

Beijing Plans Infrastructure Binge

By AARON BACK

BEIJING—China approved an estimated \$156 billion in new subways, highways and other infrastructure projects in recent days, giving markets a boost on Friday, even as economists are increasingly fretting that the country is behind the curve in responding to the economic slowdown.



A subway in Xi'an City, China, is set to be running by September 2013.

The spending plans send a signal that the Chinese government has belatedly heeded risks from a slowing economy and has become increasingly open to stimulus, economists said.

China's central government finally took real actions to arrest the worsening slowdown," Bank of America Merrill Lynch economist Lu Ting said in a note, but he added that the new plans come too late to arrest a further slowdown in the third quarter.

Saturday morning, President Hu Jintao addressed the need to upgrade infrastructure to promote stable growth and recovery and warned that the "underlying impact of the financial crisis is far from over."

Chinese stocks rallied Friday on signs of the government infrastructure plan, as well as in reaction the bond-buying program unveiled Thursday by the European Central Bank.

As news of the approvals spread Friday, the Shanghai Composite Index of domestically traded Chinese stocks rose 3.7%, its largest percentage gain since Jan. 17. Construction-related companies were among the biggest gainers, and steel futures traded in Shanghai rose by their 5% daily limit on optimism that construction activity will rebound.

The government hasn't offered a combined figure for the projects. Nomura economist Zhang Zhiwei estimated that the various projects, along with recently announced plans for new airports and energy facilities, would amount to about one trillion yuan (\$158 billion) of spending, or about 2% of China's GDP, spread over four years.

"We believe the decision for the Chinese government to intensively announce these projects over the past two days signals a significant change in its policy stance from the incremental and reactive approach to a more decisive and proactive approach," he said in a note.

Still, the infrastructure spending laid out this week falls far short of the massive stimulus campaign of 2009 to 2010. That package was initially billed at four trillion yuan over two years by the central government. Many analysts estimate it was actually far larger as local governments spent liberally on infrastructure projects and state-owned banks went on an unprecedented lending binge.
