Abstract

Economists – particularly foreign financial analysts, also in Europe – focus mainly on the Purchasing Manager Indices (PMIs) and quarterly GDP changes when analyzing Chinese growth. This is understandable since these data are easily available. More recently these data did not produce an optimistic picture for China’s economy. But does this information really provide reliable information on China’s growth performance and outlook? Does this analytical approach capture the strategy and policy changes announced during the Third Plenum in November 2013?

Certainly not. Consequently, foreign and even domestic investors run the risk that portfolio and particularly more long-term investments are too heavily based on short-term indicators that do not reflect ongoing structural improvement measures or policy changes.

The paper will summarize past and current discussion on Chinese GDP data and deal with the alternatives for assessing economic growth and its quality. Merely relying on an improved and widened analysis of Chinese reform policy since November 2013 is difficult and has its limits. But better analysis can be created by economists themselves even under current conditions. Transparency is still by far too poor. Improvements should not be that difficult to achieve all the same. Some ideas are given in this paper – and also hints how and where to find information on structural improvements that have taken place or are planned concretely for the nearer future.

Better insight into Chinese reform policy and underlying GDP-growth conditions could give a sounder input for decision-making by domestic, European and global investors, Swedish and German companies included. The ambition of the paper is to contribute to a move from too much short-term to more medium- and long-term analysis of China’s development - an approach that should be promising also from a European corporate perspective.

**JEL:** E60, F23, F60, O53, P21, P48.
Introduction

In November 2013, the Third Plenum of the 18th Central Committee of the Chinese Communist Party announced a comprehensive and ambitious reform program with 16 reform areas and 60, more detailed, subareas - mostly aiming at economic, social and institutional improvements of structural nature. According to the decisions of the Third Plenum, market forces should have a decisive role in this context (Third Plenum, 2013, chapter I,1). The target year for the reform program will be 2020, two years before the next generation of Chinese leaders will take over. Five years is not a long time for realizing a substantial overhaul of economic policies.

Following the spirit of the Third Plenum, Chinese politicians have in the past few months emphasized the importance of growth quality instead of growth quantity (NPC 2015, March 5). But major reforms are needed to achieve substantially improved quality of GDP growth. Chinese political leaders have stressed this fact clearly and frequently, for example at the National People’s Congress sessions in 2014 and 2015. Reforms will particularly aim at the environment but also at education, innovation and more value-added production, efficiency (productivity), institutions, social cohesion, local planning, political promotion incentives and, consequently, more domestically driven GDP growth.

Unfortunately, the new dedication to the quality of growth poses considerable challenges to foreign as well as Chinese economists and corporate decision makers who want to analyze the ongoing reform process and infer conclusions regarding China’s economic development perspectives and GDP growth.

First, it is extremely difficult - if not impossible - to track all the improvements and changes which have been evolving since 2013 or are currently in the pipeline. Comprehensive and topical information regarding progress in important reform areas is hard to come by and the marketing of – actual or intended - improvements is poor, at least in English language.

Second, transparency remains a critical issue.

Third, the attempt to evaluate progress in quality of growth creates a dilemma:

- If earlier double digit growth rates are today interpreted as indication of low growth quality, what are appropriate future growth rates to reflect GDP growth of better quality?
- If past GDP data did not reflect enough quality, should GDP measurement improve or should other indicators be used to grasp the quality GDP growth? And what would be appropriate alternative indicators?
- How are these considerations linked to the persistent doubts regarding reliability of China’s statistical data in general and GDP data in specific?
Fourth, if improved quality of growth translates into lower growth rates or different ways to assess GDP growth, how can corporate decision makers integrate such changes into their often indicator-based analyses and decision-making processes?

In this paper, we present some ideas how to address these challenges. We suggest that a stronger focus on structural improvements would be superior to very short-term focus on growth developments. Today, many (financial) analysts base their China analyses too much on quarterly GDP growth and the monthly Purchasing Manager Index (PMI). This is understandable since there is a shortage of other concrete growth indicators for comparison - but not really satisfactory.

Against this background, the paper has three main objectives:

- to review sources and ideas on GDP quality and how these ideas are reflected in China’s recent reform approach;
- to indicate major challenges of China GDP data and consequences arising for and from a policy shift towards GDP data improvements and quality of growth targets;
- to draw conclusions from recent Chinese policy changes for the European and global corporate sector.

2. Research on the quality of growth - general remarks

Many textbooks in economics – even written by prominent authors - provide no or very little discussion regarding the quality of growth. Partial analyses and research do exist, for example on the relationship between investment in the environment, education (human capital), or financial modernization on the one hand and economic growth on the other. However, no comprehensive theory on the quality of economic growth seems to be in place. In the following chapter, we review some interesting approaches in literature that discuss the quality of GDP growth by concentrating on single indicators or policy measures, which are said to improve conditions for a reasonable or good quality of economic growth. As can be seen, many issues raised in the document of the Third Plenum of the Communist Party (CCP) actually relate to these approaches.

