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Vietnam's surprise GDP revision risks damaging economic credibility

Investors will lose trust in Asian nations as unexpected bonuses keep coming

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Vietnam has found a quick and easy way to notch up an economic success.

At the stroke of a pen, the Communist-ruled country is revising upward the size of its gross domestic product -- by a whopping 25.4% -- for the seven-year period from 2011 to 2017. Presumably, 2018 -- when it grew 7.1% -- and the current year will also enjoy the fruits of Hanoi's giant statistical discovery.

The International Monetary Fund estimates that Vietnam produced more than $240 billion of output last year in nominal terms. Adding a quarter-plus to GDP would bump it to over $300 billion, leapfrogging Egypt, Finland and Chile.

It also puts the Philippines on notice: Hanoi claims to be just $30 billion off Manila's mark -- perhaps just one more revision away.

I don't mean to suggest any illicit fudging on Hanoi's part, but such tweaks are becoming all too common in Asia, and -- shockingly! -- they all happen to be wonderful upside revelations at the best possible moment. A regional spate of fortuitous news risks making investors suspicious.

China and India, Asia's first and third biggest economies, have faced persistent -- and credible -- suspicions that politicians are making calls on growth data more appropriate to statisticians.

The most obvious problem with creative data calculation is trust. Such tactics sow considerable doubt among investors and economists. That is particularly so for developing economies, where the sophistication of data collection and sampling techniques can be spotty.

There is another dark side: the race to bump up GDP shows Asia is focused on growing faster, not better and more inclusively.

China is Exhibit A, of course. A March report from Washington think tank the Brookings Institution surprised few with its contention that China "exaggerated" GDP by an average of 2 percentage points between 2008 and 2016.

India also allegedly plays games with data. Observers, including a former top adviser to Prime Minister Narendra Modi, argue that the 7%-plus growth claimed in recent years was really closer to 4.5%.

Now Vietnam steps into the spotlight. One reason for skepticism: the changes to GDP methodology are perfectly timed given Hanoi's debt constraints. Prime Minister Nguyen Xuan Phuc faces a uniquely rigid debt ceiling for a developing nation -- a liability as U.S. President Donald Trump's tariffs hit Asian growth.

A few days ago, Hanoi's public debt was closing on 65% of GDP, a level it is not supposed to breach. This jump in GDP -- the entire size of Croatia's output -- means Phuc's government now has political cover to increase borrowing. It offers latitude to spend more on infrastructure to raise competitiveness and productivity.

Yet negatives could outweigh positives. Trust is the most important currency for any trade-reliant economy. It remains to be seen how Hanoi's revision will go down with investors and multinational companies.

The methodology changes reduce the share of agriculture while increasing contributions from manufacturing and construction. Vietnam's General Statistics Office also claims it is finding hidden pockets of growth by scouring administrative documents and auditing government agencies. But 25.4% worth?

In 2014, China raised eyebrows by claiming GDP the year before had been understated by 3.4%. Vietnam's statistics head Nguyen Bich Lam points to China's revisions, and others, in rationalizing Hanoi's. Only time will tell if its magnitude passes the smell test.

Vietnam's eligibility for aid from the World Bank, Asian Development Bank and other organizations could take a hit if perceptions of top-line success mask cracks under the surface. Such aid and technical assistance are pivotal to raising per capita income above the current $2,600 in nominal terms. Bold and forward-looking policies are needed to narrow the rich-poor divide.

In fact, Hanoi's payments to international organizations may now increase as they are determined by GDP.

Yet the problem with Vietnam's economy -- GDP shenanigans aside -- is less the pace of growth and more that too few of the spoils are going to lower-income families. In July, the IMF urged Hanoi to "modernize economic institutions" and "continue with market-oriented and outward-looking reforms."

In other words, the IMF wanted it to reduce red tape and police graft at every level. Investing more in education is also vital to preparing Vietnam's youth for a future that prioritizes tech unicorns over factory work.

Asia in general should redouble efforts to find better, more insightful measures of success.

Incorporating the costs of environmental degradation might lower growth in polluting countries, but "environmental GDP" metrics might offer truer pictures of how large carbon footprints and poor health squander growth. Data showing how far paychecks actually go would be more telling then jobless rates that say nothing about inequality.

Vietnam must be happy to find this kind of spare change in the sofa. But Asia must tread carefully with such data-correction surprises. The revisions that really matter might come from investors fleeing economies that lose trust.