

DRAFT

CHINA

Country Strategy Paper

2007 - 2013

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ACRONYMS

ADS	Approved Destination Status
CAAC	Civil Aviation Authority of China
CCP	Chinese Communist Party
CDM	Clean Development mechanism
CEPA	China-EU Public Administration Programme
CSP	Country Strategy Paper
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
MOFCOM	Ministry of Commerce
MTR	Mid-Term Review
NIP	National Indicative Programme
ODA	Official Development Assistance
PCA	Partnership and Co-operation Agreement
PDSF	Policy Dialogue Support programme
PPP	Purchasing Power Parity
SAR	Special Administrative Region
SEPA	State Environment Protection Administration
UNFCCC	United Nations Framework Convention on Climate Change
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

1 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, had a dramatic impact on the reduction of poverty, and is contributing significantly towards the attainment of global MDG targets. It has however at the same time 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 has set out her development policy guidelines in the 2006 Five Year Plan which, while acknowledging that economic reform, growth, and development will continue at a high rate, now places emphasis on the development of a harmonious society in which more consideration is given to the social implications that are associated with rapid economic development.

In parallel with domestic developments and reform, China is increasingly responding to the international and multilateral responsibilities that are associated with a country of such global economic significance.

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 accordingly developed rapidly in recent years, from a relationship originally 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 mechanism for underpinning this relationship.

China is however 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 issues, and one that is herself 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 this 'duality' of character the EC response strategy will be targeted at providing support for the EU-China strategic partnership in the context of China's social and economic reform programme and of her global significance and responsibilities.

This will be done through the concentration of resources in three areas: facilitating and expanding the bilateral relationship in the areas of trade, economic and social development; through assisting China in her efforts to address global concerns over climate change, the environment, and energy; and by providing continued support for China's internal reform process where the EU can provide added value. Indicative funding for the seven-year period is €225 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.

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

2.1 The political situation

With a population of 1.3 billion China is the world's most populous country, governed, since 1949, by the Chinese Communist Party (CCP). The basic political structure of the country remains that of a one-party state. The highest formal organ of power is the nine-member Politburo Standing Committee, currently headed by the General Secretary of the CCP, Hu Jintao. Hu is also the President of China and Chairman of the Central Military Commission. Other important institutions are the State Council, led by the Prime Minister Wen Jiabao, and the National People's Congress. The CCP retains its monopoly on political power and still does not tolerate direct challenges to its authority.

The present Chinese leadership took over in March 2003, since when President Hu has consolidated his political power and established a firm control over the national policy agenda, the top priorities of which are 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.

China's foreign policy agenda is characterised by an increasingly multi-polar vision of the world and strong support for a multilateral approach to world problems. 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 and a guaranteed supply of energy, 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 the areas of 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, and land rights 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.

2.2 The economic situation including trade

The pace of economic change in China has been extremely rapid since the start of the economic reform programme, initiated in 1978 under the leadership of Deng Xiaoping. In 2001, with the support of the EU, China joined the World Trade Organisation. The overall assessment is that China has made rapid progress in the implementation of its WTO obligations, though a number of challenges remain. China is considered to have benefited more than any other country from the trade and investment opportunities offered by globalisation.

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.

The significant upward revision of GDP data published at the end of 2005 revealed that during that year the size of the economy, measured in financial terms, reached over US\$ 2,200 billion, 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. Average income per capita in 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. Underlying this growth there has been a profound

reform of economic policies that has transformed business efficiency, and the revised 2005 GDP figures indicate a more diversified economy than had been suggested by earlier data.

Since 2004, the EU has been China's largest trading partner, having overtaking 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 2005¹) and the US (US\$ 201 billion in 2005²) that partially offsets its trade deficit with other countries, particularly Asian countries (US\$75 billion in 2005³). 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 the Hong Kong SAR, Korea and Japan. China's also provides increasing FDI, mainly to Asian countries. China's foreign exchange reserves increased by US\$209 billion in 2005 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.

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. Coastal provinces have benefited more from decentralisation, reforms, and opening-up than the remote inland resource-poor provinces; there are growing disparities between urban and rural areas; and 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. Furthermore, the growth that has accompanied China's transition towards a market economy has left many 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 6.2.

These inequalities are recognised in China's 11th Five Year Plan, and it is important that they be dealt with while at the same time avoiding the elimination of incentives for growth. If unaddressed, they could inhibit future growth because if some sections of society continue to be left behind in the development process, support for economic openness and further reform may be eroded. This being said, China's economic growth should provide sufficient resources for the effective implementation of support policies.