Abel/Bernanke (1998) wrote in their textbook (1998) – i.e. before Bernanke become governor and chairman of the Federal Reserve - that “no one understands completely why economies grow, and no one has a magic formula for inducing economic growth... Nevertheless, economists have gained useful insights about the growth process” (p 182).

These insights about medium- and long-term growth deal with savings, investment, demographics, infrastructure, human capital, R&D, innovation, borrowing (capital) constraints, etc. Many of these terms and concepts have been used in the decision document (communiqué) of the Third Plenum. Important Chinese reform topics are – in other words – well rooted in economic literature.
Research results or guidelines for optimizing investment areas and volumes, however, are not generally discussed in the literature even though this is exactly what China would need after many years of overinvestment. Research is simply insufficient in this respect. Romer (1986), as an exception, made quite an early and important partial contribution to the quality of growth by focusing on future-oriented investments in human capital and technology. Endogenous growth factors like education and Science & Technology policies (S&T policies) are important parts of the Romer’s New Growth Theory (NGT) which also has informed Chinese leaders’ structural growth strategies (2013, Third Plenum, subchapters III,13; XII,42, etc.).

This reference to a relatively modern approach does not mean that the reforms suggested by the Third Plenum are without neoclassical roots. Neoclassical characteristics can be found, for example, in the demand for market-oriented improvements, increased competition and less government interference.

Research has shown for quite a number of years that improved institutions mean a lot to the quality and sustainability of economic growth. Nobel Prize winners such as Coase, North, Ostrom and Williamson are particularly famous in this respect. More recently, Acemoglu/Robinson (2012) and Rodrik (2007) have done extended work on the importance of institutions. Fromlet (2012) has summed up the institutional failures before the Swedish financial crisis and drawn conclusions for deregulations in China and pointed to factors such as co-ordination between supervisory authorities, between policy makers, financial literacy of customers and education of the banks’ staff.

King/Levine (1993) belong to those economists who have pointed at the positive correlation between improved financial markets and economic growth. Fromlet (2014), however, stresses that financial deregulation and related reforms have to be undertaken with great caution. He argues for careful liberalization of the capital balance to avoid financial bubble risks, because the latter could imply a weakening of economic growth quality.

Bernanke/Frank (2004) in their textbook on economics conclude that real GDP is not the same as economic well-being – and may at best be an imperfect measure of economic well-being. This notion has somewhat been echoed by the concept of “overheating”, which was popular in China during the period of double-digit growth and hinted to negative consequences of too rapid GDP growth. Well-being has gained center stage in Chinese discussions regarding the need for a new growth model. This idea was propagated in 2014 when top politicians started to sell the concept of the “new normal” – partly to explain the weakening potential growth rate as such, partly to pave the way for the concept of growth quality (Roberts 2014).

In this context, it makes sense to differ between statistical well-being – expressed, amongst other, by better income distribution and fairer wages - and subjective well-being on individual levels.
Baumol/Blinder (2006), for example, argue that residents of richer countries are not necessarily happier than people living in less wealthy countries – a conclusion that was drawn quite early also by development researcher William Esterlin (1974) in his famous cross-country analysis. Recently, however, Esterlin’s view has been questioned more frequently. Sacks, Stevenson, Wolfers (2012), for example, come to the conclusion that people in richer countries, on average, feel more well-being than people in poorer countries, both in absolute and relative terms. They also show GDP growth and the citizens’ life satisfaction as clearly related.

A crucial topic with regard to growth quality – which has been discussed in literature for decades and is of utmost importance for China today – is the relationship between the degradation of the environment and economic growth. Clearly, parts of the world’s environmental problems are related to the global population and economic growth of the last centuries. This growth has been driven by fossil-fuel based industrialization (see online the Intergovernmental Panel on Climate Change, IPCC; German Advisory Council on Global Change, WBGU).

In economic theory, the negative impact of growth on the environment is generally attributed to insufficient internalization of external effects into the price of resources and goods. Along this reasoning – in order to increase the quality of growth – mechanisms are necessary by which external effects are internalized. This can be done – theoretically – with prices that realistically reflect the costs of public goods for private means (Coase 1960). However, it is difficult to define “realistic” in the context of global public goods such as climate change mitigation, though recent attempts to establish carbon markets at national or regional levels reflect the idea. Still, depending on how dramatic the environmental and climate challenges are perceived and for which time horizons external effects are to be factored in, the price solutions will differ. Therefore, more radical approaches actually demand to sacrifice GDP growth as a target (Victor, P A and G Rosenbluth 2007).

In practice, this latter claim also poses a lot of difficulties. First, it should not be forgotten that certain factors of well-being are linked to good or reasonable economic growth, such as education, entrepreneurship, gender issues, health and other social improvements. Second, objectives like “no growth” or “dampened/steady growth” may primarily sound reasonable to countries with a high standard of living – but are obviously less convincing to developing or emerging countries that still strive to achieve a comfortable standard of living.

