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The Truth About China's Growth

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China just announced its economic results for 2008. The headline real GDP growth figure was 9.0 percent, featuring a drop to 6.8 percent, year-on-year, in the fourth quarter. The only thing certain about these figures is that they are wrong.

Almost every year, all Chinese provinces report larger GDP gains than the already-published national “average.” This trend held true for the first three quarters of 2008.¹ Over the past decade, all counties within a province have frequently reported larger gains than the provincial “average.” Similarly, basic macroeconomic accounting, such as that used to calculate the components of GDP, does not work with China's numbers. For political reasons, the PRC knowingly measures a crucial figure for unemployment incorrectly, understating the amount by a factor of two or three.

Beijing purports to be able to complete its annual economic surveys in less than half the time required by the U.S., despite having one billion more people to account for and much less in the way of resources with which to do so. Not surprisingly, then, China now calculates 2007 real GDP growth at 13.0 percent, having first estimated 11.4 percent. These revisions have important implications for assessing the 2008 data.

Official data on the economy are whatever the Communist Party wants—close to the mark, too low, or too high.² While surety is impossible, the available evidence indicates true growth for 2008 is far lower than officially announced. Reasons for general cynicism stem from deliberate obfuscation and internal inconsistency in official statistics. Reason to believe official GDP growth is greatly over-

stated come from old official statistics on GDP and power consumption.

More Reasons for Cynicism. Official GDP is 30.07 trillion yuan (about \$4.4 trillion). The revised figure for 2007 was 25.73 trillion yuan.³ This is a nominal growth rate of 16.9 percent and, thus, an implicit GDP deflator of 7.9 percent. The latter is considerably larger than the 5.9 percent increase in the official consumer price index but not wildly larger. So far, so good.

For the fourth quarter, official data imply GDP was 9.90 trillion yuan. However, this cannot be directly compared to GDP for the fourth quarter of 2007 because there is no revision available for the individual quarters of 2007 but only for the full year. This has been true since China began revising data in 2005—basic quarterly GDP cannot be verified.

Worse, the same is true for all major parts of the economy. Investment and consumption were presumably revised for 2007 because GDP was revised. But changes in these components were not announced, so their fourth-quarter growth cannot be determined either. For that matter, it is not known if official growth for the first three quarters is still correct, for GDP or anything else. Nor will these figures be released in systematic fashion later. Some follow-on revisions spill out unannounced at ran-

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dom times; some are never made public. Chinese economic data is permanently unverifiable.

Consumption Illusion. On closer inspection, the picture is no better. The benchmark measure for consumption is retail sales. This is followed with great interest within and without China on hopes that consumption will begin to drive the Chinese and even the world economy. In the fourth quarter, global consumption took a heavy blow, but implied (from incomplete revisions) growth in Chinese retail sales was over 20 percent, on-year. For 2008 as a whole, retail sales soared 21.6 percent. This is a 13-year high and considerably faster than the (unrevised) 16.8 percent rise in 2007.⁴

Unfortunately, such an increase is very hard to believe. Passenger car sales added 7.3 percent in 2008, much slower than the 21.7 percent jump registered in 2007.⁵ Sales of residential real estate plunged an unprecedented 21 percent through November.⁶ What are Chinese consumers buying? Not imports. Import volume—the only verifiable element of consumption—fell 8.8 percent in the fourth quarter.

While all this is disturbing, there is a more fundamental problem. *Per capita* rural income was said to climb 15 percent in 2008 while *per capita* urban income climbed 14.5 percent. Real urban income

somehow accelerated noticeably in the fourth quarter though GDP decelerated sharply. Even if that is true, incomes trailed sales by a good margin.

