

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA69514

Project Name	Three Gorges Modern Logistics Center Infrastructure Project (P153473)
Region	EAST ASIA AND PACIFIC
Country	China
Lending Instrument	Investment Project Financing
Project ID	P153473
Borrower(s)	People's Republic of China
Implementing Agency	Yichang PMO
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	26-Jan-2017
Date PID Approved/Disclosed	26-Jan-2017
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	31-Mar-2017
Appraisal Review Decision (from Decision Note)	<p>The task team is authorized to proceed with appraisal on the condition of receiving RSS clearance. Task team note: the RSS clearance was received on Dec 13, 2016.</p> <p>The task team is requested to:</p> <p>(i) Work with YTIC to: (a) develop a clearly articulated operation model for the port and logistics park; and (b) commit to an open and competitive bidding process for the selection of best qualified port operator and logistics park operator;</p> <p>(ii) Consult with the Bank's project lawyer on the framework of the competitive bidding process; and</p> <p>(iii) Incorporate the Decision Meeting's guidance in the PAD as highlighted in the Decision Note.</p>

I. Project Context

Country Context

1. China's economy grew at an average of ten percent per year for the three decades prior to 2012 by following a growth strategy of adapting to inter-regional competition, integrating with the world, developing new technology sectors, building world-class infrastructure, and investing heavily in its people. While this strategy has created an impressive success story of economic performance, it has also introduced income inequalities (personal and regional), high levels of pollution, urban congestion, and high levels of greenhouse gas (GHG) emissions. Against this background, since 2012 China has started to gradually shift from heavy infrastructure investment,

export, and resource-intensive manufacturing to domestic consumption and service-based industries in an effort to rebalance the economy for sustainable growth while also addressing social and environmental issues.

2. By 2015, China's economic growth slowed to 6.9%, the lowest in 25 years, with 58 percent of the growth coming from domestic consumption. The service sector now accounts for 51 percent of the economy (up from 44 percent in 2011), and has overtaken manufacturing as the major driver of growth and helped absorb job losses from manufacturing.

3. The rebalancing of the Chinese economy has a spatial component. Industrial production and new economic sectors are shifting or being established in new economic zones in the less developed inland regions. The designation of the Yangtze River Economic Belt (YREB) as a principal economic corridor is a key national strategy to promote the industrial development of inland regions by expanding or relocating industries from the traditional manufacturing hubs in the east, such as the lower reaches of the Yangtze River Delta, to the middle and upper reaches of the Yangtze River. The YREB covers nine provinces and two municipalities (Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan, and Guizhou) with a total area of 2.05 million square kilometers. It accounts for more than 40 percent of China's GDP.

4. The emergence of new manufacturing zones far from the major consumption centers and major export seaports in the coastal regions has led to an increased emphasis on freight movements, the efficiency of which will become critical in ensuring the consumption-based economic growth model delivers, and that freights are moved along the long distance using sustainable transport modes in order to reduce the environmental impact of freight transportation on air pollution and GHG emissions. Yet, for long distance freight transport, the more cost effective and environmental friendly inland waterway transport (IWT) and rail modes have been underutilized in part due to lack of mode connectivity and uniformity in standards.

5. At the core of the YREB strategy is the intensive utilization of the Yangtze River as a freight transportation corridor. About 60 percent of the total freight volume on China's inland waterway travels along the Yangtze River, which saw cargo traffic rise to 2.18 billion tons in 2015, up 45 percent from 2010. In 2014, the State Council issued "Guidelines on Yangtze River Golden Waterway and Economic Belt Promotion" and "Yangtze River Economic Belt Comprehensive Three-dimensional Transport Corridor Plan (2014 - 2020)". A transportation plan, released as an appendix to these Guidelines, calls for an integrated transport system that connects roads, railways, and air routes by 2020.

6. Hubei Province, where the Project is located, is situated in central China along the middle reaches of the Yangtze River. It is at the crossroads of the east-west Yangtze River IWT corridor that connects the western regions with the Yangtze River Delta in the east and the south-north expressway and railway corridor that connects the northcentral regions with the Pearl River Delta in the south. Wuhan, the capital city of Hubei, is located on the Yangtze River, and is the economic center in the central region and a national transport hub located on the Yangtze River.