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 in 2003 of 0.755.

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 MDG's. Progress has been impressive across a range of social development indicators such as child mortality, illiteracy and life expectancy. MDG targets that may require some attention have been identified by the UN in the areas of gender equality (achieve equal access to primary and secondary education for girls 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

¹ Eurostat. According to Chinese data, it amounted to US\$70 billion. Eurostat data include imports arriving in the EU from China via Hong Kong.

² US statistics. China's statistics indicate a trade surplus with the US of US\$ 114 billion in 2005.

³ Chinese statistics.

nevertheless strong, and MDG targets that are not presently on track are receiving attention. An overview of China's MDG status is given in Annex 6.3.

In spite of this progress, in addition to the uneven development referred to earlier in this section, inequalities persist between the sexes. China's 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 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 also exists 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 respectively in 1997 and 1998, which remain the cornerstone for improving the situation of individual rights in China. The former was ratified on 28 February 2001, though with an important reservation concerning the freedom to establish trade unions.

2.4 The environmental situation

An estimated 63% of China's energy comes from coal, which contributes significantly to air pollution and carbon emissions. The Government response is to shift towards clean energy sources through the construction of new nuclear energy plants, gas pipeline projects, and numerous hydroelectric schemes. Energy conservation and efficiency in industry and in the building and automotive sectors however 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.

A direct result of energy consumption is carbon emissions and air pollution caused by 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. Air pollution from China is reportedly impacting air quality in neighbouring countries, 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 will play a key role in future international negotiations on climate change.

An impact of China's industrialisation is the annual production 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.

Economic growth is placing a heavy burden upon China's water resources in both quantitative and qualitative terms. The current annual net deficit of some 40 billion m³ of water affects agricultural and industrial production and is felt most severely in northern China which has 46% of the population but only 19% of total water resources. Water pollution exacerbates this situation: stemming mainly from industrial and municipal sources, agricultural pollution from fertilisers and pesticides also impacts on water quality and inland and coastal fisheries. Water scarcity problems are being partially resolved through water engineering projects but improved management of available water resources is required.

While China's 1998 logging ban has had some impact in curbing the degradation of the country's forestry resources, economic growth nevertheless continues to fuel high demand for timber, pulp and

paper. Domestic plantation production has increased, but does not cover domestic needs, and the importation of wood and timber is increasing, often from countries where illegal logging is prolific.

At the end of 2004, it was estimated that some 27% of China's total land area was desertified, in part as a result of the over-exploitation of groundwater resources and of fragile land systems, and through the vagaries of seasonal rainfall. Efforts to reduce desertification are hampered by non-sustainable agricultural and water-use practices.

3 CHINA'S POLICY AGENDA

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 is the creation of the '*xiaokang*' (harmonious) society in which prosperity is widely shared, but where economic advancement is not the sole focus of society and is balanced by the sometimes conflicting objectives of social equality and environmental protection. This policy is intended to redress some of the negative factors associated with China's rapid economic growth in recent years, characterized by imbalances in regional growth and income distribution; uncontrolled capital investment; rising energy consumption; environmental degradation; and the depletion of the country's resource base.

While economic reform and development will continue, with annual GDP growth targeted at 7.5% over the period of the FYP (and per capita GDP in 2010 planned to double the 2000 figure), the focus is now more on the social implications of economic decisions. The FYP foresees administrative reforms to modernise the administration system in general and e.g. rural and economic governance in particular. "Government by law" as well as increased accountability, information disclosure and public participation in the decision making process are also to be boosted.

The FYP contains strategic priorities based on the concept of 'scientific development' to ensure that GDP growth goes hand-in hand with improvements in employment, social security, poverty reduction, education, healthcare, and environmental protection:

- **To transform and rebalance the means by which China grows:** through placing more 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 for investment; and through the more efficient use of resources.
- **To adjust and optimize the industrial structure:** through improved research and development capacity, and technological innovation; and through promoting industrialization and employment creation in a regional context.
- **To address the problems associated with rural areas:** agricultural incomes and production to be improved through the 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 urbanization to drive development by means of migration from rural to urban areas; through the opening up of the western regions, the rejuvenation of the north east, expansion in the centre, and continued high level growth in the eastern parts of the country; and through policy development for the different regions based on the analysis of resources, population distribution, etc.
- **The protection of resources and the preservation of the ecological environment:** through the promotion of resource-efficiency and environmental sustainability, energy-saving initiatives, and the development of the 'circular' economy through recycling; and the establishment of development models for different areas, depending on their environmental sensitivity.

