

NATIONAL INDICATIVE PROGRAMME

2005-2006

CHINA

| | | |
|---------------------|---|---|
| Country/Region | : | China |
| Budget years | : | 2005-2006 |
| Budget lines | : | 1910 |
| Legal base | : | ALA Regulation Council Regulation (EEC) 443/92 of 25/02/92 |
| Cost of Order | : | €100 million |
| Programming Service | : | DG RELEX/H/2 |
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1 PREAMBULE TO THE 2005-2006 NATIONAL INDICATIVE PROGRAMME

1.1 INTRODUCTION

1.1.1 The legal framework

The present proposals have been formulated in accordance with the provisions of Council Regulation (EEC) 443/92 of 25th February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America (the ALA Regulation). The regulation is applicable to China.

Article 9 of the Regulation specifies that “Wherever possible, indicative five-year programming shall be established for each objective, country, or, if appropriate, region”. Articles 14 and 15 of the Regulation furthermore specify that, before adoption, “...the indicative multiannual guidelines that apply to the main partner countries” shall be submitted by the Commission to a committee of Member State representatives (the ALA Committee) for its opinion.

The China Country Strategy Paper 2002-2006 constitutes the multiannual planning and strategy document, the objectives of which are reflected in the projects and programmes contained in the 2002-2004 and 2005-2006 National Indicative Programmes.

1.1.2 The China 2002-2006 Country Strategy Paper (CSP)

The China 2002-2006 CSP was approved by the Commission on 25th February 2002. The co-operation strategy outlined in the CSP was largely built on the Commission’s Communications of 1998 and 2001¹, and aims to support the implementation of the EU’s wide policy objectives towards China. These include providing support for the continued reform and transition process; further integrating China into the world economy and the world trading system; supporting China’s transition to an open society based upon the rule of law and respect for human rights; making better use of European resources notably through improved coordination with bilateral assistance from Member States; and raising the EU’s profile in China.

These policy objectives were reiterated in the Commission’s 2003 Policy Paper on China² which was issued one month before China’s first ever policy paper on its relations with the EU. A seminar held in Beijing in February 2004 to jointly review both papers was successful in identifying areas for strengthened EU-China co-operation through dialogues and through the co-operation programme.

As a result of the CSP and the Policy Paper, the overall objectives of the co-operation programme are very much in line with the policy orientations that guide the development of the EU-China strategic partnership. As such, co-operation, where necessary, features in political dialogue with China, and often underpins activities in policy areas of mutual interest.

The China 2002-2006 CSP provides the policy objectives for EC assistance programmes to China for this period, with indicative funding of €250 million. On the basis of the analysis contained in the CSP the decision was taken that the EC co-operation programme should

¹ ‘Building a comprehensive partnership with China’ , COM (1998) 181 of 25/03/98 and ‘EU strategy towards China: implementation of the 1998 Communication and future steps for a more effective EU policy’, COM (2001) 265 final of 15/05/01

² ‘A maturing partnership – shared interests and challenges in EU-China relations’, COM (2003) 533 of 10/09/03.

focus on the three following areas: support for the social and economic reform process; the prevention of environmental degradation and the conservation of the natural environment; and support China's transition to an open society based on the rule of law and respect of human rights.

A summary of the objectives of the CSP is provided in Annex 3.1.

1.1.3 The China 2002-2004 National Indicative Programme (NIP)

The indicative financing for the 2002-2004 NIP amounts to €150 million. In line with the policy objectives defined in the 2002-2006 CSP, the China 2002-2004 NIP outlined the interventions foreseen for financing during the three-year period in question. These interventions are grouped in accordance with the three priority areas identified in the CSP and are as follows:

Priority Area 1: Support for the Social and Economic Reform Process

EU-China Programme to Support China's Integration into the World Trading System. This programme constitutes a follow-up to a previous EC-financed programme to assist China with the preparations for and process of accession to the World Trading Organisation (WTO). The overall objective of the programme is to support the further integration of China into the world economy, to assist the Chinese government with the implementation of its WTO obligations, and to increase China's capacity in the process of wider economic, regulatory, legal and administrative reform necessary for further trade liberalisation. The initial budgetary allocation of €15 million foreseen for the programme was committed in 2002, as foreseen, and the programme's implementation is now under way.

EU-China Information Society Project. This project, originally proposed for financing in 2002, is under preparation for financing in 2004 with the overall objective of promoting economic and social reform through the appropriate application of information and communications technology (ICT) to improve the effectiveness, efficiency, and accessibility of e-government services to citizens and businesses. The budget foreseen for the project is €15 million.

Social Security Reform Programme. This programme, also originally foreseen for financing in 2002, has been rolled forward for a proposed financing decision in 2004. With a financial allocation of €20 million under the NIP, the programme is presently being finalised, with the objective of developing co-operation in the domains of pensions, health and unemployment insurance through support for central policy development and the modernisation of delivery systems. European expertise will be tapped to provide effective support for institutional capacity building.

In the area of Human Resources Development, two interventions are under preparation for financing in 2004:

EU-China Managers Exchange and Training Programme. This programme draws on the experience gained in the previously-financed 'Junior Managers Exchange Programme'. With proposed financing of €17.2 million, the purpose of the programme is to meet the demand for EU-China co-operation in the profit and non-profit sectors in the areas of management and cultural exchange. The exchanges proposed will provide training in Europe for Chinese managers, capacity building for Chinese institutions, and training for EU managers to perform in the Chinese business environment. The programme is scheduled for financial commitment in 2004.

The 'Erasmus Mundus' China Window. The funding foreseen for this operation amounts to €9 million for commitment in 2004. The project aims to facilitate linkages between the EU and China in higher education, to enable Chinese students to complete postgraduate Masters

Courses in Europe, to provide opportunities for Chinese scholars to undertake research and training assignments in Europe, and for universities to develop partnerships. The Project will be implemented directly through DG Education and Culture's (EAC) global Erasmus Mundus Programme.

Priority Area 2: Environment and Sustainable Development

A summary of China's environmental priorities is given in Annex 3.2.

Three interventions were originally foreseen in the NIP in this sector: environment policy support, biodiversity protection, and water resources conservation. The NIP nevertheless foresaw the possibility of consolidating programmes, as is in fact being done through the merging of the policy advice element into the two other interventions. The following two programmes are being prepared for financing in 2004:

EU-China Biodiversity Programme. The overall objective of the programme is to enable China to sustain or rehabilitate its ecosystems and to pursue its responsibilities under the relevant international conventions through the establishment of appropriate mechanisms for biodiversity management. The Programme will comprise policy advice and formulation, institutional strengthening, the promotion of environmental awareness at all levels, and the financing of biodiversity-related projects in a range of ecological and institutional systems in order to develop and improve coordinating mechanisms. The EC financing foreseen for the programme now amounts to €30 million.

River Basin management Programme. This programme, for which an EC contribution of €25 million is envisaged, is presently under appraisal in view of a commitment of funds in 2004. With the overall objective of improving integrated river basin management, various options are being examined, notably policy development and institutional capacity strengthening, and water and soil conservation in the upper Yangtse and Yellow Rivers, the former in close co-operation with the World Bank.

Priority Area 3: Good Governance and Strengthening of the Rule of Law

Two interventions were identified in the NIP for financing under this priority area:

EU-China Programme on Illegal Migration and Trafficking in Human beings. With €10 million foreseen in the NIP for commitment in 2002, the preparation of this programme has encountered severe difficulties, due to lack of agreement between the EU and Chinese sides on the scope and content. Conceived initially as a complementary activity to the ongoing EU-China dialogue on illegal migration, the scope of the proposed programme has been cut back to cover needs assessment visits to the EU, seminars on false supporting documentation, biometrics and return issues, research, and networks. Funding for the programme under the Mid-term Review has been reduced to less than €1 million. If agreement on the programme is not reached by the end of 2004 the financing will be dropped from the NIP.

EU-China Civil Society Co-operation Programme. The financing for this programme, as for the above programme on illegal migration, will be reduced, from €20 million originally foreseen in the NIP to €10 million. This reduction has come about mainly because of concerns over absorption capacity in the Chinese context, highlighted during the identification mission in 2003. A financing decision is foreseen for 2004 with programme objectives of improving the interaction between government and civil society, supporting the modification of legislation concerning NGOs, building capacity in Chinese civil society organisations and strengthening public participation in local decision making.

1.2 MID-TERM REVIEW (MTR) OF THE 2002-2006 CSP AND 2002-2004 NIP

The MTR of the China CSP and NIP was carried out in 2003 in accordance with the four criteria defined by the General Affairs and External Relations Council (GAERC) of March 2003. These are given in paras. 1.2.1 to 1.2.4 below.

1.2.1 Main political, economic and social developments in China

In 2003 the new Chinese leadership under President Hu Jintao introduced changes at the top in virtually all Ministries, notably in one of the EC's key partner Ministries, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), which became a new 'super-ministry' of commerce (MOFCOM).

It was noted the new leadership may want to give more attention to the social and environmental consequences of rapid economic growth, which China intends to maintain at around 7% p.a., and to give greater emphasis to governance issues, notably strengthening the rule of law. Fiscal and financial reform was also considered to be on the agenda. These issues are dealt with in the CSP, and were subsequently discussed at the Beijing seminar referred to under point 1.1.2 above.

While information on these changes is still being assessed, continuity of policy has been the watchword throughout the transition process, and it is unlikely that there will be major changes of course in the medium term.

Since 2002 China became increasingly active in the Asian region, playing an important role in diplomacy (e.g. the formation of the 'Shanghai Co-operation Organisation' and greater activism in ASEM) and in regional trade agreements, (e.g. the 'ASEAN + 1' Free Trade Agreement signed in November 2002). Relations with the US, at least prior to the Iraq imbroglio, were warming, with much activity on the trade and military fronts. However, events in 2003 cooled this process down somewhat, given China's stated preference to continue working within the UN framework on Iraq and (albeit muted) opposition to the US-led military involvement.

In 2004 trade tensions with the US have been on the rise, notably as a result of the record US trade deficit (US\$ 135 billion in 2003) and its ramifications for the presidential election campaign.

China continues to make progress on poverty reduction and, based on UNDP analysis, will probably achieve most Millenium Development Goal targets by 2015. While on course nationally in this respect, the issue of growing inequality has to be addressed, and there is a need to work towards balanced regional economic growth. An overview of China's MDG status is given in Annex 3.3.

1.2.2 New EC/EU policy objectives and commitments

While the co-operation strategy was finalised in 2002, it nevertheless takes full account of relevant new EU policy objectives. There is a strong emphasis on Trade Related Technical Assistance through the programme to support China's integration into the world economy; migration issues are addressed in the formal Dialogue on Illegal Migration and under the co-operation programme referred to in para. 1.1.3 above; and co-operation in the environment sector constitutes a priority area under the NIP. The issue of counter-terrorism, while being raised with China in the framework of the Political Dialogue, is not the subject of co-operation activities, the subject being considered more appropriate for coverage in the multilateral framework. The CSP and NIP are thus considered to remain appropriate.

1.2.3 Results, performance, and lessons learned

The three priorities identified in the CSP/NIP, (support for social & economic reform, environmental and sustainable development and good governance and strengthening the rule of law) were considered to remain valid, and should not be changed.

However the review noted that progress in committing the NIP actions to support these priorities gave cause for concern. Four were scheduled for 2002 commitment but only one was committed (support for China's integration into the world trading system). The other three actions scheduled for financing in 2002 (social security reform, information society and illegal migration) were at various stages of preparation, and considered unlikely to be mature for financing until 2004. Further concern was expressed on the illegal migration programme where the Chinese side was showing little interest in the co-operation proposed. It was considered likely that the scope of this programme would have to be reduced.

It was noted that the two actions foreseen for commitment in 2003 (biodiversity protection and human resources development) would slip to 2004, and that some preparatory work remained to be done on the HRD programme, but with commitment in 2004 still likely.

Prospects for the two programmes foreseen for 2004 commitment (water resources conservation and support for civil society) remained good, but the overall picture of the NIP was one of serious 'back-end loading', with the bulk of the NIP funding remaining for 2004 commitment. While the then completed deconcentration process was considered to enable faster commitment and more efficient execution, this nevertheless constituted a major challenge.

