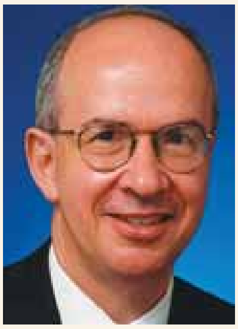
THE INTERNATIONAL ECONOMY
THE MAGAZINE OF
INTERNATIONAL ECONOMIC POLICY
888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com

How Much Will China Grow

China, the world's largest surplus country and one of the world's most export-dependent economies, faces great uncertainty about its outlook amidst the current crisis. Over forty experts offer their predictions for China's 2009 GDP growth rate.

I. Not by much—less than 2 percent:

The consumption pattern of Chinese households does not correspond to the output that China's export industries produce.



DESMOND LACHMAN
Resident Fellow, American Enterprise Institute

China will grow by less than 2 percent in 2009. As a highly export-oriented economy, China is critically exposed to any slowing in the global economy. Already in the fourth quarter of 2008, even China's own notoriously deficient economic statistics suggest that the Chinese economy virtually stagnated as China's export markets shrank abruptly.

The global economic outlook confronting China in 2009 will be even more challenging than that in 2008. The International Monetary Fund is now estimating that the major industrialized economies will contract by 2 percent in 2009, or by the most in the post-war period. However, there is strong reason to believe that the IMF is again being overly sanguine about the global economic outlook. Japan's economy is in virtual freefall and deflation has returned; Europe's banking system is being shocked by the meltdown in East Europe and the global recession is now exposing basic flaws in the euro; and the new U.S. administration has failed to deliver on a sufficiently front-loaded fiscal stimulus package or on a coherent financial market plan that might end the U.S. economy's downward spiral anytime soon.

The optimists argue that even if China's export markets were to collapse or protectionism were to intensify, China has the wherewithal to aggressively use fiscal and monetary policy to pump up domestic demand. What the optimists fail to see is that such an approach is highly unlikely to forestall a massive wave of bankruptcies and a steep rise in unemployment in China's export-industrial heartland along its coastal plain. They also underestimate the notion that at the heart of China's present macroeconomic challenge is the fact that the consumption pattern of Chinese households does not correspond to the output that China's export industries produce.

JACOB EHNMARK

Great Hall of the People in Beijing, where the National People's Congress convenes.

China's stimulus plan will not be enough to protect the Chinese economy.

SIMON SERFATY
Zbigniew Brzezinski Chair in Global Security and Geostrategy, Center for Strategic and International Studies, and Senior Professor and Eminent Scholar in International Studies, Old Dominion University

This recession is likely to prove deeper and lengthier than presently anticipated. Most individual and institutional economic forecasters remain relatively optimistic and even complacent. Conditions will get worse for much of 2009 at least—possibly much worse in the context of predictable political turbulence in Europe and elsewhere, or even due to new security instabilities whose content remains unpredictable but whose negative consequences on the global economic conjecture can readily be predicted. Admittedly, China's stimulus plan is ambitious, but that will not be enough to protect the Chinese economy from its dependence on the vitality of its senior trade partners—including the United States, Germany, and Japan, which China will continue to outperform, to be sure, but in the very low range of positive growth and probably below a 2 percent range for the year.

Watch for the Chinese multiplier effect.

MARSHALL I. GOLDMAN
Senior Scholar, Davis Center for Russian and Eurasian Studies, Harvard University

Because so little of China's economic growth derives from domestic demand (a consequence of a high savings rate), economic trouble in countries that have been importers of Chinese manufactured goods has a disproportionate impact on China itself. (We can call it the Chinese multiplier effect.) The difficulties will be compounded because the Chinese have had so little experience dealing with economic recessions. As a result, they do not have in place automatic stabilizers such as Federal Deposit Insurance Corporation-type bank deposit insurance and unemployment insurance that older market-type economies have adopted to ameliorate economic downturns.

Chinese officials proclaimed that the fourth-quarter 2008 growth rate had slipped to 6.8 percent year-on-year. This was misleading.

HARALD B. MALMGREN
President, The Malmgren Group

Without the statistical boost of previous quarters, growth in the fourth quarter was at or near zero—and the first quarter of 2009 is unlikely to fare better.

Chinese growth has been highly dependent on exports and on domestic construction geared to international business activity. World trade has been contracting in recent months as deleveraging and credit contraction spread throughout world financial markets, generating massive, global demand destruction. Since World War II, world trade grew at roughly double the speed of world production. Now, the falling volume of world trade tells us that production is declining everywhere. The world—China included—has tipped into a downward spiral which is continuing in 2009. We have entered a period of global industrial overcapacity.

Now, China's exports are plummeting, manufacturing is seizing up, and domestic construction has come to a halt. Chinese demand for raw materials from other countries is collapsing. As Chinese factories are shut down one after another, unemployment is escalating and millions of workers have begun migrating back to rural villages. In response, the Chinese leadership hurriedly cobbled together a RMB¥4 trillion stimulus package. Immediately, questions spread throughout China in editorials and the internet: What exactly were the stimulus measures? Which sectors and regions would get help? Were the measures effective, or just aimed at pacifying key groups?

