



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

Sovereign-backed Financings

Approval Project Document

P000770 China: Hubei Global Air Cargo Logistics Project

Currency Equivalents

As of July 31, 2024

Currency Unit – Chinese Yuan (CNY)

USD1.00 = CNY7.225

Fiscal year

January 1 – December 31

Abbreviations

| | |
|------|---|
| AIIB | Asian Infrastructure Investment Bank |
| CBA | Cost-Benefits Analysis |
| CNY | Chinese Yuan |
| DOF | Department of Finance |
| EIRR | Economic Internal Rate of Return |
| ELG | Ezhou Linkong Group Co., Ltd. |
| ENPV | Economic Net Present Value |
| ES | Environmental and Social |
| ESIA | Environmental and Social Impacts Assessment |
| ESMP | Environmental and Social Management Plan |
| ESP | Environmental and Social Policy |
| ESS | Environmental and Social Standard |
| FIRR | Financial Internal Rate of Return |
| FSR | Feasibility Study Report |
| GDP | Gross Domestic Product |
| GRM | Grievance Redress Mechanism |
| IMF | International Monetary Fund |
| LUDD | Land Use Due Diligence |
| MDB | Multilateral Development Bank |
| NMF | Noise Management Framework |
| OHS | Occupational Health and Safety |
| PDS | Project Delivery Strategy |
| PEP | Politically Exposed Person |
| PIE | Project Implementing Entities |
| PIR | Procurement Instructions for Recipients |
| PIU | Project Implementation Unit |
| PMO | Project Management Office |
| PPM | Project-affected People's Mechanism |
| RP | Resettlement Plan |
| SEP | Stakeholder Engagement Plan |
| SOE | State-Owned Enterprise |
| USD | US Dollar |

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1. Summary Sheet

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|--|--|
| Project No. | P000770 |
| Project Name | Hubei Global Air Cargo Logistics Project |
| AIIB Member | China |
| Borrower | People's Republic of China |
| Guarantor | Not Applicable |
| Project Implementation Entities (PIEs) | Hubei Province, Ezhou Municipality, Ezhou Municipal Linkong Economic District, and Ezhou Linkong Group Co., Ltd. |
| Sector | Transport |
| Subsector | Multimodal logistics |
| Alignment with AIIB's thematic priorities | Green infrastructure; Connectivity and Regional Cooperation; Technology-enabled Infrastructure |
| Project Objective | To facilitate cross-border trade and to increase international air freight efficiency in Hubei, China. |
| Project Description | <p>The Project is designed to establish a 134.9-hectare bonded logistics park adjacent to the Hubei Ezhou International Huahu Airport (the Airport), the very first dedicated freight airport in Asia.</p> <p>Positioned as a Climate Resilient, Low-Carbon, and Smart Comprehensive Bonded Zone, the Project will provide the following functionalities: customs operations, bonded warehousing and processing, trade/freight services, etc. Specifically, the Project will build infrastructure for customs operation and bonded logistics, including customs checkpoints, international cargo stations, bonded processing centers, bonded logistics centers, and fencing. It will also build business centers for trades, offices, and exhibitions. Project will procure customs supervision equipment for bonded areas, air cargo inspection equipment and facilities, information platform for operation of entire logistics parks, as well as supporting facilities including viaducts, access roads, and landscape works.</p> <p>The Project will also promote innovative customs supervision procedures to achieve efficiency gains during the import and export processes. In the medium term by 2030, the Project is expected to attract over 487,400 tons of international air freight and to facilitate the cross-border trading activities. Leveraging the proximity of the park to the Airport, the Project aims to incubate new aviation-related businesses which will include bonded maintenance and repair, cross-border e-commerce, international cold-chain storage and shipping. Overall, the Project will support the development of Ezhou as a global air freight hub and main gateway for opening-up Hubei and central China.</p> |
| Implementation Period | 01/01/25 12/31/29 |
| Expected Loan Closing Date | 12/31/29 |
| Proposed Amount of AIIB Financing (USDm) | USD400.00 equivalent |
| Financing Plan | <p>Project cost: USD528.88 million</p> <p><u>Project Financing Plan:</u></p> <p>AIIB loan: USD400.00 million</p> <p>Counterpart Funding: USD128.88 million</p> |
| ES Category (or AIIB equivalent, if using another MDB's ES Policy) | A |

| | |
|--|---|
| ES Category Comments | As per the Bank's ESP, the Project is classified as Category A, considering the significant land acquisition required for Project construction. |
| Risk (Low/Medium/High) | Medium |
| Conditions of Effectiveness | Each of the Subsidiary Agreements entered between the Project Implementation Entities (PIEs), have all been duly authorized or ratified and are legally binding upon each of their respective parties under each of its respective terms. |
| Key Covenants | Including but not limited to: <ul style="list-style-type: none"> • Ensure that the Project is carried out in accordance with the Environmental and Social Impacts Assessment (ESIA), Environmental and Social Management Plan (ESMP), Stakeholder Engagement Plan (SEP), Resettlement Plan (RP), and Noise Management Framework (NMF). • Ensure Green Building Certification Standards are met, and Climate Resilient Measures are implemented. • Counterparty funds are provided in a timely manner for the Project implementation. |
| Conditions for Disbursement | None. |
| Retroactive Financing (Loan % and dates) | Up to 20 percent of the loan amount, for eligible expenditures paid within 12 months prior to the loan signing date. |
| Policy Waivers Requested | No |
| Policy Assurance | The Acting Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Project. |
| Economic Capital Consumption (ECap) (USDm) | ECap amount: USD26.3 million ECap ratio: 7.7% |

| | |
|-------------------------|---|
| President | Liqun Jin |
| Vice President | Konstantin Limitovskiy |
| Acting Director General | Konstantin Limitovskiy |
| Team Leader | Runze Yu, Senior Investment Officer |
| Back-up Team Leader | Yaxin Yan, Investment Officer |
| Team Members | Jingrong He, Senior Procurement Specialist Xinchen Zhang, Environment Specialist Victoriano Macasaquit, Social Development Specialist Rui Xiang, Financial Management Specialist Luiz Eduardo Rodrigues, Counsel Jingyu Gao, Economist Wenchao Cao, Investment Solutions Associate - Climate Ji Huang, Procurement Consultant Shaojun Chen, Social Development Consultant Jin Tang, Carbon Accounting Consultant Yanyang Shi, Admin Assistant |

2. Context

2.1 **Country and Macroeconomic Overview.** In recent years, China's economy has undergone a notable transformation marked by steady progress and a shift towards high-quality development. This evolution is characterized by an emphasis on innovation-driven growth, green development, and structural optimization. The focus has shifted from mere economic expansion to a more nuanced approach, prioritizing quality and efficiency in development. Central to this transition is a new development pattern that places domestic demand, innovation, and open cooperation at its core.

2.2 The opening-up of central provinces, particularly within the dynamic Yangtze River Economic Belt, holds profound implications for China's economic landscape. These provinces are actively engaged in enhancing domestic and international cooperation while striving to upgrade their industrial structures and improve the business environment. By fostering innovative development, they serve as vital pillars supporting the enhancement of economic growth quality and the facilitation of structural transformation and upgrading.

2.3 Hubei Province, situated in the heartland of China along the middle reaches of the Yangtze River, stands as a key component of the Yangtze River Economic Belt. Endowed with unique geographical and transportation advantages, and a robust industrial base, the province has capitalized on these strengths under the leadership of its Provincial Party Committee and Government. Notably, efforts have been directed towards enhancing modern transportation systems, promoting multimodal transportation, and developing the aviation logistics industry. These initiatives aim to bolster Hubei's capacity for high-end resource allocation and enhance the global influence of the Yangtze River Economic Belt.

2.4 Ezhou emerges as a nationally designated airport-type logistics hub with strategic significance in international air cargo transportation. Its role extends beyond domestic borders, serving as a crucial platform for deepening cooperation with other nations and driving the outward expansion of advantageous industries. Ezhou's focus on modern supply chains and the development of the modern logistics industry aligns with broader national objectives aimed at elevating China's industries along the value chain. By seizing strategic opportunities and accelerating the development of its logistics sector, Ezhou aims to contribute to China's global logistics network and establish itself as a pivotal node in the international trade landscape.

2.5 **Sector Overview.** In recent years, China's foreign trade has undergone significant transformations, characterized by several notable trends. Firstly, there has been a strategic shift towards upgrading the trade structure, prioritizing products with higher value-added and technological intensity to foster industrial innovation and advancement. Secondly, China has actively engaged in multilateral trade system reforms and negotiations for free trade agreements, fostering deeper relationships with trading partners and expanding cooperation opportunities. Thirdly, the rise of new trade formats such as cross-border e-commerce and digital trade has spurred innovation in trade practices and streamlined trade facilitation processes. Lastly, there has been a marked increase in service trade and technology trade, indicating ongoing enhancements in the quality and efficiency of foreign trade operations. These trends underscore China's commitment to innovation and evolution in the structure, mode, and content of its foreign trade practices.

2.6 Responding to these evolving trends in foreign trade, China has initiated comprehensive measures to enhance its logistics capabilities and services. In May 2022, the General Office

of the State Council issued a directive outlining the implementation of the “14th Five-Year Plan” for the development of modern logistics. This directive emphasizes the importance of bolstering international channel networks by strengthening the construction of international logistics service facilities, enhancing customs clearance functions, and improving connectivity between international and domestic logistics channels. It further seeks to promote the establishment of overseas economic and trade cooperation zones featuring commercial logistics and streamline international logistics trunk channels for efficient and seamless operations. Additionally, the directive calls for addressing deficiencies in international air cargo logistics by leveraging airport-based national logistics hubs, optimizing air cargo logistics services, and cultivating large-scale specialized enterprises to enhance international freight capabilities and coverage. These initiatives aim to establish a robust and efficient international logistics ecosystem that supports China’s expanding foreign trade activities and global economic integration efforts.

2.7 Addressing Key Development Challenges. Hubei Province faces challenges in its foreign trade development, with a relatively low reliance on foreign trade (9.3 percent) compared to leading provinces like Shanghai (94 percent). Factors contributing to this disparity include a limited export product structure, lack of high-value and technology-intensive exports, and insufficient international market visibility. To bridge these gaps, Hubei Province needs to strengthen integration with international markets, enhance trade facilitation, logistics support, and foreign trade policies to improve competitiveness.

2.8 Despite efforts to explore international markets and promote trade transformation, Hubei Province still lags behind other provinces. Trade activities are predominantly centered around Wuhan, with cities like Huangshi, Yichang, and Xiangyang showing higher levels of import and export. Ezhou City, strategically located within the Wuhan metropolitan area, stands to benefit from its developed transportation networks, particularly with the ongoing Ezhou International Huahu Airport project. This Project aims to bolster logistics development, streamline operations, and reduce costs, positioning Ezhou as a key player in domestic and international trade, driving high-quality development in the central region.

