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<http://atimes.com/2015/05/why-chinas-actual-gdp-may-be-higher-than-you-think/>

Why China's actual GDP may be higher than you think

5/22/2015

We all “know” China’s gross domestic product is declining, but what if it wasn’t? Chiecon, as independent project translating trends in China’s real economy, suggests that much like shadow banking, there is a shadow economy.

It wouldn’t be the first time someone suggested this. But Chiecon thinks it has proof in the form of Professor Li Yining’s article entitled “Six cutting edge issues in the current economy.”

Most of Li’s arguments are based on the underreporting of streams of income to avoid some form of taxes. And while some forms of tax evasion are unique to China, a few of these are pretty common in the U.S. Here are the top four issues:

1. Li, a famous Chinese economist, argues: “In developed Western countries, homes built by rural residents are included in GDP calculations, whereas in China, homes built” by individuals and their friends and relatives are not in the calculation. The number of houses is increasing with the number of new villages, creating a disconnect in the calculation.

2. Many of China's tens of millions of domestic workers are not being accounted for in the GDP calculations. By not declaring their pay, the bosses don't need to pay taxes on it. Sounds like the Upper East Side of New York to me.

3. Li also says large numbers of companies run by self-employed individuals are understating their incomes on tax returns, resulting in a lower calculation of GDP. Small and micro businesses are allowed a monthly turnover not exceeding 30,000 yuan before paying taxes. So you can be sure, many are just hitting that mark. This sounds like a lot of the restaurants and bars I've worked at.

4. Then to stretch out the last point. Private businesses make up 55% of GDP, while state-run enterprises make up no more than 35%. So, while many pundits say the SOEs are overstating their profits, Li says the understating of profits by the private enterprises is much greater than that because of their greater share of the economy. Hence, an under reported GDP.