In late February, Chinese leaders leaked possibilities of even more ambitious measures, but political leaders could not agree before convening the annual People's National Congress in March. Many western economic experts falsely assume that because China is a command economy, stimulus can be devised without controversy, and the export engine can easily be replaced with a new domestic growth engine. A command economy suffers from absence of transparency and weak price signals, and must function under bureaucratic decision procedures. Stimulus is passed down through many hands, with significant "leakage" before it is operational. Infrastructure spending can help substitute for the loss of exports, but gearing up infrastructure projects is a process which takes years, not months in any kind of economy. In other words, shifting from export-led growth to domestic-led growth will take time, with little benefit in 2009. Even the International Monetary Fund's recent forecast for 6.7 percent Chinese GDP growth in 2009 seems highly unlikely.

Less than 2 percent.

PAUL DEROSA
Mt. Lucas Management Corp.

II. China's economy will grow by a little—roughly 5 percent:

MAKOTO UTSUMI
President and CEO, Japan Credit Rating Agency, Ltd., and former Vice Minister of Finance for International Affairs, Japan

Let's look at the electric power generation in China. In October 2008, it was down 4 percent (compared with the previous year), in November 2008 down 9.6 percent, and in December 2008 down 12.4 percent.

Considering that 90 percent of electric power generation in China is for industry use, one might be skeptical of the 6.7 percent GDP growth in the fourth quarter of 2008.

Anyway, it seems clear that economic activity is sharply deteriorating in that country, producing a huge amount of unemployment and social risk.

The stimulus measures are gigantic. But looking back to Japanese experiences in 1990s, infrastructure investment is not a panacea, especially when the economic downturn is so sharp, damaging the confidence inside and outside of the country.

DINO KOS
Managing Director, Portales Partners, and former Executive Vice President, Markets Group, Federal Reserve Bank of New York

Uniquely among large economic powers, Chinese output data is released the day after the quarter or year ends and is never revised—while typically showing steady growth that varies little from year to year. How's that for efficiency in data collection! China's output data is more a political report than an economic one. In the middle part of this decade real growth was likely higher than the numbers reported. This year and next the reverse is likely to be true. China's economy is sliding into recession now that its main export markets have collapsed. However, reported growth is likely to come in at about 5 percent even if actual output—properly measured and reported—is much lower.

GARY CLYDE HUFBAUER
Reginald Jones Senior Fellow, Peterson Institute for International Economics

Recently, I spent a week in Hong Kong. Everyone there has views on China's growth in 2009—as goes China, so goes Hong Kong. Since the Chinese authorities here forecast 6 percent plus, that will likely be the reported rate. However, I was more persuaded by pessimists than optimists. Correctly measured, growth will probably be less than 6 percent.

The modest relative size of the consumer sector of the Middle Kingdom limits the ability of the overall economy to overcome the painfully sharp drop in manufacturing exports.

MURRAY WEIDENBAUM
Mallinckrodt Distinguished University Professor and Honorary Chairman of the Weidenbaum Center on the Economy, Government, and Public Policy at Washington University in St. Louis

The globally oriented economy of China is more likely to grow by 5 percent in 2009 than the optimistic 6.7 percent predicted by the International Monetary Fund. This is a time when the modest relative size of the consumer sector of the Middle Kingdom limits the ability of the overall economy to overcome the painfully sharp drop in manufacturing exports that China is now experiencing.

At best, the government's stimulus program will offset the decline in private investment that is resulting from the sharp fall-off in foreign demand. The dramatic and destabilizing movement of newly unemployed industrial workers back to the rural areas will impel the national government to encourage a renewal of rapid economic growth in 2010.

GDP: Less than 5 percent.

DOUGLAS H. PAAL
Vice President for Studies, Carnegie Endowment for International Peace, and former Director, American Institute in Taiwan

China has real difficulty directing stimulus spending when it reaches localities. So there will be significant slippage from the center's target. Yet the stimulus spending will keep China's growth in positive figures.

Less than 5 percent, and perhaps less than 2 percent

ROBERT J. SHAPIRO
Chairman, Sonecon, LLC, and former U.S. Under Secretary of Commerce for Economic Affairs

The answer is certainly less than 5 percent, and perhaps less than 2 percent. Do the math: Exports and direct foreign investment dominate China's economy, accounting for more than half of her GDP. Her largest export markets are Japan and the United States, where imports are now falling at astounding rates. The largest foreign direct investors in China are also Japan and America—and for obvious reasons, most of that is drying up as well. Her stimulus—twice the size of ours, relative to GDP—will help, but it's not enough. This could produce the greatest economic strains for China since the Cultural Revolution.

I am inclined toward the more pessimistic option.

BARRY EICHENGREEN
George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley

While the consensus is sure to center on 5–8 percent, I am inclined toward the more pessimistic option of "(slightly) less than 5 percent." 2009 will be dominated by the tug of war between declining exports and rising domestic demand fueled by the authorities' ambitious stimulus plan. But contrary to the notion that the government can produce whatever level of demand it needs to achieve its target rate of growth, I believe that it will take time to ramp up spending. Infrastructure projects take time to roll out. Longstanding household consumption habits are hard to break. As a result, it will be difficult for the authorities to offset in their entirety the effects of falling export demand in 2009. 2010 should be better.