2.9 The planning and construction of Ezhou International Huahu Airport, Asia’s first dedicated freight airport, are pivotal for enhancing Hubei Province’s logistics capabilities and service levels. On December 20, 2017, the Ezhou Civil Airport officially commenced construction; on January 7, 2021, it was named “Ezhou Huahu Airport”; on March 19, 2022, it successfully completed its test flight; and on July 17, 2022, it officially opened for air traffic. On May 15, 2024, it was renamed “Ezhou Huahu International Airport”. Its cargo operations expanded rapidly, becoming the country’s second-largest cargo hub within seven months. With projections indicating further growth, including an annual parcel processing capacity of 688 million parcels by 2025, International Huahu Airport is poised to play a significant role in Hubei’s trade landscape, contributing to economic growth and development.

2.10 Project Contributions. The construction of the Hubei Global Air Cargo Logistics Hub near the Ezhou International Huahu Airport aims to address the growing demand for processing international cargo and promote foreign trade in Hubei Province. By leveraging the airport’s capabilities, the Project focuses on developing bonded services, particularly in aviation maintenance, cross-border e-commerce, and international logistics distribution. This initiative aims to create an innovative and internationally competitive international air cargo logistics park, enhancing Ezhou’s international influence and contributing to the development of Hubei’s international logistics core hub. Additionally, the Project will prioritize sustainability

by establishing a climate resilient, low-carbon, and smart logistics park, with detailed implementation plans outlined in section 5.1, following insights gained from a Green Logistics Workshop and study tour to similar parks in Shanghai, both facilitated by the Bank.

3. Rationale

3.1 **Project Objective.** The Project is to facilitate cross-border trade and to increase international air freight efficiency in Hubei, China.

3.2 **Expected Beneficiaries.** The Hubei Global Air Cargo Logistics Hub, centered around the Ezhou International Huahu Airport, targets a wide range of stakeholders involved in foreign trade, including companies engaged in international trade, import/export activities, and logistics operations. These businesses are expected to benefit from streamlined import/export procedures and the concentration of trade activities. Furthermore, the Project is anticipated to generate employment opportunities across various sectors, such as warehousing, transportation, customs, administration, and maintenance, thus bolstering local job creation. Additionally, customs authorities and trade facilitation agencies stand to gain from enhanced efficiencies in customs clearance operations.

3.3 To fully capitalize on the potential of air cargo development, Hubei Province endorsed the Master Plan for the Linkong Economic District in 2019, designating a 178.7 square kilometer area within Ezhou Municipality to attract manufacturing, logistics, and service industries near Ezhou International Huahu Airport. This plan serves as a pivotal initiative to attract enterprises in the air freight sector and aims to enhance urban integration within the Wuhan Metropolitan Area. Additionally, it aims to uplift living standards for residents of central China by improving infrastructure, accessibility to goods and services, and overall living conditions.

3.4 **Expected Results.** During the Mission discussions with the Client, the following key indicators were confirmed for measuring Project outcomes:

- i. Annual turnover of international cargo tonnage: This metric will measure the increase in cross-border trade volume.
- ii. Digitalized customs processing time: This indicator will gauge the improvement in operational efficiency for the importation of air freight.
- iii. Coverage of internationally and domestically recognized green building certifications and charging stations for electric vehicles (EVs): This measure will assess the low-carbon development of the Project.
- iv. Number of person-time for capacity building activities: This metric will track capacity-building activities for green logistics hub management and operation. It will integrate segregation by gender.

3.5 **Strategic Fit for AIIB.** The Project is included in the country programming for China and well aligned with the thematic priorities of the Bank's *Corporate Strategy* as follows:

- i. Connectivity and Regional Cooperation. The Project enhances cross-border connectivity between Hubei and the world by addressing the capacity gap for processing cross-border air cargo at the Ezhou International Huahu Airport, China's first dedicated freight airport. It is expected to promote the development of related manufacturing and service sectors along the air freight value chain in the province. With direct connectivity to airport runways, centralized customs inspection centers, and integrated operation with the comprehensive bonded zone, the Project facilitates efficient loading/unloading, reduces delays, and maximizes drayage efficiency, fostering customs supervision innovations for new foreign trade business models.

- ii. Green infrastructure. The Project proposes a detailed framework for a climate-resilient, low-carbon, and smart logistics park, encompassing energy supply, green transportation, building, disposal treatment, and management. It includes specific actions and costs incorporated into the total Project investment.
- iii. Technology-enabled Infrastructure. Digitalization plays a central role in the Project design, crucial for monitoring low-carbon activities and enabling envisioned customs supervision innovations. Key components include the Low-Carbon Smart Operation Systems and Smart Port Platforms.

3.6 The Project is well aligned with AIIB's Transport Sector Strategy as it develops cross-border connectivity at a nationally important node infrastructure by facilitating international trade flows. The customs operation infrastructure supported by the Project will provide the import/export functionalities. It also enhances the integration of air cargo supply chain at the Ezhou International Huahu Airport as an enabler, by building the bonded processing centers and bonded logistics centers. Finally, it will leverage the use of technology and innovation to improve efficiency, safety, and sustainability in developing transport infrastructure, through overall digitalization supported by the Project.

3.7 Paris Agreement Alignment (PAA) and Climate Finance. In line with AIIB methodology for assessing the alignment with the mitigation and adaptation goals of the Paris Climate Agreement, the Project is assessed as aligned with mitigation goals and conditionally aligned with adaptation goals. Details on the assessment are provided in *Section E. Climate Change*. In line with the joint MDB methodology for tracking mitigation finance, it is estimated that USD240 million (equal to 60 percent) of the AIIB loan USD400 million contributes to support mitigation; in line with the joint MDB methodology for tracking adaptation finance, it is estimated that 25 percent of the Project cost conditionally contributes to support adaptation based on a proportional approach. Overall, 85 percent of the Project loan is conditionally considered as climate finance.

3.8 Value Addition by AIIB. Beyond the provision of financing, AIIB's participation will strengthen the Project by:

- i. AIIB facilitates collaboration among diverse stakeholders to achieve coordinated planning and global best practices for green and smart air cargo logistics parks. Leveraging AIIB's resources, particularly through its non-sovereign operations, the Bank connected the Client in Hubei with GLP, a leading designer and operator of green logistics parks in Asia and Bank's client under one fund investment. Through workshops and study tours, GLP's expertise was harnessed to develop a practical framework for building a climate-resilient, low-carbon, and smart logistics park, ensuring alignment with global standards and trends.
- ii. AIIB ensures the environmental sustainability of the Project and its alignment with global climate goals by introducing its Paris Alignment commitment to the Clients. This involves specifying adaptation and mitigation measures during project preparation and engaging experts to collaborate with the Client in implementing engineering and managerial actions to enhance climate resilience. Additionally, the Bank supports the adoption of circular economy principles, such as waste reduction and recycling, to minimize the environmental impact of logistics operations.
- iii. AIIB's involvement enhances the Project's attractiveness to potential investors and promotes inclusivity to benefit all stakeholders, including local communities and SMEs. This includes promoting gender equality and social inclusion, engaging local

communities in decision-making and implementation, and providing technical assistance to SMEs to participate in logistics value chains. By ensuring broad participation and equitable benefits, AIIB contributes to the Project's sustainability and positive social impact.

3.9 Value Addition to AIIB. Participating in project positioning and design allows AIIB to deepen its expertise in the logistics subsector. Having previously financed a logistics park in Zhengzhou, AIIB is now considering financing another adjacent to Ezhou International Huahu Airport. This presents an opportunity to broaden AIIB's understanding of planning and designing green and smart logistics parks, fostering expertise in digital solutions for smart customs supervision. Additionally, this involvement enhances AIIB's reputation as a strategic partner in logistics and offers networking opportunities with private sector companies, government agencies, and industry associations. Overall, the Project enables AIIB to expand its presence and forge new partnerships in the logistics sector.

3.10 Lessons Learned. AIIB has approved one Sovereign-backed Financing project in logistics subsector in China – the Zhengzhou International Logistics Hub project. There are also a few other ones in this subsector including the Project under preparation. A salient feature of logistics projects is that they generate revenue and are subject to operational/commercial risks. Another unique feature of logistics projects in China is that the project promoters are usually local state-owned enterprises. While strong capacities and market-driven decision making are widely observed, policy intervention also has a strong influence on the business success of these projects (e.g., market regulations, sectoral subsidies, policy-based lending, etc.).

- i. **Cargo Volume Fluctuations and Other Market Risks:** Analyzing cargo volume trends and market risks from similar projects can provide valuable insights into demand patterns and potential challenges for the timeline of project implementation. Assessing the competitiveness of other bonded logistics parks in central China can help in estimating the expected cargo volume and preparing contingency plans for fluctuating market conditions.
- ii. **Counterpart Funding:** Experiences of the Zhengzhou International Logistics Hub project show that counterpart funding from local governments is usually mobilized as prerequisites to kick start project implementation, e.g., land acquisition, obtaining construction permit, etc. AIIB will work with the Client to ensure counterpart funding is available and AIIB financing in a coordinative way to ensure smooth project implementation.
- iii. **Strong Government Support:** Learning from past projects that garnered strong government support can offer valuable insights into fostering cooperation between project stakeholders and gaining necessary approvals and permits. Such experiences can be applied to navigate bureaucratic processes and secure the support of relevant authorities.
- iv. **Local SOE as PIE:** One of the PIEs for this Project, and responsible for the day-to-day implementation (PIU), is a local State-Owned Enterprise (SOE); case studies of similar setups offer insights that government subsidies and overall municipal finance robustness could generate significant impacts on the SOE's ongoing basis of business. A careful due diligence into the management structure challenges faced, and ways to ensure the efficient functioning of the SOE is necessary.

3.11 The Bank organized a **Green Logistics Park Workshop** in Ezhou on December 18, 2023, in collaboration with the PIU. This workshop aimed to disseminate knowledge on policy drivers for green logistics park development in China, share industry best practices, and discuss future trends in planning and engineering design. Key insights included the importance of provincial and municipal policy support for green and low-carbon vision implementation. Holistic planning, rather than piecemeal remedies, was advocated to meet the operational needs of park tenants. Digital tools were highlighted for systematic low-carbon management, and the commercial benefits of green logistics parks were underscored, aligning with market demand for sustainable supply chain solutions and enhancing operational resilience.

