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**REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT**

**on the Implementation of the Communication
"Building a Comprehensive Partnership with China"**

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Executive Summary

The main aims of the Commission's 1998 Communication <<Building a Comprehensive Partnership with China>>¹ were to engage China further in the international community, to support China's transition to an open society and to integrate China further into the global economy.

To achieve these aims, the Commission hoped, inter alia, to upgrade the political dialogue, encourage China's interest in ASEM and Asian regional issues, and strike the right terms for China's accession to the WTO. The Commission would also use the EU's experience and expertise to add value in assisting China's reform process, and to add human rights, the environment and sustainable development to the agenda.

Since the Communication was adopted, the EU-China relationship has greatly intensified. The first annual EU-China summits in 1998 and 1999 laid the groundwork for a more broadly based political dialogue. At the same time, an increasing succession of meetings and dialogues at all levels, and in numerous areas of concern both to the EU and to China, improved communication and promoted mutual understanding.

The agenda dialogue has been expanded to include regional security, economic and trade issues, and human rights. This could be broadened further, as noted in the 1998 Communication, to include other global issues such as illegal immigration and eventually drug-trafficking, money laundering and organised crime.

On 19 May 2000, the EU and China signed a Bilateral Agreement, paving the way for China's accession to the World Trading Organisation (WTO). Once China joins the WTO, a key challenge for the EU will be to develop mutually acceptable methods to monitor and assist with China's compliance with its WTO commitments. The EU will also continue to address remaining market access barriers.

The EU's Co-operation Programme with China has expanded steadily and now largely focuses on supporting sustainable development to assist China's overall reform process. The Programme's priorities and contents will be reviewed in order to keep up with the pace of constant change, as well as to improve the impact and visibility of EU assistance to China.

Introduction

On 25 March 1998, the European Commission adopted the Communication "*Building a Comprehensive Partnership with China*". The Communication was endorsed by the European Council of Ministers on 29 June 1998.

¹ COM(1998) 181.

This Communication set out recommendations aimed at upgrading the EU's relationship with the People's Republic of China, and concluded "the Commission will regularly report to the Council and the European Parliament on the progress made in the implementation of the proposals of this Communication".

The production of this first report on the implementation of the new China strategy coincides with the twenty-fifth anniversary of the establishment of EC-China relations. It covers the period March 1998 to May 2000.

During the reporting period, the Chinese authorities have pursued structural reforms while continuing to promote economic growth. They have also taken steps to tackle corruption at all levels.

In 1999, GDP grew by 7,1%; lower growth than in recent, previous years. In the context of global trade, the Chinese Government enjoyed some successes, particularly the Sino-EU and Sino-US agreements on the conditions for China's accession to the WTO. On the domestic front, the restructuring of State Owned Enterprises remained at the core of the socio-economic reform agenda. During that period, the authorities dealt severely with democratic dissidents, religious groups and other movements

In reviewing the implementation of the recommendations, this report tries to identify, wherever possible, ways to take the EU-China partnership a further step forward.

The chapter headings A-E in this report correspond to those in the Communication itself.

A. Engaging China further in the international community

"The EU is committed to a strategy of comprehensive engagement with China. This should be achieved through a renewed and upgraded EU-China bilateral political dialogue, as well as through the greater involvement of China in both regional and multilateral initiatives of global interest." COM (1998) 181, p. 5

A.1 Upgrading the EU-China Political Dialogue

The EU's own mechanisms and platforms for political dialogue with China developed fairly recently. The overall framework for the political dialogue was first formalised in 1994 through an exchange of letters, and the first-ever EU-China Summit, at heads of government level, took place on 2 April 1998 in London. It marked a response to China's increasing willingness to participate actively on the world stage. The second EU-China Summit took place on 21 December 1999, when President Prodi visited Beijing. These summits have provided a platform to give added momentum to the EU-China relationship, and to exchange views and raise issues of concern on political issues, human rights; economic and trade issues, including WTO accession; bilateral co-operation; and regional developments.

Meetings at Troika Foreign Minister level also took place in September 1998, March and September 1999, with the Chinese Foreign Minister.

Senior officials' meetings took place in October 1998 and June and October 1999, and provided opportunities to elicit Chinese views on regional issues such as ASEM; developments in the Korean peninsula; Japan; India-Pakistan relations; Indonesia and East Timor; Myanmar /Burma; and Taiwan.

