

CHINA

NATIONAL INDICATIVE PROGRAMME

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Programming Service:	DG Relex H/2
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1 SUMMARY OF THE NIP AND INDICATIVE BUDGET

The present China National Indicative Programme covers the first four years (2007 - 2010) of the seven-year period covered by the Country Strategy Paper, and has been prepared in line with the policy objectives set out in that document. These are:

- (1) To facilitate and to expand the bilateral relationship in the areas of trade and economic and social development;
- (2) To assist China in her efforts to address global concerns over climate change, the environment, and energy; and
- (3) To provide support for China's internal reform process through human resources development, governance, and capacity building where EU experience can provide added value.

EC co-operation with China during the period 2007 – 2010 will be focused on three priority areas, under which the interventions indicated below will in principle be financed.

<u>PRIORITY</u>	<u>% of NIP</u>	<u>€ Mio</u>
Priority 1: Trade, Economic and Social Development	40	50.0
• EU-China Trade Co-operation	15	20.0
• Civil Aviation	5	6.0
• Financial Services	10	12.0
• Social safety-nets	10	12.0
Priority 2: Environment		
Environment, Energy and Climate Change Programme	30	40.0
Priority 3: Human Resources Development, Governance, and Capacity Building	25	32.0
• Higher Education	15	20.0
• Policy Dialogue Support Programme	5	6.0
• Public Administration Co-operation	2	3.0
• Leadership Development Programme	2	3.0
Reserve	5	6.0
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Total	100%	128.0

2 PRIORITY 1: TRADE, ECONOMIC AND SOCIAL DEVELOPMENT

2.1 EU-China Trade Co-operation

2.1.1 Strategy Context/justification

China now plays a pivotal role in the world economy and will continue to do so for decades to come. This creates both challenges and opportunities for the broader EU–China relationship. EU exports to China have substantially increased in the past five years. China's WTO membership has been a significant step and the country is generally on track with regard to meeting its commitments of membership. China is also an attractive destination for EU investment in its growing domestic market, directly enhancing the competitiveness of EU firms. While the Chinese market is generally open, many trade obstacles remain: from non-tariff barriers to insufficient protection of intellectual property, from closed government procurement to subsidies and privileged access to banking for national

companies, from incomplete opening of the services sector to restrictions for investment in the manufacturing sector. Since China's economic growth is dependent on exports and foreign investment it will be important for the country to be perceived as an open market which "plays by the rules". This implies that China must take pro-active action to open her market to outside goods, services and investment; to strengthen legal protection for foreign companies, in particular in the areas of intellectual property and technology; and avoid adopting anti-competitive trade practices and regulations. The foregoing creates a perfect window of opportunity for continued EU – China co-operation in this area.

2.1.2 EC Objectives

The overall objectives of a future programme in the area of trade co-operation will be to provide continued support to China for the deepening of her process of economic and administrative reform in trade-related areas, not only at the level of the Central Government but increasingly, and particularly, at the local and regional government levels with a view to supporting the more uniform application of laws, increased transparency and facilitation of trade.

The programme will build on the experiences and results of the ongoing EU-China Trade Project (EUCTP) which will end in 2009 in order to further develop China's legal and regulatory framework; to strengthen administrative structures and capacities; and to assist China in providing training, building awareness, and disseminating information on trade-related issues.

2.1.3 Expected results

Co-operation in this area will result in a strong "rules for trade" framework. It should ensure the full implementation of China's WTO commitments, reinforce and extend dialogues and co-operation to facilitate trade, promoting the fair use of unilateral instruments, supporting China as an active and responsible global player and increasing the involvement of civil society. Newly-starting programmes such as the Managers Exchange and Training Programme (METP) and the new Business Management Training Programme (BMTP) will provide complementarity.

2.1.4 Activities

Co-operation activities will include technical assistance for the formulation of legislation and the drafting of policy recommendations, institutional strengthening, training, the presentation of EU and WTO practices, and the building of networks. Assistance may take the form of seminars and conferences, provision of expertise, study tours, drafting/provision/translation of key legal texts and other relevant documents. Activities will be undertaken to promote liaison and contacts between Chinese and EU businesses, and associated stakeholders.

Assistance will cover a wide range of sectors and horizontal issues which are of particular importance for China's economic development and for its trade and investment relations with its partners. Activities could include the formulation of policy and the adaptation of legal and regulatory frameworks, institutional strengthening, and other measures to help ensure the implementation of new policies and regulations, at national level and in key pilot regions. Trade facilitation will be an important element, at national and regional level.

The programme will be based on the needs identified at the time of appraisal, and on the experiences gained during the implementation of the current EUCTP. It will be complementary to the EU-China Project on the Protection of Intellectual Property Rights (IPR II) for which implementation will begin in 2007, and will take into consideration developments under the EU-China Trade Policy Dialogue.

2.1.5 Implementation

Implementation of activities will be overseen by the Commission's Delegation in China under the provisions for de-concentrated project management.

2.1.6 Cross-cutting issues

Efforts will be made to address gender issues as well as elements of good governance in relation to the transparent and effective management of public affairs.

2.1.7 Risks & assumptions

The risks and assumptions associated with this programme are that:

- the Chinese Government remains committed to implementing its WTO commitments and further opening of the market;
- the authorities and agencies targeted for support under the programme(s) are receptive to the assistance foreseen
- the required support inputs are of the desired quality and can be provided in a timely, responsive, and effective manner

The Chinese authorities will be fully consulted during project preparation.

