

EVALUATION OF THE EUROPEAN
COMMISSION'S
CO-OPERATION AND PARTNERSHIP
WITH THE PEOPLE'S REPUBLIC OF CHINA

COUNTRY LEVEL EVALUATION

Final Synthesis Report

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Evaluation for the European Commission



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The opinions expressed in this document represent the authors' points of view which are not necessarily shared by the European Commission or by the authorities of the countries concerned.

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ACRONYMS

AEBF	Asia-Europe Business Forum
ASEF	Asia-Europe Foundation
ASEM	Asia-Europe Meeting
3 Cs	coherence, complementarity and coordination
CCC	China Compulsory Certification
CDM	Clean Development Mechanism
CEIBS	Chinese European International Business School
CEP	Country Environmental Profile
CEPA	China-Europe Public Administration (CEPA) project
CEVTC	China-Europe Vocational Training Centre
COM	Communication from the Commission to other bodies of the EU
CP	Communist Party
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DAC	Development Co-operation Directorate
DFID	UK Department for International Development
DG	Directorate General of the EC
DR	Desk Report
EC	European Commission
ECBP	EU-China Biodiversity Programme
ECE	Economic Commission for Europe
ECERP	EU-China Enterprise Reform Project
EEP	Energy Environment Programme
EIDHR	European Initiative for Democracy and Human Rights
EMCP	Environmental Management Cooperation Programme
ESCP	European Studies Centre Programme
EU	European Union
EUCTP	EU-China Trade Programme
EQ	Evaluation Question
FDI	foreign direct investment
FIE	Foreign Invested Enterprises
FSP	EU-China Financial Services Project
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade and Services
GDP	gross domestic product
GED	Governance for Equitable Development Programme
GHG	Green-house gas
GoC	Government of China
GONGOS	Government-Organised Non-governmental Organisations
GPA	Government Procurement Agreement
HR	Human rights
hyp.	Hypothesised
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IR	Inception Report
ISP	EU-China Information Society Project
JC	Judgement Criterion

JLCP	Judicial and Legal Cooperation Programme
JMTP	Junior Managers Training Programme
LIEP	EU-China Liaoning Integrated Environmental Program
MDG	Millennium Development Goals
METP	Managers Exchange Training Programme
MII	Ministry of Information Industries
MoCA	Ministry of Civil Affairs
MoFCOM	Ministry of Commerce
MS	EU Member States
NA	National School of Administration
NBS	Chinese National Bureau of Statistics
NCP	National Congress of the (Communist) Party
NFMP	Natural Forest Management Project
NGO	Non Governmental Organisation
NIP	National Indicative Programme
NTB	Non-tariff Barrier
OECD	Organisation for Economic Co-operation and Development
PDSF	Policy Dialogues Support Facility
RBMP	EU-China River Basin Management Programme
RG	Reference Group
RoHS	Restrictions on the Use of Certain Hazardous Substances
RSP	Regional Strategy Paper
SEA	Strategic Environment Assessment
SEPA	State Environmental Protection Agency
SFA	State Forestry Administration
SIPO	State Intellectual Property Office
SME	Small and medium enterprise
SOE	State-owned enterprise
SPM	Sanitary and Phytosanitary Measures
SPS	Sanitary and Phytosanitary Services
TBT	Technical barriers to trade
TECA	Trade and Economic Cooperation Agreement
ToR	Terms of Reference
TRIMs	Trade Related Investment Measures
TRIPS	Trade-related Intellectual Properties
TRM	Transitional Review Mechanism
UNECE	United Nations Economic Commission for Europe
VAT	Value Added Tax
VGP	Village Governance Programme
WEEE	Waste of Electronic and Electrical Equipment
WHO	World Health Organisation
WTO	World Trade Organisation

Box 1: Report structure: how to navigate in the report and its annexes and volumes:

The report has been split in 2 volumes. Volume 1 encompasses:

A) Introductory sections:

[Executive summary](#), the [evaluation framework](#) (chapter 1), the [co-operation context](#) (chapter 2), an analysis of the [EC objectives in China and their coherence](#) (chapter 3). These introductory chapters have been considerably shortened for the final version of the report. Detailed information and analysis have been moved to annexes 1 ([sources of vulnerability](#)) and 2 ([objectives at global level](#)).

B) Analytical sections:

Chapter 4 presents the eight [evaluation questions](#), and depicts the method of analysis according to indicators and judgement criteria. Chapter 5 focuses at the answer to the sector-related evaluation questions. The detailed findings and rationales linked to each evaluation question can be found in [annexes 3](#) to 7. Chapter 6 is devoted to the [sector-related recommendations](#), which have been written based on the sector-related conclusions and findings – and are a stand-alone product and have no link to the overall assessment following later in chapter 8 and 9.

Chapter 7 encompasses the evaluators' responses to the so called "[synthesis](#)" [evaluation questions](#) which are dealing with the EC approach taken as a whole and, as a result, containing elements of a synthesis across themes and sectors.

C) Overall assessment and recommendations

Based on the conclusions in chapter 7, an [overall assessment](#) of the EC approach is provided in chapter 8, followed by [overall recommendations](#) in chapter 9. The analysis contains lessons, which can be transferred to other or similar countries and the recommendations are accompanied by proposed first concrete steps to be taken.

Volume 2:

The second volume of this synthesis report includes 11 annexes, mainly showing analysis and data gathering methods used, plus results and general information on the evaluation process.

0. EXECUTIVE SUMMARY

0.1. Purpose of the evaluation

The purpose of this evaluation is to provide an independent assessment of the EC-China cooperation and partnership programme and encompasses the years 1998-2006. It contributes to fulfilling the Commission's due accountability responsibilities to the European Parliament and European Council and, ultimately to the European citizen and taxpayer.

The evaluation was designed to give insights into the strategic design and quality of implementation of the cooperation and partnership strategy with China; it also examined the interaction between the various areas of policy dialogue, the thematic programmes and the country cooperation programme so as to assess the level of synergy achieved. The evaluators paid particular attention to new approaches adopted in this partnership taking into account China's role as a global power and as a major regional actor.

The basic question that this evaluation was designed to answer may be succinctly stated as:

What kind of partnership and cooperation programme with China makes sense, now and in the foreseeable future?

0.2. Analysis and main findings

The evaluation methodology was based on an initial identification and prioritisation of the programming objectives of the co-operation strategies, a deconstruction of the strategies, and an assessment of the appropriateness of their intervention logic in the context of China. On this basis, Evaluation Questions (EQ) were formulated and broken down by Judgment Criteria (JC), each of which was in turn assessed on the basis of quantitative and qualitative Indicators. The eight Evaluation Questions ([see section 4](#)) covered the major strategic goals as set out in EU Communications and the

China Country Strategy Paper (CSP): integrating China into the world trade system, achieving economic and social reform, ensuring the environmental sustainability of development in China, and promoting transition to an open society based on good governance, rule of law, and respect for human rights (see section 5, [sector related conclusions](#)). A separate EQ probed an especially important cross-cutting theme, namely taking account of the needs of the hinterland regions in the EC's approach to China. To these sectoral and thematic Questions were added three synthesis-level Questions addressing major quality dimensions of the EC's cooperation programme, namely the success with which various instruments were combined; how fluidly the approach adapted to change; and whether the EC's engagement produced positive "added value," by which is meant that it achieved positive impacts that would have been unachievable in the absence of the EC's involvement (see section 7, [Conclusions related to synthesis evaluation questions](#)).

In general, the evaluation found the EC's engagement with China to be of high quality, relevant to the interests of both parties and deserving of continued support. However, the rapid evolution of China from a poor country to a global economic superpower (albeit one with many poor citizens) means (i) that the nature of partnership and cooperation needs to change, yet also (ii) that for as long as development cooperation continues, there are still opportunities for improving it.

0.3. Conclusions

The conclusions of the evaluation, based on the findings for the individual EQs, are given in the accompanying table.

Conclusions
<p>EC cooperation approach (C1): The team concluded that the EC cooperation approach to China is relevant to the Chinese policy context and needs and is consistent with long-run EU policy goals.</p>
<p>China's needs regarding good governance (C2): Despite policy successes, concrete results have been limited by problems at the level of policy administration, implementation and enforcement. Many of these arise from poor governance, broadly considered.</p>
<p>Meeting of minds on project modalities (C3): Impact and effectiveness have been adversely affected by delays in project implementation because the EC and its Chinese partners have experienced some difficulty in arriving at a meeting of minds on project goals and modalities.</p>
<p>Co-operation among equals (C4): C3 above is mostly a partnership issue. At high levels, the Chinese and European sides share a common language on partnership and the move to a dialogue of equals. At the level of implementation, however, there continues to be friction as European partners insist, to the frustration of Chinese partners, that only expertise, and not money, will be provided.</p>
<p>Coordination with EU Member States (C5): Coordination between the EC and Member States, and between the EC and multilateral aid organisations, is strong in form but weak in substance.</p>
<p>Sector dialogue (C6): Internal links between EC sector dialogue and the EC cooperation programme are satisfactory as regards the impact of dialogue on the cooperation programme, but much weaker in the other direction.</p>
<p>Learning from EC supported projects (C7): Too many promising pilot projects have not been replicated elsewhere or rolled out to national level; in large measure this is due to the fact that in China provincial governments operate much like independent fiefdoms over which central government has little control.</p>
<p>Addressing Poverty (C8): Poverty and the theme of "winners and losers" have been well integrated into environment and governance projects, but not into projects relating to economic and social reform or trade.</p>
<p>Phasing out of development cooperation (C 9): While the new EC Communication clearly spells out a new vision for cooperation with China, based more solidly on mutual gains, there is as yet no joint formal thinking about how, in concrete terms, to accelerate the new relationship. How will development cooperation, still substantial, be phased out? Whereas some bilateral partners have an explicit strategy for phasing out assistance, the EC does not.</p>

0.4. Recommendations

Based on these conclusions the evaluation team has arrived at eight recommendations. These are given below with subjective priorities attached and specifying

the conclusions which gave rise to them. The main body of the Report also gives examples of concrete first steps and flags those recommendations which may contain transferable lessons for other countries.

Recommendations

C1 => Continue development cooperation with China (R1)***

Use of these instruments should continue. However the trend towards decreased reliance on development cooperation tools should continue and, as noted in the final recommendation, the EC and its Chinese partners should start to plan explicitly for the eventual phasing out of development cooperation altogether.

C3, C4 => Insist on equal partnership (R2) ***

The EC should stress the continuing move away from traditional development cooperation towards equal partnership. This means maintaining the EC's position that it provides expertise, not infrastructure or project operating expenses.

C7 => Improve knowledge flow from cooperation programme to sector dialogues (R3)*

Greater effort needs to be made to ensure that knowledge generated in cooperation projects is also taken up at the level of sector dialogue and EC policy formulation.

C7 => Improve replication and roll-out of EC-supported projects (R4)***

More attention should be paid to replication and roll-out during the project formulation and implementation phases, including canvassing potential candidates for replication so as to assess their level of interest while the project is being formulated.

C2 => Mainstream good governance (R5)***

The theme of governance needs to be mainstreamed into all sectors; in addition, governance should be broadly defined to include corporate governance issues, rule of law to the extent that it overlaps with governance (e.g., independent judiciary and corruption), and so on.

C8 => Mainstream poverty and the theme of losers from reform more thoroughly in all sectors. (R6)*

Since the Delegation now has sector expertise in place in poverty-related areas such as the social sector, gender, regional disparities, labour markets, and so on, it should improve poverty mainstreaming, especially in trade and economic and social reform.

C9 => Plan for the phasing-out of traditional development cooperation and initiate discussions with the partners (R7)***

With GDP per capita in China continuing to grow at near-double-digit rates, bilateral development cooperation will soon cease to be an appropriate means of engagement. Urgent priorities are therefore (i) accelerating planning for this eventuality and (ii) starting a dialogue with the GoC (and other relevant partners) about the EC's longer term, post-development cooperation engagement with China.

C5 => Move from formal coordination to substantive coordination with EU, MS and major multinationals(R8)**

Donor coordination is a challenge everywhere, but especially in China because of the temptation to seek competitive advantage by not coordinating. The EC, Member States, and other actors should move beyond information sharing to explore joint programming

To summarise in a nutshell, the team has recommended that an appropriate forward-moving strategy

- should continue, in the near term, to contain a significant development cooperation component.
- ...while at the same time planning for its eventual transformation into a programme based on other forms of cooperation.

Within that development cooperation programme, the team has recommended

- greater emphasis on governance issues with a view to addressing problems of policy implementation, administration, and enforcement;
- insistence on equal partnership, which implies limiting the EC contribution to ex-

pertise and best practice, and stipulating that this EC contribution be matched by adequate financial and other resource contributions by the Chinese partner.

The team has noted that

- poverty issues could be better mainstreamed;
- there is room for improved coordination with other donors;
- foresight in the project design and strategic programming phases, as well as improved post-project evaluation procedures, could improve replication and roll-out of projects, and
- knowledge generated in projects could be better integrated into sector dialogue.

Note:

To improve the report's readability, findings related to the eight evaluation questions have been moved to the annexes. The main report presents the conclusions of the evaluation question and in addition one graph per evaluation question for illustration. The main report is about 70 pages, plus 50 pages annexes.

1. EVALUATION FRAMEWORK

1.1. Introduction and scope

The European Commission (EC) is accountable to the European Parliament and the European Council for its activities. The activities of the Commission must therefore be submitted to periodic evaluation as a means of accounting for the management of allocated funds and as a way of learning lessons. Moreover, evaluations contribute to a results-oriented approach and encourage all development partners to focus on the impacts of their policies.

The present evaluation is part of the EC 2005 evaluation programme as approved by the External Relations Commissioners.

The scope of the evaluation covered the overall EC cooperation and partnership with China and in particular the Commission's Country Strategies from 1998 onwards. This included not only the development cooperation programme, but also economic cooperation, the Southeast Asia regional cooperation programmes, and global cooperation programmes such as Erasmus Mundus and Research and Technology Development framework programmes. The relationship between cooperation and political and sector dialogues was particularly stressed. The Terms of Reference (ToR) called for special attention to the issues of coordination, complementarity and coherence ("3 Cs") of the EC's actions in China with broader EU policy priorities and Member States (MS) commitments. These broader EC concerns covered sector policies in areas such as development, trade, and global environment.

The evaluation also examined the interaction between the policy dialogues, thematic programmes and the country cooperation programme in China in order to assess the level of synergy achieved. The evaluators paid particular attention to new approaches adopted in this partnership taking into account China's role as a global power and as a major regional actor. In particular, the evaluation took into account that China is the second biggest trading partner for the EU and that the EU became China's first trading partner in 2004 (ahead of the US and Japan).

The evaluation was meant to be forward looking, not in the sense of forecasting, but rather asking what lessons have been learnt and how these can be usefully applied given the evolving situation. Early in the evaluation process, it was agreed with the Reference Group that the basic question to be addressed was "What kind of partnership and cooperation programme makes sense with China, now and in the foreseeable future?"

The purpose of this evaluation was to provide policy makers and managers of the relevant external co-operation Services, as well as other relevant Directorates General (DGs, such as DG Trade and DG Environment) and the EU MS active in China, with an independent evaluation of the EC-China cooperation and partnership programme. It was designed to give insights into the strategic design and the extent of implementation of the current Country Strategy Paper (CSP) and its coherence with broader EU policies. The evaluation could provide useful input into the new CSP 2007-2013 currently being drafted.

The evaluation analysis has given focus to the questions: What sort of cooperation programme is called for given the nature of China – an immense country and global economic power? Can EC spending on cooperation, small as it is relative to domestic resources, make

any tangible difference in China? Is it coherent with the EC's Development Policy goal of reducing poverty? Does EC cooperation encourage China to act as a responsible global trade and economic partner, or does it merely amount to a subsidy to a formidable competitor? Does cooperation advance EC policy goals relating to human rights and open society?

In order to answer these difficult and controversial questions, the EC-China engagement had to be divided into constituent parts, which then had to be analysed separately and in terms of their interaction. Since the interaction between cooperation and other forms of engagement is crucial, the evaluation could not examine the cooperation programme in isolation.

1.2. Evaluation Methodology

The methodology was based on an initial identification and prioritisation of the programming objectives of the co-operation strategies, a deconstruction of the strategies, and an assessment of the appropriateness of their intervention logic in the context of China. On this basis, Evaluation Questions (EQ) were formulated and broken down into Judgment Criteria (JC), each of which was assessed on the basis of quantitative and qualitative Indicators.

The eight Evaluation Questions cover:

- Major strategic goals as set forth in EU Communications and the CSP: integrating China into the world trade system; achieving sustainable social and economic development, including the environmental dimension; and promoting an open society based on good governance, rule of law, and respect for human rights.
- Major issues related to implementation, adapting to change and the added value of the EC coordination function.

The Evaluation Questions cover the Development Assistance Committee (DAC) criteria (relevance, impact, effectiveness, efficiency, and sustainability) and the "3 Cs" (coordination, complementarity, and coherence), as well as "adding value," by which is essentially meant achieving positive impacts that would have been impossible in the absence of the EC's involvement.

The evaluation of the EC's engagement in China has focused on the aggregated strategic level, assessing how the country strategies and agreements have served to steer, and give appropriate focus to, the country programme and its implementation. Less focus was placed on specific stand-alone projects and their performance. This is in line with the fact that there has been an evolution of EC strategy in China away from traditional project-oriented development assistance.

1.3. Data Collection and limitations

Data collection was organised according to the Evaluation Questions, judgment criteria and indicators, which set out the major axes along which the evaluation exercise was conducted.

Data collection and analysis was carried out during the desk and field phases. During the desk phase, the evaluation team analysed strategic and operational documents and conducted interviews with key EC staff in Brussels, Beijing Delegation staff, and the EC's key interlocutor at the Ministry of Commerce (MoFCOM, the government agency responsible for international development cooperation). Reference Group meetings and written comments oriented the work of the evaluation team. Against this background the Evaluation Questions, judgment criteria, and indicators were further refined.

The objective of the field phase was to collect the still missing information and analytical elements needed to answer the Evaluation Questions. Two main information sources were used:

- Further written documentation received during the field phase from the Delegation, other development partners, statistical bodies and business organisations, academia and consultants. Overall 250 documents were analysed or consulted by the team (see annex 6 in volume 2)
- Direct interviews (about 120, see annex 7 in volume 2) in the field with the parties involved in the strategy as actors or stakeholders: national authorities, beneficiaries, the Delegation, other donors, as well as international institutions and experts who were involved in identification, implementation, monitoring and evaluation. The comments of European business representatives and international NGOs were also solicited.
- Two areas of special concern were assessed in more detail, and are resulting special focus sections are annexed in volume 2, section 2:

I. The incorporation of multi-sector themes in the EU-China trade co-operation programme (WTO1 and EUCTP)

II. EU-China political dialogue on human rights and the link to the EC cooperation programme

I. Several other analytical tools and methods have been used, such as: a summary of Participation of Chinese Partnerships in FP6 Projects (volume 2, annex 2), Swot analysis (volume 2, annex 3) and a number of impact diagrams (logic chain models) of the EC strategy (volume 2 annex 9) as well as general development indicators of China (volume 2, annex 10).

Project visits took place in Beijing, Gansu, Wuhan, Liaoning and Shaanxi, where the evaluation team visited about 20 projects, covering nearly all ongoing or just finalised projects of the EC cooperation portfolio over the last 10 years, also including nearly all ongoing projects designed under the CSP from 2002-2006 (see Table 1, cf. annex 1 of volume 2). Besides individual interviews, data collection also included one focus group discussion, and a civil society organisation (CSO) round-table event (please see annex 8 in volume 2).

Table 1: List of projects visited in China during the evaluation

	Project	Location of visit	Designed under
1	Gansu Basic Education Programme	Gansu	Pre-CSP
2	Village Governance Programme	Gansu	Pre-CSP
3	Enterprise Reform Project	Shaanxi	Pre-CSP
4	European Studies Centres Programme	Wuhan	Pre-CSP
5	Programme for the Development of Vocational Training for the Industry	Wuhan	Pre-CSP
6	Liaoning Integrated Environmental Programme	Liaoning	Pre-CSP
7	EU-China Biodiversity Programme (ECBP)	Beijing	CSP
8	EU-China Social Security Co-operation Project	Beijing	CSP
9	EU-China Financial Services Co-operation Project	Beijing	Pre-CSP
10	EU-China Information Society Project	Beijing	Pre-CSP
11	EU-China Natural Forest Management Project	Beijing	Pre-CSP
12	EU-China Trade Project	Beijing	CSP
13	EU-China Energy & Environment Programme	Beijing	Pre-CSP
14	EU-China Project on the Protection of Intellectual Property Rights (IPR II)	Beijing	CSP
15	EU-China Environmental Management Cooperation Programme	Beijing	Pre-CSP
16	EU-China Managers Exchange and Training Programme	Beijing	CSP
17	China-Europe International Business School (CEIBS)	Beijing	Pre-CSP
18 22	4 micro and macro European Initiative for Democracy and Human Rights (EIDHR)	Beijing	N/A

The evaluation team developed a tool to facilitate the collection of information during interviews, which also helped in reporting. Each indicator was numbered according to the judgment criteria and Evaluation Question it referred to. For each indicator, possible sources of information (such as individuals, institutions, documents or statistical data) were indicated in a matrix. Before each meeting, the matrix was used to select the subset of indicators that could be informed by the particular interview. During the process, the evaluation team found that many quantitative indicators proved difficult to obtain. The team was therefore forced to use qualitative rather than quantitative indicators.

The evaluation team made extensive use of previous evaluations, as requested by the ToR. However, none of the EC-commissioned evaluations had produced any credible information on impact, a limitation candidly acknowledged by the evaluators themselves. Previous evaluations generally were confined to description of inputs and outputs, combined with an analysis of intervening processes.

Other limitations were that no high-level interviews with the GoC regarding governance took place and that many detailed data was not available (on particular data for quantitative indicators). In the trade sector, quantitative indicators such as number of IPR disputes were shown to be unavailable, controversial or confidential. The Team responded by probing these areas in interviews and collecting qualitative assessments. All in all, the evaluation team feels that the data collected and analysed was sufficient to assess the results and consequences of the EC Strategy in China.

Everywhere officials, stakeholders, and programme teams provided valuable co-operation and support, for which the evaluation team would like to express its thanks. A list of persons met can be found in annex 7 of volume 2.

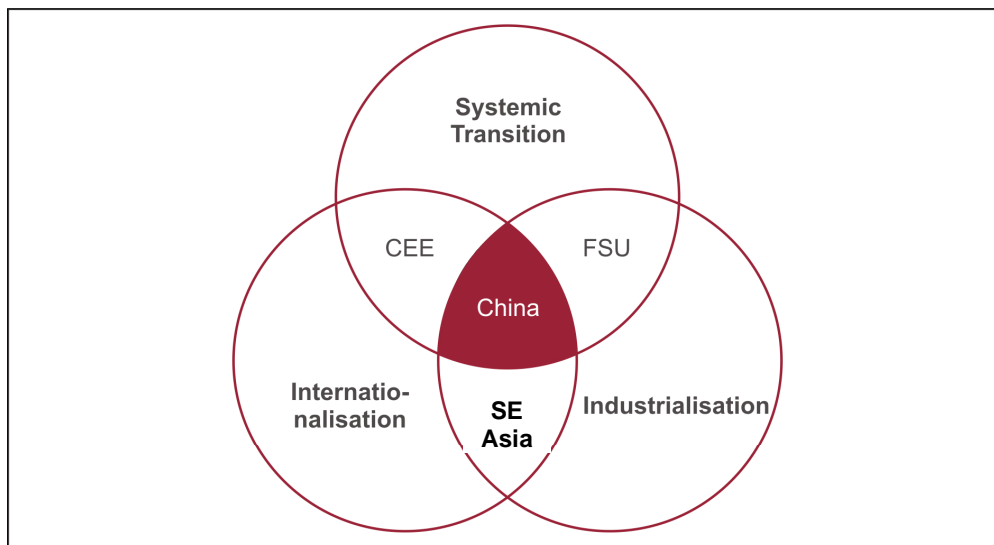
2. CO-OPERATION CONTEXT

For a detailed analysis see ANNEX 1: Sources of vulnerability – rising inequality, weaknesses in governance, environmental degradation, and the need for human resource development.

2.1. Economic transition and growth

Economic development in China has been and is still facing a triple challenge of systemic transition, economic internationalisation and industrialisation. Neither the Central and Eastern European economies nor the former Soviet Union nor the South East Asian tigers had to handle such a multitude of simultaneous structural breaks in their recent economic development (Figure 1).

Figure 1: Multiple challenges to economic development



CEE: Central and Eastern European Countries; FSU: Former Soviet Union

Diagram based on: Liang, Guoyang (2004): *New Competition - Foreign Direct Investment and Industrial Development in China*, Rotterdam

However, despite these substantial challenges during recent years, China's general economic development as well as its transition from a centralised command economy to a market-based economic system has – at least at first sight - been extremely successful.

The foundation of this successful development has been a gradual process of institutional innovation that has allowed social norms and values to change in pace with the transformation of the economic system. This process entered a critical period in the late 1990s when central government for the first time effectively addressed inefficiencies in the state-owned enterprise (SOE) sector and confronted powerful conservative forces inside the ruling echelons and society. Time, however, has weakened opposition and triggered change:

- China's accession to the World Trade Organization (WTO) in December 2001 set powerful market forces in motion. While privatisation of SOEs is still not finalised, the process has gone a long way and today finds all top managers confronted with demanding performance-oriented evaluation mechanisms.

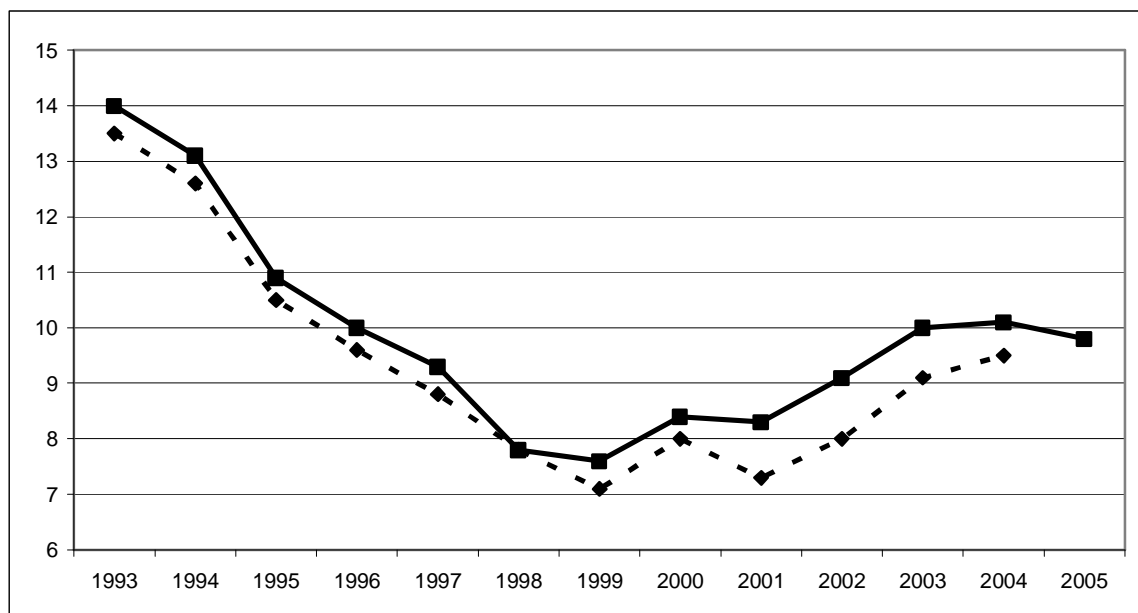
- Already by the late 1990s, price reform had been nearly completed. Today only a strategic handful of goods are still being priced by the State rather than the market.
- Plan Directives as a means of economic coordination were discontinued as of the 10th Five-Year Plan (2000-2005).

However, market institutions alone are still not sufficiently strong to ensure harmonious development of all sectoral and regional players in the economy. Market forces are frequently resisted by local governments, whose actions can be controlled by central government only after the event. As a result, the economic development process in China is still characterised by instability and a stop-go progression. Central State capacity to enforce policy consistency throughout the system and at all geographical scales needs reinforcement. At present, provincial governments still retain a substantial degree of autonomy, greatly complicating the implementation of policy changes decided on in Beijing.

In the course of implementing the WTO protocol, China has gradually opened the economy to global competition. This process has resulted in an improved market environment for most industries and provided competitive forces with greater leeway to structure the economic setup. The service sector, particularly finance and insurance, has been slowest to open to the market and remains deeply entangled with government.

Fuelled by systemic transition and rapid integration into the global economic system, the Chinese economy has grown spectacularly in recent years. While China could not avoid the repercussions of the East Asian crisis in the late 1990s, growth never fell below 7% per year and has remained near 10% in the last three years (see Figure 2).

Figure 2: Real GDP-growth in China, 1993-2005 (per cent per year)



Note: Dotted line denotes official figure before revision. Uninterrupted line denotes revised figures published in January 2006.
Data: Chinese National Bureau of Statistics.

In early 2006, the Chinese National Bureau of Statistics (NBS) published a revision of GDP figures dating back to the year 1993 in order to better capture the development of the service sector. Owing to this revision China jumped the "league table" to become the fifth largest economy in the world. While the new data depict a more balanced economy than the old one, the Chinese economy is still striking for the high share of savings and investment and

the elevated ratio of imports and exports to GDP. The primary sector is continuously losing importance in the overall economy but is crucial in terms of employment and the well-being of most of the population. In 2004 it contributed only 12.5% to national economic output but still absorbed 46.9% of the total workforce. The secondary sector has over time been comparatively stable in terms of its contribution to national output (about 50%), but has seen substantial intra-sector shifts in favour of light industries such as textiles. In 2004 it employed 22.5% of the workforce. The decline in the primary sector has been balanced, especially since the late 1990s, by massive gains in the service sector. In 2004 the service sector accounted for 40.3% of national output and employed 30.6% of the national workforce.

2.2. China as a global trade and financial power

While China's GDP has grown by a little less than five times since 1990, its exports have increased almost ten times. On the financial front, China's huge trade surplus soaks up the U.S. public-sector deficit while sustaining an American household saving rate at or near zero.

In 2004 and 2005, according to the International Monetary Fund (IMF) 2006 World Economic Outlook, growth of merchandise exports and imports averaged 24.5% and 16.5% respectively, with exports totalling US\$762 billion and imports US\$660 billion in 2005. In 2005 China was the world's third leading exporter (after Germany and the US) and importer (after the US and Germany). The main destinations of China's exports in 2004 were the United States (21.1%) and the EU of 25 (18.1%). The main sources of imports were Japan (16.8%) and the EU (12.5%).

Cheap Chinese goods increase consumers' purchasing power in the rest of the world, while at the same time Chinese demand for imports provides jobs and income. China is now a major market for foreign goods. Nowhere is this truer than in energy, primary commodities and raw materials such as steel, where Chinese demand has been a significant factor in sustaining a global commodities boom and fuelling growth in countries such as Brazil.

In trade in services China remains a net importer but is also becoming a significant exporter. Average annual growth in exports over the years 2000 to 2005 was 22% while that of imports was 85%. In 2005, China was the world's eighth exporter and importer of commercial services. Excluding intra-EU trade China was fourth in the world in both exports and imports of commercial services.

In 2005 China remained the major destination for foreign direct investment (FDI) in the developing world, which at US\$60 billion represented the same level as in the preceding year. In 2005 China's current account surplus reached 7% of GDP, up from 3.8% the previous year. Without a negative 4% of GDP accounted for by oil imports in 2005, the surplus would be much higher. As a result of its capital inflows, not only in FDI but also through portfolio investments and current account surpluses China has accumulated substantial foreign exchange reserves. At the end of 2005 these amounted to US\$812 billion or 115% of China's total imports of goods and services over the year (again according to the IMF 2006 World Economic Outlook, 2006). For Asia excluding China and India reserves amounted to 39% of total 2005 imports.

The long-standing peg of the Chinese Yuan to the US dollar was finally lifted in July 2005. This led to a modest appreciation of the Yuan against the dollar - some 3% to date. How-

ever, it is difficult to identify any clear effect on China's trade surplus. The real effective exchange rate of the Yuan is still some 10% below its level of four years ago.

If simple ratios of imports or exports to GDP are taken as an indicator, China has clearly become more integrated into the world trade system over time. True integration also means, however, that China is regarded as a constructive and reliable stakeholder in the world trade system. Chinese accession to the WTO in 2001 was a major step towards integration of China into the world economy. Yet many areas of disagreement, ranging from restrictions on trade in services to accusations of "export dumping" remain to be addressed. The EU, as a major trade partner of China, has an important role to play in encouraging this integration.

2.3. Government economic policies

The period covered by this evaluation can essentially be divided in two phases, 1998-2002 and 2003-2006. The background to the first phase is given by the 1997 East Asian financial crisis, which severely shocked the Chinese economy, in large part because of its negative impact on investor sentiment and FDI. In an attempt to stimulate the economy the Government of China (GoC) pursued an expansionary monetary policy, with the Central Bank (People's Bank of China) reducing interest rates five times in succession between 1998 and 2002. Government investment in infrastructure, especially in smaller urban centres, doubled. A number of important reforms were pursued during this period. Apartment-dwellers were permitted for the first time to buy their dwellings. The Fifteenth National Party Congress, held in 1999, called for deepening and accelerating the reform of SOEs, especially encouraging the sale of smaller SOEs to private owners and debt-to-equity swaps to relieve the financial problems of heavily indebted SOEs.

In 2003 the new Communist Party of China (CPC) leadership took office. Whereas the challenge of the previous period had been sluggish growth and recovery from the East Asia financial crisis, the new leadership faced an economy that was overheating and experiencing bottlenecks. The coal, electricity and transportation sectors were particularly strained. Problems in the energy sector were exacerbated by unstable conditions in the international oil market. Concerns about a slowdown in grain production led to a reduction of taxes on agricultural output. Also over this period, increased attention was given to the social sector and widening disparities within Chinese society, especially between cities and the countryside. The emergence of the social sector was in part influenced by the 2003 Severe Acute Respiratory Syndrome (SARS) outbreak and the steadily worsening situation with regard to HIV/AIDS, both of which have illustrated the weakness of China's public health and social welfare infrastructure.

2.3.1. Government strategy

Looking forward, the CPC currently uses the word "harmonious" to describe the sought-after development path. Priority areas are:

- Addressing social problems such as unemployment, social insecurity, and the inadequate health system. Pension and health system reform have been accelerated and steps have been taken to ensure access of all school-age children to education.
- Reducing income disparities between urban and rural areas, between regions, and between the winners and losers from reform. Measures include strengthened support

for agriculture, continued rural reforms (farmers still do not own their land) and innovations in rural institutions such as village councils, as well as improved coordination of regional development.