3.12 To further enhance the Client's comprehension of planning a sustainable and technologically advanced logistics park and assess its cost implications, in January 2024, the Bank brought the Client and visited two logistics parks in Shanghai developed and operated by GLP: GLP Baoshan Yuepu Logistics Park (operational) and Pulin Smart and Green Valley Industrial Park (under construction). A few learnings from the workshop and the study tour include:

- i. **Competitive Asset Value:** GLP's competency lies in upholding and enhancing its asset value of logistics parks, through a multifaceted strategy that involves competitive rental pricing, a keen understanding of market dynamics, and ongoing investments in quality, technology, and infrastructure. This approach positions GLP as a leader in the logistics real estate sector, ensuring the sustained appeal and performance of its assets in the competitive market landscape.
- ii. **Integrated Model for Planning, Design, and Operation:** GLP adopts an integrated approach to project planning, design, construction, and operation. Emphasizing the importance of design, GLP views its in-house design institute as a pivotal engine for product development. This institute conducts detailed market and rental analyses during planning and design, optimizing construction costs based on anticipated profitability and product positioning. Additionally, it leverages its existing client networks for real-time market demands, ensuring continuous product upgrades.
- iii. **Technology for Operational Efficiency:** GLP harnesses technology to enhance operational efficiency in its logistics parks. With a lean management structure—typically, each park is managed by only two or three GLP managers, supported by a staff team (engineering/maintenance, security, cleaning) high per capita productivity. For the Baoshan Yuepu logistics park, which spans over 240,000 square meters is managed by a staff team of just 25 people. The use of a digital platform that integrates smart security, metering, energy management, and automated maintenance reporting is crucial and enables effective park operation.
- iv. **Green Logistics Park Practices:** Green logistics practices have evolved from branding-driven initiatives (good-to-have) to market demand-driven necessities (must-do). Major clients, driven by end-consumer sustainability demands, insist on green and sustainable logistics parks to achieve their green supply chain objectives. For instance, 3M demands life cycle tracking for all materials and cargos entering and leaving the logistics facilities. This places significant requirements on the park's capacity to monitor and manage solid waste and wastewater treatment. Meeting such requirements enhances a park's market competitiveness, allowing for premium rental charges. The shift toward environmental, social, and governance (ESG) requirements in the capital market further drives enterprises to undergo ESG transformation.
- v. **Cost of Green Design:** The cost of implementing green practices in logistics parks is decreasing significantly. GLP's data indicates that costs associated with green design,

certification, and materials typically constitute only 1 percent to 1.5 percent of unit construction costs. Although achieving green logistics involves a comprehensive approach, including green buildings, energy consumption, waste management, staff welfare, and green management, green energy supply (e.g., rooftop solar) stands out as a major contributor to achieving carbon-neutral operation.

- vi. **Clear Positioning and Operational Sustainability:** Logistics parks, serving as pivotal hub-type transport infrastructure, play a critical role in facilitating trade connectivity and efficient cargo movements. Achieving successful connectivity through logistics parks extends beyond physical infrastructure, relying on both clear positioning and operational sustainability. As the AIIB increasingly allocates resources to finance “Generation 2.0” infrastructure projects, which not only contribute to capacity and efficiency gains but also heavily depend on operational expertise and market competitiveness for success, a significant opportunity arises for AIIB to collaborate with top-tier players and industry experts. This collaboration could add substantial value to clients by combining financial support with operational acumen, ensuring the seamless implementation and sustainable success of infrastructure ventures in an evolving global landscape.

3.13 Furthermore, engaging with stakeholders/experts who have experience in similar projects or those supported by AIIB can provide valuable guidance and expertise in addressing project-specific challenges and ensuring the Project aligns with AIIB’s objectives and requirements.

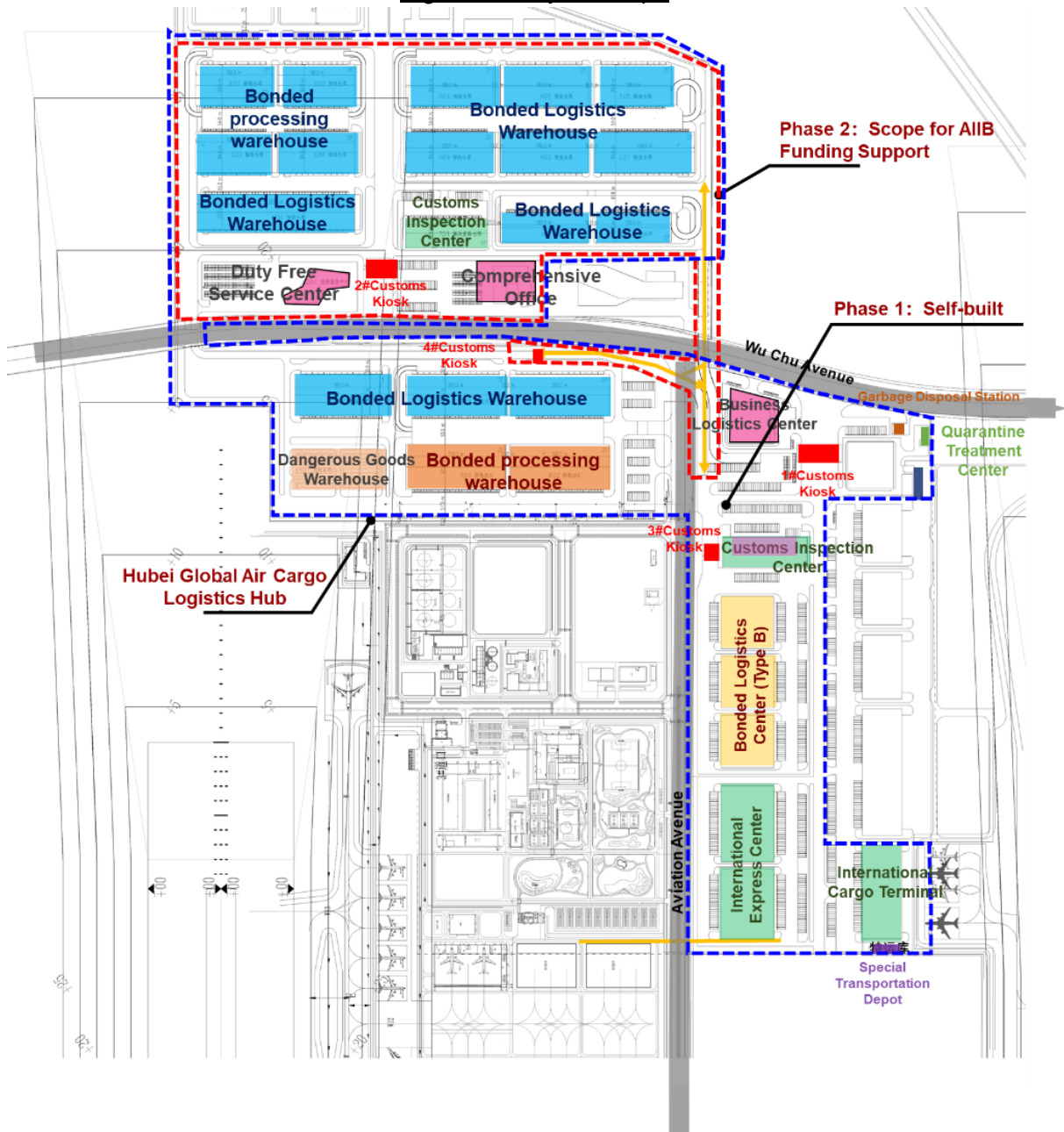
4. Project Description

4.1 **Overview.** Hubei Global Air Cargo Logistics Hub (the Hub) is designed as a comprehensive bonded zone, to cater to the international air cargo business needs by the Ezhou International Huahu Airport (the Airport). By optimizing the speed of clearance and operational efficiency for various types of air cargo¹, the Hub aims to establish an internationally competitive bonded zone, serving as a catalyst for building a robust airport industry system and fostering the growth of high-end airside industry clusters in both domestic and international markets. The Hub will also promote best practices for green, low-carbon, and smart supply chains.

4.2 Given the nationally strategic role of Ezhou International Huahu Airport in central China's development, Hubei Province has prioritized the rapid construction of the Hub as crucial infrastructure supporting the airport. The Hub will encompass a comprehensive bonded zone spanning 1,349,000 square meters over two phases, as illustrated in Figure 1. Phase 1, covering 727,000 square meters, has already achieved partial completion as a Type-B Bonded Logistics Center, passing the site check and acceptance on April 9, 2024. Construction of the Phase 1 is expected to progress further in 2024, with major civil works anticipated to be completed by November 30, 2024, funded by the PIU. The Project will focus on Phase 2, covering 622,797 square meters, and incorporate green and smart elements throughout the entire Hub to support low-carbon and digitalized operations.

¹ Including international general cargo, express parcels, and cross-border e-commerce freight, etc

Figure 1. Project Scope



4.3 The Project consists of four components. Component 1 and Component 2 are mainly for civil works for the Hub's Phase 2 construction. Component 3 consists of green and smart facilities and systems for the entire Hub. It also finances the supporting utilities. Component 4 is to build the capacity for managing and operating the Hub. The scale of construction and functions of green and smart systems are further elaborated in Annex 2 Detailed Project Description.

- i. **Component 1: Customs Operation and Bonded Facilities.** This Component provides core infrastructure for the Project: it offers convenient and efficient customs clearance services, as well as smooth channels for the import and export of goods for both local and external enterprises. It also provides bonded processing and logistics warehousing, offering bonded space for key industries nurtured in the aerotropolis economic zone. This Component will build facilities such as customs inspection warehouses, customs checkpoints, customs enclosures, bonded processing workshops, logistics warehouses, truck ramps, and elevated platforms, etc.

- ii. **Component 2: Trade and Freight Service Facilities.** This Component facilitates the integration of trade and freight services. By building one Duty-Free Service Center and one General Administration Building, it provides spaces for accommodating trading companies, exhibitions, trading centers, and offices, etc.
- iii. **Component 3: Low-carbon, Smart, and Supporting Utilities.** This Component aims to establish a climate-resilient, low-carbon, and smart logistics hub. Specific activities include implementing a) Photovoltaic Power Generation Systems, b) Low-Carbon Smart Operation Systems, and c) Smart Port Platforms **for the entire Hub.** Additionally, **for Phase 2 of the Hub,** activities include constructing elevated connecting roads, access roads, street lighting, and outdoor and earthwork engineering, etc.
- iv. **Photovoltaic Power Generation Systems,** via rooftop solar, help achieve renewable energy targets, leading to carbon emission reduction in the park. The **Low-Carbon Smart Operation Systems** ensure the integrated implementation of green measures, promoting safe and efficient operation while providing transparent and traceable operational data for monitoring low-carbon activities. **Smart Port Platforms** enable digitization and automation in centralized customs inspection centers. Enhanced data sharing and interconnection between customs, logistics enterprises, and other relevant departments improve regulatory transparency and efficiency. This includes intelligent analysis of goods under different customs regulations and real-time monitoring of goods status.
- v. **Component 4: Capacity Building.** This Component supports training activities for future operational staff of the Hub, covering aspects such as low-carbon operation & monitoring, digitization, climate adaptation, and the maintenance of environmental and social monitoring. It aims to strengthen project management, monitoring, and other capabilities, and achieve internationally and domestically recognized green building certifications.
- vi. All buildings to be constructed under Component 1 and Component 2 will be certified by internationally and domestically recognized certifications. The Duty-Free Service Center in Phase 2 and the Business Logistics Center in Phase 1 will seek China's Green Building Certification. Additionally, all buildings within the Hub will feature green waste disposal systems and climate-resilient rainwater drainage.

