INFRA Update is a newsletter containing information about the World Bank’s Infrastructure Recovery and Assets platform. INFRA was launched during the Spring Meetings in April 2009 to scale up the World Bank’s infrastructure lending during the financial crisis, coordinate the response among international financial institutions and donors to bridge gaps in infrastructure financing and capacity, and raise awareness on the need to continue financing infrastructure to provide the foundation for rapid recovery and job creation and to promote long term growth. This newsletter highlights publications, projects, and news related to opportunities for employment generation in infrastructure crisis response. For more information and to access INFRA publications, please visit http://www.worldbank.org/infra

China's Stimulus Plan

As China’s growth dropped sharply in final quarter of 2008, the government responded quickly and strongly by announcing a stimulus package of US$586 billion over two years or 13.4% of GDP. Of this, US$173 billion was to be central government spending, with the rest coming from local governments (US$180 billion) and Bank lending (US$233 billion). Government investment was designed to act as “seed funding” to attract further investment, from co-funding from local governments as well as from private investment (with the help of massive bank lending) (Figure 1).

More than a third of the stimulus was allocated to infrastructure sectors, including railways, roads and grids (Figure 1). The government’s main focus for spending from the stimulus package was on mega-projects, primarily on large-scale infrastructure civil works as well as for the reconstruction effort for post-earthquake Sichuan. Low carbon infrastructure was prioritized, with 8000 km of high speed railway lines and grid modernization projects receiving significant allocations. China intends to spend $46.9 billion in stimulus funding on energy efficiency, clean vehicles, grid infrastructure and other clean energy technology. Its “Golden Sun” initiative will grant up to 50 percent of the installation cost of photovoltaic power plants in China. This plan was deliberately designed to focus on those sectors in which projects would generate significant and continuing long-term benefits as well as being capable of rapid implementation.

Figure 1 – China’s Stimulus Plan
Implementation
The government is on course to deliver on its stimulus targets. Actual spending is likely to exceed the planned US$71 billion in 2009 with remainder being spent before the end of 2010. The rapid implementation of the stimulus is due in large part to the availability of numerous implementation ready infrastructure projects. In addition to its own investments, the stimulus has relied on significant amount of financing from banks. Total net new bank lending has increased to US$1.4 trillion in 2009, or almost 30 percent of GDP. Of this, Infrastructure made up one-half of total medium and long term lending in 2009, compared to one-third in 2007 (Figure 2). Investment in railroads has especially soared, notching up a growth rate of more than 103% for the first eight months of this year. By the end of this year, China will have spent about US$50 billion on its nationwide high-speed rail network alone.

Outcome
Growth. The stimulus plan has helped fuel a strong recovery of the Chinese economy and helped overcome the large drag on growth from reduced exports amidst the global recession. Economic growth increased to 11.9% in the first quarter of 2010 compared to 6.8% in the final quarter of 2008 and 6.1% in first quarter of 2009. This was fastest level of growth since 2007. The recovery was supported by a surge in government led spending equal to 5.9 percent of GDP in 2009, which took effect in the second quarter of 2009. However, only a small part of the stimulus was reflected in the central government’s budget. Additional financing—largely bank lending—contributed almost two-thirds of the stimulus. The bank lending towards infrastructure projects run by local government investment platforms has been a key part of the massive monetary expansion.

Employment. Infrastructure related employment has helped mitigate the impact of job losses in export-oriented processing industries. Nation-wide, employment and wage growth slowed substantially in the first half of 2009, but remained positive (according to the official labor market data and information on migrant wage income from the household survey). Both official wage growth and rural “per capita” wage income growth picked up again somewhat in the third quarter (Figure 3). Survey data on the balance between demand and supply on the labor market also suggests that the labor market has tightened again in the third quarter. Taken together, the stimulus package announced a year ago, as well as lower interest rates and greatly increased lending by state-owned banks, have helped China weather the crisis and recover forcefully.
Given the consonance of the areas of focus of the Chinese government fiscal stimulus package and the World Bank lending program, the Government requested the Bank to accelerate preparation of projects in areas such as high speed rail, transport, water supply and waste water, and energy efficiency to match the speedy implementation of investments supported by stimulus funds. This accelerated preparation has led to the provision of more than $2.5 billion in infrastructure financing to China since the beginning of the crisis, with a continued focus on innovation and quality of project preparation. Some key projects approved by the Bank include:

**NanGuang Railway Project (Approved June 2009, $300 million)**
The Project will provide additional transport capacity and reduce transport time between the less developed western region of southwest China and the relatively more developed Pearl River Delta region. This is one of the first projects approved to support China’s stimulus plan.

**GuiGuang Railway Project (Approved April 2009, $300 million)**
The GuiGuang Railway Project will help build an 857-kilometer electrified railway line between Guiyang in Guizhou Province and Guangzhou in Guangdong Province, providing for the first time a direct connection between some of the poorest areas of China and the more developed Pearl River Delta region. The new rail line will operate passenger and freight trains at speeds of up to 200 and 120 km an hour respectively. Upon completion of the project, travel time for rail passengers between Guiyang and Guangzhou will drop from the current 24 hours to just five hours This project also supports China’s stimulus plan. The total investment of the project is $12.5 billion, with $300 million from the World Bank.

