

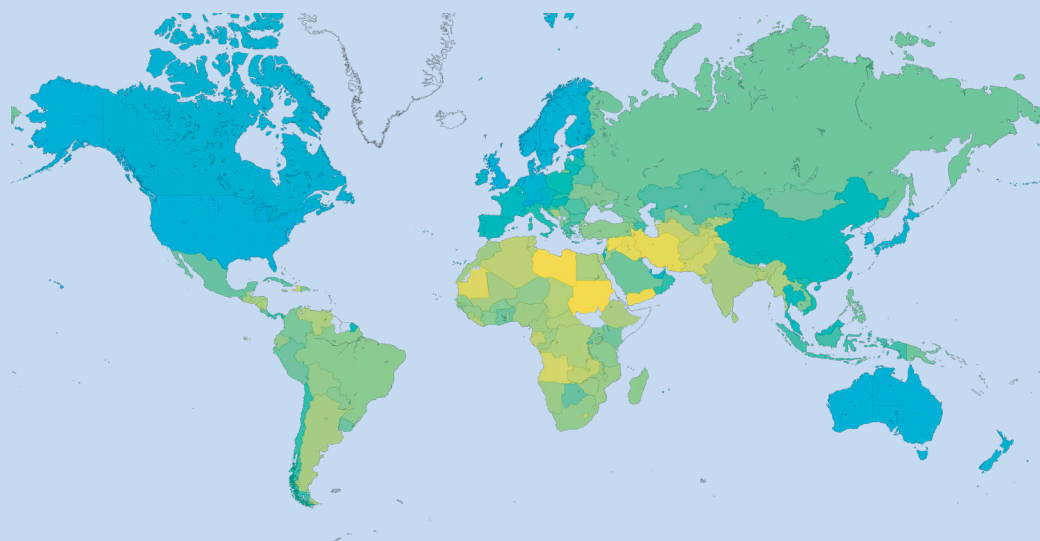
This PDF includes a contribution from the following book:

ELITE QUALITY REPORT 2021

China: Towards a value creation formula to break through the middle-income glass ceiling

Weilei Shi, Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiao-tong University, China

Tomas Casas, Director of China Competence Center (CCC-FIM), University of St.Gallen, Switzerland



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China: Towards a Value Creation formula to break through the middle-income glass ceiling

China is an emerging economy with a nominal GDP per capita of USD 10,262 and a purchasing power parity adjusted GDP per capita of USD 16,790. The latter figure means that the country is close to the USD 17,000 level, determined by Eichengreen et al. (2011) as the point where economic growth stalls for middle-income nations unable to converge with advanced economies. In fact, the question of the current decade is whether China will overcome this middle-income trap that has brought stagnation to countless countries in Asia, Latin America, and the Middle East. This review of Chinese Elite Quality bears this question in mind.

While the 'when' question requires econometric modelling, the 'how' question can be answered by reviewing the EQx2021 China scorecard. China's political economy is based on high levels of Power (rank # 34), and especially Political Power (rank # 66). Nonetheless, the levels of Economic Power distribution are among the best in the world with China ranking at # 19. This means that the Power of its business elites is limited in comparison to its Asian neighbor, Japan, whose Economic Power ranks at # 33. The EQx Power analysis shows that political elites use their power to check and balance economic elites. This explains the recent anti-monopoly moves and headlines in the Western press such as The Wall Street Journal article: "China Beefs Up Antimonopoly Body Amid Regulatory Push" (Yang, 2020). Business elites have become very powerful in China with Coalition Dominance ranked at # 120 and Firm Dominance at # 137. At the same time, the Chinese system compensates for this effect with Schumpeterian Creative Destruction; China is among the highest ranked countries in this Pillar at # 6. It also has some of the highest *Governmental support to entrepreneurship* (GSE, rank # 11), *Billionaire's creative destruction* (BIW, rank # 9), *Listed firms turnover, long run 15 years* (TUL, rank # 1) as well as *Listed firms turnover, short run 3 years* (TUS, rank #1). How does the system fare in terms of delivering Value?

In terms of Political Value the numbers prompt an interesting analysis. The government scores very highly in terms of Taking Income (Pillar rank # 7) meaning that there is very little Value Extraction from value producers. The technocratic mandarins also manage Giving Income (Pillar rank # 9) pointing to the conscientious and efficient use of resources,

which has been very visible during the COVID-19 pandemic, where China has the lowest *COVID-19 mortality, age-adjusted* (rank # 1). The Unearned Income Pillar is where China has the greatest potential room to advance (# rank 86) with Indicators highlighting challenges with the environment (EPI, rank # 100) and debt levels (DBT, rank # 79).