4.4 **Cost and Financing Plan.** The Client has coordinated with its green design consultant, Feasibility Study Report (FSR) consultant, and ESIA consultant to update and optimize the Project costs, incorporating climate resilient, low-carbon, and smart activities. Table 1 provides a detailed breakdown of the Project financing plan.

Table 1. Project Financing Plan²

| Components | AIIB | | Counterpart | | Total | |
|--|-----------------|---------------|---------------|---------------|-----------------|---------------|
| | CNY million | USD million | CNY million | USD million | CNY million | USD million |
| 1. Customs Operation and Bonded Facilities | 1,577.69 | 221.90 | - | - | 1,577.69 | 221.90 |
| 2. Trade & Freight Service Facilities | 268.69 | 37.79 | - | - | 268.69 | 37.79 |
| 3. Low-carbon, Smart, and Supporting Utilities | 730.91 | 102.80 | 231.86 | 32.61 | 962.77 | 135.41 |
| 4. Capacity Building | 38.77 | 5.45 | - | - | 38.77 | 5.45 |
| Sub-Total for engineering cost of all components | 2,616.06 | 367.94 | 231.86 | 32.61 | 2,847.92 | 400.55 |
| Other fees for government permits, design, supervision, contingencies, and land acquisition etc. | - | - | 684.48 | 96.27 | 684.48 | 96.27 |
| Interest | 227.94 | 32.06 | - | - | 227.94 | 32.06 |
| Total | 2,844.00 | 400.00 | 916.34 | 128.88 | 3,760.34 | 528.88 |

4.5 **Currency selection:** The loan currency will be in CNY.

4.6 Implementation Arrangements and Readiness

i. Implementation arrangements.

- (i) Policy and institutional arrangements. The Project is closely aligned with national, provincial, and local policies aimed at promoting Ezhou International Huahu Airport as China's first dedicated international freight airport and developing a comprehensive bonded zone nearby. Institutional arrangements supporting project preparation and implementation include:
- 1) The Loan Agreement shall be signed between the Bank and the People's Republic of China (the Borrower), through the Ministry of Finance (MoF). The on-lending of the proceeds of the Loan to the Project Implementing Entities in accordance with the terms and conditions of the Subsidiary Agreements. Hubei Province, Ezhou Municipality (EM), Ezhou Municipal Linkong Economic District (EMLED)³, and Ezhou Linkong Group Co., Ltd. (ELG)⁴ are all identified

² The costs for sub-components and activities denominated in CNY were initially calculated using an exchange rate of USD/CNY = 7.110, as aligned with the approved domestic Feasibility Study Report. However, during loan negotiations, an updated exchange rate of USD/CNY = 7.225 was agreed upon. This adjustment has led to a discrepancy between the negotiated loan amount (CNY2,890,000,000) and the figure provided in Table 1 (CNY2,844,000,000).

³ The Ezhou Municipal Linkong Economic District (EMLED) is a district level government under the Ezhou Municipality, aimed at developing a livable aviation cargo hub city. It aims to attract manufacturing, logistics, and other service industries around the Ezhou International Huahu Airport, as well as develop cross-border e-commerce, international cold chain storage and transportation, bonded logistics, bonded processing, and bonded services. The government for EMLED is the Management Committee of EMLED.

⁴ Ezhou Linkong Group Co., Ltd. (ELG) is the promoter of the Project and one of the PIEs. It will also be the final debtor of the AIIB loan. ELG was established on April 9, 2020, as a municipality-backed state-owned enterprise. Entrusted by the Ezhou municipal government, the Management Committee of Ezhou Linkong Economic District manages ELG. The company is the market-oriented entity for investment promotion, business attraction, financing, development, construction, and operation of the Linkong Economic Zone.

as Project Implementing Entities (PIEs). Figure 2 below illustrates the institutional arrangements, reflects the legal structure, and provides clarity over the funds flow and applications for withdrawals.

- 2) Hubei Province, through its Department of Finance (DOF), will be responsible for opening and managing the Designated Account and for ensuring the proceeds of the Loan are timely provided to the other PIEs for the implementation of the Project and in accordance with the terms and conditions of the Subsidiary Agreements. Hubei Provincial DOF has extensive experience in supervising the implementation of MDB-assisted projects.
- 3) EM established a Steering Committee (SC) for the Project led by the Mayor of Ezhou. The SC coordinates relevant local authorities, providing support and guidance to the Project.
- 4) The Management Committee of Ezhou Linkong Economic District established a Project Management Office (PMO) led by the Management Committee Director, convening all leaders from relevant district-level authorities. The PMO is responsible for the decision-making of significant issues and coordinating government approvals required during project preparation and implementation.
- 5) ELG established a Project Implementation Unit (PIU) convening its staff from relevant departments and officials from relevant government authorities. This PIU will be for the daily operations preparing the Project. Although ELG does not have previous experience preparing and operating MDB projects, ELG has the institutional capacity to develop and execute civil works constructions financed by domestic funds.

Procurement of Goods, Works and Consulting Services by Public Entities of PIR shall apply to procurement of the entire Project.

- 2) The PIU will manage the procurement processes and contract management of the whole Project, starting from procurement planning, tendering process, through contract signing and contract management, up to the Project's completion. The PIU has been staffed with team members of extensive domestic funds financed procurement but lack MDB procurement knowledge and experience. For capacity building, the Bank team has provided training on AIIB procurement policy and procedures. Additionally, a Procurement Agency with MDB projects implementation experiences was on board for providing project procurement support during project implementation.
 - 3) International Open Competitive Tendering/Selection (IOCT/IOCS), by default, will be the preferred procurement approach. With this approach, the AIIB's currently available Standard Procurement Documents (SPDs) for goods, works and consulting services will be used when the cost estimates of works, goods and consulting services are higher than USD40 million, USD10 million, USD500,000 respectively, unless otherwise justified in the PDS (Project Delivery Strategy) and concurred by the Bank. When AIIB SPDs are not available or unsuitable for a contract which is of peculiar nature or requires special procurement procedural arrangement to meet the procurement objective of the Project, the relevant standard procurement documents of other MDBs subject to proper modifications to reflect AIIB special policy requirements may be used. The National Competitive Tendering method could be applied in some cases in this Project whereby local tendering documents may be used.
 - 4) **Advance Procurement and Retroactive financing** apply to the Project. Any of the eligible expenditures required for the Project's activities considered for retroactive financing must be implemented in accordance with the Bank's Procurement Policy and its Social and Environmental Policies and Requirements. Per discussion with the PIU, contracts subject to advance procurement and retroactive financing are marked in the procurement plan.
 - 5) During the Project Implementations Period, the Bank team will carry out procurement oversight of all contracts to be funded by the AIIB loan through procurement prior review for large value and complex contracts, and post review for all other contracts on a regular basis. The PIU will establish a document record management system to keep all procurement-related documents in its office for AIIB's future post review and government agency audit. AIIB's Project Procurement Management System (PPMS) will be used to prepare, clear and update Procurement Plans and conduct all procurement transactions for the Project.
- (iii) Financial management arrangement. Project financial management will be undertaken by the PIU, which has a financial management team with the necessary staff and consultants to maintain financial management arrangements acceptable to AIIB, including monitoring the usage of Project funds. Both unaudited and audited Project financial reports must be provided during Project implementation. The unaudited interim financial reports will cover a six-month period, commencing after the first

disbursement of funds. The format and content of the Project reports will be agreed with AIIB. The audited financial reports will be submitted to the Bank within six months after the end of each calendar year.

- (iv) Environmental and social (ES) management arrangement. The PIU has established an ES management team composed of three staff. The PIU will also hire and mobilize a third-party environmental and social monitoring consultant that will provide ES support to the PIU during the project implementation stage including preparation and submission of the ES monitoring reports quarterly in the first year of Project implementation, and semi-annually in the succeeding years. The Bank ES team will also conduct regular field-based monitoring missions to assist the PIU in implementing the Project.
- ii. **Implementation period.** The Project Implementation Period extends from 2025 to 2029, with the anticipated full-fledged operation of the entire Hub since 2030. The construction phasing for the years 2025, 2026, and 2027 has been integrated into the procurement plan and loan disbursement plan. Tendering for major civil works is expected to commence in mid-2025, with the first disbursement of loan proceeds anticipated in 2025.
- iii. **Implementation readiness.**
 - (i) AIIB has provided multiple rounds of comments on the FSR, particularly concerning Project scope, components, and activities aimed at planning and constructing a climate-resilient, low-carbon, and smart logistics park. The FSR is now being finalized for submission for domestic approval, pending the results of AIIB's Appraisal Review.
 - (ii) The Project Delivery Strategy (PDS) and Procurement Plan (PP) have been developed and generally accepted by the Bank during the appraisal stage. These documents outline contract packaging, cost estimates, procurement methods, review procedures by the Bank, and specific timelines. They will be regularly updated or as needed for the Bank's review and approval during project implementation, serving as the basis for PIE and PIU to carry out project procurement.
 - (iii) A Resettlement Plan has been prepared for the acquisition of 62.2 hectare of collective land areas for Phase 2, ensuring the restoration and/or improvement of the livelihoods of Project-affected People (PAP). The Linkong Economic Zone Management Committee has confirmed that resettlement costs have been budgeted, and the quota of land use is highly prioritized as a key provincial-level project.
 - (iv) All statutory clearances, including environmental/forest, water, and land clearances, if applicable, have been obtained for project implementation. Administrative clearances for the temporary use of land and approvals for the shifting of utilities have also been secured.

- iv. **Monitoring and Evaluation.** The PIU will be responsible for monitoring overall project implementation. PIU plans to engage construction supervision consultants to assist in timely implementation of civil works (Component 1 and Component 2). Progress will be monitored jointly by the Bank and DOF through semiannual progress reports prepared by the PIU, contractors, and consultants. The Bank and the Client discussed and confirmed the following monitoring and evaluation requirements during project implementation.

