WSJ: IMF Says China, Others Shouldn't Fear Tackling Surpluses

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WASHINGTON (Dow Jones)--China and other countries with big trade surpluses can slash them without sacrificing economic growth, the International Monetary Fund said, through a package of measures including revaluing their currencies, shifting policies toward domestic consumption and pursuing more-sophisticated markets.

"These transitions are nothing to fear if you do proper analyses and policies," said **Marco Terrones**, an IMF economist working on the IMF's flagship semiannual publication, the World Economic Outlook.

The IMF advice comes as the fund is in the midst of putting together recommendations for the Group-of-20 industrialized and developing countries, which are aimed at "rebalancing" growth. This means those countries with trade surpluses, including China and Germany, would reduce export and increase domestic consumption, while those with current account deficits, most notably the U.S., would do the opposite.

The IMF current-account analysis isn't formally tied to the G-20 initiative, but it is bound to be cited as reason China can afford to reduce its dependence on exports growth. The IMF analyzed 28 instances over the past half-century when countries sharply reduced their reliance on trade surpluses. On average, the surplus narrowed by 5.1 percentage points of gross domestic product in the cases studied, but the countries' growth rate didn't change appreciably.

That's because any economic decline caused by an appreciation in currency was offset by other policies, including government stimulus aimed at boosting domestic demand. "There is no evidence that transitioning out of large external surplus was associated with lower growth," the IMF reported.

The closest case to China happened when Taiwan slashed its trade surplus in the late 1980s under pressure from the U.S. and let its currency sharply appreciate. Exports slowed, the IMF found, but domestic consumption boomed. Over the longer term, Taiwan prospered by shifting exports to more technology-intensive goods, such as computers and electronics.

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