## I. Introduction and Context

### Country Context

Ever since the Chinese Government introduced tougher labor laws and a minimum wage standard in 2008, more manufacturing companies have started relocating or expanding their operations and/or their factories away from coastal regions to inland provinces and cities that are able to offer less expensive labor and real estate prices, improved transportation capacities, and more attractive preferential policies. Recent policies to improve rural economic conditions introduced in 2010 have further slowed the flow of migrant workers from the countryside to the coast, limiting the supply of labor in the coastal regions. Migration patterns have also shifted toward shorter migration (e.g., from the countryside in the interior to a city in the interior). Furthermore, the wages for 150 million migrant workers in coastal regions increased 19 percent in 2008 and 16 percent in 2009 with labor costs expected to continue rising. These factors combined are providing a rationale for Chinese firms to relocate their factories into more inland provinces.

The country’s share of urban residents to total population is projected to continue increasing to at

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### PROJECT INFORMATION DOCUMENT (PID)

**Concept Stage**

<table>
<thead>
<tr>
<th><strong>Project Name</strong></th>
<th>Anhui Xuancheng Infrastructure for Industry Relocation (P129431)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Region</strong></td>
<td>EAST ASIA AND PACIFIC</td>
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<tr>
<td><strong>Country</strong></td>
<td>China</td>
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<td><strong>Sector(s)</strong></td>
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<td><strong>Lending Instrument</strong></td>
<td>Specific Investment Loan</td>
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<td><strong>Project ID</strong></td>
<td>P129431</td>
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<td><strong>Borrower(s)</strong></td>
<td>Ministry of Finance</td>
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<td><strong>Implementing Agency</strong></td>
<td>XETDZ, Anhui Province</td>
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<td><strong>Environmental Category</strong></td>
<td>A-Full Assessment</td>
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<td><strong>Date PID Prepared/Updated</strong></td>
<td>01-Aug-2012</td>
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<td><strong>Date PID Approved/Disclosed</strong></td>
<td>21-Feb-2013</td>
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<td><strong>Estimated Date of Appraisal Completion</strong></td>
<td>21-Mar-2012</td>
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<td><strong>Estimated Date of Board Approval</strong></td>
<td>31-May-2013</td>
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<td><strong>Concept Review Decision</strong></td>
<td>Track I - The review did authorize the preparation to continue</td>
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least 66% by 2030. If not managed carefully, this could pose significant environmental and social challenges for China. To create more sustainable urban areas and prevent environmental degradation, the country’s 12th Five Year Plan (FYP) for 2011-2015 highlights the importance of addressing social and environmental imbalances and gives greater prominence to urbanization in inland regions and smaller cities. As a result, the central Government of China approved a national plan to promote new economic development zones to help coastal regions’ industries move up the value chain while relocating lower-skilled, lower-margin manufacturers to the inland central and western provinces. To realize this strategy, inland provinces and cities need to take effective measures to improve their local environments – including logistics, efficiency, tax policy, and living conditions (such as ambient environmental quality, education, hospital, recreation, cultural amenities, etc.) – to benefit from China’s expected wave of interregional industrial relocation.

Sectoral and Institutional Context
In early 2010, the State Council approved an Anhui provincial strategic plan known as the “Wanjiang Region City Belt Industrial Transfer/Relocation Demonstration Zone”, which covered nine cities (Hefei, Wuhu, Xuancheng, Ma’Anshan, Tongling, Chizhou, Anqing, Chuzhou, and Chaohu) along the Yangtze River corridor in Anhui Province.

In line with the national and Anhui provincial strategies, Xuancheng’s Government formulated their own plans to develop an industrial transfer/relocation demonstration area, known as Xuancheng’s economic and technological development zone (XETDZ). Xuancheng’s government allocated 200 kilometers-squared west of the city as the site for the XETDZ. Their plan is to develop approximately 103 kilometers-squared in three standalone phases. The first phase, a 17 square-kilometer area, has been completed and built-out on the eastern portion of the zone. The proposed project supports the development of the second phase, which covers approximately 25 square-kilometers to be completed by 2015/2016. The third phase of the project, which is not supported under the proposed Bank loan, covers 61 kilometers-squared to be developed beyond 2020. The remaining 97 kilometers-squared will remain as required green area for possible future development.