- **The 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.

3.2 Social Sectors

The present fourth generation Chinese leadership has, in public statements, focussed on social development: social justice and a better quality of governance. Leaders continue to stress the importance of improving the lives of the common citizen and pursue a "people first" policy, targeted at social justice rather than at political liberalisation.

China's social policy for the coming years is put forward in the FYP outlined above which emphasises the development of a 'harmonious socialist society' based on the reinforcement of the Party's role, the responsibility and accountability of the government, "governance by law" and public participation. The emphasis is placed on the resolution of daily difficulties affecting the population in general, while at the same time however highlighting the need for social order.

This objective is to be met 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, the revision of the pension system, social protection for migrant workers. In parallel with these measures the proposals call for more social justice in income distribution ('regulation' of high incomes, the progressive broadening and raising of minimum incomes, the reduction of social and regional disparities, etc).

For public health the FYP highlights the need for increased government intervention. Priority will be given to the prevention of communicable and work-place diseases, and increased support will be provided for the pharmaceutical sector, in particular for traditional Chinese medicine. The need for improved access to healthcare 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 with the objective of improving the general level of education of the population and creating a pool of professionals with management skills for the government, the Party, and the private sector.

3.3 Environmental Policy

China 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 achieve these objectives. The concepts of the "harmonious society" and the "circular economy" provide overall guidance to this development path, with environmental protection to be tackled in both urban and rural areas.

One of the few quantified targets set out in the new FYP is to decrease energy consumption by 20% per unit of GDP over the period of the plan.

China's strategy to meet growing energy demand is twofold: to increase supply from national and international supplies in all available energy sources, that is, 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 related to environmental and ecological degradation is also reflected in the FYP which acknowledges that previous targets set for environmental protection were not achieved and that new problems have emerged. Under the new Plan new targets have been set for strengthening macro-economic control over environmental issues, improving water resource management, combating air pollution, controlling waste pollution, protecting the ecological environment and 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 economic instruments in environmental policy and public participation in policy making and implementation.

4 OVERVIEW OF PAST AND ONGOING EC CO-OPERATION, CO-ORDINATION AND COHERENCE.

4.1 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 full-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 (c.f. Annex 6.1.2(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 the levels of EU Troika Foreign Ministers, Heads of Missions, Political Directors, and Regional Directors, and since April 1998 includes annual Summits. At the 8th Summit in Beijing in September 2005, when a joint declaration on climate change was adopted, it was also agreed to establish an EU-China Strategic Dialogue at Vice- Foreign Ministerial level, where the EU is represented in Troika format. Moreover, a new high-level co-ordination mechanism headed by the Chinese State Council and the EU Troika has been established upon the proposal of Prime Minister Wen to guide the further development of the strategic partnership.

In addition to the formal political dialogue, an intense exchange of visits and meetings takes place at all levels. The most important political issues currently on the bilateral agenda are human rights, illegal migration, the arms embargo, Market Economy Status, market access, and IPR.

In the field of co-operation on foreign and security policy particular attention will be given to issues relating to combating terrorism and WMD proliferation; fighting organised crime including money-laundering; trafficking of human beings, drugs and drugs precursors, small arms and light weapons, 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. One of these areas, 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 (ADS).

China and the EU intend to explore possibilities to launch joint initiatives in the area of non-proliferation in the framework of the ASEAN Regional Forum (ARF) and to support further effective measures to strengthen and improve the functioning of the institutions and agencies supporting the non-proliferation of WMD. They will furthermore work together to ensure the full implementation of

relevant UN Security Council Resolutions, particularly UNSCR 1540, where China and the EU will agree on effective measures to improve their export control system and enforcement measures.

On various occasions the possibility has been raised of preparing and concluding a new framework agreement on EU-China relations in order that the full depth and breadth of the relationship may be formally recognised. Such an agreement would replace the existing Trade and Economic Co-operation Agreement of 1985. Preparatory work on this is being undertaken.