Twice a year, EU Ambassadors in Beijing have had meetings with the Chinese Foreign Minister. In addition to the formal political dialogue, regular calls from the Troika Ambassadors on the Chinese Ministry of Foreign Affairs, as well as frequent, high-level, two-way visits, helped reinforce the EU-China political dialogue. In February 1998 and January 1999, Chinese Executive Vice-Prime Minister Li Lanqing and Vice-Premier Wu Bangguo, respectively, visited the European Commission. The President of the European Commission, Jacques Santer, visited China in November 1998. China's Prime Minister, Zhu Rongji, visited the Commission in Brussels on 11 July 2000. This was the first ever visit to the Commission by a Chinese Prime Minister.

The European Parliamentary Group with responsibility for Chinese affairs has met annually with members of the China National Peoples' Congress and there have been individual and group visits to China by MEPs. Further development of such contacts can only be valuable to the overall EU-China relationship.

Developments in China have also regularly featured on the agenda of the EU political dialogue with key partners such as the United States, Canada, Australia, Japan, India and Russia.

A.2 Building upon the Asia-Europe Meetings (ASEM)

The EU has encouraged China's integration in the ASEM process, covering a wide range of economic and political issues. China has taken a co-operative approach to ASEM since its launch and has been particularly keen on emphasising economic aspects - notably investment promotion. China has, however, taken a more cautious approach to discussing political issues. It took the welcome step of hosting an ASEM informal human rights seminar in Beijing in June 1999. It has also shown enthusiastic support to co-operation initiatives in fields such as science and technology. It initiated and hosted an *ASEM Science and Technology Ministerial Conference*, in October 1999 and will continue to play a leading role in this sector.

China has also actively participated in the *ASEM Trust Fund* in the financial sector and social policy reform processes, and contributed US\$500,000 to the Fund.

A.3 Addressing Global Issues

During 1998, the EU engaged in an expert-level dialogue with China on arms control and non-proliferation. It is still at an early stage, but this dialogue has allowed useful exchanges of views on *the Comprehensive Test Ban Treaty*; *the Missile Technology Control Regime*; biological weapons, anti-personnel landmines; dual-use exports; and security developments in Asia. Although it is still too early to assess China's continuing interest in furthering this dialogue, it has nevertheless proved to be a useful confidence-building exercise.

The EU should now aim to examine broadening the scope of its political dialogue with China, to address issues of global interest such as the fight against drug trafficking, money-laundering, organised crime and illegal immigration, as noted in the Commission's 1998 Communication. These are all areas where the Union has been granted new responsibilities under the Amsterdam Treaty. For example, the situation of asylum-seekers from China has become a particular concern to some EU Member States, and an exchange of information between EU partners on the issue took place in 1999. The EU should assess China's readiness to engage in a specific dialogue in this field, and then explore opportunities for co-operation, as well as in others.

China has become a central player in the key international dialogues on several global environmental issues. Regular exchanges occur at several levels (including Ministerial) in the margins of international meetings, for example, on climate change. Chinese resources allocated to domestic measures to combat climate change are increasing as is Chinese enthusiasm concerning specific measures in the future to facilitate the transfer of climate change expertise and technology from the EU to China. The climate change dialogue in particular will become a major feature of EU-China relations over the coming years. Other global issues, notably the Conservation of Biological Diversity and protection of the Ozone Layer also feature as regular bilateral discussion items. These dialogues, as well as others on emerging global issues, will continue to be pursued vigorously by the Commission.

A.4 Fostering Dialogue on Asian Regional Issues

The EU took part in *Asean Regional Forum (ARF)* ministerial meetings in Manila in July 1998 and in Singapore in July 1999. The ARF has been able to play a positive role in the South China Sea dispute as well as in exchanging views on issues of regional concern such as the Korean peninsula. However, China has been reluctant to advance the ARF multilateral process any further, putting its traditional emphasis on bilateral diplomacy in its relations with Asian neighbours.

China regularly insists that its real influence on the Democratic People's Republic of Korea should not be exaggerated. It nevertheless remains a key ally and interlocutor of Pyongyang. Therefore, the situation in the Korean peninsula has been a major theme of the EU-China regional political dialogue. In this respect, the EU has urged China to maintain its positive role, particularly in the Four-Party Talks, and the two sides have shared views from their respective dialogues with the Democratic People's Republic of Korea.

During the reporting period, the EU has paid particular attention to the evolution of relations between China and Taiwan. In July 1999, the EU Presidency issued a declaration, on behalf of the EU, recalling the EU's adherence to the "one China" principle, underlining the need to resolve the question of Taiwan peacefully through constructive dialogue, and urging both sides to avoid taking steps or making statements which increase tension.

A.5 Underpinning Autonomy in Hong Kong and Macau

During the reporting period, the EU has closely followed the implementation of the Basic Laws of the two *Special Administrative Regions* of Hong Kong and Macau, particularly in relation to the autonomy and independence of the executive, legislative, and judiciary of the territories.