Consequently, a somewhat less radical concept – “green growth” – has been propagated more recently (by, for example, the OECD, 2011). Proponents of “green growth” claim that investment in the environment can be beneficial to economic growth – or rather the quality of economic growth. Not much theoretic literature can be found to substantiate this idea, though. Everett et al (2010) give an informative introduction in this topic, by applying the Environmental Kuznets Curve (EKC) which demonstrates that beyond certain GDP per capita levels, reductions in environment
problems can be observed. Stern (2004) rejects this finding sharply because of “very flimsy statistical foundation”.

As long as growth is not demonized completely, the relation between the environment and economic growth may also be addressed the reversed way: How much growth is needed for being able to afford the most urgent and important investments in a better environment? A general answer can be inferred from the literature discussion above: GDP growth should be sufficient to provide the government and the corporate sector with enough money for investments in the environment. However, more research is needed on the issue of “sufficient growth” in this specific context.

Galbraith (1996) and B Friedman (2005) prefer more ethical and moral considerations about economic growth and its quality. Galbraith has repeatedly reflected on the factors that drive the “good society” and concludes that “the basic economic policy of the good society is public expenditure in step with future economic growth and well-being ... But no one should suppose that the guidance of the modern economy is a simple matter” (1996, p 57) – a judgment that certainly also is shared by Chinese political leaders.

Interestingly, Galbraith already two decades ago put strong emphasis on the environment for achieving what he calls the “good society”. Indirectly, he gives the consumption-oriented economy a negative growth bias by pointing at the environmental challenges coming from accelerating private consumption – something Chinese decision makers certainly have to consider when they characterize the new Chinese growth model as an alternative, increasingly supported by domestic consumption.

B Friedman on the other hand believes that “certain characteristics of personal behavior are important for economic growth, and when these characteristics acquire moral status the resulting ethic encourages people to behave accordingly” (2005, p 18). He sees a link between “economic growth and social and political progress” (2005, p 6) – rather in this order and not the other way around. If Friedman is right, China would be right not letting GDP growth drop substantially below 7 percent.

Whatever position one takes regarding these issues and other reform aspects, GDP should not be equated with well-being. It seems, however, possible – or in certain cases logical – that these two parameters are closely related. Further research and views on this topic would be welcome. Optimizing all these sources of well-being in a sustainable way will be an important future challenge for both academic research and practical application in China and beyond.
3. GDP data and GDP growth quality in China

The current hype around China’s GDP growth perspective is a direct result of the importance that has been attributed to economic growth nationally and internationally during the last decades, particularly by financial markets.

3.1. China’s growth imperative

The importance attributed to China’s economic growth can be explained by different factors:

Economic growth has become an important indicator of development and success of the Chinese Communist Party regime and of reformers within the party. Especially since the 1990s, economic growth developed into a building bloc of Party legitimacy. On the one hand, by then, few Communist Party leaders who had gained legitimacy from their contribution to the Long March, the civil war or the establishment of the PRC, were still active; on the other hand, the suppression of political protest at the end of the 1980s left little room for legitimacy resulting from political reforms. As a result, with the acceleration of reforms in the 1990s, (high) economic growth became a major indicator for the benevolent and successful guidance of the party (Holbig and Gilley 2010) at least to the extent that it created the means necessary to secure social and political stability (Shue 2010). Consequently, legitimacy increased with China’s successful accession to the WTO in 2001 and the period of rapid growth thereafter.

In order to secure local support and contribution to national growth targets, local GDP growth rates became important indicators for cadre evaluation and promotion. Thereby, the legitimacy function of economic growth has been incorporated into an incentive regime that closely links political careers to (local) growth rates (Kostka and Eaton 2014). This incentive regime implanted the importance of GDP growth into the institutional DNA of the Chinese economic and political system. In recent years, the negative impact of the cadre evaluation system on the quality of GDP statistics as well as GDP growth has been widely debated, and reforms have been announced – not least by the Third Plenum. How fast and far these reforms will influence both GDP growth and GDP statistics remains to be seen.

The high growth rates of the last two decades not only secured legitimacy of the leadership within China but also attracted foreign investors. Many investors felt the need to invest in China in order to profit from the exceptional growth rates and bet on the ability and willingness of the central leadership to support such growth rates. Expectations regarding the Chinese market and Chinese politics were especially high in the course of the global financial crisis at the end of the first decade of this century which dampened perspectives for investments in other markets. And in the face of rather short term pressure generated by international financial markets, MNE headquarters outside China tended – and still do so many times - to expect fast growth from their businesses in
China. The widespread nervousness among investors and consultants - observable since 2013 in the face of a potential decline of China’s GDP growth below 7 percent - indicates that investments in the past may have relied on overly optimistic growth perspectives. Thus, ironically, international investors and consultants are prominent among those parties that pressure the Chinese government for active financial and fiscal policies - even though the huge stimulus package of 2009 has aggravated China’s structural problems.

