



CHINA'S STIMULUS GOES TO WORK

Funds from Beijing are pouring into projects all over the country. Will that slow economic reforms?

By Dexter Roberts



TIANJIN, CHINA

For a glimpse of China's economic stimulus plan at work, stroll the factory grounds of Tianjin Baocheng Group. Sales of its giant cylindrical boilers for commercial buildings and small power plants are on track to grow 40% this year, to more than \$25 million, as government funds fuel a construction boom. With demand soaring, Baocheng is building a huge new factory that will more than double annual production. "The Chinese economy has hit bottom," says

Chai Baocheng, a former soldier who founded the company 25 years ago. Thanks to the stimulus, he says, "from now on, it will only keep going up."

Government money is coursing through this sprawling industrial city of 12 million. A historic port 80 miles east of Beijing, the Tianjin area is currently China's fastest-growing region. Not far from century-old banks built by the

French and British, a cavernous new station serves as the terminus for a bullet train that takes just 30 minutes to reach Beijing. Stimulus money will help pay for an even bigger station and an extension of the high-speed line to Shanghai by 2012. There's also a new port and a second runway at the airport, plus wastewater-treatment plants and hospitals—all helped by funding from Beijing. "Government companies, private firms, and foreign enterprises are all benefiting from the stimulus," says Yang Weidong, vice-chairman of the Tianjin Chamber of Commerce & Industry.

One of many infrastructure jobs: an electric railway linking east and central China

It's a similar story across China. Despite three decades of quasi-capitalism, the biggest companies and banks remain under state control, making it relatively easy for Beijing to dump money into the economy. The building binge drove a



29% surge in fixed-asset investment in the first quarter, compared with 25% last year. And even though exports are off by 20%, manufacturing expanded in April for the first time in nine months. Economists now think China will hit its 8% target for gross domestic product growth this year, despite a decade-low GDP of 6.1% in the first quarter.

"China's rapid reaction in rolling out the stimulus package has resolved some prominent problems in the economy, strengthened market confidence, and stabilized people's expectations," Premier Wen Jiabao said in April.

ECONOMIC CURE-ALL?

While the \$586 billion package made headlines in November for its size, actual investment is already far higher. In the first quarter, new bank lending soared to \$676 billion, close to Beijing's full-year target and more than total lending in 2007. While some of those loans are also counted as part of the stimulus, it still amounts to a big boost for fresh infrastructure initiatives not included in the official plan. "Thousands of [additional] projects are being undertaken by local governments, and that's stimulus too," says Stephen Green, head of China research at Standard Chartered Bank. Boiler manufacturer Baocheng, for instance, got a hefty loan from the Agricultural Bank of China to fund its expansion.

Some observers are queasy over the speed at which China has unleashed spending. They fear money will be dumped into questionable pet projects of local governments or even used for speculation in stocks and real estate. More critically, economists say the initial success with stimulus may convince officials that government largesse is an economic cure-all. That could slow reforms such as opening the state-dominated services sector to more competition. "As long as the government is allocating resources, there is going to be waste and corruption," says economist Xu Xiaonian at the China Europe International Business School in Shanghai. "What we need is a further opening of the economy, not more government spending." [BW]

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