

China's Route Forward

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GUANGZHOU, China — In an effort to hold back the domestic effects of the global downturn, China is starting to spend hundreds of billions of dollars on new highways, railroads and other infrastructure projects. With little debt, China has the money to invest heavily in a much-needed repair and expansion of its infrastructure.

The stimulus plan, one of the world's largest, promises to carry the modernity of China's coasts deep into the hinterlands, buying the kind of great leap forward it took the United States decades — and a world war — to build, and priming China for a new level of global competition.

As President Obama and Congress draft an \$825 billion stimulus plan for the United States, China is already two months into its effort. And while Democrats have put aside calls for big transportation projects, with the House bill allocating less than 5 percent of spending for the construction of highways, rail lines and mass transit programs, China is furiously pouring concrete and laying rails.

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 here in southeastern China are among the biggest projects. But extra spending is being planned in practically every town, city and county across the country.

And, unlike the United States, China has the cash to pay for it, with few debts and a tiny deficit.

China will spend \$88 billion constructing intercity rail lines, the highest priority in the plan. It spent \$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," Mr. Scales said.

Fear, not competition, is motivating the building boom. Chinese leaders are increasingly worried about the slowdown of their economy and the growing risk of protests by disgruntled workers. New numbers released Thursday by the government suggested they had cause for concern.

Gross domestic product grew just 6.8 percent between the fourth quarter of 2008 and a year earlier. Growth for all of 2008 was 9 percent, down from 13 percent in 2007, and every indication is that expansion has continued to slow.

Policy makers "are already in a mode of panic," said Qu Hongbin, the chief China economist at HSBC, even before the new numbers were released. "They're going to spend like there's no tomorrow."

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

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

The combined national, provincial and local spending for economic stimulus promises to change the face of China, giving the country a world-class infrastructure for moving 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 Institution](#).

Feng Fei, the director general of industrial economics at the policy research unit of China’s 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 Chinese New Year, when millions of people visit their families, he said.

China has already built as many miles of high-speed passenger rail lines in the last four years as Europe has in two decades. A new bullet train from Beijing to Tianjin, opened last summer, travels at up to 217 miles an hour; the top speed of [Amtrak’s Acela Express](#) trains in the Northeastern United States is 150 m.p.h., and it is only briefly attained.

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 the price of the entire Three Gorges hydroelectric dam project on the Yangtze River. The authorities recently disclosed that they had 110,000 workers laboring to finish the route as quickly as possible.

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, Mr. 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 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 be readily brought into cultivation elsewhere.

The Ministry of Planning and Land Resources said at the end of December that it was looking at ways to “borrow” land that is 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, Mr. 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 swoon in housing construction is starting to put large numbers of laborers out of work but fewer skilled employees.

China’s actual incremental spending on economic stimulus is hard to calculate.

The central government announced two months ago that it planned a \$586 billion

stimulus program spread over two years. If all of that money were new spending, it would equal 14 percent of China's economic output last year. The plan going through the House in Washington is also spread over two years and equals nearly 6 percent of the United States' estimated economic output last year.

But China's plan included some projects that were already slated for construction. And the government has set aside less than a third of the money. 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.

Insurers have just been given the authority to start lending to infrastructure projects.

All told, China's stimulus program is likely to add 1 to 3 percent to its economic growth this year, said Dong Tao, a China economist at [Credit Suisse](#). The American program is likely to add close to 3 percent to the United States' growth, he predicted.

Establishing an expectation is difficult, though, since the American plan is a grab-bag of different initiatives. More than two-thirds of the dollars 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, upgrading data systems for health care and improving federal buildings' energy efficiency.

(China said Wednesday that, separate from its stimulus program, it would spend \$123 billion to provide universal health care within two years instead of 11.)

Of course, there is no guarantee the large chunk of the spending earmarked for poor inland and rural areas will prove economically viable, but there was no guarantee in America, either.

But with China's once powerful export machine suddenly stalled and its housing bubble deflating, virtually no one questions the urgent need for spending.

"China gets hit by an external demand shock," Mr. Roach said, "and the economy hits a wall."