The importance attributed to economic growth in China reflects the idea that economic growth supports stability of the political, economic and social system. As such, growth cannot be a target in itself. At times, rapid growth can challenge stability - and has done so in China. Therefore periods of double digit growth rates, which previously clearly exceeded the growth corridor targeted by government policies, have been labelled as “overheated”. Such overheating actually implied risks to the system as it could entail inflation, overinvestment, overcapacities in specific sectors, and bottlenecks in resource and transport systems.

In addition, fast growth rates also could imply fast changes of the income situation, the demand structures and eventually the social fabric of a country. Fast social change and changing demand towards government services could endanger stability if the respective institutional change lags behind. According to some sources, different factions within the Chinese government have over time differed considerably in their assessment of the risks of high growth (Branigan, March 5, 2013).

At a very practical level, the growth imperative of the past resulted from population pressure and the need to provide employment opportunities for masses of young people as well as redundant rural and laid-off workers. The latter was of special importance in the late 1990s when many people left the army or state-owned enterprises (SOEs). It seems obvious that the Chinese government for quite some years has been haunted by Okun’s law, which singles out the relation between decreasing GDP growth and rising unemployment (Ball L et al 2014) – a relationship that certainly has both political and social dimensions. Therefore, the huge stimulus package initiated in late 2008 to defend China against the negative consequences of the global financial crisis was amongst other a reaction to the immediate impact of the global crisis on China’s exports and labor markets (Fischer 2009).

Political fear about unemployment has also been expressed repeatedly by current Chinese political leaders (Schucher 2014), with labor market pressures resulting from rising wages, stricter labor laws, and a fast increasing number of university graduates. While the latter should support China’s transition to a knowledge economy, handling the structural change from an economic model primarily based on labor-intensive production to one based on knowledge and innovation is anything but trivial.
For a long time, the impact of fast economic growth on the environment was deliberately neglected in favor of economic growth. Though environmental protection received some attention in the 1970s, the history of the Ministry of Environmental Protection – which was finally established in 2008 - has been a telling tale of the widespread opposition within the government against anything that could allegedly slow China’s economic development (Fischer and Oberheitmann 2013). Chinese economic policies rather followed the logic of “grow first and clean-up later”. Today, social protests, international pressure, and increasing costs of the consequences resulting from pollution seem to convince at least the central government of the need to increase growth quality for better well-being. This change in attitude, however, has not necessarily spread to all levels of the bureaucracy, yet, and may not stand the test of a potential, more serious economic downturn (Fromlet 2011).

Even though economic growth was deemed imperative for China’s economic and social development, growth in the past decades has been accompanied by severe imbalances in terms of income distribution. Today, income disparity is large between regions, between the rural and urban population but also within the urban society (Cevik and Correa-Caro 2015). Income disparities have in the past been accepted as necessary to trigger reform and development for the national good. Acceptance was secured by the real or perceived impression that people shared equal opportunity to develop and become rich. However, income disparity today contributes to dissatisfaction within the society, and equal opportunity does no longer seem to be a common experience or belief. Quality of growth should therefore – according to some Chinese interpretation – go hand in hand with equality of opportunity and of rights as well as, for example, equality of market entrance and market exit rules (Caixin, December 19, 2014).

3.2 GDP data quality – issues of change and transparency

Accompanying the growth imperative of the last decades has been an ongoing discussion regarding the quality of China’s GDP data. Given the importance attributed to economic growth, the incentive regime built into of the fabric of China’s political system and the fact that the Chinese government usually sets annual and five year economic growth targets, it was reasonable to expect that GDP data was manipulated in order to achieve set targets.

An early and prominent example of this discussion has been the “Rawski debate” at the beginning of the century that focused on GDP data for the years 1998-2000. In 1998, the Chinese government had propagated a growth target of 8 percent - a target that was soon threatened by the repercussions of the Asian financial crisis and the huge floods hitting several provinces around the Yangzı during that summer. The government reacted by stressing its dedication to still realize the 8 percent GDP growth. The official growth rate of that year was later published as 7.8 percent, arguably a very Chinese effort of political “spinning”: The published growth rate was lower than
the original target, thereby increasing the credibility of the number, but still close enough to satisfy internal and external expectations. However, economists, both in and outside China, questioned the reliability of these data.

Of these, the American China economist Thomas Rawski became famous for his reality check on the GDP data by using alternative measures for growth based on energy, traffic, real estate statistics (Rawski 2001). The results were devastating, indicating growth rates of around 2 percent for China’s economy for 1998 and the following years. When his conclusions were circulated in popular international media, Chinese media started a counter propaganda strike, questioning the methods of Rawski’s analysis. Ironically though, regardless the earlier reactions to Rawski’s analysis, a decade later Chinese media tried to stress the economic competence of incoming Prime Minister Li Keqiang by a story of his questioning provincial GRP (Gross Regional Product) data some years before. He was said to use alternative indicators instead of GDP in order to get a realistic picture of provincial economic development - indicators that closely resembled those used by Thomas Rawski (www.news.sina.com.cn, March 15, 2013).