The EU's commitment to the proper functioning of these administrative and legal arrangements was clearly reaffirmed in January 1999 in the Commission's First Annual Report on the Hong Kong Special Administrative Region, which focused mainly on the development of democracy. *The EU-Hong Kong SAR Customs Co-operation Agreement*, which entered into force on 1st June 1999, also helped to underpin the independent functioning of the Hong Kong SAR economy. The Commission's Second Annual Report on Hong Kong, which was adopted on 18 May 2000, concentrated on Hong Kong's legal system and the "one China, two systems" principle, but also expressed some concern about the slow pace of introducing further democratisation.

The Commission released in November 1999 a Communication on “*The European Union and Macau: Beyond 2000*”. Relations with Macau have been reinforced by the accreditation, to the European Community, of a Macau Economic and Trade Office in Brussels, and by the launching of several co-operation projects in Macau. EC-Macau Joint Committee meetings took place in 1998 and 1999, and there will be a further meeting in 2000. The provisions of the *EC-Macau Trade and Co-operation Agreement* have remained fully in force, after the transfer of sovereignty.

On 26 January 2000, the European Commission proposed a Council regulation to grant Hong Kong and Macau residents visa-free access to the EU.

B. Supporting China’s transition to an open society based on the rule of law and the respect for human rights

“The challenge for China now is to sustain economic growth and preserve social stability while creating an open society based on the rule of law. If Europe wishes to have a role in this process, it should continue to use all available channels to promote the cause of human rights in China in an active, sustained and constructive way.” (idem, p. 9)

B.1 Promoting Human Rights Through Open Dialogue...

In recent years, economic reforms as well as the relaxation of some forms of State control in the social sphere have introduced an increased degree of self-determination for the individual in China. There have also been, since 1998, positive achievements with regard to China’s participation in international human rights mechanisms. These include the visits of UN Human Rights Commissioner Mary Robinson to China in September 1998 and March 2000, and the signing by China of the *UN Covenant on Civil and Political Rights as well*, in October 1998. (China signed the *UN Covenant on Economic and Social Rights* one year earlier, in 1997.)

While there has been gradual improvement in economic and social rights, and progress towards the strengthening of the rule of law, there has been a lack of progress, and even a deterioration, in the area of civil and political rights. Repression of political dissidence, arbitrary detention conditions, the extensive use of the death penalty, the repression of ethnic minorities - including in Tibet, restrictions on religious freedom, rights of association and free speech, among others, continue to be major concerns for the EU.

The EU is also concerned at China's failure to observe internationally agreed core labour standards as set out in the relevant ILO Conventions and the ILO Declaration on Fundamental Principles and Rights at Work.

Regular rounds of this dialogue, held alternatively in China and Europe (in October 1998, February and October 1999, and February 2000), have provided a valuable platform to engage China on sensitive issues, channel EU concerns, provide arguments to the relevant Chinese authorities, and generate proposals for co-operation projects. Within this framework, the Chinese authorities have reported some progress on legal and judicial reform and have also expressed their readiness to address all sensitive issues in the formal dialogue - although this has not been matched so far by improvements on the ground. The EU has repeatedly emphasised the need to make the dialogue more results-oriented and better connected to decision-making in China.

In addition to the use of bilateral instruments such as the EU-China human rights dialogue, the EU has been eager to use multilateral fora to advance the cause of human rights in China. In 1998, 1999, and 2000, EU Member States decided not to table or co-sponsor a resolution on the human rights situation in China at the UN Commission on Human Rights (UNCHR) meeting in Geneva. However, in 1999 and again in 2000, the EU Presidency, in its opening statements to the 55th and 56th sessions of the UNCHR, expressed serious concern about the human rights situation in China.

During the reporting period, EU Heads of Mission in Beijing produced quarterly reports monitoring the human rights situation in China. The EU continues to raise the situation in Tibet at every opportunity.

B.2 and through co-operation

Since the EU-China human rights dialogue started, the Commission has agreed to initiate a number of co-operation projects aimed at supporting and complementing the dialogue and improving, in practical terms, respect for human rights in the long term. This has involved, for example, the promotion of the rights of disabled persons and the setting up of the *EU-China Human Rights Small Projects Facility* to support small-scale initiatives in the human rights field.

Furthermore, several EU-China Human Rights Legal Seminars, open to the academic and NGO communities, have been held to complement the sessions of the official dialogue.

The *EU-China Legal and Judicial Programme* referred to under section C.2 below, was launched in March 2000 and will last for at least four years. It will underpin moves towards creating a society more firmly based on the rule of law and respect for human rights, by disseminating a better understanding of this concept among those professionals most closely involved in the Chinese legal system.