Table 2. Monitoring and Evaluation Requirements

| Report | Timing of Reporting |
|---|--|
| Environmental and Social Monitoring Report (ESMR) on the ES implementation progress indicated in the Environmental and Social Management Plan (ESMP); Resettlement Plan (RP) and Stakeholder Engagement Plan (SEP). | Quarterly for the 1 st year of project implementation and Semiannual, during the succeeding year included in the semiannual project progress reports. |
| Semiannual project progress reports. | Semiannual, within one month after the end of the second quarter and one month after the end of the fourth quarter each year. |
| Semiannual project financial reports. | Semiannual, within 45 days after the end of the second quarter and 45 days after the end of the fourth quarter each year. |
| Audited project accounts and financial statement. | Annual, not later than six months after the closure of fiscal year (end of December). |

- v. **AIIB's Implementation Support.** AIIB will conduct supervision missions semiannually to extend comprehensive implementation support. In addition to the biannual visits, AIIB will engage local consultant to assist Client on implementing and monitoring the low-carbon and climate-resilient initiatives and on carbon monitoring. For procurement, AIIB will provide capacity building through training and guidance on policies and procedures, ensuring transparency and efficiency in the procurement process. In terms of ES support, AIIB requires clients to engage a third-party monitoring consultant and the Bank team will assist Client on stakeholder engagement if necessary. Furthermore, additional meetings will be organized as needed to provide in-time support to the Client.

5. Project Assessment

A. Technical

5.1 **Green and Smart Positioning.** The civil works for this Project primarily entail constructing reinforced concrete frame structure warehouses and buildings, along with single-story steel structures, which are technically straightforward. Therefore, the Project's technical assessment has focused on green and smart planning and design to realize its vision of positioning the Hub as an **Internationally Leading Climate-resilient, Low-carbon, and Smart Logistics Comprehensive Bonded Zone**. The green strategic positioning includes climate adaptation measures to address potential future climate risks, thereby reducing operational risks in later stages. It involves implementing green and low-carbon technologies to achieve sustainability goals. Additionally, the concept of a low-carbon comprehensive bonded zone reflects the Project's commitment to establishing carbon targets and implementing decarbonization pathways in the short and long term. This approach aims to set a model for best practices in low-carbon zones within the Ezhou Air Economic Zone, aligning with Chinese Government's dual carbon goals.

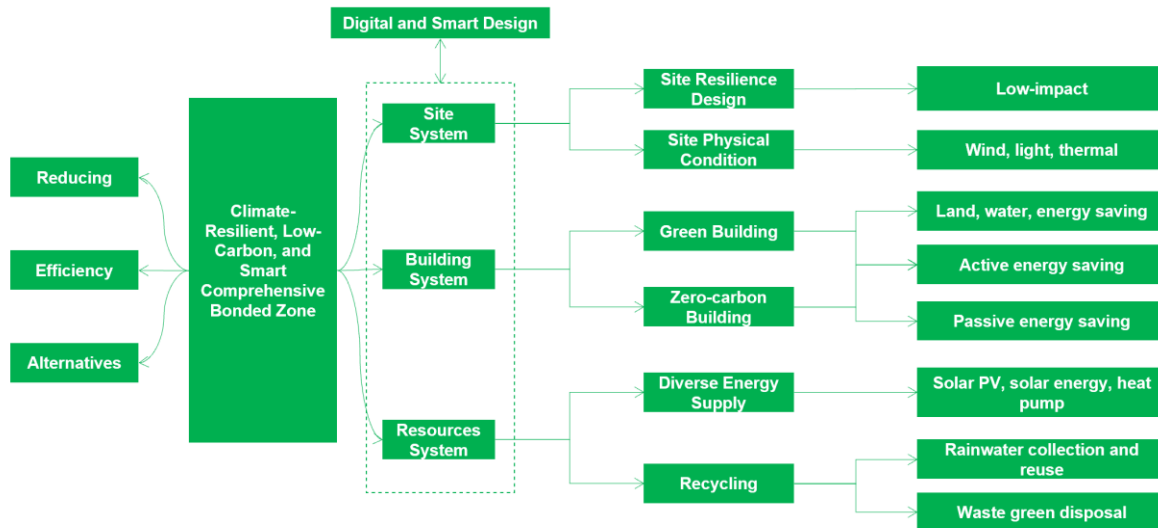
5.2 **Design Framework.** Based on the strategic positioning, the Client with its green design consultant has proposed specific, feasible, and forward-looking design framework with proposed measures to support the implementation of the Project.

Table 3. Climate-Resilient, Low-Carbon, and Smart Design Framework

| Framework Components | Proposed Measures |
|---|--|
| Carbon Emissions | Monitor Carbon Emissions per Unit Cargo Throughput |
| Energy | Promote Use of Renewable Energy |
| Buildings | Apply for Internationally and Domestically Recognized Green Building Certifications |
| Transportation | Install E-vehicle Charging Piles in New Parking Lots |
| | Truck Charging Stations |
| | Install Solar Street Lightings |
| Waste | Promote Green Waste Disposal |
| Management: Developing the Low-Carbon Smart Operation Systems consisting of: | Establish Carbon Emission Management System |
| | Establish Asset Management System for Climate Resilience |
| | Establish Smart Operations Management Platform (Including Energy Management, Emergency Event Management) |

5.3 **Technical Roadmap.** Based on the Project's strategic positioning and design framework, the Project has developed a specific technical roadmap to achieve its goals. This roadmap follows the overall principle of reducing consumption, improving efficiency, and seeking alternatives cost-effectively. Figure 3 illustrates this roadmap, which consists of three modules: site system, building system, and resource system. Following this roadmap, specific actions have been proposed and integrated into all Project's components. For example, the implementation of a rainwater collection system and smart metering for energy consumption monitoring are included in the civil works contracts under Components 1 and 2. Component 3 will primarily finance green and smart actions such as Photovoltaic Power Generation Systems and Low-Carbon Smart Operation Systems. Component 4 will cover expenses related to green building certification application fees, consulting services, and capacity building activities for green management and operations. Quality control measures will be enforced throughout the planning, design, construction, and operation phases of the Project.

Figure 3: Detailed actions and roadmap for implementation



5.4 **Technology-enabled Operations.** Two systems will be developed for the Project for operating the entire Hub. The first is Low-Carbon Smart Operation Systems. Integrating the concept of smart operations and the related infrastructure into the park’s planning phase is an important approach to achieving the low-carbon goals. Incorporating three major functions: Carbon Emission Management System and Management System, Climate Resilience System, and Smart Operations Management Platform (Including Energy Management, Emergency Risk), the Low-Carbon Smart Operation Systems can ensure the park’s safe and efficient operation, as well as to ensure the implementation of green measures during the planning and design phases and the transparency and traceability of park operation data.

5.5 The second is Smart Port Platforms, which The Smart Port Platforms encompass various key functions: The Smart Customs Supervision Platform integrates logistics inspection and release management, in-transit supervision, packaging material management, and more. The Application Support Platform offers unified identity authentication, data reservation, and exchange. The Enterprise Customs Clearance Service Platform includes bonded business declaration, cross-border e-commerce, and warehouse management systems. Lastly, the Smart Park Management Platform offers a portal website, mobile app, digital twin system, and IoT intelligent edge computing for efficient park management and monitoring.

5.6 **Operational Sustainability.** Financial analyses conducted for the Project and the entire Hub indicate significant financial sustainability. Operational revenue is projected to exceed operational costs if all provided capacity is fully utilized. However, the sustainability of operations hinges on the Client’s ability to build fit-for-purpose facilities, attract sufficient tenants, and operate the Hub efficiently. The Bank has identified a list of prospective tenants requiring a total land area of 239.2 hectares, surpassing the Hub’s total land area of 134.9 hectares. Additionally, ELG has established a joint venture with Hubei Airport Group to manage the Project’s future operations.

B. Economic and Financial Analysis

5.7 **Economic analysis**, or Cost-Benefits Analysis (CBA), assesses the economic viability of the Project using the 25-year Project cycle and comparing with/without Project scenarios. The scope of CBA considers both Phase 1 and Phase 2 because one of them would not

function without the other. The starting year is 2024, based on the latest project implementation plan. The analysis includes a comprehensive demand analysis to forecast air cargo traffic volume and calculation of the economic internal rate of return (EIRR) and economic net present value (ENPV). The demand analysis of air freight traffic forecast assumes the Project will transfer some air freight traffic from cities in Hubei and neighboring provinces to the Ezhou International Huahu Airport (where the Project is located). Also, the Project is expected to induce some air freight by attracting new import/export to the Project's bonded services area. These assumptions are made based on trade statistics, policy documents, designed functions of the Project, and comparison to similar air cargo logistics parks in China.

5.8 The main economic benefits include air freight time savings, cost savings, induced trade benefits and expanded logistics services. Time and cost savings are from shorter transport distance of trucks that transfer goods to International Huahu Airport from local industries, as compared to airports in other provinces. Another source of time savings is enhanced customs processing efficiency, measured by shortened customs processing time. Induced trade benefits come from the Project's bonded services area that generate export value-addition. Expanded logistics services are measured as the rental revenues from the Project's logistics facilities, including storage, customs, etc. Note that indirect benefits including time, cost, and carbon savings are calculated based on non-incremental air cargo traffic (transfer volume), whereas direct benefits including expanded logistics services are based on incremental air cargo traffic. Meanwhile, economic costs considered capex and maintenance costs adjusted by AIB, excluding cost items such as tax, financial cost per MDB CBA practices.

5.9 EIRR and ENPV appear to be resilient and remain above the accepted threshold in the sensitivity analysis. After adjustment, the baseline EIRR is about 21.89 percent. ENPV is about 10351.79 million CNY or 1455.95 million USD. Both EIRR and ENPV remain resilient under most extreme scenarios where air cargo traffic drops by 20 percent and cost overrun increases by 20 percent.

5.10 Main economic benefits include incremental direct revenues from logistics services (e.g., customs processing, storage), road transport time/cost/carbon emissions savings, and most importantly, induced trade benefits generated by the bonded services area. See the summary table below.

