Why People Don't Trust China's Official Statistics

Recently, several media sources reported that Liaoning province had been fabricating its economic data from 2011 to 2014. As reported by the state-run People's Daily newspaper, city- and county-level governments altered economic data, including exaggerating their fiscal revenues by at least 20 percent. Previously, the official news agency Xinhua reported that one county in Liaoning had overstated its fiscal revenues by an enormous 127 percent in 2013, among other incidents.

The case of Liaoning gives legitimacy to longstanding suspicions of data manipulation and methodological inadequacies distorting China's real economic performance. Making sense of China's economic data thus poses challenges for foreign investors, who invariably need accurate statistics to make informed business decisions.

Data manipulation

Sceptics of China's **national growth figures** point to the speed and uniformity of data. China releases its economic data faster than almost any other country despite being the most populous in the world. Quarterly GDP figures are released just 12 days after the end of the quarter, and are usually leaked even earlier. In contrast, the US takes four weeks to release its data.

Quarterly GDP growth figures are strikingly consistent with previously announced growth targets. For example, in 2016 the government targeted 6.5-7 percent growth, and quarterly growth was remarkably consistent. The government reported 6.7 percent growth in each of the first three quarters, and 6.8 percent in the last.

In comparison, **India's 2016 GDP growth**, while potent, had far more fluctuations. It grew by 7.9 percent in Q1, 7.1 percent in Q2, 7.4 percent in Q3, and seven percent in Q4.

Ultimately, questions over the veracity of China's economic data persist due to the lack of transparency in the collection process. The speed with which statistics are released would not cause such suspicion if there were greater openness about how the data is collected and the different components that form the final numbers.

The methodology China uses to calculate its economic data is opaque, and some even accuse the government of abruptly changing methods without announcement to distort figures and hide declines. Further, China's statistics laws bar on-the-ground surveys unless permission is expressly granted by the government, thereby limiting the ability of third parties to measure economic activity.

Gauging China's economic indicators

Given the perceived inadequacy of Chinese statistics – whether due to fears of manipulation or simply substandard quality –several banks and economists have formulated alternatives to official measures.

One popular method is the "Li Keqiang Index". The Li Keqiang Index measures bank lending levels, rail freight volumes, and electricity production as proxies for growth. Other methods use indicators such as truck loadings, cement, steel, and natural gas consumption, and imports from commodity-rich countries like Australia and Canada.

When using measures such as these, China's growth in recent years can look even less rosy than its multi-year decline would suggest. For example, an informed observer should question whether high growth rates are accurate when a local economy's electricity consumption is stagnating or growing at low amounts; significant growth rates are often associated with increases of electrical consumption by new factories.

It can, however, be difficult to identify these discrepancies in official statistics. Officials are aware that these statistics are monitored, and this consequently creates some incentive to massage data.

Further, using energy consumption and trade statistics as proxies to gauge real economic performance has its limits. The indicators Li Keqiang used a decade ago were for a far different economy than today's, where services now account for the majority of economic activity, and domestic consumption and retail activity are rapidly expanding.

Originally designed to assess state-led heavy industry and industrial output, China's statistics collection apparatus struggles to take into account the harder to measure services sector. According to Chi Lo of BNP Paribas, booming new sectors, including **online shopping** and journey-booking, are not even included in traditional official retail sales data.

The government has made efforts in recent years to reform the central statistics bureau and better measure the services sector by reducing reliance on provincial data sources and establishing direct reporting systems with over 800,000 enterprises.

The move towards quality indicators

As China transitions into a developed economy, the government is increasingly using "quality" indicators to judge economic performance. Statistics that describe quality of life, such as unemployment ratios, income growth, and housing affordability, are becoming more important gauges of performance than simple GDP growth.

Emphasizing a wider range indicators such as these not only promotes a more nuanced view of China's economy, but also reduces incentives for bureaucrats to inflate growth figures. While political pressure for robust GDP growth persists, the shift to prioritizing quality economic indicators over expansion and output figures will lead to more detailed, accurate, and actionable economic data in the long run.