China P3 Market Snapshot

China's infrastructure investment has maintained a strong momentum since the beginning of 2015 as part of efforts to stimulate the economy. To boost slowing economic growth, the government announced, late in 2014, seven major project packages which include over 400 projects covering transportation, gas network and storage facility, water conservancy, clean energy, environmental protection, and mining. In May 2015, China's National Development and Reform Commission (NDRC) announced details of 1,043 proposed P3 projects, requiring an estimated RMB1.97 trillion (approximately US$294 billion) in private investment. In December 2015 and September 2016, China's NDRC added 1,488 and 1,233 proposed P3 projects, requiring an estimated RMB2.26 trillion (approximately US$337 billion) and RMB 2.14 trillion (approximately US$319 billion).

The Chinese government is actively promoting the P3 model in infrastructure projects, with both the NDRC and Ministry of Finance (MOF) having launched a series of measures since the second half of 2014, to encourage the use of P3s and to build capacity in this area. These measures include: the publication of Guidelines on Public-Private Partnership Project Contract by MOF, which requires limiting the local governments' equity participation in P3 project companies to below 50%; the designation of 12 national-level water conservancy projects to act as P3 pilot schemes, and the announcement to set up a US$28.3 billion fund to support P3 projects and provide a 2% subsidy to local governments who transfer current projects funded by government debt to P3 funding model.

While the government has been strongly promoting the P3 model, the take up by private capital remains low as projects tend to lack incentives due to low returns and high risks. One obstacle is the large size of the investment required in many infrastructure projects and their generally low profitability. Another notable obstacle is the current lack of a unified legal framework, which adds complexity to the P3 schemes. So far, state-owned enterprises (SOEs) have a strong presence in investing in P3 projects whereas private company participation remains relatively low.

Despite these challenges, China's P3 market provides opportunities for Canadian companies looking to invest, especially given China's interest in attracting foreign capital. In addition to investment opportunities, Canadian companies may be able to capitalize on future opportunities through the offering of services and best practices regarding technical, financial and legal P3 expertise. Future opportunities may also exist in third markets, where China's largest advantages are availability of (especially state) financing and the need to employ an overcapacity in construction and civil work execution. Highways, railways, and other major infrastructure linking China to surrounding markets are intended but Chinese limitations in niche design, project and operational management may benefit from added Canadian expertise.