Since the Rawski debate, scholars have recurrently analyzed Chinese GDP and other statistical data in the attempt to evaluate their quality and reliability. While there are difficulties to proof manipulation at the central government level (Holz 2013), many analyses assume manipulation by local governments (Xiao and Womack 2014). This is because of the linkage existing between local economic growth and the cadre promotion system. In addition, at least two other factors contribute to quality concerns regarding China’s GDP data (Koch-Weser 2013, Brandt et al. 2014).

First, as much as China’s transition from a planned to a market economy has been a gradual process, so (will) be changes to the statistical system. Attempts to transit to a system of national accounts have so far evolved very gradually. Until today, for example, production data are documented rather extensively, whereas consumption data remain scarce and lagging. Production data usually is much easier to find and access than data from the expenditure side. GDP accounting from the production side is still preferred. In addition, gradual adjustments lessen the comparability of data over a longer time period. They have, amongst other, led to recurrent backward corrections of GDP data and arguably also seem to have opened space and opportunity for data manipulation. Second, China’s (still) fast growth dictates regular adjustments of the units of analyses and data collection thresholds. While these latter adjustments are technically necessary, they also lessen comparability of data and open space for data manipulation (Fischer 2015).

The core dilemma of China’s GDP statistics is the fact that the government uses to set growth targets and assures that targets will be met even after unprecedented developments occurred – which, of course, would justify the opposite. Currently, the (still) quite new government propagates the “new normal” of China’s economic development. By this, it intends to dampen
expectations for growth rates beyond 7 percent.

However, at the same time it assures that growth rates will not sink significantly below that level. Hence, while the level of targeted growth has changed in the attempt of achieving quality growth, the political attitude towards targets seems to be the same; therefore skepticism regarding reliability of data will remain. Unfortunately, simple alternative calculations like those by Rawski would probably no longer work: If the current Chinese Premier – as already mentioned - used alternative calculations in the past himself to come to more accurate estimations of regional GDP, the Chinese leadership today would know how to cook the books beyond mere GDP data in order to persuade Chinese and foreign observers that GDP data go down - but only slowly so and within targeted limits.

3.3. GDP growth quality – challenges to disentangle conflicting logics

The history of China’s GDP statistics and related quality doubts therefore add a dilemma to the propagated transition to quality growth: How can the Chinese leadership reinstall trust in the numbers after they have themselves shown their distrust in past GDP reporting? And how should investors and observers interpret today’s growth data if they are lower than before: Are these reflecting a “new normal” reality and a turn to more quality of growth? How large is the actual decline if past data were inflated but current data is accurate? Are today’s lower GDP-growth numbers perhaps still exaggerated, because China is actually approaching a crisis or even the infamous “middle income trap”? That these questions are at least as troubling for Chinese political and economic decision makers as for foreign observers can be inferred from the following commentary:

“Evaluating economic quality is much more difficult than evaluating economic quantity. To merely increase GDP, the government can increase investment or also whitewash data. At the same time it can easier control the investment trends or detect falsified data. But when it comes to the much more complicated evaluation of economic quality, if the evaluation criteria and methods are not scientific and comprehensive, the room for manipulation is probably much larger, and the cost of supervision is higher.” (XNA Commentary 2015)

Against this background, it is all the more astonishing how excited Chinese and international media were about the fact that China’s 2014 GDP growth rate, which was published in January 2015, turned out to be 0.1 percentage point lower than the targeted GDP growth rate. A decline was actually expected - but a 0.1 difference suggested a precision of data that is hardly justified, especially as China is always extremely fast with publishing preliminary annual growth data.

Nevertheless, if the growth imperative of the past decades is discarded today because it has turned out to be harmful to the environment, social equity and eventually stability, and if at the same time GDP data is problematic as an indicator for judging improvement towards quality of
growth, what are the options left for China observers and financial analysts to adequately evaluate China’s economic performance today and in the near future? And how should managers of firms engaged in China explain the economic situation and trends to their headquarters?

We argue that an appropriate evaluation of China’s economic performance should not concentrate on GDP growth rates alone, but rather on indicators, which reflect the reform intention of the new leadership. A similar argument has actually been brought forward by the European Chamber of Commerce in China in their latest position paper (EU Chamber of Commerce 2014). For our approach to address the question we cluster different economic policy and development targets expressed in the subchapters (decisions) of the Third Plenum to the six economic theory/research approaches to growth quality discussed in section 2.

