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Recalculating China's GDP

Clipping the dragon's wings

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China's economy is smaller than was thought

AMERICANS may well be delighted by new figures that show China's GDP is 40% smaller than previously thought. Has the devious Beijing government been massaging the numbers, as communist planners are wont to do? Hardly. China's GDP in yuan terms remains unchanged. What has happened is that the World Bank has changed the calculations it uses to make international comparisons of the size of economies.

Converting a poor country's GDP into dollars at market exchange rates can understate the true size because a dollar buys much more in an emerging market such as China than it does in America. The IMF and the World Bank therefore prefer to convert GDPs into dollars using purchasing-power parities (or PPPs), which take account of price differences between countries.

Previous estimates of China's PPP were largely guesswork. Now the World Bank has produced new calculations based on a survey of prices of over 1,000 goods and services in 146 countries, including China for the first time. On this basis, China's GDP in 2005 was \$5.3 trillion, compared with \$2.2 trillion using market exchange rates and \$8.9 trillion using previous PPP estimates. This was still well below America's \$12.4 trillion that year (see chart).

But this does not mean China's economic miracle has been just a statistical artefact. The revisions do not reduce China's growth rate—the fastest over 30 years of any large country in history. It remains the world's largest producer and consumer of steel, the second-biggest user of energy and even on revised figures the world's second-largest economy. In 2008 it is almost certain to overtake Germany as the world's largest exporter, and assuming recent rates of growth are sustained, within ten years it will overtake America (in PPP terms) as the world's largest economy.

China itself has always played down the PPP numbers, hoping to portray itself as a poor country so America will give it more leeway when arguing about exchange rates and trade. China's policymakers will not be unhappy with their new, slimline figure. Indians, in contrast, love to boast that their GDP overtook Japan's in 2006 to become the world's third-biggest. Unfortunately, this is no longer true: its GDP has also been slashed by almost 40%.

With Brazil's GDP also down a bit, the share of emerging economies in world output (including Asia's newly industrialising economies) has been cut to 46% in 2005, compared with over 50% on the old numbers. Their economic dominance has merely been postponed.



