

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA894

Project Name	Anhui Xuancheng Infrastructure for Industry Relocation (P129431)
Region	EAST ASIA AND PACIFIC
Country	China
Sector(s)	Urban Transport (75%), General water, sanitation and flood protection sector (25%)
Lending Instrument	Specific Investment Loan
Project ID	P129431
Borrower(s)	Ministry of Finance
Implementing Agency	Xuancheng Economic and Technical Development Zone Management Committee
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	01-Apr-2013
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Estimated Date of Appraisal Completion	02-Apr-2013
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Decision	

I. Project Context

Country Context

China's economic and social development over the past three decades has been remarkable. Gross Domestic Product (GDP) growth averaging about 10 percent a year has lifted more than 600 million people out of poverty. All Millennium Development Goals have been reached or are within reach. With a population of 1.3 billion, China recently became the second largest economy in the world (after the United States; based on GDP). Yet China remains a developing country, and its market reforms are incomplete.

China's 11th National Five-Year Plan (2005-2010) relied on industry and investment; the growth pattern has led to growing economic, environmental, and social imbalances. There is mounting recognition of the need to change the country's growth pattern. Spurred by high savings, inexpensive finance, and export-oriented policies, China's growth has been capital-intensive, industry-led, energy- and resource-intensive, and environmentally costly. These traditional sources of growth are likely to weaken. Moreover, China's main challenge in the medium-term is to navigate the uncertain global economic environment while putting the economy on a more sustainable growth path. This involves shifting to a more consumer-based economy, upgrading industrial structure, addressing pollution and natural resource depletion, and reducing regional inequalities.

A disparity in growth between the coastal and inland regions suggests the need for greater attention to social inclusivity of inland regions and more concern for the environment in the country's future development plans. Rapidly rising costs of the factors of production in the coastal regions have forced many manufacturing firms to move inland or overseas. This creates a great opportunity for the middle and western regions to capture some of the industrial transfer waves.

China's current 12th National Five-Year Plan (2011-2015) addresses many of the issues highlighted above. It emphasizes the development of services and measures to address environmental, regional and social imbalances, and the promotion of more sustainable development. On one hand, the Government seeks to transform the coastal regions into hubs of research and development and high-end manufacturing centers; on the other hand, it places greater emphasis on the development of the interior regions by proactively encouraging industrial transfer from the coastal region to the inland areas.

To implement a "smart" urbanization strategy will be one of the key challenges that China will face over the coming two decades in its quest to become a modern, harmonious, and creative high income society. Urbanization has been a main driver of China's increased global competitiveness, and will result in an urbanization level of approximately 66% in 2030. As advocated by the China 2030 report, the main tenets of "smart" urbanization in the Chinese context should be: (a) spatial compactness and increased urban density to reduce unit costs of infrastructure and service delivery, minimize loss of arable land, and improve energy and transport efficiency; (b) improved intra- and inter urban connectivity; (c) delivery of adequate levels of public services in ways (primarily pricing) that encourage efficient use; (d) strengthening urban land use planning, and (e) making cities centers of innovation and incubators for innovation.

II. Sectoral and Institutional Context

In early 2010, the State Council designated Wanjiang City Belt as the first national-level demonstration zone for industrial relocation. Situated along the Yangtze River in Anhui Province, the Wanjiang City Belt – comprising nine prefecture-level cities (Hefei, Wuhu, Ma'Anshan, Tongling, Chizhou, Anqing, Chuzhou, Chaohu, and Xuancheng) and two county-level districts – is the link between the coastal and interior regions along the Yangtze River, and is the nearest point in China's central region to the affluent Yangtze River Delta (YRD). Wanjiang City Belt Industrial Relocation Demonstration Zone (IRDZ) has thus been chosen as the entry point for China to achieve its national goal of structural optimization and the rise of the central region.

In March 2011, Anhui provincial Development and Reform Commission (DRC) laid out a detailed plan that uses development zones as the main engine of growth for the Wanjiang City Belt IRDZ. Prior to the designation of the IRDZ, development zones had already served as the main driver behind the impressive growth of the Wanjiang region. In a short three-year period from 2006 to 2009, the development zones in Wanjiang had gone through some remarkable expansions: (a) more than doubling total revenue; (b) near tripling of total industrial value-added; (c) creating 635,000 new jobs; and (d) attracting RMB285 billion (US\$45.3 billion) in investments from outside the province. By the end of 2009, there were 55 development zones in the region, among which four are national level development zones, and 51 are provincial level zones. About twenty new development zones are currently in preparation or under construction.

China's industrialization has greatly hinged on the success of its numerous industrial zones. In fact,

industrial zones have been an increasingly important component of the industrial landscape and of China's dramatic economic transformation since the mid-1980s. The Chinese government encouraged industrial zones for a variety of reasons, including: better investment environment created through more flexible regulatory framework, one-stop shop services, and good infrastructure; more efficient public facilities due to economies of scale; more effective incentive policies; and higher efficiency of land use and logistics.

While most of the zones are economically successful, they also face many challenges. These include difficulties in achieving environmental and energy sustainability, lagging social services, lack of beneficial effects that come with economic clustering, and poor integration with urban areas. Against this backdrop, while the zones can be effectively leveraged through industrial transfer to support development of the inland regions, their challenges need to be properly dealt with as well.