### Table 1: Theoretical concepts reflected in the objectives set by the Third Plenum in November 2013 aiming at improved growth quality

<table>
<thead>
<tr>
<th>Related theoretical framework</th>
<th>Chapter</th>
<th>Direct quote from decision (communiqué) text</th>
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<tbody>
<tr>
<td>Neoclassical framework</td>
<td>I,2</td>
<td>“market has a decisive role”</td>
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<td></td>
<td>I,3</td>
<td>“efficiency optimization”</td>
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<td></td>
<td>II,8</td>
<td>“support the healthy development of the non-public”</td>
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<td></td>
<td>III, 10</td>
<td>“move forward with pricing reform in water, oil, natural gas, electricity, traffic, telecommunications and other such areas, set competitive market prices free”</td>
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<td></td>
<td>IV, 14</td>
<td>“maintaining the general economic balance”</td>
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<td></td>
<td>V, 18</td>
<td>“perfect the tax revenue system ... perfect local taxation”</td>
</tr>
<tr>
<td>New Growth Theory</td>
<td>III, 13</td>
<td>“deepen science and technology reform”</td>
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<td></td>
<td>III, 13</td>
<td>“develop technology markets ... improve funding conditions for science and technology-type small and mid-size enterprises”</td>
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<td></td>
<td>XII, 42</td>
<td>“foster quality workers and skilled talents”</td>
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<td></td>
<td>XII, 43</td>
<td>“complete structures and mechanisms to stimulate employment and entrepreneurialism”</td>
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<tr>
<td>Institutional economics</td>
<td>I, 2</td>
<td>“institutional innovation”</td>
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<td></td>
<td>II, 5</td>
<td>“perfect property right protection systems”</td>
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<td></td>
<td>III, 10</td>
<td>“raise transparency”</td>
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<tr>
<td></td>
<td>III, 13</td>
<td>“strengthen intellectual property rights”</td>
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<td></td>
<td>VI, 21</td>
<td>“endow peasants with more property rights”</td>
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<td></td>
<td>VI, 23</td>
<td>“accelerate household registration system reform”</td>
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<td></td>
<td>VIII, 29</td>
<td>“let the popular masses feel fairness and justice in every judicial case”</td>
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<td></td>
<td>IX, 33</td>
<td>“move forward with open trials and prosecutions”</td>
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<td></td>
<td>X, 36</td>
<td>“strengthen anti-corruption structure”</td>
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<tr>
<td>Institutional economics, focus: Finance and financial markets</td>
<td>III, 12</td>
<td>“perfect financial market systems”</td>
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<td>III, 12</td>
<td>“implement financial supervision ... establish deposit insurance systems”</td>
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<td></td>
<td>III, 12</td>
<td>“move forward with stock distribution ... promote many channels for equity distribution ... develop and standardize bond markets ... enrich financial market levels” (also institutional)</td>
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<td>Page</td>
<td>Relevant Text</td>
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<tr>
<td>III, 12</td>
<td>“perfect mechanisms for the formation of the Renminbi exchange marketization, accelerate with moving interest rate marketization forward” (also institutional)</td>
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<td>IV, 14</td>
<td>“correct the tendency of evaluating officials’ achievements merely by the speed of economic growth”</td>
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<td>V, 17</td>
<td>“establish standardized and rational debt management and risk warning mechanisms for central and global governments”</td>
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<tr>
<td>Socioeconomics</td>
<td>I, 2</td>
<td>“social fairness”</td>
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<tr>
<td>VI, 23</td>
<td>“bring peasants who settled in cities into urban housing and social security systems”</td>
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<tr>
<td>XII, 45</td>
<td>“establish fairer and more sustainable social security systems”; “research the formation of policies that gradually raise the retirement age ... accelerate the establishment of social service systems to care for the elderly and the development of services industries for the elderly”</td>
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<tr>
<td>XII, 46</td>
<td>“deepen medical and hygiene structure reform”</td>
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<tr>
<td>XII, 46</td>
<td>“start the implementation of a policy where it is permitted to have two children if either a husband or a wife is an only child”</td>
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<tr>
<td>Environmental economics</td>
<td>IV, 15</td>
<td>“strengthen public service ... environmental protection”</td>
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<td>V, 18</td>
<td>“bring high-energy consumption and high-pollution products and a part of high-end consumption into the scope of tax collection”</td>
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<tr>
<td>XIV, 54</td>
<td>“reform ecological civilization protection and management systems”</td>
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</table>

Source: Authors of this paper based on the Third Plenum from November 2013

Table 1 on the one hand shows that China’s political leaders follow a broad and pragmatic theory mix to bring the Chinese economy on more sustainable ground. On the other hand, it clearly points at the difficulties to keep updated on the progress that hopefully will be made in the different reform areas. Tracing that progress implies several steps. The first step is to trace the translation of the reform intentions into policies. The second is to monitor the implementation of the policies into practice, and the third step would be to identify implementation results in relevant statistical data. As the reform agenda is not supposed to be a real stimulus package for triggering growth in the short term, one actually would not expect policy changes to be immediately reflected in statistical data, at least not beyond data that might reflect changes in expectations.