1.2.4 Quality improvements

The delays encountered in the implementation of the 2002-2004 NIP can be attributed in part to the complexity of the programmes, the wide range of interlocutors that are frequently involved, and the difficulties encountered in co-ordination. The present programme apart, at the beginning of the 2002-2004 NIP there existed a very large volume of previously-financed projects and programmes which required considerable effort for launching and/or re-energisation, and which continues to require substantial inputs for the purposes of monitoring and evaluation. An overview of the ongoing programme, financed mainly before the 2002-2004 NIP, is given in Annex 3.4³. This indicates the high volume of pre- 2002-2004 NIP funds presently under implementation. While the devolution exercise is now bearing its fruits, its implementation was demanding in terms of time and human resources. The benefits of devolution are witnessed by the substantial increase in co-operation disbursement figures which have risen from a pre-2003 annual average of some €28 million, to a projected figure of over €50 million for 2004.

Improvements in the quality of the programme have likewise been noted under the 2002-2004 NIP which constitutes a more focussed approach to the achievement of co-operation objectives with China than was the case under previous programmes. Further focussing, and flexibility, under the 2005-2006 NIP will however be required.

³ Note: China also participates in Asia-wide programmes financed under the ALA Regulation. For 2005-2006 these will involve calls for proposals in the areas of trade and investment, higher education, and the environment with indicative funding of €5 to €85 million. China is presently participating in approximately one third of proposals approved for financing. EU-China research co-operation under the 1999 S&T Agreement has become increasingly successful, with China participating in research projects launched since 2000 with total budgets amounting to over €4 million.

1.3 CONCLUSIONS OF THE MID-TERM REVIEW PROCESS

1.3.1 Validity of the Country Strategy Paper

The conclusion of the Mid-Term Review was that the co-operation objectives defined in the CSP, targeting interventions aimed at assisting China's economic and social reform programme, its sustainable environmental development, and its reforms in the area of good governance and the rule of law remain entirely valid.

The fast pace of change in China has highlighted the importance of these areas of co-operation in order to assist China with its efforts to ensure that the overall balance in its development is in kilter with its rapid economic growth. Furthermore, the EU has a clear stake in China's successful transition to a stable, prosperous and open country that embraces democracy, free market principles and the rule of law. The CSP is considered effective and appropriate in both these respects, and is moreover in line with the Commission's 2003 China Policy Paper.

1.3.2 Implementation of the 2002-2004 NIP

The Mid-term Review of the NIP nevertheless concluded that certain modifications to the NIP were required in order to reflect the realities encountered during the preparation of the individual projects and programmes. A summary table is attached in Annex 3.5 indicating the modifications that are proposed. These can be summarised on a sector priority basis as follows:

The indicative funding foreseen in the NIP in the area of **Support to Social and Economic Reform** was originally €75 million. While at the time of the review it was proposed that this figure be maintained, it is now proposed that it be increased to €76.2 million to take account of proposed increased funding for human resources development. Proposals for this sub-sector have now been developed as indicated in para. 1.3.1 above, and the human resources development allocation will increase from €25 million to €26.2 million with the financing of the two interventions foreseen, namely the Managers Exchange and Training Programme and the China window for participation in Erasmus Mundus. Other actions in the social and economic reform sector remain at their original indicative financing levels.

The original NIP indicative financing for the **Environment and Sustainable Development** sector amounted to €45 million for three interventions: policy support, biodiversity protection and water resources conservation. As indicated in para. 1.1.3 above, the first of these interventions is being consolidated into the two remaining programmes, resulting in a more focussed concentration of activities, while at the same time expanding the scope and financing (€45 to €55 million) to ensure higher impact.

The third sector of intervention, **Support for Good Governance and the Rule of Law**, has encountered considerable difficulties given the political sensitivities involved. The €10 million initially foreseen for illegal migration has been scaled down to €1 million, and the €20 million initially foreseen for civil society has been scaled down to €10 million.

1.4 THE CONSULTATION PROCESS

1.4.1 Co-ordination with the Member States

Discussions with the Member States in Beijing has taken place on both the Mid-Term Review of the 2002-2004 NIP and the preparation of the 2005-2006 NIP. Summaries of those discussions are given in Annexes 3.6 and 3.7 respectively. There was broad agreement on the proposals.

1.4.2 Discussions with the Chinese Government

The Ministry of Commerce (MOFCOM) is the Chinese Government's principal interlocutor and co-ordinator for all matters related to grant assistance. Discussion with MOFCOM has taken place on both the Mid-Term Review of the 2002-2004 NIP and the preparation of the 2005-2006 NIP. Summaries of those discussions are given in Annexes 3.8 and 3.9 respectively. On the Mid-Term Review, while design and implementation of the actions under the first two priorities of the NIP have been satisfactory, it was confirmed that the original approach for actions under priority 3 (illegal migration and civil society) needed to be downscaled.

1.4.3 Consultations with non-state actors

A meeting was held in Beijing in November 2003 with a representative group of non-governmental organisations to explain and discuss the preparation of the 2005-2006 NIP, and ways in which civil society could play an active role in its implementation, notably through the NGO co-financing budget line, thematic budget lines, and Small Project Facilities administered by the delegation.

2 THE 2005-2006 NATIONAL INDICATIVE PROGRAMME

2.1 SUMMARY OF NIP PRIORITIES AND THEIR LINKS WITH THE CSP

| 2005-2006 NIP Action | CSP PRIORITY | | | |
|--|----------------------------|---|-------------------------------------|----------------|
| | Social and Economic Reform | Environment and Sustainable Development | Good governance and the rule of law | Cross-sectoral |
| Higher Education | X | | | |
| IPR Co-operation Programme | X | | | |
| Governance and capacity building | | | X | |
| Support for sectoral dialogues and exchanges | | | | X |

While the 2005-2006 NIP does not include specific interventions in the area of the environment, the on-going and planned projects and programmes in this field will be implemented over the coming years and, with funding possibilities under the programme proposed under priority 4 (section 2.3.4 below), will provide continued and substantial support for this priority area of the 2002-2006 Country Strategy.

2.2 THE INDICATIVE BUDGET

| 2005-2006 NIP Action | Range (€ mio) | Median (€ mio) |
|--|---------------|----------------|
| Higher Education | 45-55 | 50 |
| IPR Co-operation Programme | 9-11 | 10 |
| Governance and capacity building | 22-28 | 25 |
| Support for sectoral dialogues and exchanges | 4-6 | 5 |
| Reserve | 0 | 10 |
| TOTAL | | 100 |

2.3 PRIORITIES AND ACTIONS

An overview of external assistance to China is given in Annex 3.10.

2.3.1 Priority 1 - Higher Education (Proposed allocation €45-55 million)

2.3.1.1 Background and justification

The CSP states that “Human resources development, the transfer of know-how and European standards and practices are horizontal tools which ensure sustainable development and long-term added value. Investment in minds rather than machines is a proven strategy to increase investment yields in general, and the results of a number of projects and programmes in China have proved the efficiency of this strategy”.

The EC policy of giving high priority to co-operation in the field of human resource development is therefore seen as a key element of support to social and economic reform in China under the 2005-2006 NIP.

Education is put forward by the government as a key foundation for China’s long-term development and its international competitiveness. In 2002 there were 16 million students, a

figure 2.3 times higher than the 1997 figure, and several hundred higher education institutions have been merged to rationalise the university landscape. Universities have become more autonomous, and fewer now fall directly under the Ministry of Education's jurisdiction.

A major university development programme was initiated in 1992 with substantial central government funding, destined to project approximately one hundred centres of excellence in China's best universities to world-class level in their respective fields. This project enters its second, deepening phase in 2004.

In 1998 a further programme was launched, aiming at promoting nine top universities to world class level. In 2003 Beijing University, one of China's top universities, reformed its management, staff and career policy on the basis of a competitive model which is likely to be followed by other universities and susceptible to make Chinese teachers and researchers more competitive and productive.

Private schools, colleges, academies and universities are mushrooming. Demand for enrolment is very high, notably for those who can afford the fees and/or cannot pass the state entry examinations (there were 6.13 million candidates in 2003). In Shanghai alone there are about 1.800 such institutions with about 10% of all students enlisted in them. Some of those offer also high-demand degrees and contribute to the flexibility of the education market's supply side.

Since 2003, it has become more difficult for recent graduates (2.12 million in 2003) to find employment, so additional qualifications and international experience are sought after by the employers. It is only since the 1990s that graduates have to look for jobs themselves, as previously jobs were allocated to them by the state. Universities are not yet geared to the labour market.

In 2003 a regulation on co-operation with foreign education institutions was passed, to promote joint-venture schools and universities.

Basic education in rural China will remain another key government policy for the years to come, and while not covered in the present NIP, is addressed in an ongoing EC-financed basic education project.

Higher education in China is however heavily influenced by US concepts due to the perceived success of its education model, the quality of its universities, the high number of US alumni in influential policy and business positions, and the many educational opportunities that the United States provides for Chinese students. The Ministry of Education expressly wants to counterbalance this trend, and while recent US visa restrictions have somewhat changed this tendency, the relative ease of access to the US education system remains.

It may however be noted that, on 16th March 2004, the Commission issued a Communication proposing a directive and two recommendations 'on the admission of third-country nationals to carry out scientific research in the European Community.' One adopted, such instruments will facilitate the entry and stay of Chinese researchers in the EU.

China is keen to make its education sector more internationally diverse, compatible, and competitive through improved co-operation with European academic centres of excellence. In this context China is eager to engage in agreements with the Member States on mutual recognition of degrees. Some Member States have already concluded such agreements and others are negotiating. China also monitors the Bologna process and would like to get observer status.

This interest on the Chinese side is clearly made in China's October 2003 EU Policy Paper which calls for, *inter alia*, increased co-operation in education, and was reiterated at the EU-China Policy Paper Seminar (Beijing, February 2004) when both sides agreed to pursue the possibility of the creation of a 'China Window' in the Erasmus Mundus Programme.

The Erasmus Mundus Programme was established by decision of the European Parliament and Council on 5th December 2003 (Decision No 2317/2003/EC)⁴, and covers the period 2004-2008 with a budget of €230 million. The timing of the proposal for a specific 'China Window' in the Programme is therefore most appropriate, coinciding as it does with the momentum being gathered under this major new world-wide European initiative in higher education.

The financing of a specific Erasmus Mundus 'China Window' under the 2005-2006 NIP would constitute a follow-up to the financing foreseen for the same purpose (€9 million) under the 2002-2004 NIP for which it is proposed that a financing decision be taken in the coming months. China's participation in the Erasmus Mundus Programme is seen as a logical follow-up to previous and ongoing EU-China human resources development projects and programmes in basic and vocational training, public administration, management, and European studies, and would constitute a complementary element to the high-level exchanges with China on education that are presently planned. The potential demand for Chinese participation in Erasmus Mundus is massive.

2.3.1.2 Objectives

The overall objective of this action is to provide support for China's economic and social reform programme and to strengthen the EU-China relationship in this area. In addition, the action would contribute substantially towards the improvement of political, economic, and cultural links between the EU and China, in full compliance with the spirit of the CSP.

The specific objectives of the action are to foster linkages between the EU and China in higher education through encouraging and enabling Chinese students to complete postgraduate studies in Europe.

2.3.1.3 Expected results

The expected results are Chinese postgraduates completing Masters degrees in Europe.

The programme is expected to have a considerable multiplier effect on future demand from China for European higher education, and, via personal links that the programme will create between Chinese students and their European counterparts, can be expected to foster future cooperation across the board. The specific 'China Window' will provide considerable 'additionality' to the Erasmus Mundus Programme, and, as the scholarships will offer opportunities to future political and economic decision-makers in China, sustained EU influence and visibility will be promoted.

2.3.1.4 Activities

Masters Courses at EU universities which have been designated by the overall Erasmus Mundus Programme as 'Erasmus Mundus Masters Courses' will be allocated a specific number of EC-funded scholarship grants for foreign students. The 'China Window' funding will be used to fund grants for Chinese students. University consortia and the EC will publicise the scholarship opportunities worldwide using a variety of media.

⁴ Official Journal L345/1 of 13/12/03

Each university consortium running an Erasmus Mundus Masters Course will establish lists of the students (for attendance on its Erasmus Mundus Masters Course) considered eligible for scholarships. The selection criteria will be those adopted by the Erasmus Mundus Programme.

University consortia will submit an application for funding with their proposed scholarship lists to the EC for final approval, and the Chinese authorities will be informed accordingly.

2.3.1.5 Implementation

The Commission shall be responsible for the implementation of the activities to be financed in accordance with the procedures and standards defined for the overall Erasmus Mundus Programme.

It is foreseen that from 2005 onwards the European Commission will entrust the management of some Community programmes, including Erasmus Mundus, to an Executive Agency based in Brussels.

Part of the programme implementation will be undertaken by the university consortia that will be chosen to run the courses. They will carry out the initial selection of students for scholarships, put in place appropriate arrangements to host third country students and make payments to students.

The Commission Delegation in Beijing will co-operate with DG EAC in monitoring the specific 'China Window' funding under the programme.