The *Village Governance* project aims to ensure the effective implementation of the law governing grass-roots village elections, thereby strengthening electoral practices and self-government at the village level. An international tender bidding process is currently under way.

The Commission intends, in 2000, to support human rights training courses at *Hong Kong University*. This project, building upon the Hong Kong SAR's unique expertise in the legal and judicial sphere, will offer training on human rights and legal issues to students from Asia, and in particular from the People's Republic of China.

Of particular importance for the foreseeable future is the effort to set up an EU-China Experts Network aimed at sharing experience with regard to the ratification and implementation of the two United Nations Human Rights Covenants.

C. Integrating China further into the world economy

“It is the EU’s view that the objective of assisting China to become a global economic player fully integrated in the world economy and able to comply with common rules should be achieved through a combination of trade discussions and targeted co-operation initiatives. This strategic approach should seek to accelerate and consolidate China’s integration into the world trading system while supporting the reforms that are so vital for China to thrive within that system.” (Idem, p. 11)

C.1 Bringing China into the World Trading System

The EU accounted for a significant and growing share of China's global trade surplus in 1998 and 1999. The Asian financial crisis affected Chinese exports in the region, and led to a diversion of Chinese exports from East and South East Asia towards Europe. The EU-China trade deficit increased from €24,4 billion in 1998 to more than €30 billion in 1999.

The large Chinese trade surplus, reflecting the growing strength of China's exports globally, is also assisted by persisting market access barriers in China, which impede trade and investment flows. For example, one factor of major concern to Industry is the unsatisfactory situation in China regarding Intellectual Property Rights. Removing these obstacles has therefore remained a priority for the EU, which aims to promote China's integration into the global economy and maximise the mutual benefits of bilateral trade and economic relations. The EU has pursued these goals both in its negotiations for China's accession to the World Trading Organisation (WTO), and through its bilateral commercial and economic consultations with China.

The negotiation of an agreement on China's accession to the WTO has been at the top of the EU's trade agenda for the past two years. The bilateral Sino-EU Agreement reached on 19 May 2000 therefore marks a major step forward in our trade relations. Coming in the wake of the Sino-US Agreement of November 1999, the Agreement with the EU virtually ensures that China will join the WTO early in 2001. The Commission and the Chinese authorities have agreed to step-by-step market opening in many areas, with implementation typically taking place within a three to five year period.

The EU-China Agreement will secure vastly improved access for EU (and other WTO member countries') firms to the Chinese market. Import tariffs and other non-tariff restrictions will be sharply and permanently reduced. WTO membership will consolidate and accelerate China's own efforts to promote transparency, fairness and openness across the board in China's own trade régime. And the WTO's independent and legally binding dispute settlement system will enable both sides to resolve trade problems quickly and effectively. In short, this Agreement greatly enhances the climate for European companies to export to, do business with and invest in, China. As a result, the EU and China can look forward positively to a reverse of the recently declining levels of Foreign Direct Investment (FDI) in China.

But beyond the commercial opportunities it will offer, WTO accession will have a substantial impact on economic reform and development in China. The EU was concerned throughout the negotiations to develop an assistance package that would foster gradual but lasting reform and sustainable development. Upon China's accession, it will be vital that all the required trade regime changes are implemented as scheduled. The EU is committed to working in partnership with China; in order to make this transition process as smooth as possible. The Commission will share its experience in the WTO with China, including offering to help China adapt its economy to meet WTO obligations, through the EU-China co-operation programme. Support for economic reform has already been earmarked as an area for future funding (see paragraph C.2 below)

WTO accession will bring another anchor for structural reform. Entering the world trading system will be a catalyst for Chinese firms to become more efficient, to show that they can compete on fair terms with the rest of the world. The Agreement will therefore also be good for Chinese companies and workers, as they draw the benefits of increasing foreign investment, and take on the most modern management practices and legal structures.

Progress in the accession talks had been accelerated in the course of 1999 through joint EU-US-China efforts, leading to the Sino-US agreement of November 1999. The EU was then keen to emphasise its own, specific interests in its own bilateral negotiations, aiming to ensure a level playing field for EU industry in China and to promote bilateral trade and investment flows.

Sino-European bilateral consultations on commercial issues, together with the WTO accession negotiations, have played, and will continue to play, an important role in resolving problems of mutual concern. The XVth meeting of the EU-China Joint Committee took place in June 1998. After China's accession to the WTO, both dialogues, bilateral and multilateral will be used to resolve trade issues such as regulatory problems, investment barriers, business environment for EU companies in China etc. It will also be an important forum for monitoring, and discussing possible differences of views about the scope and implementation of China's WTO undertakings.