Personal consumption is exceptionally low.

ERNEST H. PREEG
Senior Fellow in Trade and Productivity, Manufacturers Alliance/MAPI, and author of **India and China: An Advanced Technology Race and How the United States Should Respond** *(MAPI and CSIS, 2008)*

I forecast Chinese GDP growth in 2009 at 4 to 6 percent, based on projections for the four components of GDP growth: personal consumption, investment, other government spending, and change in the trade balance.

Consumption is being stimulated and should grow at a healthy rate. There are downsides, however, including institutional constraints on actual expenditures and the loss of higher-paying jobs and pay cuts in manufacturing. Moreover, personal consumption is exceptionally low, less than 40 percent of GDP, so a likely 5 to 10 percent growth in consumption produces less than 2 to 4 percent overall growth.

The outlook for investment is more negative. Overcapacity and declining exports probably mean a sharp decline of investment in manufacturing, including related infrastructure and construction more broadly. Investment also constitutes an exceptionally high share of GDP, well over 40 percent, so a possible small decline in overall investment would largely offset the positive growth effect from consumption.

Increased government spending, from education and health care to military modernization, should provide a growth stimulus, but the Chinese government is cautious about running up debt and again there are institutional constraints on quick disbursement. Such increased spending should contribute 1 to 2 percent to overall growth.

Trade is declining, with imports dropping much faster than exports, which means an ever-larger trade surplus with a positive effect on growth. Trading partners, wracked by recession in the manufacturing sector, will press China to reduce its trade surplus, but the projection here is for continued growth in the surplus, adding at least 1 percent to overall growth.

Putting all four components together, the growth projection ranges from 4 to 6 percent, and taking account of the ever-deepening global recession, I predict less than 5 percent GDP growth.

Real GDP growth will be considerably less than 5 percent.

MARK A. DEWEAVER
Principal, Quantrarian Asia Hedge

We can get some idea of China's economic performance in 2009 by taking as a base case a repeat of the net exports crash and fiscal stimulus that followed the 1997 Asia crisis. In 1998, consumption accounted for 60 percent of nominal GDP (as calculated by the expenditure method); investment, 36 percent; and net exports, 4 percent. In 1999, these three components grew by 8 percent, 5 percent, and -35 percent, respectively, resulting in nominal GDP growth of 5.2 percent. (Real GDP growth was higher that year due to deflation.)

A rerun of those 1999 growth rates, but starting from current GDP component shares—with consumption now accounting for 49 percent of GDP; investment, 42 percent; and net exports, 9 percent—would result in nominal GDP growth of only 2.9 percent. This base-case level already includes the 1–2 percentage points fiscal stimulus is believed to have contributed in 1999 and is thus also consistent with the National Development and Reform Commission's estimate that this year's stimulus package will contribute one percentage point to 2009 GDP growth.

Even if we also assume a repeat of the 1–2 percent deflation of the late 1990s, our base case real GDP would not exceed 4.5 percent. But now, unlike in 1999, the whole world is in crisis. The outlook for the external sector is clearly worse than it was ten years ago and, after years of overinvestment, industrial overcapacity is more severe as well. At the same time, unemployment is expected to reach levels similar to the late 1990s, implying that the 1999 consumption growth rate is unlikely to be exceeded. All of this implies that real GDP growth will be considerably less than 5 percent.

It remains to be seen whether history will repeat itself.

HONGYI LAI
Lecturer, School of Contemporary Chinese Studies, University of Nottingham

China's economic growth is poised to decelerate in 2009 and depart from an astounding 9.5 percent in 2008. The deceleration is triggered by a steep drop in exports. But even domestic consumption and production, along with many firms especially on the coast, have been negatively affected by the global economic downturn.

Net exports of goods and services accounted for 25.8 percent of China's GDP growth back in 2005. In that year, China's net exports grew by 146 percent over the previous year. Using data in current price, China's export volume grew by 17.6 percent in 2005 over 2004. But in January 2009, China's export volume declined by nearly the same pace (17.5 percent) year-on-year. The outlook for exports for the remainder of the year does not look bright.

Therefore, for 2009, China can only rely on domestic consumption and investment to sustain its high GDP growth. These two components made up three-quarters of China's GDP growth. China's government has unwrapped an ambitious fiscal stimulus program and is planning to spend $586 billion in two years in order to beef up domestic investment.

Increased domestic investment may help to compensate for part but not all of the slowdown in exports. The quality of China's investment and capital formation, however, is vital. A rush in investment without good economic rationale and proper planning and management may mean wasted resources.

Back in the late 1990s, in the wake of the Asian financial crisis, the Chinese government

China has some growth momentum, but the world economy and the fall in exports is likely to drag growth down to less than 5 percent.

ANNE O. KRUEGER
Professor of International Economics, School of Advanced International Studies, Johns Hopkins University, and former First Deputy Managing Director, International Monetary Fund

also pursued a proactive fiscal policy and increased domestic investment to accelerate economic growth. However, statistics on resulting GDP growth for 1998 and 1999 varied. The Chinese official statistics suggest that the growth rate decelerated from a high 9.1 percent in 1997 to 7.8 percent 1998 and 7.6 percent in 1999. However, Angus Maddison and Harry Wu estimate that real growth for 1998 was basically zero and that GDP growth only recovered in 1999, partly due to reduced industrial value-added. Therefore, it remains to be seen whether history will repeat itself in the dismal Maddison-Wu fashion, or the milder official version. The real outcome may also be somewhere in between.