7. Yichang, the Project city, is a prefecture level city located upstream from Wuhan on the Yangtze River. It is home to the Three Gorges Dam. Yichang has been a major distribution center, transit node, and trading post in the central western region. Considered a gateway to the west, Yichang is where topography transitions from the vast fertile plain in the east to the mountain

ridges in the west. It is a point where, before expressways and high speed railways became available in recent years, the only viable access to the resource rich Sichuan Basin and points to the west is the Yangtze River that traverses through the mountain ridges. Recognizing its strategic location, the State Council designated Yichang as one of six regional transport hub for strategic development in 2014.

8. Yichang's economy is ranked second to Wuhan in Hubei province and is dominated by secondary industries (Figure 1: Yichang GDP by Industry). It has been a major producer of tea and tangerine, phosphate ore and associated agriculture and industrial products, construction materials, and chemical and pharmaceutical products. As a second tier city and a traditional industrial base, Yichang has only started recently developing its service sector and high value-added industries. Since 2013, Yichang municipal government has focused on developing six high value-added industries (new industries), namely fine chemical, bio-pharmaceutical, high tech equipment manufacturing, new materials, culture tourism, and modern logistics services. These new industries are mostly upgrades of Yichang's flagship traditional industries. In support of the economic transition, Yichang's long-term plan centers on developing tourism, industrial and commercial clusters along the Yangtze River to fully leverage accessibility to IWT and the connectivity to the railway and expressway systems.

Sectoral and institutional Context

9. Logistics costs at 18 percent of GDP are high in China compared to eight percent of the US due to China's high GDP contribution from primary and secondary industries that require more logistics and the inefficient logistics supply chains in which goods are moved and stored multiple times before reaching end customers.

10. Given the high logistics cost of doing business in China, Yichang's ability to deliver cost competitive logistics services will be an important success factor in its transition to become a high value-added industrial base, both in developing new industries and attracting established businesses from the coastal regions. For the new industries, such as fine chemical, bio-pharmaceutical, high tech equipment manufacturing, and new materials, logistics service is a critical link of the supply chain because a majority of the finished products are shipped to the coastal and western regions, and raw materials are sourced from within the central region, for instance acetone from Henan Province and steel from within Hubei Province.

11. Yet, Yichang's existing logistics infrastructure is inadequate to support the anticipated economic growth. Survey of 20 local manufacturing businesses indicates that while a large share of businesses owns warehouses (85 percent), trucks (40 percent), and loading and unloading equipment (45 percent), the level of automation and information management is low. Although 30 percent of the businesses surveyed own information management systems, only five percent own information management equipment such as barcode scanners. Manual work is prevalent in managing and handling goods. As indicated from the survey, there is a growing demand for warehouses which have more automated and material handling equipment (35 percent of the 20 businesses surveyed), inventory management (55 percent), information sharing (50 percent), processing (40 percent), and urban distribution and long distance transport (50 percent).

12. As Yichang's economy develops, logistics services beyond basic trucking and warehousing have been in increasing demand, which requires modern logistics infrastructures. A

survey of 16 shipping companies and six trucking and / or warehousing companies, a total of 22 companies that operate in Yichang, indicates that existing logistics services are simple with a large number of logistics service providers offering a single service, for example transport (39 percent of the 22 companies surveyed) and warehouse (17 percent). Small warehouses are scattered and not comprehensively planned with transport hubs, which results in inefficient transport route planning and lack of consolidation for increased freight load per trip. The performance of value-adding services by logistics companies, such as inventory management or packaging for local markets, is insignificant. Integrated logistics service or supply chain management accounts for only six percent.

13. A strategic growth area for Yichang's logistics service sector is container related value-added service. The existing ports in Yichang lack adequate warehouses for containers. Shipping companies have to rent warehouses that are located further away from the port area. Tracking locations of containers within the port generally entails a bike ride by staff to manually look for the containers and record the locations. Additionally, pick-and-pack, labeling, weighing, cleaning and other container related services are generally unavailable. In 2014, of the 130,000 TEUs that passed through Yichang Port, 23 percent were exports, for which custom clearance were completed in Wuhan or Shanghai, further increasing shipping costs and time.