Table 4: Total Economic Benefits Over the Project Cycle (25 Years)

| Economic Benefits | Million USD | Million CNY |
|---|--------------------|--------------------|
| B1 Direct revenue from logistics services | 194.56 | 1383.29 |
| B1.1 Customs processing logistics services | 143.03 | 1016.94 |
| B1.2 Storage | 35.94 | 255.55 |
| B1.3 Other: rental, parking, etc. | 15.58 | 110.80 |
| B2 Savings: time, cost, carbon emissions | 695.68 | 4946.30 |
| B2.1 Time savings from land transport | 94.98 | 675.30 |
| B2.2 Cost savings from land transport | 424.13 | 3015.59 |
| B2.3 Carbon emissions savings from land transport | 176.57 | 1255.41 |
| B3 Induced trade value-added benefits | 7175.85 | 51020.30 |

5.11 Main economic benefits include incremental direct revenues from logistics services (e.g., customs processing, storage), road transport time/cost/carbon emissions savings, and most

importantly, induced trade benefits generated by the bonded services area. See the summary table below.

Table 5: Economic Costs Over the Project Cycle (25 Years)

| Economic Costs | Million USD | Million CNY |
|----------------------------------|--------------------|--------------------|
| Capex | 902.74 | 6418.47 |
| Operational and maintenance cost | 631.14 | 4487.38 |
| Management | 27.70 | 196.94 |
| Sales | 221.60 | 1575.56 |
| Repair and maintenance | 91.08 | 647.55 |
| Fuels | 138.50 | 984.72 |
| Other fees | 138.50 | 984.72 |
| Salary | 13.77 | 97.89 |
| Working capital | 3.22 | 22.92 |

5.12 Financial Analysis. Regarding the financial analysis, adjustments have been made in accordance with the changes in total capital expenditure, and operating costs discussed above. Meanwhile, two set of financial analysis results are to be presented. One reflects the results combing Phase 1 and Phase 2 as consistent with the scope of economic analysis for reference, and the other reflects only the Phase 2 – of the Project scope. The table below shows the total capex used in the two sets of financial analyses.

| Phase 1+2 | | Phase 2 | |
|-------------|-------------|---------------------|-------------|
| Million USD | Million CNY | Million USD | Million CNY |
| 1,011.95 | 7,194.97 | 533.83 ⁵ | 3,795.53 |

5.13 Financial Internal Rate of Return (FIRR) after tax for the Project's (Phase 2) is estimated at around 9.10 percent, demonstrating the financial sustainability of the Project. Meanwhile, FIRR including Phases 1 and Phase 2 is about 5.20 percent, indicating that the whole park will be considerably financially sustainable on its own. In both cases, the operational revenue can more than sufficiently cover the operational cost.

C. Fiduciary and Governance

5.14 Procurement: The Bank conducted a detailed procurement risk and capacity assessment regarding the Project and the PMO/PIU during the appraisal mission. The PMO, the PIE and the PIU have been established with designated staff including experienced procurement officers. All procurement and contract management staffs of the PIU have experiences with public procurement financed by the Chinese government. They are also familiar with local public procurement laws and regulations and have empirical knowledge and practices with implementing government funded projects.

5.15 Given the local procurement laws and regulations are assessed to be substantially consistent with the AIIB core procurement principles and the Bank team is satisfied with the current organizational setup, and qualification of the procurement staffing, the possibilities of substantial breach of the Bank's procurement policy in the procurement process of a contract financed by the AIIB is minimal, provided that the Bank's special policy provisions have been

⁵ The differences between the Project cost used in the Economic and Financial Analyses and the Project cost quoted in the Project Summary Sheet is due to a different foreign exchange rate applied when Economic and Financial Analyses were conducted.

properly reflected in all the Tender Documents and the Conditions of Contract. The PIU procurement staff shall be able to carry out the procurement of the Project as per AIIB Procurement Policy, after sufficient training to those staff by the Bank's team are concluded, counting also with timely guidance and support from the experienced Procurement Agency.

5.16 Project Delivery Strategy and Preliminary Procurement Plan. The Bank has generally accepted the Project Delivery Strategy and a Preliminary Procurement Plan produced by the PIE and PIU during the appraisal mission, which reflects the specific procurement arrangements for the first 18 months procurement activities of the Project, including contract packaging, cost estimates, procurement methods, AIIB review methods as well as procurement timelines of each contract, procurement documents to be applied, etc. The contract packaging strategy and detailed procurement implementation procedures elaborated in the PDS. The PDS and PP have been finalized during appraisal under the guidance of the Bank.

5.17 Based on the assessment of procurement risk and capacity for the PMO, the PIE and PIU, procurement related risks were identified, and mitigation measures have been put forward and will be implemented by the PIU. The mitigation measures will help strengthen the procurement capacity of the PIU to comply with the procurement requirements. The overall project procurement risk level was assessed as Medium.

5.18 Financial Management. The FM function within the Project will be integrated into the current structure, processes, and procedures of ELG. The DOF, which has prior experience overseeing MDB-financed projects, will offer support and provide guidance to the PMO and PIU to ensure timely execution of monitoring, evaluation, and reporting FM functions. ELG's existing accounting systems will be leveraged for the Project. The accounting systems will be upgraded to include contract management functions tailored to the Project's specific needs.

5.19 To strengthen the Project's financial management capabilities, the PMO will enhance budgeting and reporting functions within the PIU, hiring qualified staff and consulting firms with substantial experience in managing large-scale infrastructure projects. PIU shall prepare annual plans based on the procurement plans and financing plan, which will then be submitted to financial bureaus for approval.

5.20 Given that this is Project's ELG's first MDB-financed project implementation, the Bank has provided comprehensive training and guidance for the PIU to develop the Project Financial Management Manual (FMM). The FMM will guide staff in recording project funds, assets, and liabilities, ensuring the provision of timely and reliable information for effective project management and monitoring.

5.21 The estimated cost for the Project is around USD533 million, with counterpart funds accounting for 25 percent of the total Project cost. ELG will mobilize counterpart funds from the local capital market to support project implementation. ELG will explore additional funding sources, such as engagement with relevant financial institutions or special debt, to secure the necessary funds for timely provision of counterpart funding.

5.22 Disbursements. The Project will use advance disbursement methods in general, but direct payment and reimbursement methods may be used when necessary. A Designated Account (DA) for the Project will be opened and managed by DOF to facilitate advance payments, ensuring the proper utilization of loan proceeds. For each contract payment

requested by PIU, the DOF and municipal and district Finance Bureaus will review payment request along with all necessary documents submitted by the PIU. Following verification, DOF will transfer the requested funds to PIU through municipal and district finance bureaus, enabling PIU to make payments to contractors. The District Finance Bureau will oversee payment progress to ensure timely contract payments. The Disbursement Letter shall detail the authorized signatories, ceiling of DA, minimum application size, process of submitting claims and other terms and procedures of disbursements.

5.23 Financial Crime and Integrity (FCI) and Counterparty Due Diligence/Know Your Counterparty (CDD/KYC): Following AIIB's applicable policies and guidelines, KYC/FCIDD has been conducted to assess Financial Crime (FC) risks, including Money Laundering and Financing of Terrorism (ML/FT) risks, sanction risk, and risk deriving from integrity unsoundness when dealing with its Counterparties and Connected Parties in the financing. Integrity screenings have been performed. No critical findings were found. The above-mentioned representatives are identified by World-Check One as politically exposed persons (PEPs) due to their public status.

5.24 Governance and Anti-corruption: AIIB is committed to preventing fraud and corruption in the projects it finances and will ensure strict compliance with AIIB's Policy on Prohibited Practices (2016). The Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive, or obstructive practices, and misuse of resources and theft or coercive practices relating to the Project and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate.

5.25 Cybersecurity: The infrastructure financed is not considered as Critical Infrastructure.

D. Environmental and Social

5.26 Environmental and Social Policy and Categorization. The Bank's Environmental and Social Policy (ESP) including the Environmental and Social Standards (ESSs) and the Environmental and Social Exclusion List (ESEL) is applicable to this Project. As per the Bank's ESP, the Project is classified as Category A, considering the significant land acquisition required for Project construction. ESS1 – Environmental and Social Assessment and Management and ESS2 – Land Acquisition and Involuntary Resettlement are applicable. The Project area is not an ethnic minority inhabited place. Only 13 ethnic minority people are scattered in three towns/townships (Xinmiao town, Yanji town, and Shawo Township) of Ezhou Linkong Economic Zone, accounting for 0.009 percent of the total population. Most of them are Hui people, mainly operating business of "Lanzhou Noodle Restaurant", and thus these Indigenous Peoples/Ethnic Minority groups are not collectively attached to the Project area. Therefore, ESS3 Indigenous Peoples is not applicable, as per the Bank's ESP.

5.27 Environmental and Social Instruments. The Client has recruited ES consultants to prepare an Environmental and Social Impacts Assessment (ESIA), an Environmental and Social Management Plan (ESMP), a Stakeholder Engagement Plan (SEP), a Resettlement Plan (RP), a Land Use Due Diligence (LUDD) and a Noise Management Framework (NMF) for the Project in compliance with both domestic regulatory requirements and AIIB's ESP. Associated facilities have been identified for the Project, including: (i) Phase 1 of the Hub, construction of which has been partially completed in December 2023 and the remaining civil works were tendered in August 2024; and (ii) Wuchu Road sections, construction of which is ongoing and expected to be completed in December 2024. An Environmental and Social Due

Diligence (ESDD) was carried out by the Client's ES consultants to verify the ES compliance of these ongoing/completed civil works. On that basis, relevant ES requirements to contractor(s) have been incorporated into the civil works contracts of ongoing works, including disclosing Grievance Redress Mechanism (GRM) and AIIB's Project-affected People's Mechanism (PPM). The ESMP has been incorporated into tendering documents and civil works contracts of the remaining civil works of Phase 1.

5.28 Environment Aspects. According to the ESIA, the Project is in a habitat substantially modified by human activities and is unlikely to cause significant adverse impacts to biodiversity. The Project and its associated facilities' potential adverse environmental impacts during construction mainly include dust, air emissions from machine and vehicle, construction noise, soil erosion, construction and domestic wastewater and solid waste, and traffic related disturbance, which are limited to the Project affected area, temporary or short-term, reversible, and can be readily mitigated by adopting good civil work management practice as in the ESMP. Impacts during operation mainly include exhaust gases from laboratories and fumigation process, waste liquid and hazardous wastes, domestic wastewater and solid wastes, machinery and ground traffic noise, and road safety. An emergency preparedness plan is prepared for dangerous and hazardous goods and chemicals management. The feasibility study and domestic EIA for International Huahu Airport established the projected number of cargo flights, accounting for nearby land uses, including the Hub operation. The NMF forecasts potential air noise impacts specifically from cargo flights associated with the Hub, using a noise prediction model calibrated with baseline noise monitoring data. The NMF provides detailed mitigation and monitoring measures, assigning responsibilities to relevant parties based on the predicted noise impact level on affected populations.