Less than 5 percent.

EDWARD YARDENI
President, Yardeni Research, Inc.

The expected Chinese real GDP growth rate of 4 percent to 5 percent this year would give way to a more normal 6–8 percent rate in 2010.

ALLEN SINAI
Chief Global Economist and President, Decision Economics

China's economy, along with most others in the world, is in a recession—for China relatively mild at an expected 4 percent to 5 percent fourth-quarter-to-fourth quarter—within a long and severe global downturn of 1 percent to 2 percent.

Because of China's extremely high-trend economic growth rate, 5 percent real GDP growth would qualify as a recession, also so given the 11 percent-plus boom of a couple of years ago. It is the decline in growth, not so much its level, that qualifies it as a recession.

Why the recession? The principal reason is the prominent role of exports and trade in the Chinese economy, where because of the worst U.S. and global economic downturns since the 1930s, China's economy has been hurt far more than might had been expected.

The global downturn for developed and developing countries is the worst in modern history, negatively affecting China's trade and related businesses, with sizeable derived negative effects elsewhere in the Chinese economy.

But compared with other economies, China can be expected to do relatively well. Quick policy actions of stimulus, monetary and fiscal, a controlled and still very low currency exchange rate, and considerable latent purchasing power and demands of consumers should make the Chinese economic downturn relatively short and mild. If so, the Chinese real GDP growth rate of 4 percent to 5 percent that is expected this year would give way to a more normal 6 percent to 8 percent rate of growth in 2010.

How will the Beijing authorities "adjust" the numbers for general release?

EAMONN FINGLETON
Tokyo-based economic commentator, and author of* In the Jaws of the Dragon: America's Fate in the Coming Era of Chinese Hegemony *(New York: St. Martin's Press, 2008)

There are two questions here. First, what will China's growth *really* be? And second, how will the Beijing authorities "adjust" the numbers for general release?

Although China's economic growth figures have hitherto always seemed reliable, this year may be different. The point is that at a time when the United States and Europe are doing so badly (and are casting around for others to blame for their problems), it would be poor politics for China to appear to be doing well. It is a point that has not been lost on top Chinese officials, who in recent months have quite clearly adopted a policy of emphasizing the bad news for foreign consumption. The implicit message to the West is, "We are all in this together." Given that exports last year represented a stunning one-third of China's GDP, it is at first glance hard to see how China can escape being badly sideswiped by the global crisis. In reality, however, China's exports are full of imported content, so a disappointing export performance, though of course a significant problem for planners (particularly if it is protracted), actually has considerably less impact on the domestic economy than most foreigners realize. Meanwhile, investment in infrastructure and in domestic consumer industries can be expected to continue apace—and probably at a considerably higher rate than in previous years.

My guess is that China's growth rate will probably really be around 5 percent this year, but the authorities may see fit to publish a considerably lower number.

III. Growth, but still below average for China—5 to 8 percent:

China will most likely find it extremely difficult to stimulate consumer-driven domestic demand.

DAVID M. JONES
President and CEO, DMJ Advisors,
Professor of Economics and Finance, Florida Gulf Coast University, and Chairman of the Board,
Investors' Security Trust Company

China's growth will be 5 percent to 6 percent in 2009, down sharply from the double-digit pace of preceding years. China is an export-dependent country and the deepening recession in the United States, United Kingdom, eurozone, and Japan—its major trading partners—will continue to depress Chinese manufacturing output and employment. It will take several years for China to make the necessary shift from a massive trade surplus country producing far more than it consumes (as the workshop for the world), to greater emphasis on consumer-driven domestic demand. To be sure, China's huge fiscal stimulus package should keep China's growth from falling below the mid-single digits. Nevertheless, China will be unlikely to mount a sustained recovery with the countries to which it exports mired in recession. Moreover, under current conditions of rising unemployment and growing social unrest, China will most likely find it extremely difficult to stimulate consumer-driven domestic demand.

GENE H. CHANG
Co-Editor, **China Economic Review**

Because of the slowdown worldwide and the Chinese new labor law, China's economy will slow down significantly. However, due to the large-scale stimulus and the drive of local government for investment, its economic growth may still be around 5–6 percent.

We do not know much about the size or nature of the Chinese government's stimulus proposal.

SUSAN M. PHILLIPS
Dean and Professor of Finance, George Washington University School of Business, and former member, Board of Governors of the Federal Reserve

I am picking a forecast for China's real GDP growth of 5–8 percent, but I emphasize that my choice is more a "pick" than a "forecast." Since much of China's economy is still centrally controlled and we do not know much about the size or nature of the Chinese government's stimulus proposal, or even how they account for GDP growth, we can really only guess that country's growth potential. The only part of China's GDP estimate with some certainty attached is the pending decline in demand for China's exports due to the world global slowdown.

Export-led growth as we know it is gone for good.