2.1.8 Main Indicators

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

- China's implementation of WTO commitments, in relation to WTO benchmarks;
- Implementation of regulations in areas such as investment, geographical indicators, SPS, maritime and air transport;
- Concrete results emanating from trade dialogues in relation to targets.

2.1.9 Co-ordination with MS and other donors

Co-ordination with Member States and the donor community will be assured by the Commission Delegation in Beijing, and at Headquarters level.

2.1.10 Indicative timeframe

It is intended that funds for the programme be committed from 2008 onwards and that the programme implementation period be defined at the time of programme identification and appraisal.

2.2 Civil Aviation

2.2.1 Strategy Context/justification

Growth in China's civil aviation sector is presently estimated at around 30 to 40% annually. This represents a huge challenge and a potential risk for safety if the country is not capable of increasing its safety surveillance capacities with qualified experts to ensure safe operation.

Forecasts of new aircraft acquisitions imply that the shortage of pilots will to increase by 700 each year over the next 10 years. This expansion will also have repercussions on maintenance personnel to support aircraft operations. China does not yet have the training capacity to provide the number of pilots and engineers that will be needed to ensure safe operations of the rapidly increasing fleet. Sustainability of safety awareness, practices and supervision by the Civil Aviation Authority of China (CAAC) and by airlines is needed in view these shortages and the fragility of the Chinese regulations.

To face the expected shortage of qualified experts, continued co-operation on a “Train-the-Trainer” basis is needed between training institutes and authorities to harmonise the qualification of technical staff with the level existing in Europe. Civil aviation is a highly regulated sector where EU standards can be applied, not only in the area of safety, but in aviation regulation more broadly.

The main focus of previous EU-China co-operation in civil aviation (1999 to 2006 with an EC contribution of €12.5 million) has been to promote aviation safety through the development of co-operation in the areas of airworthiness and flight standards, production management, customer support, air traffic management (ATM), and training for pilot inspectors, airline management, and industry management. This co-operation has paved the way for the creation of stronger links between the regulatory authorities in China and the EU and has resulted in the joint organisation by the EC and the CAAC of the first EU-China Aviation Summit in Beijing in 2005. It has also provided the right conditions for moving from essentially training-based interventions towards the joint design and application of converging rules and regulation that would further enhance ongoing co-operation between European and Chinese industry.

A new intervention in the sector would play an important role in facilitating and supporting the conclusion of a comprehensive air transport agreement with China as proposed by the Commission to the Council in March 2005 in its request for a negotiating mandate. A key component of such an agreement would be to ensure that a process of regulatory convergence accompanies a gradual market opening which would create economic benefits for both economic operators and consumers alike.

2.2.2 EC Objectives

The overall objective is to support the Government of China in its commitment to meet the civil aviation sector challenges that it faces in terms of matching the rapid growth in demand for air transport with a satisfactory level of safety and security.

The specific objectives are to provide support for the development of general civil aviation policy in China; regulatory reform and convergence in the areas of aviation security and safety, air traffic management, and competition; and mutual recognition of standards and practices.

2.2.3 Expected results

The results will cover four areas of civil aviation activity. Aviation security will be improved through the establishment of security audit programmes and the improvement of security equipment standards, and through the development of mutually recognised regulations and standards on aviation security and air cargo. In the governance-related areas of competition law and economic regulation civil aviation regulation will be developed and enforced, practices for joint assessment and information exchange between competition authorities will be developed, and the convergence of economic regulatory frameworks will be promoted.

In air traffic management (ATM) co-operation on Air Traffic Controllers training and ATM modernization will be promoted, the development and implementation of Safety Management Systems in air traffic management will be supported, Chinese participation in Single European Sky ATM Research (SESAR) and the EU Research Framework Programme will be facilitated, and links between the CAAC’s Air Traffic Management Bureau and Eurocontrol will be established.

Aviation safety will be promoted through the improvement of airworthiness, flight operation and maintenance; Safety Management Systems (SMS) will be established, certification practices (including environmental/noise issues) and safety oversight will be improved, and close co-operation

will be established between the CAAC and the European Aviation Safety Agency (EASA) with a view to regulatory convergence and mutual recognition

2.2.4 Activities

Activities to be undertaken will be defined during the appraisal exercise, and will take account of previous experienced gained in the sector. These could include:

- Specific training for trainers on technical issues related to air safety and security, and ATM
- Senior level management training in sector policy
- Technical assistance for the improvement of standards and economic regulation
- Seminars and exchanges on best practice and the general regulatory framework
- Professional placements in appropriate aviation sector European organizations and institutions to promote networking and regulatory links
- The promotion of co-operation between EU aeronautical teaching institutions and the Chinese Ministry of Education, Ministry of Transport, the CAAC, and the Civil Aviation University of China.

2.2.5 Implementation

Implementation procedures will be defined during project formulation. This could be done through services to be provided on the basis of a call for proposals from specialist organisations.

2.2.6 Cross-cutting issues

Environmental issues associated with the sector will be addressed through training activities and the exchange of information on regulation and best practice.

Sector reform and regulation are closely linked to the broader objective of promoting good governance, which is in itself a recurrent objective in many of the projects and programmes financed under the EU-China Co-operation Programme.

2.2.7 Risks & assumptions

It is assumed that the growth that has taken place in the civil aviation sector in China in recent years will be maintained, and that the need for further reform and interaction with the EU on related sectoral issues will be continued.

The main risk associated with the programme relates to the pace at which the civil aviation sector in China is expanding, and the capacity of the programme to respond and adapt to changing needs that may arise. This risk should be mitigated through flexibility incorporated into the design and implementation procedures for the programme.

