

COMMISSION WORKING DOCUMENT

Country Strategy Paper

CHINA

Table of Contents

Summary.....	4
1. EC Co-operation Objectives	6
2. Chinese government policy agenda	7
3. Analysis of the political, economic and social situation	10
3.1. Political situation.....	10
3.2. Economic and social situation	12
3.2.1. Economic situation, structure and performance	12
3.2.2. Social developments.....	13
3.2.3. Assessment of the process of reform.....	14
3.2.4. Structure of public sector finances and main sectoral policies.....	15
3.2.5. External aspects	16
3.3. Sustainability of current policies	17
3.4. Medium-term challenges	18
4. Overview of past and ongoing EC co-operation, brief overview of China/rest of the world co-operation	19
4.1. Past and on-going EC co-operation.....	20
4.2. Programmes of EU Member States and others donors.....	21
5. EC response strategy	23
5.1. Principles and objectives for co-operation	23
5.2. Priorities and specific objectives for co-operation	25
5.2.1. Support to the Social and Economic Reform Process.....	26
5.2.2. Environment and sustainable development.....	27
5.2.3. Good governance and strengthening of the rule of law, Human rights.....	28
5.3. Coherence	29
5.4. Complementarity within EU	30
5.5. Complementarity with other donors.....	30
6. Work programme	31

- Annexes:
1. Socio-economic indicators (WB)
 2. Key trade statistics
 3. Main EC projects financed 1996/1999
 4. Main donors and sectors of aid with China (OECD/DAC)
 5. Main figures and estimates – EC co-operation 1998-2005
 6. Sectoral matrix
 7. Matrix for EU donor co-ordination
 8. Work programme

SUMMARY

China, the world's most populous nation, experienced rapid economic growth over the last twenty years, which brought its GNP per capita to EUR 953 in 2000. It has engaged in a wide range of social and economic reforms that are moving the country away from a centrally planned to a market-driven economy. These reforms are at the root of China's economic growth and very significant reduction of poverty.

At the same time China has important challenges to face in the future. It is estimated that in 1998 around 130 million Chinese were still living below the poverty line as defined by the World Bank. The population will continue to increase at least until 2050, combined with an important ageing process significantly accelerated by the population control measures. Weak productivity in the agricultural sector and increased disparities between rural and urban incomes create the conditions for an accelerated urbanisation process. Vast reforms and restructuring of the industry and services sectors are needed in order to reach the productivity levels required by the openness of the economy, itself a precondition for the preservation of high economic growth rates. WTO membership will have a profound impact in accelerating this process. Unemployment, particularly in urban areas and inadequate social protection are threatening the social cohesion. The pursuit of sustainable development, including protection of the environment and control of illegal migration are issues of considerable Chinese and international concern. Challenges on all the above areas can only be met if there are also commensurate improvements in the areas of governance, democratisation and the transition of China to an open society based upon the rule of law and the respect for human rights.

The Chinese authorities are committed to promoting economic reforms, including opening the Chinese economy to the world. Significant resources are devoted to education and human resources development, promoting science and technology and also addressing as key priorities, regional and social disparities.

The key objective of the EU's policy towards China is to support the continued reform and transition processes and to engage China further in the international community and to integrate it further into the world economy, in line with the conclusions of the Commission's Communications of 1998 and 2001¹ and the resulting Council Conclusions. The co-operation strategy outlined in the present paper aims to support the implementation of these wide EU policy objectives. Taking into consideration the activities of other donors, the EU's own comparative advantages and possible added value in this area, the challenges facing China and the EU's own priorities, the paper concludes that the EC's co-operation programme should focus on three areas:

The first focus for EC-China co-operation will be to support and provide increased sustainability in China's economic and social reform process mainly through institutional strengthening and capacity building, human resources development and the promotion of a sound business regulatory framework and the transfer of know-how and technology in the private sector.

¹ 'Building a comprehensive partnership with China', COM (1998) 181 final of 25.3.1998 and 'EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy', COM (2001) 265 final of 15.5.2001.

The second focus will be the promotion of sustainable development and assisting China to pursue a better balance between environmental protection, social development and economic growth. The EU could provide knowledge and expertise to assist China's pursuit of better environmental performance particularly where there is a global consequence, e.g. climate change. Expertise should also help identify a path of economic development, first to facilitate control over the causes of environmental degradation, then over the longer term, to progress towards reversal of the damage and improvement of the environment, and ways to upgrade bilateral co-operation on global environmental issues will be explored.

The third focus will be to encourage good governance initiatives, promote the rule of law, promote grass-roots democracy and the implementation of economic, social and political and civil rights and strengthening of the structures and processes that make up the fabric of a strong civil society.

Particular attention will be given to issues of global (international) importance such as protection of the global environment, use of energy and other resources, international migration, etc.

At the same time, the EC will specifically seek to integrate poverty reduction dimensions, the promotion of human rights (including economic, social and cultural rights), regional and social cohesion within China, and human resources development, including gender issues in all its co-operation activities. Information and communications technology will be incorporated where appropriate to improve projects and better meet development objectives. These themes can usefully be incorporated in, and contribute to the overall impact of practically all projects.

EC grants for co-operation with China from the Community budget (External Relations) will be around EUR 250 million for the next five-year period.

1. EC CO-OPERATION OBJECTIVES

Article 177 of the EC Treaty sets out the three broad objectives for Community development co-operation. These are:

- fostering of sustainable economic and social development,
- the smooth and gradual integration of the developing countries into the world economy and,
- the fight against poverty.

Article 177 also states that Community policy should contribute to the general objective of developing and consolidating democracy and the rule of law and encouraging the respect of human rights and fundamental freedoms.

Council Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America (ALA Regulation) applies to China. The emphasis is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy.

The initial basis for the EU-China relationship was the **1985 Trade and Economic Co-operation Agreement** between the then European Economic Community and the People's Republic of China (PRC). This provided for an annual EC-China Joint Committee meeting, which includes several sectoral Working Groups. In addition, a political dialogue has been developed, including annual EU-China Summits and human rights dialogue. The Commission issued a new Communication 'Europe and Asia: A Strategic framework for Enhanced Partnership' on 4.9.2001. Three Commission Communications on China have so far been produced: *A Long-term Policy for China–Europe Relations* in 1995, *Building a Comprehensive Partnership with China* in 1998, and 'EU Strategy towards China: Implementation of the 1998 Communication and Future steps for a more effective EU policy' in 2001.

The EU's overall policy objectives towards China stated in the 1998 and 2001 Communications are:

- engaging China further in the international community, mainly through an upgraded political dialogue,
- supporting China's transition to an open society based upon the rule of law and respect for human rights, and
- integrating China further in the world economy by bringing it more fully into the world trading system and by supporting the process of economic and social reform,
- making better use of existing European resources, and
- raising the EU's profile in China

The key message of the 1998 and 2001 Communications, concerning co-operation, was the need for EC-funded co-operation programmes to be more closely linked with the EU's broader China policies. The first objective of the EU's overall policy as mentioned above (further integrating China into the international community through an upgraded political dialogue) is partially and indirectly supported by co-operation activities in the areas of the rule of law and the respect of human rights which were developed along with the EU-China dialogue on human rights. Thus, co-operation during the last three years has concentrated increasingly on promoting initiatives providing concrete assistance to the transition process of the country and to the economic and social reforms. Integrating China into the world economy has taken on a new dimension with China's WTO membership and the projects already under implementation in that area.

The overall policy objectives of the EU and the important role of co-operation in supporting the EU's broader policies were given emphasis again in the first report on implementation of the 1998 Communication issued by the Commission in September 2000².

In a country with the size and complexity of China, improved living conditions will continue to result, to a great extent, from continued high growth and openness towards the world economy, provided the government maintains its strong commitments towards poverty reduction, and continues with strong measures to bring the benefits of growth out to poor communities, and into social programmes, particularly in the fields of education and health. Reform, liberalisation and openness should spur further changes and cement the progress that has already been achieved.

The overall objective of EC co-operation with China will therefore continue to be to support the transition process and the sustainability of the economic and social reforms while integrating China further in the international community and world economy.

2. CHINESE GOVERNMENT POLICY AGENDA

China is pursuing its move from a highly centralised economy to that of a market economy through a number of reforms in the economic, social and legal fields. Prime Minister Zhu Rongji stressed during the National People's Congress (NPC) of March 2000 that: "Development is the absolute principle and the key to solving the problems we are facing. Only by sustaining rapid economic growth on the basis of better performance can we mitigate the operating problems facing enterprises, lighten unemployment pressure, make structural adjustments possible and deepen reforms. This is also essential in order to increase state revenue, prevent financial risks and maintain social stability."

The government appears to be committed to continuing the ambitious reform projects announced in 1998. These include the restructuring of state-owned enterprises (SOEs) and the reform of the administration. Although progress is slower than initially planned, the government reiterated the commitment to reform during the NPC annual meeting in March 1999 and took the same line in 2000 and 2001.

China has also put in place a large-scale poverty reduction programme (1992-2000) (see 3.2.1 below) which has just been reviewed in collaboration with UNDP, the World Bank (WB) and the Asian Development Bank (ADB). A new poverty eradication strategy is currently being

² COM(2000)552 final of 08.09.2000.

formulated for the period 2001-2010/20. The government is shifting from a welfare approach towards an economic integration approach for the poor.

In March 2001, the National People's Congress agreed on the tenth's five-year plan for 2001-2005.

Unlike previous plans, the new one is no longer a detailed macro-economic management tool with quantitative targets (only very general ones: maintaining a relatively rapid speed for economic development, further economic restructuring, and improving economic growth, quality and efficiency. The quantitative target is to double the GDP in 2010 compared with that of 2000.). Thus the document resembles forecasts or state of the Union addresses of Western governments. Nevertheless, the five-year plan outlines key objectives and policy priorities.

Key elements of the plan include:

- the reform of SOEs and a new social security system as well as building up a modern corporate system for SOEs and establishing a sound social security system.
- support for foreign investment, continuing the opening-up policy, and accession to the WTO. The service sector should be further developed and competitiveness of the domestic industry in all sectors should be increased.
- in the agricultural sector, particular attention should be paid to guarantee a stable supply of grain and continue to increase farmers' income.
- environmental protection should be strengthened. New legislation has been adopted and the importance of ensuring environmental protection while developing the Western regions has also been stressed, notably where strategic environmental assessment of new plans is concerned.
- education, science and technology should be further developed to support the improvement of the quality of life and to support industrial sector reform, enterprise innovation and private sector development.
- government reform should continue. The government will need to change to meet the demands of the market economy and the rule of law will need to be strengthened. The government sees strengthening discipline among Party members and fighting corruption as priorities. Ideological principles are reaffirmed.

While a number of these targets takes up the objectives of the ninth five-year plan and the crucial underlying objectives of maintaining a relatively rapid speed of economic development, further economic restructuring and improving economic growth, quality and efficiency while maintaining the leading role of the Communist Party, there are some remarkable new accents:

- Social problems are to be addressed through economic opening, innovation and information technology.
- Emphasis is put on the raising of the living standards of the rural and urban populations as a means to resolve the tensions between economic development and the increasing socio-economic disparities (the gap between rich and poor is important and widening, with the

average urban income 2.8 times its rural counterpart, and urban incomes rising by 7% in 2000 while rural incomes rose by only 1.9%) and the regional gap (GDP in the Western regions is 200-300 USD lower than the national average). A number of the listed measures of social and economic reform, infrastructure development, education, stimulation of growth and consumption are now explicitly focused on this target.

- In the political realm, the strengthening of popular participation (practised for the first time during the very preparation of this five-year plan through a widespread consultation of the population by the State Development Planning Commission) goes beyond earlier formulations about transparency and consultative political dialogue. Concrete efforts to strengthen the control powers of the “People’s Congresses” (local, provincial, national level Parliaments), and competitive local elections are part of this development. The importance of the rule of law has been stressed, strengthening discipline among Party members and fighting corruption also being among the priorities.

The Development of the Western regions – an element of the 10th Five year-plan, but also detailed in special documents – is a high priority for the Chinese government, aimed at addressing the backward economic and social development of the country’s Western regions, as well as the huge environmental challenges, such as accelerating desertification and destruction of biodiversity. Western regions are also important with respect to the intended future exploitation of minerals since, in some cases, up to 70% of national reserves are situated in these regions. China’s government considers that growth is essential for poverty reduction and enhancing social stability. The “Great Western Development Strategy” is conceived as an answer to a number of national issues: expanding effective domestic demand and maintain sustained, rapid and sound economic growth; furthering of controlled urbanisation; re-adjustment of regional economic structures, especially the balance between the rural economy and ecology; environmental protection; access to education and the improvement of the country’s overall economic performance.

Besides large public infrastructure investments (West-East gas pipeline, Qinghai-Tibet railway, South-North water diversion, electricity grids, highways, airports), fiscal measures and incentives are aiming at attracting foreign investment (detailed in the Priority Industrial Catalogue of Foreign Investment in the Central and Western Region), but no new special economic zones were created. Market forces are to play an important role in this development strategy, the duration of which roughly coincides with the transition periods for full compliance with WTO rules (last chance to use existing government market regulation before the full impact of liberalisation).

Not least, China sees the Strategy as enhancing national unity and the security and social stability in the border areas. Critical observers fear for Han Chinese migration into ethnic population areas and exploitation of natural resources rather than local development.

China has given high political priority to combating illegal migration and the trafficking in human beings. The EU has responded positively to the request of Prime Minister Zhu Rongji to promote co-operation in these areas.

3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1. Political situation

Domestic

The political situation in China is characterised by an effort by the ruling Communist Party of China (CCP) to redefine its role in a situation of rapid economic and social change. The CCP retains its monopoly on political power and still does not tolerate direct challenges to its authority.

China has been ruled by the CCP since 1949. The basic political structure of the country remains that of a one-party state. The highest formal organ of power is the seven-member Politburo Standing Committee, currently headed by the General Secretary of the CCP, Jiang Zemin. Jiang is also the President of China and Chairman of the Central Military Commission. Other important institutions are the State Council, led by the Prime Minister and the National People's Congress.

