Contributions to Management Science

Robert C. Rickards
Rolf Ritsert
Kanitsorn Terdpaopong *Editors*

Management Accounting in China and Southeast Asia

Empirical Studies on Current Practices

Springer

Contributions to Management Science

The series *Contributions to Management Science* contains research publications in all fields of business and management science. These publications are primarily monographs and multiple author works containing new research results, and also feature selected conference-based publications are also considered. The focus of the series lies in presenting the development of latest theoretical and empirical research across different viewpoints.

This book series is indexed in Scopus.

More information about this series at http://www.springer.com/series/1505

Robert C. Rickards • Rolf Ritsert •
Kanitsorn Terdpaopong
Editors

Management Accounting in China and Southeast Asia

Empirical Studies on Current Practices

Springer

Editors
Robert C. Rickards
German Police University
Münster, Germany

Rolf Ritsert
German Police University
Münster, Germany

Kanitsorn Terdpaopong
Rangsit University
Pathumthani, Thailand

ISSN 1431-1941 ISSN 2197-716X (electronic)
Contributions to Management Science
ISBN 978-3-030-66244-8 ISBN 978-3-030-66245-5 (eBook)
https://doi.org/10.1007/978-3-030-66245-5

This Springer imprint is published by the registered company Springer Nature Switzerland AG.
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Foreword

I am excited to see the publication of the book entitled *Management Accounting in China and Southeast Asia—Empirical Studies of Current Practices* from Springer Nature Switzerland AG. The chapters in this book represent the culmination of APMAA's first *collaborative research project*. It was at the 2016 Asia-Pacific Management Accounting Association (APMAA) Conference in Taipei that colleagues initiated a joint research project on "The Stages of Management Accounting Evolution in Asia-Pacific Area." Dr. Kanitsorn Terdpaopong from Rangsit University, Thailand; Dr. Normah Omar from Universiti Teknologi MARA, Malaysia; and Dr. Kanibhatti Nitirojntanad from Chulalongkorn University, Thailand, were initiators of APMAA's first *collaborative research project*.

Their efforts led to a Research Agreement on "The State of Management Accounting Evolution in the Asia-Pacific Region" that was signed by six parties at the APMAA 2018 in Tokyo, Japan. The participants are teams from Malaysia, Indonesia, Taiwan, Thailand, Vietnam, and Germany. The German team investigated management accounting practices in China, and each of the other teams investigated the management accounting practices of their respective countries.

I really respect all the authors who have collaborated closely for their splendid work. On behalf of APMAA, I acknowledge the contributions of Dr. Robert C. Rickards, Dr. Rolf Ritsert (both from the German Police University), and Dr. Kanitsorn Terdpaopong, who also served as the editors of this volume, as well as all the project team members. Also, I would like to recognize Dr. Terdpaopong's effective leadership, passion, and dedication to this research undertaking. I am proud to be associated with her in APMAA.

Please allow me to introduce briefly the Asia-Pacific Management Accounting Association (APMAA), a community of accountants in academia and practice. The formation of the Asian Management Accounting Association was proposed at a meeting of the Asian Management Forum, which was APMAA's first forum, held in November 2002, Fukuoka, Japan. Members gathered from universities across the Asia-Pacific region all shared the same vision: advancing management accounting research and practices regarding the Asia-Pacific region. They discussed how to set up a voluntary academic organization for disseminating management accounting research and meeting Asian countries' changing needs in this area.

The discussion led to the establishment of the Asia-Pacific Management Accounting Association (APMAA) at the 2004 conference held in Shah Alam, Malaysia. Since that time, conference participants have continued to share the objectives of disseminating and advancing management accounting research and practice in the region. APMAA annual conference organizers have focused on providing regional researchers an easy-to-access platform for publicizing their study results. By being a forum for the presentation and discussion of research papers, APMAA serves as an intellectual seedbed that, over time, has expanded participants' viewpoints and afforded them new insights. Furthermore, conference participants have opportunities to develop and expand their collegial networks.

