

Chinese economic medicine: Road and rails

By Keith Bradsher

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GUANGZHOU, China: As President Barack Obama and Congress draft an \$825 billion economic stimulus plan for the United States, China is already two months into its own, very different stimulus effort to combat the global economic slump.

Democrats in Washington have put aside initial calls for starting big transportation projects, with the bill in the U.S. House of Representatives allocating less than 5 percent of spending for the construction of highways, rail lines and mass transit programs. But China is taking a more old-fashioned approach to stimulating an economy, with a heavy emphasis on pouring concrete and laying rails.

China's approach plays to the country's strengths in spending a lot of money quickly and creating jobs for literally millions of workers. And unlike the United States, the Chinese government has few debts, a tiny budget deficit and lots of cash to put behind its spending plans.

A \$17.6 billion passenger rail line across the deserts of northwest China, a \$22 billion web of freight rail lines in Shanxi Province in north central China and a \$24 billion high-speed passenger rail line from Beijing to Guangzhou in southeastern China are among the biggest projects. But extra spending is being planned in almost every city, town and county across the country. The Ministry of Transportation, for example, just announced that 300,000 kilometers, or 186,000 miles, of rural roads would be paved, repaved or otherwise improved this year.

With Chinese leaders increasingly worried about the slowdown of their country's economy and the growing risk of protests by unemployed workers, policy makers "are already in a mode of panic," said Qu Hongbin, the chief China economist at HSBC.

"They're going to spend like there's no tomorrow," he predicted.

Chinese spending on the construction of intercity rail lines, the highest priority in the stimulus plan, is to double this year to \$88 billion. Spending was \$44 billion last year and just \$12 billion as recently as 2004, said John Scales, the transport coordinator for China at the World Bank.

"I don't think anything compares, except maybe the growth of the U.S. rail network at the start of the 20th century," Scales said.

When inflation started to become a problem in China in the spring of 2004, the authorities in Beijing began a four-year effort to prevent the economy from overheating. They barred local and provincial governments across the nation from proceeding with plans for many roads, airports, subway systems and other infrastructure.

Now the central government is urging these local and provincial governments to go ahead with their projects because they are, in Washington's current parlance, "shovel ready."

China's incremental spending on economic stimulus is very hard to calculate.

The central government announced two months ago that it planned a stimulus program worth 4 trillion yuan, or \$586 billion, spread over two years. If all of that money were actually extra spending, it would equal 14 percent of the entire Chinese economic output last year.

That would dwarf the plan now going through the U.S. House of Representatives. That plan is also

spread over two years and equals nearly 6 percent of the United States' estimated economic output last year.

But Chinese and Western economists said that the plan announced two months ago exaggerated the actual increase in spending in two ways.

The plan included some projects that had already been slated for construction. And the central government has set aside less than a third of the money needed for the stimulus program.

The directors of construction projects have been told to try to raise the rest of the money from local and provincial governments or borrow it from banks or insurers. Bank lending jumped in November at the fastest annual pace in nearly five years, as the state-controlled banking sector responded to regulatory pressures to step up lending, while insurers have just been given the authority to start lending to infrastructure projects.

Further complicating the picture has been a deluge of requests from local and provincial governments to carry out their own projects separately from the national program. These requests now total \$2.6 trillion, according to the state media.

But few of these projects are likely to happen quickly, said Stephen Green, an economist in the Shanghai office of Standard Chartered. That is because local and provincial governments have limited tax revenues and little ability to sell bonds, forcing them to rely on revenue sharing by the central government.

Add up all these factors and the stimulus program is likely to add 1 to 3 percent to Chinese economic growth this year, said Dong Tao, a China economist at Credit Suisse. The American program is likely to add nearly 3 percent to the United States' growth, he added.

Another complexity in comparing the U.S. and Chinese fiscal stimulus programs is that the American plan is a grab-bag of different initiatives. The Chinese government is starting new programs that are not being described as stimulus measures, but may have the same effect.

In the United States, more than two-thirds of the money in the House bill would go toward tax cuts and helping states with health and education needs; most of the rest is for modernizing school buildings, improving data systems for health care and improving the energy efficiency of federal buildings.