2.2.8 Main Indicators

- Number of persons trained in aviation security
- Application and use of aviation security audit programmes
- Improved aviation security equipment standards
- Mutual recognition of regulations and standards on aviation security and air cargo
- Quality and enforcement of civil aviation competition law
- Implementation of joint assessment and information exchanges between competition authorities
- Convergence of economic regulatory framework promoted
- Co-operation on Air Traffic Controllers training and ATM modernization ensured
- Degree of development/implementation of Safety Management Systems in air traffic management
- Demonstrated Chinese participation in Single European Sky ATM Research (SESAR)

- Demonstrated participation of Chinese aviation industry in the EU Research Framework Programme
- Demonstrated co-operation between the CAAC's Air Traffic Management Bureau (ATMB) and Eurocontrol
- Numbers of staff trained in airworthiness, flight operation and maintenance, and number of flight inspectors and accident investigators trained.
- Improvements made to inspection procedures and Safety Management Systems (SMS)
- Provision of training and co-operation on certification practices (including environmental/noise issues) and safety oversight

2.2.9 Co-ordination with MS and other donors

Co-ordination and monitoring mechanisms will be defined during the appraisal of the programme. Implementation will be followed closely by, and will feed into the EU-China Civil Aviation Dialogue, and will be the subject of exchanges of information in the context of the regular meetings of the EU Development Counsellors meeting in Beijing.

2.2.10 Indicative timeframe

- Identification mission: first half of 2007
- Formulation mission: second half of 2007
- Management Committee: mid-2008
- Commission decision: third quarter 2008
- Signature of Financing Agreement: third quarter of 2008

2.3 Financial Services

2.3.1 Strategy Context/justification

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 (banking, insurance and securities). The project pursued this objective through police advice for the sector's regulators and supervisors as well as through focused training actions for the benefit of those working in the financial sector including regulators and supervisors. The project eventually succeeded in opening doors to China's financial sector and to build trustful relationships between parties in the sector both in China and in the EU Member States. A new project is to build directly on these achievements by selecting a few larger scale, higher cost assignments that will have a large real and visible impact, and which also assist the Chinese government's needs (i.e. socio-economic aims that support 'harmonious development'). Cooperation in this area will also reflect the growing importance of trade in services between the EU and China.

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

Experience has shown that it takes almost a year for a new Technical Assistance project to get familiar with the new counterparts and their practices, and in winning-over the counterparts. Therefore a new project should run for five years with adequate funding. The budget concerned should distinguish clearly between combined activities (including e.g. joint Round Table events) and those for the three individual sectors (banking, insurance and securities).

2.3.2 EC Objectives

- Facilitate regulatory convergence;
- Assist China to meet WTO accession compliance obligations;
- Facilitate market access for European financial services firms;
- Ensure European financial services firms have sound, well regulated Chinese counterpart firms to interact with.

A future appraisal mission will advise to what extent all of these objectives can be addressed within the available budget.

2.3.3 Expected results

Professionalism and competence of the financial services sector intermediaries (e.g. banks and securities firms' revenue models need broadening and strengthening; domestic insurance companies needs for pricing strategies) improved. Stakeholders including the general public are better educated about the financial services sector. The current development thrust of regulatory bodies to maintain the level of competence necessary to grow as markets develop in sophistication is sustained. This, however, could be given lower priority, as this element will certainly be addressed by other donor organisations.

2.3.4 Activities

Activities to be undertaken will be defined during the appraisal exercise, and will take account of previous experienced gained in the sector. These could include:

- policy dialogue support and rapport building study tours and internships;
- enhance Chinese willingness to enter into the spirit of the obligations by providing tools and skills to meet requirements and undertaking assignments which demonstrate the 'win-win' philosophy of unfettered cross-border commerce;
- strengthen Chinese intermediaries by skill-set transfers via training and placements; this removes anxiety of Chinese of perceived inferiority of its domestic players and their inability to compete with incoming competitors;
- training-oriented programme supplemented with regulatory capacity-building initiatives.

2.3.5 Implementation

Implementation of activities will be overseen by the Commission's Delegation in China under the provisions for de-concentrated project management.

2.3.6 Cross-cutting issues

Efforts will be made to address gender issues as well as elements of good governance in relation to the transparent and effective management of public affairs.

Sector reform and regulation are closely linked to the broader objective of promoting good governance, which is in itself a recurrent objective in many of the projects and programmes financed under the EU-China Co-operation Programme.

2.3.7 Risks & assumptions

The risks and assumptions associated with this programme are that:

- the Chinese Government remains committed to implementing its WTO commitments and further opening of the financial services market;
- the authorities and agencies targeted for support under the programme (in particular the financial services regulatory bodies) are receptive to the assistance foreseen

- the required support inputs are of the desired quality and can be provided in a timely, responsive, and effective manner

2.3.8 Main Indicators

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

- China's implementation of WTO commitments in the financial services sector, in relation to WTO benchmarks;
- Implementation of regulations in the financial services sector;
- Degree of regulatory convergence in the financial services sector between the EU and China;
- Degree of access by EU financial services sector firms into the Chinese market;
- Concrete results emanating from dialogues in the financial services sector.

2.3.9 Co-ordination with MS and other donors

Co-ordination with Member States and the donor community will be assured by the Commission Delegation in Beijing, and at Headquarters level.

