



## China Announces Details of Its Financial Stimulus Package

In September the US Treasury Department focused on crafting a rescue package for the financial services sector, based on the assumption that the heart of the current global crisis is a liquidity crunch. Since then, the effect of the Wall Street crisis has extended to Main Street. As a result, various economists, such as Robert Reich and Nouriel Roubini, have called for the US Congress to adopt an economic stimulus package to ease some of the harshest impacts of the downturn in the short term as well as to recharge US economic activity in the medium term. President-elect Obama has indicated he will consider taking these types of approaches. Adoption of measures may end up waiting, however, for January, when changes in personnel in both the White House and Congress become effective.

Against the background of these events, this week China's State Council announced a stimulus package for that country of US\$586 billion – estimated to equal almost 20% of China's annual GDP – which some have referred to as a "["bazooka" compared with the Treasury Department's "peashooter."](#)" The plan as announced (details are still emerging) contemplates an "active" fiscal policy, with an "eased" monetary policy (a significant shift from policies aimed at tightening of credit beginning at the end of 2007).

The plan includes 10 major steps to stimulate China's domestic consumption and growth. The key areas to which the economic stimulus will be applied are as follows:

**Housing:** China will build more affordable and low-rent housing and speed the clearing of slums. A pilot program to rebuild rural housing will expand.

**Rural Infrastructure:** China will expedite rural infrastructure construction. Roads and power grids in the countryside will be improved, and efforts will be stepped up to spread the use of methane and to ensure drinking water safety. This part of the plan also involves

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expediting the North-South water diversion project. Weakened reservoirs will be reinforced, water conservation in large-scale irrigation areas will be strengthened and poverty relief efforts will be increased.

**Transportation:** The expansion of China's transportation network will accelerate, with more dedicated passenger rail links and coal routes planned. Trunk railways will be extended, more airports will be built in western areas and urban power grids will be upgraded.

**Health and Education:** China will strengthen its health and medical services by improving the country's grassroots medical system. It will accelerate the development of its cultural and education sectors, build junior high schools in rural western and central areas and create more special education and cultural facilities.

**Environment:** The stimulus package will improve environmental protection by providing funds to enhance construction of sewage and waste treatment facilities and prevent water pollution in key areas. China will accelerate greenbelt and natural forest planting programs and increase support for energy conservation and pollution-control projects.

**Industry:** Innovation and industrial restructuring and development of the high-tech and service industries will be supported.

**Disaster Rebuilding:** China is stepping up reconstruction efforts in areas affected by the May 12 earthquake.

**Incomes:** China plans to increase average incomes in rural and urban areas by increasing next year's minimum grain purchase and farm subsidy levels. It also plans to increase subsidies for low-income urban residents, pension funds for enterprise employees and allowances for citizens receiving special services.

**Taxes:** The country is extending reforms in value-added tax rules to all industries, which could cut the corporate tax burden by 120 billion yuan (about US\$17.6 billion). Businesses will be encouraged to upgrade their technology.

**Finance:** China will enhance support of its banking industry to maintain economic growth. Plans include removing loan quotas on commercial lenders and increasing bank credit to support priority projects, rural areas, medium-sized and smaller enterprises, technical innovation and industrialization through mergers and acquisitions. Accordingly, the Draft of Regulations Regarding M&A Loans, currently under deliberation by the China Banking Regulatory Commission, may be promulgated soon. Under current PRC law, companies may not use bank loans for equity investments, nor may they use funds raised by company bonds for that purpose. However, this restriction may be removed by the new M&A loan regulations.

What type of impact can global investors in China expect

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from these measures? So far, commentators have speculated that they may not offer significant new public procurement opportunities. For example, China had already announced plans to expand its rail network by 20% in 2009, but, aside from the opportunity to sell the industry certain types of equipment, because of how rail ownership and operations are structured in China, a significant financial opportunity for outsiders to invest in ownership or development of its rail industry does not exist. Increased spending on China's electrical grid and drinking-water network, however, may provide greater opportunities for entities outside China. To what extent increased government spending on infrastructure development under China's economic stimulus plan will translate into increased opportunities for suppliers outside China remains to be seen.

The plan (including the loosened credit policy) is expected to reignite real estate investment, which will have subsequent effects on demand for the cement, iron, steel and glass industries. At least [one economist](#) estimates that the extra spending could boost China's economic growth by 2 percentage points in 2009. However, increased production of commodities will also lead to increased demand for energy. During the winter of 2008, we saw the stresses that snowstorms placed on energy transmission and supply. Distribution of goods and production both suffered. Have those bottlenecks and weaknesses been addressed, or will we see a repeat of these challenges in the winter of 2009? Only time will tell.

If you are interested about the specific opportunities China's economic stimulus presents for your business, please contact a member of the Squire Sanders China team.

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This alert provides free information on the influence of certain aspects of the Chinese legal environment and does not constitute legal advice.

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