2.3.1.6 Cross-cutting issues

An effort will be made to ensure an adequate gender balance of students.

2.3.1.7 Risks and assumptions

The risks and assumptions related to the programme are that information on opportunities under the Erasmus Mundus Programme reaches the targeted students; that EU universities remain competitive with other higher education providers; that there is support for the programme from the Chinese authorities; that students who receive scholarships will return to China and pursue high-level careers; and that their positive experiences in Europe are disseminated to others.

2.3.1.8 Main indicators

The main indicators will be the numbers of Chinese students participating in the programme, the quality of their performance, and the numbers of degrees awarded to them. More indirectly the indicators will be the overall numbers of Chinese students participating in higher education courses in the EU.

2.3.1.9 Estimated EC contribution

The estimated EC contribution to the specific 'China Window' in the Erasmus Mundus Programme is €45 to €55 million for the three academic years from 2006/2007 to 2008/2009. There is no financial contribution envisaged from the Chinese side, other than the cost of participation in monitoring activities.

2.3.1.10 Co-ordination

In order to preserve the necessary coherence between the activities of the programme and activities undertaken by other donors in the sector, regular meetings will take place with all interested parties, and in particular EU Members States' representatives in China, to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the programme.

Extensive consultation took place between the Commission and EU Member States in the preparation of the overall Erasmus Mundus Programme for which this programme provides additional funding for China, and will continue in the framework of the Erasmus Committee.

The Chinese Ministry of Education is the interlocutor on the programme for the Chinese government.

2.3.1.11 Indicative timeframe

It is intended that funds for the programme be committed in 2005 in order that scholarships for students may be awarded for the three academic years from 2006/2007 to 2008/2009.

2.3.2 Priority 2 – Intellectual Property Co-operation Programme (Proposed allocation €-11 million)

2.3.2.1 Background and justification

This intervention is proposed under the first focal area of the 2002-2006 CSP which states that “Support for the social and economic reform process to ensure sustainable economic development and the fight against poverty, and China’s integration in the world economy, with special emphasis on WTO implementation”.

China has in recent years carried out considerable work to revise its intellectual property rights (IPR) laws and administrative regulations to bring them into line with the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). This legislation has been extensively reviewed by the WTO in the framework of both the TRIPs Review Sessions and the Transitional Review Mechanism (TRM) foreseen in China’s Accession Protocol.

While the Chinese framework of legislation protecting intellectual property is now generally in line with international standards, there remain considerable concerns over the continued high levels of infringements covering most types of rights and to a wide range of products.

Support to China in the area of legislative and administrative reform has been provided the EC-financed EU-China Intellectual Property Rights Co-operation Programme (1996-2004), with an EC contribution of €5.6 million, but much remains to be done in the field of IPR enforcement due to the largely non-deterrent penalties in current legislation, the sometimes ambiguous legal provisions, lack of clarity over the precise channels for enforcement, the need for improved co-ordination between enforcement bodies, and the need for training.

Some follow-up assistance on IPR issues is foreseen in the programme entitled ‘Support to China’s Integration into the World Trading System’ financed with a €15 million EC contribution under the 2002-2004 NIP. Launched in 2004, two of the six components of this programme are designed in part to address IPR issues, albeit in a limited way, and with limited financing. These cover border enforcement in the context of import/export regulation, and general legislative, legal and judicial aspects of the implementation by China of WTO rules and commitments.

Chinese commitment to IPR protection and enforcement has been expressed at the highest level, notably by President Hu Jintao at the October 2003 EU-China Summit, as Chinese domestic industries themselves begin to be affected by counterfeiting of their own products. A commitment to hold a yearly formal “Structured EU-China IPR Dialogue” was made in October 2003. This dialogue will cover all aspects of the subject without sectoral limitation “...with the objective of improving communication and co-operation on the protection of

IPRs and in view of the establishment of a long-term strategy on IPR enforcement to be supported by EU technical assistance programmes”⁵

Built on the experience of the prior EU-China IPR Co-operation programme, the new intervention should take account of the five following requirements:

- A need for a pragmatic and result-oriented approach. Considering the complexity of the infringement issue in China (tradition, social dimension, organised crime), the action should primarily focus on concerns for which rational solutions exist in the medium to long-term perspective.
- The need to develop a clearly targeted action. To this end, precise benchmarks and targets will be defined on which the action will principally focus.
- The need for flexibility so as to allow speedy response to needs as they arise.
- The need for close co-ordination with other donors and trade partners so as to avoid overlapping of activities with those of other stakeholders, and to maximise project impact, and
- The need to assist China to develop a regional Asian strategy. IP enforcement is a cross-border issue and the continued expansion of commercial activity via the internet exacerbates enforcement difficulties.

With this in view, it is intended that the IPR co-operation program under the 2005-2006 NIP should be complementary to previous and ongoing interventions and should focus on legislative aspects, judicial, public and administrative enforcement, co-ordination between agencies, and public awareness-building.

In all, the programme will have important synergies with the various political and sectoral commitments on IPR that have proliferated in EU-China relations over the last year, and with certain exchanges and agreements, such as the Galileo programme, where the protection of IPR has a direct impact on the scope of industrial co-operation.

2.3.2.2 Objectives

The overall objective of the programme is to contribute towards China’s social and economic reform process.

The specific objective of the programme is to improve the efficiency of IPR administration in China through the provision of support to Chinese legislative, judicial, administrative, and enforcement agencies and institutions.

2.3.2.3 Expected results

The expected results of the programme are amongst others:

- Legislation and implementing regulations improved
- Chinese judges trained in critical issues such infringement identification, compensation, interlocutory injunction, rule of evidence, litigation procedure
- Improved efficiency of the principal agencies involved in IPR enforcement, such as, *inter alia*, the State Administration for Administration and Commerce, the Public Security Bureau and the Supreme People’s Procurator, the People’s Courts, and the State Intellectual Property Office

⁵ Extract from the EU-China Joint press Statement of 6th may 2004 during the visit to the Commission of Chinese Premier Wen Jibao

- Improved administrative capacity of relevant Chinese agencies such as the State Intellectual Property Office, the Chinese Trademark Office, and the National Copyright Administration of China, Customs, the State General Administration for Quality, Supervision, Inspection and Quarantine
- Improved procedures for handling IPR cases and co-ordination between agencies involved in IPR issues.
- Increased awareness of IPR issues.

2.3.2.4 Activities

The precise activities to be undertaken under the programme will be defined during the appraisal exercise, and will take account of other IPR interventions both planned and under implementation. Activities could include:

- the provision of training on the impact of legislation on enforcement and the role of IPR protection in promoting economic development
- the provision of assistance in the formulation of amendments to existing IPR legislation, particularly in the field of IPR enforcement
- the provision of specific training programmes and forums for Chinese judges on IPR issues
- the provision of education programs to improve the IPR knowledge in the police force
- the provision of assistance to the Public Security Bureau and the Supreme People's Procurator to establish comprehensive procedures for the handling of IPR cases and to co-ordinate their activities
- the provision of assistance to relevant administrative agencies in drafting regulations, introducing border control measures, setting up computer data networks, etc.
- the provision of assistance to ensure adequate co-ordination between agencies involved in IPR issues through a clear and fully integrated IPR enforcement strategy at central level
- awareness raising of consumers and of right holders
- support for the setting-up of an IPR Helpdesk by China, to provide information and assistance to interested companies.

2.3.2.5 Implementation

An identification mission will be launched in 2005 to formulate the programme and to provide the basis for detailed project appraisal. Key interlocutors for the formulation of the programme will include the authorities and institutions indicated under para. 2.4.2.3 above, and private sector actors.

2.3.2.6 Cross-cutting issues

As an action intended to assist with the development of the transparent and effective management of public affairs, there is a clear 'good governance' element to the programme which is in line with that priority identified in the CSP.

In addition, the enforcement of IPR is closely linked to the issue of consumer protection. In some areas, such as the pharmaceutical industry, counterfeiting can result in severe health hazards.

2.3.2.7 Risks and assumptions

The risks and assumptions associated with this programme are that:

- the Chinese Government remains committed to the implementation of IPR measures in accordance with the provisions of its accession to the WTO
- the authorities and agencies targeted for support under the programme are receptive to the assistance foreseen
- the required support inputs can be provided in a timely, responsive, and effective manner

2.3.2.8 Main indicators

Detailed programme indicators will be defined during the appraisal phase, but will be based on the benchmarks and targets to be established, and could include elements such as:

- registered numbers of IP infringements, counterfeiting and piracy
- numbers of IP criminal prosecutions, and levels of penalties
- commitment of the central administration to curb counterfeiting and piracy.

2.3.2.9 Estimated EC contribution

The EC contribution to the programme will be in the order of €9 to €11 million. Government counterpart funding of at least 50% of this amount is envisaged.

2.3.2.10 Co-ordination

Although China has established an IPR protection framework it is recognised that there is a lack of co-ordination on certain critical issues among the many agencies involved. It is therefore proposed that the co-ordination of IPR activities be supported in the framework of the programme. To this end assistance will be provided to the Chinese Government for the establishment of appropriate co-ordination mechanisms.

Further co-ordination with Member States and the donor community will be assured by the Commission Delegation in Beijing, and with the Member States by the Commission's headquarters.

2.3.2.11 Indicative timeframe

It is intended that funds for the programme be committed in 2006 and that the programme implementation period be defined at the time of programme identification and appraisal.

2.3.3 Priority 3 – Governance Capacity Building (Proposed allocation €22-28 million)

2.3.3.1 Background and justification

This programme is proposed under the third focal area of the 2002-2006 CSP which states that "Promoting good governance, the rule of law and human rights are key priorities of the EC Co-operation.

China has in recent years made considerable progress in modernising its laws and legal institutions. It has in place all the institutions of a formal legal system; a framework of laws and legislation, a national system of courts, a national prosecutorial system, accredited law schools, and an ever-growing legal profession. However, it is recognised that the capacity of China's legal and judicial system to effectively ensure adherence, compliance and enforcement of the law in an equitable manner is still limited.

EC support for legal and judicial reform in China is being provided under the 'EU-China Legal and Judicial Co-operation Programme' for which EC funding of €13.2 million has been provided for activities during the period 1999 to 2005. This programme was designed to

develop a better understanding of the rule of law in China; to foster greater understanding of the concept of the rule of law among legal professionals and networking between them; to promote European legal systems as examples of best practice, and to improve awareness of the legal system in China and the rights that it confers. The programme adopted two main strategies to achieve these objectives: the provision of training opportunities for legal professionals (lawyers, judges, prosecutors and senior officials), and the provision of a financial facility through which small projects are being financed following calls for proposals.

A recent external evaluation of the programme has confirmed the relevance of the programme in the context of China's reform process, and serves to support the Chinese Government's proposal that co-operation in this area should be continued under the 2005-2006 NIP.

Civil society in China is still weak but is expanding. Institutional weaknesses, the disappearance of familiar organisational structures, the search for their practical and ideological replacements, and an increasing awareness of civil society's role have created the conditions for the creation of an increasingly autonomous civil society. New, home-grown NGOs have been created and provide valuable support to disadvantaged groups and have actively contributed to preventing social unrest.

The regulatory framework requires NGOs to be registered with the Ministry of Civil Affairs (MOCA) and/or local Civil Affairs Bureaux and imposes administrative controls. While some 244,000 NGOs are registered with MOCA, the largest group of civil society organisations is composed of the 1.3 to 2 million unregistered grassroots organisations. Foreign civil society organisations cannot register in China at present, other than by establishing a "foreign representative office".

Most grassroots NGOs generally perform less of a policy advocacy role and more of a social service and support role, though in spite of the regulatory intricacies and the poor understanding of the importance of a balanced relationship between the state and civil society, there are nevertheless political signs that a greater role for civil society is increasingly being recognised. The Government is increasingly conscious of the need to involve civil society in the process of resolving, in particular, social and environmental problems, and in this context further support for civil society could be envisaged.

In spite of certain improvements in recent years, particularly in respect of economic and social rights, the human rights situation in China remains a cause of concern. This is particularly so in the fields of civil and political rights. In March 2004 China added a clause to its Constitution to the effect that the State respects and protects human rights. While the immediate impact of this measure may be limited as Constitutional provisions are not directly enforceable in the legal system, it nevertheless represents an important political signal. Furthermore, the current leadership appears genuinely committed to governing China in a more responsive way, on the basis of the rule of law, in order to preserve social stability as disparities in income and opportunity deepen. Developments in the areas of the death penalty and administrative detention are not however seen as encouraging. Freedom of expression remains restricted (e.g. in the case of internet users) as does freedom of association, there are violations of the right to hold and manifest one's religion or belief, and there is a tendency to equate peaceful opposition with subversion of the state or terrorism and to repress it accordingly. There has been a certain loss of momentum in the area of cooperation with UN human rights mechanisms.