- Addressing shortages of water and oil, while reducing environmental pollution and damage to ecosystems. Measures include negotiating long-term raw material supply contracts abroad and strengthening environmental protection at home.

The area in which the GoC's approach is least clear, is the nexus comprising good governance, rule of law, human rights, and Civil Society. In interviews with Chinese decision makers, the theme that persistently emerges is the desire to move gradually toward an open society, but only in the long term; say twenty to thirty years. In defending this gradualist approach, they cite the enormous gap between rich and poor, with the attendant risk of destabilisation. Rapid change in China, they state, has never been for the better, it has always been for the worse.

2.4. Other actors

China does not have a formal aid group. Bilateral donors include Australia, Canada, Germany, Japan, the Netherlands, New Zealand, Sweden, United Kingdom and USA. Multilateral donors include the World Bank, the European Union, the Asian Development Bank, and the United Nations Development Program. In Table 3 are displayed data on donor payments from 2000-2005, taken from the OECD-DAC international development statistics database. However, as the DAC itself notes, this database is incomplete for multilateral institutions, including the EC. The EC data are therefore incomplete. The data suggest that bilateral aid from non-EU countries such as Australia and Japan may be about twice the ODA from the EU Member States as a group.

More representative for the EC are the data presented in Table 2, prepared in the context of the May 2005 Strategic Review Mission evaluating the EC's 2002-2006 Country Strategy Paper for China. The table contains data on the total financial commitment for EC and EU Member States' projects ongoing in China in the first quarter of 2006. Germany is by far the largest European donor, followed at some distance by the UK, the EC, France and Italy. On the European scale, the EC is thus an important donor. Table 3 gives donor disbursements in 2005.

Table 2: EU member state and EC ongoing project commitments in China, early 2006 (millions of Euro)

Donor	Budget [M€]
Austria	4.12
Belgium	7.45
Denmark	20.05
France	188.89
Germany	1,072.21
Italy	117.74
Luxemburg	0.20
Netherlands	46.64
Spain	1.45
Sweden	26.14
UK	382.36
Total	1,867.25
EC	255.42
Grand total	2,122.67

Source: EC Delegation spreadsheet "Overview of European Union Ongoing Cooperation Projects in China"

Table 3: Donor Disbursements in China over time (US \$) -data extracted on 2007/01/23 17:07 from OECD.Stat

Part	1: 1 : Part I - Developing Countries - Disbursements					
Recipient	China					
Aid type	206: ODA (OA) Total Net					
Year	2000	2001	2002	2003	2004	2005
Donor						
All Donors, Total	1727,53	1473,16	1471,25	1332,68	1685,06	1756,88
EC	27,44	23,64	31,14	55,38	49,47	66,87
DAC Countries, Total	1256,18	1079,76	1211,51	1139,47	1584,87	1689,36
DAC EU Members, Total	405,83	322,34	286,87	268,37	501,95	519,73
Austria	3,71	5,85	2,59	3,75	6,62	10
Belgium	2,86	0,32	0,16	-2,31	-4,59	-1,34
Czech Republic	0,36	0,57	0,43	1,31	2,94	1,3
Denmark	-1,71	10,23	6,31	-18,52	16,16	4,76
Finland	10,94	9,17	4,05	2,91	3,48	6,58
France	45,99	42,8	77,19	74,29	102,8	153,56
Germany	212,81	163,82	149,87	152,18	260,46	255,11
Greece	0,05	0,09	0,16	0,6	0,27	0,4
Hungary	..	..	..	0,06	0,18	..
Ireland	0,4	0,39	0,56	0,28	0,51	0,7
Italy	-21,23	-13,68	-28,24	-19,57	-13,74	-12,82
Luxembourg	0,28	1,51	0,54	0,45	0,98	0,88
Netherlands	24,9	26,45	17,9	16,76	25,64	27,75
Poland	0,12	0,13	3,69	1,49	1,55	5,34
Portugal	0,37	0,26	0,27	..	0,3	0,27
Slovak Republic	..	..	0,02	..	..	..
Spain	31,98	14,33	12,98	4,02	12,67	8,35
Sweden	11,04	10,08	6,4	6,14	18,24	10,05
United Kingdom	83,44	50,72	36,13	47,39	72,15	55,48
Australia	29,43	27,86	26,41	31,83	37,54	34,75
Arab Countries	-0,95	32,09	0,29	-4,36	4,76	..
Canada	29,2	24,32	28,74	28,44	34,91	30,03
Japan	769,19	686,13	828,71	759,72	964,69	1064,27
Korea	14,62	16,18	26,5	16,4	25,25	19,72
New Zealand	1,16	0,82	0,91	1,06	2,31	1,67
Norway	9,9	9,65	12,19	11,94	14,75	13,81
Switzerland	9,9	3,8	10,69	12,48	7,23	5,48
Turkey	0,01	0,03	0,02	0,1	1,4	1,16
United States	1,57	4,84	16,99	25,63	21,49	19,62
AsDF (Asian Dev.Fund)	..	..	..	..	0,63	0,95
GEF	15,78	11,26	8,07	19,37	18,91	19,82
Global Fund (GFATM)	..	..	..	14,63	25,69	37,67
IDA	313,62	223,66	94,01	-6,33	-116,72	-146,7
IFAD	6,55	11,23	3,83	4,36	5,5	11,75
UNDP	12,73	8,88	9,65	8,6	8,96	9,35
UNFPA	3,5	3,63	4,57	4,87	4,82	4,72
UNICEF	18,1	12,53	11,36	12,02	12,34	14,39
UNTA	5,46	7,04	5,7	6,8	6,1	8,91
WFP	7,53	10,99	12,06	10,79	6,34	8

3. THE EC STRATEGY OBJECTIVES AND COHERENCE

Please refer to ANNEX 2: Objectives and priorities at global level for more information

3.1. Areas of EU- and EC-China engagement

China and the EC cooperate in areas ranging from trade and economic relations through academic exchanges to the development cooperation programme.

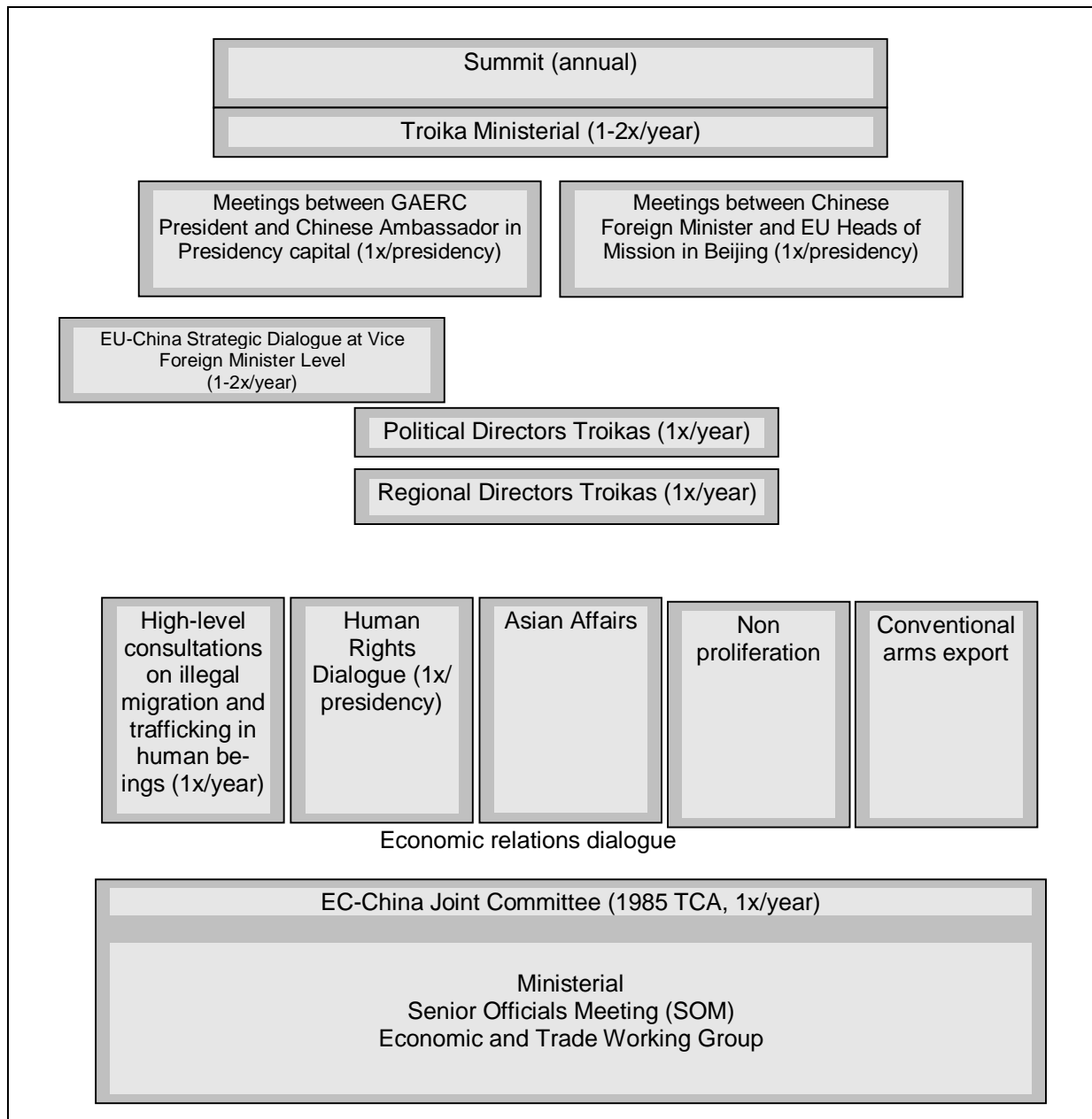
In recent years the relationship between the EU and China has intensified and substantially broadened in scope (see Table 4 for a list of milestones). These developments have been driven by China's increasing leverage in the global economy, but also find strong foundation in a broad range of policy fields where both partners share similar interests.

The EC documented its interest in strengthening bilateral relations by issuing two strategy papers in 1995 and 1998. In 1998, the EC classified China as a "non non-market economy", as a result of which, China became eligible for improved treatment when export-dumping charges were brought by European plaintiffs. In 2000, the European Union Chamber of Commerce in China, currently an entirely self-supporting organisation with 800 members and six regional offices, was established. Since then, the tempo of bilateral institution building has gathered speed. Following an evaluation of the 1998 policy paper, the EC in 2001 published a further communication elaborating the EC's China strategy. The European concept of "constructive engagement" with China was strengthened in a policy paper published in 2003 – the so called strategic partnership. In direct response to this paper, China published its first policy paper on its relationship with the EU. Highlighting the Chinese view of Europe as a counterbalancing force against American global dominance, this paper casts Europe as an important partner in China's quest for a multi-polar world order.

As illustrated in the accompanying architecture of EU-China relations, in concrete terms the EC/EU defined its relationship with China along two major axes. The first consisted of discussions, consultations, and dialogue between policy makers on subjects of mutual interest; and the second was the cooperation programme, which is based on these policy consultations. Dialogue may be divided into two main areas:

- political dialogue, including the specific human rights dialogue but also covering regional security issues, the global environmental dimension, and accession to UN covenants, and
- dialogue related to economic and trade relations

Figure 3: Current architecture of EU-China relations



The economic and trade dimension was central to political engagement, but at the same time political dialogue has provided a strong institutional basis for discussions related to trade and economic relations. Cutting across these two major areas of engagement are so-called “sector dialogues,” of which thirty-three are now under way along with seven formal agreements. Emerging from policy discussions between equal partners, the EC-China cooperation programme contains components spanning those discussions.

New policy paper in 2006

In October 2006 the EC published a new policy paper (COM ((2006) 632) accompanied by a special policy paper on EU-China trade and investment (COM (2006) 631). The EU fully recognises China as a re-emerged major power and, as a result, a need to feature the China dimension into the full range of EU policies (external and internal). The partnership is seen as intensifying and an increase in mutual responsibilities is therefore needed. This also requires that the partnership should meet both sides’ interests and benefits. Trade is seen as a litmus test for this.

In concrete terms the EC wishes to continue what has been done in the past but is asking for more focused and results-oriented political and sectoral dialogue. The major sectors of support identified are very close to those of the current cooperation programme, with several new topics and features (marked in bold).

With respect to China's transition towards a more open plural society, three major topics for support are identified:

- Developing a full, healthy and independent Civil Society;
- Strengthening of rule of law;
- Expanding and upgrading the Human Rights dialogue so as to make it better focused and more results-oriented.

Five major areas have been identified regarding sustainable development in China and worldwide:

- Ensuring secure and sustainable energy supplies;
- Combating climate change and improve environment;
- Co-operating on employment and social security issues;
- Co-operating more closely on international development issues, in particular on Africa's sustainable development;
- Co-operating on monetary, fiscal, financial, exchange rate and structural policies.

Trade and economic relations are characterised by the duality of competition and partnership and are detailed in an extra policy paper. Its main themes are:

- a. The EU will continue working with China towards full implementation of its WTO obligations and will urge China to move beyond as regards opening its market to the EU;
- b. The EU calls for better protection of intellectual property rights (IPRs) in China, ending forced technology transfers;
- c. Support to European companies doing business in China;
- d. Defending EU interests through dialogue.

Regarding the EC-China sector dialogues, cooperation in science and technology is seen as very important as well as are building an effective partnership on migration issues and expanding "people-to-people links" in the cultural, tourism, Civil Society and academic fields.

The EU is seeking more effective structures for the bilateral cooperation and is considering setting up a new independent EU-China Forum – on the EU side at arm's length from government institutions, drawing on Civil Society, academic and business and cultural expertise -- to provide policy input to political leaders. The EU aims to achieve continuity, and regular and cross-cutting internal co-ordination.

Further close cooperation in the international security field, to promote peace through a reformed multilateral system in conformity with the UN framework, will be continued with the aim of combating terrorism and increasing regional co-operation. Two new important aspects have been added: (i) the need for transparency in Chinese military expenditure and objectives and (ii) non-proliferation of arms.

Table 4: Milestones in EU-China Relations

1975	May	Diplomatic relations established
1978	April	EC and China sign Trade Agreement
1980	January	EC includes China in its Generalized System of Preferences (GSP)
1980	November	First meeting of the EC-China Joint Committee for Trade
1983		Launch of first EC-China Scientific Programme
1984		Launch of first EC cooperation project in China (business management training and rural development)
1985	May	EC and China sign Agreement on Trade and Economic Cooperation
1988	October	Delegation of the European Commission opens in Beijing
1989	June	Tian'anmen Square massacre. EC freezes relations with China. A number of sanctions are imposed
1992		Most EC-China relations are normalized. Embargo on arms trade remains in force
1993	October	European Commission opens office in Hong Kong
1994	June	New bilateral political dialogue opens between EU and China
1995	July	Strategy paper 'A Long Term Policy for China-Europe Relations'
1995		First project of European Investment Bank in China
1996	March	First Asia-Europe Meeting (ASEM) with participation of EU and China
1998	March	Policy paper 'Building a Comprehensive Partnership with China'
1998	April	First EU-China Summit
1998		EU classifies China as 'non non-market economy'
2000	May	Conclusion of bilateral negotiations on China's accession to the World Trade Organisation
2000		European Union Chamber of Commerce in China established
2000		Agreement on Science and Technology
2001		Promulgation of first Country Strategy Paper for China, covering 2002-2006
2001		Promulgation of first NIP for China, covering 2002-04
2001	June	Communication 'EU Strategy Towards China: Implementation of the 1998 Communication and Future Steps for a More Effective EU Policy'
2003		Agreement on cooperation in the EU's Galileo satellite navigation programme
2003	October	Policy paper 'A Maturing Partnership – shared interests and challenges in EU-China relations'
2003	October	Chinese government releases its first policy paper towards the EU
2004	February	Workshop to identify and agree on common actions based on the two policy papers
2004	May	Agreement on Approved Destination Status
2004		Promulgation of second National Indicative Programme for China, covering 2005-2006
2006		Drafting of New CSP for China, and third National Indicative Programme
2006	October	Policy paper 'EU-China: Closer partners, growing responsibilities' with accompanying policy paper on EU-China trade and investment: 'Competition and Partnership'
2006		Negotiations are launched for a new Partnership and Cooperation agreement

Political dialogue

Strained by the Tian'anmen crisis in 1989, relations were more or less normalised in 1992, when the reform faction of the CPC returned to power. A significant intensification of bilateral relations can be observed from the mid-1990s onwards. Since its formal inception in 1994 the EU-China political dialogue has constantly grown in the number and breadth of topics discussed and the administrative bodies involved. Since 2002, a series of multi-layered structured meetings has emerged, involving Heads of State, EU troika foreign ministers, political directors, heads of missions, and regional directors; in addition, there have been technical meetings of high-level officials. There have been eight instances of the highest-level forum, the "EU-China Summit," which meets annually in September.

Human Rights issues, as described above, remain sensitive. A major component of EU-China relations is the semi-annual EU-China Human Rights Dialogue instituted in 1995. This allows the EU to raise issues of concern such as the death penalty, the labour re-education programme, rights of ethnic minorities, and civil and political freedoms in a forum in which the Chinese side is obliged to respond. The EU is of the view that this forum has contributed to achieving concrete results, both in individual cases and in encouraging China's accession to major international human rights covenants.

Dialogue related to economic and trade relations

Since 1978 EU-China trade has increased more than 30-fold and reached around €175bn in 2004 (see Table 5). Whereas the EU enjoyed a trade surplus with China at the beginning of the 1980s, EU-China trade relations are now marked by a sizeable and widening EU deficit with China, at around €78.5bn in 2004; this is the EU's largest bilateral trade deficit.

The EU supported China's accession to the WTO and was a major player in the negotiations. Subsequently the EU and China concluded an agreement which both interpreted and, in some areas, extended the Accession Agreement. The highlights of the EU-China Agreement included a faster timetable for opening up the market in mobile telephony than had been planned; more openness in foreign participation in life insurance joint ventures; opening up of the oil and fertiliser markets; greater EU access for certain agricultural products and financial and construction services; agreements on China's import tariffs and the elimination of export performance and local content requirements; and industrial export subsidies.

Table 5: EU Trade with China [in million Euros]

Year	Imports	Yearly % Change	Share of total EU Imports	Exports	Yearly % Change	Share of total EU Exports	Balance	Imports - Exports
2000	74.369		7,47	25.758		3,01	-43.610	100.127
2001	81.619	9,7	8,30	30.554	18,6	3,42	-51.065	112.174
2002	89.604	9,8	9,52	34.869	14,1	3,87	-54.736	124.473
2003	105.397	17,6	11,21	41.170	18,1	4,69	-64.227	146.567
2004	126.012	20,4	12,33	48.131	16,9	4,99	-78.781	175.043
3m 2004	27.766		11,58	10.914		4,93	-16.852	38.680
3m 2005	33.787	21,7	13,04	11.077	1,5	4,77	-22.710	44.864
Average annual growth		14,3			16,9			15,0

Source: DG Trade

Despite slow progress in opening up the service sector, the EU's exports of services to China have grown in recent years – in 2003, there was a €1.5bn surplus in the EU's favour – while the inflows and stocks of EU FDI in China have grown substantially. There is some Chinese FDI in Europe, but this is dwarfed by flows in the opposite direction.

Currently, the economic and trade relations dialogue between the EU and China is based on the Trade and Economic Cooperation Agreement (TECA) from 1985. The dialogue has taken the form of annual meetings of a joint Committee at ministerial level, supported by the Economic and Trade Working Group. Currently the TECA is under review. The TECA also covers the EC-China co-operation and partnership programme.

Sector Dialogues and Agreements

In the last 4 - 5 years a new addition to the relationship framework consists of sector-specific exchanges designed to promote common understanding and intensify collaborative action in a broad range of fields. At present sector dialogues are in progress on over thirty topics ranging from environmental protection to science and technology, and from industrial policy to education and culture. Table 6 lists these together with the responsible Brussels DG and section of the EC Delegation in Beijing.

Table 6: Current EC-China sector dialogues

	Title	EU DG	DEL
1	Agriculture	AGRI	Trade (LF)
2	Civil Aviation	TREN	Trade (LF)
3	Competition	COMP	Trade (SB)
4	Customs (Agreement)	TAXUD	Trade (OM)
5	Economic and Trade WG (Agreement)	TRADE	Trade (SB)
6	Geographical Indications	TRADE	Trade (LF)
7	Industrial Policy	ENTR	Trade (OM)
8	Government Procurement	MARKT	Trade (CD)
9	Industrial products and TBT	ENTR	Trade (OM)
10	Intellectual Property	TRADE	Trade (SB)
11	Macroeconomics and Financial services	ECFIN MARKT	Trade (CD)
12	Maritime Transport (Agreement)	TREN	Trade (LF)
13	Sanitary and Phytosanitary (SPS)	SANCO	Trade (LF)
14	Textile Trade	TRADE	Trade (OM)
15	Trade and Investment	TRADE	Trade (SB)
18	Trade Policy	TRADE	Trade)SB)
19	ASD	RELEX/JLS	Pol
20	Culture	EAC	Press
21	Education	EAC	Coop
22	Employment	EMPL	Coop
23	Energy and Transport	TREN	S&T
24	Environment	ENV	Coop
25	Galileo	TREN	S&T
26	Information Society	INFSO	INFSO
27	Nuclear Energy	JRC	S&T
28	Readmission	JA/RELEX	Pol
29	Regional Policy	REGIO	Coop
30	S&T	RTD	S&T
31	Social Sector	EMPL	Coop
32	Space	RTD/ENTR	S&T
33	Tourism	RELEX/ENT/TRADE	

EC-China Co-operation Programme

In the early years of the period covered by this evaluation, the EC-China cooperation programme could be characterised as a traditional development assistance programme. With the promulgation of the first China CSP in 2001, the focus shifted from providing assistance to forming partnerships, in which each party has an equal interest. During the period 2002-2006 the EC has focused on (a) support for economic and social development (including trade), (b) environmental protection, and (c) support for the development of an open society including rule of law, human rights, democratisation, and good governance.

The evaluators have established a list of interventions started since January 1998 showing that the EC cooperation programme has overall allocated €456m (see details in annex 1 of volume 2). Another table (see annex 1 of volume 2) has been compiled for projects implemented under the regional programmes. These amount to around €19m.

Within the cooperation programme, the biggest share of more than €195m has been spent in the economic and social reform sector (see Figure 4). Of this the bulk (nearly €97m went to human resource development (see Figure 5). The second largest sector in terms of resources has been environment with around €138m. Human rights, rule of law and good governance received nearly €70m (including two new larger scale programmes not yet signed). Trade has received €34m.

Figure 4: Bilateral and thematic budget lines per sector

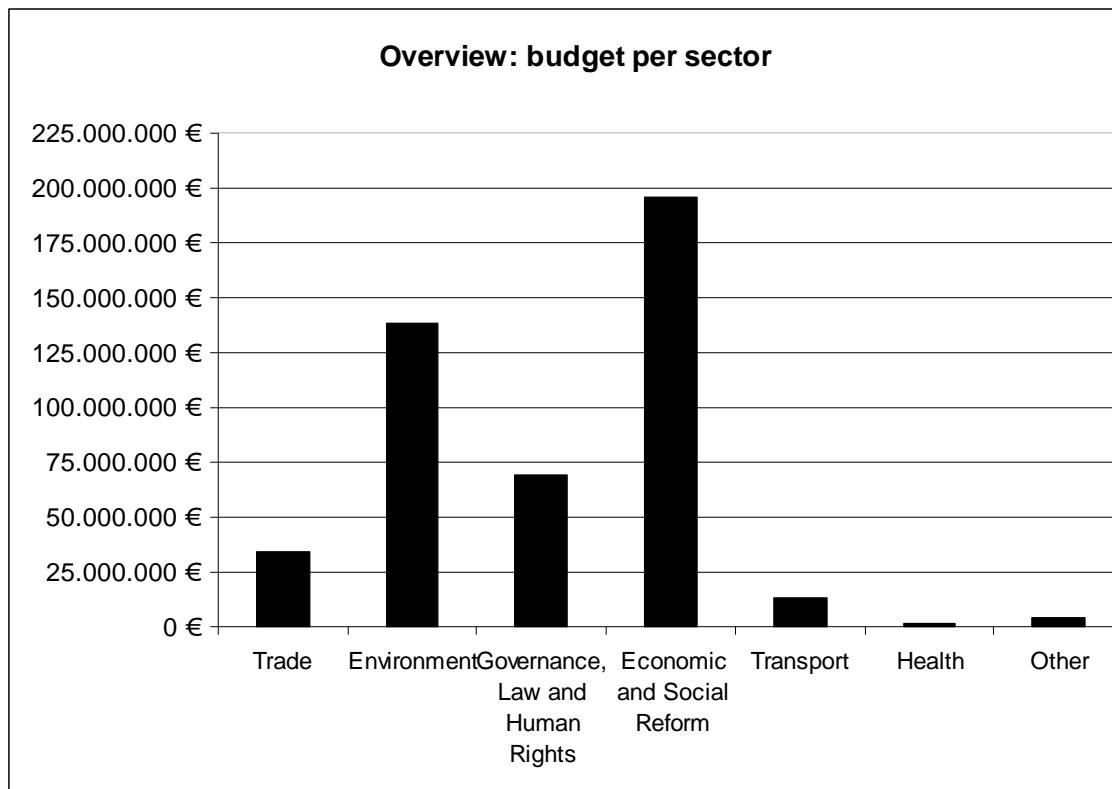
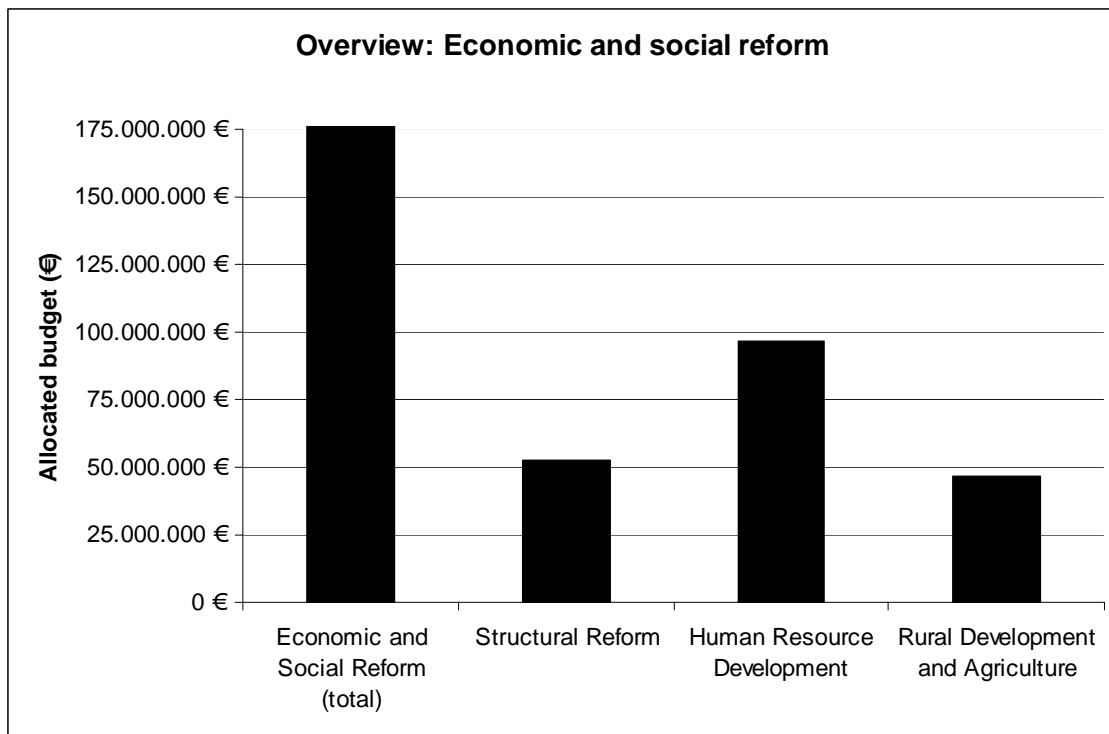


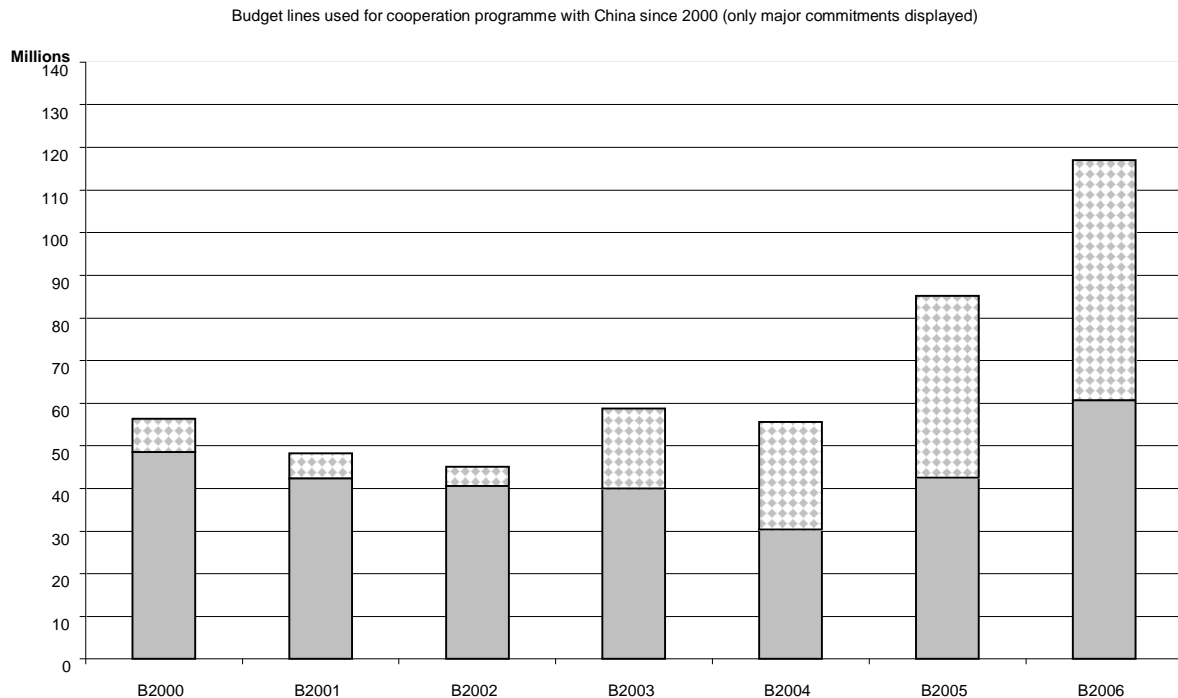
Figure 5: Economic and social reform



According to the EC Delegation, the promulgation of the CSP in 2001 and the putting-in-place of sector dialogues considerably strengthened the link between policy dialogue and cooperation. In this way, it is argued, cooperation can open avenues for policy dialogue, which in turn ensures that EU priorities are pursued in the context of cooperation projects.

In Figure 6, we have broken down the main budget lines (BLs) used for major cooperation programme commitments into two classes – those financing “traditional” development assistance (BLs B73000B00 and 19100100, solid grey) in which interests of the recipient country predominate; and those corresponding to political, economic, and cultural cooperation (BLs B7301B00 and 19100200, dotted), in which the interests of both donor and recipient figure equally. The move away from traditional development cooperation in recent budget years is immediately apparent.

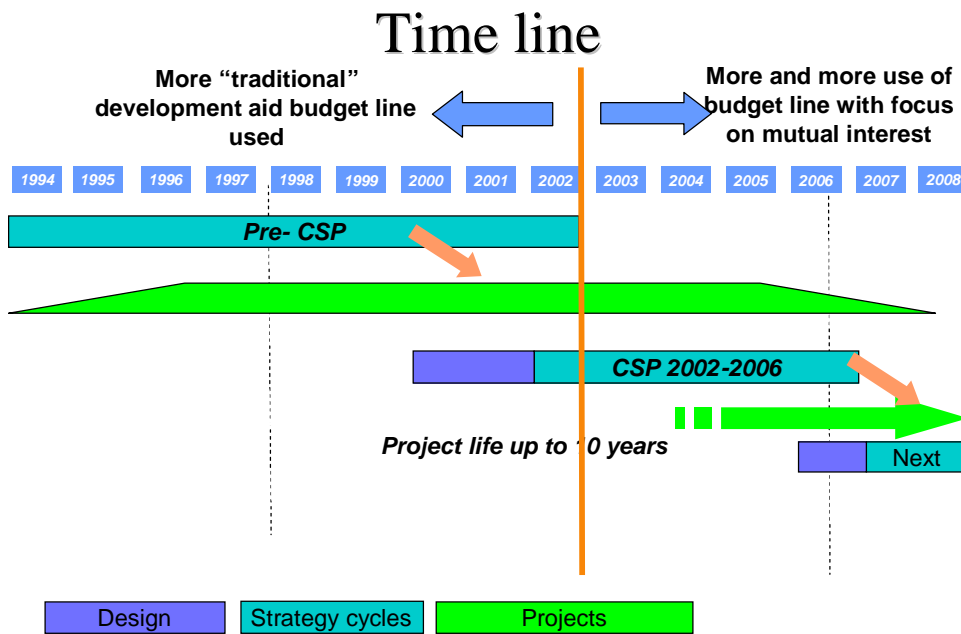
Figure 6: Budget lines used in cooperation programme



B73000B00	"Traditional" development cooperation budget line for Asian countries used until 2003
19100100	"Traditional" development cooperation budget line for Asian countries used after 2003
B73010B00	Political, economic and cultural cooperation with Asian countries, in view of mutual interest of the European Union and its partners used until 2003
19100200	Political, economic and cultural cooperation with Asian countries, in view of mutual interest of the European Union and its partners used after 2003

The evaluation encompasses a long time line, as illustrated below. The ToR defined the evaluation period as from 1998 until 2006. Since many ongoing projects were designed before 1998 and since during the evaluation period new ones were under design, the evaluation in reality covered a span of up to 14 years. We attempt to illustrate the complexity of the situation in Figure 7 where, somewhat arbitrarily, we assign the transition from traditional to partnership-based cooperation modalities to the beginning of calendar 2003. Many projects, including some only now winding down, were designed in the pre-CSP strategy cycle period, i.e. prior to 2003. During this period, as we showed in Figure 6, traditional development aid budget lines predominated. However, (cf. Table 1 above), the evaluation also covered projects reflecting the 2003-present strategy cycle, when there was decreasing reliance on traditional development cooperation modalities. The strategic shift must be kept in mind when trying to compare the implementation success of projects designed early in the evaluation period with that of those designed in its latter years.