This book, authored by APMAA members, is a collection of manuscripts that report the results of studies on the evolution and change in management accounting practices in the above-described six Asian countries. Each study explored factors influencing adoption and implementation of management accounting practices in a sample country. The stage of management accounting practices of every sample country is discussed with reference to the IFAC (International Federation of Accountants) evolution model (1998). The IFAC's model describes management accounting evolution as occurring in four different stages: Stage 1—Cost determination and financial control (pre-1950); Stage 2—Information for management planning and control (by 1965); Stage 3—Reduction of resource waste in business processes (by 1985); and Stage 4—Creation of value through effective resource use (by 1995).

Note that each stage encompasses the concepts of the previous stage and incorporates additional ones that arose out of a new set of conditions. What are the empirical results? Here, I describe the Thai sample result. Thai manufacturing firms utilize traditional MAPs (Stages 1and 2). The stage with the least usage is Stage 3.

The researchers' cluster analysis shows that most of the samples fall into Stage 2 of the IFAC evolution model.

Should we care about this book? I say, *yes!* Today's world is changing rapidly as evidenced by technological disruptions and such developments as artificial intelligence (AI), big data, cryptocurrencies, and so forth. Management necessarily must keep up with and adapt to these changes. Management accounting practices also progress over time; however, the practices differ from firm to firm, and from country to country, depending on various factors. A cross-national study provides managers a big picture about their relative situation and helps to compare it with the circumstances of different firms in other countries. The Asia-Pacific region—which accounts for two-thirds of the global economy—is the fastest growing and remains the world's most dynamic area by a considerable margin. With the IFAC evolution diagram, researchers can illustrate where management accounting practices (MAPs) of a country in this important region stand.

I am deeply honored to be asked to write this foreword; however, I confess that I have struggled to prepare sentences that do justice to this work. Indeed, the authors' passion for this project, combined with their relentless drive to produce rigorous outputs and to address so many important issues, is hard to describe. I believe you will realize the importance of their analyses and assertions as you work through the chapters. The best way is just to encourage you to learn for yourself. I do hope you will enjoy reading this book.

Asia-Pacific Management Accounting Association, Konan University, Kobe, Japan
March 2020

Susumu Ueno

Acknowledgments

The first APMAA joint research project has been completed successfully. Whenever such a comprehensive, international, multiyear investigative effort leads to the publication of the results, debts of gratitude accumulate.

To begin with, we thank the President of the Asia-Pacific Management Accounting Association, Prof. Dr. Susumu Ueno. Without his support for management accounting in the Asia-Pacific Region, this first APMAA joint research project likely would not have taken place. Prof. Dr. Ueno lent valuable support to all phases of the project from its conception in 2016, through signing of the project charter at the 2018 APMAA Conference in Tokyo, to the preparation of the manuscript in 2020. His dedication and expertise inspired every project participant. We also appreciate and would like to thank the APMAA Executive Board of Directors, which continuously supported the joint research project.

Editors have a pleasant task when their interactions with contributors are characterized by high-quality work and punctuality. Accordingly, we especially thank the authors, who independently planned, implemented, and reported the studies undertaken in their respective subject countries. In addition to the excellent comments and reviews made at the 2019 APMAA Conference in Qatar, selected authors gave useful feedback in cross-reviewing the individual country chapters. These contributions underscore the fact that this book is the product of a genuine team effort. Moreover, all the chapters underwent a three-stage review process in order to ensure their quality. We are happy to say that the authors' participation in this elaborate process was marked by their diligence and quality consciousness.

We also thank Dr. Prashanth Mahagoonkar of Springer Nature Switzerland AG. He demonstrated great interest in the project, facilitated the book's inclusion in the publisher's "Contributions to Management Science" series, and made numerous helpful suggestions.

