

SUPPORTING INFRASTRUCTURE IMPROVEMENT IN CHINA

- First Special Yen Loans to China in the amount of 17,202 Million yen -

1. Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) decided to extend two ODA loans totaling up to 17,202 million yen to the People's Republic of China, and signed loan agreements today. With these loans, the cumulative ODA loan approvals for China number 260, totaling 2,470,712 million yen. The proceeds of the loans, which are the first Special Yen Loans to China, will be applied to the implementation of "Beijing Urban Railway Construction Project" and "Xi'an Xianyang International Airport Terminal Expansion Project".
2. China enjoyed steady and stable economic growth in recent years under the reform and open-up policy. However, with the eruption of the Asian currency crisis, both exports and foreign direct investment, which were driving force behind the economic development, took a major plunge and the thus-far robust growth rate lost its steam. Although China's exports and foreign direct investment are showing signs of recovery entering the second half of 1999, problems such as deteriorating employment and feet-dragging reform of the state-owned enterprises and financial sector still remain unsolved. Meanwhile, the Japanese government acknowledges that keeping and developing firm and cooperative ties with China would largely contribute to achieving peace and stability in Asia and Pacific region, including Japan. In line with this stance, JBIC is studying what kind of cooperation and assistance is possible to help economic development in China, while comprehensively taking account China's needs for aid, socio-economic situation, and technological/economic viability of individual projects.
3. The loans concluded for "Beijing Urban Railway Construction Project" and "Xi'an Xianyang International Airport Terminal Expansion Project" were approved under the Special Yen Loan scheme created in December 1998. They are the first Special Yen Loans that JBIC extends to China. These loan commitments are expected not only to encourage the Japanese firms to take part in the projects in China, but also to help bring the country's economy to the recovery track by stimulating economy and creating employment. It is further hoped that the loans will help improve distribution, thereby contributing to promoting structural reform of the Chinese economy.

(For Reference) Trends in ODA Loans to China

Japan's ODA loans to China may be traced back to the statement in 1979 by then Prime Minister Masayoshi Ohira that Japan would cooperate as much as possible in the modernization of China. The first ODA loan to China was extended in April 1980. This fiscal year therefore marks the 20th anniversary of the start of the loans. In the beginning, the loans were primarily channeled into the railways, ports, and electric power sectors, that is, the transportation and electric power sectors, with the intent of eliminating bottlenecks in infrastructure. Along with the economic growth of China, however, changes have been demanded in the approach taken in ODA loans. The assistance provided has expanded from large-scale infrastructure to projects having a direct effect on the public life. In particular, in the fourth round of ODA loans to China provided from FY1996 on, 46 percent under the approval number of commitments, and 28 percent under the approval amount of commitments, went into environmental projects aimed at improvement of the global environment and residential environment. In particular, consideration was given to increasing cooperation in the institutional building and strengthening organizations, and other areas of know-how making use of the experiences of Japan in combating pollution in the late 1960s and early 1970s.

The target projects and loan conditions of the Special Yen Loans are as follows.

Loan Amount and Conditions

Project Name	Amount (Million yen)	Interest Rate (% p.a.)		Prepayment Period/Grace Period (Years)		Tying Status	
		Goods & Services	Consulting Services	Goods & Services	Consulting Services	Goods & Services	Consulting Services
Beijing Urban Railway Construction Project	14,111	0.95*	-	40/10	-	Japan Tied	-
Xi'an Xianyang International Airport Terminal Expansion Project	3,091	0.95*	-	40/10	-	Japan Tied	-
Total (2 Commitments)	17,202						

* Special Yen Loan Project

[1] JCF was established in November 2004 by Japanese private firms and JBIC to purchase greenhouse gas (GHG) emission reduction credits generated from CDM and Joint Implementation (JI) projects implemented in developing countries and countries with economies in transition (EIT countries) and offer consulting services on the purchase of emission reduction credits.

[2] The Clean Development Mechanism (CDM) allows industrialized countries to undertake joint projects that reduce GHG emissions with developing countries. The investor countries (industrialized countries) may use GHG emission reduction credits generated from these projects to meet their own emissions reduction targets. CDM, Joint Implementation (JI) and Emission Trading form the Kyoto Mechanisms.