Xuancheng is an ideal choice for an expansion and relocation site because of the city’s close proximity to more affluent Jiangsu and Zhejiang provinces. Xuancheng is also situated along the Hefei-Hangzhou Expressway allowing for ease of connectivity with other major urban centers in China. The city sits along the Yangtze River, which ultimately empties into the East China Sea at Shanghai. A new airport is also being built not far from the city.

An initial assessment during the project identification mission indicates that there is likely to be sufficient demand from firms (potential “locators”) to build-out the industrially zoned land for Phase 2. This view is supported by the following:

• Phase 1 has been completed and sold-out by a rapid parceling of land over the last 3 years.
• Over 300 firms have already indicated interest in locating to the XETDZ, enabling local officials to be more selective by turning away firms with a higher negative environmental impact, and accepting those which will contribute to the industrial cluster formation in the region.
• Approximately one-quarter of the industrially-zoned XETDZ is already committed to locators.
• Local officials indicated that a Malaysian developer is committed to major investment in the proposed XETDZ community core, which will include a theme park, hotels, apartment buildings, and other support services.
• This project enjoys an official national designation as an industrial transfer base.
• The leadership of the XETDZ has taken positive steps to promote the zone in terms of posting coastal representatives, developing and distributing promotional materials, and pursuing the provincial diaspora, among other initiatives.

A sufficient pool of well-trained labor is likely to be available at all levels to support the demands of the proposed XETDZ development. Hefei University of Technology has a new campus in Xuancheng with 2,500 students enrolled for September 2012. By September 2015, total enrollment is expected to be close to 15,000 students at the Bachelors, Masters, and Doctorate levels. Xuancheng Vocational Technical College currently enrolls 15,000 students in technical vocations, and there are 24 vocational high schools close by. There is also a large Xuancheng Prefecture labor pool currently working on the coast (estimated at 150,000), at all skills levels, many of whom would likely return to Xuancheng city if good jobs and career opportunities exist.

Given the track record of Phase 1 and the healthy demand by firms to locate in Phase 2 of the XETDZ, the timing of infrastructure delivery appears to be the major constraining factor in fully operationalizing the zone, rather than lack of demand by firms to take up space.

Relationship to CAS

China’s 12th FYP highlights the development of services and looks to address social, environmental, and external imbalances. It focuses on improving quality of life, rather than just pace of growth, pays attention to balanced development, and gives greater prominence to urbanization in inland regions and smaller cities. The country has set an economic growth target of 7 percent, which is purposefully low, to send a strong signal that growth alone is not the objective, but the quality of growth is.

In line with China’s 12th FYP, the World Bank’s Country Partnership Strategy (CPS for FY2013-2016, under final preparation currently) aims to support China achieve 11 distinct outcomes within two strategic themes: (a) supporting “greener” growth; and (b) promoting more inclusive development. During the preparation of the CPS, consultations with the Government and counterparts in China stressed the importance of two principles of engagement for the next CPS period. First, continuing to emphasize innovation and demonstration. The Bank Group will continue to use projects as platforms that lead to the testing of new approaches, complemented with policy dialogue and analytical work. Secondly, shifting support to the interior and western provinces. The Bank Group will shift programs to the lagging central and western regions of the country with fewer projects in the coastal region, and aim to primarily tackle problems that require innovation and international experience.

This project fits well with the two strategic themes while seeking to achieve both engagement principles. The project underpins the CPS strategic theme of supporting greener growth by promoting sustainable environmental practices through efficient energy usage, construction of greener buildings, integrated transport systems, and other environmentally conscious infrastructure development. The project supports the second theme of promoting more equitable development by creating relatively well-paying industrial employment in the interior region, thereby reducing incentives for local populations to migrate further from home for well-paying jobs. Although the project does not have a gender-specific agenda, it will be gender-informed to facilitate impact benefits such as training and employment opportunities are distributed in a gender equitable manner.
II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed PDO is to assist the Xuancheng City government develop a demonstration platform that will attract select industries from China’s coastal regions into Xuancheng’s Economic and Technological Development Zone (XETDZ). This will be achieved through strategic investments in infrastructure as well as technical assistance for capacity building, effective planning, and execution of the project.

