China can help west build economic growth[*]

By Lou Jiwei

Central to international efforts towards promoting strong and balanced growth is the need to generate demand, not only in developing countries but, more importantly, in developed countries. The imperative poses a critical question: where is new demand to come from? The answer lies in boosting investment in infrastructure – and China is keen to get involved.

The narrative of infrastructure development in places such as the US indicates how such investment powers an economy forward. China's growth story in recent years provides further proof. Now, infrastructure in Europe and the US badly needs more investment.

Traditionally, Chinese involvement in overseas infrastructure projects has been as a contractor only. Now, Chinese investors also see a need to invest in, develop and operate projects. In a sign of this determination, the China Investment Corporation, the sovereign wealth fund, is now keen to team up with fund managers or participate in public-private-partnerships (PPP) in the UK infrastructure sector as an equity investor.

Infrastructure spending is an important way to boost consumption and it also acts as a spur to economic growth. One need only look at China to see what can be achieved. Between 1979 and 2007, China committed vast resources to infrastructure development. In the wake of the 2008 financial

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crisis, the government introduced a Rmb 4,000bn economic stimulus package, with a large part of the money directed into infrastructure. As a result, China's annual economic growth rose from 6.8 per cent to more than 10 per cent from late 2008 to the end of 2009.

Infrastructure is underinvested in European countries and the US. The British Treasury has estimated that by 2015, £200bn will be needed to invest in energy, water, transport, digital communications, waste disposal and other related projects. Meanwhile, the American Society of Civil Engineers estimated that the US needs to spend at least $2,200bn on infrastructure repairs or rebuilding. Free of the inflationary pressure that afflicts many emerging economies, the US and Europe should make substantial investment.

We cannot count on developing countries to deliver a stable economic recovery on their own. China has taken a set of ambitious and effective measures to stimulate domestic demand and consumption. Yet Chinese consumption is still small as a share of the global total. If the world stakes too much on the export-led growth strategy, it may turn out to be a "zero-sum" game to the detriment of the global economy.

Long-term investment in infrastructure is still inadequate. Governments should introduce pro-investment policies to create an attractive environment. This should include making fiscal adjustments, reducing taxes and offering bank loans at discounted rates. These measures will generate demand for equipment manufacturing, put more people on the payroll and cut back on unemployment benefit spending.

For commercially viable projects with potential high returns, the government could invest with local or overseas institutional investors in a PPP arrangement that would allow the sharing of risks and returns.

The UK is one of the most open economies in the world, a position bolstered by its sound legal system. PPP is a regular form of investment in infrastructure development that should be encouraged and replicated in other developed countries.

Governments seeking external investment in infrastructure should relax regulatory restrictions where necessary, and promote transparency and predictability for investors.

Infrastructure projects normally involve an investor, developer, operator and contractor. Chinese involvement has traditionally been in the fourth. Now we also see a need to get involved in the other three.

Local knowledge is essential. Foreign investors without this expertise cannot lead a project. Local co-investors and operators can fill this gap. Governments should encourage domestic players to take the lead in infrastructure projects, and attract foreign investment.

Sovereign wealth funds invest on a diversified and balanced basis, with a proportion of portfolio geared towards stable returns over the long run. Infrastructure represents a suitable choice for sovereign wealth funds to invest directly or through fund managers, with the aim of seeking stable and sound financial returns. CIC believes that such an investment, guided by commercial principles, offers the chance of a “win-win” solution for all.