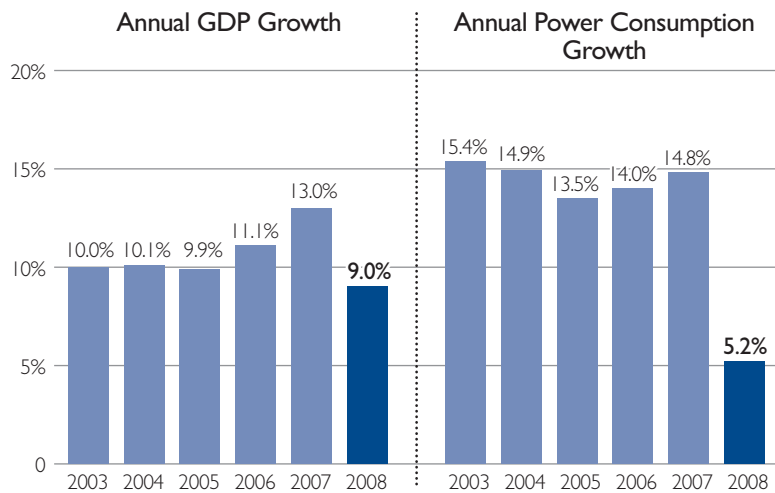
This should indicate that personal savings growth was small, as most income went to spending. But household deposits soared 26.6 percent. Individual Chinese are said to be both spending and saving much faster than they earn.⁷ Moreover, saving was said to sharply accelerate while the economy slowed—as to be expected—yet retail sales still hardly slipped at all. In this light, it is difficult to credit rapid consumption gains.

Knockout Blow from Power. The Chinese economy's last serious slump was during the Asian financial crisis. It is now widely accepted that official GDP growth for 1998 and perhaps 1999 was heavily exaggerated. Evidence was first found in power consumption growth, which dropped like a stone in the late 1990s while GDP growth merely moderated. Last year was 1998 all over again. (See Chart 1.)

The present boom started in 2003. The speed of GDP growth has been catching up to power consumption growth since then. Nonetheless, GDP growth has been below power consumption growth all through the boom, even with the large upward revision in 2007 GDP. In 2008, though, as the econ-

1. Ministry of Commerce, Province Data Net, at <http://provincedata.mofcom.gov.cn> (January 22, 2009).
2. The introduction to the State Statistical Bureau's announcement of the 2008 results reads: "In the unusual and extraordinary year of 2008, under the correct leadership of the Central Party Committee and the State Council, the people of the whole country carried on a tenacious fight with one heart and one mind against the impacts from grief natural disasters and the international financial crisis, and the overall national economy realized the good developing momentum of faster growth, stabilized prices, optimized structures and improved welfare." State Statistical Bureau, "National Economy: Steady and Fast Growth in 2008," January 22, 2009, at http://www.stats.gov.cn/en/GliSH/newsandcomingevents/t20090122_402534173.htm (January 22, 2009).
3. Unless otherwise noted, data for the fourth quarter and the year as a whole can be found at *ibid.*, and data for the first three quarters can be found at State Statistical Bureau, "National Economy: Steady and Fast Growth in the First Three Quarters of 2008," October 20, 2008 at http://www.stats.gov.cn/was40/gtjj_en_detail.jsp?channelid=1175&record=31 (January 22, 2009). The revised 2007 total can be found at "Announcement on Final Verified GDP Data in 2007," State Statistical Bureau, January 14, 2009, at http://www.stats.gov.cn/en/GliSH/newsandcomingevents/t20090116_402533093.htm (January 22, 2009)
4. *China Monthly Statistics*, Vol. 12, 2008.
5. Xinhua, "China's 2008 Auto Sales Growth Hits 10-Year Low," *China Daily*, January 12, 2009, at http://www.chinadaily.com.cn/china/2009-01/12/content_7389681.htm (January 22, 2009).
6. Dexter Roberts, "China 2009: The Confidence Deficit," *Business Week*, December 31, 2008, at http://www.businessweek.com/globalbiz/content/dec2008/gb20081231_014969.htm?chan=globalbiz_asia+index+page_asia+investing (January 22, 2009).
7. This was true during much of the rapid expansion since 2003, which is essentially impossible. For last year alone, potential explanations are inconsistent with the sustained drop in asset values.

