

CHINA

Strategy Paper

2007 - 2013

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EXECUTIVE SUMMARY

With 1.3 billion inhabitants, China is the world's most populous country and has in recent years undergone economic growth at constantly high levels. This growth has delivered higher incomes, has had a dramatic impact on the reduction of poverty, and is contributing significantly towards the attainment of global MDG targets. At the same time, however, it has led to considerable income and regional disparities, has resulted in a high degree of environmental degradation, and has created vulnerable groups of the population.

China's development policy guidelines are set out in its 11th Five Year Plan (adopted in 2006) which marks a perceptible shift from all-out economic growth to one which places increasing emphasis on the social consequences associated with rapid economic development. China has also begun to show willingness to shoulder its growing international responsibilities.

Europe has an important economic and political interest in supporting China's sustainable development and successful transition to a stable, prosperous and open country. EU relations with China have developed from a relationship based mainly on trade issues to a partnership based on political dialogue and economic, trade and sectoral relations. The co-operation programme is an important element of this relationship.

China is, however, moving away from the status of a traditional ODA recipient towards that of a strategic partner with whom the EU engages on a wide range of policy issues, and one that is becoming an increasingly important source of ODA to other developing countries.

The response strategy for the future EC co-operation programme therefore needs to take account of the contradiction in China's nature: that of a developing country in terms of certain traditional indicators on the one hand, and that of a significant player on the world stage in economic and political terms on the other.

In recognition of this 'duality' of character, the EC response strategy will be targeted at providing support for China's reform programme in areas covered by sectoral dialogues; assisting China in tackling global concerns and challenges over the environment, energy and climate change; and supporting China's human resource development. Indicative funding for the seven-year period is €224 million. EC assistance in the areas of intervention will be complemented by actions and support to be provided through various thematic programmes and regional budget lines.

1 PAST AND ONGOING EC CO-OPERATION AND CO-ORDINATION

1.1 Political dialogue

In May 2005, the EU and China celebrated the 30th anniversary of diplomatic relations. Since these were established in 1975, ties have developed rapidly, from a one-dimensional relationship based mainly on trade issues to a fully fledged partnership which rests on three "pillars": political dialogue; economic, sectoral and trade relations; and the EU-China co-operation programme. Commission Communications in 1998, 2001 and 2003 laid the groundwork for the development of the EU's strategic partnership with China, and a new Communication on China – "EC-China: Closer Partners, Growing Responsibilities" was adopted in October 2006 (cf. Annex 3.4.2(3)). In 2003 China issued its first policy paper on the EU.

The political dialogue was formalised in 1994. This dialogue has since grown into a series of regular meetings at all levels, including annual Summits at Head of Government level (since 1998) and ministerial and official level dialogue in a range of areas.

This is supported by a regular exchange of visits and meetings. The most important issues currently on the bilateral agenda are the negotiation of a Partnership and Co-operation

Agreement, climate change and energy, illegal migration, human rights, Market Economy Status, market access, IPR, and the arms embargo.

The creation of a new dialogue on Africa's peace, stability, and sustainable development was agreed upon at the 9th EU-China Summit in 2006 in order to foster understanding between the partners, to discuss activities and priorities, and to provide an opportunity for integrating China into international efforts to improve and better co-ordinate development co-operation activities.

In the field of co-operation on foreign and security policy, particular attention will be given to combating WMD proliferation, WMD agents, materials and know-how, and conflict prevention. The challenge is to facilitate the booming legitimate exchanges of people, goods and services, while limiting abuse. Co-operation in the area of justice, freedom and security, will focus on combating terrorism, fighting organised crime including money-laundering, corruption, trafficking of human beings, crime prevention, small arms and light weapons, illicit drugs and drugs precursors. Illegal migration is both a humanitarian concern and a politically sensitive issue on which the EU and China have engaged in regular consultations to reinforce administrative co-operation and the facilitation of people-to-people exchanges, for example through the Tourism Agreement (or Authorised Destination Status agreement - ADS).

Relations are presently based on a Trade and Economic Co-operation Agreement signed in 1985. Leaders agreed at the EU-China Summit in 2006 that this should be updated to more accurately reflect the strength and breadth of bilateral relations. Commissioner Ferrero-Waldner launched negotiations for a new Partnership and Co-operation Agreement in January 2007.

1.2 Lessons learned

An external Country-Level Evaluation of the EC co-operation programme was commissioned in 2006. This was positive overall, but flagged up scope for improvement. It recommended that: more should be done to integrate poverty reduction considerations; climate change issues should be taken into account; co-ordination with and among Member States should be more substantial; and feedback from projects and programmes should be fed into policy dialogues more systematically. The main conclusions and recommendations from the evaluation are given in Annex 3.10. Future projects and programmes will be subject to regular external evaluation, and a mid-term review of the Strategy Paper and Multiannual Indicative Programme will be carried out.

1.3 Donor co-ordination

Information exchange between the EU Member States and the Commission takes place primarily in the EU Development Counsellors Group and in the EU Environment Counsellors Group, which each meet four times a year. In this framework, the EC Delegation has been compiling and updating a list of all EU Member State and Commission-financed co-operation activities with China, which is published on the Delegation website.

The Delegation also has regular contacts with important multilateral donor organisations such as the World Bank, UNDP and ADB as well as with non-EU bilateral donors like Canada, Australia, Norway and Japan. In the areas of renewable energy, for example, an informal donor group meets regularly in order to exchange information and discuss specific topics. The Ministry of Commerce (MOFCOM) furthermore convenes annual donor co-ordination meetings.

In some areas, co-operation between donors goes beyond information exchange. Some donors and projects organise joint events or launch joint initiatives and, in a few instances, projects or programmes are jointly implemented. Examples are the EU-China Biodiversity Programme, a joint action between the European Commission, the UNDP and China's State Environmental Protection Administration (SEPA), which will associate further key donors and stakeholders

through a co-financing mechanism, and the recently started EU-China River Basin Management Programme, which is implemented jointly by the European Commission, the World Bank and the Government of China. A further joint project with the UNDP, Governance for Equitable Development, was financed in 2006. An example of co-operation with Member States is the NZEC project financially supported by the UK and in part through the EU research budget.

The Commission intends to engage with China on co-ordination regarding China's own co-operation with developing countries.

2 THE EC RESPONSE STRATEGY 2007-2013

2.1 Justification

Europe has a major economic and political interest in supporting China's sustainable development and successful transition to a stable, prosperous and open country. The co-operation programme is an important mechanism for supporting this interest and for strengthening the relationship between the Community and China. Given the pace of China's development the response strategy nevertheless has to recognise that the country is increasingly moving away from the status of a traditional ODA recipient towards that of a strategic partner with whom the EU engages on a wide range of policy issues¹. China is itself becoming an increasingly important source of ODA, with whom international development partners, the EU included, are looking to co-ordinate and co-operate. Efforts will be made to engage with China on sustainable development, particularly in Africa, in the framework of the co-operation programme.

While China has the resources to cover its own longer-term development needs and is, step-by-step, putting in place the necessary laws, regulations and administrative structures, the response strategy must nevertheless take account of the duality of its character: on the one hand that of a developing country in terms of some traditional indicators, and on the other that of a major player on the world stage in terms of its commercial weight, FDI flows, consumption of natural resources and contribution to global warming. This combination of different and at times contradictory characteristics therefore justifies a particular strategy.

In recognition of the above and of the analysis provided in Annexes 3.2 and 3.3 the objectives of the response strategy are to:

- (1) provide support for China's reform programme in areas covered by sectoral dialogues, where EU experience can provide added value;
- (2) assist China in her efforts to address global concerns over the environment, energy, and climate change;
- (3) provide support for China's human resources development.

Given the limited resources available for the co-operation programme, this strategy can best be achieved through capacity-building, where China's need to innovate in order to attain sustainable development continues to create opportunities for support in areas where the EU has strong experience, and through the formulation of activities to maximise the multiplier effect, through targeting interventions at the appropriate level and through the development of pilot activities to support policy development. In all areas enhanced co-ordination and co-operation with Member States shall be pursued.

¹ While the level of ODA to China between 2000 and 2005 remained stable at around US\$ 6 billion per year, FDI during the same period grew from some US\$ 300 billion to around US\$ 960 billion per year, thus reducing the ODA share of GDP from 2,0 to 0,6%.

Cross-cutting issues including governance, the environment, human rights and gender will be mainstreamed where possible in the programme.

2.2 The Strategy

In order to meet the objectives specified in 2.1 above, three areas of intervention are proposed for the period of the SP. Indicative funding for the seven-year period amounts to €224 million.

2.2.1 Support to Areas covered by Policy Dialogues

Policy dialogues provide a coherent policy mix between development objectives and EU internal and external policies.

2.2.1.1 Trade co-operation

In the area of trade, further future intervention will be required to back up the continued engagement with China on the implementation of its commitments associated with WTO membership, to support China's further integration into the world economy, to promote further trade and economic liberalisation, and to support regulatory reform that impacts on trade. China's significance in international trade is now such that the country must demonstrate its ability to ensure competition on a fair and equitable basis, commensurate with its weight as a trading nation.

The current €15 million EU-China Trade Co-operation Programme (EUTCP) will continue until 2009, and supports China in the context of the trade policy dialogue established in 2003 to strengthen bilateral exchanges in the context of the rapid expansion of trade and economic relations. The EUTCP focuses on six areas of activity: customs and import/export regulatory system; agriculture and agro-food; technical barriers to trade/sanitary and phytosanitary measures; services; legislative and legal aspects of domestic implementation, IPR enforcement; and policy development². While a new €10 million programme on the enforcement of IPR legislation, financed in 2006, will in principle run until 2011, continued broad support for the trade-related objectives outlined above will be required from 2009 onwards.

The EUCTP will also temporarily bridge the gap between the current Financial Services co-operation project (EC contribution €8,5 million), which initially ran from 2002 to 2005, later extended to the end of 2006, and a new co-operation programme for the financial services sector starting in 2008.

2.2.1.2 Transport Co-operation: Civil Aviation

It is recognised that a well-developed civil aviation sector is an essential platform for development and reform in the area of market and territorial integration. Exchanges with China in this sector have taken place against a background of annual sector growth of 30% to 40% and a strong commitment from the Civil Aviation Authority of China (CAAC) to improve China's regulatory framework for air transport and to maintain safety levels.

China will soon become the largest Asian market and leading hub for air passenger traffic and international air cargo, and the Chinese authorities are keen to develop closer co-operation with major civil aviation partners in order to benefit from their experience and to incorporate it into the national regulatory framework and operations. The CAAC has expressed satisfaction with the assistance provided by the EU so far in this area and wishes to deepen this co-operation.

² Activities have also been undertaken with the Ministry of Commerce (MOFCOM) in the framework of trade co-operation projects to analyse the statistical discrepancies highlighted in section 2.2 of the CP, and offer a possibility for more formal policy dialogue on the subject.

The EU-China Civil Aviation Co-operation Project, financed before the preparation of the 2002-2006 Country Strategy Paper, aimed at facilitating co-operation in the sector, and focuses on production management, customer support, air traffic management, training in airline and industry management, and pilot inspection. With a total budget of €23.5 million, of which the EC contribution amounted to €12.5 million, the project started in 1999 and terminates in 2006.

The EU-China Aviation Summit held in Beijing in 2005 provided a further opportunity for the EU to demonstrate its substantial capacity and potential to mobilise partners involved in the field of civil aviation and to further develop co-operation in this field. Such co-operation is proposed under the SP and would be complementary to discussions taking place with the Chinese authorities on measures to ensure that existing bilateral civil aviation agreements between Member States and China conform with Community law. The possibility of negotiating a more comprehensive Community-level agreement is also being explored.

Future co-operation could include the exchange of information and technical assistance in a range of areas including aviation security, aviation safety, competition law and economic regulation, and air traffic maintenance. It will take account of international co-operation policy under the EU Research Framework Programme, particularly in the areas of greener air transport and safety.

2.2.1.3 Financial services

In the broader area of macroeconomic policy, trade in services between the EU and China has been growing in importance.

The EU-China Financial Services co-operation project which ended in December 2006 aimed to assist the Chinese government in its effort to reform and restructure the financial services sector. The project provided policy advice for the sector's regulators and supervisors and training.

Further intervention will be required to build directly on these achievements and enhance professionalism and competence in the financial services sector, while also creating sector-awareness in the general public. Such co-operation is proposed under the SP and would be complementary to the Chinese government's efforts to implement its WTO commitments in the sector. Experience has shown that cross-sector initiatives produce the best potential for co-operation in this area.

