Third Party Evaluator's Opinion on
Guiyang-Loudi Railway Construction Project (1)(2)

Yushi MAO
Chairman of the Board
Unirule Institute of Economics

Effectiveness

All positive and negative evaluations in the ex-post report for the Project are agreeable; especially the Railway strengthened the capacity of transport between the west part and coastal area in China. However, the economic effectiveness of the Project, which should be measured by the difference between, output (the revenue) and input (the total costs for operating) in monetary terms, is uncertain, as stated in the ex-post evaluation report (2.5.1.3). Chinese MOR adopts a unified flat rate system, regardless where the freight is being transported, while the real cost of transport may differ as large as five times on different sections in the railway system, due to differences in tonnage rating, terrain, traffic density, and construction cost. The false price signal results in huge economic losses. If the real cost of transport is, say 0.15 yuan/tkm, but tariff charges 0.1 yuan/tkm, then there would be wrong choices between various modes of transport; people may use railway to replace road due to deliberate lowered railway tariff. Usually the route between origin and destination in a network is chosen according to shortest distance, but may not be the least cost. Especially since the economic feasibility of a coalmine depends much on the transport cost. If the tariff does not reflect the real cost, the feasibility study will give a false result, and the disposition of mines and related factories may be wrong. In case of Guiyang-Loudi Railway, the real cost of transport (including depreciation and capital cost of construction) is most likely higher than the unified tariff as the Railway is constructed in mountainous area. Much of the freight being transported might not be transported should the tariff be set at the real cost. In other words, the benefit for steel and fertilizer factories, coal and phosphate mines, tourism, etc. is at the expenses of subsidy of the railway system through deliberate lowered tariff. If tariff were set at marginal cost, some of the traffic would not occur, and the superficial benefit would reduce. So it is urgent to advise MOR to set the tariff at marginal cost, which will differ from section to section in the railway system.

Sustainability

The impact of the Project goes beyond the Guizhou province, since it helps the development of eastern Chinese regions through supplying resource products. The supply of local coal helps suppress price hike on domestic and international markets. Coal and phosphate ore are exported to Japan at internationally competitive prices. However, resource products are exhaustible and cannot sustain long. Many resource product depending cities in North-east China are facing serious economic decline after continuous exploitation since early last century. This situation will happen sooner or later in Guizhou, perhaps within the time period of loan repayment of 30 years. On the international market, all resource exporting countries have experienced their economy ups and downs, along with the changes in terms of trade. This happens also in domestic markets. Shanxi province, the biggest coal exporting province in China, which exports hundreds of millions tons of coal every year, is still a poor province, with per household consumption ranking 21st in China's 31 provinces and regions.[1] Since 2003, the prices of resource products have been high, and the high prices promoted the economic boom in Guizhou, which achieved an all time high growth rate in the early half year 2005.[2] However, this achievement is at the cost of resource depletion. For a full accounting, including the value of natural resources, Guizhou may be running at a loss like the Mid-east oil exporting countries,

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[1] *China Statistical Yearbook*, 2004. (In bi-language, Chinese and English) P. 70. Guizhou ranks 31, the last one, only one ninth of the richest, Shanghai. These figures are for 2003.

[2] Guizhou achieved highest growth rate of GDP in early 2005 in the past 14 years. *China Economic Times*. (in Chinese) August 12, 2005. The growth of GDP achieved 11.4% in the first half of 2005, with a total of 79.5 billion yuan, which is about one tenth of the richest province, Guangdong.

which seems to be prosperous, but not sustainable and running in deficit with full accounting.[3] To avoid this miserable outcome, a rent must be added to the cost of production, which should be used to invest into projects providing sustainable development, such as education, R&D, or environment protection.

[3] Kenneth Arrow et al: Are We Consuming Too Much? *The Journal of Economic Literature*, Summer 2004. PP.147-172.