4.2 Review of previous co-operation

In 1996 it was agreed between the Commission and the then Ministry of Foreign Trade and Economic Co-operation that EC development funding in China should move away from the established focal areas of infrastructure and rural development towards a range of interventions targeted at supporting the country's reform process, while 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 aimed at underpinning the Government's strategy of accelerating economic, social and administrative reform, and the country's integration into the world economy.

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. It foresaw a total indicative budget for the five-year period of €250 million, initially allocated as €150 million under the first NIP (2002-2004), and €100 million under the second NIP. Of this €250 million total indicative allocation, programmes and projects have been financed for the amount of €181 million (72%). A list of projects and activities under the two NIPs is given in Annex 6.4.

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 kilter with its rapid economic growth. The review considered that the CSP was appropriate in this respect, and was moreover in line with the Commission's 2003 China Policy Paper. This conclusion was reiterated in an external review of the CSP carried out in 2005.

Certain modifications to the 2002-2004 NIP were nevertheless 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 foreseen for the fight against illegal migration nor the €20 million foreseen for the development of civil society resulted in financing decisions. A programme designed to strengthen the rule of law and civil society has nevertheless been approved in 2006 under the 2005-2006 NIP, together with financing for the EU-China Law School (see below).

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.

Some delays were encountered in the preparation of interventions under the 2002-2004 NIP due to the complexity of the programmes, the wide range of interlocutors, difficulties encountered in co-ordination, and the fact that in 2002 there existed a large volume of previously-financed projects and programmes which required considerable input for launching, monitoring and evaluating. The benefits of the devolution exercise have since become apparent however, both in terms of the quality of programme preparation, the way in which it interacts with and supports broader Community policies, and the level of financial disbursements under the NIP which have risen from a pre-2003 annual average of some €28 million, to over €47 million in 2005.

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, in part as a follow-up to the success encountered with previous funding for the China – EU International Business School), and for the protection of intellectual property rights (€10.85 million). Under the second sector funding has been 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 has been financed in 2006 (€6 million) and will begin implementation shortly.

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 the commitment of these funds, they were allocated for other priority use related to humanitarian relief and assistance in Asia, though further funding for higher education is proposed under the present CSP.

An external Country Level Evaluation of the EC co-operation programme was commissioned in 2006 from which conclusions can be drawn from past experience. While the EC approach to co-operation with China was overall considered positive, it has been recommended that in formulating and implementing future programmes, where appropriate and possible, more could be done to better 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 and experience from projects and programmes should be fed into policy dialogues more systematically. The main conclusions and recommendations from the evaluation are given in Annex 6.5

4.3 Donor co-ordination

There are several fora for the exchange of information and operational co-ordination between donors on programming and project and programme implementation. 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, energy efficiency and water, for example, informal donor groups meet 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 - Has been committed in 2006.

5 THE EC RESPONSE STRATEGY 2007-2013

5.1 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 recognize 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 issues⁴. China is herself 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 her 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 her 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 her commercial weight, FDI flows, consumption of natural resources and contribution to global warming. This combination of different and at times contradicting characteristics therefore justifies a particular strategy.

In recognition of the above, and of the fact that China wishes to see the continued transfer of know-how and management expertise in areas of shared interest, the response strategy will be targeted at providing support for the EU-China strategic partnership in the context of China's social and economic reform programme and of her global significance and responsibilities. Such an approach will serve to promote the EU's own principles and values in line with the established strategic partnership, and to support the reform-related dialogues and exchanges that take place between the Commission and the Chinese Government.

The specific objectives of the response strategy will be to:

- (1) Facilitate and to expand the bilateral relationship in the areas of trade, business exchanges, and social and economic development;
- (2) Assist China in her efforts to address global concerns over climate change, the environment, and energy; and
- (3) Provide support for China's internal reform process in areas of shared interest where EU experience can provide added value.

Given the limited resources available for the co-operation programme, this strategy can best be achieved done through (a) capacity building, where China's need to innovate in order to attain sustainable development continues to create opportunities for the transfer of expertise and know-how in areas where the EU has a strong competitive edge and/or relevant policies and regulatory experience, and (b) the formulation of co-operation activities in such a way as to maximise the multiplier effect, through targeting activities at the appropriate level and through the development of pilot activities on standards, codes of conduct and best practice to support policy development.

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

⁴ 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%.

5.2 The Strategy

In order to meet the objectives specified in 5.1 above, three areas of intervention are proposed for the period of the CSP. Indicative funding for the seven-year period amounts to €224 million.