The picture painted on Economic Value (Index Area iv, rank # 26) is of extreme interest. While Chinese markets have undergone liberalization, the Producer Value Pillar (rank # 96) and component Indicators such as *Economic globalization* (rank # 76) and *Barriers to FDI* (rank # 71), point to the benefits of continued reform. Yet, in terms of innovation, the Indicators for *R&D as % of revenue of Top 10 firms* (RDR, rank #19) or the *Number of patent applications per 100,000 people* (PAT, rank # 20) point to innovation levels in Chinese firms well in advance of others in middle-income countries. In terms of the Capital Value Pillar, China scores amongst the best in the world (Pillar rank # 9) on account of its monetary policy. It also leads on *Neutral interest rate* and *Inflation* (DOI and DNI both rank # 1).

Putting all of the Elite Quality pieces together requires answering one more question: On the basis of its Elite Quality (EQx Score) what should the GDP per capita of China at purchasing power parity (PPP) be? China's GDP per capita PPP for 2019, was USD 16,804.43. When using a linear regression with EQx as the sole explanatory variable (see Visual 4.6 in Section 4.4), the predicted GDP amounts to an astonishing USD 40,198 (the implied residual amounts to USD 23,393). If one assumes that Elite Quality is a predictor of future economic growth, the Value Creation business models of China's elites will power the country's growth in this decade and the next above and beyond middle-income levels.

Prof. Weilei Shi, Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiaotong University, China
Prof. Tomas Casas, Director of China Competence Center (CCC-FIM), University of St.Gallen, Switzerland

China

EQx2021 Country Scorecard

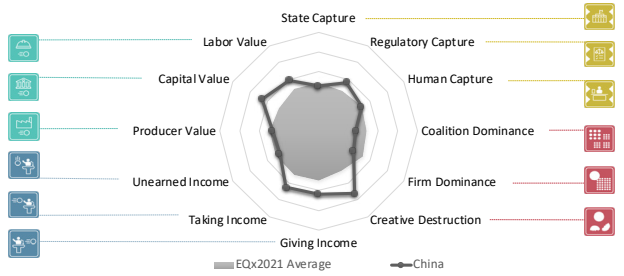
Population **1398 million**
 GDP (nominal) **14343 billion USD**
 GDP per capita **10'262 USD**



Level 1 - Index	EQx Rank / 151 26	EQx Score 57.6	Quality Elites
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Level 2 - Sub-Indices & Index Areas	EQx Sub-Indices				EQx Index Areas							
	Power		Value		Political Power (i)		Economic Power (ii)		Political Value (iii)		Economic Value (iv)	
	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score
	34	55.8	23	58.5	66	51.1	19	58.1	24	59.4	26	58.0

Level 3 - Pillars		Rank / 151	Score
Political Power (i)	State Capture	87	45.9
	Regulatory Capture	51	56.8
	Human Capture	77	50.4
Economic Power (ii)	Coalition Dominance	120	37.7
	Firm Dominance	137	40.4
	Creative Destruction	6	73.0
Political Value (iii)	Giving Income	8	63.6
	Taking Income	7	65.7
	Unearned Income	86	45.5
Economic Value (iv)	Producer Value	96	46.9
	Capital Value	9	66.0
	Labor Value	49	59.3



Level 4 - EQx Indicators		Rank / 151	Score
State Capture (i.1)	COR Political corruption	65	54.0
	MOB Social mobility	77	36.2
	PDE Political decentralization	120	14.7
	ADE Administrative decentralization	14	80.6
	PGL Political globalization	25	78.1
	WPI Women's Power Index	124	27.1
	RTC Government's responsiveness to change	44	59.4
	EPR E-Participation Index	9	84.0
	PFD Press freedom	146	0.0
	COC Control of corruption	72	45.9
Regulatory Capture (i.2)	DBI Institutional quality	27	74.4
	CRO Crony capitalism	28	57.6
	PMI Protecting minority investors	26	72.4
	ECR Ease of challenging regulations	31	69.4
	EDB Digital institutional quality	39	13.3
	PRI Property rights	55	56.1
	GSI Global Slavery Index	50	62.6
	WBL Women, business and the law	83	50.0
	LIN LGBT+ Inclusiveness	69	45.8
	GRI Religion - Government Restriction Index	148	0.0
Human Capture (i.3)	SHI Religion - Social Hostilities Index	45	65.8
	WSB Women self made billionaires	3	90.4
	HRI Human Rights Index	142	13.3
	FDP Forcibly displaced population as % of population	58	56.1
	AFI Academic Freedom Index	137	3.6
	IEE Top 3 industries exports as % of GDP		
	ECI Economic Complexity Index	35	66.1
	IVA Top 3 industries as % of VA		
	CON Construction as % of GDP (dev. fm optimum)	45	21.4
	MIL Military expenses as % of GDP (dev. fm optimum)	101	43.0
Coalition Dominance (ii.4)	UNI Unionization rate (dev. fm optimum)	60	11.4
	CBC Collective bargaining coverage		
	BSN Barriers in service & network sectors		
	PRO Top 10 firms profitability	94	0.0
	SME SMEs per 1,000 people		
	BIW Billionaires' wealth as % of GDP	127	34.1
	FKG Top 10 firms market cap as % of GDP	42	50.5
	FRG Top 3 firms revenues as % of GDP	27	57.5
	FRR Top 30 firms revenues as % of GDP	25	61.5
	TUL Listed firms turnover, long run 15 years	1	93.8
Firm Dominance (ii.5)	TUS Listed firms turnover, short run 3 years	1	91.3
	ENT Entrepreneurship	38	59.7
	VCK Venture capital finance	14	69.9
	RND R&D as a % of GDP	12	77.2
	ENR Firm entry ratio		
	EXR Firm exit ratio		
	BCD Billionaire's creative destruction	9	69.0
	IWE Index of Women Entrepreneurs	19	63.3
	VCA Venture capital availability	10	96.1
	GSE Governmental support to entrepreneurship	11	82.8

