Bank of China to invest $1.1bn in rail network
By Jamil Anderlini in Beijing
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Bank of China, the country’s third-largest lender by assets, will invest $1.1bn in a railway line as Beijing encourages state-controlled financial institutions to help pay for the world’s most ambitious rail network expansion.

BoC said it would buy a 14.5 per cent stake in a new railway operator that will build a line to transport coal from inland Shanxi province to Shandong province on the eastern seaboard.

The announcement came one month after the bank said it would invest nearly $900m in a state company that is building the high-speed rail line between Shanghai and Beijing.

China is expected to account for well over half of all global rail investment this year, with an estimated Rmb824bn ($120bn) budgeted for 2010 alone.

“Apart from the US interstate expansion in the 1950s and 1960s or the US railway build-out in the early 19th century there has never been anything like this,” according to John Scales, transport co-ordinator at the World Bank office in Beijing.

A number of prominent Chinese experts have questioned whether the huge expansion is economically viable and the government has tried to entice private and foreign investors to help share the investment burden.

Those investors have balked at the Chinese Ministry of Railways’ control of the sector as both the regulator and ultimate owner of most rail enterprises as well as its political obligation to cap prices at low levels.

The reluctance of these investors has forced Beijing to push cash-rich, state-controlled financial groups such as BoC to invest and provide easy credit to rail projects across the country.

While some individual rail lines are unlikely to ever be profitable, the World Bank expects the building of numerous passenger-dedicated high-speed lines will
allow the Ministry of Railways to increase revenue from freight traffic substantially, which should help cover the new investment.

Unlike in most countries, China’s Ministry of Railways is self-funding and officials say that even with the enormous investment it is making the ministry does not expect it will require large government subsidies for the foreseeable future.

Some analysts draw parallels between the current rail frenzy and China’s huge toll road expansion a decade ago, which was also seen by many at the time as wasteful and uneconomic.

“In the late 1990s many experts said the toll road expansion was not viable but it turned out that the new freeways made it possible for China to become the world’s factory,” said Dong Tao, chief regional economist for non-Japan Asia at Credit Suisse.

The Shanxi-Shandong railway that BoC is investing in will require a total investment of nearly Rmb100bn and will be built over the next four years, the bank said yesterday.

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