[3] A project jointly implemented by Pak-Arab Fertilizer and Mitsubishi Corporation to decompose Nitrous Oxide (N₂O) which is the by-product of the production process of Nitric Acid (HNO₃).
(<http://cdm.unfccc.int/Projects/DB/TUEV-SUED1155134039.49/view.html>)

Description of the Special Yen Loan Projects in China

(1) Beijing Urban Railway Construction Project

Although being affected by the fallout of the recent Asian economic crisis at the moment, China achieved a remarkable economic growth under its reform and open-up policy that started in 1979.

As economic development proceeds following the start of the reform and open-up policy, with urban areas expanding and living standards picking up, Beijing, Shanghai, Guangzhou and other major cities increasingly face challenges caused by less-than-satisfactory urban infrastructure. Of particular concern is the worsening urban traffic problems including traffic congestions due to the rapidly unfolding motorization, which is becoming a drag on economic growth.

Urban traffic is deteriorating in China's capital city of Beijing. The city's total volume of transportation was some 6.8 billion people per annum in early 1990s, and has been expanding by an average rate of nearly 5% every year. As a result, shipping capacity of various transportation modules has run short of meeting the growing demand. In addition, delayed construction of the traffic network such as roads and urban railways and the lack of inner-city passenger mass transit systems resulted in higher number of taxis and other small-sized passenger vehicles or other vehicles incoming from outskirts regions, thus creating perpetual traffic jam in the city.

In a bid to resolve this problem, the government of Beijing has laid out an urban development plan, which aims at developing the northern part of the city and building up a traffic system that runs through the same area, thereby eliminating the intense crowdedness in the central part of the city.

The Project will construct a 40 km-urban railway between Xizhimen and Dongzhimen in Beijing as part of efforts to improve traffic network, on the basis of the above-noted congestion alleviation/urban development plan, which is expected not only to contribute to mitigated congestion and development of the areas along the railway, but also to help reduce the air pollution.

The proceeds of the loan will be used to purchase the signal/communication equipment, power equipment, control/disaster prevention equipment, rolling stock, automated ticket gates, and depot equipment.

The Project executing agency is Beijing Mass Transit Railway Corporation (Address: #2, Beiheyuan, Xicheng District Beijing, P.O. code 100044; Tel: 86-10-62293659; Fax: 86-10-68324655).

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(2) Xi'an Xianyang International Airport Terminal Expansion Project

In the wake of the introduction of reform and open-up policy in 1979, the amount of transportation taken up by the aviation sector in China showed a significant growth, as attested by an 18% year-on-year increase in the number of passengers and 15% in the volume of cargoes during a decade from 1980 to 1990. Entering the 1990s, the sector continues to witness a large growth; the number of passengers increased by 25% on yearly average during the five years from 1990 through 1995, while a 22% rise was registered in cargoes, both of which far overpacing the growth rates marked by the railway and other transportation sectors.

However, development of infrastructure such as the terminal building, sewerage/waster water treatment system and other peripheral facilities of the airport, and roads, railways and accommodation facilities that are essential for access to the airport, is unable to catch up with the rapidly expanding passenger volumes, thus calling for construction and upgrading of airports that are equipped with satisfactory capacity to meet the growing demand. Further, construction and repair of airports located in inland areas is urgently required to rectify the economic disparity between coastal and inland regions.

Located in the outskirts of Xi'an City, Shaanxi, Xi'an Xianyang International Airport is not only one of the major airports in China, but also is playing a core role in air traffic activities in the northwestern area of China. Since completion and grand opening in 1991, in sync with the country's robust economic growth, the Airport accommodated an ever increasing number of passengers, which already totaled 2,860,000 in 1998 (the 9th largest in China), far surpassing the initial estimate of demand at 2,240,000 for FY2000 projected at the planning stage of the Airport construction.

On top of the rise as noted above, there is an expectation that the Airport, as one of the bases for the Grand Development Plan for Western Region, will see additional demand amid robust tourism demand and economic growth of this region in the future. Expansion of the Airport facilities is thus urgently required.

The Project is designed to improve the equipment and functions of the Airport by expanding the existing terminal building for passengers (about 50,000 square meters) and upgrading apron/utility facilities, with an eye to handling the growing number of passengers and to bolster the northwestern region's economy, commerce, and trading operations.

The proceeds of the loan will be applied to procure boarding bridges, air conditioning equipment, and other passenger terminal building equipment.

The Project executing agency is Civil Aviation Administration of China (Address: #155, Dongsi St. West, Beijing, P.O. code 100710; Tel: 86-10-64091799; Fax: 86-10-64030868).

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