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In China's Stimulus Spending, Seeds of a Surge

By KEITH BRADSHER

GUANGZHOU, China — The global economic downturn, and efforts to reverse it, will probably make China an even stronger economic competitor than it was before the crisis.

China, the world's third-largest economy behind the United States and Japan, had already become more assertive; now it is exploiting its unusual position as a country with piles of cash and a strong banking system, at a time when many countries have neither, to acquire natural resources and make new friends.

Last week, China's prime minister, Wen Jiabao, even reminded Washington that as one of the United States' biggest creditors, China expects Washington to safeguard its investment.

China's leaders are turning economic crisis to competitive advantage, said economic analysts.

The country is using its nearly $600 billion economic stimulus package to make its companies better able to compete in markets at home and abroad, to retrain migrant workers on an immense scale and to rapidly expand subsidies for research and development. Construction has already begun on new highways and rail lines that are likely to permanently reduce transportation costs.

And while American leaders struggle to revive lending — in the latest effort with a $15 billion program to help small businesses — Chinese banks lent more in the last three months than in the preceding 12 months.

"The recent tweaks to the stimulus package indicate a sharper focus on the long-term competitiveness of Chinese industry," said Eswar S. Prasad, a former China division chief at the International Monetary Fund. "Higher expenditures on education and research and development, along with amounts already committed to infrastructure investment, will boost the economy's productivity."

The international economic slowdown is also doing some things that Chinese authorities had tried and failed to do for four years: slow inflation, reverse what had been an ever-growing dependence on exports and pop a real estate bubble before it could grow even bigger.

The recession in most of the large economies in the world is inflicting real pain here — causing a record plunge in Chinese exports, putting 20 million migrant workers out of their jobs and raising the potential for increased and sustained social unrest. But as President Hu Jintao told the National People's Congress last week, "Challenge and opportunity always come together — under certain conditions, one could be transformed into the other."

To that end, Chinese companies are shopping for foreign businesses to acquire. The commerce ministry is leading a delegation of corporate executives to Europe this week for the ministry's first mergers and acquisitions trip; the executives are looking at companies in the automotive, textiles, food, energy, machinery, electronics and environmental protection sectors.

The government initiatives coincide with some immediate benefits of the slowdown for China. For instance, air freight and ocean shipping costs have plunged by as much as two-thirds since last summer as demand has fallen.

Blue-collar wages, which had doubled in four years in some coastal cities, have fallen for many workers this winter, reviving China's advantage in labor costs.

Unemployment has pushed down the piece rates that factories pay for each garment sewn or toy assembled. Overtime has practically disappeared.

Lao Shu-jen, a migrant worker from Jiangxi province who works at a blue jeans factory here, said that he earned $350 a month late last year but would be lucky to earn $220 a month this spring.

"There are a lot of blue jeans" piling up in the back of the factory with no sign of buyers, he said.

College graduates and highly qualified middle managers, in acutely short supply a year ago, are now widely available because of layoffs. They are likely to stay that way as universities expand — although white-collar unemployment could pose a threat of social unrest: limited job opportunities for students contributed to the Tiananmen Square protests 20 years ago.

Today some jobs are still available. Four days after a shoe factory closed here for lack of orders, laying off several hundred workers, there were four ads on the factory's front gate from other shoe factories seeking to hire skilled workers.

Unskilled laborers face the greatest difficulty finding jobs. But with subsidies from Beijing, provincial governments have embarked on large-scale vocational training programs of the sort that the United States has discussed but not actually tried.

Guangdong province alone, here in southeastern China, is quadrupling its vocational training program this year to teach four million workers engaged in three-month or six-month programs.

The main comparable program in the United States, under the Workforce Investment Act, has been training fewer than 250,000 a year, although President Obama's stimulus program provides funding that could more than double the number of American workers in training programs.

The Guangdong training programs are half in the classroom and half in the factory, usually the business that plans to employ the trainees. By increasing productivity, training programs can hold down corporate labor costs per unit of production for years to come.

China's huge training programs may also help preserve social stability by keeping the unemployed off the streets, although Chinese officials deny that is their intention.

Multinationals are cutting back less in China than elsewhere — and some are even expanding.

Intel is shutting down semiconductor production lines sooner than previously planned at older, smaller operations in Malaysia and the Philippines as it opens a large, new factory in Chengdu in western China.

IMI Plc., the big British manufacturer that manufactures items as diverse as power plant valves and brewery equipment, has just announced an accelerated shift of operations to China, India and the Czech Republic, after cutting its global work force by 10 percent since December.

And Hon Hai, the 600,000-employee Taiwanese company that is one of the world's largest contract manufacturers of products like the Apple iPhone and Nintendo Wii game console, has just increased employment by nearly 5 percent in China even as it cuts overall employment by 3 to 5 percent.

Yet China's economy still has weaknesses. Little is being done to shift the economy away from a heavy reliance on capital spending and toward greater consumption. The social safety net of pensions, health care and education barely exists, so Chinese families save heavily.

And strict government policies on labor and the environment, imposed a year ago when China felt more confident of its economic strength, are prompting low-tech industries like toy manufacturing to move to other, less stringent countries.

Top labor officials insisted during the National People's Congress that they would resist suggestions from some Chinese executives that the new standards be relaxed.