Beijing's has offered an efficient response to the global economic downturn. • Instead of going on the defensive, it has generated major projects that call for structural changes in infrastructure and health care. • But economist Mario Deaglio warns over exaggerated expectations. •

Deaglio: Once upon a time, a Chinese locomotive

Interview by **Vittorio Borelli**

Mario Deaglio is an Italian economist known for his close monitoring of the evolution and continuity of Asian economies. His Einaudi Research Center compiles an annual report that probes the growth of economic power in the context of globalization. In this interview, the Turin economist, a columnist for the newspaper *La Stampa* and a former editor of *Il Sole24Ore*, takes stock of Chinese government policies and their possible consequences.

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China's GDP is thought to have increased by 1.8 percent in the second quarter compared to first. That would put annual growth at 7.9 percent, in line with the Beijing's announced objectives. Do you trust these estimates? I ask because, as you know, the IMF has often accused the Chinese of a certain laxness when it comes to the accuracy of statistics.

What we know for sure is that the Chinese economy continues growing, although less markedly than in the past. Beyond that it doesn't make any sense to swear by decimal points, whether a few points more or less. Unlike Europe or the United States, where statistical systems are amply tested and verified within a set framework, a large body of Chinese data emerges from local situations, which means the wish to look good can make for some excessively cheering numbers. But I repeat, these are marginal issues.

What should we make of the four trillion Yuan economic program generated by the Beijing government?

Briefly, it's as if the Chinese changed the wheels on a moving car. They didn't stop the car; instead, they tried to furnish development with a different roadmap. To do so, they created two major programs. While each has a different industrial dynamic, both are very interesting. The first relates to health and is curiously similar to President Barack Obama's [health care] program, except that the American president so far hasn't managed to spend a single dollar while the Chinese have already begun spending Yuan. In the United States, it's about making the system work more fairly and economically. In China, it's about bringing public health care to three quarters of the country.

In the countryside, right? But what about the cities?

Let's just say that in cities there's an existing public health plan, with a lot of waste and inefficiency. In the countryside, however, the situation is far worse.

And the second program?

It's a massive public works project. I say massive because it's estimated to be about 20 percent larger than the comparable American plan. We're talking about $550 billion against the $500 billion budgeted by the United States. There's an additional advantage for the Chinese: When they make a political decision, the lead-time for the completion of a project is very short, far shorter than in the West. In other words, if they decide that a high-speed train has to pass over someone's house, they evict the resident of the house the day before starting work. It may not be pleasant, but from an economic standpoint it's certainly effective.

You talked about changing wheels while still driving...

Interventions of this size in health care and infrastructure have the effect of shifting a country away from the export economy, transforming it into a more domestically oriented one.

And the result?

For starters, there's a slowdown in the production of low-cost manufactured goods earmarked for export, whether it's radios, shoes or stuffed animals. But be care-

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ful: If traditional industries shed jobs, others are created in videogame development, installation, transport, and so on. All in all, I'd say that China remains the most dynamic player on the world economic scene, a nation that has eluded the general constraints of the crisis. That doesn't mean that at a grassroots level – bearing in mind the dilemmas faced by ethnic minorities, the risk of earthquakes, and so on – that the country doesn't face problems. They're just are less obvious.

What relationship do you see between the ongoing economic situation and the Chinese stock exchange, which dropped significantly during the summer?

I should begin with a premise. When it comes to the nationalized economy, the Chinese government is doing something like what Italy's IRI did in the 1950s, putting companies on the market while keeping their hands on them. The obvious aim is to get private capital to flow into public companies and free up resources for larger projects.

What's the problem? You have to ensure that the tens of millions of Chinese who put their savings in stocks get decent returns on their investments. Now, beyond the ups and downs of a remarkably young market, which the Chinese one is, I think the government is well aware of this fact and will do everything in its power to ensure the mechanism doesn't break down.

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Assuming that the economy moves toward recovery in 2010, how do you foresee China's global position?

All projections – including mine – saw China overtaking the United States between 2030 and 2035. The crisis has only accelerated the passing speed. Not only that, it puts the Chinese in a position of strength. The idea that Chinese companies are a bit like of branches of Western entities is totally wrong. We're already seeing the totally unexpected growth of China in new geographic and economic areas. I think of Africa, Latin America, Australia, and of massive investment in coal mining, for example ... In short, while the West's is shedding weight, China is gaining it.

Do you think that Japan, which is emerging from a longtime crisis with difficulty, can evolve into a privileged partner for the Chinese?

The only way that Japan can climb out of the crisis is by starting to sell in China. And for China, Japan would be a top-tier partner in any number of fields. Political problems persist between the two countries, and they tend to exclude a direct Japanese presence in Chinese companies. But if the two sides find a way to circumvent these problems, cooperation could become very strong and very important for both nations.

Finally, should we expect China to be the engine behind the Western recovery?

