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The Recession's Real Winner

China turns crisis into opportunity.

By **Fareed Zakaria** | NEWSWEEK

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One year ago, the leading governments of the world saved the global economy. Remember October 2008? Lehman Brothers had disappeared, AIG was teetering, every bank was watching its balance sheet. Around the world, credit had frozen and trade was grinding to a halt. Then came a series of moves in Washington—bank bailouts, rescue packages, fiscal stimuli, and, most crucially, monetary easing. It's an exaggeration to say that these measures prevented a depression. But the crisis has still fueled a slowdown that has affected every country in the world.

The great surprise of 2009 has been the resilience of the big emerging markets—India, China, Brazil, whose economies have stayed vibrant. But one country has not just survived but thrived: China. Its economy will grow at 8.5 percent this year, exports have rebounded to where they were in early 2008, foreign-exchange reserves have hit an all-time high of \$2.3 trillion, and Beijing's stimulus package has launched the next great phase of infrastructure building in the country. Much of this has been due to remarkably effective government policies. Charles Kaye, CEO of the global private-equity firm Vista Equity Partners, lived in Hong Kong for years. After his last trip to China a few months ago he said to me, "I think governments have responded to this crisis defensively, protecting their weak spots. China has responded aggressively forward." It is fair to say that the winner of the global economic crisis is Beijing. (Continue to follow *Fareed Zakaria*.)

Almost every country in the Western world entered the crisis ill prepared. Governments were spending too much money and running high deficits, so when they had to spend massively to stabilize the economy, deficits zoomed into the stratosphere. Three years ago, European countries were required to have a budget deficit of less than 3 percent of GDP to qualify for EU membership. Next year, many will have deficits of about 8 percent of GDP. The U.S. deficit will be higher, in percentage terms, than at any point since World War II.

China entered the crisis in an entirely different position. It was running a budget surplus and had been raising interest rates to tamp down excessive growth. Its banks had been reining in consumer spending and excessive credit. So when the crisis



Chinese government could adopt textbook policies to jump-start growth. It could lower interest government spending, ease up on credit, and encourage consumers to start spending. Having be disciplined during the fat years, Beijing could now ease up during the lean ones.

And look at the nature of China's stimulus. Most of U.S. government spending is directed at con the form of subsidies, wages, health benefits, etc. The bulk of China's stimulus is going toward its future growth: infrastructure and new technologies. Having built 21st-century infrastructure for cities in the last decade, Beijing will now build similar facilities for the second tier.

China will spend \$200 billion on railways in the next two years, much of it for high-speed rail. The Shanghai line will cut travel times between those two cities from 10 hours to four. The United States, in contrast, has designated less than \$20 billion, to be spread out over more than a dozen projects, guaranteeing their failure. It's not just rail, of course. China will add 44,000 miles of new roads and airports in the next decade. And then there is shipping, where China has become the global leader of the world's three largest ports are Shanghai and Hong Kong.

China is also well aware of its dependence on imported oil and is acting in surprisingly farsighted ways. China now spends more on solar, wind, and battery technology than the United States does. Research from investment bank Lazard Freres shows that of the top 10 companies (by market capitalization) in various fields, four are Chinese. (Only three are American.) It is also making a massive investment in higher education.

"For the last decade, as China's economy kept growing at unprecedented rates, most Western analysts were discussing when it would crash," says Zachary Karabell, the author of a smart new book, *Superficial: The Sino-U.S. Economy*. "Now with China surging ahead through this crisis, all they can discuss is, will China stall? It's as if they see the facts, but they can't quite make sense of them." China's strange state intervention, markets, dictatorship, and efficiency is puzzling. But it's time to stop hoping for failure and start understanding and adapting to its success.

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