

Beijing's COVID-19 Stimulus Will Be Aimed at Tomorrow's Infrastructure

The size and scope of China's COVID-19 stimulus has not yet been confirmed. The fiscal response thus far has been rather limited, chiefly tax and social insurance payment benefits. These, however, were put in place when the epidemic was seen as a national issue—and not as a global crisis.

China's stimulus, when it does arrive, it is not likely to resemble the country's response to the 2008 financial crisis—an aggressive infusion of trillions of RMB into infrastructure projects across the country. While this was generally considered successful in stabilizing economic growth, the 2008 stimulus also brought local debt, overcapacity, and bubbles in the property market. China's leadership will be keen to avoid these issues this time around. In addition, China's economy is significantly more sophisticated and much of the low-hanging fruit in infrastructure have already been picked.

- **President Xi Jinping has made it clear that he expects a forward-looking stimulus package in line with existing high-level national economic objectives.** Investments are to be made in “new infrastructure” such as data centers, 5G, AI, IoT, etc. Many of these objectives and government support will likely be bundled up in a variety of existing industrial plans, which may be sped up or enlarged. China will also release the 14th Five Year Plan (FYP) during its annual government meeting later this year. It is likely that Beijing's stimulus will, in large part, be an aggressive implementation of measures already included in the 14th FYP.
- **We can also expect support to come from “government guidance funds,” one of Beijing's current favorite policy tools.** These are government-led “private equity” funds that make investments into strategic areas, often leveraging private capital—up to many times the upfront government investment. They are currently widely used across the board in supporting a variety of strategic industries.
- **There is also much discussion between the central and local governments about providing Chinese citizens with consumption vouchers that can be used to purchase consumer goods and services.** This would be aimed at reviving small and medium-sized businesses. The provinces of Jiangsu, Shandong, Zhejiang and Guangdong are leading the way. In 2009, after the Global Financial Crisis a group of city governments issued consumption vouchers. The city of Hangzhou, for example, issued nearly RMB 1 billion in vouchers.

There is a real opportunity for foreign companies to benefit from China's stimulus, but they will require detailed knowledge of initiatives at the central and local levels. Fiscal support is likely to be rolled out in a complicated and hard-to-track manner, alongside and embedded within existing industrial plans. Understanding the process will be crucial for foreign companies—both those seeking access to government support or that who would benefit from increased government spending.

Investments into Beijing's priority technology areas will also have to be balanced with more traditional ones, especially those that create jobs. Local officials have much leeway in defining which companies qualify under the necessary categories to receive support. Companies with flexible positing and local engagement are best suited to be considered.

In order to navigate the complexity of these programs, foreign companies should consider doing the following:

- **Understand** in detail the funding programs and incentives that are available to them as they may be scattered across central and local levels in different forms.
- **Track** implementation of concrete stimulus projects at an early stage. This may provide an insight into potential business opportunities arising from stimulus programs and government investment plans.
- **Engage** stakeholders at central and local levels to ensure companies' voices are heard and interests are represented. Those voices that are presented while these counter-cyclical fiscal measures are being crafted may even shape the development of stimulus programs in favor of their business objectives.

The greatest opportunity in this time of crisis are for companies to demonstrate their know-how and expertise through partnering in "new infrastructure" projects. Besides the potential to partner on large-scale endeavors, companies that are actively engaging with China will shape tomorrow's infrastructure standards and lay the foundations for long-term success.

APCO Worldwide is a global advisory and advocacy firm. In China, APCO has helped clients engage relevant stakeholders to access to complex funding programs that have been available to them for past decades. Particularly, we helped companies track and secure massive stimulus monitoring projects during the post-financial period that are vital to the success of their business.