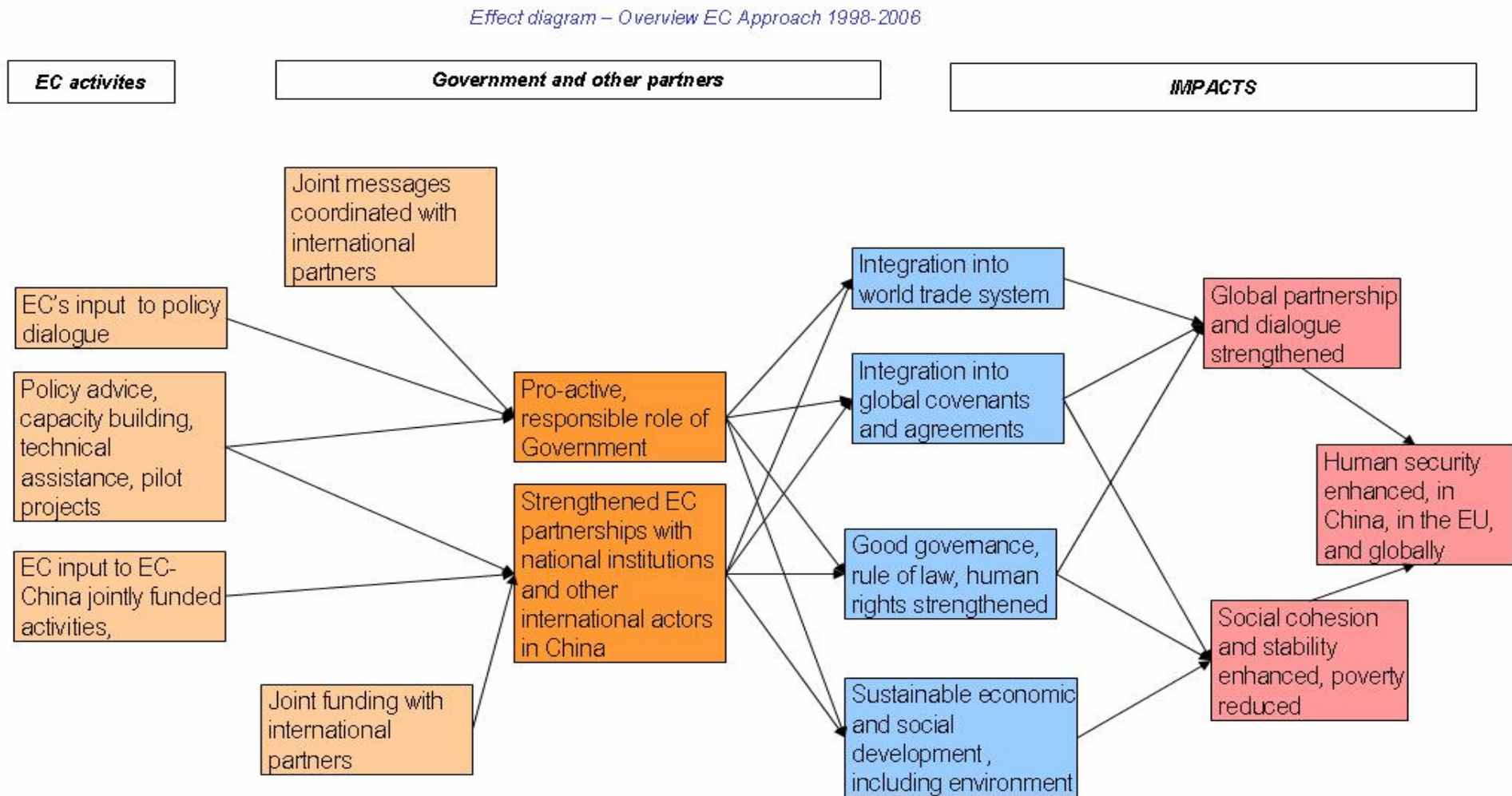
Figure 7: Time scope of the evaluation



3.2. Intervention logic of the EC-China co-operation and partnership programme

The country strategy paper 2002-2006 included four logical frameworks covering respectively: trade and economic and social reform; environment and Human Rights; rule of law; and good governance. Together with other sources, they have been employed to elaborate a series of impact diagrams which describe the logic of EC's interventions (see annex 9 in volume 2). Finally, an overall diagram has been derived through a synthesis of all others.

Figure 8: Overall effect Diagram of CSP 2002-2006 in China



05 May 2006

The co-operation programme is meant to contribute to achieving the key objectives of the EU policy towards China by supporting the continued reform and transition processes, by engaging China further in the international community, and by integrating it further into the world economy in line with the conclusions of the COMs in 1998, 2001 and 2003.

As originally conceived, the intended long-term impacts of the cooperation programme were to minimise the social side effects of the economic reforms; to promote the transition of China to an open society based on respect for human rights and the rule of law; to promote human resources development; and to reduce the environmental impact of energy consumption. The overall objective was to support sustainable economic growth and to promote social cohesion and stability in China.

The content of the cooperation programme clearly evolved over time; for example in 2001 and 2003 reform of the detention system as well as promotion of civil, political and cultural rights were added to the programme.

3.3. Internal coherence of the cooperation and partnership programme

The evaluators have concluded that the EC/EU strategy attained a satisfactory level of internal coherence. Planned activities and intended impacts complemented and reinforced each other; they were consistent with the overall goals and the attainment of the EC's strategic objectives.

This is true within each document and also between the documents. The three COMs are clearly based on each other, extending or refining the strategy to reflect economic and political changes between 1998 and 2003. The strategic logic of the cooperation programme spelled out in the COMs is consistent with the EC's strategic goals as well as with the logic of the political, trade and economic relations dialogues. Not surprisingly, the coherence is greater at the long-run strategic level (i.e. between long-run impacts and strategic objectives at the right-hand side of the effects diagrams in annex 9) than it is at lower levels (i.e. between components in the middle of the effects diagrams).

The CSP is also largely coherent with the planned cooperation programme and, by extension, the EC-China dialogue. Again this is especially true at the higher level; i.e., long-run impacts in the COMs are generally reflected at sector level in the CSP.

These findings are consistent with and reinforce the CSP/NIP mid-term review carried out in early 2005, which concluded that the CSP and NIPs were fully consistent with the EC's China and Asia policies, in line with EC development objectives and corresponding to the general concerns of the EU MS.¹

Issues related to governance

However, the CSP did not specify a specific strategy for good governance or organisational and institutional change processes and did not mainstream governance issues to other sectors within the cooperation programme. It thus presents a technically-oriented governance approach², focusing on public financial management and making no direct link to other major topics such as human rights, development of Civil Society and public participation in

¹ ECORYS-NEI, Strategic Review Mission: Country Strategy for China. Final Report. 23 May, 2005.

² See also the thematic evaluation of the EC support to good governance, June 2006.

all sectors of the cooperation programme. It is the 2002-2004 NIP that widens the understanding of governance within the cooperation programme and refers to significant legislative reform in key areas, such as IPR law, public procurement and WTO-related law reforms. The current 2005-2006 NIP is describing a more strategic and integrated good governance approach, suggesting activities mainly in the legal sector, but making a link to other sectors and topics as well as a wider variety of actors and stakeholders. The new CSP might continue this development, taking EC wide lessons learned in to account as explained in the text box below.

The box below is taken from the recent thematic evaluation on good governance and, naturally, not all developments are applicable in China.

Evolution in EC governance concepts and approaches

Broadening the definition. Initially, the notion of governance primarily focused on the technocratic-financial aspects, i.e. related to the efficient and transparent management of resources by public institutions. Over time it evolved into the holistic, over-arching concept (embracing the broader state-Civil Society relations, democratization and human rights) now to be found in the key EC policy documents (in principle covering all regions).

Clarifying the linkages. Increasingly, EC policy documents explicitly recognize the linkages between promoting governance and achieving broader development objectives (e.g. poverty reduction; conflict prevention; stability and security). As a result, there is a gradual shift in (mental) approaches from governance being treated as a 'self-standing sector' to governance being seen as a 'cross-cutting issue'.

Moving away from project approaches. The EC Communication on Governance and Development calls for "an increased use of sector wide-approaches to good governance, with budget support or other financial mechanism such as basket funding". Sector approaches to governance are gaining momentum in the different regions.

Embracing a multi-actor and multi-level approach to governance. EC policy documents systematically recognize the need to involve a wide range of actors other than central governments in governance processes as well as to engage at different governance levels (local, national, regional, global) for ensuring relevance and positive outcomes.



Promoting governance through political dialogue. Across regions, the EC increasingly sees regular and ongoing dialogue, involving different actors as an effective tool to openly discuss good governance priorities and relevant implementation strategies.

Governance is not simply a new dimension to be added to the list of development tools (or fashions), but a precondition for effective and sustainable impact on key development objectives.

4. EVALUATION QUESTIONS

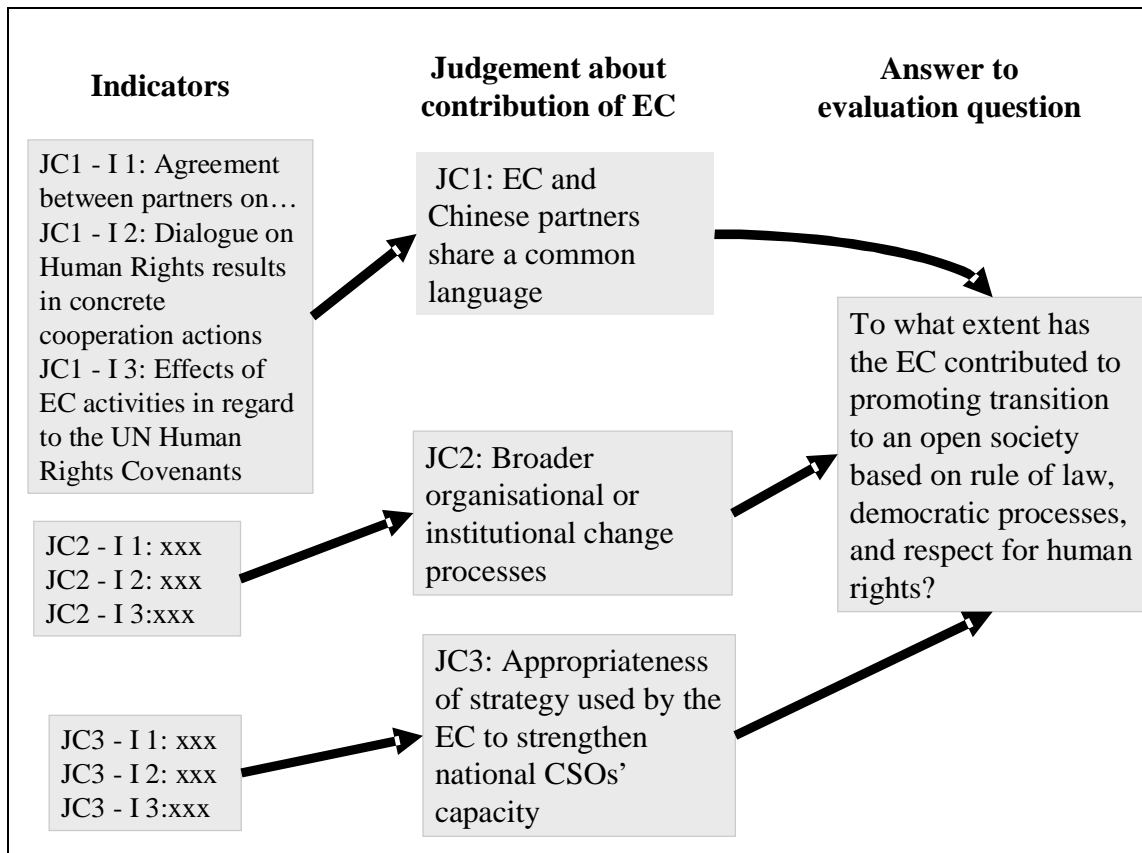
The evaluation focuses on eight questions, which have been extensively discussed with the Reference Group members and revised. The questions fall into two groups: theme or sector questions applying to specific priority intervention areas; and synthesis or generic questions applying to the EC approach taken as a whole and, as a result, containing elements of a synthesis across themes and sectors. The table below illustrates the connection of sector related conclusions and recommendations to the synthesis questions and their findings, the overall assessment and overall recommendations. The key points are that (i) overall recommendations are based on the overall assessment, which reflects answers to both synthesis and sector-specific EQs, whereas (ii) sector-related recommendations are derived from sector-specific conclusions and EQs only. In particular, overall recommendations of the evaluation are NOT derived from sector recommendations.

Table 7: The eight Evaluation Questions

The Eight Evaluation Questions (EQs)			
Theme / sector-specific questions	Refer to Findings in Annex 1-7		
International economic integration (T):	To what extent has the EC approach contributed to integrating China into the world economy?	 Sector related conclusions	Sector related recommendations
Sustainable economic and social development (S)	To what extent did the EC approach contribute to economic and social reform in China?		
Environmentally sustainable development (E)	To what extent has the EC approach reflected the need to ensure the environmental sustainability of economic development in China?		
Governance, rule of law, human rights (G)	To what extent has the EC contributed to promoting transition to an open society based on rule of law, democratic processes, and respect for human rights?		
Cross-cutting issues (X)	How successfully did the EC mainstream the issues of disadvantaged hinterland regions such as Western China, the Northeast, and the Central Provinces into its approach?		
Synthesis / generic questions		 Overall Assessment	Overall Recommendations
Adapting to change (A)	Has the EC's approach maintained its relevance by adapting to the evolving political, socio-economic, and environmental challenges?		
Mix of instruments and interventions (M)	Were the mix of instruments and the mix of interventions (coordination, political dialogue, sector dialogues, TA, pilot projects, bilateral cooperation projects) in appropriate to the national context and EU strategic policy aims?		
Adding value (V)	To what extent did the EC approach result in progress toward the goal of better integrating China into the world economic, political, and environmental community that would not have occurred absent the EC?		

Each EQ was answered on the basis of Judgement Criteria which were, in turn, assessed based on indicators adopted during the Desk Phase, Figure 9 illustrates the logical path graphically, using the good governance sector as an example. As noted in Section 1.3 above, sometimes it proved necessary to replace quantitative with qualitative indicators due to lack of data. For more information please consult annex 11 in volume 2, where all evaluation questions are presented including Judgement Criteria and indicators.

Figure 9: Illustration of links of indicators, judgement criteria and answers to evaluation questions based on the governance sector



In the sections which follow, an overall answer to the EQ is presented and a graphic figure illustrates the evaluators' assessment of the EC's contribution to progress.

In the annexes, an explanation of the background and rationale, and detailed assessment (findings) for each Judgement Criteria are given.

5. SECTOR RELATED CONCLUSIONS

Please refer to the annexes for sector-specific findings.

5.1. International economic integration (T) - The evaluators' response to the Evaluation Question for the trade sector

To what extent has the EC approach contributed to integrating China into the world economy?

Please refer to ANNEX 3: Detailed Findings – Contribution to International economic Integration for more information.

a. The EU has a major policy stake in ensuring that China is a trustworthy partner in the international trading system. The EC engagement with China, i.e. the sector dialogues and cooperation programme, has reflected this goal. A comprehensive range of sector dialogues has been implemented since 2001 and, as evidenced by new dialogues on trade and sustainable development, the employment, labour, social, and environmental aspects of trade, this range continues to expand. Two projects, WTO1 and the EUCTP, have exclusively addressed trade issues, providing flexible, responsive policy advice and capacity-building to Chinese authorities. WTO1 received a mixed final evaluation and EUCTP experienced initial difficulties, but both interventions have been assessed as relevant and relatively effective. Two IPR Projects – one completed, one starting – have addressed issues concerning Intellectual Property Rights, while the EU Information Society Project and Financial Services Project have both contained components relevant to trade and the WTO. The size and scope of these activities accurately reflect the stakes for the EU in promoting China's responsible partnership in the world trade system. So too does the level of trade-related sector expertise that the EC has put in place in the Delegation.

b. Yet, as two final evaluations (IPR1 and WTO1) have noted, the impact of EC cooperation is difficult to assess. Part of the problem is one of size and complexity. In a country as large as China with so many other major actors (such as the U.S.), it is difficult to ascribe impact specifically to EC interventions. Almost all the evaluations have been able to conclude with certainty is that capacity was formed and awareness of issues raised -- conclusions also reached by this evaluation. Not cited in the evaluations, but obvious from interviews with relevant officials, is that EC sector dialogues and cooperation projects have encouraged European approaches to standards, IPR, geographical indications, competition policy, and other areas. Specific successes in the form of adopting European environmental standards may be cited. The reason for these achievements is, in large part, the adequate level of expertise on call at the Delegation. Yet, the problem of attribution remains. To take a concrete example, in the last quarter of 2006 there were a number of high-profile Chinese decisions tightening the enforcement of IPRs. Was this ascribable to the EC's engagement in the area? Some of it no doubt is, some is ascribable to pressure from the U.S. and Japan, and some to changes in Chinese policy priorities that were entirely independent of international influence. The impossibility of quantitatively ascribing impact should not be interpreted as meaning that impacts have been weak.

c. Despite such successes, the visibility of the EC cooperation programme is low among the European industry experts interviewed, as also is its perceived utility. Moreover,

European stakeholders continue to protest that China is in violation of many WTO commitments. This is no doubt true. Legislation and regulatory regimes are in place, but enforcement lags behind. However the dynamic at work in China, especially in the IPR area, is generally positive for Chinese integration into the world economy. Partnerships that are not formed now or, worse, are terminated on bad terms, can hardly bear fruit in the future. Why do European firms, despite IPR and other issues, continue to do business in China? Because Firm "A" knows that, if it does not enter the market under conditions set by the Chinese, then Firm "B" assuredly will. Not only will Firm "A" sacrifice any chance it has in China, but economies of scale achieved by Firm "B" through its participation in the massive Chinese market will enhance its competitive strength and market power on a global scale. Thus long-term strategic goals lead both firms "A" and "B" to engage with China.

d. Enforcement problems deserve to be split into two categories – those due to lack of capacity or awareness and those due to lack of political will. Problems arising from the first can and should be addressed by projects such as IPR2 concentrating on policy implementation as opposed to formulation. Problems arising from the second are essentially intractable from a cooperation point of view and should be dealt with in political dialogue

e. In general, the wide range of sector themes has been well integrated into EC trade cooperation. However, just as poverty and the theme of "winners and losers" have not been well integrated into economic and social reform projects, the same can be said for trade. For example, the issue of poor IPR enforcement cannot be separated from the impact that enforcement would have on employment in many provinces and municipalities. Corporate social responsibility, a human rights issue, has clear links with trade, and is an emerging issue at the European Chamber of Commerce in China.

Figure 10: Graphic illustration of assessment of the trade sector

International economic integration (T)	
	EC's contribution to progress
WTO related	Significant
Norms & standards	Significant
IPR	Significant
Policy implementation	Limited

5.2. Economic and social reform (S) - The evaluators' response to the Evaluation Question for the economic and social reform sector

To what extent did the EC approach contribute to economic and social reform in China?

Please refer to ANNEX 4: Detailed Findings – Contribution to Economic and Social reform for more information

- a. All in all, EC programmes provided positive impulses for economic and social reform in China. The greatest successes were achieved with activities that focused on human resource development, formulation of laws and regulations, and institution building in general. There was little impact on enterprise reform or the development of SMEs despite the prominence given to these areas in the CSP. In the areas of enterprise reform as well as financial sector development, China has in recent years made very substantial progress on its own and with support from World Bank, IMF and other supranational and national organisations. Particularly in the first of these areas, opportunities for the introduction of EC best practice models were missed.
- b. The themes of vulnerable groups (apart from residents of hinterland regions) and poverty were not effectively mainstreamed in the programmes covered by EQ(S) or taken into account in major projects. More success in addressing needs of vulnerable groups has been achieved in other cooperation areas such as those covered by EQs (E) and (G). In all areas, substantial implementation delays negatively affected project impact, effectiveness, and efficiency.
- c. Sustainability and lasting impact were impaired by the fact that few of the best practices introduced by the EC at the provincial or lower levels were rolled out to other provinces or at national level. Most EC projects seem to have been characterised by an “on/off syndrome” in which good work is done, but when the project is over, it is simply over. As a result, with notable exceptions such as the China-Europe International Business School (CEIBS), social capital and mutual understanding built up over years of project work is lost. This amounts to a serious waste of resources. The great degree of autonomy of Chinese provinces is a factor in explaining the poor record of replicating successes.
- d. Projects involving large scale, complex areas (such as financial services or information society) and long-term involvement of European expertise have had greater impact than short, tightly focused projects.
- e. As China's national resources have grown, the relevance of traditional project-oriented development assistance has declined, and the EC programme has been modified in consequence. However, improving the general business environment and promoting systemic stability is no longer enough to ensure that EC cooperation in the area of economic and social reform is a win-win proposition for both sides. Today, the creation of win-win scenarios demands more specific engagements.

Figure 11: Graphic illustration of assessment of economic and social reform – part 1

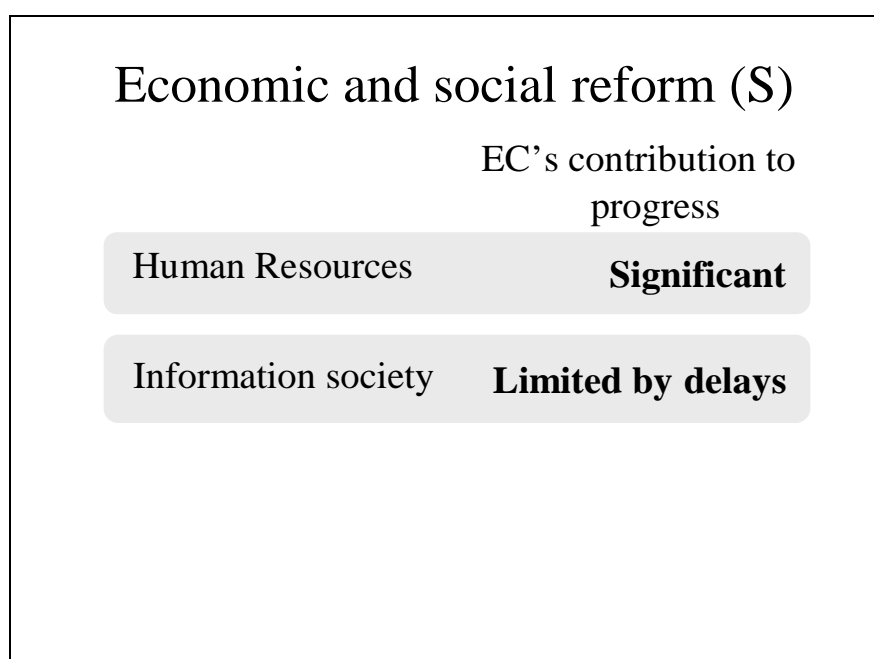
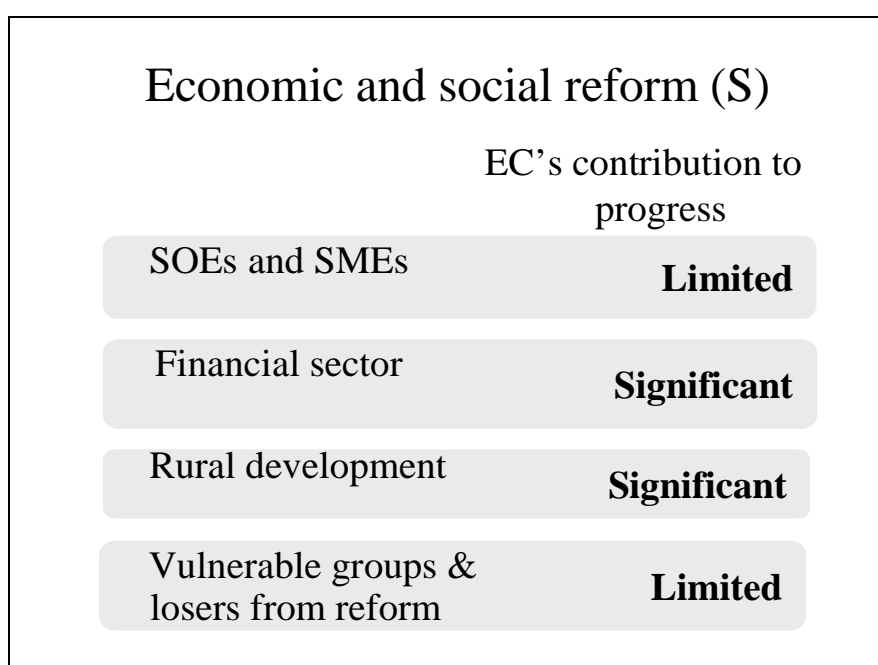


Figure 12: Graphic illustration of assessment of economic and social reform – part 2



5.3. Environmentally sustainable development (E) - The evaluators' response to the Evaluation Question for the environment sector:

To what extent has the EC approach reflected the need to ensure the environmental sustainability of economic growth?

Please refer to ANNEX 5: Detailed Findings – Contribution To environmental sustainability for more information

a. The EC's contribution to balancing China's environmental concerns with the country's rapid development process is limited. Despite positive results from some of the EC-financed projects in industrial pollution control, air and water quality, ecological urban planning and vehicle emission standards, the impact of these projects is small when measured against the scale of the environmental and social challenges that China faces. EU "investments" of 138 million Euros for environment programmes (see Figure 4) are dwarfed by the scale of current economic development in China. More significant is that, with the adaptation of 70 to 80% of environmental legislation and standards in China from the EU (e.g. vehicle emission standards) and other countries, the lead-in time for environmental standards in China is reduced, especially when coupled with EU technical expertise and governance programmes. However, benefits from EC expertise are partially offset by the poor performance of Chinese authorities and industries in actually implementing and enforcing environmental regulations and standards, especially on the regional level. In order to respond to dynamic developments in the environment sector in China, the EC needed more flexible intervention instruments that relied more on local partner institutions and partnerships between EU and Chinese stakeholders than on external EU contractors. The evaluators did, however, observe a general change in this direction.

b. The uptake of project results and channelling of lessons learnt into policies and policy dialogue and programming of follow-up projects was not achieved. Mainstreaming environment into the EC portfolio has remained an aspiration rather than a reality.

c. There is a proposed reduction in the new CSP (2007-13) financial allocation for the environment sector, which may be justified on account of China's dynamic development and stronger focus on the instrument of sector policy dialogue. However, environmental cooperation programmes funded by the EC cannot be seen as development aid in the classical sense, since they bring significant benefits to the environment in Europe and the wider world. Urgency and global impact are essential criteria for deciding which environment programme to finance in China.

d. This must lead to concentrated and cross-cutting efforts to cooperate with China on climate change issues in an atmosphere of improved coordination with EU Member States. The seriousness and extent of this environmental problem creates plausible synergies from jointly coordinated EC and Member States climate change initiatives that are more impacting and far-reaching than the sum of the individual donor projects. Chinese counterparts have requested assistance in capacity-building for the Clean Development Mechanism (CDM), which a small number of EC-funded projects (e.g. Pro Eco) actively support at present within China. The GoC stands at the beginning of implementing more climate-friendly projects and needs partnerships in this field, including those with EU businesses interested in buying emission rights to satisfy Kyoto commitments. The respective focus in the new CSP on climate change issues is well justified.

Figure 13: Graphic illustration of assessment of environment sector

Environmentally sustainable develop. (E)	
Appropriately integrated into EC approach?	
Industrial pollution	yes
Air & water quality	yes
Natural resource management	Limited by delays
Energy and environment	Limited by delays

5.4. Governance, rule of law, human rights (G) - The evaluators' response to the Evaluation Question of the governance sector:

To what extent has the EC contributed to promoting transition to an open society based on rule of law, democratic processes, and respect for human rights?

Please refer to Annex 6: Detailed Findings – Contribution to Governance, rule of law, human rights (G) for more information

a. In the area of rule of law and human rights, the EC cooperation programme has achieved as much as possible in the circumstances: it provided an “eye opener” for legal professionals, academics and senior governmental officials and there has been marked progress towards agreement between EC and Chinese counterparts on basic concepts related to human rights and the rule of law. The interest of GoC line ministries and other core partners in EU/EC experience has been triggered and fostered. Still, there are indications that cooperation decreases within the government agencies when it comes to actual application of rule of law and human rights at grassroots level.

b. Legal reform in China is taking place rapidly, covering institutional, administrative, civil, economic, social, and procedural and criminal law. Several international NGOs interviewed confirmed that currently there is an opportunity to work productively with the GoC to advance the rule of law. There are generally positive trends: increased numbers of judges and prosecutors, increasing numbers of cases filed and handled; pending revision of the criminal procedure law and the criminal law, revision of legal procedures governing capital punishment, and acknowledgement that false confessions obtained under duress are damaging the legal system. Even so, important court decisions are not available to the public and the opaque law-making process lacks public participation. In addition, citizens have limited confidence in the judiciary and losers from reform (ethnic minorities, the poor, etc.) have only limited access to a fair and transparent justice system. There is lack of systematic training on international law and a need for education in European, international and comparative law; and there is also a lack of practical skills training for legal professionals.

c. The EC will address a number of the foregoing issues with the two new projects, the Europe-China Law School and the GED project, which will integrate ensuring better access to justice, improving law and law-making and broadening Civil Society involvement into policy-making.

d. Regarding democratic governance and good governance, the EC cooperation programme was successful in addressing priorities of reform with two large projects. But China's economic reform still needs to be underpinned by improved governance and rule of law if China's development is to be sustainable. The planned “upgrading” of the CEPA project could have a considerable impact in this regard.

e. The strategy used by EC to promote CSOs has been adapted to current circumstances and has produced innovative approaches to sensitive and complex topics; however the approaches and results could not be used strategically (i.e. feeding back to the political dialogue) and were not fed back into the cooperation programme (i.e. taking up results and using them within an EU-China project).

f. In China, as has been found worldwide, the EIDHR instrument suffers from flaws which limit effective partnership between the EC and CSOs.

g. Human rights, rule of law and good governance are a focus of the current CSP. The sector has limited flexible means available to steer and ensure impact of EU-China projects. Apart from the Political HR Dialogue no EC-China sector dialogue is covering governance and the sector has no access to the Policy Dialogue Support Facility (PDSF). In addition, the cross-cutting nature of the sector is not well reflected in the institutional set-up of the cooperation programme and within the sector dialogues.

h. There was insufficient donor coordination in the sector, but new initiatives have been started.

i. Project networking and the involvement of Chinese stakeholders in the eliciting and disseminating of lessons learnt was not strong, although lessons from final evaluations were well taken up³.

j. All in all, the situation in this sector resembles that of the trade sector. The EC has provided welcome technical advice, capacity-building, best-practice training, awareness raising, etc., but in the end the pace of progress is steered by Chinese policy priorities and politics. Impact would appear to be positive, but is difficult to assess.

Figure 14: Graphic illustration of assessment of good governance, rule of law and human rights



³ For example, the main criticism by the final evaluation of the LJCP was its very limited sustainability as no institutional strengthening was included in the project, and its very high costs per participant. The New EU-China Law school design has taken both criticisms well into account in establishing a new institution in China.

5.5. Cross-cutting issues (X) - The evaluator's response to the Evaluation Question regarding the integration of hinterland regions

How successfully did the EC mainstream the issues of disadvantaged hinterland regions such as Western China and the Central Provinces into its approach?

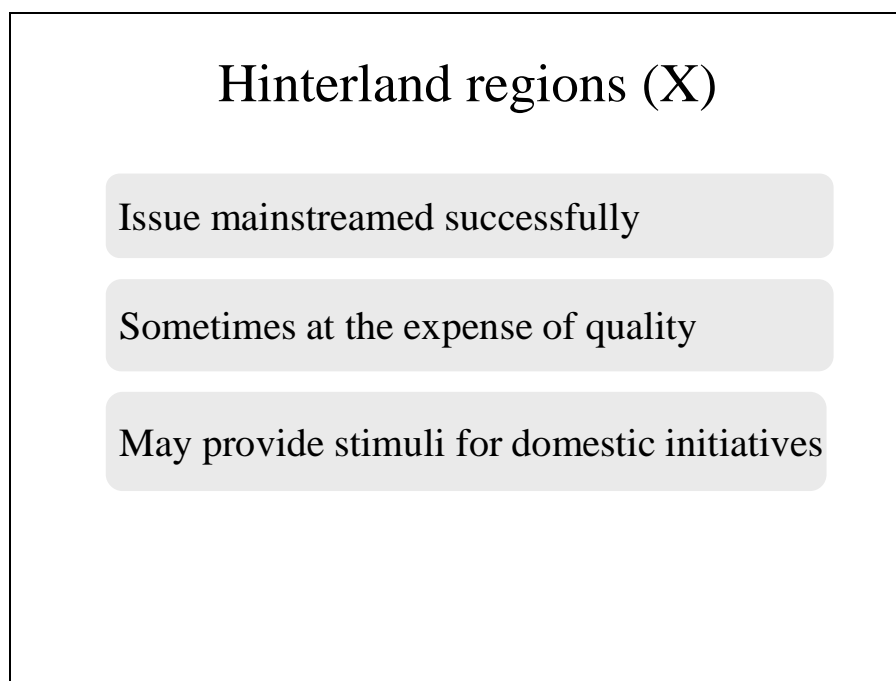
Please refer to Annex 7: Detailed Findings – Integration of Cross-cutting issues (X) for more information

a. The EC has successfully mainstreamed the issues of disadvantaged hinterland regions such as Western China, the Central Provinces as well as the North-Eastern 'rust belt' into its approach of developmental cooperation. However, the EC's project contributions are (and indeed cannot but be) lacking in the scope and volume needed to fundamentally redress the issue of regional disparities in China. They may function as lighthouses indicating promising development paths, introducing and testing promising approaches and, by this means, providing stimuli for domestic initiatives. It is exactly here that the comparative advantage of EC initiatives is located. Based on this catalytic function it seems highly deplorable that most projects are more or less abandoned once concluded. Follow-up activities and better utilization of the social capital created during the implementation of projects could greatly enhance the impact and sustainability of EC activities, increase their effectiveness and provide greater visibility of the EC / EU in Chinese society.

b. The sharing of best European practice in the area of regional development seems to be particularly welcomed by national officials. Indeed Chinese government officials seem to encourage projects catering to the needs of disadvantaged regions. However the Chinese government has become comparatively well endowed with financial resources and should itself be in a position to provide the hardware for hinterland projects (computer, cars, etc.).

c. While EC activities have successfully addressed the issue of regional disparities, not all initiatives taken to integrate 'hinterland regions' into specific programmes have been worthwhile. In some programmes 'quality' seems to have been traded for 'hinterland coverage'. For example, it seems questionable in how far the universities of Kunming respectively the consortium of North-western universities led by Xi'an have really been in a position from the outset to live up to the demands formulated in the ESCP framework. It is not necessary to integrate hinterland coverage into each and every programme.

