China's infrastructure investments 'threaten its economic growth'

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A new study by the Saïd Business School finds that low-quality infrastructure investments pose significant risk to the Chinese and the global economy. It argues that over half of the infrastructure investments in China have destroyed rather than generated economic value.

The study authored by Atif Ansar, Bent Flyvbjerg, Alexander Budzier and Daniel Lunn is based on the largest dataset of its kind. It analyses 95 large Chinese road and rail transport projects, and 806 transport projects built in rich democracies.

'From our sample, the evidence suggests that for over half of the infrastructure investments in China made in the last three decades the costs are larger than the benefits they generate, which means the projects destroy economic value instead of generating it,' comments Dr Ansar.

'Unless China shifts to fewer and higher-quality infrastructure investments the country is headed for an infrastructure-led national financial and economic crisis, which is likely to spread to the international economy,' he adds.

The study, published in the *Oxford Review of Economic Policy*, dispels the conventional wisdom that China has a distinct advantage over other countries in the delivery of large-scale infrastructure projects.

It finds that actual infrastructure construction costs in China are on average 30.6% higher than estimated costs, which it assesses as a level consistent with global trends. Also, that three-quarters of transport projects in China came in over budget.

The study also argues that traffic using major road projects in China represent two extremes which hamper economic growth. It says two thirds of roads have low use (average shortfall of 41.2%), while one third are congested with an average traffic surplus of 61.4%.

Road and rail projects in China took 4.3 years on average to build, compared to 6.9 years in rich democracies. However, a growing importance on issues such as cost, safety and the environment is lengthening construction schedules in China, says the study.

'Our estimate is that infrastructure cost overruns have equalled approximately one-third of China's US$28.2 trillion debt. The investment boom in projects with poor outcomes has created harmful macroeconomic consequences, with China being the most indebted of 25 emerging markets,' says Dr Ansar.

The study concludes that a massive infrastructure investment programme is not a viable development strategy for other developing countries such as Pakistan, Nigeria or Brazil, which may use China as their model for economic development.

'It is a myth that China grew thanks largely to heavy infrastructure investment. It grew due to bold economic liberalisation and institutional reforms, and this growth is now threatened by over-investment in low-grade infrastructure. The lesson for other markets is that policy makers should place their attention on software and deep institutional reforms, and exercise far greater caution in diverting scarce resources to large-scale physical infrastructure projects,' concludes Dr Ansar.

More information: Does infrastructure investment lead to economic growth or economic fragility? Evidence from China: arxiv.org/ftp/arxiv/papers/1609/1609.00415.pdf

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