The permanent, six-monthly EU-China human rights dialogue is one of the EU's channels for working to improve the human rights situation in areas of concern. Furthermore, a number of projects funded under the European Initiative for Democracy and Human Rights are being implemented in China. These include, inter alia: The EU-China Network on the Human

Rights Covenants; Strengthening the Defence of Death Penalty Cases in China; and The Human Rights Micro-Projects Programme. Further strengthening of EC support for human rights can be anticipated under the programme.

2.3.3.2 Objectives

The overall objective of the programme will be to support the Chinese Government in its efforts to develop a society based on the rule of law.

The specific objective of the programme will be to increase capacity for realising China's governance priorities.

2.3.3.3 Expected results

The expected result is that Chinese capacity in good governance will have been strengthened by the implementation of a series of activities focused on achieving structural and sustainable results. Management systems will have been improved, legislative skills increased, the quality of new legislation heightened, human resources development capacity enhanced, enforcement capacity reinforced, and the role of civil society strengthened.

The programme will also result in better human rights protection through strengthening of the rule of law, and enhanced transparency in legal procedure and practice.

Furthermore, for the programme to be considered successful, it should have enhanced the EU's capacity to interact at a high level on governance issues, through having strengthened links with key government, academic and civil society actors, as well as having increased donor coordination in this field.

2.3.3.4 Activities

Activities under the programme could be focused on some or all of the following areas:

1. Legislative Organs

The main focus under this component will be to improve the legal drafting capacity of key legislative actors in areas such as civil law, commercial law, corporate governance, criminal law, fiscal law, public health and sanitary law, environmental law, privacy and data protection laws, human rights law and administrative law. Key players could include the National People's Congress Standing Committee, line ministries, academic institutions and think tanks. Support may take the form of research and policy studies, acquisition of comparative legal materials, international technical advice, administrative co-operation, etc.

2. The Judicial and Administrative Systems

Concerning the judicial system, the achievements of the Legal and Judicial Co-operation Programme, which will end in mid-2005, will be consolidated and expanded. The focus of new actions would be less on training individual judiciary actors (prosecutors, magistrates), be it in the EU or in China, but more on reinforcing local institutions' capacity to ensure sustainable, high-quality human resources programmes. Possibilities for strengthening existing organisations such as the national and regional judges colleges or for supporting the establishment of new legal and/or judicial training institutions could be investigated.

Support could include human resources development actions such as curriculum and faculty development (including attention to non-legal skills such as communication and management techniques), support for specific training programmes organised by local institutions, in-service training, exchange programmes for legal scholars and high-ranking magistrates, twinning programmes between institutions, and seminars and workshops. Training in China would be given preference over training in the EU for general topics, though training in the EU may be more appropriate for more specialised legal and policy areas. The role of China's

legal training institutions could be examined to identify additional needs and support requirements.

A further area of focus could be co-operation in the field of systemic capacity building. This may include supporting legal and administrative institutions' management capacity development, promoting reform to enhance governance capacity - for example procedures and systems for fiscal management, the management of procurators' offices and courts, improved co-ordination between actors, setting up data networks, etc.

Actions aimed at promoting access to justice and civil society scrutiny of the judicial system should be supported.

3. Law Enforcement Agencies

Considering the growing disparity between the developing legal and judicial apparatus and the actual enforcement of laws and regulations in China, reinforced co-operation in this field remains of particular relevance.

Actions could include strengthening capacity to enforce laws and regulations in specific fields such as labour and social standards, food quality and sanitary and phytosanitary standards, and environmental law. Actions complementary to the IPR Co-operation Programme could be envisaged. Actions may furthermore be identified to promote compliance with international standards and international best practice, for example in the areas of policing and prison management.

4. Capacity building for civil society

In addition to the three areas of intervention mentioned above, which mainly target the public sector, capacity-building measures focussed on civil society may be envisaged.

2.3.3.5 Implementation

The aim is to develop an integrated, dynamic, flexible and cost-effective programme which will allow the Commission and China to effectively and rapidly address needs in the governance field as they develop over the coming two years. The programme will be constructed so as to achieve maximum synergy with other donor initiatives and, where possible, activities will be supported by co-financing actions with other donors.

Chinese counterpart organisations could include, *inter alia*, the National People's Congress Standing Committee, the Ministry of Justice, the Supreme People's Procuratorate, the Supreme People's Court, specialised Government agencies, and civil society.

2.3.3.6 Cross-cutting issues

The principle cross-cutting issue targeted by the programme will be that of good governance through the provision of support for the effective management of public affairs.

The programme will seek to optimise integration of governance with the other two areas of the 2002-2006 CSP, namely social and economic reform and the environment and sustainable development. Civil society involvement in governance issues will be promoted across all components of the programme. Use of new technologies for information transfers and management systems will be promoted.

2.3.3.7 Risks and assumptions

The risks and assumptions associated with this action are that:

- political support and Government commitment to the process of legal and judicial reform continues
- the appropriate management structure is established

- the hosting capacity of selected training institutions is adequate
- respect for human rights, in particular in the area of law enforcement

2.3.3.8 Main indicators

The main indicators by which the impact and effectiveness of the support programme may be assessed are as follow:

- progress made in preparing improved legislation
- number of training programmes delivered
- outcome of evaluation of training programmes by participants and host institutions

2.3.3.9 Estimated EC contribution

The EC contribution to the programme will be made within the overall indicative allocation of €22 - €28 million proposed for good governance under the 2005-2006 NIP when precise needs have been quantified and when the programme appraisal process has been completed. Government counterpart funding of up to 40% of this amount is envisaged.

2.3.3.10 Co-ordination

Overall responsibility for the co-ordination of activities under this action will lie with the Commission Delegation in Beijing. The preparation and implementation of programme activities will be the subject of exchanges between the Delegation, the Member States representatives.

The programme will be closely coordinated with other donors.

2.3.3.11 Indicative timeframe

It is proposed that funds be committed in 2006. The implementation period will be defined during the appraisal stage.

2.3.4 Priority 4 – Support for dialogues in the framework of the CSP (Proposed allocation €4-6 million)

2.3.4.1 Background and justification

The dialogues and exchanges between the Commission's various Directorates General and services and the Chinese Government are both wide and numerous, and are largely directly related to the objectives of the 2002-2006 CSP. All are supportive of China's development and in certain areas are closely linked to projects and programmes financed under the co-operation programme. In general they form an increasingly important element of the overall EU-China relationship. Examples of the areas covered by these dialogues include environmental issues, illegal migration, trade policy, information society, energy, education, space co-operation, etc. A table indicating the ongoing and planned dialogues and exchanges given in Annex 3.11.

The Chinese Government has shown a very keen interest in intensifying these dialogues, expanding them, and backing them up with concrete activities. The Commission shares this interest, and responds by providing regular contacts and exchanges with its Chinese counterparts. While these dialogues and exchanges can to some extent be supported by the Small Projects Facility under which support through calls for proposals can be given for small-scale projects related to China's reform programme, the overall needs are broader, and call for targeting on specific issues.

In both China's EU Policy Paper of October 2003 and the EC China Policy Paper of September 2003, a number of areas were identified where closer co-operation would be strengthened through exchanges of knowledge and best practice by way of co-operation

between institutions and exchanges of experts. In the management of its reform process China is clearly interested in EU models as examples for its own development. In this context it may be noted that EU expertise and experience in a wide range of areas has been transferred to a number of transitional countries with considerable success.

In view of this demand from the Chinese side, and the EU objective of assisting China in its reform process, it is proposed to allocate funds under the 2005-2006 NIP for support to existing and future dialogues and exchanges in areas in which the Commission is engaged with the Chinese side and which clearly fall within the objectives of the CSP.

In designing projects and programmes under the 2002-2004 NIP an effort has been made to ensure that support for dialogues is or will be provided in the framework of existing or planned co-operation programmes. In some areas, notably in the environment, in information society, and in certain trade-related areas, this approach is already successful. However, previous experience shows that it is difficult to include new important topics or involve additional counterparts where not envisaged in the original project design. It is therefore necessary to provide additional support under this action where an existing programme or project is unable to respond to the specific requirements of the dialogue or exchange.

An example is the growing interest shown by the Chinese Government in establishing a dialogue on agriculture, particularly in the field of rural development. This is an area where EC experience could be beneficial to China, and where intensified exchanges can be anticipated.

The approach proposed would serve not only to assist China with its development efforts in the three specific areas defined in the CSP, but would also serve to align the co-operation programme more closely with the mainstream of the broader EU-China relationship, and enable it to respond to the dynamics of the relationship.

2.3.4.2 Objectives

The overall objective of the action is to provide support for China in its social and economic reform programme, in the area of the environment and sustainable development, and in the areas of good governance and the rule of law, in line with overall CSP priorities.

The specific objective is to provide closer and enhanced co-operation between the EU and China in development-related areas in which the EU has particular experience and expertise.

2.3.4.3 Expected results

In view of the dynamic rate of change and development both in China itself and in terms of the EU-China relationship, it is not presently possible to estimate the quantitative results that can be expected from this action. In general terms however, and across a broad range of areas, the anticipated results would include policy advice provided, relevant legislation and regulations drafted and adopted in harmony with international standards, and capacity developed to implement and monitor policy. The programme may also provide opportunities for technical discussion and the transfer of best practices.

2.3.4.4 Activities

The programme activities will take place mainly in priority areas where technical support does not exist, and will thus be complementary to other co-operation activities.

The activities to be undertaken will vary according to the specific area and objective of the dialogue or exchange to be supported, and could include short to medium-term technical assistance; exchanges of experts; training of Chinese staff; and the organisation of workshops and seminars.

Subject to human resource and management requirements, the programme could include grant funding for calls for proposals in support of its objectives.

Continued support for the training of Chinese language interpreters could also be provided under the programme.

2.3.4.5 Implementation

The financing of this action will follow the prior identification of priority areas for intervention, lead partners on both the Chinese and EU sides, and the types of intervention to be undertaken. A single financing agreement will be signed with the Chinese Government.

Responsibility for the implementation of the action will lie with the Commission Delegation in Beijing. The preparation and implementation of specific support activities will be carried out in close liaison with the relevant Chinese authorities and with the Commission's central services that are directly involved with the dialogues and exchanges in question.

Recourse will be made to established framework contacts with specialised consultancy services for the provision of services under the action. Where such framework contracts do not cover the required services, other competitive selection procedures will be undertaken.

The Chinese partners participating in the dialogues and exchanges to be supported will be actively involved in all aspects of the preparation and implementation of the actions.

2.3.4.6 Cross-cutting issues

Cross-cutting issues such as the environment and gender will be addressed where appropriate in the individual support actions. The environment is the subject of a specific dialogue in its own right, and other dialogues are directly related to issues of good governance.

2.3.4.7 Risks and assumptions

The risks and assumptions associated with this action are that:

- the dialogues and exchanges in areas related to the CSP continue, and
- the dialogues and exchanges continue to need support to enhance their impact
- the necessary technical expertise and input can be identified
- the support can be provided in a timely, flexible, and responsive manner
- the transfer of expertise and experience is effective.

2.3.4.8 Main indicators

The main indicators by which the impact and effectiveness of the support programme may be assessed are as follow:

- conformity of support actions with mandates for dialogues and exchanges
- feedback from dialogue stakeholders on effectiveness and efficiency
- the number of calls for support activities in relation to the financing possibilities
- the number of support activities successfully implemented.

2.3.4.9 Estimated EC contribution

The EC contribution to the support programme shall be between €4 and €6 million.

Complementary financing for activities to be supported may be provided by Member States, and other stakeholders. Government counterpart funding is at present hard to assess, but will be provided for individual activities on a case by case basis, and will be substantial.

2.3.4.10 Co-ordination

Overall responsibility for the co-ordination of activities under this action will lie with the Commission Delegation in Beijing. The preparation and implementation of project activities will be the subject of exchanges between the Delegation and the Chinese authorities, and with the Member States representatives and other donors in China in the framework of established co-ordination mechanisms. The Delegation will furthermore liaise directly with the central Commission Services concerned.

Co-ordination within Commission Headquarters will be assured through established and regular inter-service and external co-ordination mechanisms, in particular with the Member States in the framework of the China Experts Meetings.

2.3.4.11 Indicative timeframe

It is foreseen that the funds allocated for this action will be committed in 2005.

3 ANNEXES

3.1 SUMMARY OF THE OBJECTIVES OF THE CSP

Principles and objectives for co-operation

The overall objective of EC co-operation with China is to further the Union's key overall aims in relations with China, by supporting the transition process and the sustainability of the economic and social reforms, while integrating China further in the international community and the world economy.

