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China Gets Greener? Power and Growth Data Cannot Be Trusted

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In October, China's power consumption declined for the first time this decade. With economic growth likely to remain high, by early 2009 China may appear to have made an abrupt breakthrough in energy efficiency. The data supporting such a conclusion are slippery, to say the least. Consequently, there are compelling reasons to be skeptical of both the power consumption numbers and, perhaps more important, GDP.

Power Shock. The Chinese economic miracle has been accompanied by soaring electricity production and consumption, which have even exceeded double-digit GDP growth rates. In 2007, for example, the official China Electrical Council reported that electricity demand climbed by more than 14 percent. In 2002, the country generated 1.6 trillion kilowatt-hours of electricity. Remarkably, by 2007, this output doubled to 3.2 trillion kilowatt-hours.

Given these recent surges in power demand and supply, a mere increase of 5 percent would be surprising; a decrease is stunning. This is precisely what occurred in October when, for the first time since the Asian financial crisis in 1998–1999, China's domestic power demand and supply both contracted.

Last month's decrease was fueled to a large extent by the current global and local economic slowdown. For the past year, China's economy has been slowing. The trend was exacerbated by the blow to foreign demand from the international financial crisis, the effects of which were felt for the first time in October. Consequently, power demand could con-

tinue to decline in November and December and perhaps beyond.

Yet it is still very unlikely that real GDP growth will be announced below 7—or even 8—percent. As a result, there appears to be an impressive silver lining to the economic slowdown: China has suddenly become significantly more energy efficient than it was during the boom period.

Data Doubts. The idea of a greener China has an intuitive appeal. After all, numerous power plants brought or kept online when the economy was surging may have been shut down, and it is possible that less efficient plants were the ones shuttered. Beyond intuition, numbers do not lie, do they? China's change from 12 percent GDP growth and 14 percent power demand growth to 8 percent GDP growth and -2 percent power demand growth certainly looks to be a major stride on the conservation front and new hope for the future.

However, these numbers are, more likely than not, fraudulent. When GDP growth was 11 percent and power demand growth was 14 percent, China was becoming less energy-efficient, less globally responsible, and less ecologically virtuous. During this economic boom, there were official objections

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that energy consumption per unit of GDP was actually declining. But such protestations flew in the face of the electricity demand numbers and the well-known rapid expansion in auto sales, airline travel, and shipping.

Now Beijing ostensibly has the power figures to make a real case that the country is going green. The question is whether either the power or GDP data can be trusted.

In the 1990s, China's power consumption also seemed to lag the rest of the economy, leading some observers to argue the country's purported economic growth was being exaggerated. As it turns out, China's power consumption was being understated, with thousands of illegal (and unsafe) coal mines feeding hundreds of power plants constructed without central government approval. Since these mines and plants were not supposed to exist, their output naturally was not reported. While their relative importance may have decreased, there are still large numbers of illegal mines and unauthorized power plants.

Energy data may also have been distorted by the Communist Party's 2005 formal decision to endorse energy efficiency and castigate pollution, which left provinces scrambling to boast progress on both fronts. Part of the reason for the disconnect between frenetic electricity use and supposedly stabilizing energy use is central officials struggling to make sense of provincial economic and environmental reports that strain credulity.

Such confounding provincial reports tie directly to the other element of the comparison: unreliable GDP. While a full reporting of the flaws in China's GDP reporting would necessitate a separate paper all together, the fact that provinces often all grow faster than the national economy is a good representation of the problem. China's new math extends farther than that—in many cases, all counties grow faster than their province as a whole. Honest

brokers at the State Statistical Bureau have their hands full.

Manufactured Progress. Eager to act in the face of a potentially quite painful economic retrenchment, the national leadership of the party is also a participant in data manufacturing. Indeed, the party has explicitly staked its legitimacy on economic advancement since 1979. It did not react well to the last serious downturn, which occurred as a result of the 1998 Asian financial crisis. State spending was ramped up and official GDP growth exaggerated by a factor of at least two for six or more quarters.

In response to the current crisis, Beijing is trumpeting another state spending package. Even though the mainstream press has exaggerated the size of the package, the point is clear: For powerful political reasons, the party is seeking to boost confidence that the economy will soon do better. Consequently, there are strong reasons to be especially skeptical of China's forthcoming GDP growth numbers.

It is likely that China will close 2008 by touting continued 8–9 percent growth in the fourth quarter along with the magnificent accomplishment of an actual reduction in power use. Environmentalists will praise China, and new projections based on official data presented during the slowdown will be rushed to the public. Some parties may take this scenario as an opportunity to focus misguided attention on the U.S. as a laggard.

But no magical discovery was made in energy efficiency this autumn; there is no reason to think the same Chinese economy that was becoming less efficient for five years became much more efficient in the space of a few months. Accepting Chinese data at face value is difficult enough; taking the data and running with it leads straight off a cliff.

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