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China ditches double-digit growth

By Jamil Anderlini in Beijing


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China cut its annual growth target for the first time in eight years on Monday, recognising that its double-digit growth rates are past and the world's second largest economy will slow as it matures.

At the annual opening ceremony of the parliament on Monday, Chinese premier Wen Jiabao said the government's target for economic growth in 2012 was 7.5 per cent, the first time it has dropped below 8 per cent since 2004.

In a move that will please China's economic partners, Mr Wen emphasised the government's ambition to refocus the country towards domestic consumption and away from investment and exports.

"The key to solving the problems of imbalanced, uncoordinated, unsustainable development [in China] is to accelerate the transformation of the pattern of economic development," Mr Wen said. "This is both a long-term task and our most pressing task at present."

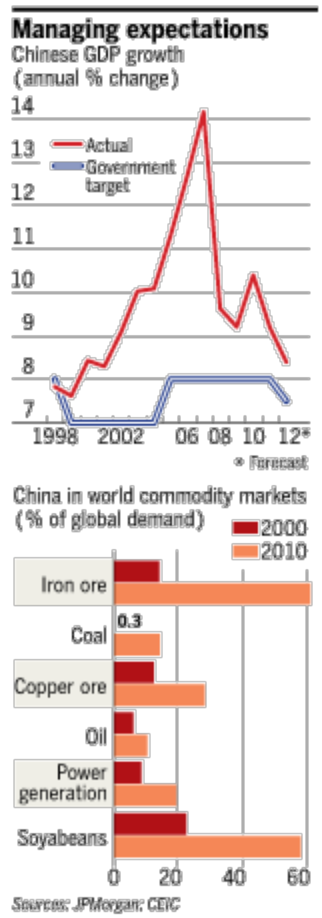
The rhetoric is in line with demands for China to play a leading role in reducing global trade imbalances by boosting spending at home, although economists warned that China had failed to live up to similar promises in the past.

Signalling his ambition to boost consumer demand in 2012, Mr Wen prioritised care for the elderly, property management, healthcare and domestic services sectors and said the government would "vigorously develop" these industries while encouraging consumer spending on cultural activities, tourism and fitness.

Economists were sceptical that the government's ambitions on rebalancing the Chinese economy would be met, especially as Beijing has made similar commitments for nearly a decade.

Investment accounts for almost half of total spending in China, compared with less than a third in developing economies as a whole. The International Monetary Fund sees little prospect of a big shift over the next four years.

Mark Williams of Capital Economics said members of the Chinese administration still had a long way to go on rebalancing their economy. "They talk the talk, but we still have to see whether they will walk the walk," he said.



Professor Eswar Prasad of the Brookings Institution said the lower growth target was mostly a reflection that the Chinese government was bracing itself for weaker export growth in 2012 due to persistent weakness in advanced economies.

But, he added, the lower growth target is "a clear signal to government agencies and provincial governments that more sustainable growth rather than just high growth should be the focus of policies".

Slower growth in China is also a reflection of more sober expectations of expansion across Asia. Annual growth in the Indian economy grew slipped to 6.1 per cent in the final quarter of 2011, the slowest in three years, while Japan's economy shrank by 2.3 per cent over the same period, dragged down by the effects of the tsunami last March.

Growth in the world's second largest economy has outstripped the official target by several percentage points in recent years and most economists still expect an expansion of around 8.5 per cent this year, down from 9.2 per cent last year.

But as China is catching up with advanced economies, the double-digit growth rates of the last decade become more difficult to achieve.

George Magnus, senior economic adviser at UBS in London, said 7.5 per cent was still "a feisty growth rate", even though it is the lowest since 2004.

"I'm not shaken or shocked, but this figure will resonate with people who recognise that

China is slowing down...This is Wen's soft landing projection."

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