DANIEL H. ROSEN
Principal, Rhodium Group, and Visiting Fellow, Peterson Institute for International Economics

It is easy to take the 5–8 percent growth option in this survey. Beijing has set an 8 percent aspiration but will come up short of that. They can pull out all the stops to get close, however, and will not wind up shy of 5 percent. The key to where they wind up within that range is whether they demonstrate enough vision and commitment to a new growth model built on labor-intensive activity, instead of the capital-intensive fetish of the past six years, to induce private investors to take the baton from government stimulus. As stimulus is tapped by mid-year, the answer to that should be clear. We know one thing: export-led growth as we knew it is gone for good, so for growth to exceed 7 percent, domestic consumption will need to pick up the slack. It will, but whether in 2009 is not a given.

Political risk will be a major problem in China.

JOHN A. TATOM
Director of Research, Networks Financial Institute, Indiana State University

China's economy slowed sharply in the second half of 2008. The U.S. and global slowing will take a further toll on growth in the first half of 2009, but I expect that growth will accelerate in the second half. The poor results early in 2009 should hold growth down to about 6–7 percent for the year, in line or somewhat lower than International Monetary Fund expectations. The fiscal stimulus program will not play a major role in restoring growth. The program is smaller and less front-loaded than officials have suggested, and I would not expect the content of the stimulus program to boost overall aggregate output much. Instead, I expect the end of the decline in U.S. output will have a major influence on stabilizing Chinese output, especially domestic investment and exports. Political risk will be a major problem in China, as rising unemployment, migration, and factory closings give rise to political unrest.

5-8 percent, year-over-year.

RICHARD N. COOPER
Maurits C. Boas Professor of International Economics, Harvard University

China can limit its slowdown to 7–8 percent.

RICHARD KATZ
Editor, The Oriental Economist Alert

Like the rest of East Asia, China has been hit hard by the global recession, albeit not as hard as others. The basic problem is that, in the last four to five years, China became too dependent on rising trade surpluses to drive growth. Prior to 2003–04, China enjoyed export-led growth, in the sense that exports helped propel China's shift into modern industries. However, its exports were more or less matched by its imports. During the 1990s and early 2000s, its trade surplus averaged a mere 2–3 percent of GDP. Then, suddenly, its trade surplus exploded, going from 2.5 percent of GDP in 2004 to around 9 percent in 2007. As a result, in 2005–07, the rising surplus provided 20–25 percent of all GDP growth, a new development for China. A trade surplus at 9 percent of GDP is just not sustainable. In order for China to run a trade surplus of $100 billion or $200 billion or $300 billion, the rest of the world combined must run an equal trade deficit. For most of the recent past that has mostly meant the United States. With the United States in downturn, the exports of China and the rest of Asia have been falling.

China's own leaders recognized that its growth path of the past five years is not sustainable and were trying to change it when the recession hit. The recession has forced them to speed up the rebalancing. The basic problem is a dearth of consumer spending as a share of GDP. Typically, poor countries devote about 60 percent of GDP to personal consumption. In China, consumption was already a relatively low 50 percent of GDP in the 1980s. Within the past couple years, it had fallen to a mere 37 percent, one of the lowest consumption rates in the world. The reason is not that consumers don't want to spend, but that household income has been falling as a share of GDP.

China's 2009 GDP growth: 5–8 percent

AXEL WEBER
President, Deutsche Bundesbank

Axel Weber

TOMOMITSU OBA
Chairman, Japan Center for International Finance

TEH KOK PENG
President, GIC Special Investments Pte Ltd.

BATES GILL
Director/Chairman, Stockholm International Peace Research Institute

Wages and consumer spending are, of course, growing very rapidly in absolute terms. But because they are growing more slowly than GDP, their share of GDP has steadily fallen. Up to a point, lowering the consumption share of GDP provided benefits. It allowed China to devote more resources to investment, and thereby grow faster. But China has taken this to an unsustainable extreme. If household income and consumer spending are growing more slowly than GDP, then something else has to make up for the shortfall in demand. That something else has been an exploding trade surplus and exploding capital investment in property and other ventures. At 45 percent of GDP combined investment by businesses, government, and households, China reached one of the highest rates of investment in the world. That, too, has proved unsustainable and property prices are falling.

Beijing is actively trying to rectify the situation with massive fiscal stimulus including public works in a poor country with lots of worthwhile projects. It is also trying to boost consumer disposable income by lowering fees for education, providing health care insurance, and so forth.

Assuming a U.S. recovery by the end of 2009, there is a good chance that China can limit its slowdown to 7–8 percent real growth and then recover to 9–10 percent in 2011. Moreover, it will have moved significantly toward a better balance among the various sources of demand and thus a path that is more sustainable going forward.

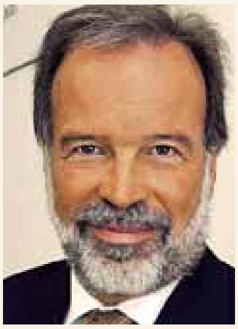
MICHAEL KURTZ
Head of China Research, Macquarie Securities

With the government's fiscal splurge literally doubling China's infrastructure outlays in 2009 from last year, and with a certain base level of household consumption soldiering on almost from sheer momentum, several percentage points of GDP growth are virtually assured. It also helps that from an accounting perspective, collapsing imports—which thus far have dramatically outpaced shrinking exports—mean a larger contribution to headline GDP from "net trade" (although it does not feel like growth on the ground). Our forecast for China's 2009 real GDP growth is 6.6 percent.

