

Third Party Evaluator's Opinion on Interior Regions Telecommunications Network Expansion Project

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Relevance

The Tenth 5-year Plan (2001-2005) consists a programme named Each Villiage Enjoys Telecommunication. Starting from January 2004, the programme aims at extending telecommunication network to 95% of all the administrative villiages¹ in China by the end of 2005. Villages which has no telephone in the west areas accounts for 25.31% of the total administrative villiages in the west areas, far more than that of the east area (1.03%) and that of the middle area (7.44%). The administrative villiages without telephone account for near 70% in the whole country.²

The six telecommunication companies in China including China Telecom and China Netcom have their separate allocation to extend telecommunication network to a total of 37,741 villiages. By the end of September 2005, 15 provinces and municipalities have reached the goal, but the six provinces and autonomous regions covered by this project are still on the top list of those have not reached the goal: Inner Mongolia (1276 Unfinished Villiages), Xinjiang (1077), Gansu (992), Qinghai/Ningxia/Guizhou (100-500).³

The suggestions for the Eleventh 5-Year Plan (2006-2010) issued in Oct. 2005⁴ puts forward a new idea of constructing Socialist new rural areas, which puts priority on improving construction of infrastructure in poor rural areas like those covered by this project. This project is consistent with this objective and therefore remains relevant today and in the near future.

Sustainability

Preferential Policies and Subsidy

In 2002, China Telecom set up a Working Group of Developing West Telecommunication and made relevant preferential policies, such as subsidies. The annual subsidies for each provincial companies are not available. However, in 2000, the parent company gave a total of 6.3 billion yuan to all its west subsidiary companies (including the five covered by this project), which aims at balancing their receipts and expenditure.⁵ The subsidiary companies in Qinghai and Xinjiang enjoy more special subsidies, e.g. the annual depreciation fee of the A-level fiber optic cable was exempted for its Qinghai subsidiary. The preferential policies are not going to be abolished in the near future.

Financial Status (Investment and return)

China Telecom has been trying to meet demands of its west subsidiary companies. During 1996-2000, the annual average revenue growth of most of the six provinces/regions exceeded 20%. The quick development was mainly driven by the investment. For example in 2000, the ratio of investment against Return of Gangsu and Ningxia were more than 120%, while Qinghai was 90%. That ratio of international telecommunication companies, even in their quickest development period, was less than 30%.

¹ As for the definition of administrative village, please refer to “the political division of China” at <http://www.answers.com/topic/political-divisions-of-china>

² Mo Xinwei, Researcher at HuaXin P&T Consulting and Designing institute Ltd.

³ Mo Xinwei, Researcher at HuaXin P&T Consulting and Designing institute Ltd.

⁴ The suggestion, drafted under the leadership of China's Standing Committee of the Political Bureau, has been approved by the fifth plenary of the sixteenth National Congress of the CPC held during Oct. 8-11 2005.

⁵ Website of China Telecom

At the same time, all the three provinces/regions were all operating with losses and faced a debt ratio over 60%. For instance, Gansu company expects an annual loss of 114 million yuan in providing rural telecommunication service before 2010. This shows that the huge investments far exceeding their income brought not profits but losses and debts which are hard to be reduced year by year.

The contradictions between investment and return in remote pasturing and farming areas have been contributing to this problem, telecommunication bureaus and offices in those areas face increasing difficulties to collect telephone fees. Most telephone users in these areas still keep a habit of receiving calls but seldom making calls. So this leads to low consumptions in rural telecommunication, which also blocks reclaiming the investments in infrastructure.

Take Gannan state of Gansu Province for example, in 2002, the average investment in each switch line of rural area was over 6,000 yuan, the highest one was over 10,000yuan. The annual telephone fee of each rural telephone was less than 300yuan (ARPU⁶ is 22.63 yuan), which means it needs at least 20 years to reclaim the construction cost, not mentioning maintenance cost.

The problem has been paying attentions by the government as well as the telecommunication circle, reforms are expected to be taken to completely tackle with this problem during the 11th 5-year period.

⁶ Average Revenue Per User