In supporting broader EU policies towards China, the co-operation strategy transcends the more 'traditional' approach of development assistance focussing more narrowly on activities which directly aim to reduce poverty. This strategy constitutes a response to China's needs and takes into consideration the EC's comparative strengths among donors, thus making the most of the EC's limited resources.

China has shown a genuine capacity to absorb foreign aid and is particularly keen to develop co-operation with the EU, given the unique nature of the European Union and the broad expertise it can provide. Co-operation programmes should therefore concentrate on areas where EC action is the most efficient, effective and visible, and where the EC can offer the highest added value, compared to other donors.

At the same time, the present EC co-operation budget of around EUR 250 million over 5 years is undoubtedly low, compared to the size of the challenges that China faces, and to the resources available to other donors. The total EC co-operation budget represents only 1% of net ODA devoted to China. With regard to grant aid, the figure stands at 2%.

In this respect, and within the overall objective mentioned above, support to reform (mainly through institutional support, changes to the legal framework and regulations, development of human resources, market opening), co-operation on the environment, and on issues related to the rule of law, good governance and human rights are areas where the EC has, or can, mobilise unique expertise and thus has a comparative advantage among donors.

Poverty reduction will remain an important consideration which will be taken into account in the design of all EC projects. However, in view of the level of resources allocated by China to its own successful poverty reduction programme, as well as the significant activities in this area especially by the international financing institutions, EC co-operation can add more value in the areas referred to above. This approach is in line with China's own strategy, which stresses that the economic and social reform process is key to economic growth and, ultimately, to poverty reduction.

Within the above priority areas, concentration will be essential in order to preserve the Commission's project delivery capacities. Given the problems experienced in the past over managing numerous projects simultaneously, the Commission will continue its policy, started in 1999, to focus on fewer, larger-budgeted, projects.

Given its limited resources, the EC will seek close co-operation with other donors, such as Member States, the World Bank and others, in the priority areas identified above, in order to enhance the effectiveness of its assistance.

This approach is coherent with EC development policy. The priority areas for intervention are among the strategic areas proposed in the Commission's April 2000 Communication, having been adapted to the specific Chinese context.

In addition to co-operation programmes designed particularly for China, China will also continue to participate in regional projects, where appropriate. Moreover, the EC has several specific global policy initiatives, not exclusively targeted at China, but which China either already participates in or could benefit from. These include the Framework Programme for RTD and humanitarian aid from ECHO, programmes which follow their own objectives and procedures, different from the ones outlined in the present paper. Nonetheless, these programmes constitute an important complement to the general EC co-operation programme, and in many ways help to further the objectives of the latter. This is true in particular for RTD co-operation with China, which promotes two-way exchanges and transfer of know-how, as well as equitable sharing of results between all partners, in areas which are key to China's economic and technological development, and which aims to foster common analyses of, and solutions to, common problems that both the EU and Chinese societies face.

Priorities and specific objectives for co-operation

In line with the Commission's overall policy objectives towards China, and considering the available financial and human resources, as well as the challenges posed by China's reform process and the added value the EC can provide when compared with other donors, the Commission's co-operation budget should address three specific objectives:

- Support for the social and economic reform process to ensure sustainable economic development and the fight against poverty, and China's integration in the world economy, with special emphasis on WTO implementation;
- Prevention of environmental degradation; conservation of the natural environment; integration of environmental considerations into other policy areas; actions to pursue improved balance between environmental protection and social development in the context of rapid economic growth;
- Support for the transition to an open society based on the rule of law and respect of human rights, through the promotion of good governance and democracy and human rights-related policies.

It should be noted that a number of programmes already designed or ongoing are cross-sectoral and address simultaneously a number of the above objectives.

3.2 CHINA'S ENVIRONMENTAL PRIORITIES

INTRODUCTION AND OVERVIEW⁶

Introduction

The 1990s was another decade of significant economic and social change in China. The country progressed further in the process of transforming itself from a command or planned economy to a market-based and increasingly less-planned economy. It continued the process of structural reform which is seeing it change from a predominantly agricultural economy, to a mixed economy with substantial industrial and service sectors. Finally, and perhaps most remarkably, it continued its assault on poverty by reducing the number of people living in poverty from nearly 90 million (1989) to 42 million by the end of 1998.

As a result, China is now a very different place than it was in 1992 when the World Bank formulated and published its China: Environmental Sector Strategy (World Bank, 1992) and the range and significance of environmental issues which have to be confronted have widened significantly as a consequence. This report has been prepared to take account of these changes, to assess how they are affecting the environmental agenda, and to identify environmental management strategies and priorities to take China into the future and, more particularly, the period covered by the 10th Five Year Plan (2001 – 2005). It was prepared collaboratively between the World Bank, the State Environmental Protection Administration and a wide range of research and other institutes who are working on environmental management problems in China.

The report has been structured to mirror, to a substantial degree, the main priority issues addressed in SEPA's 10th Five Year Plan for Environmental Protection which commenced preparation at about the same time. It does not cover every issue on the environmental agenda; for example, it says nothing about nuclear environmental management or biosafety (genetic engineering) which are two new responsibilities for SEPA. It also says very little about solid waste management or the management and disposal of toxic and hazardous wastes. Instead, it focuses on the main generic issues which have been the prime focus of attention in recent years, which remain issues of priority concern, and will require continued and even heightened attention over the next 10 years, namely; land and biodiversity resources management, water management, air pollution and issues surrounding environmental management and regulation in general. At the request of SEPA, the report also addresses two emerging issues which are potentially of environmental significance, namely; China's pending accession to the World Trade Organization, and, the government's recently announced "Great Western Development Plan".

Overview

In response to requests made by participants at review workshops held during preparation, this review is consciously technical in its analysis and detailed in its prescriptions. However, there are three cross-cutting issues which keep recurring throughout the analysis and these help to characterize the environmental management problem which is being confronted:

- **First**, the environmental agenda is becoming so complex and of such a large scale that it cannot and will not be adequately dealt with by one agency (SEPA and its counterparts

⁶ Extract from the Executive Summary of World Bank 2001 report entitled 'China: Air, Land, and Water. Environmental priorities for a new millenium'.

at lower levels) working on its own. This is particularly true with regard to the natural resources management, or the “green” environmental agenda, which is emerging as a major challenge for the 21st Century. Effective solutions will require the combined and coordinated efforts of many different branches of government and the rethinking of many development policies. Much of the environmental degradation being experienced in China can be attributed to implementation of policies which were either directly inimical to environmentally sustainable development or inadvertently had the same effect. New development concepts need to be developed which take account of externalities, the multiple potential benefits of natural resources and also the views of different stakeholders in those natural resources.

- **Second**, the systemic fiscal and budgetary problems facing the country as a whole are making it particularly difficult for environmental institutions to effectively do their work. There is a disconnect between assigned responsibilities and resources provided which is growing rather than shrinking. This applies not only to environmental protection agencies but also to other ministries and units within them who have a vital role to play in the promotion and application of environmentally sustainable development including the agricultural research services, agricultural extension services, nature reserve management units within the State Forestry Administration, and so on. This issue is of particular importance in the context of continued market reform where government’s role as an environmental regulator is increased. Of course, this is a problem that extends far beyond the question of environmental management and protection but it provides one more reason for continued aggressive reform of government tax and financial management procedures.

- **Third**, government has to continue to diversify the approaches it takes and the tools it uses in the interests of environmentally sustainable development to provide a better fit between the solutions developed and the problems being experienced in different parts of the country. The “one size fits all” approach is proving inadequate to the demands. The concept of developing many tools to deal with many problems is particularly relevant for the management of natural resources where greater attention needs to be paid to addressing the underlying causes of problems not just their symptoms.

Over the coming decade, the government is projecting a continuation of quite strong growth in GDP, industrial output, energy consumption, urbanization and agricultural intensification. This scenario suggests that the challenges and complexities of the environmental agenda will increase rather than decrease.

Given this context, the Government’s environmental objectives during the 10th FYP are ambitious. The plans and programs are expected to result in “*improved environmental performance in pollution control while the deteriorating trend in the ecological environment will be halted*”. Its success in achieving these objectives will be determined substantially by its success in managing growth within a development framework which is heavily constrained in terms of land, water and other essential natural resources.

Taking account of the development framework, the government’s environmental objectives, and the cross-cutting environmental issues discussed above, the environmental strategy for the immediate future has to be built on three main pillars:

- **Institutions: Strengthening the Institutional Base for Environmental Protection and Management.** Work to strengthen existing institutions responsible for pollution control needs to continue and intensify. But, bearing in the mind the growing complexity and cross-cutting nature of the problem, the government also needs to mainstream environmentally sustainable development in all of its relevant institutions.
- **Instruments: Developing More Effective Policies and Implementation Mechanisms.** The effectiveness of existing pollution control policies and instruments can be improved significantly and efforts in this regard need to be continued. However, there is also a need to develop new policies and instruments to deal with emerging issues in both pollution control and natural resources management, and to respond to the effects of market reforms and decentralization.
- **Investments: Setting Realistic Agendas and Investment Priorities.** More money needs to be invested in environmental improvement but the resources need to be used more efficiently and effectively. Government needs to set realistic environmental goals, prioritize its investments and maintain focus.

3.3 OVERVIEW OF CHINA'S MDG STATUS



MDGs: China's Progress

Below is a summary of the UN System in China's collective assessment of China's situation *vis a vis* the MDGs.

| OVERVIEW OF CHINA MDG STATUS | | |
|--|---------------------------|---------------------------------|
| GOALS and Targets | STATE OF GOAL ACHIEVEMENT | STATE OF SUPPORTIVE ENVIRONMENT |
| Eradicate Extreme Poverty & Hunger by 2015 | | |
| Halve the proportion of people living in extreme poverty | On track | Well developed |
| Halve the proportion of population below minimum level of dietary energy consumption | On track | In place |
| Halve the proportion of underweight children under five years old by 2015 | | |
| Universal primary education by 2015 | | |
| Achieve universal primary education by 2015 | On track | In place |
| Gender equality | | |
| Achieve equal access for boys and girls to primary and lower secondary schooling by 2005 | Maybe not on track | In place |
| Achieve equal access for boys and girls to upper secondary education by 2005 | Maybe not on track | In place |
| Under-five mortality | | |
| Reduce under-five mortality by two-thirds by 2015 | On track | In place |
| Reproductive health | | |
| Reduce maternal mortality ratio by three-quarters by 2015 | On track | In place |
| Universal access to safe/reliable reproductive health services (contraceptive methods) by 2015 | On track | Well developed |
| Combat disease (HIV/AIDS, TB & Malaria) | | |
| Halt and reverse the spread of HIV/AIDS by 2015 | Maybe not on track | Maybe not on track |
| Halve the prevalence of TB by 2015 | Maybe not on track | In place |
| Reduce the incidence of malaria | On track | In place |
| Environment | | |
| Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015 | Maybe not on track | Well developed |
| Basic amenities | | |
| Halve the proportion of people unable to reach or afford safe drinking water by 2015 | On track | Well developed |
| Improve the proportion of rural people with access to improved sanitation | On track | In place |

3.4 OVERVIEW OF THE ONGOING PROGRAMME, FINANCED MAINLY BEFORE THE 2002-2004 NIP

EU-CHINA CO-OPERATION PROJECTS UNDER IMPLEMENTATION

This list includes projects financed under the following budget chapters:

| | |
|---------|--|
| B7-3 | Co-operation with Asian Developing Countries |
| B7-7 | European Initiative for Democracy and Human Rights (EIDHR) * |
| B7-6000 | NGO co-financing |
| B7-6212 | Health, Population, Fight against HIV/AIDS |