A major leadership change is to take place at the Communist Party's 16th Congress in the autumn of 2002. Five out of seven full members of the Politburo are due to be replaced, as well as more than half of the around 200 members of the Party's Central Committee. The current top leaders of China are expected to step down and to be replaced by representatives of the so-called "fourth generation", which consists of leaders in their mid-50s to early 60s. Whatever tensions leadership changes may create, continuity can be expected as regards the emphasis on maintaining political stability while pursuing economic reform.

With respect to the ongoing reform, the importance of the rule of law in the process of China's modernisation and in view of the country's further integration into the international community is continuously emphasised by the Chinese authorities and by the Chinese media. Relevant provisions have been added to the Constitution in 1999. There are clear indications that the construction of a more open legal system is under way in China, be it in the fields of administrative, civil or criminal law where reforms are pending. The need to establish a comprehensive legal framework is now felt more strongly by Chinese legislators in view of WTO accession.

The fight against corruption is seen as an important element of reforms. It also appears as a condition for the survival of the Party's control of power. Corruption in its ranks is a source of erosion of CCP legitimacy. Particularly severe penalties are given to high officials found guilty of corruption.

Limited political reforms have come back onto the agenda over recent years, with initiatives to introduce a greater degree of grassroots democracy to expand citizen's participation in local politics, and thereby make officials more responsible and CCP rule more acceptable and adaptable. Plans are said to be under consideration to elevate the experiment with direct suffrage from the level of villages to larger towns.

Economic reforms have improved living conditions for many Chinese, and have introduced an increased degree of freedom and self-determination in key areas of social activity, such as education, housing and travel and have led to an improvement in economic and social conditions for many Chinese.

However, China's human rights record is still far from meeting internationally recognised standards in the areas of civil and political rights which continue to be major concerns for the EU together with rights of minorities in certain areas such as Tibet and Xinjiang. China has endorsed important UN conventions and resolutions, notably the UN Covenants on Economic, Social and Cultural Rights and on Civil and Political Rights, signed respectively in 1997 and 1998, which remain the cornerstone for improving the situation of individual rights in China. The former was ratified on 28 February 2001, with an important reservation concerning the freedom to establish trade unions.

International politics

On the international stage China, as a permanent member of the UN Security Council, has been increasingly engaged and assertive over the past few years, aiming to affirm its international role and foster an environment allowing for sustained economic growth. In many respects, China has tended to take a constructive approach while pursuing its interests. For instance, China's efforts to broaden its regional influence and contribute to regional developments have been evident in moves to develop closer ties with the 10 members of the Association of South East Asian Nations (ASEAN). China has also been instrumental in helping to bring about rapprochement on the Korean Peninsula. But unresolved territorial/border disputes remain sticking points (for example, Indian, Tajikistan and Russian borders, Spratly Islands, Senkaku Islands).

China and the US have growing mutual commercial interests, but face difficult political differences over issues such as Taiwan, human rights, and US plans for a Nuclear Missile Defence system. Tensions between the US as the dominant superpower, and China as a growing military and economic power, are likely to occur regularly for the foreseeable future.

Relations with Japan are historically difficult and at times tense. Anticipated Japanese aid-cuts, trade frictions, security concerns, and implications of developments in US-China relations could put further stress on Sino-Japanese ties in the years to come.

China is seeking a new strategic partnership with Russia, developing economic ties, including energy, and pursuing arms purchases. This reflects China's interest in supporting global multipolarity and resisting perceived US hegemony. Relations are likely to intensify over the coming years, while tempered by historical mistrust and the development of both sides' relations with the US.

China and India share many concerns, including the spread of political Islam, and they may see much prospective co-operation in WTO, once China joins, in promoting a 'development' agenda. But the engagement remains uneasy and fragile. Border disputes continue, and economic competition may eventually narrow the scope for co-operation within the WTO.

A first Sino-African Summit was held in October 2000, indicating that China is in the process of defining broader strategic interests for itself, including a strengthened role as a spokesman for the developing world. China has also become increasingly vocal on developments in the Middle East, where it seeks to demonstrate its role as a significant player and to develop commercial ties.

Against the background of these international developments, engaging China consistently and coherently on all major issues of international concern, supporting its political and economic integration into the international community and encouraging it to work in a constructive manner with the EU in addressing international, regional and transnational challenges remains a priority for the Union.

3.2.Economic and social situation

China has 1.266 billion inhabitants, around 20% of the world population. Population growth has slowed to 1.07 % per year over the last ten years.³ The current forecast for 2020 is 1.48 billion.

China's land area is 9.597 million square kilometres, or almost three times that of the EU. Of that, 250,970 km² is inland water. Only 16% of the land is cultivated. 70% is mountainous. Coastline is ±14,000 km. Land frontiers total 22,143 km. The population density varies from an average of 400 per square kilometre in coastal regions to 10 per square kilometre in the western parts.

Relevant socio-economic indicators are shown in Annex 1.

3.2.1. Economic situation, structure and performance

With a GDP of EUR 1207 billion in 2000, China has positioned itself as the world's 7th largest economy. This is the result of an exceptionally rapid economic growth over the last 20 years, during which the official average annual growth rate is estimated to have been around 10%. The concept of a market economy, now incorporated in China's constitution, has allowed new enterprises to start up and flourish. A large part of the urban labour force is still employed in state-owned enterprises (SOEs), but the Chinese leadership made clear in the 1999 amendments to the Constitution and in the proposal for economic development in the next five-year plan, that the private sector should be further supported, to boost the national economy and absorb workers laid off in the process of SOE reform.

In terms of GDP per capita China ranked as 129th on the World Bank's list of 210 countries in 1998, and has reached a level of EUR 953 per capita in 2000. Foreign reserves are ± USD 183.9 billion. The share of the population below the national Chinese poverty line has successfully been reduced, from 6% in 1996 to 2.5% in 1999. The same trend appears when the World Bank poverty threshold of USD 1 per day disposable income is applied, with the number of poor people having been halved between 1992 and 1998. Their number under this criterion still amounted to around 130 million in 1998.

This development is impressive and reflects the success of the efforts of the last two decades in reducing poverty and improving the economic situation. But it is also clear that developments have been very uneven between rural and urban areas, and between the western and the eastern regions. In addition, productivity in the agricultural sector remains very low and thus of concern.

³ Results of the national census carried out in late 2000.

Until now, the Chinese government's strategy for the reduction of poverty focused on a limited geographic area, and the objective was to raise average incomes in 592 designated poor counties through a variety of micro- economic interventions. The objective was to lift 10 million people out of poverty each year. The government provided public funds and credit which amounted to almost USD 3 billion in 1999 and to USD 20 billion since 1986, with subsidised loans representing half the total funding. This central government funding is supplemented by provincial and lower level poverty funds.

China estimates that GDP per capita of the western regions (12 provinces and autonomous regions⁴) is USD 200-300 lower than the country's average. There is a growing number of poor people in the cities, as a result of large population movements from rural areas to major urban centres. The number of unemployed has increased due to the restructuring of the SOEs and the public sector.

These inequalities and difficulties represent potential sources of macro-economic and social instability. As shown in section 2., above, the Chinese authorities are aware of the problems, and concerned about the risks they present.

3.2.2. Social developments

The demography of the Chinese population, including its ageing process and an annual increase of around 15 million people⁵, shows the importance of ensuring social welfare and stability for truly sustainable development, both for the new labour force entering the market and for the retired people.

The government is committed to increasing access to, and the quality of, basic services. As a consequence of these efforts, there have been real achievements in food security, nutrition and sustainable agriculture in the last decade. China feeds one-fifth of humankind on 7% of global arable land resources.

The health situation has improved, the child mortality rate has declined, and life expectancy has increased by 10 years in the last two decades. Nevertheless, China faces a real challenge in combating communicable diseases, such as tuberculosis and HIV/AIDS. AIDS has slowly been recognised by the Chinese government as a major concern, notably after a number of tainted blood scandals in several provinces. Although the number of reported AIDS cases is still low, the estimated adult HIV prevalence is 600,000, and could rise to 10 million cases by 2010 without adequate control programme.⁶

In basic education, China has broadly achieved the goal of universal enrolment, even though some discrepancies can still be noted between western and eastern provinces, access to school for minorities as compared with the Han majority, and for girls as compared to boys. Education policy has shifted from a

⁴ Xinjiang, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Inner Mongolia and Guangxi Autonomous Regions.

⁵ See Annex 1.

⁶ UN estimate based on official estimates by the Chinese Ministry of Health and the Chinese Academy of Preventive Medicine.

quantitative emphasis to a qualitative one, with the focus now on restructuring senior secondary education in a more vocational direction, and on strengthening higher education.

Some recent trends or figures reveal potential difficulties for the medium term. The decline of the rural co-operative medical system affects the rural population, while in urban areas, former SOE employees have lost the social benefits attached to their previous employment.

Government health spending has sharply decreased, and other changes in the medical insurance system have led to a reversal in the proportion of people medically insured, compared to those without insurance. According to World Bank figures, the uninsured population rose from 29% in 1981 to 79% in 1993. Continuing reforms will most probably exacerbate the situation. The rapid development of a comprehensive and effective social security system, covering the fields of health, unemployment, and retirement schemes, is therefore vital and is among the top priorities for the coming years.

Development of new employment opportunities in urban areas and income generating activities in rural areas are also essential to ensure sustainable development and social cohesion.

3.2.3. Assessment of the process of reform

The economic reform process has exposed China to a number of challenges, some of which are mentioned in the preceding sections. Nevertheless, China has been able to cope better with the difficulties, and increased the standard of living of its citizens faster, than most other economies in transition.

The reform agenda and the plans for its implementation have generally been considered sound and successful by the international community. The reform process has been widely considered as the enabling condition that has allowed China to reach impressive and sustained growth levels during the last two decades. Among the greatest tasks remaining are:

- the continuation of SOE reform, which now has reached its “hard core” of large urban SOEs;
- the rationalisation of the financial system, and particularly the banking sector which has accumulated considerable bad debts and a huge exposure to embattled SOEs;
- addressing rising unemployment, which now seems directly affected by the reform process. WTO accession will be an important factor in this respect. While expected to have a positive influence in the medium- and long-term, both on the competitiveness of the Chinese economy and on the overall employment situation, it will add some pressure in the short-term, particularly on some segments of the labour market,
- addressing increasing social and regional inequalities, and the increasing inequalities of income between cities and countryside, already mentioned above (section 3.2.1).

It should be pointed out that the impressive growth of the past years has in great part been achieved because of the rapid development of external trade and foreign direct investment (FDI), which were in fact chosen by the Chinese leadership as driving forces at the beginning of the process of reform (through the adoption of various *ad hoc* preferential policies and measures). In 1999 foreign trade amounted to around 36% of GDP, and FDI to 4% of GDP. In addition, another factor which substantially contributed to the impressive growth rate of the last years has been the progressive removal of various inefficient internal economic restrictions which were in place at the beginning of the reform policy in the late 70s, directly affecting the domestic trade and business environment. At present the answer to new needs and new challenges of economic growth cannot be met with the still indispensable further development of these 'traditional' pillars of the economic reform and opening-up, foreign trade and foreign direct investment; a combination between these traditional and new ways to a more even and sustainable development must be explored.

The government intends to continue the reform process. Traditional top-down imposed reforms within the context of a centrally controlled economy are being progressively replaced by a method relying more on market forces and competition (including WTO membership) combined with stronger and more direct involvement of the authorities on issues addressing the challenges of social and regional cohesion. Important medium-term objectives of the government reform policies include continued restructuring of the SOEs and the financial system, strengthening the industrial sector by exposing it to more foreign competition and also development of the Western regions, and creation of a basic social security system.

3.2.4. *Structure of public sector finances and main sectoral policies*

A major challenge for China is to improve the generation of revenue for the central authorities, as the success of the reform programme depends very much on the capacity to finance it. Fiscal policy reform is needed to increase tax collection, and to enable transfer of resources from richer to poorer regions. In recent years the state budget has shown an official deficit equivalent to 1-2% of the GDP. However, fiscal stimulus measures deemed necessary to maintain a high growth rate in the face of flagging domestic consumption increased the deficit to 2.8% of GDP in 2000. As the deficit is expected to remain around that level in 2001 and 2002, the sustainability of China's fiscal situation is not endangered in the short term.

The government is implementing a three-year financial reform, aiming to establish a regulated, binding and effective management system of financial expenditures which meets the demands of market economic development.

However, the banking system in China is still directly involved in the financing of government spending, despite the gradual transformation of the four big state-owned banks into commercial banks. About 80% of bank loans are to SOEs, and banks have not fully abandoned their practise, driven by political considerations, of extending credits to shore up foundering SOEs. The unfinished reform of the banking system and its present poor performance – estimates of non-performing loans range between 25 and 50 % of all

outstanding loans – significantly constrain the effective reform of the SOEs, the growth of the private sector and of national and foreign investment.

3.2.5. External aspects

China is the world's 10th largest exporter with an export value of approximately 20% of its GDP. It runs a large trade surplus which, according to World Bank statistics, reached its highest level in 1998 with USD 43.5 billion, went down considerably in 1999 (USD 29.2 billion), as import grows outpaced export growth substantially, and continued to decline, for the same reason, in 2000 (USD 24.1 billion). The mainstay of Chinese exports are still traditional, comparatively low-end products, such as garments, toys and furniture, but the recent growth in exports comes from high-technology products like computers, mechanical and electronic products, and consumer electrical appliances.

Imports in 2000 have risen even faster than exports, although from a lower level, partly because of adverse terms of trade as certain key commodity prices, mainly oil, were up strongly. However, imports have been much more tightly controlled by administrative rules and quotas than exports.

EU-China trade has developed remarkably since China began its open-door policy in 1978. Today, China is the EU's 4th trading partner, and the EU is China's 3rd trading partner. Overall trade in 2000 was worth EUR 95 bn. The EU's small trade surplus in the 1980s turned into a deficit in the 1990s, which reached a record level of EUR 44.6 billion in 2000, the EU largest deficit with any trading partner (China for the first time surpassed Japan in this respect in 2000). Key trade statistics can be found in Annex 2.

