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NEWS ANALYSIS

A Revisionist Tale: Why a Poor China Seems Richer

By [KEITH BRADSHER](#)

HONG KONG — Should China be treated differently because it may not be so rich after all? That is one of the central questions raised by new calculations from the [World Bank](#) that suggest the Chinese economy may not be as large as previously thought.

To be sure, some economists question whether the new figures are more accurate than the old ones, but others argue that they paint a picture of a poorer China that warrants reconsideration of the West's efforts to change Chinese currency policies.

The World Bank issued preliminary figures on Monday that recalculated the economic output of 146 countries, including China, after excluding differences in domestic prices and currencies.

The calculations of so-called purchasing-power parity, which compare the buying power of citizens around the world, put China's output at roughly 40 percent less than the bank's previous estimates.

The calculations help explain how Chinese workers can make ends meet by earning \$100 to \$250 a month in export-goods factories in Shenzhen. Food, for one thing, is cheap; a large plate of fried rice at a Shenzhen diner can cost just 50 cents.

Fashionable streets even in interior cities like Chongqing now have stores selling Burberry raincoats and other luxury items to an emerging industrial elite. But the new World Bank calculations underline the extent to which China remains a poor nation over all.

The average Chinese has economic output — gross domestic product per capita — worth \$1,721 at China's low market prices. That works out to the buying power of someone consuming \$4,091 worth of goods and services valued at the prices in an industrial economy — a level of consumption that would represent poverty to an American.

The World Bank cautioned that it did not calculate its figures as a guide to currency values. But the new figures somewhat strengthen China's contention that its currency, the yuan, is not seriously undervalued and does not need to be allowed to rise sharply against Western currencies.

Jeffrey Frankel, the James W. Harpel professor of capital formation and growth at Harvard, has been one of the most outspoken advocates of yuan appreciation. He has cited the World Bank's previous purchasing-power calculations to justify his position.

Professor Frankel acknowledged in a telephone interview on Thursday that the new World Bank figures badly damaged that argument. "I would have to retract that based on these latest numbers," he said.

But Professor Frankel said that many other economic indicators showed that the yuan was undervalued and should be allowed to rise.

He cited China's huge and growing trade surplus, its ever-rising foreign exchange reserves, market speculation on a further appreciation of the yuan — it has already risen 5.9 percent this year — and signs that the Chinese economy might be overheating as exports soared.

Some economists, including the former head of the China division at the [International Monetary Fund](#), question whether the World Bank has now gone too far in the other direction and overstated prices in China. While describing the estimates as an important step toward making international comparisons of economies, they point out that the bank looked mainly at affluent Chinese cities in coastal provinces with big export industries.

China's economic output in 2005 was worth \$2.24 trillion at prevailing prices and actual market exchange rates. That is the calculation most commonly used by economists and the best indicator of a country's ability to buy and sell a diverse range of internationally traded products, like oil, steel and computers.

The World Bank had previously calculated that China's output was worth \$8.8 trillion in 2005 if the goods and services produced in the country were valued at American prices. That figure was revised this week down to \$5.3 trillion.

The bank found that prices in China were closer to world levels than it previously assumed. So World Bank economists calculated that the purchasing-power parity of China's economy was also closer to the market exchange value. Even with the revision, China is still the world's second-largest economy in purchasing-power-parity terms, after the United States. At market exchange rates, China also trails Japan.

Eswar Prasad, who was the China division chief at the I.M.F. until January and is now a senior professor of trade policy at [Cornell](#), described the World Bank calculations as a "heroic effort."

But he voiced misgivings about how the bank accounted for price differences between urban and rural areas and among regions of China.

The bank used data that the Asian Development Bank had obtained from the China's National Bureau of Statistics, which in turn gathered data in the administrative regions of 11 large, mostly prosperous cities.

The World Bank calculated prices for the three-fifths of the population who live in rural areas by using prevailing prices in agricultural areas at the fringes of the 11 cities and administered by those cities.

While the bank made some adjustments, Professor Prasad questioned whether the final figures still overstated average rural prices across the country. This would understate the true size of the Chinese economy.

"The notion that China is suddenly a much smaller part of the world economy should be taken with a huge degree of caution," he said.

But Professor Prasad acknowledged that the World Bank needed to update its figures on purchasing-power parity for China. The bank's figures had previously been based on prices first calculated by two Chinese economists in 1986 and only crudely updated for inflation since then.

Frederic A. Vogel, a World Bank economist who oversaw the purchasing-power-parity estimates, said that the calculation “depends on a basic assumption that prices from the rural areas of the 11 administrative areas are representative of rural China.”

But he noted that most countries, including the United States, mainly measure prices in urban areas, so international comparisons are still valid.

Mr. Vogel also said that the World Bank was fully aware that regional differences in prices in China are wider than in many other countries. He noted that the figures released on Monday were preliminary and could be subject to further revision this winter. Still, he added, “the data we provided this time really form a benchmark.”

The best-known calculations of purchasing-power parity other than the World Bank’s are performed at the [University of Pennsylvania](#). Alan Heston, a professor emeritus of economics at the university and co-director of the group that assembles the statistics, said that the university’s figures for China were slightly below the old World Bank estimates and far above the new figures.

But Mr. Heston cautioned that the university was reviewing its figures and was likely to lower them. The revised estimate will show the Chinese economy to be at least as large as the new World Bank calculation and quite possibly larger, he said.

China’s National Bureau of Statistics declined Thursday to comment on the World Bank calculations. But the government has contended for years that China is poorer and economically weaker than many Western analysts have suggested.

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