14. In addition, utilization of the more cost effective multimodal freight transport is limited due to lack of connectivity between modes. Freight transport in Yichang is dominated by road transport, an increasingly expensive mode due to heavy tolls, the rising cost of labor and an older inefficient vehicle fleet. For the manufacturing businesses, IWT, road-IWT and road-rail account for 5, 10 and 5 percent of freight transport, respectively. Utilization of rail-IWT is minimum due to lack of rail connection in ports. Yichang Municipal Government (YMG) recognized that the use of multimodal transport, such as IWT-rail over long distances, should be encouraged as it is more environmentally sustainable over the numerous individual trucking services.

15. As a major port on the upper middle reaches of the Yangtze river, the Yichang Port has experienced rapid traffic growth in the past 10 years. The Yichang Port system is made of six port groups that are managed by the Three Gorges Port Authority: Central City, Xingshan, Zigui, Yidu, Zhijiang and Changyang. Over the last 10 years, the throughput of Yichang Port as a whole has increased from 24 million tons to 78 million tons, at an average growth rate of 12 percent per annum. However, a majority of the ports lack specialized handling equipment and comprehensive logistics services.

16. Although current container traffic accounts for only 2.8 percent of Yichang Port's volume in 2014, container traffic has grown at 23 percent per annum from 2010 to 2014. Yet, future container growth is severely constrained by the lack of capacity at the existing Yunchi Container Port, which is part of the Central City port group. Additionally, the current Yichang Port development plan calls for removal of freight, especially bulk freight, away from ports located in the central city area. The displaced freight traffic will be redirected to existing and proposed new ports outside of the city center. Once this reallocation has been completed, future growth of Yichang Port will continue to increase in line with economic growth. A more detailed discussion of the demand forecast is given in Annex 5.

17. To promote competition, Yichang Municipal Government (YMG) instituted regulatory reform to consolidate regulatory oversight into one independent regulator of ports and associated

infrastructure and left operation of the ports to the commercial sector, in Yichang's case, the various state owned enterprises (SOEs). The Three Gorges Port Authority (TGPA) was established in 2014. It is responsible for regulatory approvals of ports and associated infrastructure planning, development, operation and management. TGPA reports to an executive committee comprised of representatives from relevant government agencies. Under the oversight of TGPA, the SOEs develop, manage and operate individual ports or port groups. There is very limited participation of international private operators. For the proposed project, the project management office (PMO) is housed within TGPA, while the project implementation unit (PIU) is Yichang Transport Investment Company (YTIC), a SOE established in 2003. YTIC is entrusted by YMG to develop, finance, operate and manage ports and associated infrastructure in Yichang. It is the developer of the new Maoping Port upstream from the Three Gorges Dam, which is designed to be a major transshipment port for traffic bypassing the dam. In addition, YTIC has a minority ownership in the existing Yunchi Container Port.

18. The proposed Baiyang Port and Logistics Park (the Project) will be the first greenfield integrated multimodal transport and logistics hub in Yichang, supported with a modern ICT system. It is located in the Baiyang Industrial Park (BIP), a new high value-added manufacturing development zone situated 40 km downstream of Yichang and 70 km downstream of the Three Gorges Dam. The Project is well connected to the national expressway network. A new 675-meter overpass will connect the Project site to the nearby Ziyun Railway marshalling yard, through which the port and logistic park financed under the proposed project will be connected to the railway network. The Project will serve as an important node in the east-west road-IWT and rail-IWT corridors (Khorghos, Xinjiang - Lanzhou/Xi'an - Yichang - Shanghai).

19. Additionally, the proposed Project will serve logistics needs of both Yichang Municipality and the Baiyang Industrial Park that focuses on fine chemical, equipment manufacturing, new materials and other higher value-added light manufacturing. In addition to storage and warehouses, the Project will specialize in value-added logistics services supporting container shipments and manufacturing goods and products. At present, the BIP has an occupancy rate of more than 50 percent, a majority of the businesses in the park are local with a small but increasing number of businesses coming from the coastal regions. As of 2014, the BIP has attracted total investment of USD1.2 billion. It is expected that an additional USD4.4 billion will be invested in the BIP by 2020.