After over 15 years of negotiations, China is expected to enter WTO in the near future. Following bilateral agreements with a number of WTO members, including the US in late 1999 and the EU in May 2000, multilateral negotiations were concluded in September 2001. WTO members are expected to endorse China's accession at their November Ministerial in Doha, opening the way for accession in late 2001 or early 2002. China's accession to the WTO will benefit both China's and the EU's economies and bring increased confidence to EU investors in China. There is, however, an opposition to market-opening measures from bodies with vested interests (such as some central ministries and domestic industries). Even under WTO membership, certain tariffs and other barriers to market access will remain, although many will be removed or reduced, in some cases gradually over several years.

The 1999 balance of payment data show a large trade surplus, but services and income accounts are in deficit, for a current account surplus of USD 16 billion. The 2000 surplus shrunk to USD 9.8 billion.

Over the last ten years, China has attracted large amounts of foreign direct investment (FDI), making China the third largest recipient of FDI after the United States and the EU. Flows of utilised FDI for the year 2000 amounted to USD 41 billion, and aggregate utilised FDI stood at over USD 350 billion. Since 1998, the EU has been the biggest foreign investor in China (excluding Hong Kong).

The Chinese total external debt of USD 168 billion in 1999 represents only 17 % of GDP, which is low compared to most other countries. Furthermore, the Chinese currency reserves are the second largest in the world, and of about the same size as its external debt.

China has declared that full convertibility of its currency is the ultimate goal. Since 1997, there is a *de facto* convertibility on current account, in conformance with the IMF agreement, but reform on capital account is progressing only slowly.

China does not participate in any regional integration initiative that has any significant direct impact on its economy.

3.3.Sustainability of current policies

The Chinese government attaches major importance to the sustainability of its policies. This concern is well reflected for example in the *Development Assistance Framework for China (2001-2005)* prepared by the United Nations country team in China and the government mirror team.

Chinese has made substantial efforts to **reduce poverty** over the last two decades (see section 3.2.1, above). The success of these efforts is witnessed by the significant number of people that have been lifted from absolute poverty. According to World Bank statistics, this number has been halved between 1992 and 1998.

Nonetheless, 130 million remained under the poverty line in 1998, and large disparities remain between rural and urban areas, and between the western and the eastern regions.

The sustainability of China's continuing efforts invested in direct poverty reduction programmes will depend on the success of the wider economic reform process, including in the areas of social security reform and the development of the Western regions.

On the **environment** side, China has become increasingly aware of the environmental liabilities implicit in the upgrading of its industrial performance, as well as of China's impact on the global environment. Estimates of the cost of pollution to China's economy range from 3% to 8% of GDP⁷. It is now seeking to reconcile rapid growth, sustainable production and consumption patterns, and preservation of the environment. China has devoted an average of 0.86% of its GNP to the improvement of the environment during the period 1996-1999, up from 0.73% during the 8th Plan period⁸. The new target for the 10th Plan period will rise significantly to 1.3%, some USD 90 billion.

Mastering the degradation of the natural environment and then gradually reversing the damage, while increasing efforts to preserve what can be

⁷ E.g. SEPA: 4.5%; World Bank: 7.1% (other estimates, e.g. Smil and Mao Yushi, 1998, go as high as 18%).

⁸ Source: Zhu Guangyao, Vice-Minister of SEPA, Dec. 2000.

preserved at this point, remain key priorities in China, and are included as such in the 10th Five year Plan.

China has promulgated an over-arching Environmental Protection Law, and during the period 1996-2000, four major regulations have been amended/formulated. In addition, 427 national environmental protection standards have been approved, forming a broad set of environmental laws. The decision in March 1998 to bundle responsibility for all environmental issues and policies with the State Environmental Protection Agency has set the scene for more rapid implementation of a comprehensive approach on China's environmental problems. Capacity to improve effective implementation and enforcement of environmental laws is set to be upgraded over the period of the 10th Five Year Plan. China also devised a National Agenda 21, approved in March 1993, after the Rio 'Earth Summit'. It sets the goal of increasing investment in environmental protection to 1.7% of GDP by 2010, up from 0.7% today. Nonetheless, the inertia exerted by China's mass, coupled with the time which nature takes to repair itself, means that changes will only become effective gradually.

Illegal migration and trafficking in human beings is another issue of major international concern. Human trafficking has emerged as a new worrying trend in China. In East Asia, China is the largest source of unskilled labour and there are indications that up to 300,000 to 400,000 Chinese are estimated to migrate annually. Although, per definition it is difficult to collect firm data, up to 200,000 Chinese migrants are believed to be smuggled illegally by organised rings into various countries, including European Union Member States.

The reinforcement of the fight against **corruption** and the transformation of the administration at all levels into an accountable and effective one are amongst the government's priorities. **Good governance** issues and strengthening of the **rule of law** are also considered as priorities to reinforce the sustainability of the reform process. Numerous announcements and concrete measures have been taken by the government to improve the situation. The concept of the rule of law is incorporated in the Constitution and legal reform continues, including development of remedies for citizens against government agencies and functionaries. However, a truly independent judiciary and accountable government organs do not yet appear within reach.

3.4. Medium-term challenges

Prospects for future growth are good. However, China needs to maintain high growth rates, comparable to those prevailing during the past 20 years, in order to respond to the rapidly increasing aspirations of its people and to succeed with the requirements of the economic and social reforms under way.

The success of the overall process of economic and social reform is a key objective of the Chinese government and at the same time a key priority of EC-China co-operation.

In its efforts to assure the success of social and economic reforms and minimising the side effects China is confronted with a number of very significant challenges.

Particularly important are those resulting from the transition to an open economy, liberalisation of trade and accession to the WTO; others include the continuing restructuring of the SOEs and the civil service, increasing unemployment, expanding social and regional inequalities, increased disparities between rural and urban incomes, extensive internal migration and urbanisation, resulting social tensions, and risks of instability. The difficult process of economic and social reform puts an enormous strain on human resources the development of which represents a significant bottleneck for the continuation of reforms. Of particular importance is the development of a sound business regulatory framework and the transfer of know-how and technology to the private sector which should generate growth and employment.

Environmental issues are a key concern to the Chinese government as a precondition for the sustained economic growth, affecting future social stability. In addition, several environmental issues are topics of global concern, where China's participation is important.

Similarly, the growing threat of HIV/AIDS shows no signs of abating and may also become a serious issue, affecting other development goals in China, as well as regionally.

Finally, while several of the challenges presented above are basically similar to those facing many other developing countries, solutions to these challenges will have to be found within a political structure unique to China. Issues of good governance, the promotion of the rule of law, the promotion of economic, social and political rights, the promotion of the development of democracy and of civil society are issues of particular importance. WTO accession will give particular emphasis to the importance of the promotion of the rule of law in economic and social areas.

All the above represent key challenges for the development of China in the medium-term and are recognised as such by the Chinese government.

In some of these areas the EU has accumulated considerable co-operation experience with China and can thus claim to have some comparative advantages vis-à-vis other donors.

4. OVERVIEW OF PAST AND ONGOING EC CO-OPERATION, BRIEF OVERVIEW OF CHINA/REST OF THE WORLD CO-OPERATION

The total value of foreign aid to China is estimated to be USD 5-6 billion per year, if all forms such as soft loans, grant aid, and technical assistance are added up. This represents less than 1% of Chinese GNP and around 12% of FDI in 1997. China has operated its own foreign aid programme for developing countries, mainly in Asia and Africa, for many years.

The EC's counterpart for most co-operation programmes is the Chinese Ministry of Foreign Trade and Economic Co-operation (MOFTEC). Strategies and outlines of programmes are generally discussed in various specialised groups and an indicative list of projects is agreed between the EC and the Chinese government during annual talks. Technical assistance is a major component in most EC co-operation activities with China. One or more Chinese organisations are usually involved in the implementation of projects.

4.1.Past and on-going EC co-operation

In 1996, the Commission and MOFTEC took a strategic decision to move away from individual infrastructure and rural development projects, to a broader range of projects aimed at supporting the overall reform process and putting a clear emphasis on human resource development. This shift, which reflects China's development from a traditional developing country to an economy in transition, was aimed at underpinning the Chinese government strategy to accelerate economic, social and administrative reform, and China's integration into the world economy. The most immediate needs formulated by China since then have been capacity building, mainly through training of top officials and the upcoming business elite, policy advice and capacity building for the complex reforms in the legal system, social security, enterprise reform, financial services, as well as preparation for WTO accession. Reversal of environmental degradation and prevention of further environmental damage during the reform process was identified as a key area for co-operation, not least because of widespread popular concern. The success of the reform process is perceived by both the EU and China as the critical factor in increasing living standards, enhancing social stability and integrating China into the world economy and the global policy. As a consequence, most on-going or ready-to-start projects fit under the priority fields identified in this strategy. Details can be found in Annex 3.

Beyond China-specific co-operation, China is also a beneficiary in a number of regional programmes (e.g. Asia-Invest). China-related activities are also supported in the framework of wider EC initiatives such as the Fifth Framework Programme on Research and Development. The Commission also supports actions in specific fields such as environment or information technology and the fight against AIDS. Furthermore, the Commission co-funded projects in the social field with European non-governmental organisations. The actions are proposed for funding by the NGOs in response to a call for proposals launched by the Commission twice a year. At present a total of 3 projects are financed in China, for a total amount of EUR 4 million.

Every important EC-China project has been evaluated. Lessons drawn include the following:

- The best co-operation form seems to focus on policy advice and support to the reform process, as this strategy is in line with the top-down approach of Chinese reforms and government practice in general.
- Human resources development, transfer of know-how and European standards and practices are horizontal tools which ensure sustainable 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 those projects in China have proven the efficiency of this strategy.
- The question of EC project/programme delivery capacity and faster implementation is crucial. Devolution of project management to the Delegation together with a concentration on a few selected priority sectors and, within each sector, on fewer (but larger) programmes should address this objective.
- The project identification process should involve Chinese counterparts more closely, to allow for increased ownership of projects and therefore increased

sustainability. The consultation phase should start before the feasibility mission, and be extended through the life cycle of the projects, notably during evaluations.

4.2. Programmes of EU Member States and others donors

The World Bank is by far the largest aid donor to China, which was the Bank's largest recipient from 1992 to 1997. Other important multilateral donors are the Asian Development Bank and the UNDP. The largest single bilateral donor, Japan, has provided over USD 20 billion over the years (mostly as loans), followed by Germany, with net ODA of USD 382 million in 1997 alone.

Details of aid disbursements and commitments to China, according to the OECD/DAC, are attached (Annex 4).

EU Member States and European Investment Bank co-operation

Almost all Member States have bilateral co-operation programmes. Co-ordination between EC and Member State donors is ensured mainly via the ALA committee and via the EC Delegation in Beijing.

Belgium had limited co-operation in China, mainly in the education sector and an important development programme in Shaanxi. In 1998, the Belgian government streamlined its co-operation activities and now concentrates its funding on 25 third countries excluding China. **Denmark's** bilateral support is concentrated on projects in the areas of education, legal and judicial as well as human rights training. In addition, it provides a substantial amount of soft loans in the environment sector. **Germany** appears as the most important EU donor and is now concentrating its programmes on the fields of support for economic and structural reform (including vocational training), environment and resource protection, water and waste management, and rail-bound transport. **Finland** works in co-ordination with the UNDP on two projects and has developed a programme of exchanges and seminars in the judicial field. **France** co-operates with China in a number of projects, with the main sectors being science and technology, education, legal and judicial, culture and audio-visual. **Italy** develops programmes with other international donors (FAO, WB), particularly activities related to SME support, environmental protection, energy (gas), and health. Although China is not a target country for **Luxembourg** development aid, public support was granted in the fields of public health, education and rural development. Priority is given to poor regions including minorities. In addition, support is provided to NGOs, to micro-projects, and for training courses for bankers. The **Netherlands** assistance is limited to good governance and human rights (promotion of the rule of law) and the environment (around EUR 7.5 million per year). In addition, a business development programme provides assistance to Dutch exports (the amount varies per year). **Spain** dedicates its co-operation budget to support reform, strengthening of institutions and democracy, education and transfer of know-how. **Sweden** is financing capacity-building projects in the area of environmentally sustainable development, gender equality, human rights and democracy as well as social security and legal development. The **UK** has developed comprehensive co-operation with China mainly in human resources development (including education and health), the environment, and support to economic and administrative reform.

Member States provide both grants and loans. Grants are generally used for technical assistance or scholarships, while loans usually finance infrastructure projects.

The European Investment Bank has so far part-financed two projects in China, the most recent one being a drinking water treatment plant in Chengdu (Sichuan) in 1999 for an EIB loan of EUR 25 million. The EIB has a mandate from the Council to lend around EUR 350 million per year to the ALA countries during the 2000-2006 period. It may consider financing a few more projects in China over the next years, on a demand-driven basis.

This overview reveals a significant convergence of priorities between the actions led by the EC and by the Member States. The fact that the EU and MS intervene in similar sectors reinforces the European presence and influence in China and is generally viewed favourably by the Member States.

Other donors

The **World Bank** approved, in fiscal year 1999, 19 projects for China worth USD 2.097 billion (IBRD loans for USD 1.674 billion and IDA credits for USD 422 million). The sectors concerned were transportation, agriculture, education, energy, environment, health, finance and water supply. The regional focus was on the western provinces. The soft loan (IDA) facility will be phased out after year 2000 and China intends to study with the Asian Development Bank ways to support rural poverty reduction projects for the coming years.

The **United Nations** have developed a Country Common Assessment with China which led to the elaboration of a Development Assistance Framework for years 2001-2006. Twelve specific objectives have been identified which support three major goals:

- promoting sustainable development to reduce disparities;
- supporting favourable conditions for the national reform and development process; and
- assisting China's efforts in meeting global challenges and promoting international co-operation.

The resource framework for this same period is estimated at more than USD 500 million.

The **Asian Development Bank** (ADB) published a Country Operational Strategy Study for the People's Republic of China in 1997. The focuses of this strategy are:

- strengthening macroeconomic management to support the continued implementation of market-oriented reforms, and
- addressing issues and constraints in the following sectors: physical infrastructures (covering transport, communications, energy, and water supply), finance and industry, agriculture and rural development.

For the period 1990-1996, the ADB lent almost USD 6 billion, representing 49 loans concentrated in the sectors of transport and communications (45%), energy, agriculture, finance, and social infrastructure, as well as multi-sectoral loans.