5.2.1 Trade, economic and social development

China is experiencing the largest and most rapid expansion in trade and economic development that has ever been seen, and there is a clear need to continue to provide support for the economic, regulatory, legal and administrative reform that is required in this context.

5.2.1.1 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 her 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 has a direct impact on trade. China's significance in the area of international trade is now such that she must demonstrate her ability to ensure competition on a fair and equitable basis, in a way that is commensurate with her weight as a trading nation.

The current €15 million EU-China Trade Co-operation Programme (EUTCP) will continue until 2009, and provides support to the trade policy dialogue established in 2003 to strengthen bilateral exchanges in the context of the rapid expansion of trade and economic relations. The dialogue covers multilateral, regional, and key bilateral trade issues and the EUTCP focuses on six areas of support 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 development. While a new €10 million programme specifically on the enforcement of IPR legislation is under preparation for financing in 2006 and will in principle run until 2011, continued broad support for the trade-related objectives outlined above and for trade facilitation will be required from 2009 onwards.

EUCTP will also temporarily bridge the gap between the current Financial Services cooperation project (EC contribution € 8,5 million) which initially ran from 2002 to 2005 but was eventually extended by 12 months to finish end of 2006, and a new cooperation programme for the financial services sector starting late 2007 or early 2008.

5.2.1.2 Civil Aviation

In the broader area of economic development there have been increasingly close and important exchanges between the EU and China on co-operation in civil aviation in recognition of the fact that a well-developed civil aviation sector is an essential platform for development and reform in the area of market and territorial integration. These exchanges have taken place against a background of annual sector growth estimated at 30 to 40% and the strong commitment of the Civil Aviation Authority of China (CAAC) to improve China's regulatory framework for air transport and the professional expertise of civil aviation personnel to ensure that safety levels keep up with this growth.

China is expected to 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 developed civil aviation partners in order to benefit from their experience and to incorporate it in 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.

The EU-China Civil Aviation Co-operation Project, financed before the preparation of the 2002-2006 Country Strategy Paper, aims at facilitating industrial co-operation and regulatory convergence 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 CSP and would be complementary to discussions taking place with the Chinese authorities on measures to ensure conformity between existing bilateral civil aviation agreements between Member States and China and Community law. The possibility of negotiating a more comprehensive Community-level agreement is also being explored.

Future co-operation is intended to promote regulatory convergence and 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.

5.2.1.3 Financial services

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

The EU-China Financial Services cooperation 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 as well as training actions.

The project managed to open doors to China's financial sector and build a relationship of trust. Further intervention will be required to build directly on these achievements and enhance professionalism and competence of the financial services sector intermediaries, but also better educate the general public about the financial services sector. Such cooperation is proposed under the CSP and would be complementary to the Chinese government's efforts to implement its WTO commitments in the financial services sector. Further a high degree of regulatory convergence in the financial services sector between the EU and China would be of utmost importance to achieve concrete results in fostering EU financial services implementation within China.

Experience has shown little enthusiasm by the counterparts for joint activities, but if possible cross-sector initiatives (i.e. development of the debt markets as a mean to provide instruments for insurance companies to invest in, to develop capital markets and thus revenue streams, to aid companies reduce their cost of capital and possibly to finance the state's social security safety net) are pursued, then their interest can be enhanced.

5.2.1.4 Social safety nets

Current Chinese policy-making concentrates on development of a 'harmonious society', which means achieving more balance between rich and poor, between urban and rural, between the coastal and inland provinces and generally between growth and equity. In concrete policy terms, this concerns mainly social security and regional policy, though with additional importance for health and education policy.

The EU can be considered as a laboratory of 25 (soon 27) different experiences and models for all these areas, with a wide variation of different lessons relevant to China in different ways, including countries that have a long experience as market economies, and others that have managed transitions over the last 20 years.

As China develops its own model of social provision, it is extremely useful for it to be able to examine and study these different experiences and their lessons. This is already proving very fruitful

in the current 'social security' project which looks at three areas (pensions, unemployment benefit, medical insurance).

It would be useful to extend this in three ways in order to contribute to the development of social safety-nets: (a) to cover further areas of social security areas (e.g. maternal health care and work injuries), (b) to cover further areas of social provision (notably health and safety, and regional policy, but possibly also the regional, spatial - urban/rural - and fiscal aspects of education and health policy), and (c) to allow continuing support after the current social security project ends in 2010.

