

# **Capital Accumulation and Economic Growth in China**

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## **Abstract:**

China has experienced high economic growth for more than 30 years. However an excess production capacity has become a large concern in China since 2008. The main factor that affects China's economic growth is investment, which has a dual nature- investment spending in demand side and increasing production capacity in supply side.

The purpose of this paper is to examine the dynamic role of investment in China's economic growth. Based on revised Harrod model, we analyse the investment decision in a dynamic context. Estimating the "required" marginal capital-output ratio for entrepreneurial equilibrium (the warranted growth), we examine the actual growth rate of GDP and growth rate of investment.

China's (actual) marginal capital-output ratio has exceeded the required marginal capital-output ratio since 2008. In this situation, investment growth rate and the economic growth rate decrease, which lead to increasing of the marginal capital-output ratio that causes the cumulative process.