Japan developed a country study for ODA to China in 1999. The main conclusion is that China's current ability to construct infrastructure is relatively high and that, therefore, "Japan should gradually withdraw ODA from areas that China can build up through its own efforts, and shift it to areas for which it would be difficult for China to rely solely on its own efforts, but which are nevertheless indispensable from both development and welfare perspectives." Four areas were identified: reduction of poverty and interregional disparities, environmental conservation, agricultural development and food supply, and establishment of a systematised market economy.

Canada and **Australia** are also now important donors on the Chinese scene, particularly in the education field.

In addition, several **NGOs** with significant EC support have been actively and successfully participating in the environmental domain in China for several years.

5. EC RESPONSE STRATEGY

The EC response to the challenges China faces is provided through the EU's overall policies towards China, based on the long-term objectives and principles of the 1998 Commission Communication and Council Conclusions, which were confirmed by the 2001 Commission Communication and the relevant Council Conclusions. The EU has developed a sophisticated multi-faceted and dynamic relationship with China, based on these long-term objectives, which is constantly reviewed in its modalities of policy implementation and practical initiatives. Co-operation is an important element of this overall policy.

Co-operation with China has to follow the broad objectives of Community development co-operation policy, as defined in the Commission's Communication of April 2000⁹ and the Declaration of the Development Council of November 2000. These documents affirm that the strategic areas for Community action are sustainable development, integration into the world economy, fight against poverty and democracy, human rights and the rule of law. At the same time, it must respond to the key considerations of the 1998 and 2001 Communications and Council Conclusions on China, which stress the need for EC-funded co-operation programmes to be more closely linked to the EU's broader China policies.

5.1. Principles and objectives for co-operation¹⁰

The overall objective of EC co-operation with China (section 1, above) 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.**

⁹ 'The European Community's development policy', COM (2000) 212 final of 26.04.2000

¹⁰ The relevant EU Treaty objectives as well as the objectives established by relevant Commission Communications and Council texts were mentioned under section 1 above.

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 (see section 3.2.1 above), 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.

Actual and prospective figures covering the period 1998-2005 are provided in Annex 5 (number of projects and amounts of commitments).

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.

5.2. 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 objectives. This is particularly true in the field of the environment where an integrated approach is being promoted (i.e., environmental protection, transfer of know-how, standards, poverty reduction, and good governance). – Wherever possible, future projects will also take into account more than one of the above objectives, even though the primary focus will always have to be on one of them.

At the same time, the poverty reduction dimension, the promotion of human rights (including economic, social and cultural rights), regional and social cohesion concerns, and human resources development including gender issues will be taken into consideration for every project in all areas and sectors, wherever these themes can be incorporated and contribute to the overall success of actions of mutual interest.

In particular, the EC will support the Chinese government's Western region development objective by increasing actions in the provinces concerned. Due consideration of the rights of minorities living in these areas is to be ensured when designing such projects. Strategic environmental assessment of new plans – and particularly in fragile ecological zones in the west – will also be important.

A matrix detailing the areas and potential sectors of co-operation related to these objectives is attached to this document (Annex 6).

5.2.1. Support to the Social and Economic Reform Process

China's reforms are radically changing the economic and social landscape of the country. The pace of reform is impressive, but the process remains incomplete and fragile. The challenge for China is to pursue economic transition, whilst at the same time integrating the concept of sustainability into economic growth and guarding itself against social instability. The EC should therefore help China build the institutions, policies, human resources, management techniques, regulatory framework, standards, access to technology and other supporting instruments that constitute the fabric of a modern, outward-looking economy.

China's integration into the WTO will be a key priority in this context, given its importance for the economic and social stability of China and the development of a fair partnership with the EU and its enterprises. In particular, programmes to support the changes to the rules, regulations, and norms and standards which are required in view of China's accession to WTO will be implemented.

Another priority for EC co-operation is the support to the transition towards a market economy. The reform of the SOEs and the promotion of SMEs, as well as the regulatory framework of business are of particular importance. In this context, actions in specific innovative industrial sectors in which China is an important global player, such as aeronautics, and information society and its technologies may be developed, and collaborative projects to support future policies and integration into China of EU technical standards, in such areas as the environment, energy, transport, food safety, and consumer protection, may be supported.

The economic reform process already under way generates major social consequences, therefore co-operation priorities also include:

- supporting employment and income generation opportunities (SOE reform in urban areas and income generation activities in rural areas), and
- defining and/or implementing of accompanying measures to deal with the social consequences of reform.

Special attention will be paid to gender issues, notably because women represent over half of newly redundant workers, whereas they represent only one-third of the workforce.

As experience in other countries shows, the unchecked spreading of HIV/AIDS can come to threaten the entire fabric not only of a country's social security system, but also of its economy. In order to address this problem, China needs policy advice, technical assistance and training of relevant personnel in the health administration, to be able to devise and implement an adequate and comprehensive control strategy to prevent an AIDS epidemic.

The spectacular growth of the Chinese economy and the quick transformation of large parts of the society put a crucial strain on available human resources. Training and education are essential both to the sustainability of economic

growth and to the process of social transformation. The EC policy of giving high priority to co-operation in this field thus continues to be highly relevant, and should be continued in the future as a key element of support to social and economic reform. In this respect, an EU-China policy dialogue on key issues in education and training, including the exchange of expertise and knowledge in this field, will be promoted.

Co-operation in the sector of human resources, which should address the needs of both the administration and industry, should help China strengthen its own training capacities by the implementation of modern professional training standards and practices. Specific training programmes should be developed for such key groups in China's transformation process as academics and university students, civil servants, young professionals and opinion leaders in media and culture. It would also be in China's own interest to be better informed about EU policies in these fields.

Considering priorities of the Chinese government and EC potential, special attention should be devoted to co-operation in higher education, and to the opportunities offered by the use of new technologies in distance learning.

The EC will further encourage the transfer of know-how, technology or policy experiences through joint ventures and other forms of partnerships either between companies, municipalities/regions or public bodies. Such contacts, strengthen the links between EU and China, and could also give additional impetus to the reform process. The success of Asia-Invest and "Local Authorities" programmes in China show real potential in this sector, focussing in particular on SMEs links.

5.2.2. Environment and sustainable development

As an important element of sustainable development – i.e. the pursuit of balance between economic growth, social development and protection of the environment – co-operation on environment remains a key area of bilateral co-operation with China. The current situation and development perspectives of the energy sector in China provide the best evidence of the need to reconcile economic growth with overall sustainable development. Challenges are important, both for local quality of life (public health is especially impacted by ineffective energy patterns) and for contribution to global change. China has one of the largest energy sectors in the world in terms of resources, production and consumption. It is the world's second largest consumer of energy and the third largest producer. The size of its energy sector renders the country's energy policy and its potential impact on the world scene a matter of great international importance, particularly in the context of air pollution and climate change.

Main areas where EC assistance should be focused, based on available EU expertise and with the aim of achieving the maximum potential from the relatively limited funds are:

- use of energy ;
- sustainable forest management and development of forest policy;

- protection of biodiversity;
- combating air pollution and climate change;
- sustainable land planning and management;
- water resource management.

Certain of these issues are challenges to be addressed not only bilaterally, but also in the international context. China and the EU are signatories to several international, environmental conventions and have a mutual interest in achieving common objectives.

Europe should offer its environmental and energy know-how to China to help develop efficient and clean industrial processes and energy production. Establishing a presence in the market for green technology, along the lines set out in the Commission's *Communication on a Europe-Asia Co-operation Strategy for Energy*, (COM (96) 308), should be supported. Promoting energy efficiency, as well as transferring energy technologies, e.g. clean coal, natural gas, nuclear fission and alternative energy technologies, notably in the fields of new and renewable energies, should be top priorities.

The EC should in particular help China integrate environmental priorities - such as the prevention of industrial pollution and greenhouse gas emissions, and the conservation of biological diversity - further into national economic policy-making processes. Development schemes at regional and local levels should be subject to environmental impact assessments and those assessments' findings should be implemented.

On the issue of the preservation of biodiversity, it is worth noting that central southern China is widely considered as an area of global scientific interest where conservation measures are concerned. Forest protection and water resource management should also be considered in this context, given the importance of these issues for China and the rest of the world.

The EC should also, along the lines set out in the *Communication on a Europe-Asia Co-operation Strategy in the Field of Environment* (COM (97) 490), develop co-operation projects focusing on cleaner production methods, waste minimisation, environmental standards and training, and environmental management capacities as well as appropriate technology transfer.

5.2.3. Good governance and strengthening of the rule of law, Human rights

Promoting good governance, the rule of law and human rights are key priorities of the EC Co-operation.

As regards the promotion of the rule of law, the interpretation and application of laws and regulations are of paramount importance, especially at a time when China is engaged in the development of a new legal system. The EC is therefore committed to developing practices and general principles useful for interpreting existing laws and regulations within expected bounds, offering a sense of fairness and of justice. In this respect, the EC should focus particularly

on supporting the ability to interpret laws on the part of the judiciary. Legislative reforms supporting the judiciary are key, as is the regularisation of procedures and review of administrative law and practice.

The success of this process will largely depend on the degree of awareness of the people concerned. Therefore the EC's action should also focus on efforts to strengthen understanding of law and legal processes by citizens and various levels of officials, particularly locally and provincially, to make sure that law is applied consistently around the country. This approach should be combined with twinning or training programmes for professionals including lawyers, judges, prison and police officers, officials, and other experts and opinion-leaders, with particular regard to local needs and concerns. Professional organisations and newly-developing NGOs may also be supported.

Promotion of the rule of law also implies that domestic law fully complies with international standards. It is the intention of the EC to share expertise with China in this field. One of the EC's priorities in this respect has to do with the UN Covenants on Civil and Political as well as Economic, Social and Cultural Rights, and the need to ensure compliance of the Chinese legislation with the provisions of these instruments once they are ratified. In addition, co-operation should focus on promoting the fundamental freedoms mentioned in the Covenants, and the implementation of legal provisions related to both civil and political, as well as economic, social and cultural rights. These will include respect for the individual and fight against inhuman treatment, education, protection of the rights of minorities, identification of particularly vulnerable groups such as women, the disabled, the poor, minorities, or children, who need assistance in asserting their rights. Consumer law and related grass-root level legal concerns, and practical methods of legal redress may also be promoted. Special attention should also be given to public awareness of human rights.

Good governance cannot exist without citizens' active and voluntary participation. In this respect, the EC is committed to promoting grass-roots democracy, and will therefore continue to support China's experiment with direct suffrage, as it moves from the level of villages to larger townships and urban areas.

Finally, special attention should be given to the new phenomenon of illegal migration and trafficking in human beings, which requires increased co-operation between the EU and China, not least in view of its implications for the human rights of illegal migrants which fall prey to internationally active organised crime groups involved in these activities. The main avenues to be explored include local information campaigns in China, the fight against forged documents and illegal use of genuine documents, and a possible readmission agreement.

5.3.Coherence

The strategy outlined in this paper, its main objectives and consequently, sectors of intervention are coherent with other EU policies, in particular EC development policy

The first area of co-operation takes due consideration of the central objective of EC development policy, as it clearly links the issues of poverty, economic growth and trade. On commercial issues, actions proposed would be in line with the trade policy of the EU and the common interest of China and the EU in the WTO.

The second area deals also with global issues that cannot be solved at a national or even European level. Activities will benefit China, the EU, both sides' citizens and companies, and the world as a whole, in contributing to the reduction of pollution, prevention of climate change, the preservation of natural resources and the conservation of biodiversity.

Cooperation in the area of good governance and the move towards a society based on the rule of law is also in line with our policy towards China and our common commitment to political and human rights dialogues. It is compatible with the EU's political objectives, as well as with its economic interests. It should help accelerate political reform, which has been slower than economic reform. At the same time, it will provide more security for European businesses in China and improve the climate for foreign investment.

5.4.Complementarity within EU

The matrix for EU donor co-ordination attached (Annex 7) shows the complementarity between actions of EC and those of the Member States.

Review of the strategies available, and discussions with the Member States in preparing this strategy indicate a great degree of convergence on the analysis of the major challenges for China, the interest of the EU in responding to these challenges, and the priorities to be given to them.

In particular, the type of actions covered (technical assistance, infrastructures building) and the instruments used (grants, loans) are complementary. Some Member States may finance infrastructures (for example in the environment protection sector) and reinforce the policy actions that would be financed under the EC budget through grants dedicated to technical assistance.

The absence of duplication in specific programmes or projects is ensured by the co-ordination taking place at various levels. This will be reinforced, in order to improve further coherence and consistency. Already, Member States are consulted in the context of preparatory missions, during monthly meetings in Beijing, in more formal fora at headquarters, or through bilateral visits. The intention is to build up a regular and comprehensive exchange of information, allowing for an immediate and complete overview of European strategies, programmes, and projects in China. The process of establishing a CSP, and a programming covering several years of co-operation activities, should allow deeper co-ordination at all stages with Member States.

5.5.Complementarity with other donors

The proposed strategy is in line with the new approaches developed by most multilateral agencies.

The analyses of the challenges and the means to respond to them are generally shared; in particular, the EC welcomes the UN Common Country Assessment.

The concrete actions proposed are sometimes different but this is the consequence of the respective roles and interests of the international organisations compared to the unique situation of the European Commission.

Some activities are already defined in common and the intention is to develop this co-operation, whenever desirable, in particular in the environment field. This could take the form of EC subventions to the World Bank or to UN agencies.

The strategy is also coherent with regard to respective budget commitments. For example, even Japan with its large budget in China considers that it does not have the means to cover some infrastructure building and certainly cannot cover all the needs of China's large population. It will therefore concentrate its activities either geographically or sectorally.

Reinforcement of co-ordination with other donors should be reinforced in line with the approach suggested for co-ordination with EU Member States, as far as possible.

6. WORK PROGRAMME

The work programme attached to this document (Annex 8) shows that a number of initiatives and preparatory work or even projects are already underway to implement this strategy, which is clearly a continuation of what the EC has undertaken in the past years. In fact the strategy builds on past experience and implies a concentration on better defined sectors and objectives.

Annex 8 only includes actions eligible for support under the main budget lines of which China is beneficiary, i.e. economic co-operation, technical and financial assistance and human rights.