PROJECTS AND PROGRAMMES UNDER IMPLEMENTATION (1)

| Category | Project | EC Grant (€million) | Subtotal |
|--|--|---------------------|---------------|
| General | Small Project facility | 8,00 | 8,00 |
| Human Resource Development | China Europe International Business School (Phase II) | 10,95 | 69,51 |
| | Junior Managers Programme | 11,64 | |
| | China Europe Public Administration Project | 5,70 | |
| | Vocational Training | 15,10 | |
| | Basic Education | 15,00 | |
| | STD/AIDS Training Project | 0,40 | |
| | Chinese Interpreters Training Programme 2001-2004 | 0,39 | |
| Rule of Law and Good Governance | European Studies Programme | 10,33 | 32,31 |
| | Legal and Judicial Co-operation | 13,20 | |
| | Village Governance | 10,67 | |
| | Intellectual Property Rights | 5,60 | |
| | Human Rights Small Project Facility * | 0,84 | |
| | EU-China Network on Human Rights Covenants * | 0,88 | |
| Economic and Social Reform | Strengthening the defence of death penalty cases * | 0,52 | 48,17 |
| | Economic, Social and Cultural Rights in Yunnan * | 0,60 | |
| | WTO Accession Project | 3,60 | |
| | Financial Services | 8,50 | |
| | Enterprise Reform | 8,50 | |
| Environment | Civil Aviation | 12,57 | 87,80 |
| | Support for China's integration into the world trading system | 15,00 | |
| | Liaoning Integrated Environment Project | 37,00 | |
| | Environmental Management Co-operation Project | 13,00 | |
| | Vehicle Emission Control | 0,84 | |
| | Natural Forest Management | 16,50 | |
| Rural and Agricultural | Energy and Environment | 20,00 | 7,60 |
| | Solid Waste Disposal Project | 0,46 | |
| NGO Co-Financing and Health/Population | Pa-Nam Integrated Poverty Alleviation Project | 7,60 | 4,36 |
| | Access to STD Services in Urban Areas | 1,07 | |
| | Maternal and Child Health Care, Mid-West China | 0,88 | |
| | Child Welfare in Communities | 1,00 | |
| | Support to Health Policy in Disfavoured Regions of Western China | 0,80 | |
| | Rural Poverty Alleviation and Capacity Building | 0,50 | |
| | Sershul County Health Initiative, Sichuan Province | 0,11 | |
| Total: | | | 257,75 |

(1) Pre-2002-2004 NIP (except the Programme to support China's integration into the world trading system - 2002)

3.5 SUMMARY OF PROGRESS ON AND MODIFICATIONS TO THE 2002-2004 NIP

April 2004

CHINA

CHINA NIP 2002 - 2004. COMMITMENTS AS ORIGINALLY PLANNED AND AS NOW FORESEEN

| Projects and Programmes by sector | NIP (1) | 2002 | | 2003 | | 2004 | | NIP 2 | Comments |
|--|-------------|-----------|-----------|-----------|----------|-----------|--------------|---------------|--|
| | | (2) | (3) | (4) | (5) | (6) | (7) | | |
| | 150M | | | | | | | | |
| | (1) | | | | | | | (8) | |
| Support to Social and Economic Reforms | (75) | | | | | | | (76.2) | |
| EU-China WTO co-operation | 15 | 15 | 15 | | | | | 15 | |
| Social security reform | 20 | 20 | | | | | 20 | 20 | |
| Information society | 15 | 15 | | | | | 15 | 15 | |
| Human resources development : | 25 | | | 25 | | | | | |
| (a) Managers Exchange and Training Programme | | | | | | | 17.2 | 17.2 | |
| (b) Scholarships linked to Erasmus Mundus | | | | | | | 9 | 9 | |
| | | | | | | | | | |
| Environment and Sustainable Development | (45) | | | | | | | (55) | |
| Environment Programme Policy Advice | 15 | | | | | 15 | | | Programme to be integrated into the two other programmes in this sector. |
| Biodiversity protection | 15 | | | 15 | | | 30 | 30 | See comment above |
| Water Resources Conservation | 15 | | | | | 15 | 25 | 25 | See comment above |
| | | | | | | | | | |
| Good Governance/Strengthening Rule of Law | (30) | | | | | | | (11) | |
| Fight against illegal immigration | 10 | 10 | | | | | 1 | 1 | |
| Support to civil society | 20 | | | | | 20 | 10 | 10 | |
| | | | | | | | | | |
| Totals | 150 | 60 | 15 | 40 | 0 | 50 | 127.2 | 142.2 | |

- (1) initial 2002-2004 NIP allocations by sector/programme
(2) amount envisaged to be committed in year 2002 as per NIP
(3) amount committed as per financing decision in year 2002
(4) amount envisaged to be committed in year 2003 as per NIP
(5) Commitment in 2003
(6) amount envisaged to be committed in year 2004 as per NIP
(7) Commitment in 2004 (forecast)
(8) Proposed revised NIP allocations by sector/programme

3.6 MEETING BETWEEN THE MEMBER STATES' DEVELOPMENT COUNCELLORS AND THE EUROPEAN COMMISSION

BEIJING, 23 July 2003

Venue: Embassy of Italy, Beijing.

Participants: See Annex II.

Pasqualino Procacci (IT) opened the meeting on behalf of the Presidency.

Richard Wilkinson (China Desk, DG RELEX) explained that the main purpose of the meeting was to allow for an exchange of views between the current and future Member States' representatives in China and representatives from DG RELEX and the Delegation (DEL) on the National Indicative Programme (NIP) 2002-2004. His mission and this discussion were part of a process that had started in May 2003 with a meeting of the EU-China Economic and Trade Working Group. The review involves assessing to which extent actions and indicative allocations were to be maintained, replaced or adjusted. Following formal consultations with the EU Member States (MS), the review would be concluded by a formal decision by the European Commission later in 2003 on an adapted NIP.

Jose Bustamante (DEL) explained that the scope of the meeting was limited to actions under the NIP, but that the EU used a wider set of co-operation instruments (research, regional programmes, etc.).

Micha Ramakers (DEL) made a brief presentation about the EU approach to programming and the 2002-2006 Country Strategy Paper (CSP) and the NIP. Copies of the slides were handed out.

Uwe Wissenbach, Françoise Collet and Josef Margraf (DEL) provided updates on the current state of implementation of the NIP actions in their respective sectors (social and economic reform, environment and sustainable development, good governance and rule of law. The discussion on each section was followed by an exchange of questions and answers. A summary is contained in Annex I.

Richard Wilkinson stated that there had been some delays in implementing the NIP, so that the final period of the programme was now quite heavy. This was due to the sensitivity and the complexity of the issues covered, SARS, and other elements. It was unclear to which extent the PRC had taken on board the EU's multi-annual approach to programming (considering ad hoc "shopping lists" were still occasionally produced). There was also a need for increased inter-ministerial co-ordination.

He summarised the likely direction of the Mid-Term Review as follows:

Priority 1: maintain the indicative allocation at 75 M EUR; keep 10 M EUR from Action 4 available for development of a second project;

Priority 2: increase the indicative allocation by 10 M EUR to 55 M EUR due to greater than anticipated absorption capacity;

Priority 3: reduce the indicative allocation by 9 M EUR for Action 1 (with a follow-up action under the 2005-6 NIP) and Action 2 possibly by 10 M EUR to 10 M EUR (absorption capacity exists, but political will unclear). 19 M EUR available may in full or in part be redistributed to other Priorities.

The initial review process is to be finalised by September. MS in-country representatives may be approached by their capitals for feedback. The review will be fully completed by the end of 2003. Later this year, discussions on the 2005-6 NIP will start.

Other business

It was agreed that the next meeting would focus on the legal recognition of NGOs. A speaker from Xinhua University would be invited. The meeting would take place in mid-October.

Denmark was considering making a limited amount available for the recent Red Cross flood appeal. ECHO was studying the situation. Further information would be provided when available.

The Presidency closed the meeting.

Annex I

Overview of state of implementation NIP 2002-2004

Priority 1: Support to the Social and Economic Reform Process (75 M EUR)

Action 1: EU-China WTO Co-operation 15 M EUR

A project has already been financed for this amount and an FA signed. This needs to be amended. The amendment is currently being finalised by the EC following earlier discussions with the Ministry of Commerce (MOFCOM) and could be signed by both parties in the near future.

Action 2: Information Society 15 M EUR

Progress is being made on developing a project. Initial discussions are progressing well. 15 M EUR to remain. A three-month EC appraisal mission would start in August-September. The State Council Informatisation Office (SCITO), a prospective implementation partner, is sending a mission to the EU.

Action 3: Social Security Reform 20 M EUR

Contents and logframe are being developed with the Ministry of Labour and Social Security (MOLSS). After initial difficulties, good progress is now being made. A proposal for appraisal would be submitted to EC HQ this week for feedback. A 20 M EUR commitment is envisaged for end 2003 or early 2004.

Action 4: EU-China Human Resources Development Programme 25 M EUR

A project outline has recently been discussed by the DEL. This involves a two-way exchange programme. Feedback from HQ is expected to arrive in August/September, following which more detailed discussions could start. It is possible that 15 M EUR could suffice for this project. If so, the remaining 10 M EUR could be available for another project, possibly a training/scholarships initiative linked to the new Erasmus Mundus programme. The two proposals could be completed within the present NIP.

Discussion

Place of the Pa-Nam project in this priority

Pa-Nam is a pre-NIP poverty alleviation project, recently extended to 2005.

Co-ordination with other donors

Ongoing projects often co-operate closely with those funded by other donors (e.g. Gansu Basic Education w. DIFID, Village Governance w. UNDP). As concerns project preparation, for example, on Action 1 there had been co-operation with AUSAID, Japan and others. On Action 2 with the ILO (but they had withdrawn since their focus was different). Project preparation takes into account reports, studies by other donors.

Feasibility of implementing the new scholarship programme

The reasons for cancelling Scholarship 2000 were explained (lengthy revision, RAL, etc). The new commitment could be managed in sync with Erasmus Mundus.

Priority 2: Environment and Sustainable Development (45 M EUR)

Action 1: Environment Programme Policy Advice

This crosscutting action is being integrated into the two other projects foreseen under this priority.

Action 2: Bio-diversity Protection

An identification/formulation mission is ongoing (to be completed within two months). The approach envisaged is multi-faceted, bottom-up and crosscutting, involving various types of projects (with a focus on local levels and western areas), local actors, and the State Environment Protection Agency (SEPA) in a co-ordinating role (not necessarily with implementation responsibility). There is major scope for co-operation with the MS, who had already been closely involved in preparations. Details on the method of implementation (calls for proposals) and co-funding arrangements (Germany) were given. An amount of 30 M EUR, rather than the initial 15 M EUR, is envisaged. A financing decision is foreseen for end 2003/early 2004.

Action 3 Water Resources Conservation

The project being prepared will focus on both the Yangtze and the Yellow rivers. The initially planned amount will most likely be increased from 15 to 25 M EUR.

Discussion

How many projects really follow SEPA's policy, since many other actors are involved in the sector?

This is one of the loopholes in the system, leading to parallel activities. The EU wants to take a pro-active approach in breaking through this situation with the biodiversity programme.

SEPA is not in charge of all environmental projects. How to address this?

Line agencies would maintain their current reporting lines and funds, but the purpose of the programme was to stimulate co-ordination and co-operation. There would be no flow of funds to SEPA and overlapping would be avoided.

Priority 3: Good Governance and strengthening the Rule of Law (30 M EUR)

Action 1: Fight against Illegal Migration (10 M EUR)

Following initially difficult discussions with the Chinese authorities, a stakeholders meeting in November 2002, and several meetings of a working group with the MS, a financing proposal has been drafted for a commitment by the end of 2003, with a reduced budget of just under 1 M EUR. A larger project is envisaged following this first phase, which will have an implementation period of 16 months starting in early 2004. An overview of activities and topics covered was provided (copy of the proposal would be distributed by e-mail). The project will involve both the central government and certain provinces.

Action 2: Support to Civil Society (20 M EUR)

A brainstorming session with the MS has taken place at a recent Round Table meeting on Human Rights. Three fields of co-operation are envisaged (capacity building, networking of NGOs, grants). Terms of Reference for an identification mission have been submitted to MOFCOM and the Ministry of Civil Affairs (MOCA) last April, but these have not been accepted to date, despite MOCA's initially positive reaction (there have also been difficulties with MOCA concerning the EC Human Rights Small Project Facility). It is not clear if a 20 M EUR allocation can be maintained for this action and/or if another implementing partner should be identified.

Discussion

How does the allocation of budgets in the NIP take place? What about actions that cut across more than one priority?

The NIP is indicative. The process starts with an overall allocation for a programme of co-operation. Then sectors and ideas for action are identified. There are almost by definition

issues that cut across various sectors (cf. Biodiversity: environment and good governance). All of this is indicative, and that is one of the reasons for the MTR.

Extent to which the Government is open to working with civil society. Is there opposition to doing so, and if so, where and at what level?

Recent MOFCOM meetings have for the first time included NGO representatives (AIDS, Global Funds, etc.). There have also been recent statements about the importance of NGOs for the future success of China. It was suggested that this topic should be the main focus of a future meeting.

