

China's Top Priorities in 2008: Reduce Economic Overheating and Curb Inflation

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Concerned about their country's unprecedented high growth performance, the Chinese Government has declared reducing economic overheating and curbing inflation as its top priorities for 2008.

According to a study in *China & World Economy* published by Wiley-Blackwell, there are growing concerns over a possible 'hard-landing' for the Chinese economy as no economy can sustain such strong growth for a long period.

In November 2007, the consumer price index shot to 6.9 percent, while annual inflation rose to 4.8 percent – well above the government 'comfort level of 3 percent. On the back of five consecutive years of double-digit growth, high growth in 2008 is still expected to continue while problems associated with such, growth will also remain.

Author of "China's Economy in 2007/2008: Coping with Problems of Runaway Growth", Professor John Wong says, "Any economy undergoing long periods of high growth will inevitably develop structural tensions, giving rise to distortions and imbalances as well as rising negative externalities. Cracks are bound to show up sooner or later."

China is currently facing a type of cost-push inflation which is fundamentally caused by undervaluation of the Renminbi, which in turn is attributable to China's chronic external and internal macroeconomic imbalances.

"China's inflation has yet to generate serious inflation expectations as the Chinese government is still able to contain the inflation with measures such as reducing supply bottlenecks, stabilizing prices through controls and subsidies, and curbing speculative activities", says Professor Wong.

On whether China's growth can be decoupled from the effect of the current US economic uncertainty, Professor Wong argues that if the expected US recession is mild and short-lived, this could be a welcome breather for the overheated economy under a long spell of high growth. "But China", he adds, "like other economies, cannot escape unscathed from a prolonged and severe US recession".

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Source: Wiley

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