Mr. Michael Evers, research assistant in the Department of Public Business Administration and Public Management at the German Police University, supervised the various processes associated with technical editing and updating the manuscript. He accepted responsibility for these complex tasks, executing them with great care and reliability. We thank him warmly for his work. We also thank Mr. Martin

Lederer for his linguistic review and proofreading, which further enhanced the quality of the manuscript.

Finally, we thank the German Police University for its generous financial support in preparing the manuscript for publication.

The publication of this volume officially ends the first APMAA joint research project. Through collegial collaboration with the investigators from the countries involved, we have deepened our knowledge of management accounting in the Asia-Pacific Region. We hope that this book also will prove insightful for other interested readers.

Although this project now has been completed, we hope that APMAA will continue such joint research projects in the future. After all, each ending can be the start of something new too.

Contents

About the Editors

Robert C. Rickards, PhD, is a Professor of Accounting and Finance as well as Research Professor and Director of the PhD Workshop Program at the German Police University in Münster, Germany. In addition, he teaches regularly at Universitá Roma Tre, Uniwersytet Lodzki, and Polytechnika Krakowska. He has directed numerous research projects for companies, foundations, and government agencies. He has authored a trilogy of textbooks on budget planning, cost controlling, and performance evaluation. He also serves on the Board of Directors of the Asian-Pacific Management Accounting Association and the editorial boards of several international journals.

Rolf Ritsert Prof. is Professor and Head of the Department of Business Administration—Public Management at the German Police University in Münster, Germany. He has directed research projects for the European Union, various companies, and for the German federal and state governments. He has acted as an advisor to various National Security Authorities, the Federal Ministry of the Interior in particular. His research work has received awards from the German Institute for Urbanistic (Difu), the German Association for Quality (DGQ), the Deutsche Bank AG, and the Helmut Schmidt University, Hamburg. In addition, he has edited two book series.

Kanitsorn Terdpaopong, PhD, serves as Program Director at Rangsit University, Thailand. Her research interests are in small and medium-sized enterprises; succession plans for SMEs; business valuation; and management accounting practices. She received grants from Thai public research organizations such as Thai Research Fund and the Office of Higher Education Commission and international grants such as Australian-ASEAN Council, Department of Foreign Affairs and Trade in 2017–2018; a grant from the Australian Government, Department of Education and Training as a 2018 Endeavour Executive Fellowship; and a grant from Ministry of Foreign Affairs of the Republic of China on Taiwan Fellowship Program 2018.

Introduction

Robert C. Rickards, Rolf Ritsert, and Kanitsorn Terdpaopong

Abstract This chapter describes the origins of *Management Accounting in China and Southeast Asia* as a collaborative project undertaken by members of the Asia-Pacific Management Accounting Association. It places the project in the context of the region's socioeconomic development, gives a brief overview of the subsequent country-specific studies, and highlights some of the studies' main findings.

The Asia-Pacific Management Accounting Association (APMAA) is a community of academic experts and professional practitioners. It is a forum that supports high-quality research, teaching, continuing education, and policy development with regard to management accounting in the Asia-Pacific region. To do so, APMAA brings together colleagues from all over the world. Accordingly, it creates ideal preconditions for collaborative endeavors.

This volume is the product of one such joint effort. It offers deep insights into the current practice of management accounting in selected countries of East and Southeast Asia that the research team would like to disseminate among persons sharing its interests. Rather than final conclusions, though, the book represents just the beginning of comparative research in this area. Hopefully, it will stimulate discussion among other investigators and motivate them to undertake additional studies in the Asia-Pacific region.

Robert C. Rickards, Rolf Ritsert, and Kanitsorn Terdpaopong are also the volume editors for this book.