Figure 15: Graphic illustration of assessment of cross-cutting issue hinterland



No recommendations have been seen as necessary in respect of cross-cutting issues.

6. SECTOR RELATED RECOMMENDATIONS

The following sector related recommendations are a “stand-alone” product and NOT a basis of the Overall Recommendations, presented later.

6.1. Recommendations for the trade sector

The evaluators judge the EC’s engagement via sector dialogues and trade cooperation to be successful overall. However, four recommendations emerge from the discussion above:

Based on conclusions 5.1 a and b

Maintain and continue to strengthen, where possible, sector expertise in the EC Delegation. This recommendation, which also features in our discussion of EO (S), is, if anything, even more important as regards trade since there is an explicit ongoing negotiation process.

Based on conclusion 5.1 c

Attempt to align trade cooperation more directly with European industry needs, thus improving visibility and defusing complaints. At the same time, recognise that European firms have an overwhelming strategic interest in remaining engaged with China. The portion of the EUCTP financed by development cooperation, given its legal basis, can only respond to requests for TA initiated by the counterpart agency MoFCOM. However, the portion financed by the economic cooperation budget line is free to propose activities. The project could bring together all relevant parties – MoFCOM, European industry representatives, and the EC Delegation – to set a programme of work.

Based on conclusions 5.1 d

Calibrate EC trade assistance to the nature of the problem – capacity to enforce, awareness that there is a problem, or political will. In the latter case, only sector and political dialogue will yield results and, if worse comes to worst, as a last resort there is the WTO process. In the first two cases, controversial questions of governance and rule of law may be involved, in which case it will be the responsibility of the EC to make an informed decision about the partners’ level of commitment. It may be necessary to work at provincial rather than federal level.

Based on conclusion 5.1 e

Improve the mainstreaming of trade into economic and social reform projects, and of issues such as poverty and corporate social responsibility into trade. Two examples, integrating links between poor enforcement of IPRs and unemployment at the province level and between corporate social responsibility and trade, have been mentioned. Even if they do not translate into concrete projects, impact and situation analyses will improve programming and inform sector dialogues.

6.2. Recommendations for the economic and social reform sector

Based on the above, we propose the following recommendations specific to economic and social reform:

Based on conclusion 5.2 a

Discontinue activities designed to address enterprise sector reforms as the window of opportunity to make an impact in this field has already been closed. However, as China still has a long way to go in its drive to establish a state-of-the art financial system it is advisable to uphold financial sector engagement and dialogue facilities based on strong sector expertise at the EC Delegation in Beijing.

Based on conclusion 5.2 a and d

Given the substantial resources available to GoC, EC initiatives in the fields of basic education and traditional poverty alleviation should be discontinued. Resources should rather be pooled in the fields of higher education and programmes supporting the exchange of experts.

Based on conclusion 5.2 b

While it is not feasible to include modules dealing with vulnerable groups in each and every project, the overall EC engagement should strive to address their interests and stress an equitable approach to economic and social development. The implementation of the long delayed Social Security Programme may make an important contribution along these lines.

Based on conclusion 5.2 c

Make better use of social capital and relationships formed during project implementation. Means might include more involvement of Chinese counterparts in the final evaluation process, encouragement of project-to-project dialogue and networking, follow-up and project "alumni" activities, and more generally taking a longer-term view. When possible, explore and identify possible sites for project replication during the formulation process.

Based on conclusions 5.2 d and findings EQ(V)

Concentrate on large, complex problem areas that demand long-term involvement of European and Chinese counterparts. Not only does experience show that such projects have greater lasting impact than smaller scale interventions, but they also more successfully exploit the EC's comparative advantage relative to the MSs. This comparative advantage, as we state in our discussion of EQ (V) on EC value added, consists in large part of the ability to offer "one-stop shopping" for European policy models.

Based on conclusions 5.2 e

Discontinue traditional rural development programmes and move on to cooperation projects and dialogues on advanced issues like "living countryside" (an area in which the EU, through its regional development initiatives, has great expertise). Prepare for the agricultural sector becoming a more and more important topic in bilateral trade issues.

Based on conclusions 5.2 e and findings EQ(T)

Maintain and, when possible, expand Delegation capacity with dedicated sector experts. This has at least three beneficial effects. First, it ensures the quality of sector dialogues (discussed in more detail in the section pertaining to EQ (T) on trade). Second, it improves cooperation projects. Third, it upholds EC negotiating power in discussions with Chinese counterparts

6.3. Recommendations for the environment sector

There can be no doubt about the global implications of China's environmental problems, given China's continued economic growth and hunger for natural resources to fuel this growth.

Based on conclusions 5.3 c

The growing relevance of environmental issues within China affecting the wider world needs greater EC emphasis. A strategic objective of growing importance in future for any type of EC environmental interventions in China is that of limiting and reducing China's global-scale environmental impacts.

Urgency and global impact are essential criteria in deciding which environment programme to finance in China. Applying these criteria, climate change needs to be at the forefront of any EC financed interventions under the CSP 2007-2013 as the single most important environmental issue within China with global impact.

Based on conclusion 5.3 c

The EC should follow an integrated approach in tackling climate change issues in China by incorporating aspects of climate change in ongoing and current EC-financed environmental programmes, for example addressing climate change effects on biodiversity, natural forests, flooding and droughts. At the same time energy sector initiatives (whether under the EEP or under new initiative) should create linkages to climate change issues by assessing and estimating the expected positive impacts of energy efficiency improvements and alternative energy usage on greenhouse gas (GHG) emissions in China. This would increase the relevance of these programmes in tackling global issues relevant to Europe and could improve the availability of much needed environmental data in these fields.

Based on conclusion 5.3 a

Based on the limited portfolio of climate change relevant programmes in China, the EC should engage in the further development of more flexible intervention instruments in climate change that can provide project inputs which rely more on local partner institutions and partnerships between EU and Chinese stakeholders than on external EU contractors. Though a general change in this direction has been observed, there remains room for further steps, in addition to which, these changes have not affected climate change issues

Based on conclusion 5.3 e

The Chinese counterparts have requested assistance in capacity-building for the Clean Development Mechanism (CDM). This vast nation stands at the threshold of implementing more climate-friendly projects and needs partnerships in this field, including partnerships with EU businesses interested in buying emission rights to satisfy Kyoto commitments. The EC should honour requests for capacity building in this important area.

Based on conclusion 5.3 b

Limited success in replication and up-scaling of project results and channelling of lessons learnt into policies and policy dialogue and programming of follow-up projects needs to be better addressed under the new CSP. Partially responsible is the delayed implementation that some of the environmental programmes experience. Structural changes in EC procedures that speed up early phases of project mobilization and implementation may be needed as well as closer cooperation between the development cooperation and environment sections at the Delegation to feed back systematically practical lessons learnt into the formulation of relevant environmental policies and policy-dialogue in China.

Based on conclusion 5.3 d

Although a dialogue about environmental issues between the Delegation and EU MSs in China has started, there should be further consideration given to better coordination of joint thematic programming and strategic coordination of positions and initiatives in a formalized way. This will open up opportunities for presenting stronger positions and demands on pressing environmental issues vis-à-vis the Chinese government.

Based on conclusion 5.3 b

At the same time, mainstreaming environment into the EC portfolio has remained an aspiration rather than a reality. Environment should be a consistent component of important EC interventions in China such as the trade sector policy dialogue and trade programmes. Other sectors where environment can be further mainstreamed include good governance programmes.

Based on conclusion 5.3 a

The State Environmental Protection Administration (SEPA) proposes that the EU should assist in mainstreaming environment in good governance programmes in China. For example emergency response, and as part thereof, public information and environmental risk perception programming requires good governance standards at regional and local levels. This would be an important contribution to improving implementation and enforcement of environmental regulatory frameworks.

6.4. Recommendations for the governance sector

The evaluation team proposes four recommendations for the good governance, rule of law and human rights sector.

Based on conclusions 5.4 d g and j and the assessment on internal coherence

Mainstreaming of good governance should be improved. A first step would be an analysis of the current EC governance policy (taking into account the evolution described in chapter 3.3) and adapting it to the context in China. Further steps could include facilitating input of the governance-related cooperation programme into relevant sector dialogues (e.g., environment), or broadening of the CEPA project to cover other topics with more Chinese partner institutions. Another step forward would be an analysis of the cooperation programme in respect of its current level of mainstreaming and future potential: here the Draft Handbook on Governance (internal document written by the thematic network of EuropeAid) presents a practical tool for facilitating mainstreaming of governance in all EC aid interventions. It invites EC task managers to address good governance both through a 'horizontal analysis' (geared at projects and programmes that do not primarily concern the areas covered by the six governance clusters and where governance concerns are often neglected) and a 'vertical analysis' (for the projects and programmes or components of programmes that address specifically the themes of one or more of the governance clusters).

Based on conclusion 5.4 e

A stocktaking exercise analysing innovative approaches and promising results of current and past CSO projects to identify areas, where CSO work has already gone beyond bilateral cooperation possibilities and boundaries should be undertaken to identify areas for future engagement.

Based on conclusion 5.4 f

The re-shaping of all aid instruments, including the thematic budget lines, offers an outstanding possibility for developing a special CSO EIDHR format for China. This would ideally entail regular dialogue and review tools (including sufficient budget for meetings and ad hoc training and sufficient staff resources in the Delegation) and strategically feed into the bilateral cooperation programme while retaining its independence. It should better take into account the reality of CSOs in China; in particular, the long-time span needed for new practices to be wider spread and acknowledged by governmental organisations needs consideration. This may offer a possibility for re-funding certain projects, after a ripening phase of between 1 and 3 years⁴. The format might explicitly recognise a "partnering phase" in which a small amount of funding is available for finding reliable and committed partners (mainly for joint international NGOs/Chinese CSO projects). It should offer flexibility in duration – and also allow long-term projects of up to five or more years.

⁴ i.e. memorandum of understanding could regulate that after 1 – 3 years of non-involvement a review should decide on a follow-up funding of past projects.

Based on conclusion 5.4 a

The HR network could become a HR information centre⁵. The functions of such a centre might include: collection and dissemination of domestic legislation and relevant HR cases, publication of a HR yearbook, development of practical HR training for teachers in schools (basic, middle and high schools) and the carrying out of joint China-oriented research with EU universities. Either as a second component or separated from the HR information centre. The HR network should be re-defined (and funded), which not only would facilitate EU-China exchanges, but also domestic exchanges between universities in the provinces. In particular regarding specific topics and practical knowledge, CSOs should be more involved in research and studies. The HR network should not only implement back-to-back legal seminars on the HR dialogue but should actively develop activities suitable for supporting and strengthening HR dialogue activities, such as follow-up events, field visits and technical training for governmental officials.

Based on conclusion 5.4 h

Cooperation possibilities with CSO programmes of other donors (British, German etc.) regarding a joint approach towards freedom of the press in the light of the upcoming Olympics could increase effects and impact as well as visibility within China and Europe.

No recommendations have been seen as necessary in respect of cross-cutting issues.

⁵ This would require a targeted EIDHR project from Brussels within the old structure of EIDHR, as the new structure and procedure is not published yet, it is not possible to indicate a detailed operational step.

7. CONCLUSIONS RELATED TO SYNTHESIS EVALUATION QUESTIONS

7.1. Mix of instruments and interventions (M) - The evaluator's response to the Evaluation Question regarding the mix of instruments and interventions

Was the mix of instruments and the mix of interventions (coordination, political dialogue, sector dialogues, TA, pilot projects, bilateral cooperation projects, EU promotion activities) in China appropriate to the national context and EU strategic policy aims?

Please refer to Annex 8: Detailed Findings- Mix of instruments and interventions (M) for more information

a. This EQ has covered the consistency of the EC's China approach with the Chinese national context and priorities (relevance) and with long-term EU policy goals (external coherence). The main characteristics of the Chinese context are, first, that China needs expert advice in the form of technical assistance and access to best international practice far more than it needs money. Second, although there are still needs in the area of policy formulation, technical assistance to date (much of it provided by the EC) has substantially improved the policy rules of the game. What is needed now is help in administering, implementing and enforcing these rules. As evidenced by the IPR programme, the EC is gradually replacing policy formulation activities with policy implementation inputs. Not all policy implementation problems have to do with low awareness and lack of capacity. Some merely reflect lack of political will; these problems can be dealt with only through policy dialogue. But sometimes even when the political will is there, governance problems such as lack of transparency, unwieldy procedures inherited from the past, and bad governance – at the extreme, and corruption – impede implementation.

b. The EC has selected areas of action consistent with Chinese interests. An exception is human rights, where the partners continue to disagree. The EC concentrated on provision of technical assistance which is, as the evaluation team argues in discussing EQ (V), its area of comparative advantage. A wide range of the financial instruments available for activities was exploited.

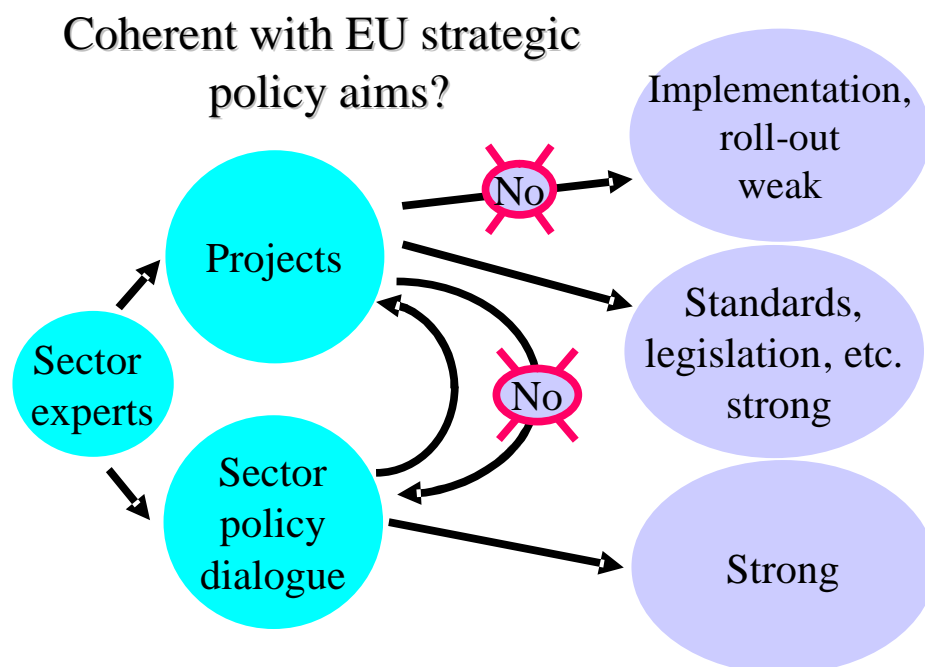
c. A disappointment in all sectors was that successful projects received little follow up, either in terms of systematic consideration of lessons learnt or in replication or roll-out to national level. The social capital and human relationships formed during project implementation were allowed to dissipate. This in part reflects the very high degree to which decision-making in China is decentralised.

d. Sector dialogues were found to be an effective means of pursuing long-run EU policy goals, and the links running from sector dialogue to cooperation projects were generally good. Growing EC Delegation sector expertise has been a necessary condition for maintaining sector dialogue and promoting the link with cooperation. Between global external benefits in areas such as the environment and the necessity to form partnerships with China that will pay off as the country assumes a larger role on the global stage, the team believe that the cooperation programme clearly advances EU long-term interests. Direct promotion of EC commercial interests is not a role the team believes the EC Delegation can usefully play. The joint elaboration of a cooperation programme which is "win-win" for both partners is, of course, a *sine qua non* for successful engagement. In this regard, the

team was concerned that persons interviewed seemed to have little idea how the CSP process works.

In the following Figure 16 an attempt is made to illustrate the conclusions above. Sector experts at the EC Delegation have inputs into the cooperation programme (projects) and sector policy dialogue. The team has found good uptake of sector policy dialogue insights in projects, but limited uptake of project-generated insights in sector dialogue. Projects have had strongest impact in areas concerning approaches, such as standards, legislation etc. More specific knowledge transmission has had less impact because of implementation problems and weak replication. Sector policy dialogue has generally had strong impacts on Chinese policy approaches.

Figure 16: Coherency with EU strategic policy aims



An overall assessment of the EC programme and overall recommendations, both based on the conclusions related to synthetic Evaluation Questions, are to be found in sections 8 and 9 below.

7.2. Adapting to change (A) - The evaluator's response to the Evaluation Question regarding adapting to change:

Has the EC's approach maintained its relevance by adapting to the evolving political, socio-economic, and environmental challenges?

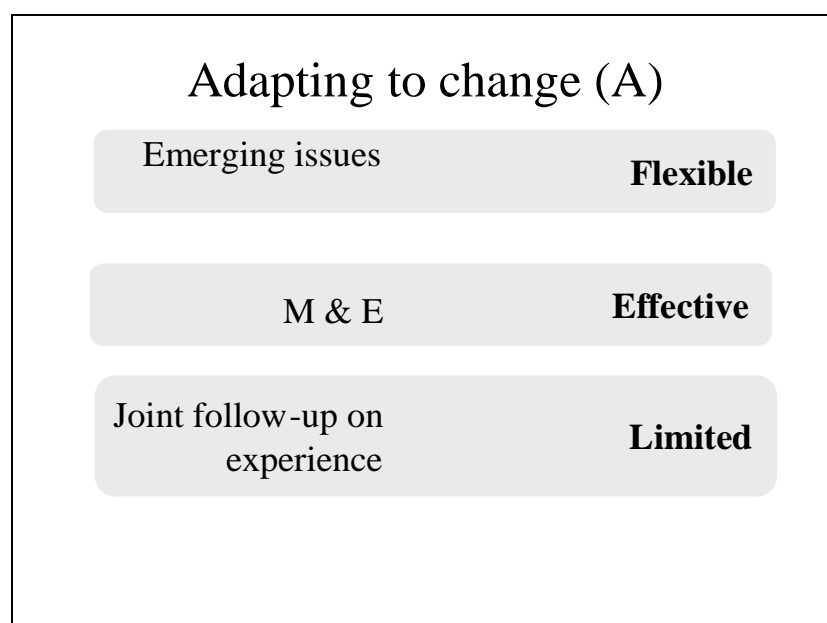
Please refer to Annex 9: Detailed Findings- Adapting to change (A) for more information

a. As also concluded in the context of EQ (M), the EC's approach has generally been relevant to both Chinese and EU policy goals.

b. As evidenced by the new Communication and interviews with high officials of MoF-COM, both the EC and GoC share the same rhetoric on the move towards a partnership of equals. The problem is that, as one moves down the ladder to the actual implementation of cooperation, dissatisfaction with the state of partnership grows. On the European side, there is a view that Chinese partners are trying to claim as many resources as possible. On the Chinese side, there is dissatisfaction as it becomes clear that only intangible expertise, not tangible resources, is on offer from the EC.

c. The EC engagement has dealt flexibly with emerging issues such as SARS and avian influenza through small projects. The Social Security Reform project shows that the cooperation programme is also capable of responding to major shifts in GoC strategic priorities, although project implementation delays were a problem here.

Figure 17: Graphic illustration of assessment adapting to change



An overall assessment of the EC programme as well as overall recommendations, both based on the conclusions related to synthetic Evaluation Questions, are to be found in sections 8 and 9 below.

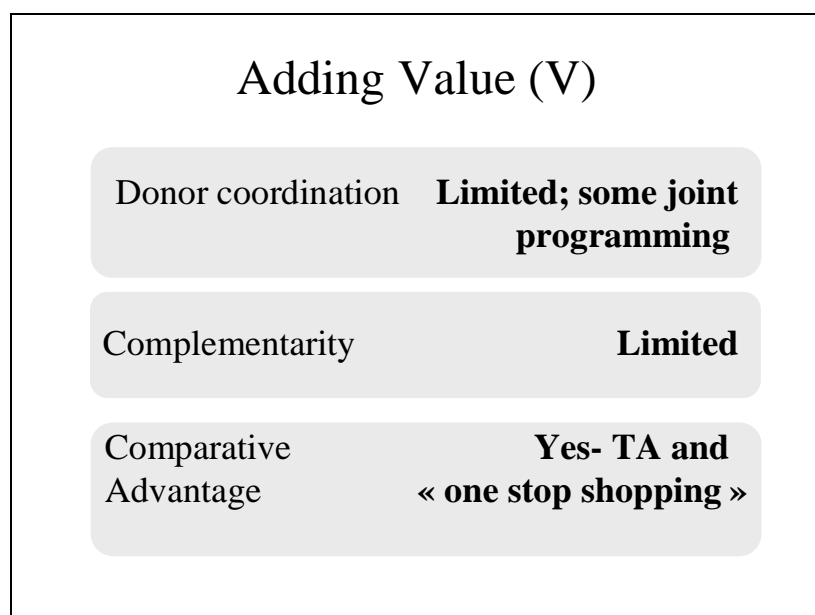
7.3. Adding value (V): -The evaluation response to the Evaluation Question regarding adding value:

To what extent did the EC approach result in progress toward the goal of better integrating China into the world economic, political, and environmental community that would not have occurred absent the EC?

Please refer to Annex 10: Detailed Findings - Adding value (V) for more information

- a. While the EC engages in coordination discussions and participates in the relevant coordination fora in China, its overall impact in terms of value added is small. Information is exchanged, but nonetheless donors continue to compete with each other. This is not a problem unique to China, but may be more serious in China because the GoC has little incentive to insist on coordination, and the commercial advantages at stake represent a strong temptation for donors to compete.
- b. EC strategic planning, as evidenced by the CSP, takes other donors' activities into account, but only in a superficial way by enumerating who is doing what and where. The CSP expresses the view that involvement of more than one MS donor in an area reinforces the European presence, but it is not explained how. There has been some joint programming, notably with UNDP and the World Bank. The CSP recognises the EC's comparative advantage in provision of technical assistance and there are opportunities for linking this to large projects financed by MS agencies or multilateral agencies such as the World Bank and Asian Development Bank. While the EC has successfully exploited its comparative advantage in technical assistance, it has not used these opportunities.
- c. One of the clearest ways in which the EC adds value is in matching its technical expertise and knowledge of best practice to the Chinese ability to provide resources for project implementation.

Figure 18: Graphic illustration of assessment of adding value



8. OVERALL ASSESSMENT

The basic question posed by this evaluation was “What kind of development cooperation programme with China makes sense?” The attempt to answer this question has led the team to review not only development cooperation, but the broader context of EU strategic interests and policy dialogue. In examining eight Evaluation Questions on the basis of agreed Judgement Criteria and Indicators, the EC approach to China is generally rated positively. The following overall conclusions have been elicited from the answers to the EQs presented above. Those that are transferable to other countries are noted.

EC cooperation approach (Overall Conclusion C1)

In answering EQs (M) and (A), the team concluded that the EC cooperation approach to China is relevant to the Chinese policy context and needs and is consistent with long-run EU policy goals. Specific examples were to be found in the sector-by-sector survey, i.e. EQs (T), (S), (E), and (G), where the EC approach in China was found to be providing opportunities (i) to engage in institution-building relating to regulation, legislation, standards, best practices and so forth, with positive (albeit hard to quantify) impacts on EU-China trade and business relations; (ii) to improve China’s capacity to deal with environmental problems, with global impacts as well as with its own emerging social reforms; and (iii) to engage in human rights dialogue and cooperation.

China’s needs regarding good governance (Overall Conclusion C2)

Our answer to EQ (M) stated that, while there have been successes at the level of policy processes and regimes (legislation, standards, and regulations), concrete results have been limited by problems at the level of policy administration, implementation and enforcement. Many of these arise from poor governance, broadly considered. Weaknesses of the judiciary and the blurring of the line between the public sector and private firms are examples. Other problems arise from simple lack of awareness and low capacity, especially at the provincial and local levels.

Meeting of minds on project modalities (Overall Conclusion C3)

As noted in each of the sector-specific EQs and discussed in answering EQ(A), impact and effectiveness have been adversely affected, albeit not fatally, by delays in project implementation. Such delays have tended to occur early in the project cycle, suggesting that the EC and its Chinese partners experience some difficulty in arriving at a meeting of the minds on project goals and modalities.

Cooperation among equals (Overall Conclusion C4) - transferable lesson

Building on C3 above, the team believes that this is mostly a partnership issue. At high levels, the Chinese and European sides share a common language in partnership and the move to a dialogue of equals. At the level of implementation, however, there continues to be friction as European partners insist that only expertise, not money, will be provided, to the frustration of Chinese partners. Taken together, our answers to EQs (A) and (V) indicate that the EC has done well in moving away from traditional development assistance to an engagement in which European depth of expertise can be matched to Chinese depth of financial resources available to implement projects.

Coordination with EU MS (Overall Conclusion C5)

Our answer to EQ (V) stated that coordination between the EC and MSs, and between the EC and multilateral aid organisations, is strong in form but weak in substance. In point of fact, donors in China compete to gain commercial advantage more than they cooperate in the interests of coherence, complementarity, and the efficiency of international cooperation as a whole.

Sector Dialogue (Overall Conclusion C6) - transferable lesson

As discussed in answering EQ (M), internal links between EC sector dialogue and the EC cooperation programme are satisfactory as regards the impact of dialogue on the cooperation programme but much weaker in the other direction. That is to say, based on the answers to EQs (T), (S), (E), and (V), projects generate knowledge, expertise, and networks that are not effectively taken up to the policy and strategic levels. There are individual exceptions, of course, but in general lines of communication between sector experts and project staff run better in one direction than in the other.

Learning from EC supported projects (Overall Conclusion C7) - transferable lesson

In answering EQ (M), it was noted that too many promising pilot projects have not been replicated elsewhere or rolled out to national level; in large part, this is due to the fact that, in China, provincial governments operate much like independent fiefdoms over which central government has little control. Post-implementation project follow-up is weak (although we recognise that steps to address this are being taken in the next NIP).

Addressing Poverty (Overall Conclusion C8)

The EC has explicitly stated in its Country Strategy that it can have no significant direct impact on poverty alleviation in China in the near term. Yet the intervention strategy argues that, over the long term, EC interventions in trade, environment, economic and social reform and governance will combine to reduce poverty. In surveying the sectors, the team found that poverty and the theme of “winners and losers” had been well integrated into environment and governance projects, but not into projects relating to economic and social reform or trade.

Phasing out of development cooperation (Overall Conclusion C 9) - transferable lesson

While the new Communication clearly spells out a new vision for cooperation with China, based more solidly on mutual gains, there is as yet no joint formal thinking about how, in concrete terms, to accelerate the new relationship. How will development cooperation, still substantial according to Figure 6 above, be phased out? Whereas some bilateral partners have an explicit strategy for phasing out assistance, the EC does not. This is closely linked to the partnership issues discussed in answering EQ (A).

Some of the conclusions above are relevant only to China. In the box below, however, the team highlights those that may also be applicable to other countries and summarises the general lessons.

Transferable lessons

Lessons transferable to other similar countries

C7: Learning from EC supported projects (TL1):

In decentralised countries with economically competing sub-national entities, pilot projects are not replicated elsewhere or rolled out to national level, owing to the decentralised governance system of the country.

C9: Phasing out of development cooperation (TL2)

If a country moves outside of the range of development aid, devising a phasing-out strategy takes an extra effort by those in charge of managing the traditional development co-operation. Planning for the end of development cooperation does not emerge naturally from the work plan, it has to be explicitly put on the strategic agenda and then moved to the concrete level of programming and implementation.

Lessons transferable to all other countries:

C6: Sector Dialogues (TL3)

Internal links between EC sector dialogue and the EC cooperation programme are satisfactory as regards the impact of dialogue on the cooperation programme but weaker in the other direction.

C4: Cooperation among equals (TL4)

When the EC reduces traditional development cooperation, the partner country tends to agree at high level on equal partnership principles, but this tends to create frustration with traditional partners at lower levels. Those operating at the strategic level may express satisfaction with the nature and quality of partnership; those involved with implementation may be much more critical.

9. OVERALL RECOMMENDATIONS

The following recommendations are based on the overall assessment conclusions above. They are marked by one, two or three stars, according to the subjective importance that the evaluators attach to them. First steps to take in practice are indicated as far as deemed appropriate, as well as the main addressees of the recommendation.

Also some recommendations for the transferable lessons have been proposed in a similar way.

Continue development cooperation with China (R1)

Priority: ***

Based on Overall Conclusion C1 on the mutual benefits that accrue to China and the EU from development cooperation, use of these instruments should continue. However the trend towards decreased reliance on development cooperation tools, as shown in Figure 6, should continue, and as noted in the final recommendation, the EC and its Chinese partners should start to plan explicitly for the eventual phasing out of development cooperation altogether. In the meantime greater effort should be given to publicising mutual benefits. The EC should expend more effort on outreach and publicity related to its cooperation programme and its benefits to the MS and citizens of Europe.

First possible steps

- R1.1: Encourage an organisational culture, within the EC Delegation and particularly the Cooperation Section, of outreach and communications relating to the cooperation programme. This might inter alia entail reviewing policies that limit document dissemination, reaching out more actively to the European business community through the European Chamber of Commerce in China, involving NGOs in strategic programming discussions, and so on.

Insist on equal partnership (R2)

Priority: ***

Based on Overall Conclusions C3 (project modalities) and C4 (partnership issues), the EC should stress the continuing move away from traditional development cooperation and towards equal partnership. This means maintaining its position that the EC provides expertise, not infrastructure or project operating expenses. With over US\$1 trillion in international reserves, the GoC has no need for financial resources. What it needs is technical assistance to provide international best practice and European policy models, technical assistance in which, as the team has argued, the EC has a unique comparative advantage.

First possible steps

- R2.1: At strategic level, make explicit to Chinese interlocutors that expertise is being matched to resources on a step-by-step basis.
- R2.2: At project level, review the incentive structure for key persons involved (Delegation project managers, international experts, and national project directors). Consider means by which non-monetary incentives (high profile conference participation, training, twinning with European partners, etc.) can be strengthened. In these discussions involve present and past project personnel as well as MoFCOM officials

- R2.3: Disseminate cooperation philosophy and guidelines in the form of a brochure or similar medium in Chinese and English.

Improve knowledge flow from cooperation programme to sector dialogues (R3)

Priority: *

The key to effective sector dialogue, a sine qua non for the consistency of the EC's China engagement with long-run EU policy priorities, has been the strengthening of the EC Delegation by the putting in post of sector experts. As indicated in Overall Conclusion C6, this has resulted in a fruitful flow of information and expertise into the cooperation programme (specifically, projects). However greater effort needs to be made to ensure that knowledge generated in cooperation projects is also taken up at the level of sector dialogue and EC policy formulation.

First possible steps

- R3.1 Review, in terms of organisational structures and information flow, the role and functions of project officers in relation to sector dialogue.
- R3.2 Ensure that project officers' technical skills and expertise are effectively used

Improve replication and roll-out of EC-supported projects (R4)

Priority: ***

Overall Conclusion C7 was that project successes are not often enough replicated elsewhere or nationally implemented. The follow-up to pilot projects is essentially the responsibility of the GoC, not the EC. However more attention should be paid to replication and roll-out during the project formulation and implementation phases. The team recognises the independence of provincial governments, but it might be possible to canvass potential candidates for replication in order to assess their level of interest while the project is being formulated.

First possible steps

- R4.1 In the project planning phase, explicitly consider potential for replication / roll-out, including identification where possible of potential follow-on project sites.
- R4.2 When pilot projects are completed, implement systematic joint evaluations (EC, central government, and provincial government) in order to promote knowledge exchange and increase visibility at all levels
- R4.3 Widely disseminate evaluation results to Chinese stakeholders.

Mainstream good governance (R5)

Priority: ***

In Overall Conclusion C2 we noted that much of the slow pace towards implementation of new policies adopted has to do with governance problems. The team would support the following-up of recent policy formulation successes with programmes designed to improve administration, implementation and enforcement. In order to be successful, however, the team believes that the theme of governance will need to be mainstreamed into all sectors. In addition, the team stresses that governance should be broadly defined to include corporate governance issues, rule of law to the extent that it overlaps with governance (e.g., independent judiciary and, corruption), and so on.

First possible steps

- R5.1 Integrate inputs from governance cooperation projects into the relevant sector dialogues.
- R5.2 Consider what lessons learned from the EUCTP, which flexibly offered TA to many sectors on many aspects of trade, could be applied to the CEPA project, which could serve a similar role for governance.
- R5.3 Assess needs for mainstreaming governance into the cooperation programme and design modalities. As a concrete guide, use the draft Handbook on Governance prepared by the Thematic Network on Governance of EuropeAid.
- R3.4: Set up and staff a governance focal point within the Delegation.

Mainstream poverty and the theme of losers from reform more thoroughly in all sectors. (R6)

Priority: *

Overall Conclusion C8 was that poverty is not well mainstreamed, at least in the economic and social reform and trade sectors. Since the Delegation now has sector expertise in place in poverty-related areas such as the social sector, gender, regional disparities, labour markets, and so on, it should be possible to address this situation and to bring in additional sector expertise if needed.

First possible steps

- R6.1 Create a social sector / poverty focal point in the Delegation.
- R6.2 Coordinate closely with MSs so as to avoid duplication of poverty-focused projects and identify gaps.

Plan for the phasing-out of traditional development cooperation and initiate discussions with the partners (R7)

Priority: ***

Overall Conclusion C9 showed that while cooperation and partnership with China will continue, eventually the development cooperation component, i.e. external assistance, must end. With GDP per capita in China continuing to grow at near-double-digit rates, bilateral development cooperation will soon cease to be an appropriate means of engagement. The new Communication clearly expresses the view that cooperation with China must be more firmly based on mutual benefit. It is not too far from that to extrapolate a situation in which there will be no development assistance component at all in the cooperation programme. Given the observation in Overall Conclusion C9 that there has not been enough concrete planning and discussion of this process, it is urgent to (i) accelerate the planning for this eventuality and (ii) begin a dialogue with the GoC (and other relevant partners as well) about the longer term, post-development cooperation engagement of the EC with China.

First possible steps

- R7.1 Use projects to pave the way towards new instruments, including more emphasis on people-to-people projects, networking, twinning, cultural exchanges, and so on.
- R7.2 In coordination with the European Chamber of Commerce in China, assess needs for promotion and lobbying on behalf of European practices, and possible approaches.
- R7.3 Study the history of EC engagement with other countries that have developed rapidly, for example Japan and Korea. Derive lessons learned.
- R7.4 Design the next round of projects, keeping in mind that the ODA instrument may disappear before the planned project is completed.
- R7.5 Initiate discussion of the development cooperation phase-out strategy with GoC and the MSs, taking care that phasing-out is perceived as evidence of success and of determination to deepen cooperation.