		Rank / 151	Score
Giving Income (iii.7)	SNT Subsidies and transfers as % of expenses		
	REG Regional redistribution as % of government budget	74	56.3
	EDU School life expectancy		
	GPS Expenditure on general public services as % of GDP (dev. f	27	57.0
	INT Internet access	85	48.0
	NRI Network Readiness Index	36	64.3
	LEW Life expectancy women	46	63.7
	LEM Life expectancy men	37	65.5
	FSQ Global Food Security Index - availability, quality and safet	33	66.1
	COV COVID-19 excess deaths, age-adjusted		
Taking Income (iii.8)	COF COVID-19 fatality rate, age-adjusted	100	50.3
	CGD COVID-19 growth differential	12	54.2
	COM COVID-19 mortality rate, age-adjusted	1	100.0
	CLS COVID-19 lost schooldays	61	56.4
	OSI Online Service Index	11	80.8
	DCT Corporate tax rate (dev. fm optimum)	5	76.9
	HOM Homicide rate	8	81.1
	INE Top 10% share of pre-tax national income	57	58.5
	FDE Fiscal decentralization	5	77.7
	DTR Tax revenue as % of GDP (dev. fm optimum)	24	72.6
Unearned Income (iii.9)	BRD Battle-related deaths per 100,000 people	1	53.8
	GCI Global Cybersecurity Index	28	78.0
	SUI Suicide rate per 100,000 people	91	49.7
	SUB Death rates from substance use disorders per 100,000 pe	44	62.9
	OCR Organized crime	74	49.1
	DUT Dutch disease propensity	61	53.1
	EPI Environmental Performance Index	100	34.6
	DBT Government debt as % of GDP	79	53.5
	TRF Trade freedom	96	43.6
	FDI FDI net inflows as % of GDP	119	40.1
Producer Value (iv.10)	BTF Barriers to FDI	71	21.5
	EGL Economic globalization	76	49.2
	HEI Health Efficiency Index	10	75.1
	OFB Open for business	17	58.6
	ESG ESG company scores	45	21.3
	RDR R&D as % of revenue Top 10 firms	19	52.7
	FSA Global Food Security Index - affordability	50	60.6
	PAT Number of patent applications per 100,000 people	20	50.3
	IPM Share of imports targeted by protectionist measures	121	48.0
	DGI Share of discriminatory government interventions as % of	59	49.0
Capital Value (iv.11)	DNI Neutral interest rate (dev. fm optimum)	1	87.0
	DOI Inflation (dev. fm optimum)	1	62.7
	GOL Gold demand as % of GDP	16	56.5
	DMA M&A as % of investment - 3 yrs. rolling average (dev. fm. c	45	49.8
	DKI Delta capital gains tax vs income tax	70	26.0
	UNC Unicorns per 1 million people	12	73.5
	BSG Billionaires self-made number per 1 million people	24	47.1
	BSM Billionaires self-made as % of total billionaires	16	79.9
	FMI Financial Markets Index	18	86.5
	UEM Unemployment rate	55	51.6
Labor Value (iv.12)	LFP Labor force participation rate	37	64.6
	WLP Delta real wage vs labor productivity increases		
	LDR Labor dependency ratio	13	74.4
	YUN Youth unemployment rate	66	60.8
	GWG Gender wage gap	67	49.8
	BRN Net brain drain		
	LFR Labor force participation ratio - male vs female	68	60.0

The Elite Quality Report 2021 (EQx2021) provides Country Scores and Global Rankings for 151 countries
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