The objective would be to assist China to minimize the social side effects of economic reform and to contribute to poverty alleviation, through support in the health and safety insurance schemes, improvement of regional policy, institutional strengthening of the agencies charged with managing social provision systems, and extension of coverage of pension & unemployment insurance to the urban private and informal sector..

5.2.2 The environment, energy and climate change

Policy makers in China increasingly see environmental protection as a major challenge, and environmental developments in China inevitably 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 between the Commission and China and co-operation on environmental and energy issues 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, and the Chinese government is aware of its global responsibilities that are increasing in parallel with the country's economic growth.

Significantly, 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 on climate change 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, and new and renewable energy, clean coal, methane recovery and use, carbon capture and storage, hydrogen and fuel cells, and power generation and transmission); the implementation of the Clean Development Mechanism (CDM); and adaptation to climate change.

Support for energy sector reform, and the effective promotion of energy saving and efficiency, would furthermore reduce China's call on the world energy 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 has decided to adopt the integrated river basin management approach as a guiding strategy, similar to EU strategy under the Water Framework Directive. There is also potential for co-operation in the area of air quality since China suffers from severe air pollution problems in its towns and cities. Also in the urban context, opportunities exist for co-operation in the area of emissions, where China has already adopted some EU standards, and in integrated waste management. These are all areas in which the EC has previously co-operated with China, and where there are opportunities to build on past experience. More generally, co-operation on environmental legislation and standards, in particular where they impact on trade, should be continued. The Chinese Government has made efforts in strictly implementing such legislation, and public awareness, the disclosure of environmental information,

and public participation have been playing an increasingly important role. There is furthermore strong interest in using economic instruments in environmental policy. EU best practice and experience could be shared with Chinese partners in these areas.

The above topics could in part be addressed through the policy dialogues, under which administrative, managerial, and regulatory experience can be shared; through the promotion of business to business contacts between EU and Chinese operators; through industrial and technology co-operation; and through technical co-operation supporting, inter alia, sector analysis, economic modelling and policy development, and, possibly, demonstration projects. Furthermore, co-financing of actions in the area of environmental governance is envisaged.

5.2.3 Human Resources Development, Governance, and Capacity Building

5.2.3.1 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, both under the worldwide core funding for the programme, and under 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 academic years 2005/2006 and 2006/2007 is approximately 300.

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 CSP to provide scholarships for Chinese students to further their studies in the EU. In addition to the purely educational benefits that this support would provide, it would also contribute substantially towards the improvement of political, economic, and people-to-people links between the EU and China. Further links and exchanges of this sort could also be examined.

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 State’s education promotional exercises in terms of 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. This programme builds directly on the success of its predecessor, the Junior Managers Training Programme (JMTP). In order to ensure lasting impact, and subject to its evaluation, the continuation of the METP post-2010 will be given priority consideration with a view to increasing the numbers of young managers that benefit from this training.

5.2.3.2 Sectoral Dialogues

An increasing number of sectoral dialogues has been established with the Chinese Government in a wide range of sectors, from science and technology to employment and social security, and from trade, the environment, and energy to customs co-operation, education, and the information society. A summary of the subjects presently covered by the dialogues is given in Annex 6.5. 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 and constitute an important element of the external dimension of internal EU policies. The Chinese Government continues to show a keen interest in broadening and intensifying these dialogues, which provide a forum for exchange between, in the first place, policymakers, but also the business community, researchers and civil society. Some of the dialogues are linked to global sustainable development issues, where China and the EU both face challenges, and where China is interested in strategies developed by the EU to solve problems that European countries have been addressing for a number of years.

In the 2005-2006 National Indicative Programme (NIP) an amount of €5 million 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 new type of intervention will become operational in 2006 and will create close and direct links between the co-operation programme and the mainly reform-oriented exchanges that take place. While the performance and results of the PDSF will have to be evaluated in due course it is foreseen that follow-up activity will be required during the period of the CSP to maintain impetus and support for these activities.

An additional element for consideration in the formulation of further PDSF activities could be the provision of short-term training in the EU 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. Certain higher education institutions in the EU such as the College of Europe in Bruges, the European University Institute in Florence, and the European Institute of Public Administration in Maastricht are well suited to providing high-level and intensive exposure to EU policy issues that are of direct relevance to issues on the EU-China agenda

5.2.3.3 Public Administration Co-operation

In line with previous strategy documents on China, the 2006 Commission Communication underlines the importance of China's transition to a more open and plural society. The EU is expected to support the strengthening of the rule of law which is considered an essential basis for other reforms. The development of public administration and "governance by law" are recurring themes in China's 11th Five Year Plan.

