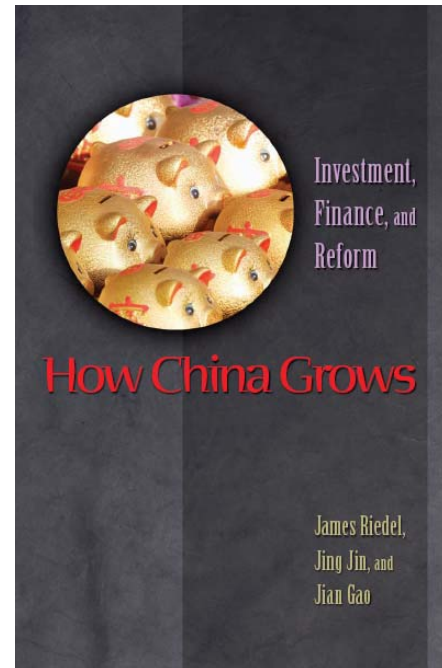
James Riedel, Jing Jin & Jian Gao

Although China's economy has grown spectacularly over the last twenty-five years, economists disagree about how the Chinese economy is likely to fare in the short- and long-term future. Is China's growth sustainable, or has China relied too much on inward investment, which is subject to diminishing returns, and not enough on technological change? The first book on the relation between investment, finance, and growth in China, *How China Grows* dismisses this concern. James Riedel, Jing Jin, and Jian Gao argue that investment has not only been the engine of growth, but also the main source of technological progress and structural change in China.

What threaten future growth instead, the authors argue, are the weaknesses of China's financial system that undermine efficiency in investment allocation. Financial-sector reform and development are necessary, not only for sustaining long-term growth, but also for maintaining macroeconomic stability.

Although it includes some technical economic analysis, *How China Grows* is accessible to noneconomists and will benefit anyone who is interested in development finance in general and in China's economic growth in particular—whether economists, political scientists, bankers, or business people.

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"Challenging conventional theory, this excellent book argues that investment drives China's economic growth and technological development."--**Franklin Allen, Wharton School, University of Pennsylvania**

"*How China Grows* is a concise and systematic evaluation of the role of investment in China's economic growth since 1978. The authors argue that investment has been the main driver of China's growth but that future growth will require a more effective financial, particularly banking, system. This is the first book to systematically examine the investment--growth nexus in China, and those interested in understanding the dynamics of China's growth over the past three decades will certainly want to read it."--**Nicholas R. Lardy, Institute for International Economics**