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## China Unveils \$586 Billion Stimulus Plan

Amid Unrest, Package Would Address Social, Political and Economic Concerns

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SHANGHAI, Nov. 9 -- China on Sunday night announced an aggressive \$586 billion economic stimulus package, the largest in the country's history, at a time when it is struggling with increasing social unrest due to factory closings and rising unemployment.

In a wide-ranging plan that economists are comparing to the New Deal, the government said it would ease credit restrictions, expand social welfare services and launch an infrastructure spending program that would include the construction of new railways, roads and airports.

The announcement by China's State Council marks a dramatic about-face for the country, which had insisted for months that it was largely unaffected by the increasing economic chaos in the rest of the world and had remained on the sidelines while other nations constructed elaborate bailout plans.

Governments around the world had been watching to see if China would step in and fire the economic engines needed to stave off a global recession. In Brazil, where finance officials from 20 of the world's largest economies convened Sunday, attendees were hopeful the stimulus plan would provide a much-needed jolt.

"It's a huge package. It will have an influence not only on the world economy in supporting demand, but also a lot of influence on the Chinese economy itself, and I think it is good news for correcting imbalances," [Dominique Strauss-Kahn](#), managing director of the [International Monetary Fund](#), told the [Reuters](#) news service in Sao Paulo.

David H. McCormick, U.S. undersecretary for international relations at [the Treasury Department](#), called it a "welcome step."

President [Hu Jintao](#) is expected to join other world leaders in Washington on Saturday to discuss joint efforts at preventing a deep and prolonged global recession. China's leaders have been saying for months that the best way China can help is to keep its own economy on track.

The stimulus funds, to be used through 2010, represent roughly 15 percent of China's yearly GDP. China last year accounted for 27 percent of global growth, more than any other nation.

The head of China's central bank, Zhou Xiaochuan, said at the Brazil meeting that by increasing domestic consumption, China could help international markets.

The first clear sign that China might be in trouble along with the rest of the world came last month when the country's statistics bureau said its previously white-hot, double-digit economic growth had slowed to 9 percent in the third quarter, its lowest level in five years.

Several measures in the new stimulus program are aimed at segments of the Chinese population,

especially those in the countryside, who are facing economic strain. The government promised to launch new initiatives in affordable housing and health care, and to increase efforts to rebuild earthquake-damaged Sichuan province.

The plan appears designed to address social and political concerns as well as economic ones as the Chinese government faces a wave of marches, sit-ins and general unrest triggered by the deteriorating financial environment. Tens of thousands of laid-off workers have protested in recent weeks, forcing government officials to respond with a mixture of pay-offs and crackdowns on leaders of the movements.

Last week, taxi drivers in China's fourth-largest city, Chongqing, staged a violent strike, attacking police vehicles in a demonstration against high fees and fuel shortages.

Jing Ulrich, managing director of China equities for J.P. Morgan, wrote in a research note Sunday that the Chinese economy is facing "the most serious economic headwinds since the Asian financial crisis" and that "the government has every political incentive to boost spending in priority programs."

"Beijing's new policy drive of upgrading infrastructure, rural land reforms, and expansion of social welfare is akin to a 'New Deal' with Chinese characteristics," Ulrich wrote after the stimulus announcement.

Economists say that stimulating China's economy may have a positive, but modest, global impact, softening the U.S. recession and global downturn. What's most important, they say, is that China won't become another drag on the world economy.

Exports have fueled much of China's economic growth. The nation is the United States' second-largest trading partner after Canada, though America imports five times as much as it exports to China. In 2007, the United States imported \$252.2 billion more than it exported to China. China accounts for 6 percent of world economic output.

"If the Chinese economy gets a little bit self-sustaining and increases imports abroad, then the U.S. can benefit a little bit," said Eswar S. Prasad, an international economics professor at [Cornell University](#).

But Simon Johnson, former chief economist at the IMF and a fellow with the [Peterson Institute for International Economics](#), said the stimulus also contains a worrisome sign. "It also tells you that the Chinese are more worried than we thought and the official growth estimates are too high," he said. The IMF predicts 8.5 percent growth next year for China.

Over the past three months, China's leaders have taken steps large and small to keep the economy stable. Among the more traditional measures are interest rate cuts, a lowering of bank reserve ratio requirements, export tax rebates and an abolition of a stamp tax on stock purchases. It has also embraced some less traditional moves, such as giving subsidies to rural residents to buy things like refrigerators and TV sets in an effort to increase domestic consumption.

However, "the macro-economic policy changes announced on Sunday are one of only a few major shifts during the 30 years since the beginning of reform and opening up in 1978," China's official [New China News Agency](#) said.

The details of the plan drew attention to aspects of the Chinese economy that, until recently, appeared

to be relatively healthy. Among them is China's banking sector.

The State Council said credit ceilings for commercial banks would be removed to try to channel more loans to rural areas, small enterprises, mergers and acquisitions and other priorities. The change deepens worries that the country may be grappling with a credit crisis of its own that is more serious than previously thought.

This year, as global credit availability dried up, Chinese leaders bragged that the country's banks were among the healthiest lenders in the world, and seemed unconcerned about problems elsewhere.

That attitude has changed dramatically in a matter of weeks. While many of the banks in the West are having problems because of bad debt, China's banks are flush with cash -- about \$586 billion is sitting on the balance sheets of the large ones alone -- but they have resisted parting with it.

While the Communist government has the power to order banks to issue loans, that would turn back the clock on 30 years of capitalist-style reforms and could trigger anger from foreign investors in the state-owned banks who own publicly traded shares sold on the Hong Kong Stock Exchange.

However, it's clear that government efforts to encourage the banks to lend have not been successful. The result has been that about 67,000 small businesses fell into bankruptcy in the first half of the year, and now some larger, state-owned companies are feeling the effects as their customers roll back orders.

*Fan reported from Hong Kong. Staff writer Zachary Goldfarb in Washington and correspondent Joshua Partlow in Sao Paulo contributed to this report.*

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