2.2.1.4 Social Protection

Current Chinese policymaking concentrates on the development of what the Government refers to as a 'harmonious society', which implies achieving more balance between rich and poor, urban and rural, coastal and inland provinces, and generally between growth and equity. In policy terms, this concerns mainly employment, social security, and regional policies, though health and education policies are also key areas.

The EU can be considered a laboratory of 27 different experiences and models for all these areas, with a wide variety of lessons relevant to China in different ways, including those from countries that have long experience as market economies, and others that have managed transition over the last 20 years.

As China develops its own model of social provision, it is relevant for the country to examine the main European social models and to see how the EU addresses specific issues such as, for example, labour markets, social exclusion, and pension sustainability. This is already proving beneficial in the current 'social security' project treats three specific areas: pensions, unemployment benefit, and medical insurance.

The objective of further co-operation in this area will be to assist China in reducing the negative social side-effects of economic reform, to contribute to poverty alleviation, and to implement the Decent Work Agenda. This could be done through supporting the development of health and

safety insurance schemes, the improvement of regional policy, institutional strengthening of the agencies charged with managing social provision systems, and the extension of pension and unemployment insurance coverage to the urban private and informal sector.

2.2.1.5 Sectoral Dialogues

An increasing number of sectoral dialogues have been established with the Chinese Government in a wide range of sectors. A summary of the subjects presently covered by the dialogues is given in Annex 3.12. The number of dialogues has expanded rapidly in recent years, reflecting the opportunities for China and the EU to learn from each other through the exchange of information, and providing common ground for co-operation.

The dialogues and exchanges are supportive of China's reform and development. The Chinese Government shows keen interest in broadening and intensifying these dialogues. They provide a forum for exchange between policymakers. Some are linked to global sustainable development issues, where China and the EU both face challenges, and where China can benefit from strategies developed by the EU.

In the 2005-2006 NIP €6 million³ was allocated for a Policy Dialogue Support Facility (PDSF) to support policy dialogues and exchanges between the Commission's services and the Chinese authorities. This will create close links between the co-operation programme and the reform-oriented exchanges that take place. Engagement in exchanges at provincial level will be promoted. While the performance and results of the PDSF will be evaluated in due course, follow-up activity will be required during the period of the SP to maintain impetus and support for these activities.

Some successful aspects of EU-China co-operation in the area of governance, carried out in partnership with the national School of Administration, could be consolidated and deepened. China will continue to be engaged in the reform of its public administration system, an element of which is the first (2006) Civil Servant Law. Continued support for the strengthening and modernisation of public administration would help improve governance and the rule of law and enhance the sustainability of China's economic and social development. Bilateral cooperation and dialogue on tax matters should be further enhanced.

An additional element for consideration in the formulation of further PDSF-related activities is the provision of short-term training for senior Chinese nationals from government and civil society who have a potential role to play in the direction of China's future political, economic, social and administrative environment. Some higher education institutions in the EU are well suited to providing high-level exposure to EU policy issues of direct relevance to China.

2.2.2 The environment, energy and climate change

Policymakers in China increasingly see environmental protection as a major challenge, and environmental developments in China frequently have an impact at global level. There is a genuine wish among policymakers in China to learn from EU experience and, over the last decade, contacts and co-operation on environmental and energy issues between the Commission and China have increased substantially through established ministerial-level dialogues, through working group contacts and through the EU-China co-operation programme.

Of particular pertinence is the issue of climate change. As a major emitter of greenhouse gases, China's active participation in the debate on this subject is vital. Much work has been done on projecting China's emissions and their potential impact on global warming, as well as on the likely impacts of climate change in China, and the Chinese Government is aware of its global

³ Of which €1.4 million for the continuation of the EU-China Interpreter Training Programme (EUCIPT)

responsibilities that are increasing in parallel with the country's economic growth. In recognition of this, the 2005 EU-China Summit established an EU-China Partnership on Climate Change, which now has an agreed Work Programme and has led to a further increase in co-operation. The flagship project under the Partnership is an agreement to develop a NZEC demonstration plant with carbon capture and storage in China by 2020.

At the 2005 EU-China Summit both sides confirmed their commitment to the objectives of the UN Framework Convention on Climate Change and the Kyoto Protocol, and agreed to set up a partnership to strengthen co-operation and dialogue on climate change including clean energy, and to promote sustainable development. In this context it was agreed that key areas for technical co-operation would be energy sector reform (efficiency, conservation, new and renewable energy, clean coal, methane recovery and use, carbon capture and storage, hydrogen and fuel cells, and power generation and transmission); implementation of the Clean Development Mechanism (CDM); adaptation to climate change, and related research and technological development.

Energy sector reform and the effective promotion of energy saving and efficiency would further reduce China's energy demand on the world markets.

In addition to the areas of co-operation indicated above, other areas of key interest would be pollution control and natural resources management, including biodiversity conservation. The issue of water management is high on the Chinese political agenda, where China is considering alternative approaches which may include aspects of the EU Water Framework Directive. There is also potential for co-operation in the area of air pollution since China suffers from severe air pollution problems in its urban areas and makes a significant contribution to hemispheric transport of pollutants such as mercury. Opportunities also exist for co-operation in the area of vehicle emissions, where China has already adopted some EU standards, and in integrated waste management. These are all areas in which the EC has already co-operated with China, and where there are opportunities to build on available experience. More generally, co-operation on environmental legislation and standards, in particular where they impact on trade, should be continued. The Chinese Government is also keen to explore ways to improve the implementation of such legislation, and is actively promoting public awareness, disclosure of environmental information and public participation. There is, furthermore, interest in using economic instruments in environmental and energy policies, where EU experience can be shared with Chinese partners in these areas.

2.2.3 Human Resources Development

2.2.3.1 Higher Education

In the higher education sector Chinese postgraduate students have been extremely successful in taking up scholarships to undertake masters courses in the EU under the Erasmus Mundus Programme, through both the worldwide core funding for the programme and a special €9 million 'China Window' financed under the 2004-2006 NIP to provide additional scholarships for Chinese students during the academic years 2005/2006 to 2007/2008. The total intake of Chinese Erasmus Mundus masters students for the first three years of programme implementation is approximately 285, of which 120 under the general scheme and 165 under the China Window.

The strong Chinese interest in developing co-operation with the EU in the field of higher education has been demonstrated in the context of the EU-China Higher Education Dialogue which took place in Beijing for the first time in November 2005 as well as, more recently, in the Joint Statement of the Helsinki EU-China Summit where the Chinese side expressed interest in making further progress with the EU on this topic. It is proposed that financial resources continue to be allocated to this sector under the SP to provide scholarships for Chinese students

to further promote their studying in the EU. In addition to the purely educational and developmental benefits that this support provides, it would also contribute substantially towards the improvement of people-to-people links between the EU and China.

The scholarships provided will build on the capacity being created through ongoing EC higher education regional co-operation activities such as Asia-Link, the 6th Framework Programme for Research and Technological Development (RTD), and EU Member States' promotional exercises geared to the development of partnerships, networks, contacts and student exchanges.

The new €23 million EU-China Managers Exchange and Training Programme (METP) financed under the 2002-2004 NIP (EU contribution €17.2 million) was launched in 2006, and will run until 2010.

3 ANNEXES

3.1 ACRONYMS

ADS	Approved Destination Status
AQSIQ	General Administration for Quality Supervision, Inspection and Quarantine of the People's Republic of China
CAAC	Civil Aviation Authority of China
CCP	Chinese Communist Party
CDM	Clean Development Mechanism
CEPA	China-EU Public Administration Programme
CSP	Country Strategy Paper (2002-2006)
EUTCP	EU-China Trade Co-operation Programme
FDI	Foreign Direct Investment
FYP	Five Year Plan
GDP	Gross Domestic Product
HDI	Human Development Index
ICCPR	International Convention on Civil and Political Rights
IPR	Intellectual Property Rights
MDGs	Millennium Development Goals
MIP	Multiannual Indicative Programme (2007 onwards)
MOFCOM	Ministry of Commerce
MTR	Mid-Term Review
NIP	National Indicative Programme (2002-2004, and 2005-2006)
NZEC	Near Zero Emission Coal Fired Power Plant
ODA	Official Development Assistance
PCA	Partnership and Co-operation Agreement
PDSF	Policy Dialogue Support Facility
PPP	Purchasing Power Parity
SAR	Special Administrative Region
SEPA	State Environment Protection Administration
SP	Strategy Paper (2007-2013)
UNFCCC	United Nations Framework Convention on Climate Change
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

3.2 CHINA'S POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION

3.2.1 The political situation

The Commission has set out a full analysis of the situation in China, China's priorities, and the EU's approach, in its 2006 Communication and Trade Policy Paper⁴. This analysis builds on these papers.

China is the world's 4th economy, its 3rd exporter, the EU's 2nd trading partner, and the world's most populous country.

The present Chinese leadership took over in March 2003 under President Hu Jintao. President Hu's priorities include sustainable economic growth and the strategic restructuring of the Chinese economy. Increased attention is being paid to social and environmental problems, and to fighting corruption.

Internationally, China is increasingly active in the UN and is keen to promote stability and closer regional co-operation within Asia, where she aims at developing trade and economic relations while reassuring neighbours who are concerned about her military and economic power. Stability on her borders, a guaranteed supply of energy and raw materials and access to water are factors which are essential to China's continued economic growth, and which constitute important elements in the shaping of her foreign policy and her development co-operation policy towards countries in Africa and other regions.

In recent years, in the political area, the state has reinforced its power of control over individuals. Respect for human rights in China falls short of accepted international standards in regard to both civil and political rights. Freedom of expression, association, religion, internet use and the press are heavily restricted; ideological debate is strictly limited by the state; and concerns persist over the rights of minorities in certain areas. There is strong international pressure on China to ratify the International Convention on Civil and Political Rights (ICCPR), which the country signed in 1998.

Despite these restrictions, most people in China now enjoy greater freedom than at any other time in the past century, and their opportunities in society have increased in many ways.

Social grievances, widespread corruption, land rights issues and pollution have nevertheless sparked frequent riots, particularly in rural areas. Official figures released in 2005 put the number of riots for that year at some 74,000, involving over three million people, a sharp rise from previous years.

3.2.2 The economic situation including trade

Economic growth is estimated to have been consistently in excess of 9% in recent years and is considered likely to continue at that pace in the coming years. Such an increase in output represents one of the most sustained and rapid economic transformations seen in the world economy in the past 50 years. This growth has delivered higher incomes, the emergence of a sizeable middle class, and a substantial reduction in the numbers of those living in absolute poverty. It has also led, however, to considerable income disparities and environmental costs.

China's GDP reached over US\$ 2,200 billion in 2005, and now exceeds that of most European economies. Chinese GDP measured at Purchasing Power Parity (PPP) is some four times higher than the above figure, and stands at around US\$ 8,800 billion. But average incomes per capita in

⁴ COM(2006) 631 and 632 of 24/10/06

financial terms and at PPP are US\$ 1,700 (or 6% of average per capita income in the EU) and US\$ 6,800 (25% of the EU) respectively.

While average incomes are still below those in other middle income countries, there are large parts of the country that have reached income levels seen in some developed East Asian countries just one generation ago, and are rapidly catching up. Many of China's industries have become completely integrated into the world supply chain and on current trends China could become the largest exporter in the world by the beginning of the next decade. Since 2004, the EU has been China's largest trading partner, having overtaken the US and Japan. China remains the EU's second largest trading partner after the US. China has a very large trade surplus with the EU (US\$132 billion or €105 billion in 2005⁵) and the US (US\$ 201 billion in 2005⁶) that partially offsets its trade deficit with other countries, particularly Asian countries (US\$ 75 billion in 2005⁷). Trade with Asian countries – and with Africa – has nevertheless been growing rapidly.

China continues to attract large foreign capital inflows. In 2005, FDI inflows remained stable at around US\$ 60 billion (2.7% of GDP), the main sources being Hong Kong, Korea and Japan. China also provides FDI, mainly to Asian countries. In 2005 China's foreign exchange reserves increased by US\$ 209 billion to US\$819 billion. By the end of 2006, this figure was approaching US\$1 trillion, making China the largest official foreign exchange reserve holder in the world.