Move from formal coordination to substantive coordination with EU MS and major multinationals(R8)

Priority: **

Overall Conclusion C5, which this recommendation addresses, comes as no surprise – in most countries, response to the Paris Declaration call for improved donor coordination and harmonisation has been less than fully successful. The problem is acute in China, but this is not necessarily because donors are less interested in coordination, but rather because the temptation to seek competitive advantage by not coordinating is stronger. There is no lack of information sharing and discussion, but the amount of actual joint programming and implementation is limited.

First possible steps:

- R8.1 Continue to participate in existing coordination fora such as counsellors' groups.
- R8.2 Pursue opportunities for joint programming, especially project set-ups that exploit the EC's comparative advantage in TA.

In the following text box we attempt to summarise, in narrative fashion, the major recommendations of this evaluation.

At the beginning of this report, indeed at the beginning of this evaluation process, the team posed the question "What kind of partnership and cooperation strategy with China makes sense, now and in the foreseeable future? The team has recommended that such a strategy

- should continue, in the near term, to contain a significant development cooperation component...
- ...while at the same time planning for its eventual transformation into a programme based on other forms of cooperation.

Within that development cooperation programme, the team has recommended

- greater emphasis on governance issues with a view to addressing problems of policy implementation, administration, and enforcement;
- insistence on equal partnership, which implies limiting the EC contribution to expertise and best practice, and stipulating that this EC contribution be matched by adequate financial and other resource contributions by the Chinese partner.

The team has noted that

- poverty issues could be better mainstreamed;
- there is room for improved coordination with other donors;
- foresight in the project design and strategic programming phases, as well as improved post-project evaluation procedures, could improve replication and roll-out of projects, and
- knowledge generated in projects could be better integrated into sector dialogue.

Learning from transferable lessons (R9)

Priority: **

The evaluation has identified four transferable lessons (TL 1-4). The relevant Commission Services could ensure learning and improved quality of development assistance in taking them into account.

Planning and design of projects

Learning from EC supported projects (TL R 1):

In decentralised countries with economically competing sub-national entities, pilot projects are not replicated elsewhere or rolled out to the national level, due to the decentralised governance system of the country.

- EC can improve its impact in those countries by designing special mechanisms for planning and joint assessment of pilot projects with central and sub-national entities, targeted on analysing possibilities for replication and roll-out.

Improve the use of knowledge generated in cooperation projects

Sector Dialogues (TL R 3)

Internal links between EC sector dialogue and the EC cooperation programme are satisfactory as regards the impact of dialogue on the cooperation programme but weaker in the other direction.

Phasing out of development co-operation

Phasing out of development co-operation (TL R 2)

If a country moves outside of the range of development aid, devising a phasing-out strategy takes an extra effort by those in charge of managing the traditional development co-operation. Planning for the end of development cooperation does not emerge naturally from the work plan, it has to be explicitly put on the strategic agenda and then moved to the concrete level of programming and implementation.

- The relevant Commission Services should consider a study on when and how development programmes should be phased out, resulting in operational guidelines.

10. ANNEX 1: SOURCES OF VULNERABILITY – RISING INEQUALITY, WEAKNESSES IN GOVERNANCE, ENVIRONMENTAL DEGRADATION, AND THE NEED FOR HUMAN RESOURCE DEVELOPMENT

The GoC's shift to a more social and environmental policy stance is easily understandable. Any economic growth process featuring such dynamism over a long period of time runs the danger of giving rise to economic imbalances, outpacing social norms and values, and endangering the natural environment. Despite impressive progress and a fluid GoC response to policy challenges as they have emerged, the Chinese economic miracle remains fragile. Reasons include the emergence of serious welfare gaps between the winners and losers from reform; the fact that progress on governance and on institutional and political change has lagged behind economic reform; and serious problems of environmental degradation.

Rising inequality

China's astonishing economic performance is concentrated in a small number of industrial agglomerations in the Coastal Belt. These regions are in general more closely integrated into the global market than they are into the domestic economy. At the same time, they absorb the majority of advanced and highly productive factors of production available to China (i.e. FDI, skilled labour, domestic capital, and even cheap unskilled labour, which is migrating towards the East). The Central Provinces and Western Region hinterlands, drained of these resources, lag and are falling further behind.

Improvements in grain production, as mentioned above, have slowed. This, combined with the traditionally heavy taxation of rural incomes, has widened the urban-rural income gap⁶. Income inequality has climbed to the same levels as 60 years ago, when the People's Army toppled the Guomindang regime. Stark differences in opportunities to participate in the economic development process have become an inter-generational, as well as a geographical issue. Those born in China's countryside or the Western Region today are greatly disadvantaged in comparison to children born in the urban centres of the Coastal Belt.

An unintended by-product of transition has been the weakening of social safety nets. Basic health care was formerly provided in Soviet-style government clinics for the urban population and via the much-praised "barefoot doctor" programme for the rural population. The system was inefficient and offered no consumer choice, but had the advantage of universal coverage and at least appeared to the patient to be free. Today, by contrast, in rural China virtually all health care must be paid for out of pocket, meaning that households may suffer catastrophic loss if a member becomes ill, and insurance coverage for the urban population is patchy at best. There is widespread agreement that China's antiquated state pension system, which never covered more than a fraction of the workforce, is ill-suited to a population that will age at unprecedented speed (due to the one-child policy) and in an economy where labour force flexibility and mobility have become the rule, not the exception. While efforts have been made to re-train workers made redundant by the closing or downsizing of SOEs, there is no comprehensive system of unemployment insurance in China. When an SOE closes, it is not merely plant and equipment that are idle; an entire social support structure, complete with clinics and child-care centres, is shut down, in addition to which retired workers and the about-to-retire are left without pensions.

⁶ See China daily / Xinhua http://www.chinadaily.com.cn/english/doc/2005-09/20/content_479472.htm

Governance

There is no internationally agreed definition of governance. The EC's 2003 Communication (615) on Governance and Development took stock of the evolving governance debate and sought to further elaborate the overall EC approach to governance. One outcome of this process was a new definition of governance (see Box below).

The EC definition of (good) governance

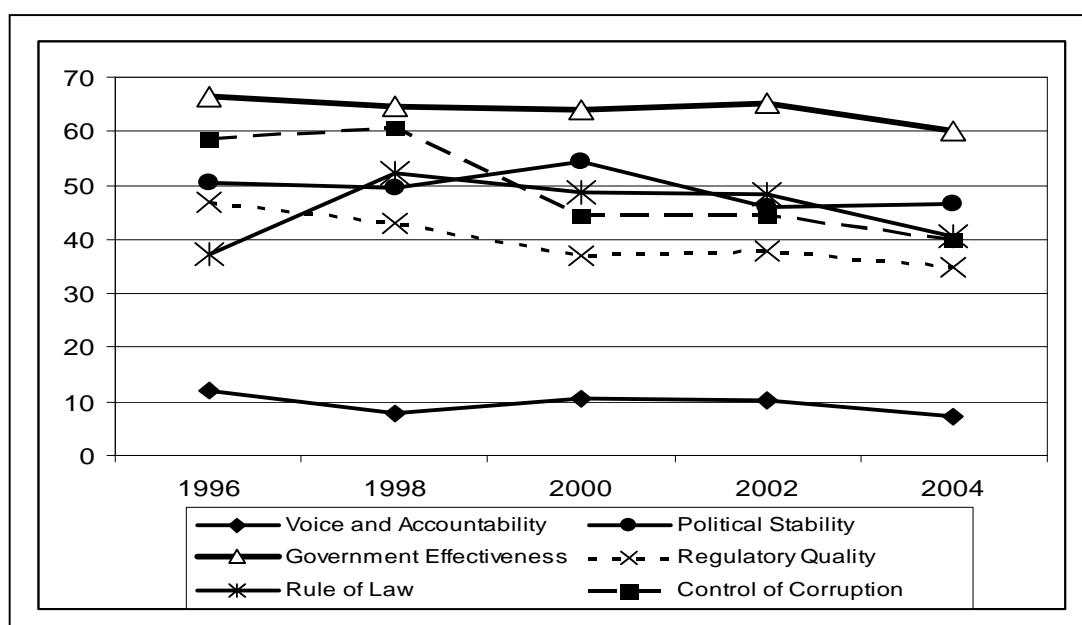
"Governance refers to the rules, processes, and behaviour by which interests are articulated, resources are managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in that context."

The Communication (2003) 615 further specifies that:

- a. "In spite of its open and broad character, governance is a meaningful and practical concept relating to the very basic aspects of the functioning of any society and political and social systems. It can be described as a basic measure of stability and performance".
- b. As the concepts of human rights, democratization and democracy, the rule of law, Civil Society, decentralized power sharing, and sound public administration gain importance and relevance as a society develops into a more sophisticated political system, governance evolves into good governance.

Socio-economic reform in China requires good governance based on dependable legal structures and institutions. Yet, according to indices estimated by the World Bank, all components of good governance in China lagged behind between 1996 and 2004 (see Annex Figure 1). The 2005 OECD report on governance in China⁷ argues that the GoC needs to undertake a comprehensive programme of far-reaching institutional reforms to define the role of the State, improve the management of public spending, and make public action more efficient and effective to ensure sustainable economic growth.

Annex Figure 1: Good governance indicators for China, 1996-2004 (Country's %ile Rank (0-100), World Bank



During the last 10 years, China has realised extensive reforms in its civil service system. Nonetheless, the system is not homogeneous and as the OECD report on Governance in

⁷ China in the global economy – Governance in China, OECD, 2005

China argues, it can be viewed as two systems (i) one performance-oriented in the capital and the coastal areas and (ii) another, not performance-oriented, characterised by indiscipline and corruption.

Rule of law: The rule of law concept was officially adopted in 1997, when the GoC announced that the country would be governed according to law. In March 1999, the National People's Congress wrote the concept of rule of law into China's constitution. The purpose of the rule of law is to prevent government by whim. For example, in 2005, new laws and regulations spelled out explicitly what kinds of religious activities would be permitted.

Legal reform in China is occurring rapidly, covering institutional, administrative civil, economic, social, procedural and criminal law – focusing on the link between legal reform and economic reform. The 16th National Congress of the Party has recognised the importance of rule of law for the well-being of society, confirming the commitment of China to improving the rule of law throughout the country. Generally there are positive trends: an increasing number of judges and prosecutors and of cases filed and handled. The criminal procedure law and the criminal law will be revised shortly. Just recently China has announced that it will amend its capital punishment law. And very recently a senior Chinese official has made a rare admission about the extent to which torture is used to obtain convictions in China's courts, with ruinous impact on the quality of justice. The Deputy Procurator General said that at least 30 wrong verdicts were handed down in serious cases each year because torture had been used⁸.

In the late 1970s, there were no more than a couple of hundred practising lawyers in China. Now there is a new generation of hundreds of thousands of legally trained professionals, including over 110,000 practising lawyers.⁹ In 2002, the Minister of Justice of China reported that after 7 years development, China had built 2,156 legal aid centres that were staffed by 7,000 full-time legal professionals. In 1979, there were 58,000 people working in the courts in China; in 2002 there were approximately 310,000 people working in the various courts. Over 210,000 of these were judges and the vast majority of the judges had received at least college level training in law.

Still, important court decisions are not available to the public, and the law-making process lacks public participation. In addition, citizens have limited confidence in the legal judiciary system and losers from reform (minorities, poor etc) have limited access to a fair and transparent justice system.

Human rights: In March 2004 China amended its constitution to read: "The State respects and protects human rights." Progress has been made in some areas. For example, whereas persons could previously be sentenced to so-called "re-education through labour" by a simple administrative procedure, a legal decision is now required. All death penalty case reviews are now under the purview of the Supreme Court. Perhaps most importantly, the term "human rights" has now made its way into common discourse in China.

However, in addition to persistent issues such as the death penalty, new human rights issues have emerged. China has a system of internet censorship¹⁰, in addition to which tradi-

⁸ See either Xinhua (Newstext ID: XIN-0001-12130688) or Le Monde: http://www.lemonde.fr/cgi-bin/ACHATS/acheter.cgi?offre=ARCHIVES&type_item=ART_ARCH_30J&objet_id=966769

⁹ China-OHCHR National Workshop for judges and lawyer, 2002. Judicial and legal training in China – Current status of professional development and topics o human rights, Vincent Cheng Yang, Ph.D, August 2002, Judicial and Legal Training in China

¹⁰ http://www.economist.com/world/displaystory.cfm?story_id=6850080 and

tional media (radio, television, newspapers, and magazines) are tightly regulated¹¹. China has yet to take action on a number of important international human rights covenants.

Annex Table 1: China's Accession to Major International Human Rights Treaties

China's Accession to Major International Human Rights Treaties	
CAT-Convention Against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment	Ratification
CAT-OP-Optional Protocol to the Convention Against Torture and Cruel Inhuman or Degrading Treatment or Punishment	No action
CCPR-International Covenant on Civil and Political Rights	Signature 05/10/98
CCPR-OP1-Optional Protocol to the International Covenant on Civil and Political Rights	No action
CCPR-OP2-DP-Second Optional Protocol to the International Covenant on Civil and Political Rights	No action
CEDAW-Convention on the Elimination of All Forms of Discrimination against Women	Ratification
CEDAW-OP-Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women	No action
CERD-International Convention on the Elimination of All Forms of Racial Discrimination	Accession
CESCR-International Covenant on Economic, Social and Cultural Rights	Ratification
CMW-International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families	No action
CRC-Convention on the Rights of the Child	Ratification
CRC-OP-AC-Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict	Signature 15/03/2001
CRC-OP-SC-Optional Protocol to the Convention on the Rights of the Child on the sale of children child prostitution and child pornography	Ratification

Civil Society: In many areas, the environment for example, any solution to current problems must include a strong role for independent Civil Society. Chinese authorities, however, remain suspicious of Civil Society Organisations (CSOs). In order to be legal, CSOs must establish a relationship with a "mother-in-law", government-approved organisation. Nonetheless, since 2003 the role of CSOs is receiving more and more attention in China. The 16th CPC Central Committee adopted a policy aimed at promoting the development of NGOs. The Government also explicitly recognised the role of NGOs in a reformed Chinese society. The objectives for the Government's 2005 Work Plan include strengthening participation, democracy and the legal system and the President has repeatedly emphasized the need of "putting people first" and "governing for the sake of the people". The number of CSOs has increased rapidly; around 800,000 are now operating in health care, environmental protection, education, human rights protection and other areas of social economic development. But despite the rapid growth of CSOs, public awareness of their role is low, as is public trust.

Chinese development aid and human rights concerns: China itself has become a major donor, especially in Africa. China's elevation to the role of donor country has not been without controversy. In countries such as Sudan, Zimbabwe, and Nigeria, China's willingness to provide hands-off assistance has led to concern among other donors.

Just recently, Beijing has offered US\$3bn in preferential loans and US\$2bn in export credits over the next three years. It plans to more than double the tax-free import of goods from Africa. China will train 15,000 African professionals and set up a development fund to help build schools and hospitals. China's drive to buy African oil and other commodities has led to a big increase in two-way trade, worth US\$42bn in 2005¹². China is increasing its economic and political ties with Africa because its booming economy has developed a tremendous appetite for raw materials, such as Nigerian and Sudanese oil. Yet critics of its grow-

¹¹ http://news.xinhuanet.com/english/2006-09/10/content_5072495.htm

¹² BBC News, 04/11/2006, <http://news.bbc.co.uk/2/hi/asia-pacific/6115870.stm>

ing presence in Africa are unhappy that, unlike loans from the US and global institutions such as the International Monetary Fund, China's cash offers do not come with democracy or human rights ties. In particular, they point to China's support for the Sudanese government, strongly criticised internationally because of the violence in Sudan's Darfur region.

Environmental degradation

The Chinese government recognises that increasing air and water pollution, in addition to deforestation, biodiversity loss, desertification, and mismanagement of river basins threaten China's economic development. China is soon to become the world's largest emitter of carbon dioxide, urban environmental pollution has reached crisis proportions, land degradation and deforestation cause substantial losses in rural productivity, and toxic chemical spills are common. According to the State Environmental Protection Agency (SEPA), which was endowed with enhanced powers in 1998, environmental problems are costing China about 3% of its GDP; World Bank estimates are in the range of 8-12%.

Water scarcity and pollution: Urbanisation and industrial growth are fuelling a rapid increase in demand for water in China. There is a marked geographical gradient: Northern China is short of water, whereas Southern China suffers from floods. This has led to huge infrastructure projects to divert Yangtze River water from south to north. As illustrated in November 2005 by a chemical plant blast in the North-East province of Jilin that released 100 tons of toxic benzene and nitrobenzene into the Songhua River, China's rivers are gravely polluted. Since that time, there have been over seventy registered water pollution incidents. While toxic spills make the headlines, the primary factor contributing to water pollution in China is simply discharge of untreated industrial and domestic wastewater into rivers. SEPA, in its 2003 annual report, announced that 70% of the water in five major rivers was not even safe for human contact, let alone consumption.

Air pollution: Another pressing environmental issue, after water, is air pollution. The major cause is the burning of coal, which provides the country with three quarters of its energy needs. Sixteen of the world's twenty most polluted cities are in China and 70% of Chinese cities do not meet World Health Organisation (WHO) air pollution standards, exposing the urban Chinese population to unhealthy levels of air pollution, which has been estimated to lead to 300,000 additional deaths per year. Recent statistics have shown that over half of 88 monitored Chinese cities exceeded World Health Organisation (WHO) safety levels for sulphur dioxide, and practically all exceeded the guidelines for suspended particulate matter. Acid rain is estimated to affect 40% of the arable land and cause (according to the World Bank) crop losses of US\$5bn per year.

Deforestation and desertification: Economic growth has led to galloping demand for pulp, paper, and construction wood. In the mid-1990s, 25 of 140 regional forest management bureaus reported that their forest resources were entirely depleted and another 61 reported that trees were being felled at an unsustainable rate. Deforestation, by increasing runoff, leads to siltation of river channels and consequent flooding; it is also a prime offender in desertification, which has sharply increased. Deforestation and desertification are also major threats to China's biodiversity protection efforts.

Chemical Accidents: Weak enforcement of environmental laws and standards is partly to blame for the 150 serious environmental accidents involving hazardous substances that have occurred over the last twelve months. In November 2005 hundred tonnes of toxic chemicals spilled into Songhua River, Jilin Province, compelling officials to cut off water supplies to millions of affected people downstream.

Climate Change: Climate change has become an area of growing importance for the environment in China and beyond. Publicly available data on GHG (Greenhouse Gas) emis-

sions are not up-to-date for comparison purposes. Currently, 2004 data are scheduled for release. China's industry emitted 2,290 Mt-CO₂ in 2003, accounting for 60.9% of the nation's total CO₂ emissions. Although energy efficiency in industry has improved a lot in the two most recent decades, it is still far behind the world's best practice. The energy intensity of main industrial products in China is much higher than that of developed countries, when measured in energy use per unit of physical output. Comparisons between various Chinese plants indicate huge potentials for energy efficiency improvement and subsequent reduction in CO₂.

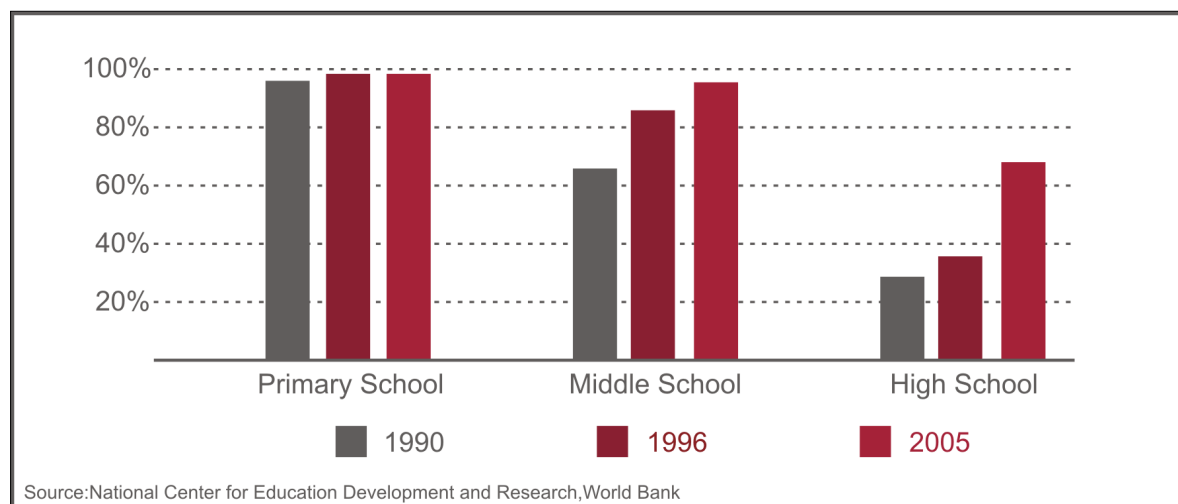
The government has adopted mainly administrative methods to limit the utilization of outdated production processes and shut down inefficient small-scaled enterprises. The effectiveness of such government orders is mixed. If China were to meet its medium to long-term energy conservation target by 2020, it would avoid the emission of some 3.4 Giga tonsCO₂ between 2003 and 2020.

Human resource development

China has an enormous labour force, but levels of training are low compared to what is needed to compete effectively in the global economy.

Comprehensive programmes have enabled China to achieve the main goal of universal enrolment in basic education. Statistics show that nine-year compulsory education covers about 95% of the relevant age group. The fifth national census carried out in 2000 shows that illiterate population of above 15 years has significantly decreased, while the rate of adult illiteracy has dropped to about 9%.

Annex Figure 2: Basic Education Enrolment, China, 1990-2005



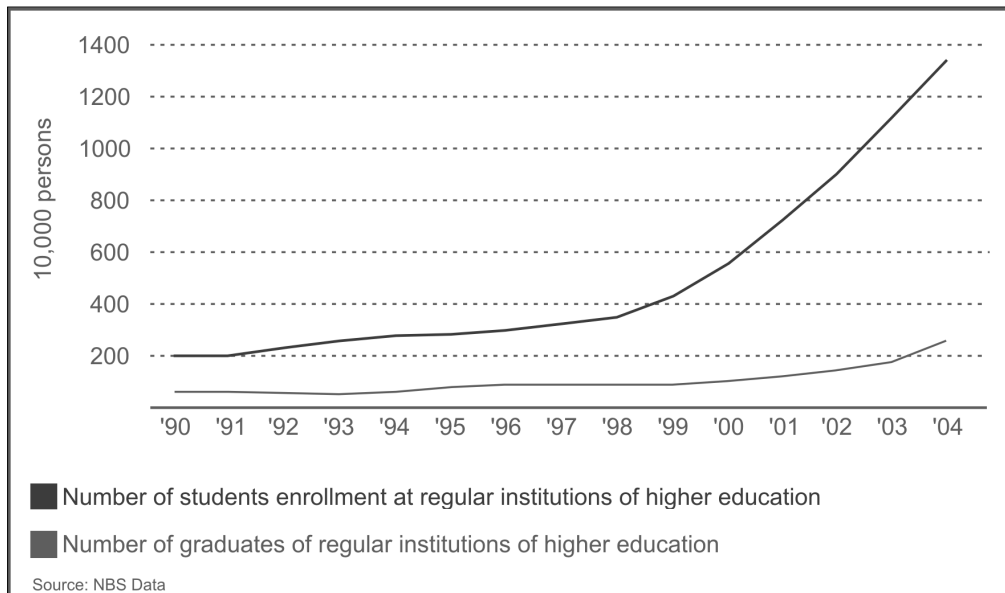
Although the main objectives have been reached, some problems still remain. Disparities are still found between rural and urban areas and between Eastern and Western provinces. Further development will have to shift from a quantitative to a qualitative focus in order to reach all rural groups and enhance the quality of education.

The Chinese education system, and especially that of higher education, is based on a non-egalitarian principle. The majority of institutions provide rather low quality education, while a few "lighthouse" institutions are in the same league as major European and American institutions. As a result the rising demand for highly qualified engineers as well as management personnel cannot be met. Most graduates have only basic skills and are not fully trained to satisfy the demands of an increasingly internationalized corporate sector.

The qualitative enhancement of higher education is put forward by the EC and China as a key condition for China's long-term economic success in the international market. Despite several reforms, higher education is mostly still oriented to theory. As a result, most students and young professionals lack practical skills.

In the course of reform initiated by the Chinese government, all parts of higher education have been significantly enhanced. Excellence programmes were launched in order to create a number of top universities throughout the country. Total enrolment rates have been rising since 1999 and demand for higher education remains high.

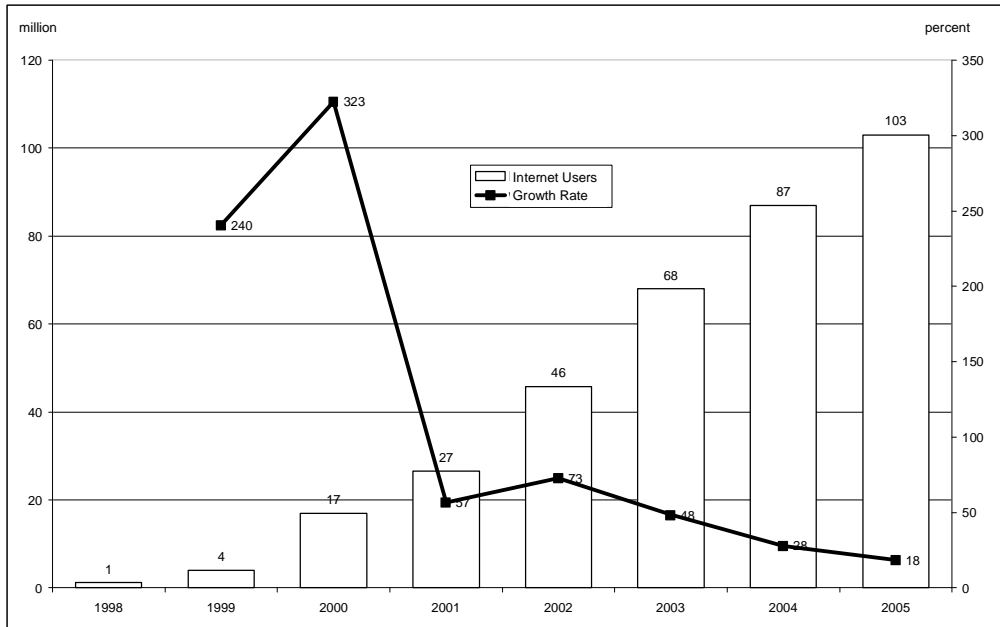
Annex Figure 3: Enrolment at Institutions of Higher Education, China, 1990-2004



Human resource development is closely related to the integration of China into the global information society, reducing the "digital divide".

In recent years China has experienced an impressive growth in Internet distribution. Although growth rates have slowed, the absolute number of Internet users in China is still increasing by around 20 million per year. Today Internet development has reached a new stage with the major cities already saturated with Internet access possibilities and the smaller cities in all provinces currently catching up. This leads to an overall narrowing of the earlier digital divide. Even so, the regulatory environment of the Information Society landscape needs to be improved in order to achieve an even distribution of access to knowledge among all parts of the population.

Annex Figure 4: Number of Internet Users, China, 1998-2005



Source: China Internet Network Information Centre (CNNIC)

11. ANNEX 2: OBJECTIVES AND PRIORITIES AT GLOBAL LEVEL

Article 177 of the Amsterdam Treaty, which entered into force on 1 May 1999, defines the EU development policy priorities as follows:

Sustainable economic and social development in favour of developing countries, with a particular emphasis on the most disadvantaged countries.

- Progressive and harmonious integration of developing countries in the world economy.
- Fighting poverty in developing countries.

The Declaration of 20 November 2000 on the European Community's development policy expresses the Council's and the Commission's intent to reaffirm the Community's solidarity with developing countries, in the framework of a partnership which respects human rights, democratic principles, the rule of law and the sound management of public affairs. The principal aim of the Community's development policy is to reduce poverty with a view to its eventual eradication.

The Declaration emphasises that community activities should be focused on six areas:

- Link between trade and development;
- Regional integration and co-operation;
- Support for macroeconomic policies and promotion of equitable access to social services;
- Transport;
- Food security and sustainable rural development;
- Enhanced institutional capacity-building.

Horizontal issues such as human rights, equality between men and women, children's rights and protection of the environment must be incorporated in all aspects of development co-operation. Conflict prevention and crisis management also require systematic attention.

It has to be noted that the main legal framework for relations with China remains the "1985 EC-China Trade and Co-operation Agreement". This agreement, which replaced an earlier version of 1978, covers economic and trade relations, as well as the EU-China co-operation programme. It was complemented in 1994 and 2002 by exchanges of letters establishing a broad EU-China political dialogue. The principle of negotiating a new and extended Partnership and Co-operation Agreement has recently been agreed.

In July 2005, the Commission issued a proposal for a joint declaration by the Council, the European Parliament and the Commission on the EU's Development Policy "The European Consensus"¹³. The proposal reiterates the commitment to placing poverty reduction as the overarching objective and highlights the importance of the MDGs. Increased emphasis is placed on promoting governance and ensuring that globalisation benefits all and incorporates a strong social dimension.

¹³ Communication from the Commission. COM(2005) 311, Brussels 13 July 2005

The emphasis on poverty reduction must be qualified in the case of the EC's cooperation with China. GoC resources are enormous compared to the development cooperation programme, not only of the EC, but of all the international development partners combined. The sheer size and economic power of China have led the EC to recognize that it has no comparative advantage in directly financing poverty reduction in that country. Rather, the EC states (in its most recent CSP) that actions to promote sustainable social and economic development, including the environmental dimension; to encourage an open society respecting human rights and based on the rule of law; and to integrate China into the world trade system and the global community more generally; will all ultimately result in progress against poverty. One of the points of current discussion between the GoC and the international development partners is that China can easily afford to spend more on health, education and other social sectors with large poverty reduction potential. Not only would this promote equity, but the rise in GoC expenditure would also contribute to reducing international macroeconomic imbalances.

I. Asia level cooperation

The EC's economic and development co-operation with countries in Asia and Latin America is governed by a Regulation, commonly known as the ALA Regulation¹⁴. It is on the legal basis of this Regulation that EC assistance is provided to Asia and Latin America.

The EC's first strategy for the Asian region was published in 1994 and entitled *Towards a New Asia Strategy*¹⁵. It was a first effort to take an integrated and balanced view of the relations between the EU and its Asian partners. The 1994 Asia Strategy provided the impetus for establishing regional programmes that also included China. Perhaps the most well known programme is ASIA INVEST, which became operational in 1997 (the second phase commenced in 2003) and seeks to promote trade and investment between Asia and the EU. China consistently accounts for 25-30% of the overall ASIA INVEST budget. China has also been included in other Asia-wide initiatives such as ASIA URBS (promoting cooperation between local authorities), ASIA LINK (promoting networking between universities), ASIA PRO ECO (promoting environmental partnerships) and ASIA IC&T (promoting cooperation in the field of information and communications technology).

An assessment of the 1994 strategy and resulting programmes concluded that more needed to be done to recognise the diversity of the region. The EC's Asia Strategy was updated in 2001 with the communication *Europe and Asia: a Strategic Framework for Enhanced Partnerships*¹⁶, which emphasised that the sub-regions of Asia have different needs and thus require approaches that take account of the geographical context. The 2001 strategy seeks to deepen and broaden political dialogue, enhance bilateral trade and investment relations, strengthen cooperation in the WTO, and ensure that the aid programmes achieve their full potential. Also important for the EC is the need to raise its political presence to a level commensurate with the growing global weight of an enlarged EU.

The 2001 document is still valid as the overall strategy for Asia, but in 2004 the EC published its *Strategy Paper and Indicative Programme for Multi-country Programmes in Asia 2005-2006*¹⁷, which - as the title suggests - deals with cooperation programmes covering more than one Asian country. This is the first Regional Strategy Paper (RSP) at cooperation level, and it calls for a phasing out of programmes not corresponding to the priorities laid out in the

¹⁴ http://europa.eu.int/comm/external_relations/mongolia/intro/ala_2003.pdf

¹⁵ http://europa.eu.int/comm/external_relations/asem/asem_process/com94.htm#0

¹⁶ http://europa.eu.int/comm/external_relations/asia/doc/com01_469_en.pdf

¹⁷ http://europa.eu.int/comm/external_relations/asia/rsp/index.htm

RSP. As a consequence, ASIA URBS and ASIA IC&T will probably not continue as distinct programmes. Other changes foreseen are that from the end of 2006, ASIA PRO ECO may be merged with ASIA INVEST and ASIA LINK be merged with the global academic exchange programme ERASMUS MUNDUS.

II. Regional level

In 1996, the Asia-Europe Meeting (ASEM), an informal process of dialogue and cooperation, was initiated. Twenty-five EU Member States, the EC and thirteen Asian countries (Brunei, Burma/Myanmar, China, Cambodia, Indonesia, Japan, South Korea, Malaysia, Laos, the Philippines, Singapore, Thailand, and Vietnam) participate in the process.

The ASEM process consists of three main pillars: (i) the political pillar, (ii) the economic pillar and (iii) the social, cultural, and intellectual pillar. Political dialogue is a key element. ASEM meetings at the level of Heads of State and Government, as well as at Foreign Minister level, provide a forum for Asian and European countries to discuss major global issues such as terrorism, weapons of mass destruction, international migration, global environment, human rights, and the impact of globalisation.

The ASEM dialogue has given rise to several smaller forums and dialogues, among them the Asia-Europe Business Forum (AEBF) and the Asia-Europe Foundation (ASEF), which is the central institution of the ASEM social, cultural and intellectual pillar. Asia-Europe higher education exchanges are carried out through ASEM DUO and the general ERASMUS MUNDUS Programme, and the specific Asian Erasmus Mundus windows.

12. ANNEX 3: DETAILED FINDINGS – CONTRIBUTION TO INTERNATIONAL ECONOMIC INTEGRATION

To what extent has the EC approach contributed to integrating China into the world economy?

I. Background and Rationale of EQ (T)

A central strategic goal of the EC's engagement with China is to help China to become a reliable and constructive partner in international trade. China's progress should be interpreted not so much in a statistical sense – clearly in terms of the share of world trade China has made huge strides over the last two decades – but in terms of adherence to the rules and best practices of international trade. The principal focus of the question is on the extent to which the EC, through sector dialogues and trade-related technical assistance (TA) programmes, has contributed to China's compliance with its commitments – and with the spirit of those commitments – as a new member of the WTO. These commitments are spelt out in the various WTO agreements – for example the GATT, GATS (General Agreement on Trade in Services), the agreements related to SPS (Sanitary and Phytosanitary Standards), TRIMs (Trade-related Investment Measures) and TRIPs (Trade-related Intellectual Property) – and made more explicit in the EU-China agreement on China's WTO accession.