The crucial swing factor for China's economy in 2009–10 will be price level trends. Whether it is to be deflation or reflation will influence households' willingness to reverse last year's precautionary rush into bank savings, which could put a liquidity cushion beneath China's slumping property markets. This matters in turn, because only a work-off of China's abundant unsold housing inventory would likely revive residential construction activity, bringing its own substantial contribution to GDP growth.

Yet divining China's inflation-*versus*-deflation outlook is as tormenting as the timeless Zen riddle about what happens when an unstoppable force meets an immovable object. On one hand, massive monetary ease is surging through a Chinese banking system obedient to the State majority shareholder and whose balance sheet is mostly free of the toxic assets paralyzing western banks. But on the other hand, excess industrial capacity, risk-averse households insecure about jobs, and imported energy/commodity price declines all exert a stubborn counterweight. Enough focus on fiscal stimulus already! It's on monetary developments that China's counter-cyclical prospects hinge.

Cheap commodities are a plus, as is the big fiscal stimulus.



NORBERT WALTER
Chief Economist Deutsche Bank Group

My guess is growth will be between 3 and 6 percent. I do assume that cheap commodities are a plus, as is the big fiscal stimulus.

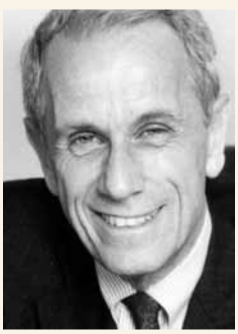
However, the drag from exports is very difficult to gauge, therefore the very wide band for the forecast. If exports fall off the cliff, quite a few Chinese capacities will be wide of the mark and investment in these areas will collapse as well.

The Chinese growth rate of real GDP in 2009 is likely to fall below 8 percent.

HANNES ANDROSCH
Former Finance Minister and Vice-Chancellor of Austria

In the past thirty years, China's economy has undergone an extraordinary phase of development. The economic catch-up process was largely export-led. This export drive was focused primarily on the United States and the consequent mutual dependency which emerged between the two countries is reflected in the term “Chinamerika.” But, in common with all other countries such as the oil-exporting states, which depend on a current-balance surplus to drive domestic demand and activity, China has been particularly badly affected by the global financial and economic crisis. The ongoing wave of business closures and the millions of discarded migrant workers are the most disturbing symptoms of the crisis.

China’s future very much depends on the urgency and the success with which the economy can be restructured away from the mercantilist model employed to date, towards an economy which focuses on domestic demand as an engine of growth. In this context, there are many domestic shortcomings which require urgent attention, providing ample scope for domestic investment: extensive infrastructural improvements, the adequate provision of energy, a reduction in environmental problems and hazards, and the provision of an adequate social system. Meanwhile, China has introduced a major public spending program to revitalize the economy, although it is very doubtful if even this will be enough to counteract the cyclical downturn in the economy. As a result, the Chinese growth rate of real GDP in 2009 is likely to fall below 8 percent.



STEPHEN AXILROD
Global Economic Consultant and author of* Inside the Fed: Monetary Policy and Management, Martin through Greenspan to Bernanke *(MIT Press, 2009).

China’s growth will be toward the low end if the U.S. and Japanese weakness persists longer and deeper than most now expect—5 to 8 percent.

Between 6.5 and 7 percent.

PAUL CAVEY
Head of China Economics, Macquarie Securities

We are expecting growth of between 6.5–7 percent in 2009. Certainly, the government’s infrastructure spending plans are important, but we suspect that these direct stimulus efforts on their own won’t be sufficient. It is also critical that there is some kind of rebound in property construction which, similar to infrastructure, accounts for around 25 percent of fixed asset investment in China. More than exports, it was property construction that really fell off a cliff in 2008, plummeting from growth of 25 percent or so in the first few months of last year to a similar-sized contraction towards the end.

The collapse of construction was the natural consequence of an earlier and equally dramatic drop-off in property sales. Sharp price rises in 2007 had stretched affordability in some cities, and in others there were signs of over-build. That property sales fell across China though suggests that the market was destabilized by a macro shock rather than these local worries, namely the government’s campaign in the first half of 2008 to tackle inflation. These efforts were very successful, prompting a sharp rise in risk aversion and so disrupting the flow of savings from bank deposits into the asset markets that had done so much to boost domestic demand growth in 2007.

Clearly, Beijing has now changed track, not only launching the much-discussed RMB ¥4 trillion stimulus package, but also seeking to reflate the property market. Administrative measures have been loosened and mortgage interest rates cut aggressively. There are some early signs that this process of asset market reflation is gaining traction, with household liquidity preference rising in recent months, and property transactions beginning to pick up. This won’t help growth in the first half of this year. Clearly, any revival of property construction is likely to lag any improvement in sales by at least six months. But if these trends continue, it is reasonable to expect a rebound of growth in the second half.

The United States will be in recession longer than the IMF anticipates.