3.2.3 The social situation

The rapid economic growth that has taken place in China in recent years has resulted in substantial improvements in living standards for many Chinese. The UN estimates that the number of poor living on less than US\$ 1 per day fell from approximately 490 million in 1990 to some 88 million in 2002 (6.9% of the population). However, the benefits of this growth have not been equitably distributed, and positive aggregate national figures can mask considerable and growing disparities between coastal provinces and remote inland resource-poor provinces, and between urban and rural areas. New forms of urban poverty have appeared among the estimated 100 million migrant workers who are not fully employed and are not integrated into urban social services. Many have been left outside existing social safety nets, and there is a need to provide improved social protection in the form of social security schemes, unemployment benefits and pensions. Poverty indicators are given in Annex 3.7.

These inequalities are recognised in China's 11th Five Year Plan, which acknowledges the need to address these issues, but at the same time avoiding the elimination of incentives for growth.

In terms of human development, the UNDP 2005 Human Development Report places China in the higher range of the 'Medium Human Development' countries, with an HDI index of 0.755 in 2003.

China is considered to be on track to achieve most of its Millennium Development Goals (MDGs) by 2015, and is the world's largest single contributor to global progress on MDGs. Progress has been impressive across a range of social development indicators such as child mortality, illiteracy and life expectancy. MDG targets that require attention have been identified in the areas of gender equality (achieve equal access to primary and secondary education for girls

⁵ Eurostat: compiled from aggregated EU Member State data. US\$70 billion according to Chinese data. The discrepancies are partly explained by the fact that the latter include imports arriving in the EU from China via Hong Kong. Similar methodological problems exist with EU exports to China and highlight the major divergences between EU (and other developed countries') and Chinese methodological approaches. There could be a case for co-operation in the statistical area under the Policy Dialogue Support Facility.

⁶ US statistics. China's statistics indicate a trade surplus with the US of US\$ 114 billion in 2005.

⁷ Chinese statistics.

and boys by 2005), combating disease (halt and reverse the spread of AIDS/HIV and halve the prevalence of TB by 2015), and the environment (implement national strategies for sustainable development by 2005 to reverse the loss of environmental resources by 2015). China's commitment to achieving the MDGs is strong, and MDG targets that are not presently on track are receiving attention. An overview of China's MDG status is given in Annex 3.8.

Sexual inequality remains a challenge for China. Its labour market is highly segregated by gender: layoffs affect women disproportionately, and gender-based wage differences continue. The proportion of female students enrolled in all types of educational institutions is lower than for men, and within the adult population the illiteracy rate for women is 2.6 times the rate for men. In the area of pension insurance, gender differences are notable even in the cities, where three men have insurance coverage for every two women. There is also a gender difference in public health services and medical insurance.

China has signed important UN conventions and resolutions, notably the UN Covenants on Economic, Social and Cultural Rights and on Civil and Political Rights, signed in 1997 and 1998 respectively, which remain the cornerstone for improving the situation of individual rights in China. The former was ratified on 28 February 2001, though with an important reservation concerning the freedom to establish trade unions.

3.2.4 The environmental and energy situation

An estimated 63% of China's energy comes from coal, which contributes significantly to air pollution and carbon emissions. The Government is shifting towards other energy sources through construction of new nuclear energy plants, gas pipeline projects, hydroelectric schemes, and other forms of renewable energy. But China's coal consumption continues to grow rapidly, with a corresponding increase in emissions. Energy conservation and efficiency in industry and in the building and automotive sectors remain very low. In 2004 China was the world's second largest consumer of petroleum products, and, as the source of around 40% of world oil demand growth in recent years, the country's demand is a key factor in world oil markets.

Carbon emissions and air pollution are direct results of the energy consumption of industrial activity, domestic heating and vehicle emissions. Sulphur dioxide and soot caused by coal combustion are two major air pollutants. Industry consumes almost half of China's coal and is the largest source of urban air pollution, resulting in a high level of pollution-related illnesses and a reduction in GDP. Chinese air pollution also affects other countries and regions, and the country contributes significantly to global carbon emissions. China is a non-Annex I country under the UNFCCC, and is not bound by targets for the reduction of carbon dioxide emissions under the Kyoto Protocol. The Government is nevertheless addressing pollution issues through new legislation, pricing reforms, environmental education campaigns and the delegation of environmental responsibility to local governments. China is playing a key role in international negotiations on climate change.

Economic growth is placing a heavy burden on China's water resources in both quantitative and qualitative terms. The current annual net water deficit is around 40 billion m³. Water pollution exacerbates this situation and is leading to the extinction of species and serious and sometimes irreversible degradation of ecosystems. It stems mainly from industrial and municipal sources, but agricultural pollution from fertilisers and pesticides also impacts on water quality and inland and coastal fisheries. Water scarcity problems are being addressed through water engineering projects, but improved management of available water resources is required.

A further impact of China's industrialisation is the annual production of 30-50 million tonnes of hazardous wastes, for which there are currently neither standard procedures for disposal nor industry-to-disposal tracing methods, and for which legislation and technology are needed.

While China's 1998 logging ban introduced in selected provinces has curbed the degradation of the country's forestry resources, economic growth nevertheless continues to fuel high demand for roundwood, timber, pulp and paper. Domestic plantation production has increased but does not cover domestic needs, and the importation of roundwood and timber is increasing, often from countries where illegal logging is prolific. The Commission and China will continue to engage on the sustainable management of global forestry and timber resources as agreed at the EU-China Summit in September 2005.

At the end of 2004, it was estimated that some 27% of China's total land area was desertified. The reduction of desertification is hampered by non-sustainable agricultural and water-use practices.

3.3 CHINA'S POLICY AGENDA

3.3.1 An overview of China's political and economic agenda

China's 11th Five Year Plan (FYP) was approved by the National People's Congress in March 2006 and sets out policy guidelines for the country for the period from 2006 to 2010. Central to these objectives are efforts to balance economic advancement with the sometimes short-term conflicting objectives of social equality and environmental protection. This means redressing some of the negative factors associated with China's rapid economic growth in recent years: imbalances in regional growth and income distribution; uncontrolled capital investment; rising energy consumption; environmental degradation; and depletion of the country's resource base.

Priorities for the FYP can be summarised as follows:

- **To transform and rebalance the means by which China grows:** through increased emphasis on domestic demand as a stimulant for growth; expanding the primarily industrial growth base to services and agriculture; promoting human capital and technology as a driver of investment; and through more efficient use of resources.
- **To adjust and optimise the industrial structure:** through improved research and development capacity, and technological innovation; and through promoting industrialisation and employment creation in a regional context.
- **To address the problems associated with rural areas:** agricultural incomes and production to be improved through more efficient use of resources, improved agricultural techniques, better public services and infrastructure investment.
- **To secure a better balance of development between urban and rural areas, and between different regions:** through continued urbanisation and through policy development for the different regions based on analysis of resources, population distribution, etc.
- **Protection of resources and preservation of the environment:** through the promotion of resource-efficiency, environmental sustainability, and recycling.
- **Development of human resources, talent and technology:** to improve the country's innovative capacity; to ensure a more equitable distribution of education resources; and to improve the quality of higher education.
- **Further economic reform:** through placing greater reliance on market forces and deepening reforms in the fiscal, investment and financial systems; through the examination of structures for the pricing of resources.
- **Institutional reform:** through deepened reform of the administration system strengthening "governance by law", information disclosure and public participation in decision-making.

3.3.2 Social Sectors

Building a more harmonious, more socially responsible society is to be achieved through measures to reduce unemployment (limitation of layoffs in state enterprises, social assistance for the unemployed) and the reinforcement of social protection mechanisms such as health insurance for urban workers, revision of the pension system, and social protection for migrant workers. In parallel with these measures the proposals call for more social justice in income distribution ('regulation' of high incomes, progressive broadening and raising of minimum incomes, reduction of social and regional disparities, etc.).

As regards public health, the FYP highlights the need for increased government intervention. Priority will be given to the prevention of communicable and work-related diseases. The need

for improved access to health care is recognised, and the question of work safety is given particular attention, notably in high-risk sectors such as mineral extraction.

In the area of education, the new plan targets the modernisation of teaching methods, the broadening of compulsory schooling to the age of fifteen, and the intensification of vocational training.

3.3.3 Environmental and energy policies

The Chinese Government is committed to maintaining economic growth while making the country's economy more sustainable. The production of cleaner energy, increasing energy efficiency and counteracting the deterioration of the environment are key preconditions to the achievement of these objectives. The concepts of the "harmonious society" and the "circular economy" provide overall guidance in relation to this development path.

China's strategy to meet growing energy demand is twofold: to increase supply from all available national and international energy sources, i.e. fossil fuels, renewable energy and nuclear energy; and to increase energy efficiency. By 2020, China plans to produce 15% of its total energy mix from renewable sources and around 4% from nuclear sources. Coal will nevertheless remain the principal energy source, and it will therefore be important for China to use it in a cleaner and more efficient manner. Improved energy efficiency will require massive investment, particularly in the construction and transport sectors, and in energy-intensive industries.

China's commitment to resolving broader environmental issues is also reflected in the FYP. One of the few quantified targets set out in the Plan is a decrease in energy consumption by 20% per unit of GDP over the period of the plan. Targets have also been set for strengthening macro-economic control over environmental issues, improving water resource management, combating air pollution, controlling waste pollution, halting the decline in biodiversity, enhancing the marine environment, and reinforcing environmental monitoring, supervision and enforcement.

There is strong Chinese interest in exploring EU practices and experience in these areas, including the use of regulatory and economic instruments in environmental policy and public participation in policymaking and implementation.

3.4 EC CO-OPERATION OBJECTIVES

3.4.1 The EU Treaty Objectives for External Co-operation

The European Commission's development programme in China is grounded in Article 177 of the Treaty Establishing the European Community⁸, which sets out the following broad objectives for development co-operation:

- Sustainable economic and social development of developing countries;
- Smooth and gradual integration of developing countries into the world economy;
- The campaign against poverty in developing countries.

In addition, Article 181a of the Treaty provides that the Community shall carry out economic, financial and technical co-operation measures with third countries that are complementary to those carried out by the Member States and consistent with the development policy of the Community. The Community's policy shall contribute to the general objective of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. Development co-operation is a multidimensional process covering broad-based equitable growth, capacity and institution-building, private-sector development, social services, environment, good governance and human rights.

3.4.2 EU Objectives as laid down in other applicable documents

- (1) In accordance with Article 177 of the Treaty Establishing the European Community, the Community's development cooperation policy shall foster the sustainable economic and social development of the developing countries, the smooth and gradual integration of these countries into the global economy and the fight against poverty. The Community's policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

On the basis of Article 179 of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. China is eligible to participate in co-operation programmes financed under the DCI (Regulation (EC) No. 1905/2006 of the European Parliament and of the Council of 18th December 2006 establishing a financial instrument for development co-operation).

- (2) The present basis for EU-China co-operation is the **1985 Trade and Economic Co-operation Agreement** between the then European Economic Community and the People's Republic of China (PRC), covering trade, economic co-operation and development as a basis for institutionalised dialogue.

However, this Agreement no longer reflects the breadth and scope of the relationship, and at the 9th EU-China Summit leaders agreed to launch negotiations on a new, extended Partnership and Co-operation Agreement (PCA) to update the basis for co-operation. This new agreement will provide a single framework covering the full range and complexity of the relationship, and it should be forward-looking and reflect EU priorities.

⁸<http://europa.eu.int/eur-lex/lex/en/treaties/index.htm>

- (3) Current EU policy towards China is set out in the Commission's 2006 Communication to the Council and the European Parliament entitled "**EU-China: Closer partners, growing responsibilities**".⁹

In this document it is proposed that the EU should continue support for China's internal political and economic reform process, for a strong and stable China which fully respects fundamental rights and freedoms, protects minorities and guarantees the rule of law. It states that the EU will reinforce co-operation to ensure sustainable development, pursue a fair and robust trade policy and work to strengthen and add balance to bilateral relations. It recognises that the EU and China should work together in support of peace and stability and that the EU should increase co-ordination and joint action and improve co-operation with European industry and civil society.

A number of key objectives are identified in the Communication, notably: supporting China's transition towards a more open and pluralist society; promoting sustainable development; ensuring secure and sustainable energy supplies; combating climate change and improving the environment; improving exchanges on employment and social issues; improving co-ordination on international development; and building sustainable economic growth.