EQ (T) is approached by means of two “double-barrelled” judgement criteria, the first part asking whether progress has been made and the second whether the EC contributed via

sector dialogues and the cooperation programme. The first concerns WTO requirements related to trade in goods and services; the second focuses on IPRs. It is realised that it is not possible to artificially separate IPRs from WTO issues, but they have formed such a large and well-publicised component of international concerns over China's WTO implementation that these are addressed in a separate judgement criterion.

II. Contribution of EC sector dialogues and the EC cooperation programme to implementation by GoC of WTO requirements related to trade in goods and services.

WTO rules on trade in goods and services cover tariffs, non-tariff barriers (NTBs) such as standards and so-called technical barriers to trade (TBTs), export subsidies, foreign trade monopolies, and quotas. Key sources for tracking the progress of China's implementation of WTO engagements in these areas are the submissions and reports made under the Transitional Review Mechanism of the WTO, as well as the WTO's Trade Policy Review. Also covered by WTO are measures aimed at limiting foreign investment (Trade Related Investment Measures or TRIMs) and respect for IPRs (covered below).

The most relevant EC interventions (as regards this judgement criteria T1), in addition to the various sector dialogues put in place, are the two trade-related TA projects Framework Programme for EU Support to China's Accession to the WTO (ALA 98-03), more familiarly known as "WTO1", and the successor EU-China Trade Programme (Asia/2002/002-469) or "EUCTP." These projects, particularly their support for sector dialogues, have been analysed in a Special Focus section in annex 2 of volume 2.

WTO1 had as objectives support for accession to WTO through capacity-building, gathering and analysis of information, and networking across sectors. Activities included research studies, seminars, study tours, internships, and qualification courses for specialised personnel. Implementation was significantly delayed, although project design was flexible enough to allow the project to adapt successfully. The project's final evaluation (January 2004) took a positive view of its results, including an undoubted increase in MoFCOM capacity, but argued that organisational and design shortcomings – inadequate staffing of the PMU, cumbersome tendering procedures, and poor communication between the PMU and MoFCOM -- limited the project's efficiency (i.e. more could have been achieved with the resources expended).

The follow-on EUCTP Project, which began in 2004 and will run through 2009, focuses on six areas: Customs and Import/Export Regulatory System; Agriculture and Agro-Food; TBTs and Sanitary and Phytosanitary Standards (SPS); Trade in Services; Legislative and Legal Aspects of Domestic Implementation (horizontal theme); and Transparency, Cooperation, and Policy Development (horizontal theme). The project is described by many as a "rapid response force" able to respond quickly to requests for technical assistance arising on the Chinese side. The first months of the project were characterised by misunderstandings and disagreements between the beneficiary ministry (MoFCOM) and the project; these difficulties were, however, ironed out and the project is now functioning normally.

Less directly connected to trade, but nonetheless making a significant contribution, are the EU-China Financial Services Project, the work of which on regulation is partly related to imports of financial services, and the Information Society Project, which contains components related to standards and regulatory regimes affecting trade in ICT equipment and telecommunications services. Both of these projects are examined in more detail in the section pertaining to EQ(S), social and economic reform.

Tariffs represent perhaps the most straightforward aspect of WTO compliance, and all agree that China has made satisfactory progress in this area, with the exception of a few contentious issues. Import duties have come down from an average of 15.6% in 2001, just before China acceded to the WTO, to 9.7% in 2005. The remaining tariff issue causing the greatest friction between the EU and China is in the area of automobiles and automotive parts. The Economics and Trade Working Group, created in 1985, set up a number of ad hoc Working Groups to address tariff issues; in addition, the Industrial Policy sector dialogue (created October 2003) includes Working Groups on textiles, automobiles, and metals. Many of the general WTO1 training, awareness raising and capacity-building activities of WTO1 were concerned with tariffs.

Subsidies affecting trade can take the form of preferential tax treatment, subsidised and non-performing loans from state-owned banks; below-market value costs for utilities, energy, land, and other infrastructure; and domestic input requirements. China is committed to eliminating all subsidies prohibited under Article 3 of the WTO Agreement. Yet international partners complain that many subsidies remain in place. With respect to taxes, for example new tax laws result in pro forma equal treatment of all economic subjects, but low tax collection in certain enterprises (which is nearly impossible to monitor from the outside) constitutes a de facto subsidy. A number of investigations, roughly half of which established the existence of dumping and led to anti-dumping duties (e.g., footwear), have been launched by the EC in recent years. Several WTO1 seminars dealt specifically with dumping, as did one EUCTP seminar. However, the continuation of anti-dumping appeals suggests that EC cooperation has made limited progress on this front. There continues to be disagreement between China and the EC over whether Chinese authorities are accurately reporting export subsidy programmes to the WTO as required.

Quotas affecting trade appear to be a problem of diminishing significance. Import quotas were discontinued at the end of 2004 and import prohibitions and licensing procedures have been reduced. However, tariff-quotas and state trading remain in force in some areas related to agricultural products and fertilizers. A Textile Trade sector dialogue was introduced in May 2004 in the context of the phase-out of export quotas. The EUCTP does not appear to have made any specific contribution in the area of import quotas. The posting to the EC Delegation of an official seconded from DG AGRI will facilitate discussions in the area of state agricultural pricing and tariff-quotas. This posting, in recognition of the fact that agriculture has become a major issue in the EU-China trade dialogue, is a major step in the EC's engagement on trade issues with China. It marks a significant change in the EC's approach towards rural and agricultural development, namely a refocusing from rural poverty towards agricultural system-wide evolution.

All evidence indicates that the major European concerns in the area of imports of goods have to do with NTBs, especially standards. While all countries use standards for protectionist purposes, China does so more than most. It was estimated that in 2005 about one-third of the standards, the same as in 2002, were consistent with international practice.

In the area of SPS, problems have been noted in the following areas: protocol negotiations with Member States (not fully implemented), approval of establishments (China insists on approving them one by one), temporary import restrictions and public health measures (over-restrictive relative to international practice; cumbersome to lift), and burdensome and inconsistent application of requirements (which are higher for imported than domestic products; inconsistency across ministries, across border crossing points between State and provincial levels, between provinces).

In the area of technical barriers to trade (TBTs), specific areas in dispute include:

- China, on grounds of safety, health and environmental concerns, filed a great many standards on car imports rather than opting for harmonisation under the United Nations Economic Commission for Europe (UN ECE) 1958 Agreement on Motor Vehicles. While many of these standards are close to those of the ECE Agreement, the small differences may impose a major cost on car producers and effectively serve as a NTB.
- In ICT, China continues to develop national standards even when accepted international ones exist. The 11th Five Year Plan includes development of indigenous standards as a component of its innovation focus.
- In pharmaceuticals, China continues to apply tougher standards to imported active pharmaceutical ingredients than it does to domestic producers. Similarly, imported cosmetic products are subject to registration and certification procedures from which domestic manufactures are exempt.
- The CCC or China Compulsory Certification (CCC) requirement is a significant source of friction. Concerns expressed under the Transitional Review Mechanism are: uncertain application of national treatment (i.e. non-transparent exemption procedures), the list of products subject to CCC (i.e. even low-risk products are subject), certification requirements for parts even when the assembled whole will be certified in China, confidentiality of sensitive information, double certification by different bodies, and demands for factory inspections. The latter must be arranged and paid for by the exporting firm, effectively squeezing SMEs out of the market.

A cross-cutting concern is the complexity of the standards system in China. There are 75 offices writing industrial standards, while the SPS regime and inspection procedures are highly non-transparent.

As NTBs have assumed growing importance, there has been an expansion in the involvement of the EC in addressing the issue. The Sector Dialogue on Industrial Products and Technical Barriers to Trade (created October 2001) has a horizontal Working Group on Standards and a horizontal Working Group on TBT and Conformity, in addition to nine sectoral Working Groups in areas from cosmetics to automobiles. There is also a Sector Dialogue on SPS initiated in October 2004. A wide range of WTO1 and EUCTP activities supported European policy objectives in the area of SPS (see WTO1 / EUCTP Special Focus in annex 2 of volume 2).

There have been some high-profile successes in promoting European approaches to standards. The Chinese adoption of European auto-emission standards is widely credited to EC cooperation in the form of the Vehicle Emissions Project. China is also in the process of conforming to the Restrictions on the Use of Certain Hazardous Substances (RoHS) and Waste of Electronic and Electrical Equipment (WEEE) standards. In the context of the Information Society Sector Dialogue of April 2004, various memoranda of understanding have included promises to promote cooperation in the development of commonly agreed standards and cooperation on certification.

A major component of the EC's approach to helping China meet its WTO obligations has been bolstering the capacity of the EC Delegation. New experts and seconded officials have been put in place in the areas of agriculture, standards, ICT / information society, and

environment (in addition to IPRs, discussed below). Very roughly speaking, the addition of this extra staff may have doubled the capacity of the Trade and Economic Section to support TA projects, discuss issues with GoC counterparts, and pass information on the situation back to Brussels. Non-Delegation experts interviewed particularly appreciated the presence of specialists as opposed to generalists, a trend which has upgraded the quality of discussions with GoC experts.

Trade in services is as important a concern for Europe as trade in goods. It is important to note, at the outset, that China's commitments to open services markets were relatively ambitious, covering 9 out of 12 large sectors in the General Agreement on Trade in Services (GATS). Liberalisation of the services sector has been slower than for other sectors, yet there have been some areas of success.

One of these is the financial services area. Restrictions on the operations of foreign banks and insurance companies have declined gradually over time and by mid-2005 there were 225 licensed banks operating in China. In November 2006, China issued landmark regulations purporting to remove all WTO-inconsistent limits on the entry of foreign banks into the Chinese market. Industry response was muted. Local incorporation rules and other bureaucratic hurdles appear designed to soften the competitive blow to Chinese banks, but capital requirements were set far lower than foreign bankers had feared. International bankers admitted that they had been consulted throughout the process and that the resulting requirements for operating in China were less onerous than they had feared.

Various rules continue to restrict the presence of foreign insurers. Foreign non-life insurers were permitted to establish wholly-owned subsidiaries as of December 2003, but foreign life insurers are still restricted to 50% stakes in joint ventures and there is a ceiling on equity stakes in domestic firms.

EU sector experts are disappointed with the slow pace of progress in the area of telecommunications services, where China's WTO commitments include setting up of an independent regulator, adoption of transparent policies and regulations, adoption of the principle of national treatment, and equal access to the radio spectrum. The telecommunications regulatory agency, the Ministry of Information Industries (MII), has close links to the domestic industry, and whereas some 18,000 telecommunications licenses were awarded to national companies, only five have been granted to international companies.

European construction industry experts report that barriers to foreign participation in the Chinese market have actually increased since WTO accession. Access to government procurement in services (especially construction) is another issue (WTO Trade Policy Review 26/06/06, Summary, Para. 13). The Law on Government Procurement stipulates that procurement should further state goals. China is currently an observer to the WTO Government Procurement Agreement (GPA). Trade in services is covered by a number of sector dialogues, including Government Procurement (initiated November 2005), Information Society, and Trade Policy (initiated June 2004).

The EC Delegation has officials dedicated both to financial and non-financial services, as well as a seconded official who is an expert in ICT / information society. EUCTP has provided policy advice in the area of services with studies related to regulation of the construction industry, the outsourcing of ICT services, and liberalisation of the retail sector (see WTO1 / EUCTP Special Focus). In each case, the emphasis was on sharing European approach and experiences. The EC Financial Services Project (FSP) was focused more on regulatory reform than liberalising import barriers, but invariably the progress made on regulation had positive benefits for European firms wishing to compete in the Chinese market.

The Information Society Project is providing policy support related to telecommunications regulation.

- III. Contribution of EC sector dialogues and the EC cooperation programme to implementation by GoC of WTO requirements related to trade in goods and services.

No issue has led to deeper disagreements, or had such a high public profile, as intellectual property rights, covering patents, counterfeiting and copyright. On the Chinese side, it is pointed out that the concept of IPRs is only 20-25 years old in China, that WTO-consistent legislation covering all aspects of IPRs has been in place as part of WTO accession and that the number of prosecutions for IPR violations is rising. Yet international partners characterise IPR violations in China as almost uncontrolled and a major disincentive to becoming involved in the Chinese market. Poor enforcement of IPR rules was a recurrent key issue in the 102 contributions of interested parties to the public consultation launched by DG Trade in May 2006 as part of the strategic review of EU-China trade and economic relations in the context of drafting the new Communication.

The EC has a sector dialogue on IPR (initiated October 2003) and a Working Group. A major project, the EU-China Intellectual Property Rights Project (IPR1), was agreed on in 1996; implementation began in March 1999 and ended in October 2000. The overall goal was to facilitate trade by promoting internationally-accepted standards of IPR protection; the specific objective was to support the GoC's effort to develop a system of IPR protection. Horizontal components were legislative support, training of judges and lawyers, administrative enforcement, border enforcement, public awareness, support for universities and research institutions, technology transfer, and international elements. A follow-on project ("IPR2") is starting, and the EUCTP has filled the gap between the projects with a number of activities related to intellectual property. The EC Delegation in Beijing has been strengthened by the recruitment of an IPR specialist from the European Patent Office.

In its communications under the Transitional Review Mechanism, the EC has noted progress on a number of fronts. Recent advances include adoption in March 2006 of the National Action Plan on IPR including measures to fight counterfeiting and piracy, adoption in January 2006 of regulations to improve cooperation between bodies in charge of IPR enforcement and police and prosecutors, free access online to a trademark database, and publication of judicial decisions on a website. A Memorandum of Understanding was signed in June 2006 between three large retail markets in Beijing and a coalition of trademark owners stating that clauses will be inserted in leases so that vendors of counterfeit goods can be expelled.

IPR legislation and regulations now in place are held to be WTO-consistent. Even the U.S., which has used very harsh language to describe the IPR situation in China, notes that there have been major improvements in China's IPR legislation. While legislation is in place, enforcement remains poor. One reason for this is the high monetary threshold that must be reached before criminal charges apply. In September 2006, the Prime Minister announced that the damage threshold for prosecuting IPR-related offences would be lowered. Another reason is the low level of awareness of provincial officials, who tolerate widespread IPR violations in order to save jobs while failing to recognise the long-run unsustainability of such a strategy. Widespread corruption, a problem increasingly recognised by the GoC, is not unrelated to province- and lower-level tolerance for systematic IPR violations. At central level, IPR policy appears to be confused with industrial policy, leading in the process to a range of highly distorted business practices.

There is reason to be optimistic, however, that awareness of the value of IPRs will steadily rise. IPR complaints brought by Chinese patent holders now account for 80% of the total, and China's accumulation of a valuable IPR portfolio may prove the catalyst for better Chinese enforcement of IPRs.

State Intellectual Property Office (SIPO) officials interviewed pointed to a rapid increase in the number of trained officials, but seem mostly concerned with the number of patent agents, not enforcement staff. This is not surprising; SIPO is an agency for granting patents, not prosecuting their infringement. In its annual submissions to the Working Group on TRIPs under the Transitional Review Mechanism, China gives detailed annual statistics on the number of complaints dealt with. It is virtually impossible, however, based on these gross figures, to judge whether the IPR situation is improving or the reverse. The EC has complained, under the Transitional Review Mechanism, that legal processes related to IPRs and trademarks are characterised by long delays, administrative backlogs, and onerous formalities.

The Final Evaluation of the IPR1 concluded that SIPO patent-granting capacity is now up to international standards, thanks in part to the project. To reiterate, this finding contains no information on Chinese partners' willingness or capacity to enforce IPRs.

IPR1 underwent significant implementation delays, but was sufficiently flexible in design that it adapted to new needs once it was under way. The project's final evaluation found that the project contributed information and expertise to the process, by which Chinese officials drafted IPR legislation prior to joining WTO in 2001. However, enforcement issues could be tackled only to a limited extent. The evaluation found impact difficult to assess but noted that Chinese counterparts rated the awareness-raising impact as high. The May 2006 ex post monitoring mission concluded that impact was good, but suggested that the basic dynamic propelling Chinese IPR development was domestic policy commitment, not EC support.

An IPR2 Project is in the formulation stage and represents a logical follow-up to IPR1 in that it will concentrate on enforcement by providing technical assistance to legislative, judicial, administrative, and enforcement agencies and institutions. Faster, more efficient enforcement is the goal. In the meantime, a number of EUCTP activities have supported the IPR sector dialogue, as has the EU Small Grants Facility, which made funds available to research institutions.

13. ANNEX 4: DETAILED FINDINGS – CONTRIBUTION TO ECONOMIC AND SOCIAL REFORM

To what extent did the EC approach contribute to economic and social reform in China?

I. Background and Rationale of EQ (S)

As established in the review of the EC's strategy in Section 3, promoting sustainable economic and social development has been the central goal of the EC's engagement with China. All other goals, including integration into the world trade system and promotion of good governance, democracy, and human rights, are seen by the EC as contributing to the ultimate goal of poverty reduction and sustainable development in China, which in turn has global repercussions. This EQ judges how significant the EC's contribution to sustainable development has been or, to play the devil's advocate, whether EC assistance, as well as its

influence on policy, has been too small in a country as vast and powerful as China to make a perceptible difference.

EQ (S) covers a very broad area of EC activities characterised by quite distinct intervention logics and instruments. The evaluators approach EQ (S) by means of four judgement criteria covering the EC's contribution to (i) human resource development, (ii) information society, (iii) structural economic reform, and (iv) mitigating negative impacts on vulnerable groups and losers from reform. A fifth line of programmes dealing with social security reforms is only now being started and, therefore, outside the scope of the evaluation exercise. Consequently, it is not covered by the JC's listed here; however, we refer to it when considering the flexibility of the EC's strategy in dealing with emerging issues.

II. Contribution of EC to human resource development

The outstanding importance of human resource development in China was recognized early on by the EC and is reflected in numerous cooperation projects carried out in the fields of basic and higher education, exchange programmes, vocational training programmes, and so on. Overall, EC initiatives in the field of human resource development have been successful and had a significant impact on human resource development in China.

One reason for success is that the various EC programmes have addressed all levels of the educational system and have provided development stimuli for all of them. Furthermore, human resource development has not been restricted to programmes explicitly targeting the sector. Training and educational elements have been understood as a horizontal issue and have been integrated in a broad range of programmes not directly addressing the educational system, e.g. the Financial Services Project (FSP), the Intellectual Property Rights Project (IPR1), and the Information Society Project (ISP).

Local sustainability has been achieved in programmes such as the Gansu Basic Education Project (see box), the China-Europe Vocational Training Centre (CEVTC), and the China-Europe International Business School (CEIBS). However, no provincial or national roll-out of best-practice models introduced by these EC activities can be observed. The structures introduced by the Gansu Basic Education Project may be used as a model for similar activities by the Chinese Government in other Western Chinese provinces, but this is an isolated example and replication has not occurred to date.

Box 2: Gansu Education Project

Gansu Basic Education Project

The Gansu Basic Education Project aimed at assisting the Gansu provincial government in the implementation of educational reforms and supports these reforms in poverty stricken areas. Since 2001 686 "Teacher Learning Resource Centres" have been set up or equipped in order to enhance the quality of educational services. All in all the qualification of more than 1600 teachers has been increased and more than 100,000 students benefited from project scholarship funds during 2004 alone. The enrolment rate of poor-family children has been increased and the overall quality of education has been enhanced.

In granting high-quality basic education in poverty-stricken rural areas, this EC project has contributed a great deal to the overall improvement of education. The increasing enrolment rates (mainly in Middle Schools and High Schools) can partly be ascribed to this project and its multiplier effects that could be generated through the establishment of "Teacher

Learning Resource Centres". Furthermore this contributes to a further increase of the overall quality of basic education in rural areas which again represents a cornerstone for all further educational projects. The sharply increasing number of students enrolled at universities and other institutions of higher education is at least partly fuelled by the work done in projects like the EU project on basic education as it allows children from rural areas to acquire the educational level necessary to participate in any higher education. Although the increase in enrolment on a national level might not be traced back directly to a single project, such projects lay the foundation for the overall positive development in China today. The financial support ended November 2005, but nevertheless the project will be carried on for at least one year with Chinese funding.

Programmes designed to establish and support innovative educational institutions have been more successful and have achieved a higher degree of sustainability than programmes designed to address highly specific training needs. The foundation of CEIBS is an extraordinarily successful example of such a programme. Existing now for only 10 years, CEIBS was chosen by an independent ranking to be among the top 10 business schools in China. The enrolment figures have been rising ever since its establishment in 1996 (see table). The ongoing nature of the programme, the fact that it can build on past successes, makes for cost-effectiveness.

Annex Table 2: Student enrolment at the CEIBS

	1996	1997	1998	1999	2000	2001	2002	2003	2004
MBA	130	130	126	114	122	121	129	112	120
EMBA	143	252	184	260	300	420	426	492	480
Exec. Edu.	1250	1800	2300	3000	3500	4300	5566	4500	6460

By contrast, short-term projects reaching only a limited group, such as the Junior Managers Training Programme (JMTP) have positive effects on human resource development only as long as the project is implemented. Comparing the number of beneficiaries reached and the sustainability of success, these projects are much more expensive than longer-term projects with a broader range of beneficiaries.

This is not to say that limited human-resource development initiatives such as JMTP are without lasting impacts. The exchange of students, young professionals and managers between China and the EU creates strong ties as personal networks are built during the exchange period. These networks may provide a basis on which further business deals can be made and thus economic co-operation is enhanced at a personal level. For example, 60% of European JMTP alumni work on China issues and live in China, 30% work on China issues but live outside of China, while only 10% of all alumni have no business contact with China at present. By any measure, that would suggest a lasting impact of the programme.

The cross-cutting issue of 'hinterland coverage' of human resource development programmes has been well addressed by the EC programme. Basic education programmes, in particular, have focused primarily on the hinterland regions, where it can safely be assumed that their impact was highest.

Current EC programmes are concentrating on higher education in China. This is reasonable, as it can be assumed that, given the resources available today, the GoC can address basic education on its own, or perhaps cooperation with more explicitly poverty-oriented

development agencies such as DFID. Concentration on higher education may furthermore result in higher visibility for the EC and have greater positive spill-over benefits for European enterprises operating in China. In this regard, the benefits accruing to the European enterprise sector from EC human resource development programmes (e.g. Asia Link projects "twinning" Chinese and European universities, CEIBS, CEVTC, JMTP, etc.) should be mentioned. China has also been a major beneficiary of DG Science and Technology's Framework Programme 6 Research Programme (see a summary in volume 2, annex 2, and section 1.3) and there is a dedicated counsellor for science and technology issues in post at the EC Delegation.

A disappointment in the higher education field has been the fact that some well-designed programmes have experienced difficulties in getting off the ground. The flagship ERASMUS MUNDUS programme (China window) has experienced serious blockage because the GoC insists on applying selection criteria unique to China. As a result, about 50% of total human resource development related funds committed for the period 2001 - 2005 have not been expended. A similar blockage may now affect implementation of the Managers Exchange Training Programme (METP), to which the Chinese implementing agency seems reluctant to commit itself. A lack of incentives for the implementing agency may constitute the key to the problem.

III. Contribution of EC to progress towards an information society

The EC first approached information society issues by means of several small projects, among them several already-complete ASIA-Invest projects. The impact of these projects on overall developments in China was limited. The major project in this area is the EU-China Information Society Project (ISP) with a total financing volume of €22.1m (of which the EC contribution is €15.0m). Serious implementation delays meant that the project did not take off until 2005. During the years of delay, China endogenously made significant advances in terms of physical infrastructure and technology selection as well as in the putting in place of a legal and regulatory environment. Owing to the delay, the EC has not been in a position to introduce its best-practice experiences and exert a positive impact on the respective developments in China. Once the programme started, its design had to be changed because certain issues were no longer relevant. One designated pilot region had to be replaced by another, as it had already implemented a programme.

Once launched, however, the ISP performed well. With its foci on (1) improvement of China's legal and regulatory environment, (2) improved government services, (3) e-government training, and (4) building of administrative capacity, the project has started to include very substantial training activities. About 10,000 people ranging from high-level decision-makers to administrative clerks have already been trained in the first year of programme implementation. During the life of the project more than 30,000 people are expected to undergo training. The approach by which personnel at decision-making, administrative and operational levels are trained simultaneously is promising and should facilitate effective implementation of content. The recent posting of an information society counsellor to the EC Delegation has been of substantial benefit to the project.

Due to the delayed start of implementation, the impact of the ISP on Chinese society is still very limited. As depicted in Annex Figure 5: China's Digital Divide in Terms of Internet-Users (Lorenz curve), which shows the cumulative share of the population with internet access against cumulative share of the population by province, China has in recent years already achieved a reduction in the digital divide between the coastal boom regions and the

underdeveloped hinterland. The contribution of EC activities to this achievement was, however, negligible.

Explanation to Annex Figure 5

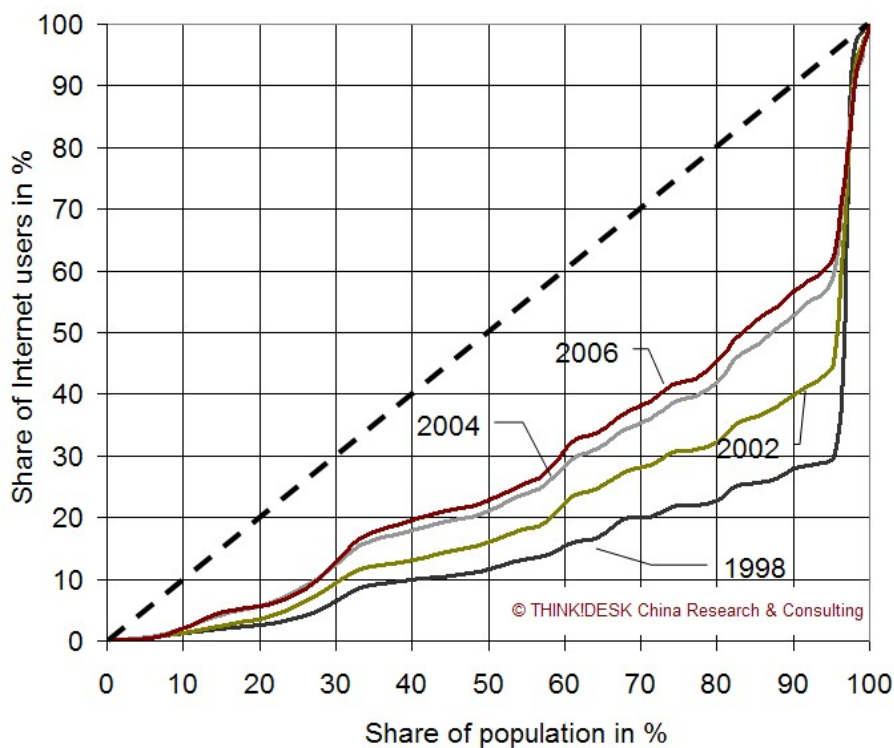
The Lorenz curve is a graph showing the degree of inequality. The cumulative percentage of population (over China's provinces) is on the x-axis (horizontal). The cumulative percentage of Internet users in China is on the y-axis (vertical). Perfect equality is a 45-degree line from the origin to 100%. This line means that every person has Internet access in China. Since 10%, 20% or even 50% and more of some populations have no Internet access, the Lorenz curve typically lies below the line of perfect equality. The more it lies below the line, the more inequality is indicated.

Example:

1998 80% of the population accounted for only c.22% of all Internet users in China – the remaining 20% of the population includes the remaining 78% of Internet users (most people with Internet access live in cities)

2006 80% of the population accounted for c.45% of all Internet users in China – the remaining 20% of the population now covered only the remaining 55% of Internet users (the Internet spreads from the big cities at the coast line inwards to smaller cities and the countryside).

Annex Figure 5: China's Digital Divide in Terms of Internet-Users (Lorenz curve)



Data: CNNIC; Graphic: THINKIDESK China Research & Consulting

ISP is providing Chinese regulators and administrative agencies with a broad range of policy-relevant information relating to European best-practice models. This expertise is highly valued by Chinese project partners. However, the regulatory issues targeted by the project are politically sensitive. As a consequence, the programme may achieve greater impact with its e-government component, which is more technical and less prone to political sensitivities.

IV. Contribution of EC to structural economic reform

EC activities targeting structural economic reforms have (with good reason) focused on three specific sectors: the enterprise sector, i.e. facilitating the reform of state-owned enterprises (SOEs) and encouraging the development of small and medium sized enterprises (SMEs); the financial sector; and the agricultural reform and rural development complex.

When set against the background of the dynamic changes in SOEs, SMEs, the financial sector, and agricultural and rural development over the last decade, the impact of EC programmes in these areas appears modest. The largest discrepancy between goals set and actual achievements is observed in the field of enterprise sector reform. According to the EC's CSP, activities in the field of enterprise sector development are of particular importance to the EC's cooperation programme. The CSP on p.26 reads:

"Another priority for EC co-operation is the support to the transition towards a market economy. The reform of the SOEs and the promotion of SMEs, as well as the regulatory framework of business are of particular importance."

Given the priority attached to this field in the CSP, the results of EC programmes in China are disappointing. EC support to successful SOE reforms seems to have been marginal. No significant impact on the introduction of a new code of transparent corporate governance principles can be observed. SME development has not been promoted in a meaningful way.

No specific programme was set up to deal with reforms in the SOE sector. Instead, in the context of the EU-China Liaoning Integrated Environmental Program (LIEP) a project component (G1) was designed to assist SOEs in China's "rust belt" Liaoning Province to meet the challenges arising from transition to a competition-based market economy. The final evaluation report, however, is highly critical with regard to the relevance and design, effectiveness, integration and coordination as well as the impact of this project component (note that this criticism did not extend to the environmental components of the project). With only 8 SOEs involved in this activity, LIEP could not make any significant impact on enterprise reform in China as a whole. No project other than LIEP appears to have targeted SOE reform.

Activities addressing the SME sector have been equally unsuccessful. Project component G2 of LIEP was inter alia designed to generate economic development alternatives for old, polluting industries, in order to facilitate industrial transition, provide employment opportunities and create new sources of revenue, with particular focus on SMEs. In the programme SMEs were promoted mainly by means of training activities. However, in contradiction of the objectives, no extra employment opportunities were created. The overall project evaluation was rated "less than satisfactory". The EU-China Enterprise Reform Project (ECERP), a programme targeting the SME sector, has not lived up to expectations. Hampered by implementation delays as well as inter-cultural management problems, the project failed to deliver on a broad range of objectives. The crucial SME financing activities never really took off.

Various ASIA-Invest projects have provided stimuli for the Chinese enterprise sector insofar as they have facilitated an exchange of information, business models, technologies, and created business-for-business contacts. These projects, though, have in general been highly focused on specific sectors and regionally concentrated.

SOE reform as well as SME financing and rural credit financing have been major areas of World Bank activities. With the benefit of hindsight, it might have been preferable for the

EC to have co-ordinated efforts in these areas with the World Bank and devoted its resources to other uses.

During the period covered in this report, EC activities in the field of financial sector development were concentrated on the EU-China Financial Services Project (FSP). The project was designed in 1996/97 but actual project implementation only started in 2003. During the years of delay the overall framework of financial sector development in China experienced substantial changes: new regulatory agencies were established and, with China's accession to WTO, the market environment was radically altered. The overall capacity and sophistication of financial sector actors in China increased substantially, making it necessary to re-design programme activities in order to adequately address the needs of the Chinese counterparts. Opportunities for EC influence and impact were missed as the Chinese financial sector developed on its own. During its implementation period, however, FSP has had a positive impact on China's financial sector development. FSP has contributed to human resource capacity-building and establishment of greater professionalism in many fields of the financial sector. At the same time, it has introduced EU best practice experience in financial regulation to practitioners and regulators in China, thereby contributing to China's capability to adhere to and implement WTO commitments. Further positive impulses stemming from FSP may become apparent in the future, e.g. FSP influence on the establishment of derivatives markets and a new clearing system.

The EC's engagement in the agricultural sector and rural development changed dramatically over the evaluation period. Two phases can be identified. The first phase lasted until the beginning of China's WTO accession period and was characterised by a traditional "development assistance" approach to rural development and poverty alleviation. In this context, programmes like the Qinghai Livestock Development Project, the Qinghai Potato Development Project as well as the EU-China Water Buffalo Project contributed successfully to the implementation of well-performing, sustainable business models and have contributed to the stabilization and promotion of rural development in some of the most disadvantaged regions of China.¹⁸ Project features like the provision of commercial loans and micro-finance in rural areas have been successfully implemented and contributed to the availability of financial sources, but project delays and rigidities, for example in the context of the EU-China Water Buffalo Project and Panam, have been reducing the overall impact of such interventions.

Since WTO accession, however, China has gained the financial strength to implement traditional rural development projects in disadvantaged regions using its own resources. EC programmes now focus on different aspects of rural development. The EC, for example, is well equipped to provide best practice experiences with respect to the issue of upholding a "living countryside", a problem the EU has tackled successfully in the past that now constitutes a major challenge to China. In addition, the establishment in the Delegation of a new section dealing with the agricultural sector provides a platform for a new type of programme, having a greater emphasis on regulatory dialogue and win-win scenarios between European and Chinese commercial interests.

¹⁸ The Panam project, a major rural development project targeting a district in Tibet, should be included in this first phase as well, although it has been concluded only recently. The Panam project has been designed according to a classical rural development approach, but was ridden by delays and implementation problems resulting in an extremely long project life span.

V. Contribution of EC to mitigating negative impacts on vulnerable groups and losers from reform

According to the CSP (p. 26),

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

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

Taking the ambitious CSP priorities as a benchmark, EC achievements with respect to this Judgement Criterion appear rather small. In general, the issues of vulnerable groups and losers from reform are not well integrated into the EC programmes observed in the evaluation category EQ (S). In the area of economic and social reform, opportunities for addressing the needs of vulnerable populations have been missed. Some projects have seriously failed to recognise the needs and interests of vulnerable groups. For example, evaluators found that component G1 of LIEP gave insufficient concern and resources to persons laid off in the course of the industry-restructuring efforts conducted under the project. Persons made redundant in the restructuring activities were not provided with an adequate social security or retraining “safety net”. The final evaluation report stressed the inconsistency of project results with the EC’s strategy for China, as the number of workers laid off was not compensated by any direct creation of employment opportunities, while gender and social issues were clearly in evidence during the significant job losses (p. 167). Other projects like ECVCT, ECERP and so on have, on account of their design, been virtually inaccessible to vulnerable groups or persons living in poverty.

However, it has to be stressed that vulnerable groups have been quite effectively addressed in the context of other programme areas. The NFMP specifically targets vulnerable groups, dealing with SOE unemployment in the forestry sector. Other projects like the Village governance project and RMPB also address the needs of vulnerable groups.