R. C. Rickards (✉) · R. Ritsert
Department of Public Business Administration and Public Management, German Police University, Münster, Germany
e-mail: robert.rickards@dhpol.de

K. Terdpaopong
Faculty of Accountancy, Rangsit University, Pathumthani, Thailand

R. C. Rickards et al. (eds.), *Management Accounting in China and Southeast Asia*, Contributions to Management Science,
https://doi.org/10.1007/978-3-030-66245-5_1

Introduction

Most scholars know that China is the country with the world's largest population (approximately 1.4 billion persons) and second-largest economy. However, fewer of them are aware that the Association of Southeast Asian Nations (ASEAN) has a total population of nearly 650 million people or that, taken together, its 11 member countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Timor-Leste) comprise the world's fifth-largest economy. In 2018, their total combined GDP was valued at US$ 3.0 trillion. Only the USA (US $ 20.5 trillion), China (US$ 13.4 trillion), Japan (US$ 5.0 trillion), and Germany (US $ 4.0 trillion) had a larger GDP than the region. Intra-ASEAN trade continuously accounts for the largest share of the region's total imports and exports (in 2018, 24.1% of total merchandise exports and 21.8% of merchandise imports). Nevertheless, external trade markets are important too, with China (17.2%), the EU-27 (10.2%), and the USA (9.3%) being ASEAN's top three trading partners. Also located in the region of East and Southeast Asia is Taiwan. Although its 2019 population was just 23.8 million, its GDP of US$ 538 billion placed Taiwan's per capita income second in this area (after Singapore) and twenty-second in the world.

Summed across a country's enterprises, management's business decisions have a major impact on the structure, effectiveness, and efficiency of the national economy. Management accounting plays an important role in supporting both a company's short-run operational and long-run investment decisions. Accordingly, as the economic importance of China, the ASEAN countries, and Taiwan has grown, so too has the attention paid both to their diverse societies, which display fascinating cultural variation, and to their management accounting. Their populations encompass dozens (and in some cases, hundreds) of different ethnic groups, many with distinctive languages as well as their own characteristic creativity and technological prowess. Because they also are regarded as cultural artifacts (Ferguson et al. 2006), one also might expect management accounting systems in this part of the world to exhibit corresponding similarities and differences.

The following chapters of this book compare and contrast current management accounting practices (MAPs) in China, four key ANSEAN countries (Indonesia, Malaysia, Thailand, and Vietnam), and Taiwan. The analyses rely on a model published by the International Federation of Accountants (IFAC 1998). As explained in greater detail in several of the individual country chapters, the model identifies four successive stages of increasingly sophisticated MAPs development. It suggests that, as economies develop, management accounting systems evolve and adopt more advanced techniques and tools. Given that developing economies characterize most of East and Southeast Asia, it is unsurprising that the more traditional instruments of the IFAC model's early phases seem to enjoy the most widespread employment. Nevertheless, the country chapters show that more modern practices are present too and, in some cases, are finding growing acceptance.

The chapter on China reports results from a study that used an online survey and personal interviews to explore several aspects of Chinese enterprises' adoption of management accounting tools. There is great variation among the companies covered with regard to branch of industry, number of employees, annual sales revenue, and ownership form. Among its conclusions is the finding that, in keeping with the IFAC model, more traditional tools are in more widespread use than newer ones are. Furthermore, managers in joint ventures with foreign partners, state-owned enterprises, and privately-owned enterprises differ in their frequency of use of, satisfaction with, and importance assigned to selected management accounting tools. In the future, it may be helpful for Chinese policymakers, practitioners, and scholars to keep these insights in mind when developing and applying measures similar to the Basic Standard for Enterprise Internal Control and the "4 + 1" management accounting model.

The chapter on Indonesia presents empirical evidence about traditional and strategic management accounting practices in companies in Indonesia. The data collection method used a questionnaire and content analysis of job vacancies published on the websites of Indonesian firms. The data analysis employs descriptive statistics based on the average intensity of the practices' usage. The results show that strategic management accounting techniques for budgeting, costing, and performance evaluation still are utilized intensively. Meanwhile, for the implementation of a strategic management accounting system, the five most frequently used tools are Activity-Based Management, Analysis of Competition, Industry Analysis, and Long-Range Forecasting, and Value Chain Analysis. This study concludes that traditional management accounting system practices remain the ones most intensively used, but that intensive usage of a strategic management accounting system has begun to take hold.