Humanitarian initiatives might be undertaken in the future, if and when needs arise, and following established procedures. Support to NGOs through co-financing will also continue in the future at the initiative of European NGOs willing to operate in China, as will support to the fight against AIDS, the fight against drugs, activities in the fields of environment, information society, science and technology, etc.

Some ideas for programmes are already well advanced, others need further internal discussions and further contacts with Chinese authorities. A continuous consultation process with the Chinese partners is essential to ensure ownership by, and participation of, the beneficiaries. Taking into account positive experiences of some other donors and present Chinese suggestions, the Commission envisages developing future programme ideas through broad consultations, involving all the partners concerned, before sending identification missions. Implementation should generally remain with one partner only but a wider consultation approach will ensure that all viewpoints are taken into account.

ANNEXES

1. Socio-economic indicators (WB)
2. Key trade statistics
3. Main EC projects financed 1996/1999
4. Main donors and sectors of aid with China (OECD/DAC)
5. Main figures and estimates – EC co-operation 1998-2005
6. Sectoral matrix
7. Matrix for EU donor co-ordination
8. Work programme

Socio-economic Indicators, China¹

1999 (most recent estimates)	
Population, mid-year (millions)	1,253.6
GNP per capita (Atlas method, USD)	780
GNP (Atlas method, USD billions)	977.8
GDP/capita (USD)	794.8
GDP (USD billions)	996.3
Population (% of average annual growth, 1993-99)	1.0
Labour force (% of average annual growth, 1993-99)	1.0
Poverty (% of population below national poverty line)	5
Urban population (% of total population)	31
Life expectancy at birth (years)	70
Infant mortality (per 1, 000 live births)	31
Illiteracy (% of population age 15+)	17
Domestic prices (% change)	
Consumer prices	-1.4
Government finance (% of GDP, includes current grants)	
Current revenue	14.2
Current budget balance	1.2
Overall surplus/deficit	-2.1
Trade (USD millions)	
Total exports (fob)	194,931
Food	10,459
Fuel	4,646
Manufactures	175,003
Total imports (cif)	165,718
Food	3,618
Fuel and energy	8,912
Capital Goods	69,469
Balance of payments (USD millions)	
Exports of goods and services	218,711
Imports of goods and services	189,799
Resource balance	28,912
Net income	-17,973
Net current transfers	4,943
Current account balance	15,882
External debt and resource flows (USD millions)	
Total debt outstanding and disbursed	127,639
IBRD	10,639
IDA	8,907

¹ Source : China at a Glance, World Bank, 30/08/00

CHINA

General Secretary of the Chinese Communist Party: Jiang Zemin
 President: Jiang Zemin
 Minister of Foreign Trade and Economic Cooperation: Shi Guangsheng



Population: 2000 1.266 Mio
 Area: (1000qkm) 9.572

Gross Domestic Product 2000 1.207 Bn euro
 GDP Per Capita 2000 953 euro

	1997	1998	1999	2000
Real GDP (% growth)	8,8	7,8	7,1	n/a
Inflation rate (%)	8,3	6,2	n/a	n/a
Current Account Balance (% of GDP)	2,8	-0,8	-1,4	0,4

GDP BY SECTORS (% share)

	1980	1990	1995	1999
Agriculture	30,1	27,0	20,5	17,6
Industry	48,5	41,6	48,8	49,3
Services	21,4	31,3	30,7	33,0

CHINA TRADE WITH THE WORLD (Mio ecu/euro)

	1980	1990	2000		1980	1990	2000
Imports	14.006	42.255	245.872	Exports	13.026	49.284	333.691
world* share	1,3	2,1	4,4	world* share	1,3	2,6	6,4
Trade balance	-980	7.029	87.819				

EU TRADE WITH CHINA (Mio ecu/euro)

Rank	IMPORTS	1980	1990	2000	Rank	EXPORTS	1980	1990	2000
3		507	629	69.928	7		1.992	1.330	25.332
	Share of EU Total	0,2	0,1	6,8		Share of EU Total	0,9	0,3	2,7
	Trade balance	1.485	701	-44.596					

MAIN PRODUCTS IN 2000 (Mio euro and %)

EU Imports			EU Exports			Balance
Products	Value	CHINA share by products	Products	Value	CHINA share by products	
Agricultural products	2.426	3,1	Agricultural products	1.125	1,9	-1.300
Energy	28	0,0	Energy	156	0,6	128,5
Machinery	24.303	8,4	Machinery	13.195	4,6	-11.109
Transport. Material	1.224	1,2	Transport. Material	2.711	1,8	1.487
Chemical products	2.577	3,6	Chemical products	2.341	1,8	-236
Textiles and clothings	10.786	15,5	Textiles and clothings	338	0,9	-10.448

EU TRADE IN SERVICES WITH CHINA (Mio ecu/euro)

	1997	1998	1999		1997	1998	1999
Imports	2.485	2.955	2.762	Exports	2.372	2.562	2.583
Share of EU Total	1,2	1,4	1,2	Share of EU Total	1,1	1,1	1,1
Trade balance:	-113	-393	-179				

(1) WEFA's Forecast

Main projects committed in 1998, 1999, 2000 and 2001(sept.) (in EURO)

	Year of commitment	Amount	Budget line*	Comments
<i>Support to reform</i>				
Development of technical and vocational training	1998	15.100.000	TFA	Strengthening of Chinese vocational training institutions
Basic Education	1998	15.000.000	TFA	Range of technical assistance and training on basic education, contribution to national policy - Gansu province
Scholarships 2000	1999	31.200.000	TFA	Scholarships at master level, research and PhD level, networking activities
CEIBS phase II	1999	10.950.000	ECO	Phase II programme components: fellowships, European chairs, European management
WTO support package	1998	3.000.000	ECO	Pre-accession assistance to facilitate the negotiation process and understanding of WTO rules and procedures
Financial Services	1999	8.500.000	TFA	TA in reform of financial services training systems; policy advice for regulators / supervisors.
ECERP	2000	8.500.000	TFA	Assistance project, aimed at SME creation and growth of newly formed SMEs, to foster SME sustainable development.
Civil aviation phase I and consolidation	1999 2000	4.111.000 8.000.000	ECO	TA, training and other activities aiming at transferring standards and best industrial practices

	Year of commitment	Amount	Budget line*	Comments
Natural Forest Management Project	2001	16.900 000	TFA	Project to test and demonstrate a range of options for sustainable management of forest resources to the benefit of local populations
<i>Multi-sectoral</i>				
SPF 2001-2005	2000	8.000.000	ECO	Small project funding facility to support all priorities of co-operation
<i>Environment</i>				
Vehicle emissions control	1998	838.344	TFA	Project to control air pollution from vehicles
<i>Rule of law</i>				
Programme on legal co-operation	1998	13.200.000	TFA	Exchanges and training for Chinese lawyers, judges, prosecutors, legislators. Programme linked to human rights dialogue
China EC Public Administration	1999	5.700.000	TFA	Support to Chinese National School of Administration
Support to Disabled People Federation	2000	9.800.000	Hrights	Promoting the economic & social rights of disabled people in China
Small projects facility, human rights	2000	840.000	Hrights	Small project funding facility to support human rights dialogue initiatives
<i>Humanitarian aid</i>				
Humanitarian aid in favour of flood victims	1999	1.000.000	ECHO	Red Cross implementing the project
Assistance to victims of floods, blizzards and drought	2000	1.300.000	ECHO	Red Cross and Asia implementing the project Action in Tibet
Assistance to populations of Inner Mongolia affected by snowfall disaster	2001	1.200.000	ECHO	Red Cross and ASIA are implementing the project

* TFA = Technical and Financial Assistance, B7-300
 ECO = Economic *Co-operation*, B7-301
 HRights = Human Rights in Asia, B7-707
 ECHO = European Community Humanitarian Office, B7-210

Main donors and sectors of aid with China¹
Disbursements in USD million

	Total ODA Net (1999)	Grants (1999)
DAC Countries		
Australia	27.1	27.1
Austria	-6.4	1.4
Belgium	-3.8	3.4
Canada	31.4	29.2
Denmark	0.1	4.4
Finland	13.2	12.1
France	46.2	18.3
Germany	304.6	115.4
Greece	0.1	0.1
Ireland	0.6	0.6
Italy	-9.9	6.9
Japan	1226.0	414.5
Luxembourg	0.3	0.3
Netherlands	34.2	41.9
New Zealand	1.5	1.5
Norway	14.1	11.0
Portugal	0.0	0.0
Spain	34.8	3.8
Sweden	3.8	3.8
Switzerland	6.1	6.1
United Kingdom	59.3	59.3
United States	38.3	-

¹ Source : Geographical Distribution of Financial Flows to Aid Recipients, OECD/DAC

<i>TOTAL</i>	1821.6	799.4
Multilateral		
CEC	39.6	-
IDA	406.8	-
<i>TOTAL</i>	512.2	90.5
CEC + EU Members	516.7	311.4
<i>TOTAL</i>	2323.8	889.9

Bilateral ODA Commitments: by purpose	USD million (1999)	%
Social Infrastructure & Services	588.1	40.95
Economic Infrastructure & Services	489.3	34
Production Sectors	108.9	7.56
Multi-sector	124.6	8.65
Programme Assistance	43.1	3
Action relating to Debt	-	-
Emergency Assistance	32.4	2.25
Unallocated/Unspecified	51.8	3.60
<i>TOTAL</i>	1439.2	100

Annex 5

EC/CHINA Co-operation

Budget lines B7-300, 301, 707

*situation 31/12/2000
figures and estimates in EUR million*

	1998	1999	2000	2001	2002	2003	2004	2005
Total number of committed projects to implement or ongoing	59	61	45	41 ²	40 ¹	38 ¹	32 ¹	26 ¹
Number of new projects (to be) committed during the year	27	12	9 ³	6 ¹	6 ¹	6 ¹	6 ¹	6 ¹
(in EUR million)								
Commitments of the year	58	64	30	50 ⁴	50 ³	50 ³	50 ³	50 ³

² Figures for 2001-2005 are indicative only.

³ Five of them under budget line B7-707.

⁴ Figures for 2001-2005 are indicative only; annual commitments may vary. Total commitments for 2001-2005 will be around EUR 250 million.

Sectoral matrix

Overall objective	Economic and Social Development while integrating China into the world economy
-------------------	--

Strategy	To assist China during the reform of its economic and social system by development and co-operation programmes, in partnership with the Chinese Government and civil society
----------	--

Target Areas	Support to the social and economic reform process	Environment	Good governance and strengthening of the rule of law; human rights
Horizontal Themes	<ul style="list-style-type: none"> - Regional and social cohesion within China - Poverty reduction - Gender issues 		

Potential Support Sectors	Human resource development, education, training, academic exchanges	Environmental standards and enforcement, policy advice	Administrative reform
	Promotion of WTO integration		Combating illegal migration and illicit trafficking in human beings
	Support to economic reform and promotion of market economy	Biodiversity protection	Human rights (civil and political, economic and social)
	Accompanying social consequences of reform and supporting the reform of social security		Strengthening of civil society through support to NGOs
	Support to the development of Information Society	Water conservation, combating erosion	





Matrix for EU Donor Co-ordination

	CEC	Member States	Other donors	Comments
Agriculture and food security	X	DE-LUX-F-IT-UK	WB-UN-ADB- Japan	The agricultural sector does not appear as a priority as such for most member States of the EU but actions for improving the production methods, accompanying the rural reform and the income of the farmers are financed.
Support to the social and economic reform process				
- Human resource development, education, training, academic exchanges	X	B-DE-F-ES-SW-UK	WB-Australia-Japan	The support in this area is seen as essential by all donors for the continuation of economic growth in China. The human resources development and education sectors are of particular importance for the EC and complementarity is welcome. A number of member States intervene also in the social policy sector.
- Promotion of WTO integration	X	DE-F-UK	-	
- Support to economic reform and promotion of market economy	X	B-DE-EL-F-IT-ES	ADB-Japan	
- Accompanying social consequences of reform and supporting employment and income generation activities	X	DE-SF-SW-UK	Japan	
- Linkages between enterprises (SMEs), cities and regions	X	IT		
Environment				
- Environmental standards and enforcement, policy advice	X	DE-F-NL-SW-UK	WB-ADB-Japan	This sector receives a priority treatment from all multilateral donors and from a number of member States. Infrastructures financing support is provided in particular by Germany, WB and ADB.
- Clean energy technologies, clean coal, natural gas, energy efficiency	X	DE-DK-IT-NL-SW-UK	WB-UN-ADB-Japan	

	CEC	Member States	Other donors	Comments
<ul style="list-style-type: none"> - Biodiversity protection - Forestry - Water conservation 	X X X	DE-NL DE-NL-SW DE-F-IT-NL-SW-UK	- WB WB-ADB-Japan	Other sectors of intervention in the environment field include air pollution, waste treatment and flood prevention.
Good governance and strengthening of the rule of law <ul style="list-style-type: none"> - Administrative reform - Support to legal and judicial development - Human rights (civil and political, economic and social) - Strengthening of civil society through support to NGOs 	X X X X	DE-F-ES-SW-UK DE-DK-SF-F-NL-SW-UK ES-DK-NL-SW SF-SW-UK	- UN UN Japan	A great number of member States have established training and exchanges programmes in the judicial field. The CEC finances the most important programme in this sector in China. The UN has a particular interest to develop co-operation for the implementation of the human rights Covenants.