2.3.10 Indicative timeframe

- Identification mission: first half of 2007
- Formulation mission: second half of 2007
- Management Committee: end 2007
- Commission decision: first quarter 2008
- Signature of Financing Agreement: first/second quarter of 2008

2.4 Social safety-nets

2.4.1 Strategy Context/justification

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 each case, there is a strengthened emphasis on the second pole. 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, which would require launch of a successor project by 2009 to avoid a gap between the two.

2.4.2 EC Objectives

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

- Development of a sustainable health and safety related insurance system and upgrading of health and safety regulations and implementation
- Improvement of regional policy and systems of transfers to less favoured regions
- institutional strengthening of the agencies charged with managing social provision systems and delivering benefits;
- extension of coverage of pension and unemployment insurance to the urban private and informal sector;

2.4.3 Expected results

- Strengthened capacity of relevant ministries to manage social provision at national and regional level. Contribution to development of sustainable and effective systems of social provision in China, thus increasing social welfare and contributing to social stability.
- Research-based set of recommendations on how to extend the coverage of social provision to the private and informal urban sector, to migrant workers and to the countryside

2.4.4 Activities

Activities to be undertaken will be defined during the appraisal exercise, and will take account of previous experienced gained in the sector. These could include:

- Pilot projects in the different policy areas, to help develop models to move towards the unified social security system targeted for 2025.
- Capacity building in the ministries and institutions concerned
- Support for research and the dissemination of research in the area
- Exchanges with different EU member states on specific policy areas, to draw from the wide variety of EU experience - both long-established market economies and economies that have transitioned in the last 20 years.

2.4.5 Implementation

Implementation of activities will be overseen by the Commission's Delegation in China under the provisions for de-concentrated project management.

2.4.6 Cross-cutting issues

Efforts will be made to address gender issues as well as elements of good governance in relation to the transparent and effective management of public affairs.

2.4.7 Risks & assumptions

The risks and assumptions associated with this programme are that:

- the Chinese Government remains committed to implementing its WTO commitments and further opening of the financial services market;
- the authorities and agencies targeted for support under the programme (in particular the financial services regulatory bodies) are receptive to the assistance foreseen
- the required support inputs are of the desired quality and can be provided in a timely, responsive, and effective manner

2.4.8 Main Indicators

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

- Number of agencies involved in social provision assisted
- Increased coverage of social welfare systems (% contributing, % eligible for benefits)
- Implementation of regulations in the social provision sectors;

2.4.9 Co-ordination with MS and other donors

Co-ordination with Member States and the donor community, including possible joint activities, will be assured by the Commission Delegation in Beijing, and at Headquarters level.

2.4.10 Indicative timeframe

- Identification mission: first half of 2008
- Formulation mission: second half of 2008
- Management Committee: end 2008
- Commission decision: first quarter 2009
- Signature of Financing Agreement: first/second quarter of 2009

3 PRIORITY 2: ENVIRONMENT, ENERGY AND CLIMATE CHANGE

3.1 Environment, Energy and Climate Change Programme

3.1.1 Strategy Context/justification

Over the last decade, the Commission and China have been cooperating closely on environmental and energy issues through established ministerial-level dialogues, high-level working groups, joint workshops/conferences, and through the EU-China co-operation programme. The 2005 EU-China Summit in Beijing furthermore established a partnership for co-operation on climate change.

China's rapid economic growth and energy inefficiency impacts directly on climate change, energy security, air pollution and the environment in general, both locally and globally. EU-China co-operation under this NIP shall further support China in addressing the environment and energy-related challenges as outlined in the 11th Five Year Plan (2006-10) and beyond. China's ability to reach targets such as reducing energy intensity by 20% by 2010, will have a direct impact on the environment, energy consumption and climate change.

The programme will strengthen co-operation between the EU and China in the areas of the environment, energy (including, inter alia, energy security and efficiency, cleaner energy resources and technologies) and climate change (both mitigation and adaptation): firstly, by facilitating the related policy dialogues; secondly, by providing medium to long-term technical assistance in one or more priority sectors; thirdly, by promoting private sector co-operation; and fourthly by promoting partnerships between EU and Chinese civil society organisations.

Components and actions under this programme will be developed in close collaboration with Member States who are active in these fields in China. Options for parallel implementation and joint financing with Member States' programmes, and possibly with other donors, will systematically be explored during programme preparation.

3.1.2 EC Objectives

The objective of the programme is to support China in protecting the environment, saving energy and combating climate change.

3.1.3 Expected results

Programme results and activities will be defined during programme identification and formulation. In general terms, the following results are expected:

- strengthened policy dialogues
- more integrated environmental and energy policy and legislation

- integration of climate change concerns (both mitigation and adaptation) in relevant policy areas
- measures taken to improve the implementation of energy and environmental legislation
- use of economic instruments for environmental protection and resource conservation, as well as promoting energy efficiency and energy savings
- improved environmental governance
- increased private sector co-operation between the EU and China
- increased use of renewable energy
- practical steps to implement near-zero emissions power generation through the use of carbon dioxide capture and storage

3.1.4 Activities

This programme will consist of various components. Firstly, it will support established EU-China policy dialogues on environment, energy and climate change. It will facilitate the sharing of EU (and Chinese) experience, for example through conferences and workshops, training programmes, exchange of staff and studies. Co-financing of actions under the China Council for International Cooperation on Environment and Development (CCICED), a high-level advisory body to the Chinese Government, could be envisaged under this component.

Secondly, the programme will provide technical assistance over several years to address the challenge of climate change, to promote energy sector reforms, enhance energy security, energy efficiency, energy savings and the use of renewable and clean energy and energy technologies, and, possibly, other areas identified during programme preparation. It will assist with the design and implementation of policies and plans at the central, provincial, and local levels in China.