MENZIE D. CHINN
Associate Director, Robert M. La Follette School of Public Affairs, Department of Economics, University of Wisconsin

Actual growth will likely be below the IMF forecast of 6.7 percent because of the sharp deterioration in world trade flows. Moreover, I think the United States will be in recession longer than the IMF anticipates. At the same time, I think the Chinese government will not be able to reorient aggregate demand toward domestic consumption to the extent sufficient to keep growth to 8 percent, in part because of the export-oriented structure of the economy.

Delays in implementing China's social security safety net will result in precautionary increases in personal savings that will damp down intended increases in consumption.

CHARLES WOLF, JR.
Senior Economic Adviser and Distinguished Corporate Chair in International Economics, Pardee Rand Graduate School

I opine that China's year-over-year growth in 2009 will be in the 5–8 percent range. The wide range reflects the multiple uncertainties that the economy confronts. These can be usefully construed as constituting a balance sheet of factors, some of which point toward the upper end of the range, while others point toward the lower end.

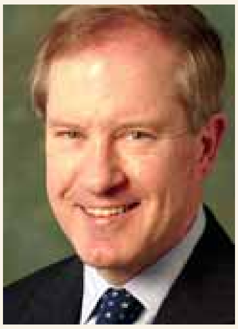
Factors on the plus side of the ledger include China's RMB ¥4 trillion "stimulus" package (in relative terms, three times larger than the more-or-less corresponding U.S. package); continued substantial growth in military spending (less than the growth in 2008, but still a consequential, if unacknowledged, additional stimulus); continued, although somewhat slower, rising domestic consumption; and a large, perhaps increased, current account surplus resulting from a greater decline in imports than the decline in China's exports (the prospect that oil prices will remain in the neighborhood of $50 per barrel tending to boost the current account surplus and propel growth).

The negative factors are hardly less significant. They include what has been some exaggeration of the stimulus package itself (for example, a part of the RMB ¥4 trillion package consists of previously estimated investments by non-state enterprises, as well as of previously planned state investments); delays in implementing China's social security safety net resulting in precautionary increases in personal savings that will damp down intended increases in consumption; and the continued depressing effects of China's major problems of water resources, health care and epidemic disease, environmental pollution, and laxity of quality standards for preventing contamination of food and drug products.

My rough guess of the resulting balance is considerable GDP growth, but probably toward the lower end of the 5–8 percent range.

China will be the first major economy to come off the bottom with sequential growth moving into positive territory as early as the first or second quarter of this year.

NICHOLAS LARDY
Senior Fellow, Peterson Institute for International Economics



China's policy response to the global economic crisis is the gold standard. The response is large, timely, and well-designed. It includes monetary easing, which is actually working; a substantial increase in infrastructure investment; and dramatic increases in government spending on social programs, including stepped-up transfer payments, pensions, and a major broadening in health insurance coverage. This policy response, combined with the fact that Chinese households and financial institutions do not need to deleverage, suggests that China will be the first major economy to come off the bottom with sequential growth moving into positive territory as early as the first or second quarter of this year. And the government's very modest domestic debt means that China could converge back toward its long-term growth potential of 9–10 percent more rapidly than other countries where medium-term fiscal sustainability will be an issue.

The risks to this forecast are twofold. First, a deepening domestic property price correction cannot be ruled out, despite government efforts specifically focused on reviving the housing market. Second, further weakening of the global economy would subtract even more from China's growth. In either case I would anticipate additional government initiatives that would support economic growth.

China's growth rate, at least its official rate, will be between 5 and 8 percent.

TADASHI NAKAMAE
President, Nakamae International Economic Research

As American consumers tighten their belts and stop using credit to spend, the U.S. current-account deficit will decline. This will badly hurt countries in Asia, ex-China. Exports will plunge and current account surpluses will shrink rapidly, perhaps even disappear. This will also be bad for China, as exports account for one-third of its GDP. Rapid declines in exports will also reduce industrial activity and force exporters to curtail capital investment. (Foreign multinationals are already cutting direct investment into China.)

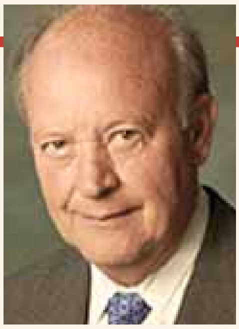
Sharp falls in exports and export-related capital investment are unlikely to be offset by higher government spending and personal consumption. Between 1999 and 2007, Chinese net exports grew more than nine-fold, and capital formation—led by capital expenditure—increased 3.4 times. GDP expanded three-fold, while household consumption only doubled. In total, capital formation and net exports accounted for 55 percent of GDP growth over the period. The gap left by lost exports and capital expenditure will be too big to fill.

Worse, China's growth potential is being undermined. When private capital investment is replaced by less-efficient government investment, productivity usually falls. Also, the contraction in exports is forcing out-of-work migrant laborers to return to rural areas, reversing the labor re-allocation of recent years that had improved productivity. What's more, China is an aging society. Its growth potential will fall as workers retire without enough younger workers to take their place.

Its neighbors—and trading partners—are getting weaker even more rapidly than China. A collapse in indirect exports to the United States, via China, is hurting other Asian economies. Exports and production are falling precipitously in Japan (-46 percent and -31 percent year-over-year in January), Taiwan (-43 percent and -33 percent) and South Korea (-33 percent and 19 percent). Although China's recent export and production numbers were not as bad (-18 percent and +6 percent year-over-year in December), further deterioration is expected. Chinese exports to the rest of Asia are quite large, so as its neighbors struggle, China's exports will suffer too.

