

LEHMAN, LEE & XU



雷曼律师事务所

PRESS RELEASE

LEHMAN, LEE & XU COMMENTS ON CHINA'S NEW ECONOMIC STIMULUS PLAN

October 20, 2008 –This week, Reuters reported that China is preparing steps to boost domestic demand, including more spending on railways, to help cushion the impact of the global credit crisis. The package of measures will be finalised at next month's Central Economic Work Conference, at which top policy makers will chart policy for 2009, Zheng Xinli, vice-head of the ruling Communist Party's Policy Research Office, said. "China will roll out some very important measures to boost domestic demand next year," said Zheng, speaking to reporters at a recent economic forum. Zheng said that because China has already experienced increased domestic consumption, there is little room for growth in this sector of the economy. Therefore, the government policy makers will focus more on stepping up investment in industrial projects and infrastructure, particularly railways, and at relaxing curbs on the property sector. Zheng said the National Development and Reform Commission, the main planning agency, was working on detailed proposals for rail reform. Beijing has budgeted 1.2 trillion yuan (\$175.7 billion) in rail investment for 2006-2010, more than four times the sum in the previous five years, to make up for past underinvestment that has resulted in serious cargo and passenger bottlenecks. Much of current rail capacity is devoted to the transport of coal, the main source of power, forcing a lot of freight to be moved by road even though it is less efficient. Passenger trains are very overcrowded, especially at holiday periods.

Scott Garner of Lehman, Lee & Xu commented that "this new economic stimulus plan is primarily geared to increasing domestic consumption in order to fight an economic slowdown caused by slowing export activity resulting from the world wide credit crisis. The government instituted a similar program of building and public works projects in 1997 during the Asian financial crisis. While the purpose of the stimulus package may be to combat a slowing economy, the plan should have a significant impact on our foreign clients in the years to come. Many of our clients would like to have access to China's interior, either to tap into cheaper labor markets, source cheaper materials, or distribute products. However, in the past and even today, it has been difficult to access the interior because of an already strained and overworked rail network. The massive rail expansion that is currently being discussed within the government should make access to China's vast interior easier and less costly in the future. With a modernized freight rail network, our clients could then locate their manufacturing sites in Hunan, Henan, or even Sichuan, where labor costs are now much cheaper than in Guangdong, Jiangsu, or Zhejiang."

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