Thirdly, the programme shall facilitate and promote private sector industrial and technology co-operation on environment and energy and, possibly, co-finance one or more pilot demonstration projects.

Fourthly, the programme will co-finance actions in the area of environmental governance, for example by creating partnerships between EU and Chinese environment organisations. Some of the issues to be addressed under this component are public access to environmental information, public participation in decision making and public rights of appeal.

Specific activities will be defined during programme identification and formulation.

3.1.5 Implementation

At this stage, it is anticipated that the programme will be implemented through three channels:

Firstly, a facility, most likely to be established under a service contract, which would be specifically designed to support policy, dialogues in the areas of environment, energy, and climate change. This facility would be a flexible tool, addressing priorities defined under the relevant policy dialogues.

Secondly, technical assistance, most likely to be provided under a service contract, and/or twinning partnerships under which experts from the administration of an EU Member State could provide technical assistance to a Chinese Government Ministry or Organisation.

Thirdly, a partnership programme for co-financing actions on environment, energy and climate change, likely to be implemented through a call for proposals mechanism.

3.1.6 Cross-cutting issues

Environmental issues and good (environmental) governance, including the rule of law, will be directly addressed by this programme. Due consideration will be given to gender issues in programme preparation and implementation.

3.1.7 Risks & assumptions

The assumption under this programme is that China continues to place environmental protection, resource conservation, energy and climate change high on the political agenda.

3.1.8 Main Indicators

- number of policy dialogue activities supported
- number of new initiatives related to environment, climate change and energy
- studies and reports on vulnerability and adaptation to climate change, and the integration of adaptation concerns in relevant policy
- number of joint activities carried out by EU and Chinese environmental organisations
- number of co-operation actions between EU and Chinese energy companies

3.1.9 Co-ordination with MS and other donors

In June 2005, the Beijing Environment Counsellors Group (ECG) was established in order to improve co-ordination and co-operation on environment and climate change between the EU (Commission and EU Member States) and China. The ECG has been a forum for the exchange of information on projects and policy initiatives and for the co-ordination of actions, for example under the EU-China Climate Change Partnership.

Furthermore, co-ordination with EU Member States and other donors takes place in a number of informal round tables related to environment and energy.

During the identification and formulation missions of this Programme options for joint actions with EU Member States and other donors will be fully explored.

3.1.10 Indicative timeframe

- | | |
|-------------------------------------|------|
| • Identification mission : | 2007 |
| • Formulation mission: | 2007 |
| • Management Committee: | 2008 |
| • Commission decision: | 2008 |
| • Signature of Financing Agreement: | 2008 |

4 PRIORITY 3: HUMAN RESOURCES DEVELOPMENT, GOVERNANCE, AND CAPACITY BUILDING

4.1 Higher Education

4.1.1 Strategy Context/justification

The development of human resources and the improvement of the quality of higher education is an important element of the country's new Five Year Plan. China is endeavoring to make her education sector more internationally diverse and more competitive through improved co-operation with numerous European academic centres of excellence. This point was highlighted at the ninth EU-China Summit in Helsinki in September 2006, with the Chinese side expressing strong interest in the future conclusion of an EU-China Education Co-operation and Exchanges Agreement. In support of this stated interest, and as a reciprocal measure, the Chinese side announced the launching of a five-year "EU Window" in the Government Scholarship Programme to provide scholarships and opportunities for EU students to study Chinese.

Offering scholarships to Chinese students to study in the EU is a beneficial strategy since, in addition to benefiting Chinese students and responding to the Chinese authorities' interest in widening their

higher education base; it assists EU universities to gain international visibility and improves the profile of the European higher education model. This is in line with the Bologna Declaration (19/06/99) which stated that it is necessary to ensure that Europe's higher education sector acquires a degree of attractiveness in the wider world equal to Europe's major cultural and scientific achievements; with the Barcelona European Council (15/03/02 and 16/03/02) which affirmed opening-up to the wider world as one of three key goals for education systems; and with the European Ministers of Education meeting in Prague (19/05/01) which emphasised the importance of enhancing the attractiveness of European higher education to students from other parts of the world.

The Erasmus Mundus Programme was established by decision of the European Parliament and Council on 5th December 2003 (Decision No 2317/2003/EC)¹, and covers the period 2004-2008 with a budget of €230 million. It has since established itself as an important and successful world-wide European initiative in higher education.

Further financing for higher education under the 2007-2010 NIP would constitute a follow-up to the financing allocated for the same purpose under the 'Erasmus Mundus China Window (€9 million) in the framework of the 2002-2004 NIP. Continued co-operation in this sector is further seen as a logical follow-up to previous and ongoing EU-China human resources development projects and programmes in basic and vocational training, public administration, management, and European studies, and would constitute a complementary element to the high-level exchanges with China on education that are taking place.

4.1.2 EC Objectives

The overall objective is to contribute towards the strengthening of political, economic, and people-to-people links between the EU and China through offering high-quality European postgraduate education possibilities to Chinese graduates.

4.1.3 Expected results

The main result will be the participation of Chinese postgraduates in Masters degrees in selected European academic institutions.

It is furthermore anticipated that this will have a multiplier effect on future demand from China for European higher education, and, via personal links that will be created between Chinese students and their European counterparts, can be expected to foster future co-operation across the board. Continued co-operation in higher education will provide considerable 'additionality' to the Erasmus Mundus General Programme, and, as the scholarships will offer opportunities to future political and economic decision-makers in China, EU visibility will be further promoted.