I'd say no. Many expect that once the crisis is over the Chinese will return to buying Ferraris, Armani clothes and the most expensive Made in Italy products. But unless Italy lowers its production costs and begins exporting consumer products, designer labels and niche markets alone won't suffice.

A few years ago in Europe you heard the notion that the Chinese had to turn to us to learn to implement modern infrastructure. A typical case was high-speed trains, a project that was due to be handed over to a Franco-German consortium. But based on the information I have, China's high-speed trains will be built at home, by local companies. Certainly, the West will reap the benefits of a recovery in Chinese demand, but quantitatively and qualitatively it will be in ways that differ from the past.

he international financial crisis unleashed in September 2008 by the credit crunch and the collapse of several American investment banks linked to sub-prime mortgages triggered a vicious spiral of doubt and fears for the future. The economic impact of the crisis was enormous at the time it began and remains so now. It has witnessed a sharp decrease in consumer purchases, a drop in investments, an increase in fears regarding the availability of credit and a leap in the cost of insurance premiums. The overall picture challenges the economists to make sense of the causes. Perhaps more important, it has conditioned choices regarding short and long-term solutions.

The crisis spread quickly from developed economies to those in developing countries. The sudden outflow of foreign capital further increased deep deficits.

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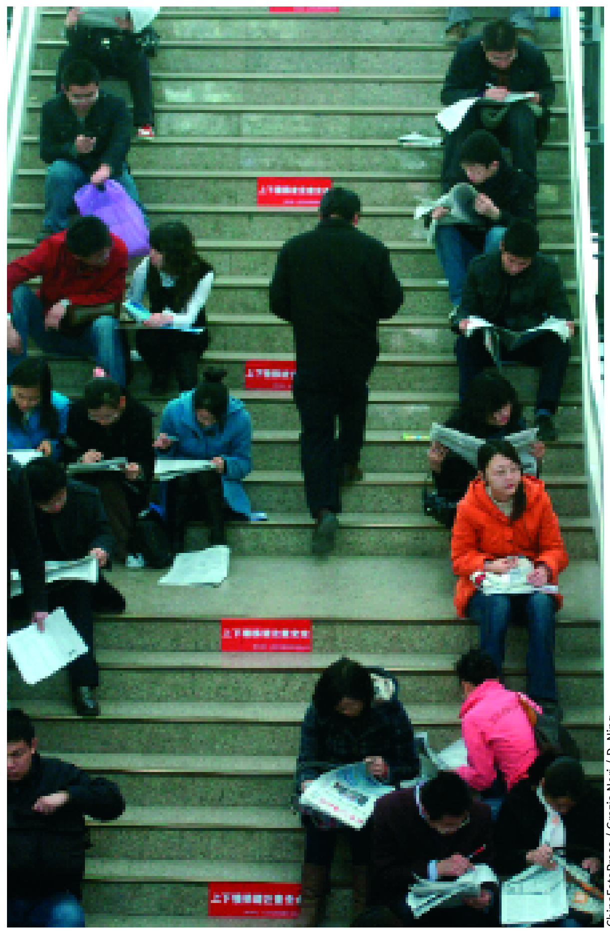
The Beijing government was among the first to move swiftly to ward off irrational consumer fears and work to contain consumer panic. Confident of its ability to maintain a GDP growth rate of at least eight percent in 2009, the Chinese launched a fiscal stimulus plan worth 4 trillion Yuan, consistent with the country's already-planned five-year development plan – the 11th such economic plan since 1953 – implemented in 2005 during Premier Hu Jintao's second term.

To better understand the paradox of market socialism, it's important to examine two aspects that often escape Western observers. The first is China's ability to rationally plan its actions using a system that, beginning with the five-year plans, precisely quantifies domestic objectives throughout the country. The second noteworthy aspect is the quickness of what might be called the "round trip" between the plan's locus and its outskirts, between the planning phase, the execution and the collecting of results – an organizational success evidently linked to non-negotiability of central directives. On the one hand, it demonstrates the state's capacity to intervene in a swift and timely manner; on the other, it evidences fierce centralism. The party's remarkable effectiveness and sway at a local level reinforces its ability to accomplish the economic goals it advertises.

Notwithstanding, China's economic forecast was met with doubt from the International Monetary Fund and World Bank, which were uniformly skeptical of the reliability of Beijing's economic data. Instead, until recently, Western predictions insisted China's 2009 GDP growth would remain below six percent. In fact, the second quarter of 2009 has already seen GDP growth reach 7.9 percent, suggesting the original eight percent projected by the Chinese may not have been a politically-generated mirage.

In July, China's National Bureau of Statistics confirmed the 7.9 percent second quarter GDP figure, following a 6.1 percent first quarter rise. An 1.8 percentage point leap, particularly in a time of global recession, can only be attributed to the speed and efficiency with which China implemented its economic stimulus plan.



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