

Chinese economy smaller than previously estimated

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The size of China's economy has been overestimated by around 40.0% based on the latest survey by the World Bank, but is still the world's second largest after the USA. This means the Chinese consumer market still presents significant potential for international consumer goods companies. Issue

Latest data from the World Bank indicate that the size of the Chinese economy has been overestimated by around 40.0%, but it remains the world's second largest using a ranking based on purchasing power. The latest data insinuates that China is poorer than estimated, which means international consumer goods companies will find it harder to expand into rural areas where the purchasing power is still relatively weak. However, the country still has the second largest economy in the world and will continue to play a major role in the global economy. Importance

In December 2007, the World Bank's International Comparison Programme (ICP) released a report ranking 146 economies for 2005. This is the first time that China participated in this international comparison survey programme (whilst India has participated since 1985). The latest report is based on the purchasing power parity (PPP) method, which the World Bank said provides more statistically reliable estimates of the size and price levels of the Chinese economy. The PPP method corrects for differences in prices for the same goods across countries. In the past, the World Bank had extrapolated PPP figures for the Chinese economy based on 1986 price data. However, the latest report is based on more up-to-date and reliable data on goods and services in China. The latest ICP report ranks China as the world's second largest economy, accounting for 9.7% of world GDP and nearly three-fourths of the Asia Pacific regional economy. However, the latest PPP-based GDP figures in the ICP report showed a much smaller value for the Chinese economy than earlier estimates. The new PPP method evaluated China's GDP at International \$5.3 trillion in 2005, down from the previous estimate of \$8.8 trillion.

Â Total GDP, GDP per capita and GDP as % of world GDP in selected Asian economies: 2005 Source: World Bank Note: Size of bubbles denotes a country's GDP as percentage of the world economy. Implications

The latest data means that China is still poorer than estimated, and this has a range of implications for consumers and companies doing business in the country. By 2006 there were 21.5 million rural people still facing shortages of food and clothing and 35.5 million low-income earners. However, when taking the World Bank's measurement of poverty of \$1.0 a day into account, it is estimated that the number of poor people is estimated to reach 100 million in 2006. In addition, inequality is still acute both between regions and between the rich and the poor. Between 2001 and 2006, the poorest 10.0% (or the poorest decile) of households in China saw a reduction in their average annual disposable income from US\$546 to US\$420 whilst the richest decile enjoyed a massive increase from US\$6,836 to US\$13,122. Meanwhile, national statistics indicate that in 2006 poor people accounted for 6.0% of the population in rural areas and 13.7% in the western regions where weather conditions are harsh and poverty reduction efforts have not been very successful. Rural poverty restrains growth in the purchasing power of the rural consumer. This can prevent international consumer goods companies, who are already present in urban China, from expanding to rural consumer markets. Latest data from the World Bank also showed that the purchasing power of Chinese consumers is still modest. In 2005 (the year of the ICP survey), the average disposable income of the Chinese consumer stood at \$4,091 per person, around 10.0% of the \$41,000 average annual disposable income in the USA. Nevertheless, with a population of over 1.3 billion (as of 2006), the size of the Chinese consumer market is substantial and not to be overlooked. Rural-urban migration as a result of regional inequality and rural poverty can deplete rural areas from sufficient labour supply, making it difficult for rural poor regions to attract investments to fulfil social and infrastructure needs and stimulate the economy in rural areas. Higher-than-estimated poverty rates could influence future aid and investment plans for the country, according to the World Bank. China can now gain extra aid from international institutions to help fighting poverty and develop rural areas. The State Bureau of Statistics estimates that the country would need RMB15.0 trillion by 2020 to fund the regeneration and construction of rural China. Future scenarios

The World Bank said the latest findings meant China would not become the world's biggest economy in 2012 as previously forecast. However, as the world's second largest economy, the country will certainly continue to play a major role in the global economy.

What continues to matter is how fast China grows. Annual real GDP growth is expected at 11.5% in 2007 and 10.0% in 2008. Although the country is striving to shift towards greater private consumption as an engine of growth, foreign trade will continue to be a major driver of growth for the Chinese economy. In 2007, the trade surplus reached a record level of around US\$300 billion, up from US\$177.5 billion in the previous year.

Â Real GDP growth in China: 2002-2008 Source: Euromonitor International from the IMF Note: Data for 2007 and 2008 are

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