China's Economy, Power Consumption Drop Off



Source: China Monthly Statistics, Vol. 1 2003 – Vol. 12, 2008; “China 2008 Power Consumption up 5.23 pct, Lowest Rise in 10 years—Association,” XFN-ASIA, January 5, 2009, at <http://www.forbes.com/afxnews/limited/feeds/afx/2009/01/05/afx5882229.html> (January 22, 2009).

Chart 1 • WM 2238 heritage.org

omy came under duress, GDP was suddenly much faster than power consumption.⁸ The fourth quarter was far starker: GDP growth was said to hold 6.8 percent even while power demand contracted an (unweighted) 6.7 percent.⁹

Electricity consumption cannot be magically slashed from year to year, much less quarter to quarter. If it could, China's excessive coal use would long since have been resolved. Based on power consumption, a reasonable figure for 2008 annual growth is 6 percent with very little growth in the fourth quarter.

Rescuing Official Numbers, Partly. Is there anything useful to be gleaned from official statistics? A simple way to extract some value is to consider them one quarter ahead. In a difficult data-gathering environment, China presses statistics personnel to reach remote areas and adjudicate regional boasts in just three weeks after a quarter ends. Most likely, survey information gathered ostensibly for the quarter in question more accurately reflects the previous quarter.

This would explain much. One quarter's worth of 6.8 percent growth should not have caused six million migrants to lose their jobs already or pushed urban unemployment to 9.4 percent by the end of November.¹⁰ But if growth had already fallen to 6.8 percent in the third quarter then, considering power consumption and

imports, fell toward zero in the fourth quarter, the spike in unemployment is sensible. So is the increasingly frantic response of Chinese policy-makers starting in October.

This analysis only goes so far. Official growth for the first quarter of 2009 may better reflect the fourth quarter of 2008, but the Party will never acknowledge it as close to zero. More tea leaves will need to be read three months from now. Nonetheless, a reasonable profile of 2008 growth stands at roughly 10 percent in the first quarter, 9 percent in the second, 7 percent in the third, and 1 percent in the fourth.

8. This was as predictable as a summer blackout. See Derek Scissors, “China Gets Greener?,” Heritage Foundation *WebMemo* No 2136, November 19, 2008, at <http://www.heritage.org/Research/AsiaandthePacific/wm2136.cfm> (January 22, 2009).

9. Xinhua, “Troubled Economy Drags Down China's Power Consumption,” November 16, 2008, at http://news.xinhuanet.com/english/2008-11/16/content_10366291.htm (January 22, 2009); Reuters, “Now China is Growing Slower, Can It Grow Cleaner?,” Environmental News Network, December 24, 2008, at <http://www.enn.com/pollution/article/38929> (January 22, 2009); and “Four Trillion,” Invest In China, January 15, 2009 at http://www.fdi.gov.cn/pub/FDI_EN/News/Investmentupdates/t20090115_100941.htm (January 22, 2009).

10. Agence France-Presse, “China's Economy Slows Sharply as Global Crisis Hits,” January 22, 2009, at <http://www.google.com/hostednews/afp/article/ALeqM5jSpsftIjd0KZi1vPUaug1uiN41A> (January 22, 2009) and Reuters, “China Jobless ‘Much More Grave’ Than Official Figure,” December 19, 2008, at <http://uk.reuters.com/article/businessNews/idUKTRE4BI1OJ20081219> (January 22, 2009).

The world is going to hear endlessly that, while China is slowing, it is still the fastest-growing economy and other countries would do well to learn from its example. It is closer to the truth that China has suffered more from the financial crisis than any other country in terms of lost growth and jobs.

Among other things, China's economic difficulties have implications for Sino-American trade relations and the Strategic Economic Dialogue (SED), now under review by the new American Administration. Our nation needs a mechanism like the

SED, but the U.S. needs to focus it on what are now the most salient parts of the economic relationship, such as Chinese energy price liberalization and access to sheltered industries for foreign companies. Official statistics notwithstanding, China is not a crisis-resistant model of growth and prosperity. The true picture demonstrates continued scope for dialogue grounded in free market principles.

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