- (4) In its **12 April 2005 Communication on Policy Coherence for Development**, the Commission defined coherence commitments in the overall framework of the EU sustainable development strategy and identified the following priority areas with high potential for attaining synergies with development policy objectives: trade; environment; security; agriculture and fisheries; social dimension of globalisation, employment and decent work; migration; research and innovation; information society; transport and energy. These commitments were endorsed by the General Affairs and External Relations Council (GAERC) on 24 May 2005. The Communication further calls on non-development policies to respect development policy objectives and on development co-operation to also contribute, where possible, to reaching the objectives of other EU policies.
- (5) The importance of strengthening the social dimension of globalisation and of promoting productive employment and decent work opportunities was highlighted in §47 of the **UN Summit conclusions of September 2005** regarding human and social development. UN member states committed themselves in particular to "strongly support fair globalisation and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the MDGs."
- (6) At its meeting on 22 November 2005, the General Affairs and External Relations Council adopted the **EU Development Policy Statement**, also known as "the European Consensus", endorsed by the European Parliament on 15 December, replacing the development commitments of the Joint Declaration of the Council and European Commission adopted in November 2000. The "European Consensus on Development" provides, for the first time, a common vision that guides the action of the EU, both at Member State and at Community level, in development co-operation.

The Statement identifies the eradication of poverty in the context of sustainable development, including pursuit of the MDGs, as the primary and overarching objective of EU development co-operation. The Statement also emphasises that EU partnership and

⁹ COM (2006) 631 of 24/10/06.

dialogue with third countries will promote common values of respect for human rights, fundamental freedoms, peace, democracy, good governance, gender equality, the rule of law, solidarity and justice and the EU's commitment to effective multilateralism.

3.5 REVIEW OF PREVIOUS CO-OPERATION

In 1996 the Commission and the Chinese Government agreed to shift EC development funding from the established focal areas of infrastructure and rural development towards a range of interventions aimed at supporting the country's reform process, placing appropriate emphasis on human resource development. This policy shift reflected China's transformation from a traditional developing country to an economy in transition, and was designed to underpin the Government's strategy of accelerating economic, social and administrative reform.

The China 2002-2006 CSP reinforced this shift of emphasis, and contained three focal areas: support for social and economic reform; the environment and sustainable development; and good governance and the rule of law. A total indicative budget of €250 million was envisaged for the five-year period, initially allocated as €150 million under the first NIP (2002-2004), and €100 million under the second NIP. Out of this €250 million total indicative allocation, financing of programmes and projects has amounted to €181 million (72%). A list of projects and activities under the two NIPs is given in Annex 3.9. In addition there are two key ongoing pre-NIP programmes, the €16.9 million Natural Forest Management Programme and the €20 million Energy and Environment Programme.

A Mid-Term Review (MTR) of the CSP/NIP was carried out in 2003 and concluded that the co-operation objectives defined in the CSP remained valid. The fast pace of change in China highlighted the importance of the focal areas of co-operation in assisting the country with its efforts to ensure that the overall balance in its development is in keeping with its rapid economic growth. The review considered that the previous CSP was appropriate in this respect, and was in line with the Commission's 2003 China Policy Paper.

Certain modifications to the 2002-2004 NIP were required in order to reflect the realities encountered during project preparation, notably in the third focal sector - support for good governance and the rule of law - where political sensitivities were encountered. Neither the €10 million earmarked for the fight against illegal migration nor the €20 million intended for the development of civil society resulted in financing decisions. A programme designed to strengthen the rule of law and civil society was however approved in 2006, together with financing for the EU-China Law School.

This non-commitment in the third sector of intervention was in part used to strengthen the financing for the second sector - the environment and sustainable development - where the initial allocation of €45 million for biodiversity protection and water resources conservation was increased to €55 million.

The second NIP (2005-2006) focused on the CSP priority areas of social and economic reform, and good governance and the rule of law. Under the first sector, interventions have been approved for business management training (€8.15 million), and for the protection of intellectual property rights (€10.85 million). Under the second sector, funding was approved for the creation of an EU-China Law School (€18.2 million) and for "Governance for Equitable Development: Strengthening the Rule of Law and Civil Society Participation in China" (€6.8 million). An additional cross-sectoral project to provide support for EU-China dialogues is now under implementation.

It had also been intended under the second NIP to provide financing (€50 million) for a second "China Window" under the worldwide Erasmus Mundus programme to enable additional

scholarships to be granted to Chinese students to participate in Masters courses in Europe. Pending discussions with the Chinese Government on these funds, they were re-allocated to humanitarian relief and assistance in Asia, though further funding for higher education is proposed under the present Strategy Paper.

From 2002-2006 humanitarian assistance amounting to €10.5 million was allocated to China to assist the victims of flooding, and to support vulnerable groups in Tibet after heavy snowfall.

3.6 THEMATIC AND REGIONAL PROGRAMMES

In addition to the interventions envisaged under the present programming document, and in support of some policy dialogues, the Commission will continue to finance complementary thematic interventions in the following areas¹⁰:

- Democracy and Human Rights: where activities could be funded to support co-operation and dialogue in the field of governance and human rights.
- Non-State Actors in Development: assistance could be provided to NGOs and other civil society organisations working in areas related to the SP.
- Migration and Asylum: in support of EU-China dialogue on these issues.
- Investing in People: initiatives to complement activities under the SP priority sector of human resources development and public administration co-operation.
- Environment and Sustainable Management of Natural Resources Including Energy: to complement the focal sector environment, energy and climate change.

These thematic activities will be supported with financial resources that are additional to those provided under the MIP. In addition, China will benefit from activities funded under the Asia-wide programmes.

¹⁰ A list of projects being implemented under thematic budget lines and Asia-wide programmes is given in Annex 3.11

3.7 CHINA AT A GLANCE – BASIC FACTS

Territory	9.6 million sq km
Population	1,300,000,000 (2004)
Population Growth rate	0.6% (2004 estimate)
Birth rate	13.14 births/1,000 population (2005 estimate)
Death rate	7 deaths/1,000 population (2005 estimate)
Life expectancy at birth	72 years (2004)
Adult Literacy Rate	91%
Population below inter-national poverty line	2.8% (2004)
Estimate of HIV/AIDS prevalence	0.06 to 0.11% (2004)
Malaria prevalence	6.53% (2004)
Population with access to clean drinking water in rural areas	60% (2004)
Under-five mortality rate	25% (2004)
Net primary enrolment ratio	98% (2003)
Girls in primary education	47.2% (2002)
Maternal mortality ratio (per 100,000 live births)	51.3 (2003)
Ethnic diversity	Han Chinese: 91.9%; 55 other officially recognised minority groups including: Zhuang (16m), Manchu (10m), Hui (9m), Miao (8m), Muslim Uighurs (7m), Yi (7m); Tibetan (5m), Mongolian (5m), Buyi (3m), Korean (2m)
GDP	US\$ 8.8 trillion (2005 estimate) at Purchasing Power Parity
GDP per Capita (PPP)	US\$ 6,800 (2005 estimate)
Real GDP Growth	9% (2005)
GDP Composition	agriculture 13%, industry 47%, services 40% (2005 estimates)
Exports	US\$ 750 billion f.o.b. (2005 estimate)
Imports	US\$ 630 billion f.o.b. (2005 estimate)
Bilateral Trade (Eurostat 2005)	EU Imports €126 billion - 12% of global imports EU Exports €48 billion - 5% of global exports

3.8 CHINA MDGs

OVERVIEW OF CHINA MDGs STATUS (AS AT OCTOBER 2005)		
GOALS AND TARGETS	STATE OF GOAL ACHIEVEMENT	STATE OF SUPPORTIVE ENVIRONMENT
Eradicate Extreme Poverty and Hunger by 2015 <ul style="list-style-type: none"> ▪ Halve the proportion of people living in extreme poverty 	On track	Well developed
<ul style="list-style-type: none"> ▪ Halve the proportion of population below minimum level of dietary energy consumption ▪ Make the proportion of underweight children under 5 	On track	In place
Universal primary education by 2015 <ul style="list-style-type: none"> ▪ Achieve universal primary education by 2015 	On track	In place
Gender equality <ul style="list-style-type: none"> ▪ Achieve equal access for boys and girls to primary and lower secondary schooling by 2005 ▪ Achieve equal access for boys and girls to upper secondary education by 2005 	On track Maybe not on track	In place In place
Under 5 mortality <ul style="list-style-type: none"> ▪ Reduce under 5 mortality by two thirds by 2015 	Maybe not on track	In place
Reproductive Health <ul style="list-style-type: none"> ▪ Reduce maternal mortality ratio by three-quarters by 2015 ▪ Universal access to safe/reliable reproductive health services (contraceptive methods) by 2015 	On track On track	In place Well developed
Combat disease (HIV-AIDS, TB and malaria) <ul style="list-style-type: none"> ▪ Halt and reverse the spread of HIVs/AIDS by 2015 ▪ Halve the prevalence of TB by 2015 ▪ Reduce the incidence of malaria 	On track Maybe not on track On track	In place In place In place
Environment <ul style="list-style-type: none"> ▪ Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015 	Maybe not on track	Well developed
Basic amenities <ul style="list-style-type: none"> ▪ Halve the proportion of people unable to reach or afford safe drinking water by 2015 ▪ Improve the proportion of rural people with access to improve sanitation 	On track On track	Well developed In place

Source : "China's progress towards the Millennium Development Goals" Ministry of Foreign Affairs/UN – October 2005

3.9 EC CO-OPERATION WITH CHINA UNDER THE 2002-2006 CSP

CHINA

July 2006

NIP 2002 - 2004. COMMITMENTS (PLANNED AND ACTUAL)					
Projects and Programmes by sector	Planned in NIP	Committed 2002	Committed 2003	Committed 2004	TOTAL COMMITTED
Support to Social and Economic Reforms					
EU-China WTO co-operation	15,00	15,00			15,00
Social security reform	20,00			20,00	20,00
Information society	15,00			15,00	15,00
Human resources development :	25,00				
(a) Managers Exchange and Training Programme				17,20	17,20
(b) Scholarships linked to Erasmus Mundus				9,00	9,00
Sector sub-total	(75,00)				(76,20)
Environment and Sustainable Development					
Environment Programme Policy Advice	15,00				
Biodiversity protection	15,00			30,00	30,00
Water Resources Conservation	15,00			25,00	25,00
Sector sub-total	(45,00)				(55,00)
Good Governance and the Rule of Law					
Fight against illegal immigration	10,00			0,00	0,00
Support to civil society	20,00			0,00	0,00
Sector sub-total	(30,00)				(0,00)
TOTALS	150,00	15,00	0,00	116,20	131,20

NIP 2005 - 2006. PLANNED COMMITMENTS		
Projects and Programmes by sector	Planned in NIP	Commitment 2006
Support to Social and Economic Reforms		
Higher education: Erasmus Mundus China Window	50,00	0,00
Business Management Training Project		8,15
Protection of Intellectual Property Rights (IPR II)	10,00	10,85
Sector sub-total	(60,00)	(19,00)
Good Governance and the Rule of Law		
Governance Capacity Building	25,00	
Rule of law and Civil Society Programme (1)		6,80
EU-China Law School		18,20
Sector sub-total	(25,00)	(25,00)
Cross-Sectoral		
Policy Dialogue Support Facility (PDSF)	5,00	6,00
Reserve	10,00	
TOTALS	100,00	50,00

(1) Governance for Equitable Development: Strengthening Rule of law and Civil Society participation in China

3.10 2006 COUNTRY-LEVEL EVALUATION

An independent Country-Level Evaluation of the EC co-operation programme was commissioned in 2006, from which conclusions have been drawn from past experience, and recommendations made for future co-operation. The evaluation was carried out while taking account of the EU's strategic interests in China and the sectoral policy dialogues.

Based on in-depth reviews of the main areas of co-operation in which the programme has been engaged since 1998, the evaluation concluded that the EC approach to China is generally rated positively, and the following overall conclusions have been reached and recommendations made:

Overall Conclusions

- The EC approach to China is considered relevant to the Chinese policy context and needs, and is consistent with long-term EU policy goals. It is providing opportunities: to engage in institution-building relating to regulation, legislation, standards, best practices, etc., with positive (albeit hard to quantify) impacts on EU-China trade and business relations; to improve China's capacity to deal with environmental problems as well as with its own emerging social reforms; and to engage in human rights dialogue and co-operation.
- While there have been successes at the level of policy processes and regimes (legislation, standards, regulations), concrete results have been limited by problems at the level of policy administration, implementation and enforcement. Many of these arise from poor governance.
- Impact and effectiveness have been adversely affected, though not fatally, by delays in project implementation.
- At the higher level, the Chinese and European sides share a common language and partnership, and are moving towards a dialogue of equals. At the level of implementation, however, there continues to be some friction over the Commission's policy of limiting its financing to technical assistance and expertise.
- Co-ordination between the EC and Member States, and between the EC and multilateral aid organisations, is strong in form but weak in substance.
- Links between the EC-China sectoral dialogues and the co-operation programme are satisfactory as regards the impact of dialogues on the co-operation programme, but more could be done to feed the dialogues with valuable experience gained from the co-operation programme.
- Too many promising pilot projects have not been replicated elsewhere or rolled out to the national level; project follow-up is weak.
- Poverty and the theme of "winners and losers" have not been well integrated into economic and social reform projects, nor into trade projects.
- Given that the 2006 Commission Communication clearly spells out a new vision for co-operation with China, one based more solidly on mutual gains, there is a need to look beyond the time when development co-operation will be an appropriate tool of engagement.

