SWITZERLAND GLOBAL ENTERPRISE

China

Snapshot of new planned mini-stimulus plan and industry opportunities

Compiled by:

Swiss Business Hub China

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Chinese policymakers have rolled out a mini-stimulus package on April 2, 2014 as an effort to stimulate its slowing-down economy as well as implement structural change. As a witness to its weakness in economy, China announced in mid-April its Q1 2014 GDP growth rate at 7.4%, lower than its yearly growth target of 7.5% set earlier in March. Three measures that have been announced are increased investment in railways and reconstruction of shantytowns, as well as tax cuts for small companies.

Unlike the stimulus plans in 2008, measures of this most recent plan are smaller but more targeted. As these areas are all consistent with long-term strategic goals and are currently underdeveloped and under-invested, the investment should be more fruitful than previous stimulus programs. And those projects are being funded mostly by a relaxation of fiscal, rather than monetary policy, preventing an unnecessary increase in debt. China Railway Corporation has been allowed to issue more bonds 150 billion yuan (21.2 billion CHF) to finance construction for the railways, while property developers have been permitted to refinance on the equity markets. This should help China to smooth growth without exacerbating financial stability risks.

Background Information

In the wake of the 2008 global financial crisis, China unleashed a much bigger stimulus program (four trillion Chinese yuan, equivalent to 566.6 billion CHF) which helped the economy recover quickly from the shock. However, the program led to a credit boom and an explosion of debt which Chinese government currently seeks to rein in by tightening money supply and credit conditions.

Industries

Rail to be expanded

According to the plan, some 6,600 kilometers (4,100 miles) of new railway lines would be built this year, about 1,000 kilometers more than originally planned and particularly in the nation's central and western regions. Unlike some other sectors, the rail system in China isn't facing overcapacity amid slower economic growth. Swiss companies that are categorized in below sectors may benefit from the plan.

- Railway infrastructure
- Engineering
- Railway solution providers (visualisation solution, communication and control solution, etc)
- Electronic components and linkage industries

Reconstruction of shantytowns

As part of the effort of upgrading poorer urban areas, some seven million sets of shantytowns will be reconstructed, at a cost of about 1.12 trillion Chinese yuan (158.6 billion CHF) and a 6.06% increase from last year's 6.6 million sets. China Development Bank, a lender for key government policy projects, would set up a special arm to issue bonds to support new homes. It is worthwhile for companies active in construction machinery to explore opportunities arising accordingly.

Tax cuts for small companies

Existing tax breaks for "small and micro" companies were scheduled to be extended until the end of 2016 and it would raise the threshold for taxing smaller businesses fundamentally compared to its current 60,000 Chinese yuan. Chinese small companies have been struggling as economic growth slows.

***** Exchange rate: 1 CHF= 7.06 Chinese yuan, April 21, 2014

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