China announced late Wednesday that, separately from its stimulus program, it would spend \$123 billion to provide universal health care within two years. The previous goal had been to do this within 11 years.

While economists may debate the details, the combined national, provincial and local spending for economic stimulus promises to change the face of China, giving the country a world-class infrastructure to move goods and people quickly, cheaply and reliably across great distances.

"The increased expenditure on infrastructure will certainly contribute to China's productivity growth and improve its long-term competitiveness, allowing it to pull away from its Asian neighbors, who are much more constrained - by higher levels of budget deficits and public debt - in their ability to unleash a fiscal stimulus," said Eswar Prasad, a senior fellow at the Brookings Institute.

Feng Fei, the director general of industrial economics at the policy research unit of the Chinese cabinet, the State Council, said that steep increases in railroad investments would create lasting benefits.

The goal is to slow China's dependence on personal cars and imported oil, to reduce air pollution and to relieve the annual shortage of seats on trains during the Lunar New Year, when millions of people visit their families, he said.

Across China, the stimulus plan is increasing infrastructure spending that was already prodigious.

China has already built as many miles of high-speed passenger rail lines in the past four years as Europe has in two decades. A new bullet train from Beijing to Tianjin, opened Aug. 1, travels as fast as 350 kilometers per hour.

The government has nearly finished the construction of a high-speed rail route from Beijing to Shanghai at a cost of \$23.5 billion, almost equal to that of the entire Three Gorges hydroelectric dam project. The authorities recently disclosed that they had 110,000 workers laboring to finish the route as quickly as possible - a sign not only that plenty of money was available, but also that infrastructure construction in China remained a labor-intensive activity that created a lot of jobs. Trains will cover the 1,120-kilometer route in just five hours, compared with 12 hours now.

Aside from transportation, most of the rest of China's national stimulus program will be spent on airports, highways and environmental projects, particularly water treatment plants, Feng said.

So extensive are the plans being drawn up by government agencies in Beijing and elsewhere that they have collided with the government's longstanding policy of maintaining self-sufficiency in food production.

China requires that any arable land converted from farming to other uses must be offset by bringing other land elsewhere in China into cultivation.

But the stimulus plan calls for construction on nearly three times as much arable land this year and next year as can readily be brought into cultivation elsewhere.

The Ministry of Planning and Land Resources said at the end of December that it was studying ways to "borrow" land that was supposed to be brought into cultivation in 2011 and 2012, and use it for economic stimulus projects now.

A second issue lies in how quickly China can actually accelerate its construction programs, even if the money is available. "This is a very key question," and nobody has the answers, Feng said.

Megaprojects like those now coming off the drawing boards require large numbers of experienced engineers, skilled workers and architects, as well as specialized equipment. A steep drop in housing construction is starting to put large numbers of laborers out of work in China, but fewer skilled employees.

But most economists and other experts say that China should be able to increase actual construction more quickly than the West. The government still controls large sectors of the economy and has the ability to seize private property and sweep aside environmental objections to complete projects on time.

When port construction fell behind imports of bulk cargos like iron ore in 2004, and ships started waiting as long as a month to unload, the government tripled port spending in six months. Large labor teams worked day and night to fix the problem.

A large chunk of the infrastructure spending has also been earmarked for projects in inland provinces and for rural areas, where the economic viability of new roads and bridges is often less clear.

By contrast, China's most prosperous coastal areas already have remarkably good roads and railroads connecting factories to each other and nearby ports. That is making it harder for officials to find projects that would be economically viable on their own merits.

Here in Guangzhou, a city of 12 million near the coast that is the commercial hub of southeastern China and is preparing to hold the Asian Games in 2010, local officials are staying cautious.

They have already asked workers to step up the pace on existing projects. But the city's biggest project, subway construction, has not been accelerated, as work was already proceeding around the clock, seven days a week.

"We have not put forth any new projects in response to this new stimulus plan," said Chen Hao Tian, the director of the city's powerful planning agency, the Development and Reform Commission. "We are already working full steam ahead on a very comprehensive program."

Correction:

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