Overall Recommendations:

- Development co-operation with China should be continued, but with greater effort to publicise the mutual benefits accruing.
- Recent policy formulation successes with programmes designed to improve administration, implementation and enforcement should be continued. In order to be successful, however, the theme of governance should be better mainstreamed into all sectors.

- Problems of implementation delays are universally recognised. The problem should be analysed and measures taken to find remedies.
- On partnership issues, taking account of the financial resources available to the Government of China, the EC should maintain its policy of only financing technical assistance in order to provide international best practice and European policy models, in areas where the EC has a unique comparative advantage to deliver.
- The EC Delegation should review, in terms of organisational structures, information flow and human resources policy, the role and functions of the project officers with regard to the sectoral dialogues.
- The follow-up to pilot projects is essentially the responsibility of the Government of China. However, more attention should be paid to replication and roll-out during the project formulation and implementation phases. The current Social Security Project offers a good laboratory for testing ways of promoting follow-up.
- The mainstreaming of poverty, vulnerable groups and losers from reform into EC-financed interventions should be improved.
- While EC engagement has made a significant contribution to integrating China into the world economy, especially in the areas of WTO-related capacity-building, policy advice and awareness-raising, efforts should be made to align trade co-operation more directly with European industry needs. This could be done by bringing all relevant parties together – the Ministry of Commerce, European industry representatives, and the EC Delegation – to set a programme of work.
- Projects and programmes should concentrate on large, complex problem areas (such as financial services or information society) that demand long-term involvement of European and Chinese counterparts. Such projects have greater lasting impact than smaller-scale interventions, and they also exploit the EC's comparative advantage more successfully. This comparative advantage consists largely in the ability to offer "one-stop shopping" for European policy models.
- Environment should be a consistent component of important EC interventions in China such as the trade sector policy dialogue and trade programmes, and an integrated approach in tackling climate change issues in China should be taken by incorporating aspects of climate change in ongoing and current EC-financed environmental programmes.
- The EC has successfully mainstreamed the issues of disadvantaged hinterland regions such as Western China, the Central Provinces and the North-Eastern 'rust belt' into its approach to development co-operation. However, the EC's project contributions are (unavoidably) lacking in scope and volume to fundamentally redress the issue of regional disparities in China. The sharing of best European practice in the area of regional development seems to be particularly welcomed by national officials.
- It is recommended that continued attention be given to donor co-ordination. A more unified European position in the area of climate change should, in particular, be established. The concept of complementarity should be integrated more effectively into strategic planning. Discussions on complementarity should feature a structural analysis of how the activities of the different actors interact and how and by whom gaps can be filled.
- With GDP per capita in China continuing to grow at near double-digit rates, bilateral co-operation will in the future cease to be an appropriate means of engagement. The new Communication clearly expresses the view that co-operation with China must be more firmly based on mutual benefit, and it would therefore be appropriate to begin a dialogue with the Government and other relevant partners on the form of longer-term, post-co-operation engagement. Not only would such a process improve the quality of development co-operation

outcomes in its remaining years, but it would also avoid the possible situation in which China unilaterally decides that development co-operation has outlived its usefulness.

**3.11 PROJECTS FINANCED UNDER THEMATIC BUDGET LINES AND ASIA-WIDE PROGRAMMES
(ongoing or recently completed)**

1. THEMATIC BUDGET LINES	
1.1 Democracy and Human Rights	1.989.518
European Initiative on Democracy and Human Rights	1.989.518
1.2 NGO Co-financing	7.192.508
Maternal & Child Health Care Project, Mid-West China	883.779
Child Welfare in Communities	1.000.000
Poverty Alleviation for Older People and Their Communities in Western China	750.000
Yunnan Integrated Primary Health Care Project	713.824
Innovative and Integrated STI/HIV/AIDS interventions targeting vulnerable mobile population in Guangxi Province, PRC	575.688
Rural Community Development : a microfinance project for poverty alleviation in PRC	500.000
Yunnan minority basic education project –replication phase	680.063
Block Grant	1.000.000
Poverty Alleviation through Capacity Building of Rural populations	308.705
1.3 Gender	757.246
Employment Promotion and Rights Protection for Migrant Women Workers in Beijing	757.246
1.4 Health and Population	1.066.922
Access to essential STD services in urban areas in China	1.066.922
2. ASIA-WIDE PROGRAMMES	
2.1 Asia Pro Eco (environment)	8.459.304
Oasis-Hydrosphere-Desert Interaction Influencing Overall Economical Development	386.429
Toward a better environment: implementation of energy-saving buildings in China	382.599
Feeding China's expanding demand for wood pulp: a diagnostic assessment of plantation development, fibre supply, and impacts on natural forests in China and in the South East Asia Region	466.585
Marine Investment for Future Prosperity (MARINVEST)	386.174
Feasibility Study on Demonstration of Voluntary Approaches for Industrial Environmental Management in China	334.139
Diagnostic on the commercial use of biogas recovered from the landfill in Mianyang	500.000
SBC Conferences Asia	350.609
CO2 Managers for the Industry in the People's Republic of China	212.945
Policy Reinforcement for Environmental Sound and Socially Responsible Economic Development in China (PRODEV)	480.920
Land Amelioration and Desertification Alleviation by Short-Rotation-Plant using Saline/Brackish Water (LADAS)	244.872

Diagnostic Study for the Promotion of a Sustainable Solid Waste Management Model in the Province of Sichuan	238.664
Feasibility study on the extensive utilisation of biodiesel produced from waste and/or pure oils/fats in the public vehicles in Hangzhou and preparation for the implementation of a demonstration plant (biodiesel-Fs)	244.753
Reducing CO2 emissions in China: economic legal and technical viability for an architectural integration and local production of large photovoltaic modules in China's Yunnan Province	78.214
Developing Policy Formulation and Implementation Tools for Providing Support for Ecological Forest Management in China's Urban and Peri-Urban Areas	221.057
Sustainable Urban Housing: strengthening capacity in policy formulation and implementation in the city of Xi'an	321.012
Building Capacities for Corporate Environmental Management A Survey of Experiences in the Yunnan and Jiangsu Provinces of the PR China	214.616
Feasibility study for the design of an industrial park with very low energy consumption and energy integration between the manufacturing and the residential buildings	246.766
Capacity Building and Policy Reinforcement in China in the Field of Water Resource Management	306.903
Sustainable Problem Solutions for Asian Urban Settlements and Developments by Exemplary Analysis of Sewage and Waters of the Urban Settlement "Changde" and its "Chuanzhi" River Basin	443.984
Supporting Deyang City in achieving the status of a National Environmental Protection Model City by establishing an environmental coordination office - Green City Deyang – and practically demonstrating its role in advising and build structures that secures the solving of the City's hazardous medical waste management problems.	202.914
Chinese Learning for Overcoming Barriers in Environment III (CLOBE III)	684.422
Ecological use of pig waste in peri-urban towns	727.595
EU-China Network for Capacity Building on Municipal Waste Management	196.627
Capacity Building on Business Opportunities for CDM Projects in China	179.305
2.2 Asia Urbs (urban development)	5.327.300
Suzhou Ecological waste Management	47.917
Music & Education: a cooperation for the youth	404530,62
Urban Revitalisation in the Former European Concession Area in Tianjin	486.670
MAIN - Model Application of Intelligent Public Transport Systems and Sustainable Mobility Policies in Ningbo	485.856
Heritage Conservation in Beijing URBS MODEL BEIJING	499.999
Environmental Upgrading of urban areas through Tourism (EUTOU)	499.810
Better Care-Solutions for Elderly in Shanghai	489.744
Pilot Project In Panzhuhua for the Implementation of ECOPROFIT in China	489.117
Heritage Management and Economic Development	498.080
Sustainable City Development for Qufu City: Safeguarding Natural and Cultural Heritage and Cultural Tourism Initiatives	749.922
Sustainable Waste Handling in Hefei	723.572
2.3 Asia Invest (business co-operation)	7.953.210
Small Mushrooms - Big Business	142507
Cleaner Production in the Foundry Industry of the P.R. of China	150000
EU-Hunan Asia-INTERPRISE 2004	283569
Asia-Invest ALLIANCE, Improving Investment & Business Promotion in Sichuan (IIBPS)	90892
Asia-Invest ALLIANCE, Sino-European Network for Better Training Capacities in Intermediary Business Organisations (IBOs)	151425
Asia-Invest TECHNICAL ASSISTANCE, Project Management Training for Chinese SMEs of the Electrical Engineering Sector	74725

China Food 2004: co-operation in the food industry	98804
Asia-INTERPRISE, Toy Manufacturing and Industry China 2004	104178
Asia-INTERPRISE Vinitech China 2004/2005	133,480
Asia-INTERPRISE, EU-China Business Encounters for Analytical, Biotechnology, Diagnostics and Laboratory Technology Sectors	98,927
Asia-INTERPRISE - "Scandinavia-China Partnership 2004"	263101
Asia-INTERPRISE - EU-China Business Meeting in the Photonics Industry	121568
Asia-INTERPRISE - EU-China Chemical Industries Partnership 2004	124,290
Asia-INTERPRISE - EU-Sichuan SMEs Business Meeting	116904
SELECT - Sino-European Liaison enabling collaborations and trade in information technology	87456
SME Match-making in China for cooperation in the textile and clothing industry	143618
Developing Sino-European cooperation by improving Chinese IBOs' services	104652
EU-China automotive industry cooperation in the Yangtze river region	135054
Asia Interprise Medical Devices Business Meeting EU-China	149091
ChinaEsNET	173895
Asia Interprise PROPAK CHINA 2005	194000
EU-Asia Equipment Manufacturing Alliance 2005	132032
PROSYS	176073
Strengthening the institutional capacity for FDI attraction and European networking linkages to Shanxi region, China	172573
Capacity Building of Chinese Technological Intermediary Business Organisations (TIBOs) for international Technological Co-operations	182018
Stiftung für wirtschaftliche Entwicklung und berufliche Qualifizierung (SEQUA)	143123
ECOPROFIT for Sustainable Mongolian Entrepreneurship	173704
Asia-Invest Alliance: Strengthening the Photonics Industry, EU-China	176043
To improve Market Access for European and Chinese SMEs involved in the manufacture and supply of electrical and electronic components, by building their awareness and providing practical training on compliance strategies for the European Environment Directive ROHS, which concerns the Removal of Hazardous Substances from electrical and electronic products	272216
EU - China Yellow River Delta Interprise	295079
EUROPASIA 2006	314793
Asia Interprise EU-China Packaging 2006	176,500
Institutional strengthening in support of the enforcement of Copyright protection in China, through capacity building of collection management societies (CMS) and exchange of European best practices in CMS	146318
Corporate Social Responsibility- A Response to the Social Dimension of Globalisation in China	238614
COSMEC – Cooperation Programme for a Sustainable Partnership between SMEs of the Mechanical Industry (Machinery for Mechanics: Wood/Glass-Working Machinery, Construction Machinery, Agriculture Machinery) from the European Union and China	238959
Embedded Software Quality Assurance and Testing: Provision of Training & Technical Assistance to Chinese Software SMEs	147931
CASE EU-China Matchmaking for Camping Facilities and Services	397026
EU-China Business Encounters in the Agricultural and Food Sector	185899
Euro-Chinese T.O.U.R. (Tourism Operators Utter Reunion)	360807
EU-Chengdu SMEs Business Matchmaking & Cooperation Incubation	332692
EU-China Partenariat 2006	1.182.944
2.4 Asia Link (networking between higher education institutions)	5.220.131
The development of a core curriculum on European Studies to be used in China for MA students with supplementary Elements for PhD students	299.233
European Multimedia Curriculum for studying Modern Chinese language and Society	291.190