**Wenchuan Earthquake Recovery Project (Approved February 2009, $710 million)**
This project is supporting the Government’s National Masterplan for the Rehabilitation and Reconstruction of Wenchuan Earthquake, working in the two most affected provinces of Sichuan and Gansu. The Bank is financing infrastructure reconstruction in five municipalities, as well as township health centers and city level health facilities in seven municipalities in Sichuan. In Gansu, the Bank loan is also financing reconstruction for infrastructure, health and education in seven counties in the Longnan Municipality. At the end of the project, essential infrastructure, health and education services will have been restored to at least levels existing prior to the earthquake, and where appropriate, to provide for expansion of services, while reducing vulnerability to seismic and flood hazards and building capacity of the local governments to manage the recovery program. The funding required for the Masterplan is included in the Government of China’s two year fiscal stimulus package.

**Liuzhou Environment Management Project II (To Be Approved, $150 million)**
The project will help improve the environmental conditions of the Liujiang River through collection and treatment of waste water within the urban area boundaries of Liuzhou City and the four county towns located up stream of Liuzhou City. The proposed project is closely integrated with accelerated investments in the infrastructure projects planned as part of the stimulus in Liuzhou.
Asian Development Bank Support to the Stimulus Plan

The Asian Development Bank has also provided support to China’s stimulus plan. In some instances, it has advanced its project processing schedule at the request of the government to support the stimulus. Key projects supported by the ADB include:

**Anhui Integrated Transport Sector Improvement Project (Approved November 2009, $200 million)**
The project will contribute to an integrated road transport system in Anhui by (i) constructing a 139-kilometer (km) expressway and associated facilities between Xuzhou and Mingguang; (ii) upgrading, rehabilitating, and providing safety measures on 452 km of existing local roads; (iii) improving village bus services in poorer areas. The Xuzhou–Mingguang Expressway (which the Project would finance) is a key component of the government’s stimulus program. ADB advanced the project processing schedule in response to the Chinese government’s request for assistance in wake of the financial crisis.

**Lanzhou Sustainable Urban Transport Project (Approved November 2009, $150 million)**
The Project includes urban road infrastructure that will support new urban development on the north side of the Yellow River. This will speed economic growth in this area, benefiting local residents, including the poor. This Project is consistent with ADB’s support for the Western Development Strategy as well as economic stimulus through urban infrastructure development. The Lanzhou Sustainable Urban Transport Project (the Project) will be ADB’s first project to support bus rapid transit (BRT) in the PRC. The Project is part of ADB’s initiative to support greener, more sustainable transport in the PRC and includes support for an application to use the Clean Development Mechanism of the Kyoto Protocol.

**Railway Energy Efficiency and Safety Enhancement Investment Program (Approved November 2009, $300 million)**
The Project will promote energy efficiency, improve environmental sustainability, and improve safety in the transport sector. This will be implemented on the PRC railway network in the southwestern PRC—a poor and underserved area of the PRC consisting of Guangxi, Guizhou, Sichuan, and Yunnan provinces, and Chongqing Municipality—over the next 7 years (2009–2016). The investment program is a priority investment included in the Eleventh Five-Year Plan of the Government, 2006–2010, and the stimulus package announced in October 2008.

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**News**

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<td>China’s Stimulus Created 5.6 million new long-term jobs and 50 million temporary jobs</td>
<td>Research from the National Development and Reform Commission estimates that the stimulus created 5.6 million new long-term jobs and nearly 50 million temporary positions during the construction of the projects. However, as the stimulus ends, China may see “severe” employment losses next year as millions of temporary jobs end with the completion of projects under the stimulus package.</td>
<td>Bloomberg</td>
<td>15 Jun 2010</td>
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<td>China says too early to exit fiscal stimulus</td>
<td>A senior Chinese official said that it was too early to consider an exit strategy for the Chinese stimulus. &quot;There are still a lot of uncertainties in the world economy. Therefore we believe it is too early for us to talk about an exit strategy from our stimulus package.&quot; Chinese Minister of Commerce Chen Deming told reporters after a meeting with European Union (EU) Trade Commissioner Karel De Gucht. Chen said the current debt crisis spreading in the euro zone has highlighted how fragile the global economic recovery is.</td>
<td>Xinhua</td>
<td>22 May 2010</td>
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<td>China GDP growth quickens, inflation tame</td>
<td>China’s annual economic growth quickened in the first quarter to 11.9 percent, the fastest pace since 2007, benefiting from a low base of comparison last year and the momentum imparted by massive stimulus. Inflation remained subdued, giving policymakers the luxury of waiting a while, should they choose, before tightening policy further to head off overheating. Consumer prices rose 2.4 percent in the year to March, less than expected.</td>
<td>Reuters</td>
<td>15 Apr 2010</td>
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<td>China Overtakes US in Green Investment</td>
<td>China overtook the United States for the first time last year in low carbon energy like wind and solar power. The report, called “Who’s Winning the Clean Energy Race?” shows that in 2009 China invested $34.6 billion in the clean energy economy while the United States invested $18.6 billion.</td>
<td>Pew</td>
<td>29 Mar 2010</td>
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<td>China to Boost Private Investment as part of Stimulus</td>
<td>According to the Chinese State Council, China will use subsidies and an increase in credit to encourage private investment as part of its stimulus package aimed at combating the effects of the global financial crisis. This indicates the government’s plans to reduce its reliance on government investment for economic growth this year, as the stimulus package it announced in late 2008 mainly supported government projects.</td>
<td>Dow Jones</td>
<td>26 Mar 2010</td>
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