Within the framework of the EU-China Joint Committee, the Commission intends to reassess, together with its Chinese partners, the existing mechanisms of the bilateral dialogue with a view to broadening, strengthening and adapting it to the new tasks facing China, after WTO accession. The Commission is considering opening up new channels of dialogue for specific areas such as industrial standards and certification procedures, sanitary and phytosanitary issues, securities markets regulation, and industrial affairs. Moreover, discussions regarding a maritime transport agreement have started and received ministerial endorsement on the occasion of the visit to the Commission of the responsible Chinese Minister, in July 1999. Exploratory talks on an EU-China customs co-operation agreement are also underway.

In addition, negotiations on an agreement between EURATOM and China on the peaceful use of nuclear energy are under consideration and there have been exploratory contacts with the Chinese authorities. Such an agreement would strengthen the long-term framework for nuclear co-operation between the EU and China, thereby facilitating existing and future trade, and encouraging mutually beneficial research, as well as ensuring the highest level of non-proliferation and of safety.

The EC antidumping regulation for transitional economies such as China was amended in 1998, in order to reflect market-driven changes in the country concerned. The new regulation introduced a case-by-case approach whereby Chinese exporters operating in a market environment are granted market economy treatment. This new regime has already been applied in a number of cases, resulting in the granting of market economy treatment to some Chinese firms. More and more Chinese companies will benefit from market economy treatment in the future, as the legislative framework for market economy conditions in China develops, and awareness of the relevant requirements increases.

The EC quantitative restrictions regime towards China was partially liberalised in 1998. No EU quotas were removed in 1999 in view of the situation of EU industries in the sectors concerned, and the lack of progress in the liberalisation of the Chinese quota regime. The progressive removal of quantitative restrictions on both sides is now to be part of China's WTO accession package, with quotas from both sides to be removed by 2005.

The EU has also developed some elements of a comprehensive investment promotion strategy and business co-operation in China, in support of the implementation of its market access strategy aimed at removing barriers to trade and investment in the Chinese market.

The *European Community Investment Partners* (ECIP) programme (which ended in 1999) sought to foster the presence of European small and medium size enterprises in emerging markets and proved very successful in China. At the end of 1998, 16% of all ECIP-funded initiatives were related to China, and resulted in the setting up of more than 60 joint ventures. Initiatives supported under the *Asia Invest* facility, which seeks to identify investment opportunities and partners in Asia, also developed in China in an encouraging way.

The Commission and the Chinese Council for the Promotion of International Trade (CCPIT) launched an “*EU-China Business Dialogue*” in 1998 with a view to fostering links between the European and Chinese business communities. It is expected that this informal process will expand further: a further round has been scheduled for 23 October 2000, in Beijing, at the same time as the annual EU-China Summit.

In October 1999, following several years of preparation, the EC Delegation in Beijing and locally based European companies launched the EU Chamber of Commerce in Beijing. This will underpin efforts to identify and help remove market access obstacles, and promote the European business presence in China. The Chamber is fully self-financing and already has more than 180 member companies.

C.2 Supporting economic and social reform

Supporting economic social reform has been the priority during the period concerned. China's expected accession to the WTO will force the pace of reform. The EU's co-operation efforts will continue to bring vital expertise where it is most needed.

Four existing projects, totalling EUR 22m, with WTO related objectives are outlined below:

- A programme in support of WTO accession to begin this autumn, will train Chinese officials responsible for **implementing WTO commitments** in a wide range of areas;
- A broad-based initiative to assist in **the reform and restructuring of the financial services sector** will begin at the end of the year;
- A project is already underway to cover the collection and provision of statistics;
- A programme aimed at fostering the development of a framework for transparent and non-discriminatory public procurement will reach its completion shortly;
- A series of projects supporting the development of a modern and effective system for protecting **Intellectual Property Rights** has already begun.

In 1998 and 1999, EU-China co-operation focussed clearly on the priorities outlined in the Commission's 1998 Communication i.e., concentrating on assisting the economic and social reform process, in order to help foster the overall development of China.

In October 1998, the financing agreement for the *EU-China Legal and Judicial Co-operation Programme* was signed. This programme, launched in March 2000, comprises training and awareness raising activities for Chinese legal practitioners. It will train selected lawyers, judges and prosecutors in key areas of European legal practices. By helping to develop a sound, transparent, predictable legal system, and an accessible, efficient and fair judiciary, the programme will help moves towards a society more firmly based on respect for human rights. It will also improve the climate for European business and investment in China.

