

4 100

The Chinese GDP per capita has been valued at \$ 4,100 in purchasing power parity in 2005. This figure, published by the World Bank in December 2007, was brought to the world's attention for its being below the previous estimate by 40% (\$ 6,600). For India, the PPP-based GDP has also been revised downwards by 40% in 2005.

These revised figures have two implications:

- The gap of the income level with developed countries is wider. China's GDP per capita is worth one tenth the US level, instead of 16% before and India's GDP per capita amounts to 5% of the US level (instead of 8%).
- The share of both countries in the world PPP-based GDP is downsized. It decreases from 14% to 10% for China, from 6% to 4.3% for India. On account of their declining contribution to the world economic growth, the IMF has accordingly revised downwards its estimate of world growth by 0.5 point in 2006 and 2007.

Table 1 – Main results from the 2005 ICP for China and India

	GDP milliards US\$		Price Level	GDP per capita \$PPP	Share in the world GDP	
	Market exchange rates	PPP-based			Market exchange rates	PPP-based
China	2 244	5 333	42,1	4 091	5,1	9,7
India	779	2 341	33,3	2 126	1,8	4,3
United States	12 376	12 376	100	41 674	27,9	22,5
World	44 306	54 980	80,6	8 972	100	100

Source: 2005 International Comparison Program, Preliminary Results, December 2007

PPPs are estimated by the World Bank in the International Comparison Program framework (ICP) on the basis of price data collected in national surveys. These price data are related to a basket of goods and services, entailing the various GDP components (private and public consumption, fixed capital formation). They are used to calculate a parity against the USD controlling for the fact that a unit of local currency has greater purchasing power within a developing country where the prices (especially services prices) are relatively lower than it has in the global market. The lower the prices in a country, the larger will be the PPP GDP measure compared to GDP at the market exchange rate. Usually, this occurs in the developing countries where services are quite cheaper.

PPPs provide a more accurate measurement than market exchange rates, of the production size, living standards, the rate of capacity utilization (energy intensity, etc.). They shield these measures from being affected by the volatility of market rates. Nonetheless, the collection of relevant information on prices is not an easy job in big countries like China or India, since a great part of the population lives in rural areas and regional disparities are quite large.

Up to now, the figures the World Bank had published for China stood at the top of the bracket of different estimates; they were not satisfactory, as China had never conducted a ICP price survey. For 2005, the Chinese survey on consuming goods has included over 1,000 prices of goods and services drawn from a common list shared with Asian countries but Japan. Results indicate a price level in China of 42% the US one, vs. 25% in the previous estimates. They contribute then to raising less the level of the Chinese GDP based on PPPs compared to beforehand.

The downwards revision of the Chinese and Indian estimates leads to a better measurement of living standards of both countries. But the magnitude of the adjustment points to the limits of purchasing power parities estimates and urges caution in their use.