3.7 MEETING WITH THE MEMBER STATES ON THE PREPARATION OF THE 2002-2004 NIP

Meeting with the EU Member States' Development Counselors

Beijing, 27 November 2003

Participants:

Richard Wilkinson (DG Relex), Lars-Erik Larsson (DG AIDCO)

Jose Bustamante, Françoise Collet, Micha Ramakers, Sven Ernedal, Jolanda Jonkhart (DEL)

Peter Grec (Hungary), Pekka Kaihilahti (Finland), Jacob Scott (Denmark), Remi Lambert, Emmanuel Lenain (France), Sylvia Pfanner (Germany), Ales Uchytíl (Czech Republic), Mark van de Vloet (Netherlands), Pasqualino Procacci, Francesca Ciccomartino (Italy).

The aim of the meeting was to brief the MS on the state of play concerning the 2005-2006 NIP preparation and to obtain their initial feedback. RW explained that the Permanent Representatives in Brussels would also be consulted and that the preparation process should be completed in the first quarter of 2004. As concerns the Mid-Term Review of the 2002-2004 NIP, which had been the subject of a meeting in June 2003, this was now being completed.

The Country Strategy Paper 2002-2006 had three focal areas (social-economic reform, environment and sustainable development, good governance and rule of law) which remained valid for the 2005-2006 NIP. Three basic criteria were underpinning the current exercise, namely (a) programming should stay within the CSP areas, (b) there should be Chinese ownership and (c) there should be a limited number of new interventions.

RW stated that it was his impression that the donor community in China was moving away from an approach based on discreet projects with limited impact towards a more strategic approach which linked aid to policy objectives and which had policy impact.

For the 2005-2006 NIP, there were a number of areas for which extensions of current actions could be envisaged. These could include an extension of the Legal and Judicial Programme with a fresh orientation, and further action on intellectual property rights. Sanitary and phyto-sanitary standards and food safety, and initiatives in the field of higher education, possibly with a focus on the Western areas were other possibilities. The latter could be framed within the context of a need for balanced regional development and could be linked to the Erasmus Mundus programme and possibly to World Bank actions in this area.

For the post-2006 period, the EC would be very keen to move away from projects altogether in favour of a broader approach linked to policy development which would minimise implementation complications and would maximise policy support. In this context, it was worth noting that during the recent EU-China Summit, it had been agreed that there would be a follow-up Seminar in February 2004 to examine both the EU and China Strategy Papers in order to explore means of moving the relationship forward. The notion of balanced regional development and EU expertise in this respect could, inter alia, be a subject for discussion in the seminar. Fiscal reform was also an issue which could become important for the post 2006 period.

RW then invited the MS representatives to share their views on the 2005-2006 programming exercise, with a view to avoiding overlap and ensuring complementarity.

The Netherlands stated that it would soon phase out its assistance to China, with only a biodiversity programme remaining. This should be linked into the current EU initiative in this field. SE confirmed that this was being discussed already.

Italy stated that it is shifting its co-operation to soft loans, for which it had recently negotiated a programme of 170 M EUR. There would be no more projects, but only programme aid on the environment, health, SMEs, vocational training and cultural heritage. 85% of IT funding went to the Western regions. The concessionality of the loans was 60% over 27 years with a five-year grace period at 0.1% interest.

IT perceived a discrepancy between Chinese and EU priorities. For example, as concerns good governance, this is a major issue for the EU but there is little Chinese willingness. IT did agree that this was a very important area. IT also asked if, for the period after 2006, there was the intention to change the modus operandi and/or the priority sectors.

RW responded that there was nonetheless a certain convergence between the Chinese and EU agendas concerning good governance, citing the human rights dialogue, the civil society identification mission and the Legal and Judicial and IPR projects as examples of areas where good progress was being made. As concerns the period 2005-6, there would be no changes to priority sectors; over the longer term the EC was contemplating a move towards a broader, more programmatic approach to co-operation than was presently the case.

NL said that, despite phasing out aid, it would also continue with a small good governance programme for NGOs in China. It considered the EU selection very relevant for China. As concerns fiscal policies, NL wanted to know if that also included the financial system, e.g. banking and SMEs. JJ replied that the EU already had ongoing projects on financial services (banking, securities, insurance) and SME development.

HU said it had no real co-operation programme yet, but any programme that would be set up, would be closely linked to its human rights dialogue with China, particularly focusing on the judicial field. Experiences from Hungary's own transition process could be valuable to China.

FI welcomed the EU approach. Although China was not a focus country for Finnish co-operation, there was co-operation in the judicial field and on minority rights. FI welcomed continued funding for combating IPR infringements, which were a hindrance to development and innovation. It inquired about future EU action in the environmental field, and was keen to see a component developed to promote Chinese participation in the emission trade (Kyoto Protocol). SE clarified that this was part of the ongoing Energy/Environment Programme, which had various instruments and substantial funds available for the coming five years.

FR supported the EU approach, which had to continue. It fully supported the focus on the present three priorities and strongly supported the EU's orientation. Good governance and the rule of law were FRs greatest priority. It considered that the current focus of EU efforts in social and economic reform should be reconsidered in the light of SARS and HIV/AIDS. It considered that the sanitary problems in China are a global challenge related to social stability. More action was needed in this field.

FR considered that the general idea of evolving towards a valorization of EU experience in regional development could be a good axis for future co-operation and could substitute poverty reduction for a more modern approach at a higher political level.

CZ considered balanced development very important. This should include the issue of unemployment. It could also have an impact on internal and external migration.

RW emphasized that the EU policy was based on mutual interests. Balanced regional development could indeed be interesting if this meant impact at the policy level. It could

include addressing fiscal reform. HIV/AIDS was an issue of debate, also within the EC. There was indeed a paragraph on this matter in the CSP, but at the same time it was not possible to become actively involved in all issues. FC clarified that the EC was already very active in this field through the Global Fund. A first Chinese proposal worth 100 M USD on AIDS treatment had just been approved and a second proposal on prevention was being considered.

FR acknowledged that the NIP had its limits, and that it should be seen in the context of the overall EU policy mix, including e.g. research funds.

IT said EU action rightly did not focus on poverty reduction and that the EU should not be afraid to said so. China has lifted 90 million people out of poverty by itself and knows how to do that successfully. This is not where EU co-operation is needed.

RW concluded by setting out the next steps of the programming process, which would include a consultation with the Chinese Government (28/11/03), internal consultations, consultations with the Member States and finally a Commission Decision within the first four months of 2004.

Micha Ramakers

10 December 2003

Note: Bilateral meetings with UK and D had been held prior to the meeting

3.8 CONSULTATIONS WITH THE GOVERNMENT ON THE MID-TERM REVIEW OF THE 2002-2004 NIP

MEETING BETWEEN THE MINISTRY OF COMMERCE AND THE
EUROPEAN COMMISSION
Beijing, 24th July 2003

Participants:

Mr Wang Xinggen, Deputy Director General, Mr Peng Bin, Deputy Division Director, (Ministry of Commerce – MOFCOM)

Mr Richard Wilkinson, China Co-operation Desk Officer, European Commission Directorate general for External Relations; Mr José Bustamante, First Counsellor, Mr Micha Ramakers, Second Secretary (EC Delegation).

1. Mid-Term Review

The main purpose of the meeting was to discuss the Mid-Term Review (MTR) of the National Indicative Programme (NIP) 2002-2004, which is scheduled to be completed by the end of 2003. This would involve assessing to which extent actions and allocations were to be maintained as originally foreseen, replaced or adjusted. Following consultations with the EU Member States, the review would subsequently be concluded by a formal decision of the European Commission.

Each action foreseen in the NIP was reviewed as follows (the indicative figures are given):

1.1 Priority 1: Support to the Social and Economic Reform Process (€75 million)

1.1.1. Action 1: EU-China WTO Co-operation - €15 million

A project had already been financed for this amount and the Financing Agreement signed. This needed to be amended. The amendment was currently being finalised by the EC following earlier discussions with MOFCOM and could be signed by both parties in the near future.

1.1.2. Action 2: Information Society - €15 million

Progress was being made on developing a project to implement this NIP action. The allocation of €15 million should be maintained. Initial discussions were progressing well. A three-month EC appraisal mission would start in August-September. MOFCOM proposed that the project should involve both SCITO for e-government aspects and MOFCOM's Informatisation Division for e-commerce aspects.

1.1.3. Action 3: Social Security Reform - €20 million

Content and logframe were presently being developed in co-operation with MOLSS. After initial difficulties good progress was now being made. A proposal for appraisal would be submitted to EC HQ this week for feedback. A commitment for €20 million was envisaged for the end of 2003 or 2004. MOFCOM proposed the focus should be on the field level and not the central level. It was agreed that the new MOLSS training centre was not a priority for this project. The Minister of labour had written to Commissioner Patten. An EC reply confirming the above would be forthcoming. MOFCOM would be provided with a copy.

1.1.4 Action 4: EU-China Human Resources Development Programme - €25 million

A project outline had recently been discussed by the EC. This involved a two-way exchange as foreseen in the NIP and as requested by MOFCOM. Feedback from HQ was expected to arrive in August/September, following which more detailed discussion could start. It was possible that €15 million could suffice for this project. If so, the remaining €10 million could be available for another project, possibly a training/scholarship initiative linked to the new

Erasmus Mundus programme. This was agreeable to MOFCOM. The two proposals could be completed within the present NIP, with the managers project to be committed by end 2003 and the Erasmus-linked project in 2004.

1.2 Priority 2: Environment and Sustainable Development

1.2.1. Action 1: Environment Programme Policy Advice

It was confirmed that there was agreement to integrate this action, which is of a cross-cutting nature, into the projects foreseen for implementing the two other actions contained in the NIP under this priority.

1.2.2. Action 2: Biodiversity Protection

An identification/formulation mission was ongoing and was to be completed within two months from now. The approach envisaged was multi-faceted, involving various types of projects (with a focus on local levels and Western areas) and involving the participation of SEPA in a co-ordinating role, but not necessarily with direct responsibility for implementation. Discussions were underway with various actors. The precise mode of implementation was still being discussed. A financing decision was foreseen for end 2003/early 2004. An amount of €30 million rather than the initially planned €15 million was now envisaged. There was general agreement on this action.

1.2.3. Action 3: Water Resources Conservation

It was agreed that the project being prepared for implementing this action would focus on both the Yangtze and Yellow rivers. The initially planned amount would most likely be increased from €15 to €25 million.

1.3 Priority 3: Good Governance and Strengthening the Rule of Law - €30 million

1.3.1. Action 1: Fight against Illegal Migration - €10 million

Since the agreement at the ETWG on a phased approach, a financing proposal had been drafted for a commitment by the end of 2003 for an amount just under €1 million. The project would have an implementation period of 16 months. This implied that any new funding for possible follow-up actions would be mobilised under the 2005-2006 NIP. It was proposed to re-allocate the remaining €9 million to Priority 2 (environment – see above). This was agreeable to MOFCOM.

1.3.2. Action 2: Support to Civil Society - €20 million

Terms of reference (ToRs) for an identification mission had been submitted to MOFCOM and MOCA last April, but these had not been accepted to date. It was agreed that MOFCOM would re-visit the ToRs for the identification mission with MOCA and that alternatives for project models would be considered. The EC announced it considered reducing the allocation foreseen by €10 million, without re-allocating the surplus amount. MOFCOM would provide feedback on possible project models during August.

1.4 Summary

The discussions concluded as follows:

Priority 1: maintain the indicative allocation at €75 million with €10 million from action 4 available for the development of a second project;

Priority 2: increase the indicative allocation by €10 million to €55 million;

Priority 3: reduce the indicative allocation by €19 million to €1million.

2. Other Matters

MOFCOM subsequently raised a number of general co-operation related issues, including the size of projects (considered too large), the cancellation of the Scholarships 2000 project, the implementation of current projects (too slow), and the submission of new proposals (comparison with other donors).

The EC side explained the reasons for cancelling the scholarships programme, its approach to programming, its striving for economies of scale, and project management processes. Within the general framework of the CSP there would be a consultation with MOFCOM before the end of 2003 on the type of project or programme foreseen for the future. This would focus on finding agreement on clear areas for action, on the basis of which project proposals should then be developed.

3.9 CONSULTATIONS WITH THE GOVERNMENT ON THE PREPARATION OF THE 2005-2006 NIP

Meeting with the Ministry of Commerce, Department of International Trade and Economic Affairs 28/11/03

Between:

Mr Xingen Wang, Deputy Director General

Mr Zhao Zhongui, Division Director

Delegation: Mr Bustamante and Sector Heads from the Co-operation Section

DG RELEX/H/2: Mr Wilkinson (the undersigned)

I explained the objectives of the programming exercise for 2005/6, pointing out that the Commission believes that the objectives of the 2002-2006 CSP remain valid, and that planned activities for the new NIP should be consistent with those objectives. We should also take account of the need to focus on a very limited number of activities in order to maximise impact and to facilitate programme implementation.