The chapter on Malaysia examines the adoption of management accounting practices among the export-oriented manufacturing small- and medium-size enterprises (SMEs) in selected Malaysian industrial hubs. The study's objectives were to evaluate the level of perceived business uncertainty faced by these SMEs and to explore their level of adoption of management accounting practices. From a total 410 questionnaires distributed to the companies, seventy-eight (or 19%) returned the completed surveys, which then were analyzed. The results of the study show that, overall, the exporting firms mainly market their products within the ASEAN region, and therefore most respondents perceived their business environment as being "stable and predictable." With regard to MAPs, they place greater reliance on traditional rather than more recently developed practices.

The chapter on Taiwan investigates how management accounting in the hotel industry has evolved there. Taipei City, the capital of Taiwan, is where many medium- and large-size hotels are located. A survey questionnaire was used to collect management accounting information from them. The data gathered then underwent cluster and discriminant analyses. The study shows that the majority of sample hotels utilize cost determination and financial control practices, which mainly are in the IFAC model's stage 1, relying more on traditional management accounting practices. Nevertheless, there also is significant movement toward provision of information for more sophisticated management planning and control practices. A possible explanation for these findings is that most of the sample hotels are family-owned, which hinders nonfamily operational managers in emphasizing planning and control as well as in reducing the waste of business resources.

The chapter on Thailand analyzes management accounting practices in large Thai manufacturing companies. In this study, questionnaires first were sent to 1500 companies. Next, cluster analysis was used to assign the data gathered into four hierarchical agglomerative groups. Then, discriminant analysis was employed to ensure the accuracy of the clustering. The results show that large Thai firms rely more on the use of traditional MAPs. This finding is in keeping with previous research. Nevertheless, Thai firms also increasingly have adopted and implemented several modern management accounting techniques. Taken together, these findings are important for the companies themselves as well as for professional organizations and scholars. Because Thailand is an emerging-market country, advanced accounting tools definitely will influence its companies' management and decision-making, thus supporting their growth and profitability.

The chapter on Vietnam explores the extent to which various management accounting practices have been implemented in Vietnamese enterprises. The study used a questionnaire to survey 700 enterprises. The results indicate that the majority of the Vietnamese enterprises are in the first two stages of the IFAC model. Fewer enterprises have reached the higher stages 3 and 4. In addition, the respondents perceive the most important roles of management accounting to be evaluation of enterprise performance, planning and controlling, and support for production or investment decision-making. Yet, not many of them seem to appreciate the role modern management accounting can play in enhancing the efficiency of resource usage and reducing the cost of waste. This research thus provides empirical evidence on the current state of MAPs in Vietnamese enterprises relative to an internationally accepted model. In addition, it also identifies areas with great potential for evolutionary development in the future.

In summary, the enterprises of the studied countries in the Asia-Pacific region generally recognize the importance of MAPs. Nevertheless, their current practices mostly involve the more traditional instruments associated with the lower stages 1 and 2 of the IFAC development model. The more modern tools covered by the model's higher third and fourth stages are less widely employed. Because different instruments emerged with each stage of management accounting's evolution in Western countries, it seems plausible that the more traditional instruments might be more ubiquitous in the enterprises of developing economies because they have had more time to gain acceptance there than newer ones have (Rufino 2014; Ahmad and Zabri 2016; Mohamad and Wahab 2017; Sadeghi 2018). Be that as it may, the less widespread acceptance of the more modern instruments suggests that companies in the Asia-Pacific region still have considerable room to improve their performance by adopting and utilizing these tools.

On the other hand, the IFAC model itself is badly in need of an update. It needs to incorporate the demands and effects on management accounting that more recent developments have had and are continuing to have. Among those developments are advances in artificial intelligence, new concepts such as Industry 4.0, environmental and sustainability accounting, further regionalization, and possible reglobalization as well as strategic options to create value from the uncertainty surrounding ever-widening swings in international economic cycles due to financial crises and serial pandemics. In this regard, there clearly is a wealth of topics for APMAA members to add to their research agendas.