The City of Xuancheng

Geographically situated at the nearest point in Wanjiang to the YRD, the city of Xuancheng presents a favorable destination for industrial relocation from the coast. The city shares its borders with two of China's most affluent coastal provinces: Jiangsu and Zhejiang. It also has the shortest travel distance from Wanjiang to Shanghai. In the next few years, the city's accessibility is expected to undergo a dramatic transformation with six new interstate highways, four high speed rail links and an airport under construction nearby. With the opening of a new expressway in 2015, road travel time between Xuancheng and Nanjing will be reduced to less than 1.5 hours. Equally important is the soon-to-be-realized close access to the Beijing-Fuzhou HSR link. A short 30 minute road trip to a nearby station will provide Xuancheng residents and those doing business there with direct access to Beijing and Fujian Province within 4 hours.

In recent years, Xuancheng municipal government has committed considerable resources to improving the city's overall livability. New urban facilities and amenities to be added in the near future include a first-class hospital, a five-star hotel, and a vibrant city-center area. Also planned and under construction are attractive residential communities, a food street, and a multi-modal transport terminal. Coupled with its long record of reliable electricity and natural gas supply, good air quality, good middle schools, low crime and easy access to scenic landscape, these new additions will make the city of Xuancheng a more livable and desirable destination for high-quality labor and firms from the coast.

The city of Xuancheng also stands to gain from: (a) a large pool of low-cost labor from Anhui; (b) an overall cultural closeness to the Yangtze River Delta (YRD); and (c) the recent opening of a major university campus that will allow the city to source more skilled labor from within.

Xuancheng Economic and Technological Development Zone (XETDZ) is the primary vehicle for the city of Xuancheng to carry out its industrial relocation efforts. Established in 1996 initially as an industrial park of 6.24 square-kilometers, XETDZ today has a total administrative area of 200 square-kilometers, of which 17 square-kilometers has been developed (with no Bank involvement) under a first phase. The second phase of development will cover approximately 25 square-kilometers and is to be completed by 2017/2018; the proposed project would support development of 20.2 square kilometers within that area. A third phase will cover 61 square-kilometers to be developed beyond 2020. The remaining 97 square-kilometers will be retained as green area for possible future development. The Bank loan would finance infrastructure development in the 20.2

square-kilometers within the second phase.

The government is seeking assistance from the Bank to develop XETDZ, especially in adopting a more holistic design approach, leveraging the latest international best practices, and introducing innovative measures, particularly for capacity building and institutional strengthening. XETDZ will be developed as a demonstration project for the national government to showcase to other inland cities.

The World Bank-financed project would help address the challenges that industrial zones in China face today by bringing value-added in the following areas:

- (i) **Clustering Effect.** During the 1990s, the national government and the industrial zones began to recognize the value of economic clusters – that learning, innovation, and efficiency were more rapid when competing and linked firms co-located. As a result, since 2000 there has been a movement toward cluster-themed zones with a higher level of clustering effects and industrial agglomeration. This is also consistent with international practice.
- (ii) **Environmental Performance.** Consistent with overall national policy trends, there has been increased emphasis on the environmental performance of industrial zones, especially related to energy, water, and efficient land use. The project would support greener growth by promoting sustainable environmental practices through efficient energy usage, construction of greener buildings, integrated transport systems, and other environmentally conscious infrastructure development with real time environmental monitoring.
- (iii) **Urban-Zone Integration.** Over the last decade there has been a growing realization that industrial zones are not special entities separate from cities, but that industrial zones over time become part of a city’s fabric. Accordingly, industrial zones are now allocating more land and investment to community-building, such as mixed use residential and commercial centers, which will become primary urban centers or sub-centers within their metropolitan areas.

By bringing in global expertise and good practices, this project can greatly improve the effectiveness and impact of this relocation zone, thereby setting a good example not only for China, but also for other developing countries.

III. Project Development Objectives

The project aims to contribute to the economic, social and environmental sustainability of the project area in the Xuancheng Economic and Technological Development Zone.

IV. Project Description

Component Name

Roads and Bridges

Wastewater Conveyance, Treatment and Discharge

Institutional Development and Capacity Building

V. Financing (*in USD Million*)

For Loans/Credits/Others	Amount
Borrower	193.64
International Bank for Reconstruction and Development	150.00

VI. Implementation

Institutional Arrangements

A Project Leading Group (PLG), chaired by the Executive Vice-Mayor of XMG, has been established to provide overall leadership, policy guidance and institutional coordination in project preparation and implementation. The members of the PLG are directors of XETDZ MC, Xuancheng Municipal Development and Reform Commission (DRC), Xuancheng Finance Bureau, Xuancheng Urban Rural Planning Bureau, Xuancheng State Land Resources Bureau, Xuancheng Environmental Protection Bureau, and Xuancheng Civil Administrative Bureau.

The project will be managed by XETDZ Management Committee (MC), which is part of the Xuancheng Municipal Government (XMG) and was established in 1997 to plan and develop XETDZ. XETDZ MC has a similar institutional structure as XMG and is in charge of policy and administrative functions for the zone.

An XETDZ Project Management Office (PMO) has been established at XETDZ MC. XETDZ PMO is responsible for coordinating overall project management and for overseeing the project implementing unit – Xuancheng Construction Investment Company (XCIC), which is a state-owned enterprise solely owned by XETDZ MC. XCIC will be responsible for project implementation, including finance and administration, technical and procurement matters, monitoring and evaluation, and safeguards compliance. A Xuancheng Municipal PMO (MPMO), which is headed by Xuancheng Municipal DRC, has been established to facilitate coordination among various bureaus and agencies at the municipal, provincial, and the state levels

Project Management and Construction Supervision

XETDZ PMO will appoint a consulting firm to assist with overall project and contract management and review of detailed designs. XETDZ PMO will also hire a procurement agent for project procurement.

VII. 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

VIII. Contact point

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