



### **China's Stimulus Package – the Right Move at the Right Time**

It's been a tough year in China – starting with snowstorms that virtually paralyzed the country over Chinese New Year, the tragedy of the Sichuan earthquake, the nationwide tainted milk scandal, the deep decline in China's and Hong Kong's stock market, declining exports as the west reels under the worst recession since the great depression – but through it all China's economy keeps on growing.

With double digit growth slowed to an annualized rate of nine percent in the third quarter, China's GDP (at \$US 3.6 billion) has passed Germany to trail only Japan (\$4.4 billion) and the US (\$13.8).

Dominoes keep falling in the United States:

- ◆ triggered by declining house prices, leading mortgage companies went under
- ◆ stock prices heading south, cumulating in freefalls from time to time
- ◆ brokerage firms failed or merged
- ◆ home foreclosures rising substantially, putting banks in jeopardy causing further declines in real estate pricing
- ◆ high unemployment
- ◆ business failures including the pending collapse of the Big 3 automakers

And many predict the worst is yet to come. The government responded with a \$700 billion (adding to a US debt approaching \$11 trillion) bailout aimed at rescuing the country's financial institutions.

China, who has held up remarkably well, was quick to take action as a result of the “Western” recession by adopting what the State Council terms an “active fiscal policy” and “moderately easy” monetary policy to support “fast but steady economic growth by expanding domestic demand”. The latest step is a \$US 586 billion economic stimulus plan, aimed at bolstering the country's slowing economy by enhancing the country's infrastructure and improving living conditions for its rural and low-income population. This includes acceleration in the building of new railways (including additional high-speed lines), subways, airports and roads; rebuilding communities devastated by the May earthquake and an expansion in low-income housing to improve housing for 10 million households nationwide.

Premier Wen Jiabao, in a tour of Guangdong Province on November 16, promised additional incentives to SME's, which “play a crucial role in promoting economic growth, increasing fiscal revenue, providing jobs and maintaining social stability.” These may include such things as additional VAT relief for fixed asset purchases as well as other products, enhanced credit and income tax incentives. (Check with S-B for the latest developments in the coming weeks.)

While the US's bailout offers nothing for its growing unemployed (at least not directly), China's stimulus program represents an investment in its future and continued prosperity.

This is but the latest of a clear policy to promote internal growth of business within China, but definitely not the last. Let's briefly look at the steps taken to date:

- August 1 – VAT tax rebates were raised for certain textile and garment exporters.
- August 5 – The People's Bank of China (PBOC) raised commercial credit quotes aimed at easing financing of small and medium-sized enterprises (SMEs), while cutting interest rates by 0.27 percent.
- September 19 – Stamp tax on stock purchase was removed following a two-thirds fall in the key stock index, and the government gave its support for state-owned enterprises in repurchasing stocks of their listed subsidiaries.
- October 5 – PBOC cut interest rates by another 0.27 percent and reduced the reserve-requirement by 0.5 percent.
- October 17 – Down payments for first time home buyers reduced from 30 to 20 percent, and interest rates were also cut; the PBOC cut interest rates by another 0.27 percent (the third move in six weeks), and
- November 1 - VAT rebates were raised for 3,486 export items and Guangdong province committed \$US 3.5 million to compensate 7,000 laid off employees for back wages.

### **So what does this mean for foreign companies operating in or looking to expand into China?**

A lot.

- For companies involved in construction or in construction-related parts, engineering and/or other services it represents a much needed revenue stream.
- With the prospects of a continued healthy Chinese economy, China's commitment offers opportunities to increase exports, establish new China joint ventures and strategic alliances.

China has voted not to be dragged into the recession of the West. It's a great time to get on board.

### **Our China Investment Business Advisory Team**

Hong Kong  
Rm 803-4. 8/F., Seaview Commercial Bldg,  
21-24 Connaught Road West, Hong Kong

Guangzhou  
17H, East Tower, Fuxing Comm. Bldg., 159-163 Huangpu  
Rd West, Tianhe Dist,  
Guangzhou, PRC 510620

Shanghai  
Unit03, 12B/F, 327 Wuding Road, Jingan Dist.  
Shanghai, PRC 200041

Lyon Odiceo  
115 Boulevard Stalingrad – BP52038  
69616 Villeurbanne Cedex

Paris Odiceo  
49 bis avenue Franklin Roosevelt  
75008 PARIS

Company Website:  
[www.amdfk-sinobridge.com](http://www.amdfk-sinobridge.com)

General:  
Tel: (852) 3579 8745  
E-mail: [info@amdfk-sinobridge.com](mailto:info@amdfk-sinobridge.com)

For any enquiries, please feel free to contact Ms. Nikita Yim, Marketing Executive: [nikitayim@amdfk-sinobridge.com](mailto:nikitayim@amdfk-sinobridge.com)