



## China Adjusts Its Forecast Downward

*Nicholas R. Lardy says China's new forecast is in line with its 5-year plan, but it omits details on how it plans to achieve more balanced growth.*

*Transcript of interview recorded March 6, 2012. © Peterson Institute for International Economics.*

Steve Weisman: Nicholas Lardy, Senior Fellow at the Peterson Institute for International Economics is here with me, Steve Weisman, to discuss China's latest announcements and projections on its economic plans and forecast. Nicholas, what did China announce?

Nicholas Lardy: The Premier, who gives this kind of State of the Union address at the National Peoples' Congress every year, on Monday said that the target for economic growth this year was seven and a half percent, and that was widely interpreted as a downgrade, because in most of the previous five years, they've been using a figure of percent. In practice, however, a year ago, when they announced their twelfth five-year plan (and we're now in the second year), they had said that the average growth over the five-year period that they were targeting was 7 percent.

I think a lot of the stories yesterday over-interpreted this as a major new development. In effect, the government has been signaling its desire for somewhat slower, more balanced, and more sustainable growth for a number of years.

It will probably turn out to be the case this year, as in most previous years, that the actual performance of the economy will be above this target, but this is kind of a guidance approach like Alan Greenspan [former chairman of the Federal Reserve] used to use: "I think such and such would be a good outcome." They don't have a direct control over this process, but they're signaling that slower, more balanced, and more sustainable growth is desirable. They're trying to reduce the attention that's been given to the headline GDP growth number.

Steve Weisman: You have written in your most recent book and elsewhere that China needs a more balanced and sustainable growth path less reliant on exports, less invested in the housing boom and other kinds of construction. Are they, in fact, taking steps towards those goals?

Nicholas Lardy: In the Premier's speech, there was a lot of lip service given to the goals and explaining why they're desirable. But I found that the speech was actually lacking much in the way of specifics about what policies are they going to use to get there, to rebalance the sources of economic growth. They're not undertaking the kinds of things that I think they should be doing. They have a good diagnosis of what the problems are, but we haven't yet seen what are the policies they're going to follow to address the underlying structural problems.

Steve Weisman: Former Governor Romney has said that he would name China as a currency manipulator if he is elected. What's the state of play now?

Nicholas Lardy: The current accounts surplus is down by more than two thirds from its peak in 2007. Most of the estimates, including those done by my colleagues here at the Peterson Institute, show that the currency is still slightly undervalued, but much, much less than it was four or five years ago.

The combination of the evolution of the global economy, the fact that they've allowed their currency to appreciate significantly over the last six or seven years, has contributed to this reduction in their imbalances. Governor Romney, in some of his language, seems to be in a bit of a time warp, like we're still back in 2007, when China had far and away the biggest global current accounts surplus. That's not the situation in the international economy today.

Steve Weisman: What about their surplus with the United States, the US deficit?

Nicholas Lardy: Their surplus with the United States, the US deficit with China continues to be very large, and I think this really does present a bit of a quandary. China's global surplus has come down dramatically; the surplus with the US much, much less so, indeed not at all.

I think that really reflects some problems on the US side, not the Chinese side. Many people feel that if the Chinese global surplus goes down, their surplus with the US will go down. But until we get some changes in savings and investment behavior in the United States, our global deficit is going to remain quite high.

Since the government's running a very large deficit, we're not making the kinds of adjustments in our savings and investment that are necessary to bring our global surplus to a lower level. So I think hopefully this will change the conversation a little bit, and we will be looking inward to our own shortcomings more, and less pointing the finger at others. Of course, in an election, that's an impossibility.

Steve Weisman: Even though these underlying savings and investment patterns in the United States might be to blame, that's not what you hear on Capitol Hill.

Nicholas Lardy: That's certainly not what you hear on Capitol Hill, and that's not what you hear on the campaign trail. But I would say with considerable confidence, if Mr. Romney becomes president, I think it will be very surprising if his policy towards China changes very much from that of President Obama. In other words, once you're in office and you see the realities of the role that China plays, its importance in the global economy, the rhetoric against China will have to be dialed back quite considerably.

Steve Weisman: His rhetoric runs in the face of what I'm sure is the concerns of some of the business community.

Nicholas Lardy: I think the business community recognizes that Governor Romney's a pragmatist, and once he looks at the overall picture, and what's at stake in the relationship between China and the United States, that he will pursue policies that are much more balanced than his campaign rhetoric suggests. Remember, President Clinton told the Chinese unless they reformed their human rights practices, he was not going to renew their favorable trade status in the US. Needless to say, he had to cave on that.

Steve Weisman: The Chinese have certainly have seen it before.

Nicholas Lardy: Right.

Steve Weisman: Thanks.

