

# “Asia-Pacific Economic Outlook: Short- and Medium-Term Policy Challenges”

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Vivek Arora, assistant director of the IMF Asia and Pacific Department, warned that the Chinese government needs to act quickly to reduce economic stimulus and allow its currency to appreciate if it is to control inflation. “The policy settings are very accommodative on both monetary and fiscal policy.”

China's efforts to stimulate the economy in response to the global financial crisis are understandable, he said, but are no longer needed now that the economy is recovering dramatically. The IMF predicts that GDP in China will rise by 9.5 percent this year. Western countries, by contrast, will grow a relatively anemic 2.5 percent.

China's torrid expansion could have long-term consequences, said Arora. Easy credit, fueled by loose monetary policy, is driving down the cost of capital, he noted. This is causing overinvestment in capital-intensive, export-oriented industries such as steel and shipping, which not only raises the threat of overcapacity but reduces employment opportunities. "This overcapacity is a particular concern given the slow recovery of developed countries," Arora said.

"The expectation is that the capacity of these economies to import from China will be weaker than before the crisis," he said. "You can have the situation where you have very high investment in the traded goods sector but there is no external demand to support it."

China should instead be investing in creating a more stable base of domestic consumers, he said. The creation of a social safety net could raise living standards, and by shifting workers from the informal to the formal sector, the country could free up more disposable income for consumption. "This is the core for the development track," Arora said. "The demand from abroad that sustained high exports in the past may not be there in the near future."

Arora's talk was cosponsored by the Jerome A. Chazen Institute of International Business and the Center on Japanese Economy and Business at Columbia Business School, and the APEC Study Center at Columbia University.