Given the many obstacles facing the Chinese economy, it is unrealistic to expect that increased government spending will be enough to achieve an 8 percent GDP growth target, even if China's economic stimulus is effective. That is why I believe China's growth rate, at least its official rate, will be between 5 percent and 8 percent.

It is rather sad that they have chosen to suspend the crawling revaluation of the RMB relative to the dollar.



JOHN WILLIAMSON
Senior Fellow, Peterson Institute for International Economics

It is clear that China was hit hard through the fall-off in exports. At the beginning of the year growth had fallen practically to nothing and there were terrible stories of millions of unemployed. But the International Monetary Fund estimates that China has taken bigger measures of fiscal stimulation (relative to size) than any other major economy, and unlike most other countries this is being reinforced rather than undercut by the action of the banks. Hence, I would expect Chinese growth momentum to revive quite rapidly, and it should return to a respectable (for China) rate next year.

In the light of this it is rather sad—even if understandable, for they do not for the moment face a non-dilemma situation—that they have chosen to suspend the crawling revaluation of the RMB relative to the dollar, for RMB revaluation remains an essential condition for the restoration of global equilibrium.

Having a financial system that still listens to government directives also helps.

RICHARD C. KOO
Chief Economist, Nomura Research Institute

Long before the global financial crisis and bursting of its own bubbles, China was studying how Japan managed to keep its GDP above the peak of its bubble level in spite of an 87 percent decline in commercial real estate values and massive deleveraging by Japanese businesses. The lesson, of course, is that the government must borrow and spend the excess savings generated by the private sector deleveraging. China's quick RMB ¥4 trillion fiscal response centered mostly on government spending proves that Beijing is indeed putting the Japanese lesson into full use. They are not putting much emphasis on monetary easing or tax cuts because these two measures are not very effective in a post-bubble economy where a large portion of the private sector may be minimizing debt instead of maximizing profits. Having a financial system that still listens to government directives also helps. Declines in exports and real estate values in some parts of the country will no doubt subtract from growth. But barring a global depression, China is likely to maintain a moderate growth momentum with its government strongly committed to growth, especially in infrastructure and long-overlooked agricultural areas.

The pronouncement will be transformed into reality.

STEVE H. HANKE
***Professor of Applied Economics, Johns Hopkins University, Senior Fellow, Cato Institute, and Contributing Editor,* TIE**

For the Chinese, the head of a household is the ultimate authority. When the "head" makes a pronouncement, it is transformed into reality. China's leadership has asserted that the goal of 8 percent growth is realistic, as long as China adopts and implements the right policies. In consequence, I think China will continue to shoot at an 8 percent target. While the head of the household might not hit the bullseye, he will be close, with a 5–8 percent year-over-year growth rate in 2009.

Window washer on one of the thousands of skyscrapers in Shanghai.

IV. Better than expected—8 to 10 percent:

Trade protectionism is rising under this climate of worldwide recession, and I feel it is likely to evolve into a chronic state if the global financial crisis doesn't bottom out in the near future.

YOSHIHIRO SAKAI
Senior Advisor, Development Bank of Japan, and Adjunct Fellow, Center for Strategic and International Studies

The key to Chinese economic growth is the combined effect of the $586 billion stimulus package that was put into effect in November, followed by the government expenditure of $1.1 trillion in 2009. This, I believe, could lead to an 8–10 percent economic growth in 2009 in China.

In Japan's case of the 1990s, the Japanese economic boost failed as a "locomotive" to pull the world economy forward because there were not enough areas for a high-investment multiplier effect. In China, however, there are huge potential projects such as railways, highways, and buildings in both coastal and inland areas. The current ridership of China's railways, for example, is three times that of Japan. It is worth noting that the population of China is more than ten times that of Japan, and its landmass is twenty-six times larger than Japan's. China's technological capacity also shows room for growth. One additional important factor for Chinese economic growth is how China chooses the areas in which it invests in and controls companies, in order to work in partnership with government initiatives. The "scrap and build" of many factories under industrial reorganization will happen quickly.

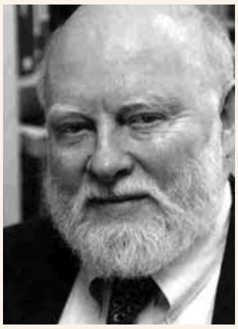
Exports will be a pitfall in the Chinese economy. Trade protectionism is rising under this climate of worldwide recession, and I feel it is likely to evolve into a chronic state if the global financial crisis doesn't bottom out in the near future. Many small- and medium-sized companies in China's export sector will face trouble due to the lack of export credit. Such a situation will inevitably reduce the effect of the Chinese economic stimulus.

Premier Wen Jiabao outlined seven ways to strengthen exports and I hope doing so will be feasible. However, at this juncture, it is more important for China to strive to turn "locomotive theory" into reality not only for other countries but for China itself.

GDP: 8–10 percent

C. FRED BERGSTEN
Director, Peterson Institute for International Economics

I am relatively optimistic on China after a recent trip, and think they will do better than 5 percent growth but less than 10 percent.



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