	CEC	Member States	Other donors	Comments
Multi-sector/Cross cutting - Multi-sectoral aid for basic social services - Urban development and management - Rural development - Multi-sector education/training	X X X X	B-UK-DE-F-IT-SW DE-UK DE-SF-UK DE-EL-IT	WB-UN-Japan ADB UN-Japan	<p>Human development is one of the two priorities retained by UK and a number of MS have projects aiming at providing basic services to the poorest. These projects and those in the rural development sector are usually cross cutting including also an indirect focus on poverty reduction, e.g. : providing basic infrastructures but also developing income generation activities. The CEC finances an important basic education project in Gansu.</p> <p>A number of projects providing training and scholarships in all sectors are also financed by the EC and its Member States.</p>

Work Programme 2001-2005
ongoing and potential projects to be financed under budget lines B7-300, 301 and 707

Ongoing projects	
Agreed projects, with implementation start planned for 2001/2002	
Projects now under study/preparation	
Programme proposals NIP 2002-2004	
Cross-cutting actions	*

N.B.: Regional projects for Asia in which China participates/can participate (e.g. Asia-Invest, Asia-Urbs and Asia-Link) are NOT included in the present table

Sectors	Implementation period				
	2001	2002	2003	2004	2005
<i>Economic and social reform</i>					
Higher Education					
Junior Managers Programme					
Vocational training for Industry					
Scholarships 2000					
CEIBS phase II					
IPR Cooperation Programme					
Cooperation in Statistics					
Public Procurement Cooperation					
WTO Cooperation, Phase I					
Financial Services Initiative					
EU-China Enterprise Reform Programme					
Civil Aviation Consolidation					
Information Society					
Social Security Reform					
EU Studies					
EU-China Human Resources Development Programme					
WTO Cooperation, phase II					

Sectors	Implementation period				
	2001	2002	2003	2004	2005
Fiscal policy *					
Western provinces *					
Environment					
Ningxia Land Reclamation					
LIEP					
Vehicle Emission Control					
UNDP Waste disposal					
TV Environment					
EMCP					
Natural Forest Management Component					
Environment Programme - Policy Advice					
Environment / Clean energy programme					
Biodiversity protection					
Water resources conservation					
Rule of Law / Human Rights					
Legal and judicial cooperation programme					
Village Governance					
SPF Human Rights facility					
Support to disabled federation					

Sectors	Implementation period				
	2001	2002	2003	2004	2005
UN Pacts ratification programme					
China-EU Public Administration Programme					
Yunnan province - Women’s rights					
Fight against Illegal Migration					
Support to Civil Society					
Others					
Qinghai Potato Development					
Water Buffalo Development					
Dairy Development					
Basic Education in Gansu					
SCIC Training of Interpreters					
Small projects facility 2001-2005					
Pa Nam Integrated Development					
China-EU Cooperation in Agriculture					

NATIONAL INDICATIVE PROGRAMME

2002-2004

CHINA

Country/Region:	China
Budget Years:	2002-2004
Budget Line:	B7-300, B7-301
Legal Base:	ALA Regulation (Council Regulation 443/92 of 25/02/92)
Cost of Order:	150 MEUR
Programming Service:	DG RELEX H.2
Head of Unit:	A. PANGRATIS
Co-ordinator:	W. VANDENBERGHE

NB: This National Indicative Programme does not include actions already put in the 'project pipeline 2001'. It limits its scope to budget years 2002-2004. It is part of the Country Strategy Paper, which gives the framework for co-operation 2001-2006.

NATIONAL INDICATIVE PROGRAMME

2002-2004

CHINA

TABLE OF CONTENTS

1. INDICATIVE BUDGET: GLOBAL AMOUNT AND PERCENTAGE PER PRIORITY/ SECTOR	3
2. PRIORITY 1: SUPPORT TO THE SOCIAL AND ECONOMIC REFORM PROCESS.....	4
2.1. STRATEGIC CONTEXT/JUSTIFICATION.....	4
2.2. ACTIONS	6
2.2.1. Action 1: EU-China WTO Co-operation 15 MEUR	6
2.2.2. Action 2: Information society 15 MEUR.....	8
2.2.3. Action 3 : Social Security Reform 20 MEUR.....	11
2.2.4. Action 4 : EU-China Human Resources Development Programme 25 MEUR	13
3. PRIORITY 2: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT	15
3.1. STRATEGIC CONTEXT/JUSTIFICATION.....	15
3.2. ACTIONS	16
3.2.1. Action 1: Environment Programme Policy Advice	16
3.2.2. Action 2: Biodiversity Protection.....	18
3.2.3. Action 3: Water resources conservation	20
4. PRIORITY 3: GOOD GOVERNANCE AND STRENGTHENING OF THE RULE OF LAW	21
4.1. STRATEGIC CONTEXT/JUSTIFICATION.....	21
4.2. ACTIONS	22
4.2.1. Action 1: Fight against illegal migration	22
4.2.2. Action 2: Support to Civil Society.....	25

1 INDICATIVE BUDGET: GLOBAL AMOUNT AND PERCENTAGE PER PRIORITY/ SECTOR

250 MEUR should be devoted to EU-China co-operation in the next 5 years, this means an approximate amount of 50 MEUR per year in terms of commitments.

The present National Indicative Programme covers a period of three years 2002-2004, for which an indicative amount of 150 MEUR would be available.

The aggregated amount of actions listed below amounts to 170¹ MEUR which should be allocated as follows:

Priority 1: Support to social and economic reform process	75 MEUR
Action 1: EU-China WTO Co-operation	15 MEUR
Action 2: Information society	15 MEUR
Action 3: Social Security Reform	20 MEUR
Action 4: EU-China Human Resources Development	25 MEUR
Priority 2: Environment and Sustainable Development	45 MEUR
Action 1: Environment Programme	15 MEUR
Action 2: Biodiversity Protection	15 MEUR
Action 3: Water resources conservation	15 MEUR
Priority 3: Good Governance and Strengthening of the Rule of Law	30 MEUR
Action 1: Fight against illegal migration.	10 MEUR
Action 2: Support to Civil Society	20 MEUR
Cross-cutting action within the above three priorities focused on Western Regions	20 MEUR

¹ in line with the principle of 'consistent overprogramming'

2 PRIORITY 1: SUPPORT TO THE SOCIAL AND ECONOMIC REFORM PROCESS

2.1 Strategic Context/Justification

China's reforms are radically changing the economic and social landscape of the country. The pace of reform is impressive, but the process remains incomplete and fragile. The challenge for China is to pursue economic transition whilst at the same time integrating the concept of sustainability into economic growth and guarding itself against social instability. The EU should therefore help China build the institutions, policies, human resources, management techniques, regulatory framework, standards, access to technology and other supporting instruments that constitute the fabric of a modern, outward-looking economy.

Co-operation should address three key issues:

- Development of human resources
- Support to transition to a market economy
- Minimising social consequences of the reform

It may also address cross-cutting issues, such as taxation or circulation of goods and services, linked to the repartition of competencies between the central and the regional or other local governments and having a direct impact on the reform process.

Development of human resources

The spectacular growth of the economy and the quick transformation of large parts of the society put a crucial strain on available human resources. Training and education are essential both to the sustainability of economic growth and to the process of social transformation. The EU policy of giving high priority to co-operation in this field thus continues to be highly relevant and should be continued in the future as a key element of support to social and economic reform. In this respect, an EU-China policy dialogue on key issues in education and training, including the exchange of expertise and knowledge in this field, should be promoted.

Co-operation in the area of human resources, which should address the needs of both the administration and industry, should help China strengthen its own training capacities by the implementation of modern professional training standards and practices. Specific training programmes should be developed for such key groups in China's transformation process as academics and university students, civil servants, young professionals and opinion leaders in media and culture.

Considering priorities of the Chinese government and EC potential, special attention should be devoted to co-operation in higher education and to the opportunities offered by the use of new technologies in distance learning.

Particular attention should also be paid to improving visibility of EU actions in the field of human resources, and to consolidate results obtained from other programmes which received EU support in recent years. It would also be in China's own interest to be better informed about EU policies in this field.

Support to transition to a market economy

The promotion of the market economy and the integration into the WTO will also be another priority given its importance for the economic and social stability of China and the development of a fair partnership with the EU and its enterprises. In particular, programmes to support changing the rules, regulations, and norms and standards required to accompany China's accession to WTO will be implemented.

Moreover, the EU in the context of its WTO accession negotiations with China and in recent high-level meetings (Summit, Joint Committee, etc.) has repeatedly declared its readiness to support China's accession, *inter alia*, through the provision of relevant technical assistance. The Chinese government recognises the positive role that EU assistance could play in this context, and has expressed its wish to receive support in this area.

Support for China's efforts to participate in the Information Society is also a key feature in the context of WTO co-operation and for reducing the Digital Divide.

Minimising social consequences of the reform

As a result of the ongoing process of economic reform in China, the social security system is under great pressure. State-owned enterprises (SOEs) are shedding excess labour. Existing systems under which a large range of social services was provided to employees of the state and the SOE sector free of charge by their work units are crumbling. The population in general is ageing rapidly. – Work unit-based schemes thus have to be replaced by alternative models, and laid-off workers, other unemployed, the sick and the elderly have to be guaranteed a minimum level of support. – The shortcomings of the present system have a major impact on the economic situation in general, as insecurity about employment, sustenance in old age and sickness severely depresses domestic consumption in China and thus contributes to deflationary tendencies. – The system of social security provision is therefore being overhauled radically, a task which in view of its scale and its linkages to various other issues constitutes a massive challenge for the authorities.

The economic reform process already under way generates major social consequences, therefore co-operation priorities would also include:

- supporting employment and income generation opportunities (SOE reform in urban areas and income generation activities in rural areas, with particular attention for economic and social cohesion throughout the country), and
- defining and/or implementing of accompanying measures, notably in the field of social security, to deal with the social consequences of reform.

The National Indicative Programme shall be periodically reviewed. This will allow to critically examine recent operations and to agree any necessary changes of timing or priorities. In addition to this monitoring and evaluation at programme level, all future projects identified under this priority will be subject to monitoring and evaluation, for which arrangements including precise indicators and an indicative calendar will be included in the relevant financing proposals.

2.2 Actions

2.2.1 Action 1: EU-China WTO Co-operation 15 MEUR

1. Objectives

The overall objectives of the programme are to support China's accession to the WTO and assist it in its process of wider economic and administrative reform.

The programme's specific objectives are, in building on the experiences and results of the ongoing 'Framework Programme for EU support to China's WTO accession' (ALA/CHN/98/03, hereafter 'WTO co-operation, phase I'), to:

- Help develop the legal and regulatory framework, including in the area of standardisation, focussing on a limited number of strategic sectors;
- Strengthen administrative structures and capacities in order to both facilitate compliance with WTO requirements and benefit China's overall economic reform process, with particular reference to the above sectors;
- Assist China in providing training, building awareness, and disseminating information on the consequences and benefits of WTO membership to sub-national authorities, industry and the general public.

2. Expected results

Progress in developing the legal and regulatory framework as well as strengthening administrative capacities to ensure compliance with WTO requirements.

Better knowledge among administrations, economic operators and the general public about consequences and benefits of WTO adherence.

3. Activities

Co-operation activities will include technical assistance for the formulation of legislation and the drafting of policy recommendations, institutional strengthening, training, presentation of EU and WTO practices and building of networks. Assistance may take the form of seminars and conferences, provision of expertise, study tours, drafting/provision/translation of key legal texts and other relevant documents, etc.

Assistance will be concentrated in a limited number of sectors which are of particular importance for China's economic development and for its trade and investment relations with its partners. Within these sectors, cooperation activities will support:

- The formulation of policy and the adaptation of legal and regulatory frameworks to WTO requirements. Where appropriate, this could comprise policy advice through the deployment of senior experts as long-term advisors attached to relevant Chinese administrations.

- Institutional strengthening and other measures to help ensure the implementation of new policies and regulations, at national level and, possibly, in selected pilot regions. In this respect, it will be crucial to identify administrations and officials within them that will be directly responsible for implementing key Chinese WTO commitments.

The selection of *sectors* will be based on needs identified and experiences gained during the implementation of the WTO co-operation, phase I programme. Given their importance for EU-China investment relations, services are likely to receive high priority in this context.

Particular consideration will also be given to the inclusion of the area of sanitary and phyto-sanitary standards and inspection, with a view to bringing Chinese standards and inspection procedures in line with the WTO SPS Agreement and relevant international practice.

In addition, attention will be paid to the area of technical barriers to trade in line with the WTO TBT Agreement and relevant international practice. Elements in the TBT domain that could be addressed would include technical regulations, standardisation, conformity assessment (including accreditation), metrology and information exchange in such sectors as medical devices, construction, machinery and electrical products.

The programme could also include IPR related activities, building upon experience and results of the ongoing IPR programme.

Sectoral activities will be complemented by *horizontal* co-operation activities. These may include:

- the provision of a legal advice facility at central government level which would respond to requests of all relevant Chinese administrations for advice and expertise on WTO rules and related issues;
- strengthening existing WTO studies centres in China, through support to development of curricula, course materials etc.
- a programme of tailor-made training courses in the EU for key government officials;
- a comprehensive dissemination and information programme, based on models and formulas which have been successfully developed in the past, e.g. in the framework of the EU-China IPR Programme

4. Implementation

An identification mission should be launched in 2001 to outline and formulate the Programme. A Financing Agreement would be signed with China, upon approval of the Programme and the adoption of a financing decision.

5. Risks, conditions

While the programme 'WTO cooperation, phase I' will run until 2003, the present 'phase II' programme should be prepared and launched as soon as possible, in view of the magnitude of the challenges facing China following its WTO accession and the political commitment of the EU to provide speedy support in this context. When designing the present programme, it will therefore be essential to provide a clear delimitation between the two programmes to avoid overlaps, while capitalising on possible synergies between the two.

6. Main indicators

number of WTO related legal acts adopted and implemented

number of officials in relevant administrations which received training, attended workshops etc

information material produced for increasing knowledge among administrations, economic operators, general public

7. Financial envelope

Estimated EC contribution: 15 million EUR.

8. Indicative timeframe

Preparation: 2001/2002

Commitment: 2002

2.2.2 Action 2: Information society 15 MEUR

1. Objectives

The general objective of the EU-China co-operation programme in the Information Society is to contribute to the modernisation and liberalisation of the Chinese economy through its integration into the world Information Society. Specific objectives are the following

- To help the Chinese economy to adapt to the requirement of structural reforms with the view to effectively implement its WTO obligations.
- To promote the EU branding (covering EU policies, regulatory frameworks, technologies, industrial practices, etc.);
- To foster industrial and technical co-operation and business links in the high-tech fields related to the Information Society.
- To interconnect the European and the Chinese information infrastructure and research networks in relation to existing regional projects.

