Discussion:
"Taming Cycles: China's Growth Targets and Marco Regulation"

Chang, Wang and Xiong 2025

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China sets GDP growth target at around 5% for 2023, reflecting confidence in economic recovery

By GT staff reporters
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China's stable, dynamic economic growth injects certainty into world filled with uncertainty: economist Justin Yifu Lin

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Growth targets for provinces in 2023, e.g.:
- Hainan: around 9.5%
- Jiangxi: around 7%
- Hunan: around 6.5%
- Hubei: at least 6%

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How do growth targets guide and shape the Chinese economy?

- Results:
  - Intriguing asymmetry: growth targets are raised rapidly during economic booms, but lowered only sluggishly during economic slowdowns.
  - Local governments' targets are anchored on and inflate national target.
  - While this helps smooth the growth, local governments' countercyclical policies (in particular, excessive land sales and local debt) generate macro risks and distortions.

- Highlight two central themes of political economy in China:
  1. Decentralized growth engine where local governments are critical players;
  2. Stability is paramount to the central government (via target setting).

Comments

1. What do we know about government's target setting incentives?
2. Can such smoothing strategy be sustained?
3. What does this imply about reliability on China's growth data?
4. Putting this in global/comparative perspective.

1. What do we know about government's target setting incentives?

- Higher target is better, ceteris paribus *[will return to this]*;
- Local government needs to set target above national government's target:
  - Rare cases when local government sets lower target (e.g., Jilin during 2008 set 8%, while national target was 9%)
  - National target considered as "bottom line."

- Missing target may be costly:
  - Otherwise, political competition would result in race to the top with very exaggerated local targets;
  - However, a substantial share of locality *do* miss the target in recent years. What's the political and economic cost?
  - From the perspective of national government, missing target may be also very costly.

  - Does the cost outweigh the benefits of setting lower targets?

1. What do we know about government's target setting incentives? *(cont.)*

- What are the incentives of setting higher targets?
  - Motives unrelated to regional competition:
    - Incentivize efforts among local agents;
    - Buffer room for shirking or negative shocks;
    - Signal optimism to encourage investments, consumption, and policy directions.

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    - Regional competition to attract investment;
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- Different implications on aggregate growth and local policies, depending on what are the primary motives.
  - Taking on more debt vs. local protectionism.
- Counterfactual of lowering or removing targets: what may be lost?

2. Can such smoothing strategy be sustained?

- How long can high growth targets sustain economic growth, and ultimately grow out of the economic downturn?

- What are the general equilibrium effects? Keynesian stabilizer, or inflation?
  - Depending on what are the fundamental causes of economic downturn.
  - As of March 2025, China is grappling with deflation rather than inflation.

3. What does this imply about reliability on China's growth data?

- Overstated GDP growth data vs. different mode of growth esp. during economic downturns?
  - Recent efforts (e.g., Martínez JPE 2022) using nightlight luminosity implicitly assume the same "mode" of growth across the distribution of GDP growth speed.

- On the other hand, explicit growth targets can generate misreporting, e.g., Gong et al. (JPubE 2025) shows bunching at targets and plausible over-reporting.

- On net, how much of the misreported growth is true (but different kind of) growth?
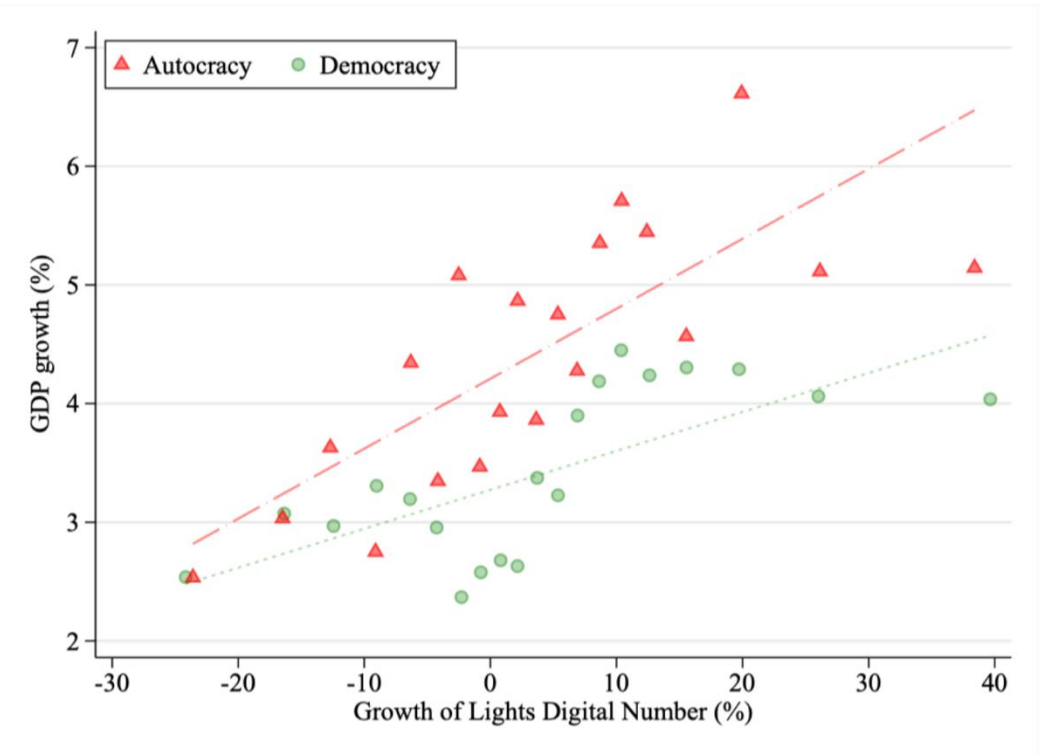
4. Explicit (national) growth targets prevalent around the world

Around 60-70 countries have incorporated such targets into their policy frameworks. E.g.,

- India: annual growth rates as high as 9% until early 2030s;
- Kenya: average GDP growth rate of around 10% per year until 2030;
- Brazil: average 3-4% annual growth targets, often explicitly aimed at stabilizing economy during downtown.

- Many such targets appear less flexibility than China's (set over horizon of decade rather than year).
- Not clear how many are explicitly linked to politicians' incentives, and how many trickle down throughout the political hierarchy.
- Often target total GDP; though alternative targets do exist, e.g.,
  - UK: fastest growth in G7; recent years shifted toward targeting disposable income growth.