References

Ahmad K, Zabri SM (2016) Management accounting practices among small and medium enterprises. In: Proceedings of the 28th international business information management association conference. IBIMA, Seville, Spain, pp 3627–3637

Ferguson J, Collison D, Power D, Stevenson L (2006) Accounting textbooks: exploring the production of a cultural and political artifact. Acc Educ 15(3):243–260

International Federation of Accountants (IFAC) (1998) International management accounting practice statement: management accounting concepts. IFAC, New York

Mohamad Z, Wahab KA (2017) The relationship between management accounting practices and performance of the small and medium enterprises in Libya: a proposed conceptual framework. Eur J Bus Manag 9(26):108–115

Rufino HD (2014) Management accounting practices (MAPs) of small and medium-sized manufacturing enterprises in the city of Tarlac. Rev Integr Bus Econ Res 4(1):55–74

Sadeghi M (2018) Management accounting practices in small and medium-sized enterprises regarding the impact of organizational DNA, commercial potential and operational technology. Int J Bus Quant Econ Appl Manag Res 4(8):22–31

Chinese Enterprises' Use of Management Accounting Tools

Robert C. Rickards and Rolf Ritsert

Abstract Purpose: To explore Chinese enterprises' adoption of management accounting tools, the frequency of their use, managers' satisfaction with them, and the tools' perceived importance.

Design/methodology/approach: Online survey, personal interviews, correlation, and t-test analyses.

Findings: The management accounting instruments utilized by Chinese enterprises vary widely. Nevertheless, in keeping with the evolutionary theory of management accounting instrument development, more traditional tools enjoy more widespread use than newer ones do. The frequency of a tool's employment, managers' satisfaction with it, and their perception of its importance are highly correlated. Yet, a sample subgroup consisting only of tool-users does not differ significantly from all respondents regarding the instruments' importance.

Research limitations: There being no readily accessible source to ensure random selection of the units of analysis, the study relies on a convenience sample, management accounting tools employed in earlier research, and financial executives' interview responses. Examination of a random sample, different management accounting instruments, and respondents in other managerial functions conceivably could yield divergent results.

1 Introduction to the Chinese Economy

Over the last four decades, the Chinese economy has experienced astonishing growth, becoming the world's second-largest economy. Following the introduction of its economic reform program in 1978, China became the world's manufacturing hub, where the secondary sector (comprising industry and construction) represented

R. C. Rickards (✉) · R. Ritsert
Department of Public Business Administration and Public Management, German Police University Münster, Münster, Germany
e-mail: robert.rickards@dhpol.de

R. C. Rickards et al. (eds.), *Management Accounting in China and Southeast Asia*, Contributions to Management Science,
https://doi.org/10.1007/978-3-030-66245-5_2

the largest share of GDP. However, in recent years, China's modernization has propelled the tertiary sector. In 2013, it became the largest category of GDP with a share of 46.1%, while the secondary sector still accounted for a sizeable 45.0% of the country's total output. Meanwhile, the weight of the primary sector (agriculture and mining) in GDP has shrunken dramatically (N/A 2019).

China weathered the global economic crisis better than most other countries. In November 2008, its State Council unveiled a CNY 4.0 trillion (USD 585 billion) stimulus package in an attempt to shield the country from the worst effects of the financial crisis. The massive stimulus program fueled economic growth mostly through massive investment projects, which triggered concerns that the country could have been building up asset bubbles, overinvestment, and excess capacity in some industries. However, given the solid fiscal position of the government, the stimulus measures did not derail China's public finances. Still, the global downturn and the subsequent slowdown in demand did have a severe impact on the external sector and the current account surplus diminished accordingly.