EC projects targeting vulnerable groups have usually been small, of short duration, and scattered among various large sector programmes. Four budget lines have been employed for such interventions: EIDHR, Gender, Health, and NGO co-financing. The first of these is discussed in the context of EQ (G) on governance, rule of law, and human rights. Most EC projects targeting vulnerable groups have focused on women (rights of women, migrant women, domestic violence, hotline for women, etc.). At one point during the evaluation period there was a dedicated gender expert in post at the EC Delegation, but this is no longer the case. Instead, today a gender contact point has been established in the Governance sector (FFC)¹⁹. Other vulnerable groups, such as children, the aged, disabled persons, the unemployed, and so on, have been less often targeted. Poverty issues have not been mainstreamed in most EC activities; for example, links between trade and poverty (such as the potential of trade to reduce poverty) have not been identified or exploited. While the Trade and Economy Sector of the EC Delegation has an official with expertise in the social sector, this official is covering not only social security, labour markets, poverty, and migra-

¹⁹ The Focal Point is a project officer of the delegation with professional experience and/or relevant training on gender and is in charge to follow the projects funded under the thematic budgetline on gender, to provide support to other project officers in order to ensure that gender equality is mainstreamed in the project cycle, to represent the ECD in donors coordination meetings/working groups on gender and contribute to the implementation of relevant activities. On the other hand, gender specialists are still hired within individual programmes/projects if necessary.

tion – core social sector concerns -- but also areas as diverse as banking and macroeconomics.

However, as described in findings related to EQ (X) on hinterland regions, ethnic minority populations and residents of hinterland regions, both groups at high risk of poverty have benefited substantially from EC activities. Most EC programmes have taken into account the issue of hinterland development and, thereby, have contributed to the livelihoods of the disadvantaged groups therein.

Achievements with respect to this judgement criterion were also impaired by delays and cancellations of programmes. The Social Security Programme now taking off suffered from long delays. The Illegal Migration and Trafficking in Human Beings Programme, which would have been of enormous relevance, was cancelled due to a lack of interest on the side of the Chinese counterpart.

14. ANNEX 5: DETAILED FINDINGS – CONTRIBUTION TO ENVIRONMENTAL SUSTAINABILITY

To what extent has the EC approach reflected the need to ensure the environmental sustainability of economic growth?

I. Background and Rationale of EQ (E)

The current China Country Strategy Paper has environment and sustainable development as one of its three focal sectors. Thus, environment has become the second largest programme sector in terms of EC development aid funding in China. The substantial allocation of resources to the environment sector reflects the increasing importance attached by both China and the EU to environmental cooperation. While China has stressed finding its own path to economic development, it is keen to avail itself of the expertise which Europe has in the field of the environment. As described in Chapter 2, China is soon to become the world's largest emitter of carbon dioxide, urban air and water pollution has reached crisis proportions, land degradation and deforestation cause substantial losses in rural productivity, and toxic chemical spills are common.

Based on policy statements and programmes in place, China has recognized the danger of a growing imbalance between environmental protection and economic growth, but has yet to implement far-reaching measures at all administrative levels to solve pressing environmental problems.

It is clearly in Europe's interests to promote better environmental performance in China. For the period from 1998 to 2006, the EC has implemented and is in the process of implementing a series of programmes with Chinese institutions. Since 2003, the sectoral dialogue between the EU and China on the environment has been upgraded to ministerial level. In 2005, for the first time, DG ENV and the State Environmental Protection Administration (SEPA) produced a working programme for the policy dialogue on the environment.

This EQ judges the relevance of EC measures to foster greater environmental sustainability of economic growth in China or, to play the devil's advocate, whether EC assistance had any impact at all on environmental policies in China, taking also into account the effects of poverty, governance and Civil Society on the state of the environment.

The evaluation team approached the EQ by means of two Judgement Criteria, one dealing with the mix “green” and “brown” environmental programmes and projects implemented and the other asking to what extent ‘environment’ has been mainstreamed in the sector activities of the EC. In examining the latter, special attention was given to the trade sector.

- II. Integration of appropriate levels of “green” and “brown” activities (environmental preservation / conservation and promoting clean production / transport / energy) into EC approach.

The EC is regarded as an important international player in transferring European environmental know-how and technical assistance to China. At central level, and in selected cases also at provincial government level, the EC programmes have contributed to mainstreaming ‘environment’ in decision-making in China. A positive example is the Liaoning Integrated Environmental (LIEP) Programme, which is so far the largest EC technical assistance programme with an EC commitment of €37m, completed in 2005. Liaoning Province is situated in the North-East of China and covers an area larger than Greece with a population of 42 million. The environment at the heart of the province around the capital Shenyang suffers from serious pollution. This is caused by the use of outdated factory equipment and industrial processes and the predominance of coal as an energy source, as well as other factors. The EU-China cooperation programme covering seven environmental components has brought Liaoning to the forefront of environmental pollution control in China’s heavy industry regions: a comprehensive air quality monitoring system and an air pollution dispersion model were developed and implemented, emission inventories are being carried out, and 600 cleaner production auditors now work in the province. The Liao River Basin Plan was evaluated by the World Bank as the most advanced river basin plan so far produced in China; furthermore, a Cleaner Production Revolving Fund Mechanism with financial support of the EC was piloted and may now find replication in other government sectors. Currently, the Liaoning Environmental Protection Bureau is continuing with the programme’s activities. There is a need and wish for further exchange and cooperation with European experts on individual environmental issues, but not on the massive scale of the international technical assistance during the LIEP. The Chinese counterpart acknowledged that 70-80% of environmental policies in Liaoning have been adopted from overseas, and are implemented step-by-step in a process that has shown improvements in the past, but is far from complete at present.

Other EC-financed environmental programmes have experienced serious implementation delays for a number of reasons, including flawed project design, problems with the preparation of services, complex EC procurement requirements and difficult coordination with Chinese counterparts. This has affected and still affects the effectiveness of mainly the following programmes: Environmental Management Cooperation Programme (EMCP, completed), Natural Forest Management Project (NFMP, on-going) and Energy Environment Programme (EEP, on-going). These delays are of serious concern given that these programmes and projects have allocated budgets totalling a combined value of nearly €50m for environmental improvements in China.

Lessons need to be learnt from EC procedures for awarding contracts for individual lots to different contractors. This has created a climate of poor communication and coordination between individual lot contractors under the same programme and between the individual lot contractors and the contractor appointed to manage the project coordination unit. In view of the slow progress of the EEP three years after the start of the programme, it may be advisable to re-assess how this programme can be further focused on priority areas as identified in the new CSP (2007 to 2013), namely energy and climate change. The impor-

tant EEP stakeholder and counterpart, the NDRC, is in the process of setting up a Climate Change Office, which provides a potential opportunity for EU–China cooperation in addressing climate change issues. Although under the current EEP technical studies and promotional activities in the fields of renewable energies, energy efficiency and natural gas have been identified, none of these activities have commenced in 2006 and are not expected to begin before early 2007. Significantly reduced outputs of EEP, which is scheduled to close in 2008, may hinder future cooperation work on pressing global environmental problems that affect China and Europe.

Due to implementation delays, especially for EEP and NFMP, the programmes may not be able to meet their ambitious targets. Without extension, some programme components of the NFMP will be at various stages of implementation towards the planned end of the programme. The programme has adopted a process-oriented, participatory approach that includes several stages of development of forest management plans. A crucial element of forest management planning is the demonstration phase that will be carried out by local experts. If an independent evaluation proves the demonstration to be successful, best practices will be formulated for dissemination. However, timely implementation of dissemination and replication efforts will be difficult due to the delayed project start of the NFMP. This is particularly true if one measures the success of the dissemination by a sustained impact on the Chinese implementing and enforcing institutions and not by the number of dissemination seminars and workshops held.

Overall, the NFMP focuses on improving the quality of natural forests in China and not on afforestation (tree planting on non-forested land) and reforestation (tree planting on previously forested land). The programme aims to assist in implementing Chinese forestry legislation, targeting reductions and eventually stopping deforestation in the country, and was designed in parallel with the WB Sustainable Forest Plantation Project, which received a US\$100m loan for forest plantations. China has significant interests in extending economic growth to the rural poor, controlling and reversing the spread of deserts and restoring depleted watersheds. The EC through its program promotes more sustainable forest management practices in China.

There has been marked shift in EC-financed environmental programming in China in recent years. The EU-China Biodiversity Programme (ECBP) and EU-China River Basin Management Programme (RBMP) have developed partnerships with other donor organisations, namely UNDP and World Bank. In the case of the RBMP, project preparations were carried out jointly, despite procedural differences between the EC and WB. In the WB, project preparation and management is carried out mainly with in-house resources and under the close supervision of a task manager with outsourcing involved. In the case of the EC, external contractors are hired to prepare projects with limited influence from the development and cooperation section of the EC Delegation. In some cases, the consultant's project designs had to be revised again by the Commission staff, which is time-consuming. It appears that the ineffectiveness of the EC's contracted specialists under the FWC system may sometimes have hindered speedy project preparation for the RBMP. A long-term contract with the same consultants/experts for identification, formulation, monitoring, MTR and final evaluation as done by the WB may be more effective to add expertise to the project. On the other hand, it has been widely acknowledged that the €10m grant facility extended by the EC was crucial for the project proposal to be able to proceed. For example, EC grant money as 'grant options for the poor' would be available to offset part of the repayment obligation of the poorest households in the sub-watersheds of the project. In addition, the project will be financed by a World Bank loan (US\$100m) and counterpart funding by the Chinese government.

For the EU-China Biodiversity Programme (ECBP), UNDP is the implementing agency. A key component of this programme will be the execution of biodiversity demonstration projects that are open for bidding by joint EU-China consortia, including local government, national and international CSOs and NGOs. It is noteworthy that ECBP preparation was conducted in a participatory manner, which may have fostered a sense of ownership among the programme's stakeholders. This may partially explain why, despite challenging co-financing requirements of 50% (of project values of up to €1m), nearly 100 proposals have been received by UNDP and were still under evaluation at the time of this report.

The two most recent environment programmes being funded under the current CSP, with a combined commitment of €55m, are projects important not only for protecting the environment and natural resources within China, but from a regional and global point of view as well: they are the RBMP and the ECBP.

Active programme- and project-level cooperation with other donor organisations observed in the environment field contrasts with the absence of cooperation with EU Member States. Admittedly, the EC Delegation has neither the capacity nor the mandate to coordinate EU-MS environmental programmes in China. However, concerns regarding the duplication of effort and competition between the EC and EU-MS were raised in interviews with EU-MS representatives. Meetings of the EC/MS Environmental Counsellors have recently been instituted to facilitate exchanges of information about environmental projects and climate change programmes. Cooperation between ongoing projects was improved, e.g. by organizing joint workshops. However, this exchange has not extended to joint programme development, despite thematic overlaps, or to formal strategic coordination of positions and initiatives. This lack of formal strategic coordination leads to missed opportunities in presenting stronger positions and demands on environmental issues vis-à-vis the Chinese government. Understandably, the Chinese government has no interest in strategic coordination between donors and prefers to deal with them unilaterally.

Overall, there seems not enough effort devoted to sharing lessons learnt from the field between various donors, for example through multi-donor project evaluation missions and monitoring activities. Internally, the EC Delegation has not systematically processed field lessons from EC environmental programmes for use in the sectoral policy dialogue. In this context, it is crucial to understand better the obstacles to policy implementation in China and ways of overcome them from the experiences of the numerous EC environmental projects. The GoC has been successful in adopting environmental policies and standards, including those from the EU, for example EC vehicle emission standards. However, the enforcement of these policies and standards is still weak, especially in the areas of vertical integration and institutional strengthening from national to provincial and from provincial to local levels.

Although the EC, through its environmental programmes, has contributed to the strengthening of provincial and municipal institutions responsible for environmental management in selected parts of China, replication success has been limited. Project results have not been up-scaled to national level and lessons learnt have not been channelled into policy dialogue and programming of follow-up projects. For example, the Chinese government has earmarked the EC-supported for replication in other provinces the revolving fund mechanism for cleaner production tested in Liaoning Province's industrial sectors. However, the mechanism still has teething problems despite successful continuation after LIEP completion in 2005. There is currently no follow-up small-scale project to facilitate the further adjustment and replication of this mechanism or signs of cross-cutting application in other sectors of the EU-China cooperation.

III. Environment mainstreamed in all EC activities

The current CSP was drawn up without any Country Environmental Profile (CEP), DG Relex not yet having made this tool mandatory. However, a CEP is being prepared for the new CSP. A first tentative effort has also recently been made to draw up a Strategic Environment Assessment (SEA) for the new RBMP.

With the exception of the energy sector policy dialogue that integrates environmental issues, the mainstreaming of environment in other sectors is currently at best rudimentary and inconsistent. There seems to be resistance at ECD level to prioritising environment in EU-China trade cooperation, partially due to the fear that environment could complicate already complex trade initiatives and projects. However, in selected areas such as the management of electrical and electronic wastes as part of the trade in these products, efforts are under way. It has been reported that environment has not been a consistent component of the trade sector policy dialogue. Then again, recently a high-level EU-China seminar on trade and climate change was held in Beijing, calling China to assess the environmental costs of its rapid development and to remedy problems including the heavy reliance of China on coal power. A policy dialogue-working group on sustainable trade will need to better address environmental issues.

The State Environmental Protection Administration (SEPA) suggests mainstreaming environment in EU good governance programmes in China. With the recent disastrous consequences of environmental accidents in China, emergency response, and as a part thereof, public information and environmental risk perception programming, requires good governance standards.

The Small Project Facility 2001-2005 had financed a number of projects in the environment sector, one of its six focal sectors. To this extent it can be said that environment has been well mainstreamed into the SPF. On the other hand, when evaluating project proposals for the other sectors, their positive or negative impact on the environment was not a selection criterion. This is because the compulsory, standard generic evaluation grid for calls for proposals does not include such a criterion.

15. ANNEX 6: DETAILED FINDINGS – CONTRIBUTION TO GOVERNANCE, RULE OF LAW, HUMAN RIGHTS (G)

To what extent has the EC contributed to promoting transition to an open society based on rule of law, democratic processes, and respect for human rights?

I. Background and Rationale of EQ (G)

In the current Country Strategy Paper, “Promoting good governance, the rule of law and human rights” is one of the three focal sectors and it is third largest sector in terms of budget. China is committed to improving the rule of law and popular participation. Commitment aside, however, the record on governance, rule of law, and human rights is mixed. Strengthening Chinese institutions in these areas is a key requirement for the sustainability of progress in China; it also corresponds to EU policy goals.

The concept of rule of law is frequently cited by the EC because of its close links with commercial practices (transparency and corporate governance) and with human rights (particularly issues of due legal process and administrative fiat). The EC is an important player

in the legal reform process, thus a common understanding and a shared language is one of the key preconditions for successful cooperation and partnership.

Human rights have been a major theme of EU-China relations since the Tian'anmen Square crackdown in 1989. An EU-China dialogue on human rights was initiated in January 1996, but was interrupted by China after ten EU Member States tabled a critical resolution at the 1997 UN Commission on Human Rights. Later in 1997 China decided to resume the dialogue; and since then, the dialogue has been held twice a year. The EU-China human rights dialogue constitutes a platform for engaging China on sensitive issues such as the death penalty, re-education through labour, ethnic minorities' rights, civil and political freedoms, and individual cases; and it allows for the channelling of EU concerns direct to the Chinese authorities in an open and constructive atmosphere.

The number of Civil Society organisations has grown, but progress across a broad range of issues (environment, human rights, vulnerable groups, uneven regional development) is mixed. Support to Civil Society is one of the key priorities in EC cooperation worldwide and also in China.

The strategy implemented over the evaluation period concentrated on improving the understanding of law and the rule of law among legal professionals and governmental officials, promoting grass-roots democracy, direct suffrage at village level, and citizens' active and voluntary participation through funding of Civil Society organisations.

A range of perspectives was used to assess the success of the EC approach in promoting rule of law, human rights and good governance. These covered:

- a. the degree to which the EC and Chinese partners have come to share a common language regarding rule of law and human rights,
- b. the extent to which EC activities helped to trigger broader organisational or institutional change processes regarding democratic governance, and
- c. the extent to which the strategy/instruments (co-operation programme/political dialogue etc.) used by the EC to strengthen national Civil Society organisations' (CSOs') capacity to participate in policy dialogue was appropriate.

Relevant programmes and projects are given in the accompanying table. All activities implemented within the time-scope of the evaluation are of pre-CSP design vintage, and many of them experienced significant delays during the take-off phase. This was particularly true for projects dealing with sensitive issues.

Annex Table 3: Relevant Projects for the Human Rights, rule of law and good governance sector

Project Name	Year of decision	Year of take-off	Year of completion
EC-China Village Governance Training Programme	1996	2001	2006
EU-China Legal and Judicial co-operation Programme	1998	2000	2005
CEPA (China Europe Public Administration) Programme	1999	2003	2007
EIDHR Micro projects 2000	2000	2001	2003
Cooperation in the field of economic, social and cultural rights in Yunnan	2001	2003	2005
EIDHR Micro projects 2003, China	2003	2004	2006
EIDHR Micro projects 2006 China Campaigns 2 and 3	2005	2006	2008
Illegal migration and trafficking in human beings	cancelled - 2001		
Support to Civil Society	cancelled - 2004		
EIDHR Micro projects 2004, China	cancelled - 2004		
Europe -China School of Law (ECSL)	provisional - 2006		
Governance for Equitable Development (GED) - Strengthening Rule of Law and Civil Society Participation in China	provisional - 2006		

There are two new projects in the sector. The Europe-China Law School will address the expected result of NIP 2005-2006 Priority 3 (Governance Capacity-building) by improving the knowledge, skills and performance of the Chinese legal profession in relation to European and international law. The Governance for Equitable Development Programme (GED) aims to improve access to justice, law and policy making as well as Civil Society involvement. Both are designed under the current CSP and will take off soon.

A main limitation in answering this EQ was limited access to governmental stakeholders – except the former Chinese Co-director of the Village Governance programme and limitations on visiting EIDHR projects.

II. EC and Chinese partners share a common language regarding rule of law and human rights.

This judgement was analysed from three different perspectives:

- How did EC support improve agreement between partners on basic concepts of HR and rule of law?
- To what extent did the Political Dialogue on Human Rights result in concrete cooperation programmes?
- What have been the effects of EC activities with regard to fundamental freedoms and UN Human Rights covenants?

The entire range of EC activities in rule of law and human rights (including EIDHR) had or has the potential to lessen differences in the interpretation of basic concepts by EC/EU and China. The most prominent activities of this kind were the EU-China Judicial and Legal Cooperation Programme (JLCP), which targeted lawyers from the public and private sector as well as senior prosecutors and judges; the EU-China Network for the Ratification and Implementation of the Human Rights Covenants (familiarily known as the HR Network), which organised academic seminars linked to the political HR Dialogue; and the Village Governance Programme (VGP) which provided institutional strengthening of the Ministry of Civil Affairs (MoCA) to implement village governance in six pilot provinces.

The main project designed to address rule of law was the JLCP. The JLCP was a historical achievement, being the first large-scale project to work with lawyers, judges and prosecutors. The 200+ persons participating in the JLCP, essentially legal professionals and senior officials from the central- and provincial-level judiciaries, came to share a consensus regarding basic concepts. Thus the EC contribution to legal reform consisted of the "eye opener" results for individuals achieved by the JLCP and a better understanding of concepts and technicalities of rule of law and HR. However, according to the project's final evaluation, the impact of the project (as well as its efficiency and sustainability) was limited by the fact that there was no dissemination component targeted at the general public and that the project contained no institution-strengthening activities. Looking to the future, the new Europe-China Law School has potential to contribute to rule of law in China by offering to the entire range of legal professionals high quality legal education in EU and international law and practical legal skills. Even so it will not deal direct with improvements to Chinese law or its enforcement.

A focus group discussion (See annex 8) with members of the HR Network confirmed that the project changed beneficiaries' perceptions of HR and rule of law and that participants now share a common concept, understanding and language with their partners from EC/EU. Participants felt that, by approaching HR issues in a technical fashion, network

seminars de-politicised HR issues and promoted the search for common ground between the EU and China.

The VGP was another important achievement, as it tackled a very sensitive issue with high technical expertise, and promoted better understanding and application of the Organic Law through the entire chain from the MoCA down to local officials and village committee chairpersons. Through its activities, the VGP promoted conceptual consensus, both in Beijing and the pilot provinces, not only on governance issues strictly defined, but also on overlapping issues of HR and the rule of law.

When looking into the Political Dialogue on HR during the evaluation, a high degree of confidentiality was encountered, making it impossible to assess the extent to which the Dialogue resulted in concrete cooperation programmes. Nonetheless, in order to look more closely into the link between the HR dialogue and the cooperation programme a special focus section was developed, based on interviews, document analysis and observation (see annex 2 in volume 2, special focus 1.2). In summary it can be said that there is a concrete, if weak, link between the HR Dialogue and the cooperation programme. This is partly due to the fact that bilaterally implemented projects were based on the agreement of the GoC which, however, had little interest in the area. As a consequence, no bilateral cooperation project to date²⁰ has been directly linked to one of the eight agreed benchmarks of the Human Rights Dialogue.²¹ The main instrument used to address basic HR issues was the European Initiative for Democracy and Human Rights (EIDHR)²², which directly funds CSOs. Several EIDHR-funded projects (including the so-called “HR Facility” – EIDHR micro-projects²³) addressed benchmarks, in particular the HR Network and one project improving the capacity of defence lawyers to handle death penalty cases.²⁴

In order to assess the success of the HR Facility with regard to UN Human Rights covenants, the coverage in locations (township, county, and province) and the achievement of objectives were assessed.²⁵ Annex Figure 6 below plots projects in these two dimensions. The projects in bold letters represent the best in either of the two categories: fully achieved objectives, but low geographical/beneficiary coverage or fully achieved objectives and a high geographic/beneficiary coverage. Clearly projects aimed at more than one province were more likely to achieve their goals also because they were implemented by CSOs with better capacity and better relationships with local government.

²⁰ An exception might be the LJCP, which after the mid-term evaluation introduced, some more human rights specific topics into the training agenda.

²¹ 1. Ratification and implementation of the two UN covenants, 2. Cooperation with HR mechanisms; 3. Compliance with ECOSOC guarantees for the protection of those sentenced to death and provisions of statistics on use of the death penalty; 4. Reform of administrative detention, introduction of judicial supervision of procedures, respect for fair trial and the right to defence; 5. Respect for fundamental rights of all prisoners, progress an access to prisoners and constructive response and individual cases raised by the EU; 6. Freedom of religion and belief, both public and private; 7. Respect for the right to organise; 8. Respect for cultural rights and religious freedoms in Tibet and Xinjiang.

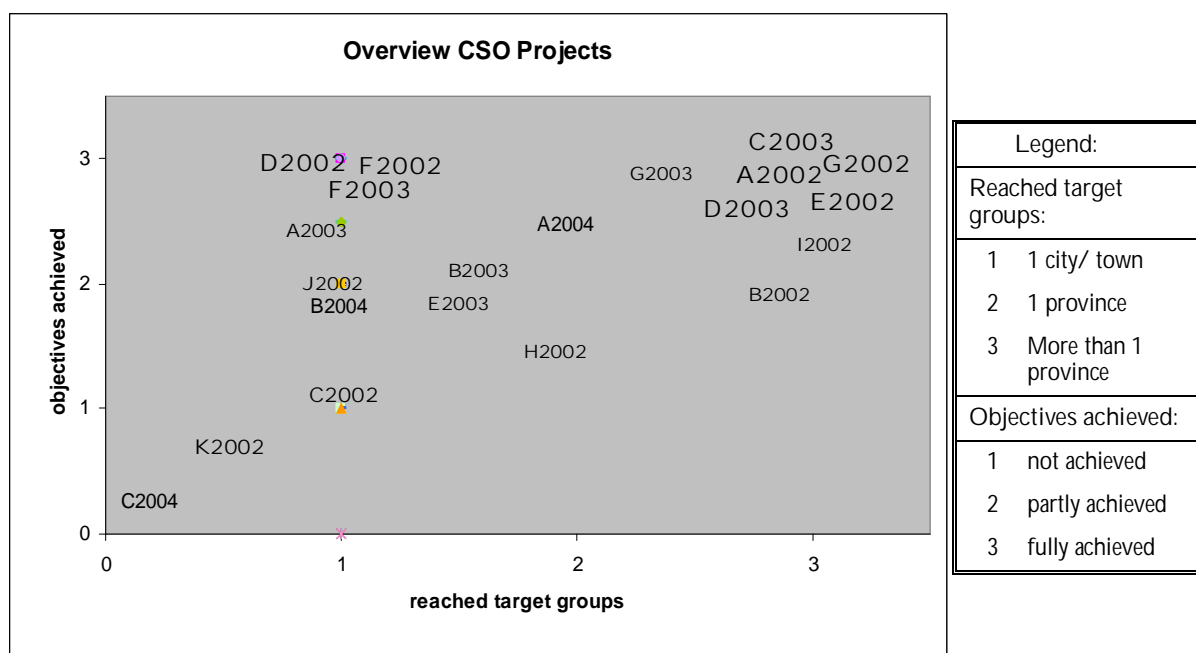
²² EIDHR is a worldwide instrument and aims to promote and support human rights and democracy in third countries. Approximately €100m is available annually to support human rights, democratisation and conflict prevention activities to be carried out primarily in partnership with NGOs and international organisations.

²³ Micro-projects are small projects under €100.000 administered directly by European Commission Delegations in the countries concerned. They are designed to support small-scale human rights and democratisation activities carried out by grassroots NGOs.

²⁴ Note that after 2003, the term HR Facility was dropped and current EIDHR activities in this area are referred to as “EU funded”.

²⁵ Judgements are based on a table from the EC Delegation as well as analysis of final narrative reports of the projects.

Annex Figure 6: Assessment of HR micro CSO projects in China (each number is one anonymised project)



The EIDHR programme in China suffered from implementation difficulties, particularly the 2004 EIDHR micro-projects component. The Call for Proposals was published and proposals were evaluated. However no grants were awarded because there arose a disagreement between the GoC and the EC Delegation regarding the selected proposals. After the cancellation, EIDHR financed three micro-projects. A new call for proposals was nevertheless published afterwards.

So-called “macro-projects” involve higher amounts of funding and are jointly implemented by national CSOs, international NGOs and governmental organisations. Most of the macro-projects (see Annex Table 4) are still under implementation. A final assessment was therefore not possible, but the analysis of documents and interviews indicated that, owing to the joint approach of national and international partners and the higher level of funding, the intended effects are likely to be achieved.

Annex Table 4: Assessment of EIDHR macro-projects in China (based on narrative reports)

Anonymised name	Geographical coverage	Stakeholder coverage	Potential effects and achievement of objectives
Promotion of minority rights to basic and bilingual education - recently started and not visited	1 autonomous Region	The main minority group within the region	To establish a multi-component model for basic education, which ensures minority children's rights to high quality and relevant basic education, improves community participation I education, and promotes tolerance towards diversity.
Better coverage of HR and democratisation topics in TV - - recently started and not visited	Across 12 provinces and autonomous regions of West China	TV station directors, departmental heads and other key-decision-makers in state-run media, journalists from provincial TV stations, CSO workers from disadvantaged regions in China	Promoting high professional and ethical standards amongst documentary makers, journalists and media leaders across the 12 Western provinces of West China
Development of pilot model in public urban de-	1 pilot city and central policy makers	Citizens of 1 pilot city, and their governmental apparatus	To identify concrete measures that will improve pluralistic and organized public participation in decision-mak-

Anonymised name	Geographical coverage	Stakeholder coverage	Potential effects and achievement of objectives
Decision making - recently started and visited			Working in China- high potential as one partner has influence on policy making
Prevention of torture – recently started and not visited	3 different provinces	Senior police officers at provincial level, judges, prosecutors and lawyers, general public	Reduce incidences of torture by law enforcement officers by focusing on prevention.
Strengthening Defence in death penalty cases in PRC – finalised – final narrative report analysed	Several provinces: good mixture of centre and hinterland provinces, including minority areas	Lawyers, academics, Ministry of Justice, judges and prosecutors from the People, Supreme Court and Procurator, National Legal aid Centre	Has achieved its objectives very well only one component could not be fully implemented due to non-readiness of Chinese authority. See more about this project in special focus xxx later in this section.
HR Network	Several provinces – and central elite	Academics from 25 Chinese Universities and 25 European Universities, plus Chinese governmental officials. Many participants are members of think-tanks, advising the GoC regularly	A number of new laws and regulations have been enacted on topics previously considered during Network events, and shifts in policy have been indicated in others, but no direct link can be established

As the table above shows for macro-projects, EIDHR projects often involve governmental agencies. Thus, despite the fact that the bilateral cooperation programme did little in the area of basic human rights, the EC programme had some impact on the judiciary through EIDHR.

EC cooperation activities have successfully promoted common understanding of basic concepts related to human rights and the rule of law among beneficiaries such as academics, lawyers, and high GoC officials. The interest of line ministries (e.g., MoCA and the Ministry of Justice) and other core partners in EU/EC experience has been triggered and fostered. However, the cancellation of the EIDHR programme for 2004 indicates that, while there may be agreement on general concepts, differing views on details and technicalities have been still encountered. The absence of projects directly linked to the HR Dialogue from the bilateral cooperation programme may be understood in a similar light. The impact of EC activities on the advancement of UN covenants is limited by the fact that the only instrument for tackling these issues has been EIDHR. EIDHR projects are small and local, which limits impact, but nonetheless it has been possible to work with GoC agencies through EIDHR despite the lack of bilateral cooperation in the area of HR.

Overall, while progress has been made, impacts in rule of law and HR have been small, compared to the ambitious objectives of the CSP. In part, this is due to the fact that change is a long-term process in these areas.

III. Contribution of EC to trigger broader organisational or institutional change processes regarding democratic governance.

This judgment criterion has been analysed along the following lines:

- a. What are the sustainable effects of EC activities?
- b. Does the EC use review processes to jointly take stock of progress achieved and lessons learnt in promoting democratic governance approaches and practices?
- c. Is the EC using political and policy dialogue processes to achieve significant progress?
- d. Has the EC a mandate to play a lead or coordinating role in political and policy dialogue processes?

Despite a close review of project evaluations in the area, it was difficult to quantify the impact of EC cooperation activities on democratic governance. Reasons include deficient log-frames and failure to update them when projects are amended, lack of baseline data, and insufficient data collection during implementation (perhaps due to time pressures caused by delayed project start). However, some comments may be made on a project-by-project basis.

The VGP is a generally well-regarded project addressing one of the top priorities of the country, namely the introduction of village elections. According to all interviewed stakeholders, the sensitive nature of the topics dealt with required high-level political dialogue to permit implementation. The VGP had a difficult start. Project start was planned for 1998/99 but actual project work commenced only in 2001. VGP has been implemented in 6 pilot provinces and has significantly contributed to a long-term change process regarding village elections. Time will tell whether MoCA will roll out and replicate the institutional strengthening nationwide so as to have national impact.

During the last 10 years China has realised extensive reforms in its civil service system. The system is still not homogeneous. The OECD report on Governance in China states that it can be viewed as two systems: (i) performance-oriented in the capital and the coastal areas and (ii) not performance-oriented (an employer of last resort), characterised by indiscipline and corruption.

The current China-Europe Public Administration Project (CEPA) is successfully integrating high-level European expertise into civil service reform. The beneficiary agency, the National School of Administration (NSA), in addition to being a training centre, provides consultancy services to the GoC in the area of public administration reform. Thus messages communicated through the project can be easily injected into the policy-making process with a high chance of translation into concrete results. Annual fora organised by the project have become major events in the governance sector in China and have had high-profile attendance from the EU and China. The new concepts introduced by the CEPA programme meet the needs of the reform of public administration and, therefore, have indirectly influenced reform in China at central and provincial/local levels. A final assessment is not yet possible, as the programme is still running, but EC support of CEPA is having a significant impact on capacity-building and policy as regards civil service system reforms. Good initial conditions are a factor here; CEPA targets the already performance-oriented segment of public administration.

Donor coordination within the democratic governance sector is a challenge. There is no evidence that, apart from sharing information with the EU MS, the EC has made efforts to take a lead role in political and policy dialogue processes on democratic governance (or HR and rule of law.) Based on interviews with Embassy officials, the EU MS see room for more coordination, coherence and complementarity in this sector.²⁶ However, this requires a two-way communication between the EC and others including the EU MS. Donor coordination in this sector is however going to be improved through a new donor coordination structure to be launched by the Delegation in 2007, involving the donors most active in the fields of governance and rule of law.

Promoting change is inseparable from incorporating lessons learnt. Following project completion, formal final evaluations are carried out by independent consultants. However, it is not common to have joint review processes after project completion with the immediate Chinese implementers and stakeholders, which reduces project impact. Similarly, networking between projects is not promoted, limiting the transfer of lessons learnt from one project to another. The new GED project has been initiated through a joint needs assessment workshop with EC / UNDP and relevant Chinese counterparts. EC and UNDP officials interviewed expressed satisfaction with the positive and constructive atmosphere and the fact that one document had been developed for all stakeholders.

To conclude this discussion of JC2 regarding democratic governance, the EC cooperation programme is using policy and political dialogue effectively, especially through the CEPA project. The capacity-building and policy dialogue aspects of this project are having tangible impact, albeit on a sector of the government which already performs relatively well. Donor coordination could be improved, as could project networking and the involvement of Chinese stakeholders in the drawing out and dissemination of lessons learnt.

²⁶ Currently a new initiative from the Dutch embassy and EC on legal matters including HR is taking off, with the aim of coordinating more pro-actively than in the past.

VI. Appropriateness of strategy / instruments (co-operation programme / political dialogue etc.) used by the EC to strengthen national CSOs' capacity to participate in policy dialogue.

Annex Box 1: Legal status of civil society organisation in China

Legal status of CSOs

The term NGO (fei zhengfu zuzhi) is not used in the Chinese political context, as it can be interpreted as "anti-governmental organisation". In the western understanding the NGOs active in China are due to the regulations explained below not fully falling in the concept of NGOs, thus we will call all organisations in China, no matter of how they are registered, Civil Society Organisations.

The Regulations for Registration and Management of Social Organizations were promulgated by the State Council in September 1998. This set of regulations requires that CSOs be registered with the State. The Ministry of Civil Affairs (MoCA) and local Civil Affairs Departments (at county level and above) have the authority to register NGOs. Registration limits areas (topics and regional) on which a CSO is permitted to work, requires a governmental sponsor, and requires minimum capital of RMB 30,000. One organisation of each type is allowed to register at each administrative level (county, city, province, state). According to the latest statistics from the MoCA, the number of officially registered CSOs in China was 283,000²⁷ in 2005. According to reliable estimations (i.e. Tsinghua NGO Research Centre and the NPO Network) there are between 1.4 and 2 million unregistered grassroots organisations active in China.

