

China's dubious statistics cover up economic crisis

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Doubts have emerged over the Chinese economic statistics showing rising growth rates. The gross domestic product (GDP) estimates provided by 31 provincial and municipal governments on August 1 added up to 15.38 trillion yuan in the first half of this year—significantly more than the figure of 13.99 trillion yuan released by the National Bureau of Statistics (NBS).

Local governments are under pressure from Beijing to keep GDP growth over 8 percent this year, even as their economies continue to be battered by the global financial crisis. As a result, many party bosses have simply turned to reporting fake statistics in order to impress their superiors up the chain to President Hu Jintao. Given the growing importance of China to the world economy, the data is coming under closer scrutiny inside China and internationally.

The statistical inconsistency of the GDP figures raises questions as to extent of manipulation at all levels of the Chinese regime to cover up the real state of the economy. The *Financial Times* warned: “With the rest of the world looking to China as a beacon of expansion, the discrepancy is a reminder that statistics there are often unreliable and manipulated regularly by officials for personal and political purposes.”

Last month, Derek Scissors, an economist at the right-wing Heritage Foundation, stirred up a controversy by criticising the NBS. “Despite starkly limited resources and a dynamic, complex economy, the State Statistical Bureau again needed only 15 days to survey the economic progress of 1.3 billion people [for the first quarter],” he wrote. “At best, earlier activity is measured. At worst, results are manufactured to suit the Communist Party.” The NBS responded in a lengthy commentary in the *China Daily*, dismissing Scissors’s argument as “wrong” because the bureau employed 100,000 statisticians.

Guangdong Communist Party secretary Wang Yang

recently criticised his counterparts in other provinces for racing to produce high growth and good statistics. He pointed to the absurd way in which infrastructure-driven stimulus measures were boosting GDP numbers. “For example, building a bridge is GDP; demolishing it is more GDP; then rebuilding the bridge is also GDP. One bridge contributed three times to the GDP, wasting huge social resources, but only forming actual social wealth once.”

Yet, in export-dependent Guangdong, the GDP figure of 7.1 percent in the first half of the year, like the national average, is just as dubious. One of its major manufacturing hubs, Dongguan city, recorded GDP growth of just 0.6 percent in the first half—far short of the official target of 10 percent. In the same period, the city of 10 million saw its workforce shrink by 10 percent due to a 24 percent decline in exports.

In the second quarter, China reported official GDP growth of 7.9 percent from a year earlier, up from the 6.1 percent in the first quarter. Industrial output grew 7 percent in the first half, despite falls in key indicators, including exports by 21.8 percent and power generation by 2.24 percent.

Attempting to explain the anomaly in electricity production, the NBS claimed that the decline in usage had been caused by falls in power-intensive industries—steel, non-ferrous metals, and chemicals—while industrial growth had occurred in less power-intensive industries.

The argument is not convincing, however. In May, the International Energy Agency challenged China’s first quarter GDP growth figure of 6.1 percent, pointing out that there had been a 3.5 percent decline in oil demand.

China’s “recovery” is being driven by a huge stimulus package, in particular a flood of bank loans that soared to a record 7.1 trillion yuan (\$US1.1 trillion) in the first half of the year. A significant amount of that credit has not been invested productively, but has led to speculation in the share and real estate markets. The Shanghai share

market has risen by around 90 percent so far this year, while the volume of residential property sales in January-June rose 31.7 percent compared to the same period last year.

Significantly, textile, drug and home appliance companies are increasingly speculating in the property market to offset low and declining profitability in manufacturing. Given that China's property developers are dependent on bank credit for 50 percent of their funds—far higher than the international average—economists and officials are deeply worried about the prospect of a banking crisis. According to the Chinese central bank, of new bank loans in the first half of 2009, 538.1 billion yuan (\$78.7 billion) went into real estate. A similar amount went into the stock market.

Writing in the financial journal *Caijing* on August 5, Andy Xie, a prominent Chinese economist, estimated that the Chinese stock and properties markets were 50-100 percent overvalued and were like “a giant Ponzi scheme”. He compared China's asset bubbles to Hong Kong's in 1997, on the verge of the Asian financial crisis.

The National Bureau of Statistics is facing even more criticism over its data on unemployment and wages. The official *Global Times* reported that the public reacted with “banter and sarcasm” when the NBS released figures showing the average urban wage in China rose 13 percent in the first half to \$US2,142. The newspaper cited an online survey showing 88 percent of respondents doubted the statistics. The feeling of ordinary workers was the opposite—wages are being cut and living standards are falling. A *China Daily* editorial quoted another poll which found that 91 percent of those surveyed were sceptical about official data—up from 79 percent in 2007.

NBS director Ma Jiantang held a conference last week to call on staff to rebuild the credibility of official statisticians. He pointed to the wide availability of data online and a population that was now more conscious of democratic rights. “How to respond to the challenges brought about by the Internet and globalisation will be a test for all of us,” Ma declared.

A national scandal involving the faking of statistics for college graduate employment was exposed last month through the Internet. In order to show high employment rates for their graduates, a number of universities forced students to provide “proof” of employment before they left the campuses. Some students signed contracts with companies that did not exist, but were counted as employed.

The Ministry of Labor and Social Security claimed that

the scandal involved only small numbers of students and campuses and that 68 percent of the college graduates so far had found a job. However, in July the official *Beijing Youth Daily* pointed out that even if the official statistics were accurate, the number of unemployed graduates from this year and last totalled nearly three million. “As the Ministry of Labor and Social Security has not given detailed statistics and facts to support [its argument], doubts in the public's mind are hard to eradicate.”

Data concerning unemployed rural migrant workers has also been called into question. The *Wall Street Journal* on August 5 reported that labour ministry deputy director-general Wang Yadong had recently declared that less than 3 percent of rural migrant workers who had returned to cities were unable to find a job. “He declined to give more detailed figures, and didn't explain how the estimates were made. Mr. Wang's report is the first official update since February on the migrant job situation,” the *Journal* noted.

As of January, an estimated 18-23 million migrant workers had lost their jobs as a result of the impact of the global financial crisis. Wang claimed that the improved job market was a product of the government's huge stimulus package, but admitted that “China's employment situation is still very serious” because many businesses were still in deep trouble. “New jobs for migrants this year may not be as good as those they had before. Some scholars report that migrant workers have often had to accept lower wages to find new work in recent months,” the *Wall Street Journal* wrote.

The questions being raised about China's statistics are, in the final analysis, an expression of the fragility of its exploitative cheap labour regime. Despite efforts to paint a brighter picture, including by manipulating statistics, the impact of global economic crisis cannot simply be hidden by bureaucratic means.



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