China nevertheless exited the financial crisis in good shape, with its GDP growing above 9%, low inflation, and a sound fiscal position. However, policies implemented during the crisis to foster economic growth exacerbated the country's macroeconomic imbalances. Specifically, the stimulus program bolstered investment, but household consumption remained relatively low. In order to tackle these imbalances, beginning in 2012, the new administration of President Xi Jinping and Premier Li Keqiang introduced economic measures aimed at promoting a more balanced economic model at the expense of once-sacred rapid economic growth.

China became the world's largest exporter in 2010 and the largest trading nation in 2013. In 2014, its economy surpassed that of the USA for the first time in modern history. In 2016, China continued to stand as the world's largest economy, measured on a purchasing power parity (PPP) basis that adjusts for price differences. Still, China's per capita income is below the world average (CIA 2019).

1.1 Brief Economic History

After Mao Zedong's death in 1976, Deng Xiaoping—who headed the second generation of Chinese leadership—became China's paramount leader and pushed ahead bold reforms that reshaped the country's economy. At the Third Plenum of the 11th Central Committee of the Communist Party of China, held in December 1978, Deng announced the official launch of the Four Modernizations in the fields of agriculture, defense, industry, and science and technology. That marked the beginning of the economic reform and Open-Door policies. Economic reforms under Deng's aegis increased the role of market mechanisms and reduced government control over the economy, while the Open-Door policy allowed foreign businesses to set up in China. The measures included, among others, breaking up collective farms, opening China to foreign investment, encouraging business entrepreneurship, establishing Special Economic Zones, and introducing state-owned companies to market incentives. In addition, China began participating in the global economy, and the country joined both the International Monetary Fund (IMF) and the World Bank in 1980.

In the early 1990s, Jiang Zemin, who represented the third generation of Chinese leadership, became the country's new top leader. His administration implemented substantial economic reforms. For example, it either privatized or liquidated most state-owned companies (except large monopolies). Doing so expanded the private sector's role in the economy, but at the cost of leaving millions of workers unemployed. Exponential growth of small, private businesses eventually absorbed them. During the same period, President Jiang and Premier Zhu Rongji reduced trade barriers; ended state planning; introduced competition, deregulation, and new taxes; reformed and bailed out the banking system; and drove the military stratum out of the economy. In addition, Jiang guided China to join the World Trade Organization in December 2001, buttressing the country's foreign trade.

In 2002, Jiang Zemin stepped down as the General Secretary of the Communist Party, thereby initiating the transition to a fourth generation of leadership, led by President Hu Jintao and Premier Wen Jiabao. The Hu-Wen administration attempted to reduce the income gap between the coastal cities and the countryside because China's skyrocketing growth mostly benefited just one part of the population. They increased subsidies, scrapped agricultural taxes, slowed privatization of state assets, and promoted social welfare. Despite governmental efforts to prevent overheating, by the mid-2000s, the economy experienced unprecedented economic growth mainly due to booming exports, resilient private consumption, soaring manufacturing output, and massive investment. However, the 2008 global financial crisis forced the Chinese authorities to reverse some policies and instead to launch an aggressive stimulus package together with a loose monetary policy.

The fifth leadership generation came to power in 2012, when President Xi Jinping and Premier Li Keqiang took over the reins of the country. The new Xi-Li administration unveiled an ambitious reform agenda in an attempt to change the country's fundamental economic policies and ensure a sustainable growth model. In this regard, authorities expressed their willingness to tolerate lower growth rates as a necessary condition to push forward economic reforms. Xi coined the term "Chinese dream" as his contribution to the guiding ideology of the Chinese Communist Party. Although vague, the "Chinese dream" emphasizes the idea of a strong China and the happiness of its people.

This dream has endured some growing pains. Although still solid, economic growth has slowed. In 2015, the Chinese economy missed its 7.0% growth target for the year by 0.1 percentage points, marking the first time in two decades that growth came in below target. Additionally, investment in manufacturing and infrastructure has slowed as the nation shifts from an investment-driven growth model to one more focused on consumer demand.

Nevertheless, the private economy has become the most energetic, promising, and creative force in the "socialist market economy with Chinese characteristics." It is an important force for promoting China's economic development.