China has a history in industrial zone development. In the 1980s, dispersal of industries was from coastal cities to peri-urban areas. Today, China is looking to expand and/or relocate industries from coastal regions to inland regions of the country, and is turning to the Bank for guidance on developing the XETDZ with a more holistic design approach that uses the latest international best practices while introducing innovative measures particularly for capacity building and institutional strengthening. The XETDZ will be developed as a demonstration project for the national government to showcase to other inland cities. The Bank has experience in developing other industrial zone projects in China and elsewhere, and can play a significant role in informing the process and devising a methodology for planning and implementing Phase 2 of XETDZ.

It is anticipated that firms will be attracted to moving to the XETDZ through one of four scenarios: (a) firms will outright relocate by decommissioning their factories in the coastal regions of China and move to XETDZ; (b) firms will expand their business by locating in XETDZ as well as other areas; (c) firms will shift some manufacturing processes to inland regions of China (such as XETDZ) while keeping higher value added functions in coastal regions; or (d) firms will establish entirely new businesses looking to use the zone as an incubator for development and growth.

A preliminary feasibility analysis carried-out by Xuancheng suggested that given its competitive advantage, the XETDZ should target and promote the following three industry clusters: (a) auto components, (b) intermediate machinery, and (c) alternative energy with a focus on emerging photovoltaic and LED lighting technologies. During project preparation, a more thorough assessment of the competitive and comparative advantages of XETDZ will be carried out to validate the initial findings that suggested targeting these clusters.

Key Results (From PCN)

The achievement of the PDO will be measured through a number of indicators. Tentatively, these indicators will include: (a) a ratio of the number of enterprises having expanded or relocated from the coastal area to the total number of firms established in the XETDZ; and (b) the percentage of the industrially zoned area that is leased.

III. Preliminary Description

Concept Description

As a part of implementing the central Government of China’s approved national strategy to build new development zones within inland provinces, a plan to build an industrial demonstration zone in Xuancheng, Anhui Province was approved by the State Council in 2010. The city of Xuancheng, strategically located in Anhui Province, close to the border with more affluent Zheijiang and Jiangsu Provinces, is the site of a proposed 200 square kilometer new development zone being built in three standalone phases. The proposed project is part of Phase 2 development.
The city of Xuancheng intends to develop Phase 2, which covers approximately 25 square-kilometers of non-arable, low-production land, with appropriately planned and designed infrastructure, including: roads, water supply, wastewater collection and pollution control, electricity supply, and solid waste management, as well as support facilities such as schools, housing, and recreation areas. This is a departure from Phase 1 of the zone’s development, which although efficient and successful, has not been developed as a leading edge industrial community by Chinese or international standards. Planning and execution of the second phase needs to incorporate sound development principles and take into consideration the planning of how the zone will be designed and marketed to have a competitive advantage over other zones in the area, the “greening” of the site, as well as logistical planning, and city-livability.

The preliminary cost estimate for the Bank-funded project is US$318 million of which the government is requesting a loan from the World Bank of nearly US$150 million with the balance funded by Xuancheng city. The project consists of three components:

(i) Roads and Associated Sub-surface Infrastructure (US$302 million) – Construction of 53 km of arterial, secondary, and branch roads including two bridges, bus stops, public car parks, and associated sub-surface infrastructure services (such as water, sewerage, gas and telecom networks). The sub-surface infrastructure services include 75 km of a water supply network, 110 km of a drainage network, 75 km of sewers, 50 km of gas a supply network, and 76 km of telecommunication cable trenches;

(ii) Wastewater Treatment Plant (US$13 million) – Construction of a wastewater treatment plant with a capacity of 25,000 m3/day, and supply and installation of 15 km main sewer of DN1500; and

(iii) Technical Assistance (US$3 million) – This will include institutional development and capacity building, as well as project management and supervision support. Several detailed assessments will be carried-out during project preparation that will be the basis for designing an institutional strengthening and capacity building program. This component will also develop an operational manual on best practices for establishing economic zones within inland regions of China, and make recommendations to inform an eventual marketing strategy that will position XETDZ to attract select industries.

Additional infrastructure investments of about US$150 million for Phase 2 fall outside the scope of this Bank project and will be sourced from non-Bank funding for: river rehabilitation works, solid waste drop-off points and transfer stations, public toilets, a natural gas pressure regulation station, a liquefied natural gas (LNG) gasification station, a compressed natural gas (CNG) filling station; and landscaping along a high voltage electricity transmission corridor.

IV. Safeguard Policies that might apply

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V. Tentative financing

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