PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB497

Project Name	Inner Mongolia Trade and Transport Project
Region	EAST ASIA AND PACIFIC
Sector	Roads and highways (90%);Sub-national government administration (10%)
Project ID	P068752
Borrower(s)	PEOPLE'S REPUBLIC OF CHINA
Implementing Agency	Inner Mongolia Communications Department No. 68 Saihan District, Dizhiju South Street Hohhot, Post Code 010020 Inner Mongilia, China
Environment Category	[X] A [ ] B [ ] C [ ] FI [ ] TBD (to be determined)
Safeguard Classification	[ ] S_1 [ ] S_2 [ ] S_3 [ ] S_F [x] TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

1.1 With China becoming a member of WTO, the promotion of China's international trade has assumed increasing importance in government deliberations and economic policy formulation. Investment in basic infrastructure to provide convenient transportation and in measures to facilitate the movement and handling of goods is pre-requisite in the promotion of trade. This is particularly true of China's trade with Russia in which Hulunbeir, located on China's northeastern border with Heilongjiang Province, Russia and P.R. Mongolia, has a key role. Historically, Manzhouli town of Hulunbeir league has been very important in the past 100 year as the land port for China to Russia, Mongolia and beyond. The role of Manzhouli and the greater area of Hulunbeir increases in importance as trade between China and her neighbors expand in an era of trade liberalization and globalization. The trend has already been started as border trade between China and Russia has been growing rapidly at about 20% a year during the past 4-5 years, albeit at a relatively low base. Trade statistics in 2002 showed about 10 million tons of freight moved between the two countries, of which nine million tons were moved by railways and one million tons by road. If that growth rate can be maintained at 20% for the next five years and assuming that it will slow down to 10% for the following five years, the estimated trade volume would reach 30 million tons by year 2009 and 42 million tons by 2013. Such a significant increase in trade volume would warrant a serious consideration today for appropriate investment in transport linkage and relevant facilities to move and handle the increasing volume of cargo generated in Hulumbeir. The rationale for the proposed project is evident.

1.2 ***Trade and Transport Conditions in Hulunbeir, Inner Mongolia***. Hulunbeir has a total land area of 253,000 sq. km, 80% of the size of Vietnam, but with only a population of 2.7 million, it is one of the most thinly populated areas of China. However, it is strategically important as it has a long border with Russia (1,048 km) and P.R. Mongolia (676 km). It has five border crossings with Russia and two with P.R. Mongolia. All except one of the border crossings are seasonally open with bilateral

arrangement. The exceptional one is the Manzhouli crossing which was upgraded in 1996 to function as an international land port. Currently about 60% of trade movements between China and Russia pass through the land port of Manzhouli. Russian trucks are currently allowed to travel about 100 kilometers into the Chinese border from Manzhouli to Hailar (capital of Hulunbeir league), while the Chinese trucks are allowed to travel 500 kilometers into the Russian border from Zabaykal'sk checkpoint opposite to Manzhouli. Russian authority has recently succeeded in negotiated a reciprocal deal with the Chinese who agreed to get its road and freight transfer facilities ready in the next 1-2 years before it will allow Russian trucks 500 km into China. Currently imports from Russia to China consists mainly of timber and minerals raw materials, while export to Russia are agriculture and daily consumable products. Hulunbeir's economy relies heavily on this foreign trade and in turn contributes to about 40% of the foreign trade of Inner Mongolia. A few key features are summarized in the table below. The major component of the proposed project, Hailar-Manzhouli Highway (HMH), would be designed to facilitate trade movements between China and Russia.

	Inner Mongolia		**China**	**Comparison**	
	IM total	***Hulunbeir***		***IM to China***	***Hulunbeir to IM***
Total land area (1,000 km2)	1,183	253	9,600	12% (country's third largest)	21%
Total population (million)	23.78	2.68	1,285	2% of total (ranks 23rd)	11%
Population density (pop/km2)	20	11	134	rank 28th	
GDP per capita (Yuan in 2002)	7,230	7,051	8,184	rank 15th (12% below national average)	per capita GDP is close to Inner Mongolia average
Highway network (km)	72,673		1,820,000	4% of country's network	
Road density (km/1,000km2)	61.4		190	One-third of country average	
Total import & export (billion Yuan)	24.64	10.68			**Hulunbeir contributed to 43% of foreign trade of Inner Mongolia**
Proportion of import & export to GDP	14.3%	56.6%			**Economy of Hulunbeir heavily relies on foreign trade**

1.3 Reasons for Bank involvement in this undertaking are clear. The Bank's Country Assistance Strategy (CAS) to China identifies the strengthening of regional integration and competitiveness through a well functioning transportation system as one of its key objectives in the transport sector. Specifically, the project is in line with the sector-related CAS objectives of facilitating trade (domestic and international), improving regional and market integration and fostering the development of lagging western regions. One of the critical features of the project aims to expand a potential important international transport route between China and Russia. As a multilateral organization, the Bank has the unique capacity to liaise with other countries across the border and is in a good position to advise China on this critical undertaking.