In the area of governance, certain highly successful and strategic aspects of EU-China co-operation should be consolidated and deepened. As part of its reform and opening-up strategy, China has been - and for the foreseeable future will continue to be - engaged in a far-reaching reform of its public administration system, an element of which is the first Civil Servant Law that took effect in 2006. Strengthening and modernising public administration is a basic pre-condition for improving overall governance and the rule of law in China and for enhancing the sustainability and stability of China's economic and social development. Contacts between Chinese and European officials have become particularly intense and today cover the policy areas in which the European Commission and the EU in general are active. As China gains importance as an international actor, the alignment of its public administration systems with international and European models is becoming a key element for facilitating international co-operation between public administrations.

Public administration reform in China has been supported mainly through the Europe-China Public Administration Programme (CEPA), which started in 2003 and will run until the end of 2007 with a budget of €7.3 million. The main objectives of this programme are to assist the process of economic and social reform in China and to increase understanding and knowledge of public administration between China, the European Union and its Member States. The programme has provided many innovative inputs into the Chinese system and has attracted the attention of the leadership of the State Council. According to a mid-term evaluation, carried out in 2006, CEPA is "an achievement of historic proportions placing the co-operation between the EU and China at a very high level."

Whereas many of CEPA's objectives will have been achieved by the end of 2007, it may be expected that providing continued support for certain activities focused on exchanges and dialogue between Chinese and European officials and public administration experts and supporting the implementation of the new Civil Servant Law will bring major mutual benefits.

5.3 Thematic and Regional Programmes

In addition to the interventions foreseen under the present CSP, and in support of some policy dialogues, the Commission will continue to finance complementary thematic interventions in the following areas⁵:

- **Democracy and Human Rights:** where activities could be funded to support co-operation and dialogue in the field of governance and human right.
- **Non-State Actors in Development:** assistance could be provided to NGOs and other civil society organisations working in areas related to the CSP.
- **Migration and Asylum:** in support of EU-China dialogue on these issues.
- **Investing in People:** initiatives to complement activities under the CSP 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 financed with financial resources that are additional to those provided under NIP. In addition, China will benefit from activities funded under the Asia-wide programmes.

⁵ A list of projects being implemented under thematic budget lines and Asia-Wide programmes is given in Annex 6.6

6 ANNEXES

6.1 EC CO-OPERATION OBJECTIVES

6.1.1 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 Community⁶ 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 foresees that the Community carries 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.

6.1.2 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. [Country] is eligible to participate in cooperation programmes financed under the DCI [European Parliament and Council Regulation (EC) No. ... of ... December 2006 establishing a financial instrument for development cooperation.

- (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.

This Agreement however 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 our co-operation. This new agreement will provide a single framework covering the full range and complexity of the relationship, and at should be forward-looking and reflect EU priorities.

⁶<http://europa.eu.int/eur-lex/lex/en/treaties/index.htm>

- (3) Current EU policy towards China is provided in the Commission's 2006 Communication to the Council and the European Parliament entitled "**EU-China: Closer partners, growing responsibilities**".⁷

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 plural society; promoting sustainable development; ensuring secure and sustainable energy supplies; combatting 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 of 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 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) In its meeting of 22nd 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 15th December, substituting the development commitments of the Joint Declaration of the Council and European Commission from November 2000. The "the European Consensus on Development" provides, for the first time, a common vision that guides the action of the EU, both at its Member States and Community levels, 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 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.

⁷ COM (2006) 631 of 24/10/06.

6.2 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

6.3 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

6.4 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

6.5 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 consistent with long-run 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 cooperation.
- 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, albeit 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 to limit its financing to technical assistance and expertise.
- Coordination between the EC and Members 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 cooperation 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 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 that accrue to it.
- 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 sectors 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 means 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 relative more successfully. This comparative advantage consists in large part of 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 on-going and current EC-financed environmental programmes.
- The EC has successfully mainstreamed the issues of disadvantaged hinterland regions such as Western China, the Central Provinces as well as the North-Eastern ‘rust belt’ into its approach of developmental co-operation. However, the EC's project contributions are (and actually cannot but be) 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 welcome by national officials.
- It is recommended to give continued attention 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 cooperation has outlived its usefulness.