20. In the medium to long term, the proposed Project in conjunction with the upstream Maoping Port will provide transshipment for long distance cargo movements bypassing the Three Gorges Dam. Yichang's proximity to the Three Gorges Dam creates an opportunity for the city to become an important transshipment hub. Total IWT freight passing through the Three Gorges Dam is expected to reach 163 million tons by 2020 and 248 million tons by 2030. Its current operational capacity of 100 million tons was reached in 2011. About 80% of the current volume is bulk (construction materials, minerals and coal) or semi bulk (fertilizer, cement, steel) but most of the growth in future years is expected to be domestic container and general cargo freight. Upstream of the Three Gorges Dam, the Maoping Port is under construction. The port, with roll-on roll-off (RoRo) and general cargo berths, is to provide transshipment for IWT-highway freight transport. Both the Project and Maoping Port are owned and developed by the Yichang Transport Investment Company (YTIC), the project implementing unit of the Project and a state owned enterprise that reports to YMG.

21. In addition to co-financing the first greenfield integrated port and logistics park in Yichang, the World Bank will provide financing for important technical assistance (TA) to help YTIC engage best qualified operators in the Project's operation and management, and explore opportunities of potential social capital or private equity investment, as well as build institutional capacity. YTIC plans to engage closely with the private sector, including international players, to leverage private sector best practices and efficiencies in the proposed Project's operation and management. The Bank financed TA activities will support YTIC in: (a) preparing a detailed business plan; (b) deciding the right operation models (service contract, joint venture or public-private partnership concession) that will best leverage private sector expertise and efficiency during operation; (c) undertaking of transparent and competitive selection processes for the port and logistics park operators; (d) drafting financial, legal and operational agreements; and (e) evaluating potential opportunities of social capital or private equity investment for greater financial flexibility for either capital expansion under favorable market conditions or debt obligations reduction once operation commences.

22. Value Added of Bank Support. The proposed Project provides an opportunity for the Bank to actively support YMG in a pilot demonstration of developing and operating the first greenfield integrated multimodal transport and logistics hub in Yichang. Yichang's logistics service sector, which is in the early stage of development, is unlikely to grow without significant public investment in land and infrastructure, which comes with substantial risk that the private sector is unable or unwilling to take at this stage. The Bank's participation will not only contribute to the proposed Project's financial viability but also the long-term commercial success by bringing international best practices and development experience. The proposed Project, with direct connection to the Yangtze River, the railway network, and the national expressway system will be the first such facility in Yichang. As a multimodal transport and logistics hub, it will enable more efficient transport route planning and freight consolidation, and provide needed infrastructure to support the growth of Yichang's logistics service sector especially in value-adding services such as inventory management and customized packaging for the local markets and container related services. It will allow for the generation of multimodal freight itineraries.

23. During project preparation, the Bank support focused in the areas of: (i) demand analysis; (ii) preliminary business plan; (iii) operation planning including design of implementation support for transparent and competitive selection processes of port and logistics park operators; (iv) design of value-added services in the logistics park; (v) flexibility in the port and logistics park design for subsequent build-up by private companies that tailor to their own specific business needs; (vi) functional integration of the port and logistics park; (vii) promotion of container traffic and associated logistics services; and (viii) design of the information platform.

24. The transparent and competitive selection and hiring processes of best qualified private operators developed under the Project will serve as pilots for scale-up in logistics sector development in China. This is especially relevant as the less developed provinces in the central and western regions are actively building their logistics service sectors under strong central government policy support for economic development. Furthermore, by actively engaging the private sector, there is a good potential of private capital investment in the proposed Project during operation, which will give YTIC greater financial flexibility for debt repayment or capital expansion. For instance, YTIC can use the private capital to develop additional transport or logistics infrastructure if market demand is strong, or use the private capital to repay commercial or IBRD loans to reduce

its debt obligations.

25. In addition, Bank support will include technical assistance in the Port and Logistics Park operation management, public-private partnership, policy and planning guidelines for multimodal freight transport system development and management, capacity building, and long-term monitoring and evaluation of environmental and social impacts in the region.

II. Proposed Development Objectives

The PDO is to improve freight transport and logistics services in Yichang.