From what we know so far, the translation of the Third Plenum decisions into more concrete policy guidelines - we stress the term “guidelines” - is proceeding quite fast. The Third Plenum forwarded this task to the “Small leadership group for comprehensive deepening of reform (RSG)” which is a group established within the Party and headed by the CCP Party Secretary and President of the People’s Republic of China (PRC), Xi Jinping. Other, more specialized leadership small groups were established in succession, but the RSG is the most authoritative group for specifying the reform agenda.

The RSG took up its work in early 2014 and immediately defined its agenda for that year. It has met regularly in 2014 and continues to do so in 2015. Policy outlines or opinions endorsed during RSG meetings are afterwards translated into actual policies by the respective government bodies.
and usually propagated by the State Council. Figure 1 shows how the work of the RSG has proceeded in 2014. In the aftermath of the RSGs formulation of outlines and opinions, the government usually swiftly reacted with the respective government policies or regulations. For example, the reform of the Science and Technology (S&T) funds system outlined by the RSG in September 2014 has been translated into a State Council reform document in January 2015 (Tang 2015).

Figure 1: RSG meetings and decisions in 2014

Source: Authors’ compilation based on CCP and Chinese media websites.
Of course, it would be very helpful to international observers if the responsible authorities continuously reported on all plans and measures for improvements of the quality of economic growth in an easily available publication in English, ideally on the internet. So far, the process from policy ideas formulated within the CCP organs to policy documents propagated by government bodies and further on to policy implementation at the local level can be much more easily traced in Chinese language. More recently, the Chinese government, however, has taken steps to ease access to its policies also in English, and some international organizations also provide helpful documents and files – but still, more could and should be done by the world’s second largest economy. Figure 2 provides an overview of helpful websites to follow Chinese politics and economic developments in English language. It should be noted, that in China not only government agencies are subject to censorship, but also Chinese media.

Figure 2: Internet sources helpful to trace central government policy initiatives in China

<table>
<thead>
<tr>
<th>Source type</th>
<th>Source</th>
<th>url</th>
<th>comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese government</td>
<td>Central government official website</td>
<td><a href="http://english.gov.cn/">http://english.gov.cn/</a></td>
<td>English language content usually does not cover complete content of Chinese language version</td>
</tr>
<tr>
<td>policy websites</td>
<td>National Reform and Development Commission</td>
<td><a href="http://en.ndrc.gov.cn/policyrelease/">http://en.ndrc.gov.cn/policyrelease/</a></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ministry of Commerce</td>
<td><a href="http://english.mofcom.gov.cn/article/policyrelease/">http://english.mofcom.gov.cn/article/policyrelease/</a></td>
<td></td>
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<tr>
<td>Chinese Newspapers/</td>
<td>China Daily</td>
<td><a href="http://www.chinadaily.com.cn/china/">http://www.chinadaily.com.cn/china/</a></td>
<td>Party or government owned media; not independent; subject to strict content censorship</td>
</tr>
<tr>
<td>media</td>
<td></td>
<td><a href="http://europe.chinadaily.com.cn/">http://europe.chinadaily.com.cn/</a></td>
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<td><a href="http://usa.chinadaily.com.cn/">http://usa.chinadaily.com.cn/</a></td>
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<td></td>
<td>Global Times</td>
<td><a href="http://www.globaltimes.cn/index.html">http://www.globaltimes.cn/index.html</a></td>
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<tr>
<td></td>
<td>People’s Daily English website</td>
<td><a href="http://en.people.cn/">http://en.people.cn/</a></td>
<td></td>
</tr>
<tr>
<td>Accessing data</td>
<td>National Statistical Bureau</td>
<td><a href="http://data.stats.gov.cn/english/index.htm">http://data.stats.gov.cn/english/index.htm</a></td>
<td>Most comprehensive online data access to monthly, quarterly and annual data. Annual statistical bulletin available</td>
</tr>
</tbody>
</table>
As mentioned before, GDP growth data in the near future cannot be informative enough if one accepts or applies the Chinese government’s intention to prioritize growth quality. It may, however, be important to observe how the government itself reacts to declining growth rates. Will it again - openly or indirectly - return to public investment programs or even launch a broader stimulus package to sustain a certain growth level? Or will it rather apply more market oriented instruments?
Recently, Prime Minister Li Keqiang criticized provinces in China’s North East that their economic performance was below standard. According to media reports he was concerned about the growth rates of China’s rustbelt provinces, which had been considerably lower than 7 percent. Obviously, such criticism may raise doubts about the seriousness of the government’s “new normal” and the reform program formulated by the Third Plenum – or where the “new normal” really should be settled.

These doubts were also mirrored in the results of a survey the authors did among a small number of colleagues who are economists and also closely watching China’s economy. The respondents were clearly divided on the future perspectives of China’s reforms - as it was the case one year ago when LNU alone came in its questionnaire to the same results, with more panelists - and growth performance. A majority of the panel participants believes that China’s GDP growth rate will stabilize between 6 and 7 percent in the forthcoming years.

