### PROJECT RATIONALE

1. The proposed Eighth Railway Project would support the objectives of macroeconomic reform, infrastructure development, poverty reduction and safeguarding the environment through the initiation of a strategic planning process to accelerate reforms in the railway sector, the acquisition of a series of modern management tools for use in planning and implementing the transition from a planned to a socialist market economy, the construction of new railway lines of which one would be located in the southwest region (hence, the construction of this line would contribute to reducing the gap in development between China’s hinterland and coast), the upgrading of existing lines, the acquisition of technology to modernize the railways and the construction of oily wastewater treatment plants at three of its factories.

### PROJECT DESCRIPTION

2. Project development objectives. Taken together, the components of the proposed Eighth Railway Project are aimed at assisting the Chinese Government and MOR in achieving five critical objectives. These include:

   (1) Managing the transition of the railways from a planned to a socialist market economy system;

   (2) Increasing the volume of both passenger and freight traffic by relieving capacity constraints at various locations on the railway network;

   (3) Expanding systemwide technological modernization in railway track maintenance, management information systems, and
telecommunications;

(4) Minimizing the adverse environmental impact of providing transport services; and

(5) Reducing regional inequities.

POLICY COMPONENTS

3. The railways of China -- a monolithic state-owned entity -- is a classic example of the type of industrial enterprise that characterizes planned economies. Nonetheless, as the country continues rapidly to transition from a planned to a socialist market system, it is apparent that China’s economically obsolete railways must be reformed. Hence, the principal policy objective of the proposed Eighth Railway Project is the creation of a restructured, commercially-oriented railway.

4. Central to successful reform and restructuring of the railways in China is a comprehensive planning process. The policy components of the Eighth Railway Project would assist MOR and other Government agencies in two major ways: (1) helping to define the critical commercial and organizational options in an orderly manner; and (2) supporting the development of the data and information inputs vital for proper evaluation of these options. The specific policy planning components would consist of the following elements:

(1) Strategic planning scenarios. This component would provide support for developing alternative assumptions regarding the overall issues shaping transport demand including the prospective growth and mix of the economy, the extent of market-determined vs. planned traffic, the role of SOE’s in the production and shipment of goods, etc. Decisions regarding these matters -- though outside of the direct control of the railways -- will substantially define the economic environment in which the railways will be required to function.

(2) Government Transport Role. Within this category, assistance would be provided to evaluate optional governmental roles and institutional arrangements for promoting, financing, and regulating the railways and the other transport modes. Major questions to be considered here would include the scope and authority of an agency such as a Ministry of Transport, and the nature of economic and safety regulation.

(3) Organization of the Railways. A key objective of the overall reform effort is to restructure the railways so that they will better serve a socialist market economy. To that end, help would be furnished to enable MOR formulate options concerning what functions should be handled by line of business organizations, what operations should be performed at the sub-regional, regional, or national levels, respectively, what non-railway activities (manufacturing, restaurants, etc.) should be separated and/or spun off as separate entities.
(4) Planning Tools. As inputs to the afore-mentioned issues -- as well as for the integrated financial planning model discussed below -- MOR will need to process and synthesize various types of data and information. Various policy components would support refinement of these tools including the processing of traffic waybill files, the development of functional cost models, competitive market assessments, pricing and cost coverage analyses, tax policy matters, and investment planning techniques.

(5) Financial Planning Model. To assist in evaluating the implications of various traffic, income, and investment scenarios, the railways ultimately will require a planning model which would produce income statements, balance sheets, sources and applications tables, and rates of return results all aimed at portraying the financial outcomes of alternative assumptions. With these optional results, decisionmakers should be better positioned to understand the implications and consequences of various choices made by them as well as others.

5. Although these policy components necessarily are described separately, it is anticipated that when implemented, the processes will be iterative in nature with each element providing a continuing amount of refinement and feedback to the others. In fact, this recycling phenomenon is highly desirable because it demonstrates that as the railway works its way through the various planning modules an increasing degree of definition will obtain.

6. Action plans will be prepared and discussed with MOR and other relevant Government agencies during further project preparation.

PHYSICAL COMPONENTS

7. The proposed physical components are:

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost (US$m)</th>
<th>% of Total</th>
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<tbody>
<tr>
<td>Expanding corridor capacity</td>
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<tr>
<td>- New double-track passenger line Qinhuangdao-Shenyang</td>
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<tr>
<td>- Line double-tracking between Xingxiang and Heze</td>
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<tr>
<td>- New single-track line from Neijiang to Shuicheng</td>
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<tr>
<td>Further expansion of MOR’s telecommunications network</td>
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<tr>
<td>Further expansion of MOR’s signalling network</td>
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<tr>
<td>Further expansion of the Transport Management Information System</td>
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<tr>
<td>Environmental protection</td>
<td>Total &lt;300.00*</td>
<td>*</td>
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</table>

* Depends on the amount allocated to the Policy Components.

The expansion of the corridor consists of: (a) a new double-track, 421 km electrified passenger line between Qinhuangdao and Shenyang (Qin-Shen line) to be designed for the high speed of 180 km/hour; (b) double-tracking without electrification of the line between Xingxiang and Heze, about 160 km (the construction of the existing single track line was a component of the First Railway
Project financed by the Bank; (c) and a new single track line of 376 km with diesel traction from Neijiang to Shuicheng (this line would run about 200 km east of the Chengdu-Kumming line, a component of the Sixth Railway Project financed by the Bank);

Further expansion of MOR's telecommunications network, which began under the Sixth Railway Project and was continued under the Seventh Railway Project, by installing additional digital transmission lines, satellite transmission for emergencies, mobile telecommunications for maintenance and accident rescue staff on five major lines (Beijing - Shanghai, Beijing - Harbin, Beijing - Guangzhou, Lianyungang - Lanzhou, and Beijing - Qinhuangdao), and enlarging the telecommunication management network;

Further expansion of MOR's signalling network, which began under the Sixth Railway Project and was continued under the Seventh Railway Project, by installing a Dispatching Management Information System (DMIS) to allow real-time train operation control on a backbone network of MOR. In addition, station interlocking and central traffic control (CTC) would be computerized on a 180 km line from Shijiazhuang to Dezhou, automatic yard signalling systems would be installed in two marshalling yards (Shujiaotun near Shenyang and Nanxiang near Shanghai) to increase their capacity and efficiency, and automatic blocking and CTC would replace old signalling systems on two railway lines (Chengdu - Chongqing, 285 km, and Changchun - Jilin, 128 km);

Further expansion of MOR's Transport Management Information System (TMIS), which began under the Sixth Railway Project and was continued under the Seventh Railway Project, by installing a central back-up system to ensure fail-safe storage of data; and

An environmental protection component consisting of the construction of oily wastewater treatment plants at three MOR factories.

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.

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