FEATURES

Are China's GDP Numbers Believable?

Experts debate the accuracy of China's official growth figures. Are the numbers fact — or fiction?

By Eric Tegler
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Image Credit: REUTERS/Bobby Yip

Almost immediately after the Chinese National Bureau of Statistics released its second quarter GDP growth estimate of 7 percent in mid-July, a group of China watchers were crying foul. China officially targeted full-year growth of around 7 percent in 2015, a number matched exactly by its reported GDP figures for the first half of the year.

Last week, *Forbes* ran a piece by hedge fund manager Jay Somaney, who argued that China's growth is significantly lower. Somaney cited as evidence data points from the precipitous drop in the Chinese stock market and an 8.3 percent drop in exports to a glut in the country's real estate market and the devaluation of the renminbi (RMB) by Chinese monetary authorities. Ivan Glasenberg, CEO of the commodity trading and mining firm, Glencore, speculated that China's crackdown on corruption has stalled infrastructure projects, slowing growth well below 7 percent. As this piece was written, the median estimate of 11 economists surveyed by *Bloomberg* put China's GDP at 6.3 percent.

But noted China pundit and author, Gordon Chang, has been expressing stronger skepticism for months. Chang was recently in Hong Kong, where he says he spoke with "an individual very close to influential people in Beijing."

"He told me that they were privately saying that the Chinese economy was growing at a 2.2 percent rate, well below the 7 percent that Beijing has claimed for the first and second quarters," Chang said.

Chang contends that official economic data does not give a picture of 7 percent growth, pointing to indicators including rail freight (down 10.1 percent in the first two quarters), trade volume (down 6.9 percent), construction starts by area (down 15.8 percent), and electricity (up by just 1.3 percent).

"When you look at this data, it makes it very hard to get to 7 percent," Chang explains. "Many people say manufacturing is no longer the heart of the Chinese economy, rather services. But even the services sector, according to the Bureau of Statistics grew at 8.4 percent in the first half. I can believe that, but how do you get to 7 percent GDP when your manufacturing sector is basically at zero?"

Such logic doesn't hold water with Yukon Huang, senior associate at the Carnegie Endowment's Asia Program. The major drivers of Chinese growth are consumption and investment, he contends. Investment has declined significantly, he notes, while consumption has held reasonably steady.

Mr. Huang explains in simple terms that half of GDP is growth determined by investment, half by consumption. Averaging the growth of consumption and investment thus yields GDP growth. At present, Huang puts consumption growth at approximately 8 percent and investment growth at about 4-6 percent.

"If half the economy is growing by 4-6 percent and half is growing by 8 percent, you get [GDP growth] of six to seven percent. When people speculate it's lower by 3 to 4 percent, for example, mathematically, it's not possible. I would say it's very likely the economy is growing at 6 percent instead of 7."

That's about where David Dollar, senior fellow at the Brookings Institution, estimates China's GDP. He adds that a fixation on the numbers isn't entirely useful:

> *"I don't worry too much about whether the growth is 6.5 percent or 7.2 percent. Clearly their growth is decelerating. That's what the official data tells you. If you really think the data is wrong, then you should be more relaxed because China's making a hard landing and the world is still doing pretty well. I happen to think the data is pretty good, but that China may go into a hard landing."*

Huang is similarly cautious about specific numbers: "I don't have any particular confidence in a particular number for a particular month or a particular quarter. That doesn't make sense. These are statistics and they get changed. They're not that accurate in the United States, they're not accurate in China. But if you're talking about what the number is for a year or as a trend, then the answer is [that] China's numbers are probably pretty good."

Dollar acknowledges that China's reporting is not fully comparative with U.S. economic data reporting but believes it is still useful. "I think as a developing country there are some problems in China's data but I don't think the biases go in one obvious direction."

Yukon Huang agrees. In fact he believes Chinese data aggregation has often understated growth. He cites technical problems, including the way Chinese authorities measure GDP, which reflects budget intentions rather than budget outcomes. China announces its GDP estimates for the year immediately and doesn't do the sort of revisions that the U.S. does.

China's incomplete transition from a socialist to market-oriented economy has created GDP accounting which overweights industry and doesn't credit its fast-growing service economy enough. Accounting anomalies include current deflationary pressures in China, Huang adds. He explains that mixing the current real production growth number (5 percent) with the negative inflation rate in China puts GDP growth at 6 to 7 percent.

"If people say real production is lower than GDP, of course it is, due to price deflation. [It's] nothing fishy," Huang says.

Some observers point to provincial GDP reporting as evidence of the hand of political manipulation. But Huang and Dollar say the Chinese Bureau of Statistics factors out potential double counting and number inflation from provincial reporting and relies more heavily on its own surveys.

"If you add up all the provincial GDP, it adds up to more than national GDP figure," David Dollar allows. But, he adds, "I don't know anyone who takes the provincial GDP reporting too seriously."

Gordon Chang, however, sees some value in provincial figures. Noting recent declines of 6.2 percent in the Shanghai equities market and 6.6 percent in the Shenzhen market, he says, "I think that's an indication that Chinese people think this is not a 7 percent-growth economy."

Chang asserts that there may well be an invisible hand guiding China's growth numbers. While acknowledging that reading the government is difficult, he says that there is "substantial infighting among Chinese leaders, [including Premier Li Keqiang] therefore this [GDP] number is inherently political."

Growth in the Chinese service sector is real, Chang agrees but he believes its effect on consumption and job growth is inflated. The RMB devaluation is further evidence of China's slowdown and manipulation.

"Up until last month the Chinese were saying they would not devalue [the RMB] and how a devaluation would have no appreciable effect," Chang says. "But now they're devaluing and that tells us that they're panicking. If they're panicking at 7 percent GDP growth, that's just not credible. It is credible if they're growing at 2.2 percent but it's not credible at high single-digit growth."

Finally, for analysts like Yukon Wang and David Dollar who say that they, and other scholars, generally agree on the accuracy of Chinese economic reporting, particularly over the long term, Gordon responds, "Foreign and domestic analysts will make up the most absurd arguments to justify what cannot be believed."

Eric Tegler is a regular contributor to Aviation Week & Space Technology, Popular Mechanics, Wired, and Faircount Media Defense on political, government, and military affairs.

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It is well known that Chinese economic numbers are fabricated. China will continue to insist on a 7% GDP growth report in the next quarterly report.

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Oro Invictus • an hour ago

Honestly, I don't think any of the pundits/economists cited here are particularly convincing. Indeed, the only point worth any salt is the matters of discrepancies between things such as electricity growth (which is seemingly less susceptible, though hardly immune, to statistical fudging) and economic activity, but Chang is only citing things others have looked at in much more detail without actually doing any legwork with the information itself.

For those interested, I would recommend this and this by Michael Pettis, as they provide a fantastic overview of not only the issues of assigning economic indicators to the PRC, but economies in general. Indeed, Pettis is my favourite source for economic matters, precisely because he is far less likely to engage in speculation than mathematical and logical analysis.

Anyways, the articles are long reads, but worthwhile, if only to supplement the talking points established in this article.

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TDog • 4 hours ago

Economics was once viewed as a laughable degree to possess because it meant you weren't smart enough to be a dentist. Nothing has changed other than people have fallen for the snake oil most economists peddle. The problem with any field that relies upon statistics is that the data can be parsed in some form or fashion, rendering a conclusion the observer was already inclined to believe.

Are China's numbers fudged? It hardly matters. You will have folks who say they aren't and you will have folks who say they are. Both sides will conjure up numbers and data proving their argument and we will be no more informed than we were before.

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