III. Project Description

Component Name

Baiyang Port and Operation Areas

Comments (optional)

This component will finance the construction of: (i) three container and four bulk cargo berths, and (ii) supporting infrastructure, including cargo and container yards, and the purchase and installation of equipment for loading and unloading. Yichang Municipality completed construction of six berths in the fall of 2016, which are undergoing testing and commissioning as of February 2017. On completion of the proposed Project, the total number of berths in the Baiyang Port will be 13.

Component Name

Baiyang Logistics Park

Comments (optional)

This component will finance the construction of three logistics service areas and the purchase and installation of basic equipment in the park:

- (a) Core Commercial Area, to provide logistic services primarily for: (i) urban distribution and logistics services associated with small-size consumer goods that require quick turnaround; (ii) value-added services for containers; and (iii) general services and administration offices.
- (b) Logistics Service Area A, to provide logistics services for large-size general cargos.
- (c) Logistics Service Area B, to provide container logistics services.

Component Name

Transport Connection Infrastructure

Comments (optional)

This component will finance the construction of: (i) an overpass road connecting Baiyang Port and the Logistics Park to Ziyun Railway (s Shawan Marshalling Yard; (ii) surrounding roads and underground utilities (power, water, drainage, etc.), including Guihu Road and Songgang Second Road; and (iii) traffic signals, intersection channelization, and other traffic management facilities.

Component Name

Baiyang Logistics Information Platform and Facilities

Comments (optional)

This component will finance: (i) computer hardware and equipment purchase and installation in the information center; (ii) an information platform; and (iii) a business application system. The information platform will collect data and information at various points of the logistics service value chain, while the business application system will conduct big data analysis and provide key information for decision making to users, logistics service providers and enterprises looking to outsource supply chain management.

Component Name

Capacity Building

Comments (optional)

This component will finance technical assistance (TA) activities for: (i) preparation of a business plan, which will include market assessment, calculation of generalized logistics cost, competitor analysis, value proposition, and operation model recommendations; (ii) advisory services of logistics advisors, legal and financial advisors, technical advisors and other required support for developing and undertaking transparent and competitive selection processes for service contractors, or joint venture partners, or public-private partnership concessionaires as recommended in the business plan; (iii) plan for the proposed Yichang-Europe land-to-waterway freight corridor; (iv) development and application of building information management (BIM) technology; and (v) project management.

IV. Financing (in USD Million)

Total Project Cost:	446.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			246.00
International Bank for Reconstruction and Development			200.00
Total			446.00

V. Implementation

Yichang Municipal Government (YMG) has set up a Project Leading Group (PLG), a Project Management Office (PMO) and a Project Implementation Unit (PIU):

- a) The PLG, headed by the First Deputy Mayor, will be responsible for guiding the overall project implementation. It includes leaders of the Three Gorges Port Authority, Municipal Development and Reform Committee, Municipal Finance Bureau, Municipal Transport Department, Municipal Land Management Bureau, Municipal Environmental Protection Agency, Municipal Planning Department, Baiyang Industrial Park Management Committee, and Yichang Transport Investment Company.
- b) The PMO, housed in the Three Gorges Port Authority, will be responsible for coordination among different government agencies and supervision of the PIU, as well as communication with the Bank. The Deputy Commissioner of the Three Gorges Port Authority will chair the PMO with the Deputy Director Generals of Municipal DRC, Municipal Finance Bureau, and Municipal Transport Bureau, as well as the Chairman of Yichang Transport Investment Co., Ltd (YTIC).
- c) YTIC will be the PIU and will be responsible for detailed project implementation, including project procurement and financial management.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	

Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: Hua Tan
 Title: Sr Transport. Spec.
 Tel: 5788+7733 /
 Email: htan4@worldbank.org

Borrower/Client/Recipient

Name: People's Republic of China
 Contact: Jiandi Ye
 Title: Director, International Economic and Financial Cooperation D
 Tel: 86-10-68551174
 Email: yeduanluo@sina.com

Implementing Agencies

Name: Yichang PMO
 Contact: Hongyan Ma
 Title: PMO Director
 Tel: 0086-717-6346489
 Email: yichangpmo@sina.cn

VIII. For more information contact:

The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 473-1000
 Web: <http://www.worldbank.org/projects>