- To contribute to an adequate regulatory environment for e-Commerce and to promote related applications between the EU and China.
- To support the Chinese government to deal with digital divide issues by promoting applications of the information technologies in priority areas, notably in the fields of education and training

2. Expected results

- A legislative framework in conformity with GATS
- Dynamic expansion of a new sector of the Chinese economy with high export potential
- Promotion of EU industrial presence in the Chinese market
- Improvement of access and dissemination of the IT use for the benefit of the general public

3. Activities

The programme targets issues such as policy; regulation; standardisation; conformity assessment; industrial co-operation, and business and technology promotion (at the enterprise level, but also in the education sector, possibly in partnership with industry). It would cover telecommunications services and infrastructures (including the internet); e-commerce; equipment; audio-visual and content services; software and a variety of Information Society applications. It will be built upon the results of past co-operation

Co-operation activities could take the form of technical assistance for the preparation of legislation and the formulation of policy recommendations; exchanges; seminars; training of staff at all levels; study tours; joint studies; etc. They can be grouped as follows:

- Dialogue and channelling. This could comprise awareness programme, regular meetings, exchange between European and Chinese administrations or technical bodies.
- Supporting the preparation of legislation and the formulation of policy. This could comprise legislative and policy advice and studies.
- Supporting the implementation of the new policies and institutional strengthening, both at the national level and in selected pilot areas. This could comprise policy development guidance; thematic workshops; feasibility studies for demonstration projects if an EU added-value could be shown; industrial restructuring to accommodate the new policies.
- Capacity building and human resources development. This could comprise strategically targeted training/seminars (for industrial management, technologies management, administrative modernisation, local and provincial officials); study tours if necessary; development of informal co-operation channels including internships in European firms, telecom-linked institutions and administrative/regulatory bodies.

- Promotional events.
- Technology transfer and upgrading. This could comprise demonstration projects, centres of excellence and take-up (pre-industrialisation) projects to promote technologies and accelerate the adoption of Information Society technologies in the Chinese economy.

4. Implementation

An identification mission is now foreseen to outline and formulate the Programme that will build upon past cooperation and discussions in the context of the Working Group on Information Society..

A Financing Agreement would be signed with China, upon approval of the Programme and the adoption of a financing decision.

5. Risks, conditionality

- rapid implementation of the programme will be required taking into account the pace of development of the Information Society
- institutional and managerial capacities of relevant Chinese administration
- complementarity with other Community-funded programmes such as Asia-IT&C and with activities of other donors

6. Main indicators

- level of participation in Information Society (e.g. Internet connections, notably in hitherto less connected regions to show reduction of the digital divide)
- number of legal acts and level of conformity with WTO
- external trade statistics
- support from European industry

7. Financial envelope

Estimated EC contribution: 15 million EUR.

8. Indicative timeframe

Preparation: 2001/2002

Commitment: 2002

2.2.3 Action 3 : Social Security Reform 20 MEUR

1. Objectives

Assist China in its efforts to reform the social security system, in order to minimise the social side effects of economic reform and to contribute to poverty alleviation, through support in the following areas:

- institutional strengthening of the agencies charged with managing the social security system and delivering benefits;
- extension of coverage of pension and unemployment insurance to the urban private and informal sector;
- development of a sustainable medical insurance system.

2. Expected results

- strengthened capacity of the Ministry of Labour and Social Security and relevant Agencies at national and regional level to manage the social security system and to deliver its benefits
- research-based set of recommendations on how to further extend the coverage of the pensions and unemployment insurance notably to the private and informal urban sector

3. Activities

Based on the findings of an exploratory mission carried out in May/June 2000, and following a request for policy advice from the Ministry of Labour and Social Security, the Commission is considering to assist China in the following areas:

- (1) Institutional strengthening. There are weaknesses on the institutional side which constitute an obstacle to the implementation of promulgated reform steps, and impair the ability of the relevant government agencies to manage the social security system, collect contributions and deliver benefits. - Many donors have been, or are, active at the policy level, but little has been done to help strengthen the agencies charged with managing the social security system and delivering benefits, both at central and at sub-national level. Yet, these agencies are in dire need of assistance in order to be able to fulfil the tasks they have been charged with in the context of the radical reform steps that have already been taken. There is scope for a major assistance effort in this area which would cut across the different areas mentioned above, addressing in particular pensions, unemployment, medical and basic subsistence provision. Importantly, the impact of such assistance would be impervious to possible future policy changes, which is crucial at the present stage of reform, where policies are in constant flux.

- (2) Pensions and unemployment insurance. Pensions and unemployment are areas where reforms are relatively advanced, but the current system only covers SOE employees. The extension of coverage to the private and the urban informal sector is vital for the sustainability of the system. Activities under the programme should help formulating recommendations for this purpose.
- (3) Medical insurance. Medical insurance reforms are implemented nationwide on the basis of experiments in pilot cities, but the effectiveness and appropriateness of the policies is still under debate. Chinese administrations have stressed the need for a review of current policies. Additional support in the form of advice and a pilot project in a selected geographical area will be made dependent on the outcome of that review. Support and acknowledgement of the outcome of this review by the Chinese Government is a precondition for a possible subsequent pilot project.

4. Implementation

A first, exploratory mission has been carried out in May 2000. Based on its findings, three priority areas for assistance have been defined (see above).

The next step will be to launch a final mission to update these findings in the light of the rapidly changing environment in China and to design the overall social security reform programme with a focus on institutional strengthening. This programme will then also include, in an inception phase, research activities and preliminary recommendations on the extension of coverage and a review of medical insurance reforms.

A financing Agreement would be signed with China, upon approval of the Programme and the adoption of a financing decision.

5. Risks/Conditionality

- rapidly changing environment which may lead to outdated results
- delays in planned reforms by the Chinese government
- building on earlier findings in studies, reports and research activities financed by the Community
- coordination with and use of expertise from other donors, when effective and appropriate .

6. Main indicators

- number of Agencies of the social security assisted
- the increase percentage in the financial coverage of pensions and unemployment
- reports including research results and recommendations

7. Financial envelope

Estimated EC contribution: 20 MEUR.

8. Indicative timeframe

Preparation: 2001/2002

Commitment: 2002

2.2.4 Action 4 : EU-China Human Resources Development Programme 25 MEUR

1. Objectives

Main objectives of this programme are:

- to develop co-operation with China through human resource development programmes for key groups in China's transformation process
- to complement other Community-funded human resources programmes
- to improve information and dialogue on education, science and EU matters and to make Europe more visible in China

2. Expected results

- increased interaction between European and Chinese businesses
- support to educational reforms in China, particularly internationalisation of education
- improved knowledge among Chinese students, post-graduate students, teachers, educational staff about education in Europe
- improved European visibility and EU profile in China
- improved synergies with and sustainability of other activities funded by the Community and member States
- spin-offs in the economic, social and cultural fields; sustainable relationships

3. Activities

- The activities will be proposed at the identification stage and the experiences of previous and ongoing human resource programmes will be taken into account
- The possibility to continue the EU-China Junior Managers Training Programme, and extend it to include training of Chinese managers, should be examined

- participants could come from a wide range of businesses and some non-profit sectors including new technologies, the socio-cultural area and media
- the establishment of a ‘Europe House China’ could be envisaged with the aim of providing information on the EU, on EU-China relations and EU-China co-operation programmes, and of creating synergies and connecting databases with other horizontal or bilateral programmes such as Asia-Link, EU Studies, Scholarship 2000 and similar activities supported by Member States

4. Implementation

A Financing Agreement would be signed with China, upon approval of the Programme and the adoption of a financing decision.

A suitable implementing agency will have to be identified in the Financing Agreement. The overall programme management shall be entrusted to a Programme Management Unit in Beijing.

5. Risks/Conditionality

- co-financing: activities should be financed on a cost-sharing basis; part of the cost (e.g. 25%) should be borne by the Chinese government; the cost of placements in enterprises could also be (partly) borne by these enterprises; for non-profit making organisations, support from the programme could be higher.
- ensuring a wide impact of the programme through involving a maximum number of qualified participants with a focus on new and future-oriented professions.
- complementarity and co-ordination with activities supported under other Community-funded programmes such as the China-Europe International Business School, Scholarship 2000, European Studies, the recently proposed RTD mobility scheme for third country scientists etc
- Complementarity and coordination with activities supported by member States should receive particular attention
- Viable commitment by the Chinese government for the ‘Europe House China’

6. Main indicators

- number of Chinese and European professionals participating in the programme
- number and type of visitors to the ‘Europe House’
- number of activities (workshops, seminars, placements) organised
- number and type of ‘new’ professions involved

7. Financial envelope

Estimated Community contribution: 25 million EURO

8. Indicative timeframe

Preparation: 2002

Commitment: 2002/2003

Implementation: from 2003

3 PRIORITY 2: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

3.1 Strategic Context/Justification

As an important element of sustainable development – i.e the pursuit of a balance between economic growth, social development and protection of the environment – co-operation on environment remains a key area of bilateral co-operation with China.

The current situation and development perspectives of the energy sector in China provide the best evidence of the need to reconcile economic growth with overall sustainable development and particularly with the protection of the global environment. China has one of the largest energy sectors in the world in terms of resources, production and consumption. It is the world's second largest consumer of energy and the third largest producer. The size of its energy sector renders the country's energy policy and its potential impact on the world scene a matter of great international importance, particularly in the context of air pollution and climate change. Nationally, over recent years, the government has placed an increased emphasis on capacity building, notably strengthening the administrative framework and building human resources. In line with recent economic reforms, the government is particularly committed to developing an enabling environment and a skill base in-line with a market-oriented economy.

Much of the weight of growth and development in China is falling on its land systems. As a result, land degradation is widespread and increasing. China has some of the worst soil erosion problems in the world, the highest ratio of actual to potential desertified land in the world; and rapidly degrading grasslands. These problems are doubly serious, since the worst of them tend to be concentrated in areas that support China's poorest and most vulnerable people. In addition, some of China's best-cultivated land is being lost to expanding urban and industrial areas and a developing network of roads and railways.

Almost all of China's unique and globally significant biodiversity resources are under stress. Many species existing only in China are seriously threatened. The existing framework for biodiversity protection is under-financed, overextended, and patchy in its coverage. Previous interventions have treated biodiversity as a separate sector. The current approach to biodiversity in China therefore needs to be reformed, and a more holistic view must be taken.

In addition to industrial wastewater pollution control which was the prime concern of the 1990s, the next decade will require decisive actions on the growing problems of municipal wastewater discharges and agricultural or “nonpoint” sources, notably emission from intensive livestock production units. The combined effects of these problems will be felt most acutely in the rivers north of the Yangtze, where water quality is already severely degraded.

Nationally, over recent years, the government has placed an increased emphasis on capacity building, notably strengthening the legislative and administrative framework and building human resources levels and skills. In line with recent economic reforms, the government is particularly committed to developing ‘tools’ to improve environmental performance and developing an environmental skills base, in line with a market-oriented economy. Certain of these issues are challenges to be addressed not only bilaterally but also in the international context. China and the EU are signatories to several multilateral environmental agreements and have a mutual interest in pursuing common objectives. Environmental consequences of China’s entry into the WTO will also have to be addressed.

This proposal is in line with the EC Communication Integrating Environment and Sustainable Development into Economic and Development Co-operation Policy (1999), which makes clear how environmental management, including management of biodiversity, underpins sustainable development. It also corresponds to the priorities of the Community’s scientific and technological cooperation programme.

As the three actions mentioned below are closely interconnected, they may well be considered as one single programme proposal, with an indicative budget of 45 M€, and as such be subject of one single financing agreement, upon approval of the programme and the adoption of a financing decision..

This proposal will also support the future environmental dialogue between EU and China, set up in the context of the EU-China Summit of 5 September 2001.

The National Indicative Programme shall be periodically reviewed. This will allow to critically examine recent operations and to agree any necessary changes of timing or priorities. In addition to this monitoring and evaluation at programme level, all future projects identified under this priority will be subject to monitoring and evaluation, for which arrangements including precise indicators and an indicative calendar will be included in the relevant financing proposals.

3.2 Actions

3.2.1 Action 1: Environment Programme Policy Advice

1. Objectives

Capacity building in the environmental area, notably in partnership with the State Environment Protection Administration (SEPA), its subordinates’ and related agencies’ in the development, implementation and enforcement of legislation, policies, plans and standards.

2. Expected results

Improved capacity of Chinese organisations supporting SEPA in its international co-operation programmes, especially with the European Union;

Systematic use of Environmental Impact Assessment and Strategic Environmental Assessment, notably in the context of China's 'Great Western Development Strategy';

Improved knowledge in the use of economic instruments to achieve environmental objectives in the European Union and how to adopt these to Chinese conditions.

3. Activities

The project will provide European expertise to support and guide the Chinese side in relation to policy, legislation, organisational structures and administrative good practices concerning environmental issues, both at central and subsidiary levels, taking China's inclusion into WTO should into account.

China, as a party to several multilateral environmental agreements (e.g. Climate Change, Biodiversity, Desertification) and as forthcoming member of WTO will need assistance in developing its capacity to respond to requirements either stated or implicit at the international agreement level. These could include the development of standards and guidelines for monitoring and modelling the ecological situation in order to master degradation and gradually reverse it. Typically, pilot studies would be followed by broader application of new approaches in that context.

The Chinese side has indicated interest in:

Strategic Environmental Assessment (SEA) in the context of policy-making (i.e. Environmental Impact Assessment at the strategic and policy planning stages). Community support would include, inter alia, training and seminars in China as well as study tours to Europe for the lawmakers and senior policy people, as well as sub-projects where learning through doing would be the goal.

Studying the use of **economic instruments (e.g. fiscal incentives) to achieve environmental objectives** within the European Union.

4. Implementation

Detailed project design via expert missions will help to identify more specifically which areas should be taken into consideration. A PMU in China will be required.

5. Risks/Conditionalities

Coordination and continuity as far as responsibilities for environmental policy in China are concerned

Absorption capacity, at the national and at the sub-national level

Coordination and complementarity with other Community support programmes such as the 'EC-China Environmental Management Cooperation Programme' (EMCP), with actions from EU Member States and other donors.

6. Main indicators

Number of Chinese officials in charge of legislation, policy-making, implementation and enforcement reached by the EU action.

Implementation of proposals into national and sub-national regulatory framework.

Number of workshops, training activities, study tours etc related to SEA and use of economic instruments for environmental purposes.

Increased number of projects for which SEA was used.

7. Financial envelope

An indicative amount of 15 MEUR in EC grant.