5.29 Social Aspects. An ESIA has been conducted which indicated that local communities will benefit from the Project through the employment opportunities created across multiple sectors, including warehousing, transportation, customs, administration, and maintenance, thereby boosting local jobs and income generation. Social risks or impacts on vulnerable groups or individuals have also been analyzed. Social risks from the Project are associated with construction and operation induced social disturbance due to dust, noise and vibration; occupational health and safety (OHS); temporary Project-induced labor influx; risk of Sexual Exploitation, Abuse and Sexual Harassment (SEA/SH); health and safety risks to Project workers and Project-affected communities, and Project induced land taken and resettlement. Land acquisition and resettlement impact is significant, whereas other impacts are assessed as limited. An ESMP including a Gender Action Plan (GAP), a RP, and a noise-induced relocation procedure under NMF has been prepared to mitigate the potential social risks or impacts.

5.30 Land Acquisition and Resettlement. The Hub will encompass a comprehensive bonded zone spanning 1,349,000 square meters (2,023 mu) over two phases. Phase 1, covering 727,000 square meters (1,090 mu), has already completed land acquisition, compensation, and relocation of affected households from 2017 to 2022. Of this area, 283,467 square meters (425.5 mu) have received approval, with the remaining 442,298 square meters (664.5 mu) expected to complete the approval process by March 2025. The AIIB Project will focus on Phase 2, covering 622,000 square meters (933 mu), with land acquisition for the first batch of 153,000 square meters (230.49 mu) expected to conclude by the end of December 2024. For identified associated facilities including Phase 1 of the Hub and Wuchu Road sections (90mu), a LUDD has been conducted and concluded that the completed land taken, and relocation activities are in line with AIIB's ESS2 policy and China's land laws and

regulations, and the affected people have been compensated at replacement cost and relocated as scheduled. As for 933 mu of collective land areas to be acquired for Phase 2, a RP has been prepared for the land acquisition and resettlement activities to ensure the restoration and/or improvement of the livelihoods of Project-affected People (PAP). In addition, Linkong Economic Zone Management Committee confirmed the resettlement cost has been budgeted, and the quota of the land use is highly prioritized since it is a key provincial level project.

5.31 Occupational Health and Safety (OHS), Labor and Employment Conditions. The Project will involve typical construction work related OHS risks such as collision with moving machinery and vehicle, hazards associated with use of hazardous chemicals, electric shock, mechanical and load handling hazards, exposure to noise, dust and vapours. OHS hazards during operation include exposure to noise, dangerous or hazardous goods and chemicals, disease transmitted by live animals, etc. The ESMP has included the OHS management requirements. Additionally, the ESMP addresses various other issues such as labor influx, working conditions, labor payments, inadequate sanitation facilities for women, labor disputes or grievances, SEA/SH, and code of conduct. The Client will ensure that the tendering documents include clauses pertaining to these requirements. Furthermore, the Client will oversee the contractors' compliance with applicable labor laws and regulations, as well as the adoption and enforcement of codes of conduct for all workers. In addition, all suppliers and contractors will be advised of the importance of implementing appropriate management measures to identify and address issues related to the ES provisions of the ESMP, including labor and working conditions and health and safety matters. Compliance with the ESMP is an essential part of the contract document with suppliers and contractors. This compliance and representations and warranties to be provided to the Client by suppliers and contractors will be reflected in relevant agreements and contracts.

5.32 Stakeholder Engagement, Consultation and Information Disclosure. Consultations were done during ES studies, and development of the ES instruments. Key stakeholders, including Project affected parties, other interested parties, and disadvantaged and vulnerable groups have been identified and consulted during Project preparation. A SEP has been prepared by the Client's ES consultants to assess the impacts to and influence by these various stakeholders, formulate differentiated approaches and strategies for engaging with them in a meaningful and culturally appropriate way, and specify the roles and responsibilities of Project management and implementation units in implementing the SEP throughout the entire process of Project preparation and implementation. The consultation process, including comments and suggestions received from stakeholders and how they are addressed, has been documented in the ES instruments. The ES instruments in English and Chinese have been disclosed by the Client on its website on July 23, 2024⁶ and disclosed on AIIB's website on July 24, 2024⁷.

5.33 During construction, the Client is required to regularly conduct consultations with local communities and workers.

5.34 Project Grievance Redress Mechanism. The ESIA and SEP describe a Project-level Grievance Redress Mechanism (GRM) to receive and facilitate resolution of the concerns or complaints from Project-affected people and for raising workplace grievances. GRMs for the ongoing Wuchu Road works and Phase 1 works have been established and disclosed, and

⁶ https://lkjq.ezhou.gov.cn/xxgk/zc/gggs/202407/t20240723_637479.shtml

⁷ <https://www.aiib.org/en/projects/details/2023/proposed/China-Hubei-Global-Air-Cargo-Logistics-Hub-Project.html>

GRM for other Project activities will be operational before any Project activities are implemented. The GRM will be further improved during the Project's implementation.

5.35 Bank's Project-Affected People's Mechanism. The Bank's Project-affected People's Mechanism (PPM) will be used for the Project. The PPM has been established by the Bank to provide an opportunity for an independent and impartial review for submissions from Project-affected people who believe they have been or are likely to be adversely affected by the Bank's failure to implement its ESP in situations when their concerns cannot be addressed satisfactorily through the project-level GRM or the processes of the Bank's management. For information on the Bank's PPM, please visit: <https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html>.

5.36 Monitoring and Supervision Arrangements. The Client has established an ES management team composed of three staff and will recruit third-party ES monitoring agencies and submit ES monitoring reports for Bank team's review quarterly in the first year of Project implementation, and semi-annually in the succeeding years. The Bank team will monitor the Project's ES management performance through these reports and during its implementation support missions.

E. Climate Change

5.37 Paris Agreement Alignment. The Client is committed to developing a climate resilient and low-carbon air cargo logistics park. Green planning including renewable energy, green transportation, 100 percent green building certifications, and waste green disposal were integrated into the Project design. Based on the AIIB Paris Alignment methodology, the Project is considered Paris-aligned with respect to mitigation goals.

5.38 On climate adaptation, a dedicated climate consultant, hired by the Client within the ESIA consultant team, conducted a detailed climate risk and adaptation assessment (CRA) of the Project and shared the resulting CRA report with the Bank for review. Based on the CRA report, the identified two high-risk hazards included both high temperature and extreme precipitation. Multiple different climate models were used for climate prediction under three climate scenarios of SSP2-4.5, SSP3-7.0 and SSP5-8.5. Climate risk, vulnerability, and impact of key hazards on different Project components were analyzed. Adaptation measures, including strengthening materials of roads and buildings, drainage systems, and rainfall and flood management, were identified to be included in the Project design to increase the resilience of the infrastructure. Furthermore, the climate assessment confirmed the consistency of the Project with national climate resilience strategies and policies. The Project, therefore, aligns with the adaptation goals of the Paris Agreement.

5.39 Climate Finance. In line with the joint MDB common principles for climate mitigation finance tracking, the Bank assessed the eligibility of project activities for climate mitigation finance. As the Client has committed to ensure all buildings in the Project meet green certification criteria, the CAPEX of these buildings under components 1 and 2 are considered eligible as mitigation finance under Category "Energy efficiency, renewable energy, CO_{2e}-emission reduction, and carbon sinks in green buildings". The capacity building activities of Component 4 are eligible as mitigation finance under Category "Capacity Building". The total CAPEX of USD240 million (equal to 60 percent of the total AIIB loan of USD400 million) of these eligible activities can be considered as climate mitigation finance.

5.40 The Client has conducted a comprehensive climate risk and adaptation assessment, which satisfies the three criteria for eligible adaptation activities: (1) a well-established context of climate risk and vulnerability, (2) statements of intent to address identified risk through the proposed climate adaptation measures, and (3) direct and logic link between proposed adaptation activities and climate risk. Based on the joint MDB methodology for tracking adaptation finance, the Bank applied the proportional approach to estimate climate adaptation finance of the project. As adaptation is one of the objectives of the project, the project is classified as Type 2 Activities. The Bank therefore considered 25 percent of the project funding as climate adaptation finance. Combining the mitigation and adaptation finance, the Bank considered a total of 85 percent of the project loan as climate finance.

F. Gender Aspects

5.41 **Gender Aspects:** The ESIA has included gender-disaggregated surveys and results of gender focus group discussions and analyzed the Project's impacts on women to reflect gender considerations in the design and assessment of the Project. The Project will contribute to improved working environment, such as toilets, separated dormitories for men and women at campsites and access to information about safety at work. In addition, the Project will request contractors to include a minimum quota of female workers aimed at encouraging women in taking employment opportunities for civil works contracts and during operation of the facility. A Gender Action Plan (GAP) has been prepared as part of the ESMP for this Project aiming to cover gender-based violence (GBV), gender inclusion, and capacity building. Result indicator has also been developed and will be monitored during the implementation, including (i) 30 percent of the new jobs created by the logistics hub are for women (baseline: 5 percent), and (ii) at least 50 percent female staff/employee of ELG participate in the low-carbon or green logistics awareness education/capacity building program (baseline: 0 percent)