2. Proposed objective(s)

2.1 Apart from the investment in the transport linkage with Russia and Mongolia and expanding highway network capacity in the relatively poor northeastern corridor of Inner Mongolia, the main challenge of the project would be to strengthen the institutional capacity and policy development capability in trade logistics between China, Russia and P.R. Mongolia. Some technical assistance will be

provided to help Inner Mongolia in general, and Hulunbeir League in particular, to plan, facilitate and expand its international trade potential.

2.2 The proposed project is designed with a clear objective to maximize the use of transport infrastructure as a mean to promote international trade of Inner Mongolia in general, and Hulunbeir League in particular. Specifically, it will help speeding up the general development of Hulunbeir League, preparing it to cope with the increasingly important role the central government has assigned to it to be the country's main contact point for trading with Russia. In so doing, the project aims to: (i) improve the capacity of transport infrastructure and network planning to effectively handle the significantly increasing volume of international freight traffic along China's northeastern border; (ii) develop the freight transfer and trade facilitation program suitable to meet the growing demand and flow of border trade; and (iii) provide technical assistance to Inner Mongolia Communications Department (IMCD), and Hulunbeir Municipality in particular, to build up its capacity in planning, facilitating and managing the increasing transport demand and requirement for international trade traffic.

3. Preliminary description

3.1 In order to fulfill the above mentioned project objectives, the project would include the following components:

(i) an expansion of highway capacity through the provision of about 175 km of Hailar-Manzhouli Class 1 highway (HMH). The component is estimated to cost about US$150 million, of which US$70 million will be financed by the World Bank;

(ii) a local highway network development program for poverty alleviation. This is to upgrade and rehabilitate about 550 km of key highway network identified either as a key linkage for international trade facilitation at some smaller border ports with Russia and Mongolia, a critical network missing link. The component is estimated to cost about US$50 million, of which US$20 million will be financed by the Bank. ;

(iii) a freight transfer and trade facilitation program. While designed mainly for China's trade with Russia and Mongolia, Inner Mongolia recognizes that Eastern Russia's and P.R. Mongolia's trade with countries beyond China could conceivably transit Chinese territory for shipments through Chinese seaports. The facilities and the trade regime that will be developed under the proposed project will meet the requirements of such trade in transit. The component is estimated to cost about US$20 million, of which US$8 million will be financed by the Bank. The component comprises:

- a transfer station in which facilities for transferring cargo between modes (rail and road) and between Chinese and Russian trucks as well as warehousing are available;
- a process for the fast and convenient examination and clearance of cargo by Customs and quarantine authorities; and
- trade documentation and practice internationally accepted by importers/exporters, carriers, banks and insurance companies and for which parties engaged in international trade are familiar with;

(iv) an institutional strengthening component including a study on measures to facilitate trade between China and her land-locked neighbors and various support and training aiming to improve the quality of development zone planning, trade promotion, transportation efficiency improvement, as well as project management, environmental monitoring, and supervision of highway investment. The training program will be defined during the pre-appraisal mission. The component is estimated to cost about US$ 2.5 million of which US$2 million will be financed by the Bank.

3.2 The highway capacity expansion and local network development program are relatively straight forward as compared to the investment in improving trade facilitation component. Although the second largest international land port in China, Manzhouli is essentially a border check point and there are no terminal handling facilities for the loading and unloading of cargo except for some private facilities belonging to large importers/exporters. While through transport and door-to-door shipments are always preferred and would be encouraged, there is a need for common user loading/unloading facilities for the use of small shippers/traders without premises of their own. A transfer station, initially essentially a truck terminal, with basic facilities such as a hardstanding area for the holding of trucks and a few loading/unloading docks and a small warehouse will be required. Russian trucks are not permitted to travel beyond Hailar and cargo for destinations beyond Hailar would have to be carried by Chinese trucks and hence transfer facilities have to be provided at a point between Manzhouli and Hailar. The transfer station will also serve as rest stop for truckers who would have to drive long distances. Essential facilities and services required in the transfer station include a documentation center for cargo clearance, and some basic amenities for truckers in addition to parking bays for trucks, working areas for the transfer of cargo between trucks, warehousing and storage facilities for cargo. In light that Hailar is centrally located in relation to the five border crossings with Russia and two with P.R. Mongolia, the development of a transfer station in Hailar would be the most logical. The proposed transfer station in Hailar would not only serve trade crossing the border at Manzouli but at the other border crossings with Russia and P.R.Mongolia as well.

4. Safeguard policies that might apply

[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]

Three safeguard policies are expected to apply: (i) Environmental Assessment, (ii) OP 4.12 on Involuntary Resettlement, and (iii) OD 4.20 on Indigenous People. To assess safeguard issues and prepare to mitigate them during project preparation, the EIA, EAP, RAP and IPDP will be prepared by the implementing agency and reviewed by the Bank. Arrangements have been made to start preparation of these action plans. In addition, two safeguard policies, i.e. Natural habitat and Cultural relics will be further examined to determine their applicability during the preparation of the EIA. So far, no critical habitats or cultural relics have been identified within or around the project area according to the Chinese version of the daft EIA. Through the two ongoing projects the implementing agency has a good understanding and practice of Bank requirements in terms of consultation and disclosure.

5. Tentative financing

Source:	($m.)
BORROWER	150
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	100
Total	250

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