An integral approach to curriculum development for nature conservation in China	242.030
Promoting and Assisting Product Engineering Design Education in China	300,000
Euro-China Exchange: Technology and Culture of Generative Design Approach	298,502
Professional Joint European Chinese Cooperation in Tourism	282.500
Development of a Curriculum for Standardisation in Companies and markets	300.000
Promoting Illuminating Engineering Studies, Research and Continuing Co-operation between Europe and China	299.783
Nottingham Trent-Lappeenranta-Chongqing Universities' collaboration for human resource development in mechanical and manufacturing engineering	222.715
ECLEE - European-Chinese Link in Electrical Engineering	298.647
Masterclass among FDU, SJU, TUE and QMUL in Materials Science and Engineering	300.000
Curriculum and Module Development in Asian European Economics and Business Studies	299.373
Developing an International Master Programme on Entrepreneurship and Innovation	299.390
EMERSION - Education to Meet the Requirements of Software Industry and Beyond	300.000
Curricula Development of Technology Oriented Sustainable Resource Management in China and Thailand	299.585
Interpreting Asia Interpreting Europe	273.795
Algebra and Representations in China and Europe	300.000
Development of Multi-Disciplinary Management Strategies for Conservation and Use of Heritage Sites in Asia and Europe	299.895
Sino-European Design Management Network	299.895
Asian Studies in Europe and China	300.000
Knowledge transfer on ship design, production and operation – towards safety, efficiency and low environmental impact	300,000
Social entrepreneurship in Asia and Europe	300,000
Academic exchange of soil biophysics: the fundamental science behind the improvement of degraded soils	300,000
Integrated Watershed Management (INWAMA): a new synergetic training course for Asian - European master degree education and training in Integrated Watershed Management	300,000
EU-Asia university exchange and cooperation and cooperation in the field of telecommunication technologies	300,000
Design and Implementation of a Curriculum on Curriculum Development (DCCD)	298,893
Innovation by University Vocational Training - Curriculum Development for Competence promotion in the building automation	298,889
Curriculum development for brand building and fashion management in China and the EU	300,000
Asia-Europe link in nuclear physics and astrophysics	300,000
Comparing European and Asian studies: towards the renewal of curricular programmes	299,957
Geo-environmental engineering training programme in China	300,000
Center for Sino-European sustainable building design and construction	262,623
A multidisciplinary approach to curriculum development in sustainable built environment	300,000
STARTSIM (Training of the entrepreneurial skills by networked start up simulation)	287,608
SECER ---- Sino-Euro Centre of Education & Research on SoC	199,990
IMSt&E - Innovative Management Strategies & Education	300,000
Development of Higher Education Teaching and Training Modules for Energy Saving and Environment Protection in Process Industries	287,138
Educating Multi-Cultural Multi-National Future Leaders in Electronic Engineering	219,604
Executive MBA/ MBA Programme "Conventions and Trade Fair Management"	298,362
Development of a joint course module in high performance computing and grid computing	298,783
Development of Master level Teaching and Professional Training Modules in Managing Implementation of Enterprise Information Systems(Mi-EIS)	295,945

EA-Grid: Euro-Asia United Establishment of Double Degree Master's Programme in Grid Computing	296,647
New Interuniversity Network For Energy and Environment - NINFEE	410,597
A Framework Approach to Strengthening Asian Higher Education on Advanced Design and Manufacture	730,585
Human Resources Development for the improvement and protection of environment in Asia	635,305
URO - A new curriculum to improve the "quality of life" for people with URinary incOntinence	299,872
A EU-China Campus for Energy and Environment (EEC)	354,885
Organic Farming: Social, Ethical, Economical, Scientific and Technical aspects in a global perspective	648,491
Capacity building and establishing new Master-level curricula on mobile, wireless and Internet technologies	573,058
Joint Development of a Core Curriculum with Printed and Multi-Media Teaching and Learning Material for an Innovative European-Chinese MA Double Degree in Intercultural Studies	605,028
International OM – International Operations Management	605,873
Development of an International Curriculum of landscape knowledge in architecture and urban planning education	294,817
2.5 Asia IT & C (information technology and communication)	5.296,230
EDECAD: Education and Ecommerce Task Force for Asia-EU small firm Development	371,235
Adapting to the Chinese context a software dedicated to design and simulation of the thermal behaviours of buildings	184,000
Generic Epidemiological network in Nephrology and Rheumatology (GENNERE)	400,000
SPIN-ASIA SPintronic INnovative Technologies for ASIA	400,000
ELVIS: E-learning virtual interactive synthetic characters	387,370
WECIDM (Web-Enabled Collaboration in Intelligent Design and Manufacture)	381,501
Sino-European Systems Usability Project	370,000
Enhancing Vegetable Supply Chain Management with Internet Technologies	327,000
Cybernetic technologies for cars in the Chinese Cities	400,000
Application of Information technologies for the sustainable management of extractive industry activities	343,000
Corp Growth Monitoring and Yield Forecasting in the North China plain (Huabei)	313,000
Broadband for Barefoot Bankers	235,000
(TELEPATH) Transfer of IT&C e-learning skills to China	199,000
(DYNASTY) Demonstrating a Platform for Dynamic Traffic Information Services for the CITY of Beijing	398,000
(JEAGAL) Joint European-Asian educational and application development programme on GALileo	392,000
(Tele-Imaging in Medicine, TIME) a cyber-bridge interfaces China with Europe on collaborative health care	195,124

3.12 THE SECTORAL DIALOGUES

An Overview of Sectoral Dialogues between China and the European Commission

Relations between the European Union and China have intensified in recent years, partly as a consequence of China's economic growth and increasing importance on the world stage. But the rapid development of the relationship also stems from shared interests between the two sides.

In addition to the complementarity of interests in the political arena, in areas such as multilateralism and global sustainable development, further evidence is found in the flourishing area of exchanges on sectoral policies and technical issues or 'sectoral dialogues'. These have grown considerably in recent years and now cover a wide range of areas where China and the EU favour similar approaches.

China today is experiencing challenges which Europe started to tackle a number of years ago in areas such as the environment, the internal market and competition, where the EU has demonstrated its willingness to share its experience with China, and China has shown a corresponding interest in using some of the best practices of the "EU models".

In other areas both Europe and China are confronted with new challenges, such as rapid advances in science and technology and problems associated with health protection. These are two-way exchanges, and cover some areas where Europe can benefit from Chinese experience. Peaceful nuclear research is an example: the use of experimental reactors; nuclear safety; nuclear technology for both existing and future reactors; and radiation protection. Under the 2004 Euratom agreement China is prepared to share her technology with European researchers.

The dialogues take place at various hierarchical levels, from working to ministerial level, and constitute an effective tool for deepening EU relations with China. A "Policy Dialogue Support Facility" financed under the Commission's 2005-2006 National Indicative Programme for China (€6 million) has been prepared and will shortly become operational.

The areas covered by the dialogues

Agriculture

The EU-China Dialogue on Agriculture covers bilateral trade in agriculture, non-tariff barriers including in particular sanitary and phytosanitary issues, quality policies including geographical indications and organic products, exchange of policy information, and other topics of mutual interest including food technologies and rural development. The first meeting was held in November 2006 in Brussels.

Civil aviation

The need to develop a new framework for China-EU civil aviation relations was highlighted by a judgement of the European Court of Justice in 2002 stating that the bilateral air services agreements between EU Member States and third countries such as China are contrary to European law if they discriminate against carriers from other Member States. This is the case under practically all existing bilateral air services agreements between EU Member States and third countries. China has agreed to restore legal conformity through negotiating a single agreement that would bring bilateral agreements into line with Community law. Negotiations on this agreement started in 2005.

The Chinese side has shown strong interest in enhancing technical co-operation in a broad range of areas including aviation safety, security and air traffic management. A successful co-operation project in this area financed by the Commission and European and Chinese industry was in 2005 extended until 2006. An EU-China Aviation Summit, organised by the European Commission and the Chinese civil aviation authority (CAAC), took place in mid-2005 in Beijing.

Competition policy

Competition policy is a crucial issue in the context of China's efforts to restructure its economy. China's large economy needs a sound competition regime. The fragmented domestic Chinese market needs improved regulation to create a level playing field for market operators and to accompany the reform of large inefficient state-owned enterprises. In the medium term, improved regulation should also alleviate the current risks of trade dumping and economic instability emanating from China. With this in mind, in May 2004 China and the EU agreed upon a permanent mechanism for consultation in this area. The dialogue will enhance the EU's technical and capacity-building assistance to China in the area of competition policy with the aim of developing a proper Chinese competition regime which is shaped in the right way to fit the Chinese reality. The process is facilitated by the fact that the emerging Chinese competition system follows the "European model".

Consumer product safety

China is one of the EU's most important trading partners when it comes to consumer goods, and this relationship can only be expected to grow in the coming years. By developing a common understanding between Europe and China on product safety issues, a culture of mutual understanding and trust can be developed. The 2006 Memorandum of Understanding between the European Commission's DG for Health and Consumer Protection (SANCO) and the Chinese General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) aims at enhancing the co-operation on these issues and establishing better communication and collaboration between the responsible authorities on general product safety. A Working Group has been established between DG SANCO and AQSIQ to implement the different actions under the agreement.

An agreement on a Roadmap for safer toys was concluded with AQSIQ in September 2006 with the aim of ensuring that toys exported to the EU from China are safe. It outlines a strategy for improving the safety of Chinese toys, focusing on training and technical assistance, exchanges of information between EU and Chinese authorities, and tracing, feedback and follow-up mechanisms for dangerous products. It puts in place a framework, supported by both the European and Chinese toy manufacturers' associations, for continuous exchanges of information on unsafe toys. It also contains a commitment from AQSIQ on tightening up inspection and supervision of toys exported to Europe.

Customs co-operation

Close co-operation between customs authorities is vital to facilitate trade and to help combat illegal activities such as fraud and counterfeiting. An agreement for EU-China customs co-operation entered into force in April 2005 with the objective to increase operational co-operation useful for the control of the trade flows and the fight against fraud and illegal activities, to provide mutual technical assistance and to conduct joint EU/China customs actions. Additionally, in order to combat terrorist threats, there is an ongoing pilot project on smart and secure trade lanes to test exchange of information and many other aspects of supply chain security whose long term objective would be mutual recognition of customs controls, security standards and business partnership programs, as advocated by the World Customs Organisation' Framework of Standards and as requested by the trade community.

Education and Culture

The European Commission's new Erasmus Mundus programme came into force in 2004. It provides financing for students from third countries to pursue post-graduate studies in Europe. Special 'windows' for China and other Asian countries have been set up to attract significant numbers of students from this region to study in Europe. Further ways of enhancing dialogue and co-operation in the field of education and culture are currently being explored.

Employment and Social Affairs

On 5 September 2005, at the EU-China Summit in Beijing, Commissioner Vladimir Špidla signed with the Chinese Minister of Labour and Social Security, Tian Chengping, a Memorandum of Understanding (MoU) on EU-China co-operation on Labour, Employment and Social Affairs. This provides the

framework for EU-China dialogue in areas such as social protection, social cohesion, labour legislation, employment, labour relations and social dialogue. The first event under the MoU, a seminar on "Employment Promotion and Vocational Training", took place the day after the signing of the MoU. The second event took place in Brussels in November 2006 on the theme of "Labour Mobility in the EU and China". The EU is furthermore assisting China with the reform of social protection systems through a five-year Social Security Reform Co-operation Project.

Energy – including nuclear energy

China's increasing appetite for energy has significant repercussions on global markets and on the environment. The energy dialogue has been in existence since 1994 and is one of the earliest sectoral dialogues. It takes the form of annual working group meetings and a bi-annual Conference on EU-China Energy Co-operation. Current subjects of discussion include energy policy and development strategy, the evolution of energy markets, and security of supply and sustainable development.

On 4 March 2005, the Commission's Directorate General for Transport and Energy (TREN) and the MOST signed an Action Plan on Clean Coal and terms of reference for an Action Plan on Industrial Co-operation on Energy Efficiency and Renewable Energies.

A Memorandum of Understanding establishing an "EU-China Dialogue on Energy and Transport Strategies" between DG TREN and the NDRC was signed on the occasion of the EU-China Summit on 5th September 2005 in Beijing. The first meetings took place in Brussels on 21st March 2006, with the energy discussions focussing on: Energy policies, Energy efficiency, energy savings and the environmental impact of energy, Technology co-operation and renewables.