G. Risks and Mitigation Measures

Table 6: Summary of Risks and Mitigating Measures

| Risk Description | Assessment (H/M/L) | Mitigation Measures |
|---|--------------------|--|
| Program/Project Preparation Risks | | |
| Technical designs | | |
| <ul style="list-style-type: none"> Master planning refinement. | L | <ul style="list-style-type: none"> The Project's master planning was initiated in 2020, and further refined in 2023 and 2024 respectively. The risks associated with the design are relatively minor. |
| Program/Project Implementation Risks | | |
| Implementation capacity | | |
| <ul style="list-style-type: none"> The implementation capacity risks for the Client in adopting Green Logistics Park Standards and integrating climate resilience elements into the design, despite support from advisory services, include potential challenges in fully understanding and applying | M | <ul style="list-style-type: none"> With the support of advisory services from GLP, ELG has incorporated Green Logistics Park Standards and Climate change elements will be integrated in the design. |

| Risk Description | Assessment (H/M/L) | Mitigation Measures |
|---|--------------------|--|
| <p>ES procedures due to their lack of experience.</p> <ul style="list-style-type: none"> ▪ While a basic procurement capacity has been established, the complexity of sustainable procurement practices could also pose risks to the effectiveness and timeliness of implementation. | | |
| Environment and Social | | |
| <ul style="list-style-type: none"> ▪ Lack of MDB safeguard experience. ▪ Some gaps between national/local legislations and AIIB's ESP. ▪ Significant land acquisition and resettlement impact. | H | <ul style="list-style-type: none"> ▪ The Client hired and mobilized ES consultants to prepare ES instruments in compliance with AIIB's ESP prior to Project appraisal. ▪ The Client will recruit third-party ES monitoring agencies to monitor Project's ES management performance, including GRM functioning, throughout Project implementation. ▪ The Client will prepare and submit regular ES monitoring reports during Project implementation. ▪ The Client will carry out capacity building activities to stakeholders on ES instruments implementation during Project implementation. |
| Financial management | | |
| <ul style="list-style-type: none"> ▪ FM risks include potential gaps in FM Client's capacity, gaps in budget and contract management leading to financial inefficiencies. ▪ Considering the counterpart fund requirements for Phase 2, there is a growing potential risk of a shortfall in counterpart funds during the construction. | M | <ul style="list-style-type: none"> ▪ AIIB will provide ongoing training on funds management and closely monitor and review the project implementation to ensure the proper utilization of loan proceeds. ▪ With the accelerated progress of Phase 1, the ELG has raised a significant amount of financing from the capital market for the construction. AIIB will keep monitoring the financial situation and project progress. |
| Procurement of large and complex packages | | |
| <ul style="list-style-type: none"> ▪ Possible misunderstanding between the PMO, PIE, PIUs and the Bank and delays in processing procurement and non-compliance due to differences between the domestic and the Bank's procurement policies and procedures. ▪ Staff of PIUs lack experience of MDBs' project procurement and implementation. | M | <ul style="list-style-type: none"> ▪ Recruitment of an experienced Consulting Firms in project management (PMC) or Individual Consultant to assist Client in project implementation, (ii) Continued procurement training of PIU staff, and (iii) Procurement Manual properly prepared for effective management on procurement implementation. |

| Risk Description | Assessment (H/M/L) | Mitigation Measures |
|--|-----------------------|--|
| Time and cost overrun | | |
| <ul style="list-style-type: none"> ▪ The possibility of delay and cost overrun. | L | <ul style="list-style-type: none"> ▪ To date, there have been no reported incidents. The projected construction costs are deemed to be low, and the likelihood of delays and cost overruns is also considered low, based on the track record of contractors already participating in the work program. Features to enhance resilience to climate change will be integrated into the final design. |

Annex 1: Results Monitoring Framework

| Project Objective (PO): | | To facilitate cross-border trade and increase international air freight efficiency in Hubei, China | | | | | | | | |
|---|-----------------|--|--------------------------|-------|-------|-------|-------|-----------------|---------------------------|----------------|
| Indicator Name | Unit of measure | Baseline Data 2024 | Cumulative Target Values | | | | | End Target 2029 | Data source / Methodology | Responsibility |
| | | | 2025 | 2026 | 2027 | 2028 | 2029 | | | |
| Project Objective Indicators: <i>(Outcome indicators measure each aspect of the PO statement and are to track progress toward the achievement of the PO)</i> | | | | | | | | | | |
| 1. Increase in cross-border trade (Cargo volume) | Tons | 0 | 19.34 | 22.93 | 27.44 | 32.85 | 39.34 | 39.34 | Annually | ELG |
| 2. Improved operational efficiency (Reduction of overall customs processing time) – Import (2023: 17.5 hours) | % | 0 | / | / | 20 | 20 | 20 | 20 | Annually | ELG |
| 3. Improved operational efficiency (Reduction of overall customs processing time) – Export (2023: 0.2 hours) | % | 0 | / | / | 20 | 20 | 20 | 20 | Annually | ELG |
| 4. Promote Low-Carbon Development at the Logistics Hub – Coverage of internationally and domestically recognized green building certifications | % | 0 | / | / | / | 100 | 100 | 100 | Annually | ELG |
| 5. Promote Low-Carbon Development at the Logistics Hub – Ratio of EV charging stations over all parking lots | % | 0 | / | / | 20 | 20 | 20 | 20 | Annually | ELG |
| 6. Capacity Building – Participation of trainings on low-carbon management and operation | Person-time | 0 | 0 | 0 | 200 | 300 | 400 | 400 | Annually | ELG |
| 7. Capacity Building – Female participation of training on low-carbon management and operation | % | 0 | 0 | 0 | 50 | 50 | 50 | 50 | Annually | ELG |

| Project Objective (PO): | To facilitate cross-border trade and increase international air freight efficiency in Hubei, China | | | | | | | | | |
|--|--|--------------------|--------------------------|---------|---------|---------|---------|-----------------|---------------------------|----------------|
| Indicator Name | Unit of measure | Baseline Data 2024 | Cumulative Target Values | | | | | End Target 2029 | Data source / Methodology | Responsibility |
| | | | 2025 | 2026 | 2027 | 2028 | 2029 | | | |
| Intermediate Results Indicators: (To measure key intermediate results under each component that are necessary for showing progress toward achieving PO. They can capture outputs or short-term outcomes.) | | | | | | | | | | |
| 1. Infrastructure development in the Comprehensive Bonded Zone – a. Customs operational infrastructure b. Bonded Warehousing and Processing c. Trade and freight service facilities | Ten thousand square meters | 0 | 90,486 | 158,510 | 354,055 | 382,650 | 382,647 | 382,647 | Annually | ELG |
| 2. Customs operational infrastructure – Area of International Cargo Terminal/Express Center facilities | Ten thousand square meters | 0 | 11,860 | 11,860 | 11,860 | 11,860 | 11,860 | 11,860 | Annually | ELG |
| 3. Bonded Warehousing and Processing – Bonded warehousing facility area | Ten thousand square meters | 0 | 68,176 | 68,176 | 263,721 | 263,721 | 263,721 | 263,721 | Annually | ELG |
| 4. Bonded Warehousing and Processing – Area of bonded processing facilities | Ten thousand square meters | / | / | 28,592 | 28,592 | 57,187 | 57,187 | 57,187 | Annually | ELG |
| 5. Trade and freight service facilities – Area of trade and freight services facilities | Ten thousand square meters | 0 | 10,450 | 49,882 | 49,882 | 49,882 | 49,882 | 49,882 | Annually | ELG |
| 6. Low-carbon smart operation systems – Whether developed | Yes/No | No | No | No | Yes | Yes | Yes | Yes | Annually | ELG |
| 7. Job creation – Total number of new jobs created | Number | 0 | 0 | 0 | 800 | 2,000 | 3,000 | 3,000 | Annually | ELG |

Annex 2: Country Credit Fact Sheet

1. **Recent Developments.** Gross Domestic Product (GDP) growth in 2023 recovered to 5.2 percent, mainly driven by the rebounding consumption given a low base in the year 2022. Retail sales increased by 7.2 percent for goods and 20.0 percent for services, while investment grew by 3.0 percent, thanks to infrastructure (5.9 percent) and manufacturing (6.5 percent) while the real estate development investment went down by 9.6 percent. For 2024, the authorities announced a growth target of 5 percent.

2. In the first quarter of this year (2024Q1), GDP has grown by 5.3 percent year on year. Growth has been broadly balanced, with industrial production increasing by 6.1 percent, services by 5.0 percent, retail sales (of goods) by 4.7 percent, while investment increased by 4.5 percent with continued growth in manufacturing and high-tech industries. However, real estate investment declined by 9.5 percent.

3. Inflation has been declining and currently remains around zero percent, reflecting prudent monetary policy and still weak demand. The continued rise of industrial supply capacity also played a role, as producer prices for industrial products declined by 2.7 percent over 2024Q1.

4. The current account surplus in 2022 reached 2.2 percent of GDP, a 14-year high. In 2023, the external trade dynamics have been weak, at around zero percent, which reflects the combined impact of lower global demand and, potentially, decoupling. Trade picked up over 2024Q1 with the total value of imports and exports increasing by around 5.0 percent each.

| Selected Indicators | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|-------|-------|-------|-------|-------|
| GDP growth (percent) | 8.5 | 3.0 | 5.2 | 4.6 | 4.1 |
| CPI inflation (percent, end of period) | 1.4 | 1.8 | -0.3 | 1.9 | 2.0 |
| Current account balance | 2.0 | 2.3 | 1.5 | 1.3 | 1.4 |
| Fiscal balance | -5.1 | -6.6 | -6.0 | -5.8 | -5.8 |
| General budgetary debt 1/ | 47.2 | 51.5 | 56.3 | 59.3 | 62.7 |
| Augmented public debt 2/ | 101.4 | 110.1 | 121.9 | 128.9 | 136.3 |
| External debt | 15.6 | 15.0 | 15.6 | 15.6 | 15.6 |
| Gross official reserves (USD trillion) | 3.42 | 3.31 | 3.45 | 3.47 | .. |
| Exchange rate (CNY/USD, end of period) | 6.38 | 6.96 | 7.08 | 7.10 | .. |

Source: IMF WEO Apr 2024 and IMF Country Report No. 23/67, China's authorities

Notes: in percent of GDP, unless otherwise indicated; 1/ official data; 2/ IMF definition, including government funds

5. **Outlook and Risks.** The International Monetary Fund (IMF) expects China's economy to slow to 4.6 and 4.1 percent in 2024 and 2025, respectively, due to still weak consumption, problems in the real estate sector, weak confidence, and subdued external demand.

6. More generally, in the medium term, the IMF estimates China's potential growth rate at around 3.5 percent. Trend growth in total factor productivity and disposable income has been declining in China for some time. Challenges looking ahead include population aging and the uncertain geopolitical environment, which could limit China's access to technology and export markets. In this regard, the authorities have articulated policies that encourage

domestic demand and technological self-sufficiency. Data from the statistical office shows that investment in high-tech industries grew by 10.3 percent in 2023, which is higher than that of the total investment. However, the productivity impact of such investment is yet to be seen.

7. According to the IMF, risks to debt sustainability are moderate. Debt levels in the real estate sector, small and medium banks, and local governments are elevated, due to various reasons, including past overinvestment and volatile property prices. The IMF-compliant augmented measure of public debt, which includes local government financing vehicles, is expected to increase to 129 percent of GDP in 2024 and further to 136 percent in 2025. However, risks are mitigated by a small foreign exchange-denominated share of debts, low external indebtedness, current account surpluses, high and stable foreign exchange reserves, and accommodative policies that create space to lower borrowing costs and restructure debt.

8. China has been an investment-grade country since it was first rated in 1988, currently rated at A+/A1. However, with decelerating trend growth and property sector woes, some pressure has emerged on credit ratings. In December 2023, Moody's changed China's outlook from stable to negative, citing lower medium-term structural economic growth and growing risks to China's fiscal, economic, and institutional strength, and policy effectiveness. In April 2024, Fitch revised its outlook on China to negative, reflecting increasing risks to the outlook of China's public finance and uncertain growth prospects amid a transition away from property-reliant growth to what the government views as a more sustainable growth model.