

By Thomas G. Rawski

Opening the books and revealing more information about economic performance ranks among the most important achievements of China's recent reforms. The National Bureau of Statistics has replaced Soviet methods of national accounting with a system modeled on international practice. Formerly a statistical desert, China now generates an immense variety of economic data. But openness invites controversy and critics insist that official statistics exaggerate recent economic performance.

Recent Chinese data contrasts sharply with the experience during previous instances of high-speed growth in Asia. In Japan (1957-61), Taiwan (1967-71), Korea (1977-81) and China itself (1987-91) cumulative growth in real output exceeded 30%. During all these four-year periods, this expansion in output sparked higher energy consumption, increased employment and rising prices. But official Chinese data for 1997-2001 show a fall in energy use, formal employment and prices--yet still assert that real output grew by one-third during that period.

This odd combination defies explanation. Unless China has embarked upon an unprecedented economic trajectory that combines high-speed growth with rising unemployment, sluggish demand, massive excess capacity, glutted commodity markets, mild deflation and low expectations, we cannot avoid concluding that something is seriously amiss with Beijing's growth claims for the past four years.

Chinese economic statistics suffer from two shortcomings: technical difficulties and political manipulation. Technical problems are unavoidable in any large, low-income economy undergoing structural and institutional change. In China's case, staff reductions among statistical personnel and diminished public cooperation have also contributed to making its economic statistics less reliable. The biggest gap arises from the absence of comprehensive measures of the size of the fast-growing private business sector and some elements of the service sector. This omission injects a downward bias into all measures of Chinese growth. Critics who focus on the tendency of official data to overstate industrial growth propose to scale back measures of long-term Chinese growth, but a full accounting would probably confirm the official picture of long-term GDP growth, estimated to have averaged 9.8% per year during 1978-97.

Since 1998, however, the most serious concern surrounds what Chinese writers call *jiabao fukuafeng*--the "wind of falsification and embellishment." This tornado of deception emerged from a 1998 campaign targeting 8% GDP growth as a "great political responsibility" and has festered ever since. Statistical fakery is not new--the 1995 industrial census uncovered massive exaggeration among rural industries--but the 1998 campaign sparked false reporting on a scale unknown since the Great Leap Forward in the 1950s.

Chinese sources confirm the severity of distortion. In 1999, former NBS Director Zhang Sai slammed "administrative interference in statistical work." A year later Premier Zhu Rongji complained that "falsification and exaggeration are rampant." Beginning in 1999, NBS has publicly rejected provincial growth estimates, which it dismisses as "cooked local figures," and substituted its own, more conservative measures.

Although top officials defend the accuracy of these revised totals, NBS refuses to explain its adjustments.

Just this week, China Daily warned of the danger that "statistical fraud will affect the country's economy by jeopardizing economic planning and policy making." Domestic critics include "agencies of the national government" as among the perpetrators of "statistical illegality." Several weeks ago, one NBS leader publicly lamented that "some problems . . . cannot be resolved by our bureau alone, especially when they are linked to politics." This suggests that national totals, as well as provincial figures, have fallen victim to political pressures.

Recent statistics bristle with inconsistencies. Data showing rising rural incomes and buoyant village retail sales conflict with vivid accounts of rural stagnation. Commentaries about sluggish urban consumption clash with official claims that urban retail sales are bounding ahead at double-digit rates. If urban incomes are growing steeply, why do just 50% of Beijingers and only 2 in 10 Shanghainese expect higher incomes in 2002?

Chinese economists give little credence to recent official figures. How else can we explain published descriptions of recent growth as "very lousy"? Or of consumption demand as "ineffective"? Or of rural incomes as "declining year after year"? Since government deficit spending is widely seen as having added roughly two percentage points to Chinese growth, Premier Zhu's statement that without "a proactive fiscal policy and a prudent monetary policy, the Chinese economy may have collapsed" further undermines the official growth story.

If recent official figures are overblown, what's the reality? The size and diversity of China's economy, which certainly includes pockets of high-speed growth, preclude precision. Even so, information on prices, employment, energy, and specific sectors makes it exceedingly difficult to argue that actual growth during 1998-2001 was more than half the officially claimed annual average of 7.6%. Since sluggish demand is limiting private investment, even adjusting these figures to take account of their incomplete coverage of the private business and service sector would not alter this conclusion.

The implications of China's growth slowdown, like its causes, are mainly domestic. Slower growth seems unlikely to affect foreign investment, especially for those investors who see China as an essential component of their global business strategy. China's growth slowdown actually lowers the cost of establishing export-oriented production facilities, while even those investors who aim for domestic sales will base their business plans on specific market research rather than estimates of national economic trends.

The abrupt decline from average growth of 9.8% during 1978-97 to a maximum of half the officially-claimed figure, or 3.8%, since then (and perhaps considerably less) demolishes ideas of Chinese exceptionalism. Like other Asian nations, China faces an interlude of slow growth as it wrestles with the legacy of undisciplined expansion, including dysfunctional remnants of the old planned economy system. Among many structural and institutional weaknesses, the most daunting cluster around a largely unreformed investment mechanism, which generates

Soviet-style seasonal fluctuations as it directs capital through hidebound decision-making processes with a 50-year history of poor performance.

China's present administration has attacked these difficulties with courage, energy and determination. The mixed outcome of reforms aimed at state enterprises, banking, corporate governance, capital markets and other key areas demonstrate the formidable complexities confronting China's policymakers. Even under the best of circumstances, a quick return to high-speed growth seems unlikely. And the politicization of economic statistics, which adds an extra layer of guesswork to already difficult policy decisions, only further lowers China's prospects for accelerating genuine economic growth.

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