The 2004 EURATOM agreement with China focuses on research into the peaceful use of nuclear energy and grants researchers from both sides access to each other's facilities, and the EU and China are both participating in the international ITER programme for the construction of an experimental controlled fusion reactor.

Environment

Chinese policymakers increasingly see environmental protection as a major challenge and China has an important global role to play in this field. Over the last decade, contacts between the European Commission and the Chinese State Environmental Protection Agency (SEPA), the Ministry of Science and Technology (MOST), the National Development and Reform Council (NDRC) and other key ministries have intensified. The dialogue with SEPA on environmental issues was recently upgraded to ministerial level.

A substantial part of the EU-China financial assistance budget is allocated to environmental support projects. Co-operation and exchanges cover issues such as biodiversity, river basin management, forest protection, climate change and waste management; water and air pollution, vehicle emissions, environmental indicators, sustainable consumption and production and environmental impact assessments. The Joint EU-China Declaration on Climate Change, adopted at the September 2005 Summit, served to identify steps for tackling climate change.

Food safety - Sanitary and Phytosanitary (SPS) issues

Co-operation between China and the EC in this field can bring benefits to consumers both in the EU and China, and facilitate trade in agricultural goods. A Joint Technical Group was established in 2002 to deal with regulatory questions in this area. The recent Memorandum of Understanding between the European Commission's DG for Health and Consumer Protection (SANCO) and the Chinese General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) aims at considerably enhancing co-operation on these issues and at establishing better communication and collaboration between the responsible authorities on food safety and SPS issues.

Galileo global satellite navigation services

The European Galileo programme will provide high-precision global satellite navigation services, an area in which China is keen to develop links with the EU. A co-operation agreement was concluded in October 2003 under which China has pledged to contribute €200 million to the programme, the estimated total cost of which amounts to some €3-4 billion. A follow-up agreement between the Chinese Remote Sensing Centre and the Galileo Joint Undertaking was signed in October 2004, for the first time opening this Community undertaking to the full participation of a non-EU country. Chinese participation in the programme paves the way for tangible scientific and industrial collaboration projects.

High-Level Consultations on the Fight against Illegal Migration and Trafficking of Human Beings

Following the June 2000 tragedy in Dover where 58 Chinese illegal migrants suffocated in a container, the EC and China agreed to cooperate more closely in the fight against illegal migration. High-Level Consultations on the Fight against Illegal Migration and Trafficking of Human Beings started in October 2000 and have been held regularly since then. At the 7th round in July 2006 it was agreed to broaden the scope of these consultations and also include wider migration-related issues, for example ways of facilitating legitimate people-to-people exchanges and reinforced administrative cooperation. The conclusion of a Readmission Agreement with China remains a priority for the EU.

Information Society

The dialogue on information society started in 1997 and all exchanges in this wide area (Information Technology, telecoms, audiovisual) have now been grouped under one umbrella dialogue, covering both research co-operation and policy discussions. On the co-operation side the aim is to promote collaboration between European and Chinese research teams. This is seen as essential to ensure exploitation of research results at a global level and to build interoperable technology and standards solutions. It is of high value for the competitiveness of European industry, and is of great interest to the Chinese government. It also offers a means of reaching a consensus on global critical issues such as security and dependability. Key issues on the policy side include the respective developments in telecom policy and activities in areas such as e-Government, security of networks, and the promotion of e-Commerce. At the same time, the Dialogue offers the possibility for both sides to pursue concerns – for example, for the EU this includes issues such as the assignment of 3G licences (third-generation mobile communications) in China, delays in the emergence of a transparent regulatory framework for telecommunications, difficulties in accessing telecom services markets, and a number of standards issues. The dialogue is being backed up with a considerable number of technical assistance activities under the development co-operation programme (China-EU Information Society project, EU-China Trade Project) and has developed links to the Regulatory and Industrial Policy Dialogue (eg for telecom equipment certification issues) and the Intellectual Property Dialogue (for IP issues regarding telecom equipment).

Intellectual Property Rights (IPR)

China has made considerable efforts to adapt its IPR legislation to the 'Trade-Related aspects of Intellectual Property Rights Agreement' (TRIPs) – a cornerstone of the World Trade Organisation's (WTO) legal framework. China became a WTO member in 2001. Further concrete action is, however, needed on the Chinese side to update its legislation on IPR and in particular to establish a more effective enforcement system for IPR. A formal dialogue on this was signed in October 2003. The Commission has been financing an important IPR technical co-operation programme. A follow-up programme, which includes many enforcement issues, is being prepared for funding under the 2005-06 financial assistance programme.

Macro-economic policy and the regulation of financial markets

At the EU-China Summit in December 2004, an EU-China dialogue on macroeconomic and financial regulatory issues was launched. The first meeting took place in Brussels, on 22 February 2005, jointly chaired by, on the Commission side, Mr. Regling, Director-General for Economic and Financial Affairs, and Mr. Schaub, Director-General for Internal Market and Services, and on the Chinese side Mr. Li Yong, Vice Minister of Finance. On 15 May 2006, Commissioner McCreevy and Chinese Finance Minister Jin

Renqing participated in the second dialogue, in Beijing. At both meetings the European Central Bank was represented by a board member.

This dialogue brings together in one single venue all the key Chinese authorities on these matters for a thorough discussion with officials of the European Commission and the European Central Bank. Concerned on the Chinese side are the Ministry of Finance, the People's Bank of China (China's Central Bank) and the key Regulatory Commissions respectively for Banking, Insurance and Securities. On the macroeconomic side, issues discussed concern the macroeconomic situation, global imbalances and monetary and fiscal policies. On the regulatory side, the main topics are China's financial sector reform and further integration of the financial sector in the EU. Other issues that have been addressed during these full-day meetings concern accounting standards and corporate governance. The two sides have agreed to continue and further develop this dialogue, and a third meeting will be held in Brussels in 2007.

In addition, in view of the importance of the EU and China as key global economic players and the need to further enhance bilateral economic relations, the European Commission and the National Development and Reform Commission (NDRC) agreed to launch a dialogue on macroeconomic policies. This dialogue is expected to deepen mutual understanding and foster further cooperation between the two sides. The first meeting of this process took place in Beijing, on 7th December 2006.

At this first meeting, the Chinese delegation was headed by Mr. Zhu Zhixin, Vice Chairman of the National Development and Reform Commission of China while Mr. Klaus Regling, Director General for Economic and Financial Affairs represented the European Commission. The in-depth discussions between the participants focused on their respective policies to promote long-term sustainable economic growth. The Chinese participants presented their policies to increase domestic consumption, to limit income inequalities, to induce more environment friendly growth, to reform social security in order to broaden medical, education and pension coverage and to promote development in the rural areas. All this is captured in the development of a harmonious society. DG ECFIN presented the recent favourable EU macroeconomic developments, the progress with respect to the implementation of structural reforms in the framework of the Lisbon Agenda and the need for additional measures to better cope with the ageing population. The Chinese participants showed a deep interest in EU macroeconomic developments and policies, as shown by their numerous questions.

The discussions helped create a better understanding of the two sides' perspectives on economic issues and laid a solid foundation for future cooperation. Both sides will continue discussions on these topics, identify specific issues for future discussion and deepen cooperation for the next dialogue to be held in Brussels in 2008. They agreed to proceed to an exchange of letters to further work out the concrete details of the structure and organization of the dialogue as well as to develop more permanent channels of communication between the two sides.

Maritime transport

In 2002, a maritime agreement was signed between the EC and its Member States and China to improve conditions for maritime transport carried out by EU and Chinese companies between the EU and China and to third countries. The agreement, later amended to cover the 10 new EU Member States who joined in 2004, promotes in particular the freedom for both sides to provide maritime transport services and to have unrestricted access to ports and auxiliary services. It also deals with the commercial presence of shipping companies. Co-operation, relating mainly to safety, security and training, will now be extended to inland waterways and ports. Annual monitoring of the implementation of the agreement is taking place alternately in China and the EU.

Regional Policy

China is facing considerable regional development disparities between the booming coastal regions, the underdeveloped western parts of the country and the north-east with its declining traditional heavy industry. There is a more general issue of income disparities, in particular the urban/rural divide.

The dialogue on regional policy provides a basis for sharing the EU's experiences in developing and implementing its regional policy, governance and partnership issues and other related topics of mutual interest. In addition, the role of EU regional policy in areas such as competition policy and state aid rules, public procurement, transport and environment contributes to co-operation with China in these policy areas. The EU-China dialogue on regional policy should also help in contributing to other dialogue topics as presented in this paper related, for instance, to trade, sustainable development and good governance. A first China-EU Regional Policy Seminar took place in Beijing, in May 2006.

Regulatory and Industrial Policy

The objective of the Regulatory Dialogue is to ensure regulatory convergence between the EU and China in the long term. This should help to eliminate obstacles to trade and investment. Both sides try to achieve this through a comprehensive system of consultation and information on technical regulation, standards, certification procedures and market surveillance systems implemented by the two parties. Exchanges take place on best regulatory practices. As a result, trade should be facilitated and the quality and safety of goods sold on both markets and elsewhere should further improve. The dialogue provides for annual meetings where major issues of common interest are discussed and future co-operation is planned. A wide range of technical issues is dealt with in greater detail in 13 Working Groups, covering conformity assessment, standardisation, technical barriers to trade (TBT/WTO), electrical and mechanical products, toys, textiles, lighters, medical devices, pressure equipment, automobile standards, cosmetics and mobile phone radiation. Good governance in the tax area is vital as fair trade conditions and a level playing field in business taxation need to be ensured in both the Chinese and EU markets. Close cooperation is required to eliminate harmful tax competition.

The Industrial Policy Dialogue promotes and enhances mutual understanding and awareness of current and forthcoming policy approaches including sustainable development, legislation and related issues in the industrial sector with a view to increase coherence between EU and Chinese industrial policy. The Parties promote consultations, mutual understanding and transparency. Working groups have been established in three sectors (automobile, metals and textile).

Science and technology (S&T)

The EU-China dialogue on Science and Technology started in the early 1990s and was one of the first areas of co-operation between the European Commission and China. The first EU-China S&T agreement entered into force in late 1999 and was renewed in December 2004. Co-operation has increased substantially since the first S&T agreement was signed. Its aim was to promote mutually beneficial research activities in a variety of areas, such as food and environmental safety, the management of natural resources, the control of infectious diseases, etc. Today, this co-operation shows growing dynamism as is demonstrated, for instance, by the participation of Chinese partners in 134 research projects funded by the Commission's 6th Framework Programme for Research and technological Development (RTD).

China is rapidly becoming one of the most active players on the international research scene and in several areas it is a world leader – examples of the latter are nano materials and energy components. The momentum gathered from both the launch of the 7th Framework Programme on the EU side (2007-2013) and China's 11th Five Year Plan (2006-2011) together with the forthcoming EU-China "S&T Year" may be used to review the present co-operation scheme. It would also seem a good occasion to launch new strategic projects in areas of mutual interest and to seek to increase the number of Europeans in projects funded by China.

Space co-operation

The Commission and the Chinese government also launched a dialogue on co-operation in space science, applications and technology. Managers of aerospace companies and research institutions attended a workshop in April 2004. High-level meetings took place in July 2006 to explore ways of implementing the dialogue among the various parties concerned. Different fields of co-operation were reviewed, for instance earth observation, with particular regard to the Global Monitoring for Environment and Security (GMES).

Trade policy dialogue

This dialogue covers multilateral issues of strategic interest such as the Doha Development Agenda, issues related to regional integration and free-trade areas, and key bilateral issues. The dialogue focuses on strategic issues and therefore complements the institutional bilateral meetings (which cover, inter alia, trade), such as the Economic and Trade Working Group and the Joint Committee. The first high-level Trade Policy Dialogue took place in June 2004, the second in July 2006.

Textile trade dialogue

To pre-empt potential conflicts after the abolition of textile quotas on 1 January 2005, the textiles trade dialogue examines ways in which a smooth transition to the quota-free textiles trade environment can be assured. The process contributed to the textiles agreements forged in the summer of 2005. The Commission expects the dialogue to lead to practical results which will have tangible and positive effects on trade in textiles and clothing between the two sides, based on fair and healthy competition in the marketplace. In addition to the government-to-government dialogue, an EU-China business dialogue is also being set up.

New dialogues are being launched in the following areas:

Transport (in general)

A Memorandum of Understanding on transport and energy strategies has been concluded with the Chinese National Development and Reform Commission, which will allow for the institutionalisation of co-operation in the transport sector. In particular, it has been agreed that co-operation on road and railway transport would be launched.