This would be quite a satisfactory development and would probably indicate improved quality of growth at the same time. Regrettably, no major progress is expected by the colleagues regarding the quality of statistics (Chinaresearch.se, May 2015). Therefore it is not clear whether the colleagues’ growth expectations refer to the development in reality or rather anticipate that future statistical data will continue to reflect government growth targets.
4. Consequences for European/global corporate decision makers

Despite a lot economic progress in the past two or three decades, China and its decision makers still have to face many challenges in order to maintain a decent and sustainable rate of GDP growth and also reasonable well-being for its people. Quite a number of these challenges are mentioned in the Party’s documents from November 2013 – hopefully leading to visible or even sizable improvements of the quality of growth.

Unfortunately, the number of goal conflicts is substantial as well. No one can say by now how these conflicts of goals will be handled. This uncertain outcome induces that corporate decision-makers inside and outside China need to be - or remain - updated about current and future changes in Chinese economic policy and corporate strategy needs. Without meeting these challenges, lots of corporate decisions may become more risky.

It should be observed in this context that many corporate areas can become increasingly influenced by the success or failure of Chinese structural reform policy according to the guidelines and objectives that were set up by the Third Plenum in November 2013. From this forum’s decisions, the following corporate (business) areas may emerge strongly - particularly for larger foreign companies but also for SMEs:

- **strategic (long-term) investment in China**
  (in prioritized growth areas being linked to urbanization, environment, services, etc.)
- **production in China**
  (gradually better skilled working force, efficiency/productivity gains,
- **marketing/sales in China**
  (increasing urban population and middle class, environment awareness, health and medicare, etc.)
- **purchasing in China**
  (technological progress, more value added of products, better transport channels, etc.)
- **research and development in China**
  (progress in education, relatively free market economy, institutions and entrepreneurship, etc.)
- **recruiting staff in China**
  (educational progress locally, regionally and all over the country, human capital formation)
- **business intelligence**
  (increasingly to analyze: markets, products, foreign and domestic competition, institutions, etc.)
- **finance**
  (structural changes of the banking system - particularly domestically, financial cross-border deregulation, trade finance, international role of the Chinese currency and capital markets, etc.)

All these corporate areas may be touched by future structural changes as a result of the policy decisions by the Third Plenum. European, Asian and global competition with Chinese companies
will increasingly move toward more “mid tech” and “high tech”, both on the Chinese and on
domestic European and other markets outside China. Non-Chinese companies will have to change
their business models, too. Not to forget: Chinese companies are encouraged by the Third Plenum
to go abroad for FDI on their own which also will mean changing conditions for competition.

This paper leads to further conclusions that may be important to the European/global corporate
sector (if things will go quite well in China without major distortion or crisis; the real negative
scenario – which no one really totally can rule out – is not discussed in this paper):

First, the reforms envisaged by the Third Plenum will not materialize overnight. Many
consequences will be visible only very gradually. Regional preferences and needs may vary.

Second, in the near future reform progress will rather be visible in the process of translating the
reform ideas into policies than by aggregated statistical data.

Third, a far-reaching evaluation of the total reform agenda is planned for the year 2020. Sure, not
all objectives that have been set by Third Plenum in November 2013 will be met. Many conflicts of
goals cannot be eliminated within in a few years. This paper, however, has demonstrated that the
current Chinese political leadership addresses most of the urgent economic reform areas.

Fourth, the current reform plans are all contingent on the supremacy of the Communist Party
(CCP). Still, many conclusions in the 60 subchapters of the communiqué from the Third Plenum are
well-founded in Western economic theory and research. As such, the political approach to the
reform agenda is both pragmatic and future-oriented. China’s way to a well-working nation and
economy won’t be easy. But the current political leaders have now a chance to put China on
structurally promising track. Taking this chance would mean lots of future commercial
opportunities not only for corporations in Europe but also for companies from other countries as
well as for companies in China.

Fifth – and last but not least - it should not be forgotten that China still is on its way to become the
largest economy in the world – even if this achievement may be delayed because of somewhat
dampened GDP-growth conditions. Roughly successful reforms in line with the Third Plenum could
give another one or two decades with GDP growth between 6 and 7 percent. Such a performance
should not be impossible – but not easy to achieve either. In the background, there is an obvious
need for more fiscal stability and a better quality of lending - issues that we could not address in
this paper.

Altogether, strategic corporate decision makers in Europe or elsewhere should from now on mainly
concentrate their analytical efforts on reform policy in China, i.e. its preparation and
implementation. GDP and PMI data are mainly for measuring the current temperature in the
Chinese economy – and cannot really serve as tools for future strategic activities in China.

Doris Fischer / Hubert Fromlet
Literature

Abel, A B / Bernanke, B S (1998), Macroeconomics, Addison Wesley, Reading Massachusetts, etc.


