

For *The International Economy*, September 18, 2006

Q: “Can China Achieve a Soft Landing?”

A:

- Odds that if China revalued the currency within the next year or two it would substantially resolve global imbalances (e.g., halve the US current account deficit) -- 0%
- Odds that China will undergo a nominal appreciation of the yuan sufficient to make a modest contribution to equilibrate excess demand *domestically*, by shifting production from traded to non-traded goods. -- 30%
- Odds that China will undergo a *real* appreciation of the yuan sufficient to make a modest contribution to equilibrate excess demand domestically. -- 45%
- Odds that China’s growth will continue strong for the time being, with a small increase in currency flexibility having little effect and with questions of sustainability remaining. -- 60 %
- Odds that we will continue to debate whether China will have a soft landing. -- 75%
- Odds that there will eventually be some serious bumps along the way before the Chinese miracle is complete, such as a banking crisis or real estate crash. -- 90%