4.1.4 Activities

Scholarships will be provided for Chinese postgraduate students to undertake postgraduate training in EU universities. The programme will be promoted by information activities intended to maximise the number of participants within the limits of the funding available, and to enhance EU visibility. Measures will be taken to ensure the appropriate gender balance among selected students, and ways of encouraging the participation of students from China's poorer provinces will be examined.

4.1.5 Implementation

Implementation options and mechanisms will be defined in the course of programme formulation.

¹ Official Journal L345/1 of 13/12/03

4.1.6 Cross-cutting issues

An effort will be made to ensure that wide publicity for the programme is given in the poorer provinces of China to encourage the participation of students from those regions. Due attention will equally be paid to ensuring the required gender balance among participants.

4.1.7 Risks & assumptions

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

4.1.8 Main Indicators

The main indicators will be the numbers of Chinese students participating in the programme, the quality of their performance, and the numbers of degrees awarded to them.

4.1.9 Co-ordination with MS and other donors

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

4.1.10 Indicative timeframe

It is proposed that the first student intake under the programme will take place in 2008.

4.2 Policy Dialogue Support Programme

4.2.1 Strategy Context/justification

The dialogues and exchanges between the Commission's various Directorates General and services and the Chinese Government are wide and numerous, details of which are provided in the 2007-2013 Country Strategy Paper. All are supportive of China's development and in certain areas are closely linked to projects and programmes financed under the EU-China co-operation programme. They form an increasingly important element of the overall EU-China relationship and a programme to provide support to them – the Policy Dialogue Support Facility - is being financed under the 2005-2006 National Indicative Programme with an EC contribution of €6 million². While the implementation period of the Facility has initially been estimated at five years, the mechanism is demand-driven, and it is probable that this financing will be fully disbursed in a shorter period. Further support under the 2007-2010 NIP is therefore proposed.

The Chinese Government has shown keen interest in intensifying and expanding the dialogues, and in backing them up with concrete activities, using EU models as examples for the country's own development in the management of the reform process. The Commission shares this interest, and responds by providing regular contacts and exchanges with its Chinese counterparts. In this context it may be noted that EU expertise and experience in a wide range of areas has been transferred to a number of transitional countries with considerable success.

² Of which €1 million is foreseen for the training of Chinese interpreters

In designing projects and programmes under the 2007-2010 NIP an effort will be made to ensure that support for dialogues is or will be provided in the framework of individual co-operation programmes wherever this is possible. In some areas, for example in the information society, and in certain trade-related areas, this approach has already proved successful. However, experience shows that it is difficult to include new important topics or involve additional counterparts where not envisaged in the original project design. It is therefore necessary to provide additional support under this action where an existing programme or project is unable to respond to the specific requirements of the dialogue or exchange.

The approach proposed serves not only to assist China with its development efforts, but also to align the co-operation programme more closely with the mainstream, broader EU-China relationship, and to respond to its dynamics.

4.2.2 EC Objectives

The overall objective of the action is to widen and deepen EU relations with China through the further development of EU-China Policy Dialogues.

The specific purpose is to facilitate and support the current and future implementation of the Policy Dialogues between EU and China with a view to enhanced economic and social co-operation, and improved governance.

4.2.3 Expected results

The above objectives will be achieved by supporting exchanges of best practices, know how and expertise between EU and China in priority areas of co-operation. Expected results should include:

- Increased common understanding of sectoral issues
- Best practices, know how, lessons and expertise exchanged, and good governance promoted
- Chinese social and economic policy improved in line with the Five Year Plan
- Current and future EU-China dialogues facilitated and enhanced

4.2.4 Activities

The activities to be undertaken will vary according to the specific area and objective of the dialogue or exchange to be supported. They could include short to medium-term studies; logistical support for meetings, conferences and seminar; internships for dialogue partners; required external expertise; and translation and interpretation services.

European and Chinese will be coupled with mechanisms to strengthen the transfer of know-how in areas relevant to the subjects of the dialogues.

Visibility will be given to the implementation of the activities undertaken in the framework of the dialogue support activities to ensure that awareness is raised of EU-China co-operation in the relevant areas.

4.2.5 Implementation

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

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

4.2.6 Cross-cutting issues

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

4.2.7 Risks & assumptions

The risks and assumptions associated with this action are that:

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

4.2.8 Main Indicators

Specific results and indicators will be defined for each of the activities under the support programme. The main indicators by which the impact and effectiveness of the support programme itself may be assessed are as follow:

- degree of coherence in the development of EU and Chinese sectoral policies
- increased support provided for exchanges under mandates for dialogues and exchanges

4.2.9 Co-ordination with MS and other donors

Overall responsibility for the co-ordination of activities under this action will lie with the Commission Delegation in Beijing. The preparation and implementation of project activities will be the subject of exchanges between the Delegation and the Chinese authorities, and between the Commission's central services and their Chinese counterparts. The Member States will be consulted in the framework of established co-ordination mechanisms.

4.2.10 Indicative timeframe

The timeframe for the financing of the programme will be dependent upon the rate of disbursement of the funds (€6 million) committed for Policy Dialogue Support under the 2005-2006 NIP. It is anticipated that the new programme should come on stream towards the end of the period of the present NIP.