8. Indicative timeframe

Preparation: 2002-2003

Commitment: 2004

3.2.2 Action 2: Biodiversity Protection

1. Objectives

The objective for biodiversity conservation is to conserve globally important biodiversity, in support of national development processes. The project aims to significantly upgrade national capacity to manage biodiversity conservation in a market-oriented, integrated and co-ordinated manner. The project includes two strategic components.

1. Capacity development in the enabling environment, to define priorities and improve coordination and management in the biodiversity sector
2. Strategic programme approaches conserving biodiversity in sub-sectors and sub-regions.

2. Expected results

Well-defined capacity needs in SEPA and other relevant institutions at national and sub-national level, and improved planning and management capacity.

Involvement of the non-governmental sector.

Improved setting of priorities.

Conserved biodiversity through a limited number of well-target programmes.

3. Activities

Component 1. This component will be launched with an assessment of the capacity needs in China. As institutional fragmentation remains a barrier to effective conservation efforts in China, capacity building will focus on SEPA, having an overall coordination mandate but may, where appropriate, also focus directly on other agencies. Developing partnerships between government and non-governmental sector (including private sector), an improved setting of priorities and management of projects, and improved planning of biodiversity conservation at the national, sub-national or thematic level will also be aimed at. Work in this component will include ‘on the job’ training, notably in relation with Component 2, and also pilot projects.

Component 2. This component will consist of targeted and integrated programmes of intervention, including a diversity of activities at upstream and downstream levels, involving many national and possibly international actors, and built around large-scale national initiatives. These programmes will need to fit into a clear national strategy, and will also require strong co-financing, strong national capacity (institutional and individual), and effective co-ordination mechanisms.

4. Implementation

A first project exploratory mission will take place by the end of 2001. Detailed activities for the programme will be defined by EC experts in co-operation with the preparatory project initiated by UNDP/Global Environment Facility.

The next step will be launching a feasibility study.

5. Risks/Conditionality

Clarification of responsibilities of relevant Chinese administrations; coordination between these administrations and continuity. Coordination with other donors, in particular UNDP.

Co-financing from other donors and the Chinese counterpart.

6. Main indicators

Number of ‘on the job’ training activities, increased planning and implementation capacities at national and sub-national level.

Definition of biodiversity programmes (limited in number) and their long-term impact.

7. Financial envelope

An indicative amount of 15 M € in EC grant.

8. Indicative timeframe

Preparation: 2002

Commitment: 2003

3.2.3 Action 3: *Water resources conservation*

1. Objectives

The project will help China to combat soil erosion and land degradation and to protect water resources. Sustainable economic and social development must be balanced with the need for water/soil conservation and rehabilitation of the ecological environment.

The main objectives are to:

- Expedite the water/soil conservation process to reduce soil erosion, land degradation and desertification as well as improving the water quality.
- Integrate natural resource management with the planning and production of livestock and agriculture.
- Raise the living standard of the local farmers and to promote sustainable economic and social development at the targeted areas.

2. Expected results

Improved knowledge and capacity, at regional and local level, to combat erosion, land degradation and desertification and also to protect water resources.

Development of integrated planning models for sustainable use of natural resources, sound ecological environment in combination with social and economic development.

Improved living conditions for farmers and increased environmental awareness among the general public.

3. Activities

In view of Chinese nation-wide efforts to promote water conservation, the programme will develop models for efficient and pragmatic ecological sustainable development in limited number of pilot areas along Yangzi River and Yellow River. The programme will promote a River Basin Management approach to water resources management. Detailed activities will be defined after an exploratory mission.

4. Implementation

First, an exploratory mission should be carried out. Based on its findings, the priority areas for assistance will be defined.

The next step will be launching a feasibility study.

5. Risks/Conditionality

Co-ordination between related programs and between government agencies to avoid cross-purpose conflicts.

Identify organisations specialised in water/soil conservation and sufficient skilled staff. Availability of basic technical, personnel and instrumental resources to further carry out water/soil conservation.

Governments support at various levels.

6. Indicators

Number of pilot projects successfully implemented.

Acceptance of the programme within the local government, among farmers and the general public

Impact on policy-making of Chinese authorities, and on defining comprehensive programmes for combating erosion and preserving water resources

7. Financial envelope

An indicative amount of 15 M € in EC grant.

8. Indicative timeframe

Preparation: 2002-2003

Commitment: 2004

4 PRIORITY 3: GOOD GOVERNANCE AND STRENGTHENING OF THE RULE OF LAW

4.1 Strategic Context/Justification

Promoting good governance, the rule of law and human rights are key priorities of the EU co-operation. Existing co-operation programmes include the largest bilateral legal and judicial training programme, a five-year programme supporting village governance capacity building, and programmes supporting significant legislative reform in various key areas such as intellectual property law, public procurement, evidence law and administrative law, as well as WTO-oriented law reforms (see section 4.2.1 above).

Expanding support for the rule of law implies not only top-down initiatives such as support for drafting new legislation and training of relevant government officials, lawyers, judges, and prosecutors, but also initiatives involving the citizens' opportunity to seek fairness and redress within the legal and administrative systems. Such initiatives should involve support for newly-developing NGOs and other organisations of civil society working for the betterment of communities in the midst of socio-economic reform. Support in this field has already been provided to a number of projects under the European Initiative for Democracy and Human Rights² (€ 2.5 million in 2000). These include seminars on human rights, support to human rights education and to the economic and social rights of disabled people, as well as a small project human rights facility. This approach should be combined with twinning or training programmes for professionals including lawyers, judges and other experts and opinion-leaders, with particular regard to needs and concerns at the provincial and local levels. An EU/China

² Chapter B7-7 of the EU Budget

network on the ratification and implementation of UN Covenants initiated in 2001 will contribute to this objective.

The programming document for the European Initiative for Democracy and Human Rights (2002-2004) has been prepared in complementarity with the CSP on China, which has not been chosen as a focus country for that period given the number of multi-annual initiatives that have just been launched. However, under the thematic priorities outlined in this document, projects on the prevention of torture and/or the death penalty will be supported.

Special attention should also be given to the problems of illegal migration, which is increasingly of concern to both China and Europe. The European Council of Tampere (October 1999) underlined the importance of the Union's activities in the field of Justice and Home Affairs (JHA), while the European Council of Feira (June 2000) agreed on the principles and a method of including the Justice and Home Affairs dimension of the Union's external policy in order to achieve an area of freedom, security and justice. President Prodi and Prime Minister Zhu Rongji agreed in July 2000 to increase Europe-China co-operation to combat illegal migration and trafficking in human beings and this commitment was reiterated at the EU-China summit in October 2000.

Enhanced EU-China co-operation will thus build on successful past and ongoing cooperation, and come in support of the High level Consultations between EU and Chinese officials in this area. It will contribute to further developing mutual understanding and supporting mutual interests.

The National Indicative Programme shall be periodically reviewed. This will allow to critically examine recent operations and to agree any necessary changes of timing or priorities. In addition to this monitoring and evaluation at programme level, all future projects identified under this priority will be subject to monitoring and evaluation, for which arrangements including precise indicators and an indicative calendar will be included in the relevant financing proposals.

4.2 Actions

4.2.1 Action 1: Fight against illegal migration

1. Objectives

The overall objective of activities under this heading is to combat illegal migration and trafficking in human beings between China and Europe. Within this overall objective, specific objectives include:

- raising awareness among the particularly vulnerable groups, other target groups and officials involved in migration issues
- improving ability of relevant officials in China and Europe to counter illegal migration and trafficking in human beings;

- improving information exchange, mutual understanding, and administrative co-operation relating to illegal migration and trafficking in human beings.

2. Expected results

Increased awareness of the public at large, specific vulnerable and other target groups of problems related to illegal migration and especially trafficking in human beings and the risks involved.

Increased mutual understanding of each other's problems, best practices, and international standards in this area by Chinese and European agencies and officials.

Establishment of means of communication and mutual assistance for and between Chinese and European relevant agencies and officials on matters relating to illegal migration and trafficking in people.

Decrease in the flow of illegal migration and especially illicitly trafficked human beings between China and Europe.

3. Activities

In the light of the conclusions of the High Level Consultations of February 2001, of the EU-China Summit of 5 September 2001 and of the feasibility mission which took place in July 2001, the programme should begin as soon as possible, and start in Fujian province with the possibility of extending activities to other provinces at a later stage. Such activities could include:

- seminars for EU and Chinese officials centrally and locally, to exchange information and effective working methods and technology aimed at preventing and combating illegal migration, including the fight against forged documents and the use of illegal genuine documents,
- support to jointly agreed measures to promote an effective return practice in the context of an arrangement between the EU and China for facilitating return,
- broader seminars, roundtables and other information initiatives, centrally and locally, for officials, journalists, travel agents, students, women and other civil society organisations,
- production of information material to diffuse information about the situation of illegal migrants in Europe and the dangers of migrating illegally,
- distribution of such material through appropriate channels (e.g. member State representations in China, media, women organisations, NGOs),

support to academic and research initiatives particularly between European and Chinese institutions to study illegal migration and trafficking issues to improve mutual understanding of the problems involved, historical origins and future trends.

4. Implementation

Implementation should take place in close coordination and cooperation with member States, notably as far as identification of required expertise for the different actions listed above is concerned.

Expert missions should prepare draft Terms of Reference for individual activities, considering whether there should be one co-operation project or separate projects for individual areas of focus.

Consideration should be given to possibilities for including co-operation with targeted provincial level officials and agencies as well as those at central government level within China.

5. Risks/Conditionality

The various Chinese interlocutors on these issues have varying degrees of interest and experience in international co-operation; success of individual activities or even the entire action may thus depend on their willingness to proceed.

Co-ordination with several interested administrations (national and provincial) may be complex and delicate.

Political climate and unforeseen developments may affect possibility to proceed.

Close coordination with member State activities.

6. Main indicators

Numbers of officials and experts trained or participating in seminars, workshops, and other programme events.

Number of activities focusing particular target groups (journalists, travel agents, students etc) and number of individuals involved.

Information material targeting public at large and vulnerable groups (type, number of people reached).

Number of studies stemming from academic and research midst, and practical application of their conclusions.

7. Estimated Community contribution: 10 MEUR

8. Indicative timeframe

Commitment: end 2002

Implementation: 2003

4.2.2 *Action 2: Support to Civil Society*

1. Objectives

The overall objective of these actions is to support the newly developing sectors of civil society in China. While there are increasing numbers of Chinese domestic NGOs appearing, many of them are actually quasi-governmental organisations. The emerging organisations, whether NGOs, or organised as companies or associations, face many hurdles in achieving their full potential, ranging from regulatory hurdles to inexperience in various aspects of project and organisation management. Civil society organisations, in whatever form, will increasingly be needed as Chinese society continues its transition through tremendous socio-economic reform, and such organisations will be of particular importance in supporting individuals and communities disadvantaged by these changes.

Specific objectives of the activities under this action include:

- Training elements of emerging civil society in fundamentals of project and organisation management;
- Establishing a communication network, information point(s), and evaluating the feasibility of a twinning programme for Chinese and European NGOs/counterparts; and
- Co-financing pilot programmes and macro-projects of Chinese NGOs either alone or in co-operation with European NGOs.

2. Expected results

An increased number of Chinese NGOs will gain skills in project and organisation management.

Co-operative arrangements, communication, and mutual understanding between Chinese and European NGOs will increase.

A significant number of Chinese NGOs will successfully complete pilot programmes and reach a state of greater self-sufficiency due to participation in the macro-project scheme.

3. Activities

Training programmes, workshops, seminars, and expert exchanges in fundamentals of NGO management, including such topics as project management, fundraising, communication, networking, and presentation skills and media relations, accounting, auditing, and project evaluation.

Establishment of one or more information points and a communications and information network to provide information on the above topics and to serve as a resource centre on Chinese and European NGOs; the information point(s) will assist in putting Chinese and European NGOs interested in co-operation in touch with each other for twinning programmes and information exchange.

Establishment of a macro-project facility to provide seed money on a co-financing basis for pilot programmes for Chinese NGOs and for twinning activities for Chinese and European NGOs related to the overall objectives of the programme. Priority for programmes and NGOs to be supported under this portion of the project should go to those working for disadvantaged or marginalised groups such as displaced workers, women, minorities or other groups suffering discrimination, the elderly, etc. A particular focus should be on economic rights of these groups.

4. Implementation

A project design mission should be sent to China to evaluate the state of existing NGOs in China and existing donor activity in this area so as to build on these efforts. The mission should prepare draft Terms of Reference for the project, its staff, and the individual activities, as well as assessing potential locations for the information centre and project office. Serious consideration should be given to locating the information centre and project office in a major city in one of the western provinces (such as Xi'an, Chengdu, or Kunming), so as to maximise impact of the project activities in the neediest areas, while maintaining a site with adequate communication and transport connections.

The design mission should take into account that the project office and information centre should be autonomously managed and assess whether a proper form can be arranged for its establishment.

5. Risks/Conditionality

Changes in political atmosphere or government support for the development of NGOs could affect the programme, as could similar developments in locality chosen for the project.

Project should take into due account existing efforts by the Community (Legal and Judicial Cooperation Programme, Human Rights Small Project Facility) and other donors so as to avoid duplication, develop in the most useful and sustainable directions as possible, and support the most appropriate organisations.

6. Main indicators

Numbers of NGO administrators and volunteers trained.

Establishment of information centre and communications network; numbers of Chinese and European NGOs assisted to communicate, exchange information, or arrange twinning activities.

Numbers of pilot programmes co-financed and final evaluations of their results.

7. Financial envelope: 20 MEUR

Estimated Community contribution: 20 MEUR.

8. Indicative timeframe

Preparation: 2003

Commitment: 2004

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Cross-cutting action on Western Regions

The development of China's less developed regions, commonly labelled Western Regions, is a major priority for China. Community support is already available for several ongoing and scheduled projects and will be continued, possibly in co-operation with other donors. An envelope of 20 MEUR is included in the indicative budget for potential new activities, or preferably for topping-up actions in China's Western Provinces, identified in the context of the three priorities described above. These activities will be defined in cooperation with China's national and sub-national authorities as well as the donor community. Due consideration of the rights of minorities living in these areas is to be ensured when designing such projects. Strategic environmental assessment of new plans – and particularly in fragile ecological zones in the west – will also be important.