Possibilities that had so far been identified could include an extension of the Legal and Judicial Programme, further assistance with IPR enforcement (the necessary legislation already being in place), assistance with sanitary and phytosanitary standards (SPS) and food safety in the context of trade and the environment, and possible further specific funding for China's participation in the Erasmus Mundus programme.

A further possibility for co-operation could be in the area of balanced regional development, a theme that had been taken up by President Hu and President Prodi during the previous month's Summit.

MOFCOM appreciated consultation on the NIP preparation, and attaches much importance to its co-operation with the EC, as witnessed in the government's recent policy paper on its relations with the EU. Continued support was particularly appreciated at a time when the donor community is considering reductions to its co-operation programme with China.

China suffers considerably from regional growth disparities, with poverty a major concern, not only in the western regions, but also in the north-east. For example, while efforts are being made to re-vitalise the old industrialised areas in the three north eastern provinces, unemployment remains high, and poverty persists.

While Chinese per capita income is around US\$900, 28 million Chinese live in absolute poverty with incomes of less than US\$80 million per year, and their could be up to 150 million living on less than \$1 per day. The challenges are massive, but China is facing them, and will do so with self-reliance, though donor support is appreciated.

On the proposals for the new NIP, Mr Xingen agreed that we must be guided by the established CSP, and subscribed to the areas of co-operation suggested, in particular to SPS and human resource development. He nevertheless wished to inform the meeting that the government also has its ideas and priorities which he wished to share.

Poverty reduction remains a major priority for China, particularly in the western areas. The World Bank will be hosting a meeting on the subject in Shanghai in May 2004 to which the EC will be invited.

Environmental issues represent a growing problem for China as the economy expands. EC programmes in this area have met with success (he cited the Liaoning programme) and the government is keen that they should continue. He considered that the EC was experienced in this area and that an effort should be made to build upon the experience gained in the Chinese context.

Water supply and management programmes, and waste disposal interventions in the urban context were also called for as urbanisation expands rapidly. The whole of the northern part of the country lacks water.

Also of interest to government were the areas of HIV/AIDS, vocational training, social security in the rural context, and the problem of rural to urban migration.

On this latter point Mr Xingen stated that there are 900 million Chinese living in the rural areas, of which approximately half are labourers. But rural labour needs amount to only around 100 million workers. The remaining 350 million are in the process of, or will, migrate to urban areas in search of employment. In spite of the government's policy in respect of small town development (an area covered by a call for proposals under the small projects facility), much remained to be done.

All this being said, MOFCOM agreed for the need for a focused approach, and the need to maximise programme impact.

In response, I and the Delegation colleagues reviewed the financing that was already being provided in some of the areas raised by MOFCOM, and re-iterated the need for a rational and consolidated approach to the next programming exercise. We would remain in touch with MOFCOM on the matter.

MOFCOM closed the meeting by sharing a number of concerns (expressed on a number of previous occasions). They consider that EC-funded projects are too large, and consider that smaller interventions have more impact. Other donors projects are smaller and more manageable. Smaller projects may involve more management, but they can be managed by the Chinese, without undue reliance on technical assistance. Local staff are cheaper, and their use implies a capacity building element. TA procedures are complicated and result in excessive delays.

MOFCOM considers that the deconcentration of responsibilities to the Beijing delegation has not been only partial. Canada, DFID and AUSAID activities have been fully deconcentrated, and this has resulted in improved implementation rates. The Beijing DFID office, as an example, can take financing decisions up to £7.5 million. The government hopes that the EC performance can be improved.

On counterpart funding a discussion is ongoing with the delegation on what inputs can and cannot be considered as acceptable government contributions to programme financing.

Finally, on the matter of project preparation, MOFCOM insists that all discussions take place through its offices. The Ministry has been mandated by the State Council to manage and co-ordinate grant aid, and wishes to be more closely associated with preparatory work.

R.H. WILKINSON
28/11/03

3.10 OVERVIEW OF EXTERNAL ASSISTANCE

OVERVIEW OF ONGOING EXTERNAL ASSISTANCE TO CHINA 2003 (1)

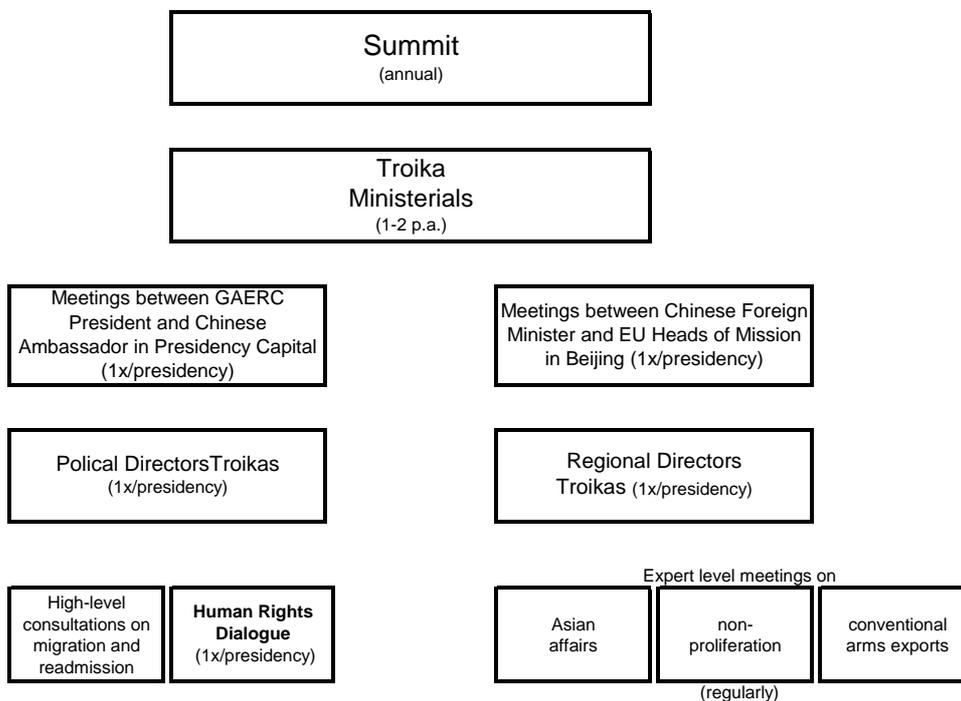
| | Theme I: Improving the Business Environment and Accelerating the Transition to a Market Economy | | | | | Theme II: Addressing Needs of Poorer and Disadvantaged People and Regions | | | | | Theme III: Facilitating an Environmentally Sustainable Development Process | | | | |
|-------------------------------|---|--|--------------------------------|--|--|---|---|----------------------------|---------------------------------|---|--|-----------------------|--------------------------|-------------------------------------|-------------------------------|
| | Strengthening Macroeconomic Management | China's Post-WTO Integration in Global Economy | Reforming the Financial Sector | Promoting Private Sector Development and Enterprise Reform | Public Sector Governance, Urban & Utility Management | Increasing Employment and Productivity | Strengthening Transport Links for Lagging Regions | Developing Human Resources | Strengthening Social Protection | Improving Targeted Poverty Reduction Programs | Strengthening Environmental Institutions | Improving Air Quality | Managing Water Resources | Managing Land and Natural Resources | Protecting the Global Commons |
| Member States and EC | | | | | | | | | | | | | | | |
| Austria | | | | | | | | | | | | | | | |
| Belgium | | | | | | | X | | | | | | | | |
| Denmark | | | | | X | | X | | | | X | X | | | |
| Finland | | | | | X | X | | X | | | | | | | |
| France | | X | | | X | X | | X | | X | | X | X | | |
| Germany | X | X | X | X | X | X | X | X | X | X | X | X | X | X | |
| Greece | | | | | | | | | | | | | | | |
| Ireland | | | | | | | | | | | | | | | |
| Italy | | | | X | | X | | X | | X | X | X | | | |
| Luxembourg | | | X | | | X | | X | | | | | | | |
| Netherlands | | | | | X | | | | | X | X | X | X | | |
| Portugal | | | | | | | | | | | | | | | |
| Spain | X | | | | X | | | X | | | | | | | |
| Sweden | | X | | | X | | | X | X | | X | X | X | | |
| United Kingdom | X | X | | X | X | X | | X | | X | X | X | X | | |
| EC | X | X | X | X | X | X | | X | X | X | X | X | X | X | |
| Other Bilateral Donors | | | | | | | | | | | | | | | |
| Australia | | X | | X | X | X | | X | | X | X | X | | | |
| Canada | X | X | | | X | X | X | X | | X | | | X | X | |
| Japan | | X | | | X | X | X | X | | X | X | X | X | | |
| Norway | | | | | | | | X | | | X | X | X | | |
| Multilateral Donors | | | | | | | | | | | | | | | |
| ADB | X | X | X | X | X | X | X | X | X | X | X | X | X | X | |
| IMF | X | X | X | | X | | | | | | | | | | |
| OECD | X | X | X | X | X | X | | X | X | | | | | | |
| UN Agencies | X | X | | X | X | X | | X | X | X | X | X | X | X | |
| World Bank | X | X | X | X | X | X | X | X | X | X | X | X | X | X | |
| Other Institutions | | | | | | | | | | | | | | | |
| Ford Foundation | | X | | | X | X | | X | | X | | | X | | |

(1) Basic source, World Bank Country Assistance Strategy 2003-2005

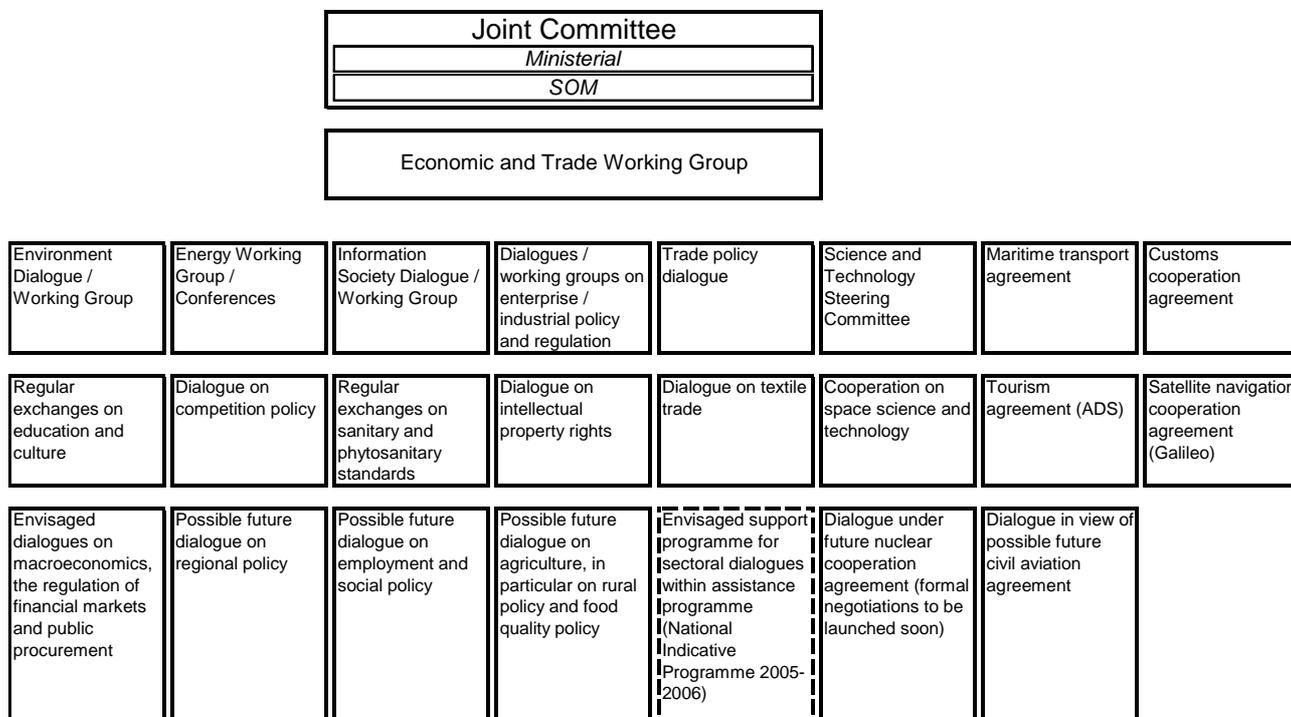
3.11 ONGOING AND PLANNED DIALOGUES AND EXCHANGES

EU-China Dialogue

Political Dialogue



Economic and sectoral dialogues



←-----→ ←-----→

established in the framework of / with reference to 1985 Trade and Economic Cooperation Agreement dialogues under existing or planned sectoral agreements
 Situation as of 18/06/2004