4.3 Public Administration Co-operation

4.3.1 Strategy Context/justification

Improved governance, entailing the need for a professional and efficient civil service, is essential for building a stable society based on the rule of law. It is required for sustainable economic and social development and is in line with EU China policy and with China's 11th Five Year Plan. In this regard, there is a need to provide further assistance in order to build on the highly successful China-Europe Public Administration Programme (CEPA) which covers areas central to issues of governance. The CEPA programme consists of strategic policy analysis seminars and related activities, the development of a Master in Public Administration Programme, a two-year Young Officials Training Programme, a Training Managers and Trainers Programme, a Staff and Institutional Assessment Programme and the development of Chinese-European Public Administration Networks.

The CEPA Programme will end on 31 December 2007. Most of its original goals will by then have been reached and integrated into the Chinese training curricula for officials. However, certain elements, such as the strategic policy analysis seminars, which have taken the form of an annual EU-China Senior Forum on Government Management, should receive continued support. The Forum provides a unique, high-level platform for direct interaction between the Chinese and European civil services on areas of strategic importance for the promotion of good governance. As recommended in the Programme's mid-term review, and in support of China's first Civil Servant Law that took effect in 2006, certain study visits, training and possibly studies are also foreseen to be continued and/or further developed.

4.3.2 EC Objectives

The overall objective of the action is to contribute to the economic and social reform in China. The project purpose is to increase understanding and knowledge of public administration between China, the European Union and its Member States.

4.3.3 Expected results

- Increased exchange of knowledge between Chinese and EU officials.
- Increased understanding by Chinese officials of the European principles of governance gained through study tours to Europe.
- Professional capacity of the Chinese civil servants improved through training.
- Improved efficiency in public administration service delivery.
- Improved performance monitoring systems.

4.3.4 Activities

The Identification/Formulation mission will define the details of the project but the following activities are likely to be included:

- An Annual Forum on innovation of public administration for senior Chinese and EU officials organised and Forum publications issued.
- Short- and long-term study visits to Europe for Chinese officials organised.
- Training and related activities provided in support of the Civil Servant Law.

4.3.5 Implementation

Responsibility for the implementation of the action will lie with the Commission. The Chinese partners participating in the action will be fully involved in all aspects of the preparation and implementation of the activities. Service contracts are foreseen for the implementation.

4.3.6 Cross-cutting issues

As proven by previous experiences within the context of the CEPA programme, the very nature of this action makes it an ideal platform to address cross-cutting issues of relevance to the promotion of good governance and rule of law.

As a way to further promote governance efficiency, the importance of mainstreaming gender equality in Public Administration (at policy making, delivery level as well increased gender balance in recruitment process) will be considered in the formulation of the new programme.

4.3.7 Risks & assumptions

- Sufficient places can be found for study visits.
- Sufficient support can be given regarding the study visits.
- Study visit candidates have proper command of languages.
- Senior officials can be found for keynote presentations at the seminar.

- Relevant curricula and qualified speakers identified for the trainings.
- Results of the seminars, trainings and study tours duly reflected in the functioning of the Chinese civil service.

4.3.8 Main Indicators

The indicators depend on the final format of the project as a consequence of the formulation and identification mission, but the following indicators are foreseen:

- Number and level of participants in trainings, study tours and the Forums.
- Quantity and quality of the publications produced as follow-up of the Forums.
- Integration of the proceedings of the Forums into the curricula for training Chinese officials.
- Direct effect of the trainings on the management and training of the civil servants.
- Integration of lessons learnt from the participation to the CEPA Programme into public administration management.
- Suitable Monitoring and impact assessment methods identified.

4.3.9 Co-ordination with MS and other donors

The Forum already attracts considerable interest and input from the MS. A consortium of European schools of public administration, coordinated by the European Institute of Public Administration in Maastricht, has ensured wide participation of officials from throughout the EU. The Ambassadors to China of a considerable number of MS participated in the 2006 Forum. Mechanisms will be established to ensure continuity in this respect.

As regards the other components of the project, the MS and donors' views will be taken into account in the identification phase, and they will be kept informed about the project implementation. The MS to which the study tours are organised will be specifically involved in the project.

4.3.10 Indicative timeframe

- Identification / Formulation mission (combined): first half of 2007.
- Management Committee: second half of 2007.
- Commission decision: early 2008.
- Signature of Financing Agreement: first half of 2008.

4.4 Leadership Development Programme

4.4.1 Strategy Context/justification

Co-operation activities between the EU and China have increased substantially over the years, and a considerable number of projects have been implemented since 1983 in a broad range of sectors. From the initial focus on basic development projects and issues, projects are now more supportive of policy areas and objectives. While many Chinese and Europeans at the more operational levels have been involved in the implementation of these projects the same can not be said about senior Chinese policy makers. The time thus seems ripe to move forward with a small but focused programme which targets the segment of (very) senior officials and other actors who shape Chinese policy in a variety of areas. In order to create synergies the new programme should target those policy makers that are active in the concentration sectors included in the EU – China Cooperation programme. Making use of highly experienced institutions of top level standing such as the College of Bruges or the European University of Florence a short (2-3 weeks) and highly focused education experience in the EU shall be offered to a very select group of Chinese participants. The subsequent promotion of networking among the participants in this new programme would contribute to the further enhancement of EU-China ties.

4.4.2 EC Objectives

The overall objective of the action is to develop relationships at the level of senior Chinese policy makers. This will lead to the constitution of a group of persons familiar with the relationship between China and Europe and able to foster this relationship in a wide range of fields.

