China's Third-quarter GDP Numbers Draw Skepticism

Last Sunday the *Wall Street Journal* said it expected China's third-quarter GDP numbers, to be released on Wednesday, "to show the [Chinese] economy grew by at least 6.7%, on pace with the first and second quarters." Lo and behold, when those numbers were released by Chinese officials on Wednesday, they were *exactly* 6.7 percent, which were *exactly* the same as in the first and second quarters. That is the first time since 1992 that any country's economy grew at exactly the same rate for three consecutive quarters.

This didn't matter to much of the national media, which reported the numbers as legitimate and then added commentary and color to bolster their reports. For example, Joe McDonald, reporting for Yahoo, commented that "the world's second-largest economy grew by 6.7 percent [which] was in line with the two previous quarters and better than forecasters expected."

Others, however, were skeptical of those numbers. For at least the past two years, China's economy has been slowing, thanks not only to a slowing global economy but to a reduction of capital expenditures financed with massive amounts of debt, which helped spur the economy since the early 1990s. Mark Magnier, writing for the *Wall Street Journal*, expressed "fresh doubts" over the "reliability" of the Chinese numbers, adding that the 6.7-percent growth number over the last three quarters "was the first time since Beijing started releasing quarterly figures in 1992 that it had achieved such a feat of consistency." He added:

> Economists say it is rare for a fast-growing economy to clock the same growth quarter after quarter. In China, it happens because Beijing sets a hard economic target — 6.5% to 7% this year — then does what it takes to reach this level, whether through fiscal stimulus, arm twisting of state companies or creative accounting, these people say.

Other skeptics weren't so generous. Leslie Shaffer, the senior economic writer at CNBC.com called the Chinese report "curious," "remarkably consistent," and "a curiously singular feat for any country," while Julian Evans-Pritchard, a specialist on China at Capital Economics, called the numbers the result of a "significant smoothing of the data behind the scenes."

Louis Kuijs, head of Asian economics at Oxford Economics, all but said they lied:

> In China, these numbers don't tend to bounce around a lot. They tend to be remarkably smooth.
>
> The authorities feel so strongly about the GDP numbers that the whole government apparatus are always doing everything they can, especially in terms of policies and stimulating growth to make sure that the activity numbers, the economic growth numbers are pretty close to what it's targeting.

Kuijs needn't be so circuitous. Last December local Chinese officials from the country's northeast region admitted that they fudged the numbers over the past few years in order to meet government expectations. Reuters reported that one county in the Laioning province reported extra revenue that was *127 percent higher* than the actual number. That, combined with similar overstatements elsewhere in the Heilongjiang province, resulted in reported GDP growth of 9.5 percent, far above the real number of 2.7 percent.

As *Fortune* magazine pointed out at the time: "China's provincial and national economic numbers have always been under suspicion for their accuracy."

In communist China every day is Election Day, and the job security and longevity of forecasters not meeting official government expectations is always in question. It was Mark Twain or Prime Minister Benjamin Disraeli or another less well-known but equally astute observer who said: "There are three kinds of lies: lies, damned lies, and statistics." Getting it right for those Chinese officials charged with the responsibility of reporting those numbers, isn't just a matter of curiosity. For them it's a matter of life and death.

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