Development cooperation and Africa

During the 9th EU-China summit it was agreed to pursue a structured dialogue on Africa and explore avenues for practical cooperation on the ground in partnership with the African side, including with the support of NEPAD initiatives and with the aim of attaining the Millennium Development Goals. Both the EU and China are signatories of the Paris Declaration on aid effectiveness and the Commission expects the dialogue to lead to practical results which will have tangible and positive effects in promoting the effectiveness principles contained in the Paris Declaration. Dialogue agenda and working methods will be further developed in 2007.

3.13 COUNTRY ENVIRONMENTAL PROFILE SUMMARY

Key Environmental Issues

Undertaking an environmental profile of China, including critical environmental issues, in a short report is a formidable task. Not least is the scale of the country, which under different historical circumstances might be as many as ten or twenty separate nations. It is often remarked that the backward western provinces and regions might be viewed as separate developing countries on their own, while the coastal provinces would easily fit a model of middle income countries. Chinese cities such as Hong Kong and Shanghai have quarters which would make many parts of European cities look dilapidated and quaint.

With this scale comes inevitably an enormous diversity in livelihood systems. These range from extensive pastoral modes in the north and west, where overgrazing is a sustainability factor, to intensive rice land production; here excess biocides and fertilisers have serious environmental consequences. In the south and east there are arable wheat lands, while in the far west in Tibet-Qinghai special mountain adaptations and cultural systems are now being eroded by social change. In central regions of China, inland fishing and aquaculture practices are being seriously affected by water abstraction and drainage projects, and also by the pollution that has damaged river and coastal marine fisheries.

The urban environment sees water-short cities and towns in the north, with a polluting heavy industry, while in the rural interior village textile and intensive livestock enterprises too often function without any reasonable consideration of local environmental and health impacts. Model light technology industries of the south-east may offer desirable models for 'limited environmental impact' development, but exploitative labour conditions and poor waste disposal practice may equally apply. Waste disposal and water treatment by municipalities is an area where poor practice outside the most progressive centres is universally reported.

Sustainable Development Policy

The 2001-2005 Five Year Plan provided for an "improved environmental performance in pollution control while the deteriorating trend in the ecological environment will be halted." At his speech to the National People's Congress of 2004, President Hu Jintao called for balanced growth with the objective of *Xiaokang*, an 'all round, well-off society'. Policy statements at the highest level have therefore recognised the environmental – and possible social – consequences of the legacy of past policies which focused on economic growth. While investment in environmental management in the early 1990s was restricted to 0.8% of GNP, today the figure is 1.3% of GNP and is programmed to increase to 1.7%.

China has subscribed to all the major Multilateral Environmental Agreements (MEAs) which, with international encouragement and development co-operation, has seen positive responses in domestic policy-making, not least in tightening up the environmental assessment of new projects. Severe difficulties remain, however, in implementation of policy in the context of weak environmental governance. The 1992 UN Conference on Environment and Development (UNCED), requiring a national response through implementation of 'Agenda 21' policy areas and a 'mainstreaming' of environmental criteria in development policy, was met with a positive and significant policy response in China.

The Chinese leadership is committed, and is well placed to achieving most of its UN Millennium Development Goals (MDGs) in the areas of poverty alleviation, health and education, but a notable possible exception is in Goal 7: Environmental Sustainability. These goals indeed reflect key elements of the '*Xiaokang Society*' to be achieved by 2020, which include a balanced development between a) urban and rural areas, b) different regions, c) economic and social factors, d) humans and nature, and e) domestic security and an open society.

Assessment of Environmental Management

Certain particular factors which have to be taken into consideration in a study of the state of the environment and its management in China are worth emphasising at the outset. These relate to the quality of available research and scientific information. The following points are therefore salient.

- There is a special history of isolation from the West and a dearth of documented and independent social and scientific research on land use change and environmental pollution parameters – never a priority for decision-makers;
- Such scientific data as exists, and is now being increasingly generated, needs to be treated with considerable caution because there is a past history of data which has been falsified or is politically construed – even recent trends are difficult to establish because of this and a lack of consistency and care in the use of statistical data, combined with the fact that change is happening so fast; and
- First-hand social science research still cannot be freely undertaken to understand the nature of poverty and social deprivation, even in the environmental context, because this too may be associated with corruption in local government. The best social science insights depend on individual stories, whereas broader studies tend to represent untested generalisations.

Yet the research context is not universally gloomy; there is an acknowledgement at the highest levels of the seriousness of environmental sustainability issues. There is also an increased readiness to publish environmental data however dire, along with more widespread sharing of such data with civil society through the media. This is seen to bring pressure to bear on key decision-makers in provincial and county offices of government who have responsibility for controlling environmental pollution and managing and implementing the law. As will be seen, the law is not well implemented and is often ambiguous and even unrealistic or over-demanding. In this context the World Bank, in its 2001 report “China – Air, Land and Water”, nevertheless acknowledges the law's completeness.

Environmental Decision-Making

China has a top-down administrative culture and an inherited belief in regulation by law, even if its interpretation might seem relativistic. In the event of an accident or a pollution incident, for example, the first appeal is to the law – it was not implemented, or even that new legislation is required. However, the critical problem lies in too many permissive decisions being taken to achieve a consensus of the interests of social stability, lack of resources and, also, vested personal interests. Greater recourse to courts is considered desirable, but there are certain operational deficiencies requiring rectification: a) judges need to be better trained, b) costly evidence to support a case needs to be resourced, and c) court decisions must be implemented – and seen to be implemented. This is much more likely to happen with increasing private-sector ownership and citizen participation drawing public attention to environmental transgressions.

Past decision-making with negative environmental consequences has happened behind closed doors; social connections are invoked (*guanxi*) to avoid taking tough decisions. In any case decisions with financial implications (penalties) where the state owns all the means of production simply involve a transfer from one service to another. Private-sector abuse of the law should become easier to control in the future, provided that local companies are not part-owned by government officials, which is unfortunately too often the case following privatisation initiatives.

One significant positive development is an apparent reinvigoration of EIA with a new law, in 2003, which requires that investors design projects in such a way as to mitigate their potential environmental impacts more significantly. Developers are also to be required to consult civil society. Despite this, controversial

projects and factory location decisions may not be so open to challenge. EIAs are conducted by certified government scientific departments, some of which are becoming privatised and more independent of government.

There is an apparent lack of research into the quality and realism of such EIAs, or to what extent wider public interests as opposed to narrow industry interests are taken into account. It is reported, however, that EIA statements are available for consultation in local government offices. Whether any serious challenge might be made is doubtful; indeed there is not enough information in the public domain or enough of a culture of questioning government decisions to lead to meaningful counterproposals.

Environmental Policy Development

Environmental Impact Assessment, and Strategic EIA, is also required of government plans which would incorporate policy EIAs in the natural resource sector. Indeed there has been policy research undertaken on the potential environmental impact of China's entry into the WTO, whose work is drawn on in relation to certain sector impacts in this report (CCICED, 2004). Potentially greater growth rates and therefore energy use are expected, along with more intensive horticulture and livestock in the east coastal areas with accompanying environmental risks. The comparative disadvantage of the Western Regions for new industry is expected to be more marked.

European countries are involved in the massive foreign capital inflows into new industries in China. Such firms mostly come to take advantage of a stable business (and political) environment and cheap and disciplined labour. They also come with a culture of environmental and labour law compliance; and, in the case of internationally known companies, with a reputation (public image) to defend, with company policies and international standards of environmental due diligence (EDD) and corporate social responsibility (CSR). Five thousand companies in China are approved as ISO 1400 certified. Promotion of voluntary instruments such as CSR may indeed be an area where the EU can bring pressure for improved environmental performance.

Chinese businessmen exporting to Europe are certainly conscious of their legal requirements to fulfil product health and safety regulations of the EU. That labour is paid on time and not abused or that wood products might have a history of unsustainable or illegal sourcing raises other questions. But if free trade and competition has any meaning, it would require at least one element of 'fair trade' which is that employees of participating countries and companies are paid according to their contracts – and that these are not themselves abused, as is widely reported in China (see, for example, *China Development Brief*, vol IX No 3, April 2005). Also it is axiomatic that signed international treaties on labour and Multilateral Environmental Agreements (MEAs) be respected.

Future Scenarios

Although the volume of production and consumption is rapid, with GNP recently reported to be rising last year at 9.5%, China is now allocating 1.5 % of GNP to environmental management. Some Chinese experts and the World Bank (2001) say this should be nearer 2%. This figure in the early 1990s was just 0.8%. China is nevertheless trying to introduce a system of green accounts which may highlight the environmental cost of its development path. A much-quoted calculation referred to in the above World Bank report suggests that pollution of air and water and land degradation is costing China 8-12% of its 1.4 trillion GDP in direct damage to crops and buildings from acid rain, from fishery losses, medical bills and lost work for illness, from money spent on disaster relief following floods aggravated by forest destruction and from soil erosion, the human-induced part of 'natural' disasters.

The UNDP Human Development Report 2002 foresees two scenarios for future environmental change and development sustainability in China: a) The Perilous Path Scenario and b) The Green Reform Path Scenario.

The Perilous Path Scenario

The perilous scenario sees a continued rapid growth in the economy but a failure to control greenhouse gas emissions which could be, by 2050, three times 1995 levels. Urban environmental degradation and massive uncontrolled migration into cities puts pressure on sanitation and physical infrastructure, and vehicle emissions are not significantly improved because of a lack of political will. It sees irreversible losses in biodiversity and in the quality of natural resources (water and soil), and eventual social conflict which destabilises society as increased protest is engendered against corruption and poor environmental governance.

The Green Reform Path Scenario

In the green scenario market-based instruments are allowed to function, promoting efficiency, for instance in water allocation and pollution mitigation. Improvements in energy efficiency in industry by application of new technologies are successfully facilitated. Emission standards continue to be upgraded for vehicles as is already happening in Beijing. With continued economic growth and rule of law the government is able to raise revenues (taxes, user charges and realistic fines) for environmental management and provide valued services to citizens, not least better environmental information.

The public are in turn enfranchised through an opening to civil society whose support for better environmental management, and better governance, is harnessed by political leaders committed to the environmental agenda. The quality of marine and coastal environments is improved and biodiversity fostered and protected in and outside reserves, and these are increasingly valued by citizens who have increased leisure time. The impact of consumption growth is contained by changing demand for environmentally benign (eco-labelled) products and foods produced under acceptable and openly scrutinised responsible social and environmental practices.

Opportunities for Reform

The role of the international community, and the EU in particular, might then be to help the Chinese authorities to create the framework for development along the green path. A long-term view will be required.

3.14 DONOR MATRIX

COMMUNITY ASSISTANCE TO CHINA (1)

(Figures in € million)	MS												TOTALS
CATEGORY/SECTOR	AU	D	DK	EC	ES	F	FI	I	L	NL	SW	UK	TOTALS
Agriculture and forestry		110,4		17,7			15,5			1,0			144,6
Banking and financial services		52,0		8,7									60,7
Business and other services				21,5									21,5
Communications				1,5									1,5
Education	3,7	26,2		34,8			0,3	43,6				102,4	211,0
Energy		154,0	8,2	21,1	1,5	214,7	20,5	31,9		5,3	2,0		459,2
General environment protection	0,1	93,4	2,5	36,4		4,3	0,0	11,2		19,1	6,1	12,1	185,1
Government and civil society	0,3	10,1		1,9		3,5	1,7			0,0	7,3	4,8	29,5
Health	0,0	167,5		3,4		8,0	18,5	14,8	0,2		7,0	190,9	410,2
Industry and SME development		158,0		20,6			0,2			3,7		4,8	187,3
Multisector / crosscutting	0,1	38,6		1,0			0,1	12,4		13,1		13,6	78,7
Other / unspecified		22,5		3,7		0,4	0,9	7,1				7,6	42,2
Population programmes and reproductive health													
Rural and urban development		0,0		8,0								9,0	17,0
Social infrastructures and services				0,8								31,3	32,1
Support to NGO							0,1						0,1
Trade policy and regulations				15,2									15,2
Transport		348,7		0,9		143,5							493,1
Water supply and sanitation		154,8		25,8		32,1	6,8			0,2	5,0	33,9	258,6
Women in development											0,4	0,7	1,0
TOTALS	4,1	1.336,2	10,7	222,8	1,5	406,5	64,4	121,0	0,2	42,4	27,7	411,0	2.648,5

(1) Based on information provided by Member States through the Development Counsellors' Group in Beijing, January 2007