In order to reinforce the development of human resources in China and to promote people to people exchanges, the European Commission launched, in 1998, the *Junior Managers* programme, a training scheme aimed at sending junior European executives to China. It also set up an *EU-China Vocational Training Programme* which seeks to provide targeted regions with an improved range of vocational education and training services. In 1999, the *China-Europe International Business School (CEIBS)* inaugurated a new campus and launched a new phase in the development of the school, with the support of both the Commission and the Shanghai municipality. The CEIBS is now recognised as one of Asia's leading business schools.

In 1998, the Commission and interested academic organisations set up the *Euro-China Academic Network (ECAN)*, to foster inter-action between EU policy makers and the academic community, through thematic workshops and annual conferences.

In 1999, the Commission launched a five-year, large-scale *EU-China Scholarship 2000* project that will bring, starting from the 2000 academic year, two thousand Chinese post-graduates to study in European universities (studying, for example, economics and business studies, European studies and science and technology).

Also in 1999, in order to keep pace with the most recent concerns and core challenges of the Chinese reform process, the Commission started to define projects aimed at sharing experience with China on the reform of State-owned enterprises, as well as addressing the side-effects of this process (i.e. coping with unemployment and establishing a social security net).

The signature, in December 1998, of a *Scientific and Technological Co-operation Agreement*, has expanded the scope of EU-China co-operation in this sector. The Agreement entered into force in December 1999, and is expected to enable joint research in a wide range of topics under the EU's 5th Framework Programme for RTD. It allows Chinese scientists to participate in EU thematic programs for R&D in industry related high technologies on a self-financing basis. It also provides the possibility of European scientists participating in Chinese R&D programmes, on a self-financed basis.

The S&T Agreement with China complements the ongoing joint research projects supported separately under the EU's INCO programme launched in 1999, and which focuses on sustainable development issues, and on China's continuing needs in agricultural development and healthcare, essential to the process of economic and social reform. Also within the framework of INCO, the Commission supported the 1998 launch of a China-Europe Biotechnology Network (to succeed the previously existing China-Europe Biotechnology centre) as a flexible instrument to foster greater co-operation in this key area.

The Environment has been a key priority of the European Commission's co-operation efforts in the last two years. Commission support for the China Council *Programme on Economic Planning and Environmental Protection*, seeking to promote integration of the environment into other policy areas in China, began in 1998 with input from sectoral experts, administrations and industry in the EU. The results of the Programme, due around March 2001, are expected to feed into mainstream EC co-operation with China. The Commission has also supported the *Environmental Education Television Project for China*, using the televisual medium to promote environmental education across the country.

Given the accent on the environment, particularly the emphasis in the 10th Five Year Plan (2001-2005) on the development of an environmental industry sector, there is much scope for developing important EU-China co-operative (and eventually commercial) opportunities in the coming period.

Since September 1999, European experts have been assisting Liaoning province in a large integrated environmental protection project, which includes improving energy efficiency and energy management. Energy has also been the main focus of training courses funded under the *Synergy* programme. More than 500 Chinese participants have attended training activities under this scheme in the last two years.

In 1998, at the request of the Chinese authorities, EU and Chinese experts jointly carried out an in-depth study on "*Energy Policy and Structure in the People's Republic of China*". This will help China define its priorities for energy policy under the 10th 5-year plan, for the period 2001-2005. The *Third Conference on EU-China Energy Co-operation*, held in Brussels in March 1999 and which included a large Chinese presence, discussed, amongst other issues, the results of the study. This will pave the way for further integration of energy considerations into EU-China environmental co-operation. In this respect, the 4th meeting of the EC-China Energy Working group, which took place in Beijing in March 2000, focussed the discussion on priority areas that could be included in a possible new EC-China Energy/Environment Programme, in which all relevant Chinese Government organisations would participate. In this respect, work is underway to explore how far the EU and China can co-operate in certain key areas, including cleaner coal, energy efficiency and promoting renewable sources of energy.

The Commission's Joint Interpreting and Conference Service operates its Chinese Interpreter-Training Programme which, over the past two years, has continued to train young Chinese Interpreters/Officials from the Ministries of Foreign Affairs and Trade and Economic Co-operation, as well as from, for example, Banks, Customs Authorities and Universities.

As in the past, the Commission has continued to provide support to small-scale development-aid projects, which have been launched by NGOs in the education, health, and sanitation sectors. The EU's support of NGOs does in itself contribute to the strengthening of civil society.

