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Differences in corporate saving rates in China: Ownership, monopoly, and financial development

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ABSTRACT

Using the data of the listed non-financial companies from 2003 to 2012, this paper conducts a firm-level empirical analysis to reveal the determinants that lead to differences in saving rates of different enterprises in China. Particularly, we explore the discrepancies in the Chinese enterprises' saving rates from the new perspectives of ownership type, monopoly status, and financial development. We find that only some financial indicators of a firm, including the size and the long-term solvency ability, have direct impact on its saving rate. Besides, the difference in the saving rates between private firms and state-owned firms is insignificant while monopolies have higher saving rates than non-monopolies. Most importantly, financial development generally reduces a firm's saving rate and the impact is independent on its ownership type and monopoly status. Moreover, financial development decreases the influence of a firm's short-term solvency and profitability on its saving rate.

1. Introduction

It has long been remarked upon that China's national saving rate is extraordinarily high. As the investment and export are both high due to the abundance of domestic saving, the high saving rate has been regarded as the main driving force of China's rapid economic growth. However, despite its contribution to China's economy miracle, the high national saving rate is now more taken as a structural problem of the Chinese economy. On the one hand, the share of consumption in GDP is consistently low due to the high and rising aggregate saving, which dampens the sustainability of China's economy growth in the long run. On the other hand, the high proportion of net export in GDP leaves the economy especially susceptible to the demand shock of the global market. Besides, the huge current account surplus due to the high net export nearly deprives the Peoples' Bank of China of its monetary policy independency. In reality, not only is the high national saving rate perceived to be the cause of domestic economic imbalances in China, it is also believed to be responsible for the global trade imbalances and even the 2008 global financial crisis (Bayoumi, Tong, & Wei, 2010).

Because of the abovementioned concerns, the Chinese national saving rate has received wide attention from scholars. However, so far the focus has been mainly on household saving rates (e.g., Horioka & Wan, 2007; Kraay, 2000; Wei & Zhang, 2009). A popular and easy-to-understand perspective is that Chinese people tend to save more than their peers in other countries due to a cultural tradition of thrift. Nevertheless, other evidence (e.g., He & Cao, 2007; Ma & Yi, 2010) shows that the high national saving rate is largely attributed to high government and corporate savings rather than household savings. In fact, increases in corporate saving and government

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saving, as opposed to household saving, have been shown to directly promote overall national saving, as well as affecting the actual structure of saving and investment (Kuijs, 2005).

Existing studies on the factors that have led to a high corporate saving rate in China are relatively rare. Xu, Zhou, and Zhao (2011) believe large disparity in income distribution is one reason. They also highlight that decreased spending resulting from low interest rates and low dividends, together with the existence of a "resource rent" caused by resource price distortions, contribute to high corporate saving rates. Huang (2011) compares private enterprises to state-owned enterprises and finds a precautionary savings motive for the private enterprises to have higher saving rates, which is primarily due to their severe financing constraints and better investment opportunities.

Overall, it seems that there is no consensus on the causes of high corporate savings. Therefore, instead of directly uncovering the factors that lead to the high corporate saving rates in China, in this paper we aim to reveal the determinants that lead to differences in saving rates of different enterprises in China, specifically by explaining the discrepancies in the Chinese enterprises' saving rates from the new perspectives of ownership type, monopoly status, and financial development. We believe that an investigation from these perspectives is imperative in the sense that understanding the differences within the Chinese companies can also provide helpful solvencies for the Chinese saving puzzle.

Using the data of the non-financial companies listed on the Shanghai and Shenzhen Stock Exchanges from 2003 to 2012, we find that a firm's specific financial situation, including its size level and its long-term solvency, has impacts on its saving decisions. Besides, the firms' saving rates also vary with their monopoly status. In addition, financial development generally reduces the saving rates of all types of firms, and it reduces the influence of a firm's short-term solvency and profitability on its saving rate.

The rest of this paper is organized as follows. Section 2 describes the historical trends of the national saving and the savings in the three respective sectors. Section 3 discusses the factors that may affect corporate saving and the impact of financial development on corporate saving. Section 4 introduces the empirical methods and the data utilized in this paper. Section 5 presents the empirical results and Section 6 concludes.

2. The Chinese saving puzzle

National saving in China is quite high both looking from its own historical trends and comparing to other countries. This fact is widely recognized by many scholars such as Kuijs (2005), He and Cao (2007), and Yang, Zhang, and Zhou (2011). In 1992, the national saving rate in China was merely 36.29%. It surged to 51.91% in 2008, reaching its highest level of the recent decades. Besides, Yang et al. (2011) show that the national saving in China is higher than both the comparable developing peers and main developed countries.

Revealing the driving forces of the increase in national saving in China necessitates the comparison of the three main components of national saving, including household saving, corporate saving, and government saving. Using the data from the Flow of Funds Accounts (FFA), we are able to illustrate how the savings in the three sectors have contributed to the upward trend of the national saving. FFA was firstly published in 1995 by the National Bureau of Statistics (NBS) in China, based on the physical transitions of the national income accounting in the Statistical Yearbook of China. The latest FFA is updated to 2011.

Table 1 shows the saving rates of the corporate, government, and household sector respectively from 1992 to 2011, where the saving rate is measured as the ratio of each sector's saving over the gross national dispensable income. Evidently, national saving rate in China remains at a high level and even increases from 36.29% in 1992 to 50.63% in 2011. The rise of saving rate in each sector is more illustrative. The saving rates in the sectors of corporate, government, and household increase by 8.33%, 1.36%, and 4.65%

Table 1
Components of national saving as percentage of national dispensable income.Source: NBS, Chinese Statistical Yearbook 1995–2013.

Year	Corporate (%)	Government (%)	Household (%)	Total (%)
1992	11.70	4.39	20.19	36.29
1993	15.73	4.12	18.16	38.01
1994	14.53	3.17	21.67	39.36
1995	16.22	2.57	19.89	38.68
1996	13.69	3.71	20.15	37.54
1997	13.10	4.01	21.56	38.66
1998	13.45	3.31	21.37	38.13
1999	14.70	2.67	20.04	37.41
2000	17.94	−1.37	20.99	37.56
2001	18.92	−1.08	20.62	38.46
2002	19.34	0.62	20.28	40.24
2003	19.94	1.40	21.71	43.05
2004	22.51	2.59	20.63	45.74
2005	21.60	3.33	21.53	46.46
2006	21.54	4.22	22.39	48.15
2007	22.10	5.68	23.11	50.89
2008	22.74	5.89	23.28	51.91
2009	21.19	4.94	24.44	50.57
2010	21.19	5.16	25.43	51.77
2011	20.03	5.75	24.85	50.63