4.4.3 Expected results

- 10 participants per year meeting strict selection criteria
- Annual report

4.4.4 Activities

- participation by a select group of senior Chinese policy makers in a tailor-made EU Leadership Development Programme offered by a top EU institution
- a periodical electronic newsletter
- creation of an alumni organisation
- Organisation of alumni activities as well as in relevant EU-related events such as Europe Day
- At a later stage (once sufficient participants have gone through the Programme) organization of events on a joint basis between European and Chinese counterparts.(e.g. annual conference around a leadership-related theme)

4.4.5 Implementation

Implementation of activities will be overseen by the Commission's Delegation in China under the provisions for de-concentrated project management.

4.4.6 Cross-cutting issues

The programme is designed precisely to become a platform of communication between senior Chinese policy makers in different areas as well as with those involved in/affected by the implementation of EU – China cooperation projects including EU and Chinese industry. The programme will promote p industry and individuals to share their knowledge and creating supplementary added value.

4.4.7 Risks & assumptions

- A critical mass of senior Chinese policy makers can be convinced to participate in the programme.
- A selection mechanism can be put in place that effectively identifies the most relevant Chinese participants for this programme whilst at the same time respecting the Commission's regulatory framework for EU – China cooperation activities.
- An EU educational establishment of the highest standard can be identified to design and implement an attractive Leadership Development Programme.

4.4.8 Main Indicators

- Candidacies for the programme exceed places available;
- Chinese policy makers who participated in the programme are open to further cooperation with the EU in their respective areas of competence;
- Amount of networking between participants in the leadership programme and other actors in EU – China cooperation programmes including EU and Chinese industry.

4.4.9 Co-ordination with MS and other donors

Co-ordination and monitoring mechanisms will be defined during the appraisal of the programme. Implementation will be overseen by the Delegation in Beijing and will be the subject of exchanges of information in the context of the regular meetings of the EU Development Counsellors meeting in Beijing.

4.4.10 Indicative timeframe

It is proposed that all project preparation should take place in 2007 in order that the programme may be operational in 2008.

5 ALIGNMENT AND HARMONISATION

5.1 Alignment to national policies

China's policy guidelines for development are set out in the Government's Five Year Plan covering the period from 2006 to 2010. They represent a concise response to the challenges described in the Country Strategy Paper, and have been prepared following detailed analysis, consultation, and policy debate. The document provides an overview of current long-term policy thinking and a reflection of the changes that have accompanied the country's recent economic development.

The Country Strategy Paper and present NIP have been developed while taking account of the objectives of the Plan, and in particular of three areas to which it relates: to further economic reform and to the governance issues that this implies; to the protection of resources and the preservation of the ecological environment; and to the development of human resources.

Government has been consulted in the preparation of the new CSP and NIP, notably in the framework of the regular meetings that take place in Beijing between Commission staff and the co-ordinating Ministry of Commerce (MOFCOM), with line Ministries and Agencies concerned, and in the context of the EC-China Economic and Trade Working Group.

5.2 Harmonisation and Co-ordination with Members States and other donors

Co-ordination and consultation between donors in China has in the past been limited for a number of reasons. The scale of the country and the limited impact of ODA in relation to China's overall development needs and domestic resources have not provided the level of cohesion and alignment that is found in other developing countries where donor impact is more substantial. The new Five Year Plan may provide common ground to promote closer co-ordination in the absence of an over-arching element such as a Consultative Group or a Poverty Reduction Strategy as found in many other developing countries.

Information exchange and operational co-ordination between the EU Member States and the Commission nevertheless takes place regularly in the context of the EU Development Counsellors Group and the EU Environment Counsellors Group. Further consultation takes place in the Informal Donor Group between the World Bank, the Asian Development Bank, UNDP, Australia, Japan, the principal EU member State donors, and the European Commission.

Co-ordination between EU Member States on environmental issues is becoming closer, notably as a result of the creation the partnership on climate change at the 2005 EU-China Summit.

The Commission Delegation in Beijing has made proposals to the EU Development Counsellors Group in the framework of the European Consensus on Development in order to advance policy coherence in the prescribed areas of development co-operation. Analysis with regards to China would be aimed at identifying sectors where synergies may be developed. The first steps in this direction have been taken through the establishment of a joint table of ongoing co-operation activities.

EU Member States and other donors have been consulted on the proposals made for the present NIP.

Further background on donor policy is given in Annex 6.1.

6.1 Donor Policy

As a consequence of her own commitment and effort, China is becoming increasingly prosperous and is making unprecedented progress towards the attainment of the Millennium Development Goals. This progress is largely due to political decisions that have been taken to direct resources towards poverty alleviation and has inevitably given rise to debate within the donor community as to how donors can continue to rationalise their co-operation programmes, given competing demands on development assistance resources from poorer, less developed countries. Further fuel for the debate is provided by the fact that China is herself emerging as a significant donor, with substantial aid programmes in Africa and Asia. China is furthermore becoming increasingly involved in peace keeping missions, has the potential to become a major development player in trade negotiations, and participates in some World Bank Consultative Group meetings.

Donor reaction to these developments is varied. In general there is a move towards a greater concentration of development assistance on policy-related areas that will assist China to develop in a stable and globally responsible manner, while some donors are scaling down their co-operation programmes in the belief that with more modest funding levels well-considered initiatives can assist China in important areas of her reform process, and in governance. The fact nevertheless remains that, under OECD-DAC criteria, China remains a lower middle income country that continues to be eligible for Official Development Assistance.

For many donors, poverty alleviation is becoming less of a central focus, the view being widely held that China will continue to make further progress in this area regardless of donor intervention. Environmental and governance issues nevertheless continue to draw considerable donor attention, and will in all likelihood continue to do so in the foreseeable future.