China is unique for a "developing" country. It has enjoyed an unprecedented high level of growth, which has brought prosperity to many areas. However, some mainly inland areas are lagging behind in growth terms. To counter this, China has set up a "National Poverty Alleviation Programme" and introduced a "Go West" policy to encourage national and foreign investors to invest in the poorer, western provinces. In addition, China has become a donor of development assistance to other Asian countries.

EU assistance continues to focus on China's large-scale socio-economic reforms. It is in this area where the EU's assistance can add most value and thereby help China's own poverty reduction effort, in line with the EU's commitment to poverty alleviation worldwide.

D. Making Europe's funding go further

“One key message of this Communication is that EU-funded co-operation programmes need to be even more closely linked with the EU's broader China policies. From the human rights dialogue through the WTO accession negotiations to questions relating to China's economic development, the EU should seize the chance to underscore its policies with concrete assistance projects where at all possible.” (idem, p. 22)

The Commission co-operation budget for China (under budget lines B7-300, B7-301 and B7-707) amounted to €65 million per year in 1998 and 1999. This was rather modest given China's sheer size and the wide range of potential co-operation areas. However, the Commission has concentrated its financial resources on fewer projects, which are directly in line with the Chinese reform process, and on areas where the EU's action is the most efficient and visible, and can add most value. Concentration of activities will be essential to giving a critical mass effect to future EU projects, preserving delivery capacities, and addressing the current delays in the implementation of programmes (the attached Annex 1 shows the level of commitment and disbursement of EU aid to China in 1998 and 1999).

In order to facilitate and encourage short-term, small-size initiatives, an *EU-China Small Project Facility* was set up in 1998. This was operated in a decentralised manner by the EC Delegation in Beijing, allowed a rapid response to funding requests, and supported 23 projects. The continuation of this facility is currently under examination.

The Commission has consulted EU Member States prior to the launching of all large co-operation projects. It has sought, both in Brussels and in Beijing, to find synergies with Member State's own initiatives whenever possible. As a result, several EU projects have close links with projects carried out by Member States. In addition, the Commission, together with the Member States and China, co-funds the ASEM Trust Fund. The Commission has also established regular contacts with the European Investment Bank (EIB); the World Bank, and the United Nations Development Programme (UNDP). The Commission has co-operated with the UNDP in two projects, and is considering a joint initiative with the World Bank. The Chinese *Ministry of Foreign Trade and Economic Co-operation (MOFTEC)* has been, as in previous years, the partner organisation for programming, planning and decision-making on all EU-China co-operation.

In both 1998 and 1999, the Commission contributed emergency relief assistance to numerous victims of natural disasters following, for example, the earthquake in Hubei Province, torrential rains in various provinces and snowstorms in Tibet. Most of the funds were distributed through NGOs such as the Red Cross, Medecins Sans Frontieres and Save the Children. ECHO administered several EU humanitarian aid projects, totalling E1.1m.

In addition to the EU-China bilateral co-operation programme, China also benefits from EU regional co-operation projects in Asia.

E. Raising the profile of the EU in China

*“Greater visibility will give the EU added weight in its dealings with China.”
(page 24)*

The commission has made significant efforts, in the last two years, to further enhance the visibility of the EU in China.

The *EU-China Higher Education Programme*, which mainly concentrates on those centres and professors teaching European studies in China, ensured that more than 400 scholars originating from different Chinese universities benefited from training in EU policy, economics and law.

The Commission and the EC Delegation in Beijing have organised several initiatives aimed at disseminating information on the Euro, including an important seminar on “the Euro and China – Into the 21st Century”, which was held in Beijing in December last year.

Under the *EU-China Small Projects Facility*, activities such as a radio programme entitled “*Close to Europe*”, and an awareness-raising seminar on “*EU-China: Partners in Progress*” have been implemented successfully.

The EC Delegation in Beijing, in addition to having its own web page, has launched a monthly “*Co-operation Flash*” report. In January this year, it also adopted a single co-operation logo to make EU-supported projects in China more easily recognisable.

Conclusions and recommendations

This report demonstrates that although EU-China relations have developed very significantly over the past two years, there is much scope to expand the relationship further.

In anticipation of China’s imminent accession to the WTO, the EU needs to look ahead to see how this will affect our trade relations. China will require assistance to meet its WTO commitments. The Commission will continue to develop new channels of communication with the Chinese authorities, to monitor the implementation of China’s WTO commitments, and to identify instances where China faces difficulties in adhering to these obligations. Implementation should be a matter of partnership, not a source of confrontation, and will need to involve members of the European business community more closely, as they will be best placed to identify whether or not China is meeting its obligations. The EU can then seek to help China overcome any difficulties through targeted, technical assistance and the strengthening of regulatory dialogues in key areas.