6.6 PROJECTS FINANCED UNDER THEMATIC BUDGET LINES AND ASIA-WIDE PROGRAMMES
(under implementation 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 Panzhihua 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

6.7 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, where Europe will soon have to close down its ageing experimental nuclear reactors, whereas China is currently building state-of-the-art facilities. Under the new (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

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 in 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 recent Memorandum of Understanding between the European Commission’s DG for Health and Consumer Protection (SANCO) and the Chinese governmental agency for Quality Supervision, Inspection and Quarantine (AQSIQ) aims at enhancing the co-operation on these issues and to establish better communication and collaboration between the responsible authorities on product safety. A Working Group has been established between DG SANCO and AQSIQ to implement the different actions under the agreement.

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 was signed in December 2004; among other things it opens the way for inspection missions in both directions in order to ensure the effective enforcement of customs regulations.

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 on 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 next event will take 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. At the recent EU-China summit a Memorandum of Understanding on transport and energy strategies was concluded. Concrete actions are envisaged in areas such as energy regulation, renewable energy (including alternative transport fuels), energy efficiency, natural gas, clean coal technology (near zero emissions) and other new technologies in the energy sector. The new 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. It is particularly interesting for European researchers to work in new state-of-the-art Chinese facilities, at a time when older European research reactors will soon be phased out. The EU and China are both participating in the international ITER programme for the construction of an experimental controlled fusion reactor.

Environment

Chinese policy makers 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 Chinese Ministry of Science and Technology (MOST) and the National Development and Reform Council (NDRC) have intensified. The dialogue on environmental issues, which covers sustainable development, climate change, and renewable energy, was recently upgraded to ministerial level. 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 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 to for tackling the problem of 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 governmental agency 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.

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 to reach 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 issue such as 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, a 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 Chinese key 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 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 dialogue meeting will be held in Brussels in 2007.

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 notably 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, notably regarding 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 EU 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 like 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 contributing to other dialogue topics as presented in this paper related to, for instance, 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. In 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 scope of technical issues is dealt with in greater detail in 13 Working Groups. Subjects dealt with in these Working Groups concern conformity assessment, standardisation, technical barriers to trade (TBT/WTO), electrical and mechanical

products, toys, textile, lighters, medical devices, pressure equipment, automobile standards, cosmetics and radiation of mobile phones.

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 it 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 more than 100 research projects funded by the Commission's Framework Programme for research.

China is rapidly becoming one of the most active actors 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 how to implement the dialogue among the various parties concerned. Different fields of co-operation were reviewed, such as for instance earth observation, in particular with 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 areas of :

Agriculture

On 15 July, 2005, a Joint Declaration was signed between the Chinese Ministry of Agriculture and the Directorate General for Agriculture and Rural Development of the European Commission, establishing a dialogue on agriculture between the two sides. The objective of the dialogue is to promote bilateral co-operation and to facilitate the communication on arising issues and their efficient resolution. The working

methods will include regular meetings during which new legislation and regulations, new technologies, quality policies (including geographical indications and organic production) and any other topic of mutual interest, relating to agriculture, will be discussed.

Transport (in general)

A Memorandum of Understanding on transport and energy strategies was concluded with the Chinese National Development and Reform Commission which will allow for the institutionalization of co-operation in the transport sector. It was in particular agreed to launch co-operation on road and railway transport.

6.8 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, 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 programmed 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 at 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 s 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 Environment 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 poverty 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, also 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, where broader studies tend to represent untested generalizations.

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, and with this an opening up to sharing 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 report of 2001 “China –Air, Land and Water” acknowledges however its 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 case of accident or 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 is in fact 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. More resort to courts is considered desirable, but to conduct cases there are certain 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. There is in many ways a better prospect of these eventualities with increasing private sector ownership and citizen participation to bring 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. The private sector abuse of the law should become easier to control in the future, provided that is 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 to mitigate their potential environmental impacts more seriously. 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 indeed 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 impacts 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, also more intensive horticulture and livestock in the east coastal areas is in prospect 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 sustainable or legal 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) says this should be nearer 2%. This figure in the early 1990s was just 0.8%. China is nevertheless planning to introduce a system of green accounts which may highlight environmental costs of its development path. A much quoted calculation referenced in The World Bank report above 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

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 impacts of consumption growth is contained by changing demands 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 Chinese authorities to develop the framework for development along the green path. A long term view will be required.

6.9 DONOR MATRIX

(to be included)