The EU remains committed to supporting the overall reform process in China through its Co-operation Programme. China's accession to the WTO will speed up and bring more pressure to bear on the need for reform and this, in turn, will impact upon the requirement for EU assistance.

Because of the magnitude of the challenges China faces, the Commission will also need to define further those areas that can benefit most from EU co-operation. It is clear, however, that the priorities will include socio-economic reform, human resources development, education, the environment, the promotion of human rights and the rule of law. The Commission's efforts will concentrate on sustainable development projects in the agreed priority areas, but the EU will continue to be flexible and ready to adapt to new challenges and changing situations, as and when they occur. In line with agreed EU policy on global

poverty reduction, the Commission will also continue to bear in mind, when formulating new co-operation projects, that 11.5% of China's population still live in absolute poverty - with an income of less than USD 1.00 per day.

In accordance with the recently adopted European Community Development Policy, the EU will also improve delivery and better implementation of agreed projects.

The time is now ripe to explore whether we can broaden the dialogue into those areas where, as foreseen in the 1998 Communication, both the EU and China have an interest in exchanging views and working together. These areas should include, for example, the fight against illegal drug trafficking, organised crime, money-laundering and illegal immigration. These issues of global importance have long been of concern to the EU. They will be of increasing concern to China, particularly as Chinese leaders fully realise the challenges these issues pose to social stability. Some of these issues could, after exploratory talks with Member States, be included on the agenda of forthcoming sessions of the EU-China political dialogue, including the next EU-China Summit, scheduled to take place on 23 October 2000.

Data on EC-China Co-operation Projects, Budget Lines B7-300 and 301

	Commitments € million	Number of projects committed	Payments made € million
1998 year	56	26	15
cumul. 31/12/98	0	92	
1999 year	63	14	26
cumul. 31/12/99	0	106	

Details of Commitments for 1998 and 1999

EC-China Co-operation, '98 Programmes			
Themes / Names	Technical and Financial Assistance B7-300	Economic Cooperation B7-301	Human Rights B7-707
1. China			
Small Project Facility		923.500	
Admin. Of justice - semin.		16.970	
EU technology transfer		49.840	
EU-China Business Forum		20.500	

Aeronaut. Prep. Mission		84.168	
Ningxia Land Reclamation - extension	750.000		
Development of technical and vocational training	15.100.000		
Programme on Legal Cooperation	13.200.000		
WTO package		3.000.000	
EU-China info pack	36.000		
Legal seminar			183.893
Seminar on Women rights			193.000
Telecom - Mgmt. Training Cent.		413.400	
Telecom - Itell. Transport System		400.000	
Telecom - Health		174.700	
Telecom - Interconnection		458.000	
Vehicle emissions control	838.344		
Biosafety Workshop	51.400		
Aids Fellowships II	402.875		
Support for Basic Education	15.000.000		
WB - Education sector study	33.000		
UNDP - solid waste disposal	460.635		
TV- Environment broadcasts	300.000		
SPF - human rights facility			840.000
Support to disabled federation			980.000

2. Regional cooperation benefiting China			
Europe/Asia Business Intern. Prog.		950.000	
ASEM - Trust Fund	3.750.000	3.750.000	
ASEM - Asia/Euro Environ. Cent.		1.600.000	

ASEM - visit Asian standards officials	100.000		
3. Macau			
Macau tourism		700.000	
Macau European Studies Institute		280.000	
4. Hong Kong			
HK Monitor			60.000
5. Expert missions			
Contribution to framework contract	150.000	2.100.000	
Committed	50.172.254	14.921.078	2.256.893

EC-China cooperation '99 Programmes			
Themes / Names	Technical and Financial Assistance B7-300	Economic Cooperation B7-301	Human Rights B7-707
1. China			
EU-China Relations Infopack – updating and reprinting	40.000		
EU-China Legal Seminar in Bad Honnef, Germany - May 1999			115.840
Contribution to framework contract 99-I	150.000		
Aeronautics - Phase II - Launch phase		520.000	
2nd Women Rights Seminar			152.000
Telecom Testing and Certification (EOTC)		310.000	
SCIC - training of interpreters	125.000		

EU-China Civil Aviation Cooperation – Phase I		4.111.000	
HEPPAP* I - rider to Finance Agmt.	197.850		
China-EU Public Administration Programme	5.700.000		
Financial services initiative	8.500.000		
Scholarship 2000	31.200.000		
Support to the CEIBS** - phase II		10.950.000	
2. Macau			
EC-Macau Cooperation Officer		450.000	
Committed	45.912.850	16.341.000	267.840

* Honghe Environmental Protection and Poverty Alleviation Project

** China-Europe International Business School (Shanghai)