Even within the category of officially recognised CSOs, there are gradations. Some CSOs are established by a State body and called "quasi-governmental CSOs" or "government-organised non-governmental organisations" ("GONGOS"). The line demarcating CSOs and GONGOS is often blurry and difficult to see. The MoCA estimates a bit less than half of all CSOs in China to be GONGOS. Thus, there are according to the law two ways of registering: as a social organisation -SO (shehui tuanti) or as a non governmental non-commercial enterprise -NGNCE (minban fei qiye danwei). The last can have income from providing services, but are not allowed to make profit or establish sub-organisations. SO are not allowed to provide services, but they can establish sub-organisations.

As a result, many de facto CSOs are registered as private enterprises.

This aspect has been looked at from the following vantage points:

- a. What is the legal context of CSOs in China, and how is the EC taking this into account in its approach?
- b. Is there an agreement between Chinese counterparts (GoC and CSOs) and EC on priorities in CSO capacity-building and the role of CSOs?
- c. Has the EC established effective partnerships with CSOs?
- d. Are partnerships with CSOs used effectively to achieve EU policy goals?

The relevance of EC efforts to strengthen CSOs is not seriously questioned. The 16th CPC Central Committee adopted a policy aimed at promoting the development of NGOs, specifically with the goal of encouraging their role in the provision of social services. The 16th National Congress of the CPC explicitly recognised the role of NGOs/CSOs in a reformed Chinese society, based on the assumption that one of the main CSO roles/ functions is supporting and protecting the most vulnerable groups of society. EC Delegation officials expressed the view that there is full agreement with the GoC about the priority of CSO capacity-building for delivery of social services. As evidence, they cite agreement on the new GED project, which tackles the issue of CSP capacity-building. A CSO roundtable organised by the evaluation team, with 20 organisations participating, revealed that the EC Delegation's analysis of the priorities for CSO capacity-building coincides well with the actual needs of CSOs.

²⁷ <http://www.china.org.cn/english/China/126708.htm> Numbers from April 2005

The same roundtable confirmed that the legal environment is still a major constraint to CSO operations (see text box). CSOs sometimes have to re-register with a new name to assure their legal status. The EC Delegation is aware of the registration and taxation rules applying to CSOs, and has reacted with an exception to the rule for EIDHR applications: currently “commercial” CSOs and universities, in addition to registered non-profit organisations, are eligible for funding.

The EC’s attempt in 2004 to launch a Civil Society project with the GoC on its own failed; however MoCA has accepted a joint EC/UNDP project in the form of GED. The new project will address, among other issues, the legal status of CSOs, an issue which has been intractable to date.

Joint programming with UNDP bodes well for donor coordination and impact. A number of stakeholders (international NGOs, Chinese CSOs and bilateral development agencies) are, however, critical of the partnership with UNDP because the Organisation works mainly through the China International Centre for Economic and Technical Exchanges, as a result of which the new project may mainly serve CONGOs at the expense of other CSOs.

For CSOs in China, the EC and in particular EIDHR is an important funding and capacity-building source. The selection of projects and partners is well appreciated. Especially the macro-projects have innovative and promising approaches and potentially valuable results (see Annex Box 2: Innovative approaches – EU grants for CSOs).

EIDHR is a helpful instrument, but it is designed for worldwide application, while the legal context in China is quite specific. The derogation obtained by the EC Delegation exempting China from global eligibility rules is a positive sign, as is the fact that, thanks to personal efforts from Delegation staff, CSOs selected for funding have been trained in EC procedures and two CSO networking roundtables have been organised.

Overall Chinese CSOs confirm an effective partnership with the EC. Nonetheless, EC support could still take the CSO reality in China better into account. This would entail a more flexible and diversified approach with longer-term planning horizons for the CSOs. Some CSOs perceive the EC as overly concerned with the relationship between CSOs and the government, instead of leaving this to the CSOs.

Overall there is some evidence that the EIDHR instrument suffers from flaws in China, which limit effective partnership between the EC and CSOs. These problems adhere however to the instrument and not to China; they have been observed worldwide²⁸. The table below summarises the main obstacles for an effective partnership with Chinese CSOs, with international NGOs.

Annex Table 5: Assessment of main obstacles for effective partnership with CSOs

Chinese CSOs	Int. NGOs	General
EIDHR or the Delegation has no extra funds available for training, or to offer networking opportunities, which would be highly appreciated by the Chinese CSOs, as networking is generally discouraged by the government, resulting in a fragmentation of CSOs as well as the fact that generally CSOs are very well versed	Finding the right partners is crucial in China – and if one wants also to expand and outreach to new and non-Beijing based organisations, looking for them needs a lot of time, as only face-to face talks, observation and re-checking with other organisa-	The annual budget available varies greatly in the amounts available – budget is decided in Brussels.

²⁸ EIDHR Evaluation “Fight against racism, xenophobia and discrimination” (http://ec.europa.eu/europeaid/projects/eidhr/pdf/evaluation_en.pdf)

Chinese CSOs	Int. NGOs	General
and funded in the capital and bigger cities and far fewer in number and less professionally organised in the periphery	tions can ensure to have a reliable, professional and committed partner. EIDHR requires that partners be selected already when the proposal is submitted.	
EC funding is not very well promoted – quite a number of CSOs simply do not know of the tool.		Participation of EC Delegation in EIDHR programming is limited as the major themes for CFP are decided in Brussels.
Chinese CSOs have a lack in capacity – even regarding English itself, let alone writing a complex EIDHR proposal.		Specific consultations with national stakeholders determining which campaigns to support, in which locations and whether they should include macro-projects, do not take place.
The EC does not give feedback on how to improve projects in content or have any other dialogue tool assessing jointly what has been achieved.		

CSO projects in China are working with very diverse partners, beneficiaries, stakeholders and topics. Most of them are carrying out small-scale trials, as China has many unique characteristics and often international best practices have to be adapted to the Chinese context (or other best practices, specifically applicable to the Chinese context, might emerge and need to be further tested). The heads of established Chinese CSOs are often strong change-agents with in-depth knowledge about decision-making processes and means of working with the GoC.

The text box below illustrates how EIDHR funding has been used to develop innovative approaches to sensitive and complex issues in China's development of Civil Society, legal reform, human rights, public participation, etc.

Annex Box 2: Innovative approaches – EU grants for CSOs

A recently finalised EIDHR macro project worked on strengthening the defence lawyers in death penalty cases, with the objective to reducing the use of the death penalty in China through strengthening the capacity and role of the defence lawyer and thereby increasing the rate of successful appeals.

The project did not achieve all ambitious targets and goals it had set itself, but it is a very good example of how well a project can perform on a complex and difficult topic, which is also seen as political sensitive.

The project has not changed the law or reduced the number of death penalty cases in China, but it has provided facts and figures for the ongoing debate, has raised awareness within the right circles and contributed to the urgency to tackle the issue of defence in death penalty cases. In addition it has established a basis for a training module to be used within one province, which might be used in future education of lawyers. The research data can be used as baseline for further studies in China and might in due time be seen as the foundation for extensive research in the area of capital punishment, feeding into the global discourse.

It surely contributed to the ongoing debate about the Supreme People's Court's taking back the power of reviewing all death sentences, which had been delegated to the provincial level courts since the early 1980s. At the end of October 2006 China enacted a legal change to require its highest court to approve all executions.

One of the partners, the Institute of Law - CASS, was confident that recommendations from the project would find their way into the planned amendment processes of the Criminal Procedure Law, which is to be revised before 2008, and the revision of the Criminal Law, as part of preparations for ratification of the ICCPR.

The empirical data material has been used as background in one of the HR Dialogues under the UK presidency.

Criteria for success (besides good project management and high expertise of implementers):

- Using the momentum of a debate, which was already taking place
- Combination of empirical research and practical work
- Chinese partners who are reliable and have a special function within the Chinese policy and law-making set-up

Circumstances which would have made the project better – taking into account the specific context in China (different traditions in law, long and opaque structures of decision-making in governmental structures):

- Longer-term perspective – not only in a longer project time-span, but also in terms of allowing reaping of benefits after project completion and results have been spread more widely within the decision making layers in China and continuing if suitable – even if that would be two or more years after project completion.
- More time to identify and discuss with partners – before the design of the project is finalised
- More flexible funding rules – allowing for more flexible response to needs identified during the project.

During implementation the EC Delegation participated in workshops and seminars, but after completion no joint final review with the project partners took place to identify if, and on the basis of which results, the EC could carry on - either politically or within the cooperation programme, i.e. regarding the improvement of empirical research skills in criminology, or further training of defence lawyers, or the development and roll-out of a legal aid good practice guide.

Another characteristic was that good practises or innovative approaches developed in the EIDHR projects are not strategically analysed. Thus, there is no possibility to feed back lessons into the bilateral cooperation programme. Reasons were found in the overall institutional set-up of thematic budget lines and their connection to the cooperation programme and a lack of time, staff and resources in the EC Delegation for activities not directly related to the cooperation programme. In other sectors the Policy Dialogues Support Facility (PDSF) provides resources and flexibility for more strategic steering of the cooperation programme, but the human rights, rule of law and good governance sector in China has no access to this facility.

In the given circumstances, the strategy used by the EC to promote CSOs has been appropriate: The legal context and general situation for CSOs in China is still problematic and does not resonate with the European understanding of the independence of NGOs. The EC has taken this well into account in its approach to promoting Civil Society. Time will tell how robust the current agreement between Chinese counterparts (GoC and CSOs) and EC will be on priorities in CSO capacity-building and its roles. Even though the EIDHR is poorly suited to promoting long-term relationships, dialogue and organizational flexibility, the EC Delegation has established effective partnerships with Chinese CSOs owing to the personal efforts of Delegation staff. However, strategic uptake of innovative approaches and results achieved in CSO projects is lacking.

16. ANNEX 7: DETAILED FINDINGS – INTEGRATION OF CROSS-CUTTING ISSUES (X)

How successfully did the EC mainstream the issues of disadvantaged hinterland regions such as Western China and the Central Provinces into its approach?

I. Background and Rationale of EQ (X)

The Chinese 'economic miracle' is based on a small number of industrial agglomeration centres in the Coastal Belt, which includes the Long River Delta, the Pearl River Delta and the region surrounding Bo Sea. These regions are in general better integrated in the global markets than into the domestic economy. They absorb the lion's share of foreign direct investment and skilled labour; and complementary, domestic capital and unskilled labour is migrating there. The Central and Western hinterland areas are drained of precisely the resources that could facilitate social and economic convergence. As a result, the Chinese economy is increasingly becoming unbalanced and overly dependent on global markets.

The North-Eastern regions are also facing substantial problems in integrating themselves into the Chinese 'growth story'. Burdened with the heritage of heavy industries designed to cater to military aims rather than market-based goals such as corporate value or return-on-equity, they are finding themselves in a disadvantaged position when competing in a global market place.

During the 1990s 'growth maximisation' had been the maxim of China's economic policies. At the turn of the century a highly ambitious programme was set up to integrate the Western regions – and thereby also the Central regions – into China's 'economic miracle'.²⁹ The effect has been more than disappointing, resulting in a shift of focus in regional policies towards the North-Eastern provinces. Recently the new Hu Jintao / Wen Jiabao government has given the issue of regional disparity even greater attention and is initiating a brought range of activities addressing urban-rural disparities.

No development co-operation programme can solve the highly problematic divergence of regional development in China. This issue can only be addressed and efficiently tackled by national initiatives aimed at promoting dramatic structural changes and involving the transfer of a significant percentage of domestic GDP towards the underprivileged regions. In this context EC development cooperation with China during the period 1996-2006 must be evaluated not in terms of overcoming the problem of regional disparity in China, but rather in terms of not aggravating the issue and providing stimuli for reduced regional diversity and greater economic integration.

Our main concern, in this EQ, is the "fit" between EC actions and GoC priorities. Since regional development is an emerging concern, the subject of interest is not so much what has been accomplished, but whether EC strategy has kept pace with or even anticipated the policy turn in Beijing. The following indicators have been tested:

- Indicator X1: Sector dialogues cover importance of sector to hinterland regions.
- Indicator X2: Cooperation portfolio includes projects in hinterland regions.
- Indicator X3: Partnerships established with institutions in hinterland regions.

²⁹ „xibu da kaifa“ or „The Great Western Development Program“

- Indicator X4: Geographically-disaggregated indicators and data incorporated into strategic planning and monitoring.

II. Problems of hinterland regions integrated into sector dialogue and development cooperation programming.

China's regionally unbalanced economic development is resulting in increasing gaps in terms of income distribution (income inequality has already climbed to the same levels as 60 years ago when the Communist Party came to power) as well unequal opportunities for participating in the economic development process.³⁰ The latter issue is especially dramatic, as it has become an inter-generational issue. Those born in China's countryside or the Western provinces today are greatly disadvantaged in comparison with children born in the urban centres of the Coastal Belt.

Our analysis of EC development programmes with China indicates adequate consideration of the issue of regional disparities and the emergence of diverging development paths. It seems sensible that EC cooperation programmes are not addressing the issue of regional diversity head on – responsibility for which, including provision of sufficient resources, rests with the Chinese government – but rather concentrating on the provision of development stimuli for these regions and taking care to avoid an additional detrimental impact on their relative positioning towards the Eastern boom regions. While no project has been directly addressing the issue of regional diversity on a national scale, a very substantial number of projects are explicitly addressing developmental problems in the comparatively disadvantaged hinterland regions, while others are indirectly involving these regions in the project context.³¹ Programmes like the Basic Education Program in Gansu Province, CEVTC, as well as QLDP and QPDP, have made substantial contributions to capacity-building in the hinterland and provided stimuli for further development programmes which should be shouldered by domestic organizations.

We cannot see a scenario where EC developmental cooperation programmes amount to one-sided promotion of well established localities and thereby augment regional disparities in terms of inequalities of income and opportunity. Even programmes that prima facie favour the Eastern boom regions insofar as they improve their capacity to integrate in the global economic division of labour (e.g. WTO1, FSP) are found to feature significant elements that promote linkages between more remote regions and the global market place. Hinterland regions profit substantially from training elements incorporated in a large variety of projects targeting specific functional issues (e.g. FSP, ISP, and IPR).

All in all the evaluators understand that:

- Hinterland regions are addressed in the overall framework of sector dialogues.
- Hinterland regions are integrated into the EC's project portfolio in China.
- Institutional partnerships with organizations in hinterland regions have been established in various thematic fields

³⁰ Cf. Aziz, J. and Duenwald, C. (2001). China's Provincial Growth Dynamics. IMF Working Paper WP/01/3. Washington D.C

³¹ This involves various industry-specific ASIA INVEST programmes which have directly or indirectly been addressing sectoral developments in the Chinese hinterland. Prominent examples include AI 108-46 (beverages and food), AI 108-52 (leather), AI 108-113 (multi-sector), AI 108-125 (management training), AI 108-155 (private manufacturing), etc.

- Strategic planning and monitoring exercises seem to incorporate geographically-disaggregated indicators and data.

17. ANNEX 8: DETAILED FINDINGS- MIX OF INSTRUMENTS AND INTERVENTIONS (M)

Was the mix of instruments and the mix of interventions (coordination, political dialogue, sector dialogues, TA, pilot projects, bilateral cooperation projects, EU promotion activities) in China appropriate to the national context and EU strategic policy aims?

I. Background and Rationale of EQ (M)

The EC engagement consists of a number of interventions such as sector dialogue, technical assistance (often in the form of policy advisory services), pilot projects, policy implementation assistance, and funding of CSO micro-projects (such as EIDHR). The range of instruments available to finance these interventions is wide, encompassing not only bilateral cooperation programme funding under the ALA agreement but also thematic budget line financing (NGO, EIDHR, and Health and Population), small projects facility, Asia regional budget lines, Framework Programme research funds, and so on. The basket of interventions chosen, and how they are financed, will determine whether the EC programme is consistent with the national context and needs and whether it advances long-term EU policy goals. These are our judgement criteria for this EQ – relevance (consistency between the EC approach and the national policy and institutional context) and external coherence (consistency between the approach and the long-run EU policy goals).

II. Consistency between the EC approach and the national policy and institutional context.

The CSP identified three key sectors: support for economic and social development (including trade), environmental protection, and support for the development of an open society including rule of law, human rights, democratisation, and good governance. The first two sectors clearly reflect GoC priorities; in the third, only rule of law and democratic governance reflected government priorities. It is not clear to what extent the GoC was involved in the design of the CSP.

In all areas examined, but perhaps especially in trade, the evaluators found that the EC has excelled in supporting policy formulation. European best practice has been flexibly communicated in response to demands for expertise from the Chinese side. The problem now, not only in trade; but also in environment and even in many aspects of rule of law, democratic governance, and human rights, is one of enforcement. To cite an example from the area of IPRs, the GoC patent-granting agency (SIPO) is now up to international standards, yet the judicial and administrative structures needed to enforce these IPRs are insufficient, especially at provincial and lower levels. The evaluators have classified problems of policy implementation as being due either to lack of political will or to lack of capacity (including low levels of awareness). In the first case the EC has used political dialogue to express dissatisfaction; in the trade area the EC has also availed itself freely of mechanisms available in the WTO.

The EC engagement with China has generally sequenced interventions logically. Mistakes in sequencing were made in the past; for example, the WTO1 project over-extended itself in terms of supporting policy implementation when what was needed was capacity-building and policy formulation, but the EUCTP project corrected this sequencing flaw. In IPR, the transition from the IPR1 project (stressing policy) to IPR2 (stressing implementation) is evidence of good sequencing. As pointed out in the evaluation of IPR1, however, the challenges are formidable, as lack of enforcement is often due to governance issues that are inherently political and controversial. In selected areas, however, progress is possible; for example, the GoC has expressed a desire to come to grips with governance issues that lead local officials to minimise the importance of industrial accidents. The mainstreaming of governance and rule of law into all EC activities (as happened to some extent in the Financial Services Project) would bode well for future work on implementation.

The issue of advising on policy implementation is closely tied to the issue of EC Delegation capacity. The recent posting of experts in standards (including SPS), information society / ITC, IPRs, and environment has greatly increased the capacity of the Delegation to offer advice on practical issues of implementation. Yet these officials are able to dedicate only a limited amount of their time to the cooperation programme.

Provision of TA and capacity-building (study tours, seminars, etc.) has worked especially well in trade, where the two cooperation projects have been referred to as a “rapid response force” responding to new issues and needs as they arise. In rule of law, human rights, and democratic governance, EC activities have contributed to the formation of a cadre of potential agents of change – academics, government officials, NGO leaders – who are in tune with European approaches in the area and ready to act when the political will to do so is present. Examples such as legal reform in the area of the death penalty and emerging GoC concern over forced confessions illustrate that progress is possible even in this contentious field.

A disappointment that has cut across several sectors – social and economic reform, environment, governance, rule of law, and human rights -- is that successful pilot projects are not replicated elsewhere or scaled up to national level. In a related problem, social capital accumulated when pilot projects are implemented is allowed to disappear once the project ends, owing to lack of follow up. We have noted that one reason for this is the unusually high degree of provincial autonomy in China; national authorities can encourage, but not force, provincial authorities to replicate success stories from elsewhere.

The EC has exploited the full range of financing instruments available. The lion's share of work has been financed, not surprisingly, under the ALA bilateral cooperation instrument. This is particularly appropriate for large interventions such as those in environment and social and economic reform; it also requires an official request for assistance from the GoC. In the area of rule of law, democratic governance, and human rights, the Village Governance Project, the CEPA public administration reform project, and the upcoming Governance for Equitable Development Project have all used bilateral cooperation funds, while more controversial interventions related to human rights have been financed through EIDHR.

Asia regional programme funds (ASIA-INVEST, ASIA-URBS, ASIA-LINK, ASIA PROECO, and AIS IT) have been used to finance interventions in environment (especially ASIA URBS and ASIA PROECO which promoted partnerships between European and Chinese municipalities), education (especially ASIA LINK, which linked European and Chinese academic institutions), and social and economic reform (especially ASIA INVEST, which carried out European-Chinese business-to-business matchmaking).

III. The EC's approach advances EU long-term policy goals

A theme running through the EC's engagement with China is the wish to move from development assistance to a partnership of equals, a theme discussed more fully under EQ (A) on adapting to change. To achieve this, it is necessary that European policy priorities, as expressed in sector dialogues, be reflected in the design and implementation of the cooperation programme. At the same time sector dialogues must effectively convey EU policy priorities, and should also reflect priorities identified in the course of cooperation.

Sector dialogues have developed at a rapid rate since the early 2000s and have proved an effective way of communicating European policy priorities. New or shortly-to-be-expected sector dialogues cover trade and sustainable development, corporate social responsibility, and labour market and social security issues. The presence of sector experts in the EC Delegation, in frequent touch with counterparts in the GoC, is an important factor supporting sector dialogue. A new Policy Dialogue Support Facility will lead to further improvements in dialogue.

Most officials interviewed cited good links running from sector dialogue to the cooperation programme, although the latter can be very slow to adjust and sector experts' time is limited. The flexibility of the EUCTP in addressing new issues rising in dialogue was universally cited. Projects less closely linked to policy formulation are less responsive to developments in sector dialogue, a fact which should be kept in mind as the cooperation programme increasingly involves itself in implementation rather than policy formulation.

Since cooperation projects respond reasonably well to sector dialogue, does it follow that the cooperation programme effectively advances long-term European policy goals? This question lies at the heart of this evaluation and has been posed by a wide range of experts and officials interviewed in ways reflecting their differing perspectives. An industry expert was blunt and to the point when he expressed his view that the EC should support European commercial interests. Yet, for reasons discussed more fully in our answer to EQ(V), the team feels that indirect EC support for European commercial interests – particularly visible in the trade programme which provides technical assistance to reduce barriers to trade – is more consistent with the EC's mission, and ultimately more effective, than naked export promotion.

In trade, but also in environment and in economic and social reform, examples were seen of how technical cooperation has communicated European policy regimes and attitudes to Chinese policy makers. At some risk of oversimplification, European approaches tend to be consensual rather than adversarial and based on expert opinion rather than markets – both characteristics that Chinese counterparts find attractive.

Strategic aspects that reflect the sheer weight of China in the global economy have to be considered. In discussing why European firms continue to invest in China despite their evident dissatisfaction with the degree to which the playing field is level, we characterised the situation as a Prisoner's Dilemma. This same Dilemma characterises the situation of the EC, which can hardly hope to benefit from China's long-term development if it does not form partnerships now.

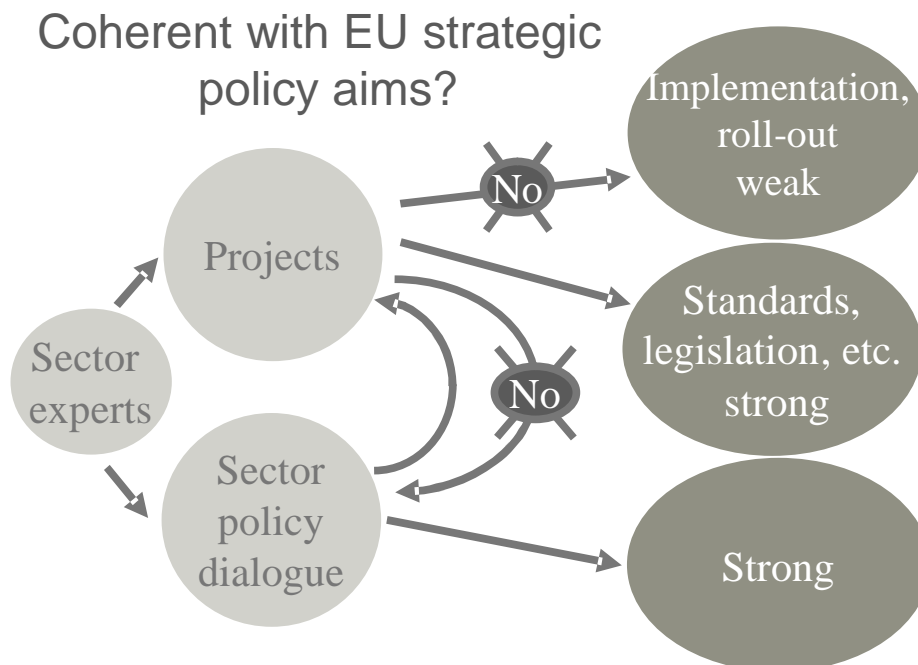
Finally, "external" benefits, that is benefits that accrue not just to China, but to Europe and the world at large, need to be taken into account. The most straightforward case is the environment, where increasing environmental sustainability in China has tangible benefits for global environmental sustainability. This is particularly true in the case of climate change and energy, which is one reason why the team recommends giving these areas special attention in coming programmes. There are other external global external benefits, perhaps less

straightforward but not necessarily less important, in science, technology, and IPR. China is on its way to becoming a powerhouse in science, technology, and engineering

In the area of trade, the cooperation programme has identified issues for dialogue; and sector dialogue has resulted in concrete cooperation activities. However, in general the responsiveness of the cooperation programme to sector dialogue appeared greater than the responsiveness of dialogue to projects. In theory, the concrete experience gained in the cooperation programme should be reflected in the sector dialogues. The team of consultants saw little evidence that this in fact happens. Delegation officials responsible for cooperation are so busy with the practicalities of implementation that they have no time to involve themselves in larger issues of policy, in addition to which most are (by design) administrative generalists rather than sector specialists. Yet a wealth of insights, many of them resulting from the formation of partnerships and personal relationships, are embedded in the cooperation programme.

In the following Figure 16 an attempt is made to illustrate the point. Sector experts at the EC Delegation have inputs into the cooperation programme (projects) and policy dialogue. The team has found good uptake of sector policy dialogue insights in projects, but limited uptake of project-generated insights in sector dialogue. Projects have had strongest impact in areas to do with approaches, such as standards, legislation etc. More specific knowledge transmission has had less impact because of implementation problems and weak replication. Sector policy dialogue has generally had strong impacts on Chinese policy approaches.

Annex Figure 7: Coherency with EU strategic policy aims



18. ANNEX 9: DETAILED FINDINGS- ADAPTING TO CHANGE (A)

Has the EC's approach maintained its relevance by adapting to the evolving political, socio-economic, and environmental challenges?

I. Background and Rationale of EQ (A)

Change arises not only from China's dynamic economic expansion, but from the emergence of new issues such as social security, SARS and the rise to prominence of previously less-important issues such as the environment. A high-quality EC approach to China must flexibly adapt to new conditions. The question covers the entire EC approach to China: pilot projects (often in the form of TA and policy advice), micro-projects (usually financed under thematic budget lines), sector dialogue, the bilateral EC-China cooperation programme under the ALA Regulation, coordination, and Asia regional activities.

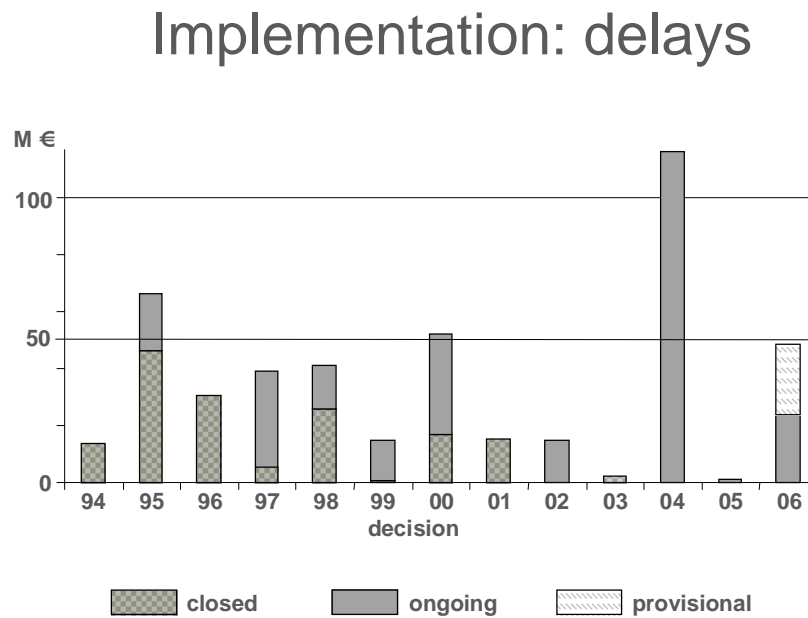
China's emergence as an economic superpower would dictate that a relevant engagement should evolve in the direction of a partnership of equals; external coherence with EU policy priorities demands the same. The team discusses the contentious issue of "partnership of equals" in the context of this EQ.

II. Move from traditional development assistance toward partnership of equals.

As China's economic power has grown, so too have the domestic resources available for financing development. It stands to reason that the EC approach should, over the evaluation period, evolve from traditional development assistance to a partnership based on mutual interest. Indicators of this evolution might include joint EC-GoC strategic programming and project formulation in the spirit of a partnership of equals and co-evolution of cooperation programme and sector and political dialogue. We have therefore discussed the second in the context of EQ (M) (indicator also for JC M1), and accordingly concentrate on the first criterion here.

All officials interviewed and documents consulted recognised the need to progress beyond traditional development assistance and towards a partnership of equals. In Brussels as well as at the EC Delegation, EC officials have candidly discussed the need to look at EC-China cooperation from the European taxpayer's point of view; to make sure that the China-EC engagement is a positive-sum game in which gains are equitably shared. The Ministry of Commerce (MoFCOM), the main counterpart agency, also acknowledges the need for evolution towards a partnership in which both parties benefit. Changes in the qualitative nature of development cooperation, for example the shift in agriculture/rural development from traditional poverty reduction projects to areas of greater mutual commercial interest, can be noted.

Annex Figure 8: Implementation delays



One symptom of the need for better partnership is the many implementation delays which have been referred to in EQs (T), (S), (E), and (G) above. As the Annex Figure 8 above illustrates, there are still quite a few projects dating from the late 1990s, even 1995, that are still ongoing.

An interesting phenomenon was observed during the course of the evaluation: starting from a level of clear satisfaction at the highest official level, the closer one moves to the actual implementation of cooperation activities, the greater is the dissatisfaction of the move towards partnership. Those directly involved in signing authorisations and cheques complain that petty issues of office space, appointment of national project staff, payment for study tours, and so on continue to irritate. Chinese negotiators, not surprisingly, continue to push for every concession they can, sometimes giving rise to project implementation delays while issues such as the inability of the EC to finance infrastructure are made clear to them. The fact that different projects are being implemented under different administrative regimes, a situation made worse by implementation delays, does not help.

There may be a general lack of transparency in EC procedures; Chinese partners may genuinely not know what is allowed and what is not, leading them to adopt a "let's try it and see" approach. A common theme of project evaluations, for example the final evaluation of WTO1, is the rigidity and user-unfriendliness of EC tendering and procurement procedures, although international project staff also expressed the view that the EC's complicated procedures enforced discipline. There is also opacity on the Chinese side. When implementation delays arise at Ministry level, it cannot be assumed that EC interlocutors at MoFCOM are fully informed of what is behind them.

The issue of whether EC cooperation funds may simply release Chinese resources for pet projects and national strategic priorities – an article of faith among critics of the EC's cooperation programme -- has never been systematically studied by the EC.

It is clear from the new Communication and related material that the EC is moving towards a relationship with China that places greater emphasis on identifying win-win areas

of cooperation, that is areas that tangibly benefit both partners. It would be unreasonable to expect that this evolution will trickle down to project level overnight. In the meantime, however, it is important that the EC maintains its position that it is in China primarily to provide expertise and technical assistance, not to provide financial resources that the GoC itself can easily mobilise

III. Incorporation of lessons learnt.

The process of project monitoring and evaluation appears to work well in China. Recent project identification documents and fiches show that previous evaluations have been taken into account. Examples include the impact of the WTO1, IPR1, and JLCP evaluations on EUCTP, IPR2, and the EU-China Law School, respectively. Very rapid turnover at the EC Delegation is, as elsewhere, a challenge for the maintenance of institutional memory and continued incorporation of lessons learnt.

A weakness already mentioned elsewhere is the failure to involve national project staff fully in final evaluations, for example in review workshops with EC project staff, and failure to provide for effective project-to-project networking.

Most evaluations reviewed by the team of consultants drew attention to the difficulties of assessing impact. This is to be expected in a country as large and complex as China. However, some of the problems could be minimised by the proper assessment of baseline conditions during the course of project formulation and the proper collection of data during project implementation.

IV. Flexibility and openness to emerging issues.

As China has developed, new issues have become important, in addition to which a number of "surprises" have emerged with no warning. In the first class of problem can be included population ageing, infectious diseases (SARS, HIV/AIDS, and avian influenza). A key mark of a high-quality EC-China engagement will be the ability to incorporate new issues smoothly into the strategic partnership. In addition, implementation delays have led to shifts in fundamental conditions in a number of areas, placing flexibility demands on project design.

A number of projects, such as WTO1, CEPA, VGP and IPR1, have been forced to adapt to shifting priorities as a result of implementation delays. While the implementation delays themselves are to be regretted, project design has generally been sufficiently flexible that, once started, projects were able to settle down securely in the new terrain.

EC used the health budget line flexibly to carry out some small activities related to HIV/AIDS and has put in place a financing facility for avian influenza. EUCTP supported avian influenza testing facilities and technical assistance activities related to sanitary standards.

These are, of course, small activities. Perhaps the major flexible response of the EC to an emerging policy area in China is the new EC-China Social Security Reform project, which has just started. This addresses a policy area which has emerged as a major concern in China over the last five years, as well as a policy area in which Europe has an abundance of expertise to offer. While the project has good potential, implementation delays have again been a problem – in this case, delays evidently caused by the GoC's hope that the project

would not only provide technical assistance, but also finance the construction of training centres. About half a dozen pilot projects on entirely different areas of social security, ranging from cost control in health care to unemployment insurance, are being carried out in provinces across China.

The growth in the number of sector dialogues is evidence that the EC's policy engagement with China is flexible.

19. ANNEX 10: DETAILED FINDINGS - ADDING VALUE (V)

To what extent did the EC approach result in progress toward the goal of better integrating China into the world economic, political, and environmental community that would not have occurred absent the EC?

I. Background and Rationale of EQ (V)

A heuristic definition of adding value is that EC actions gives rise to impacts which would not have occurred without the presence and activities of the EC. Progress achieved through EC co-ordination with MS or with China is an example of an intervention with the potential to add value; "gap filling", that is the undertaking by he EC activities that cannot be carried out by other actors, is another. Closely related to the concept of adding value is the one of "comparative advantage", that is the EC concentrating on those activities which it does relatively well.

Of particular concern is whether EC actions add value to the activities of the EU Member States. Many MS have development cooperation programmes with China. Particularly the larger MS also have bilateral policy and political dialogue with China. The EC is committed to ensure that its actions are coordinated with those of other actors, especially the MS.

This EQ covers the areas of coordination and complementarity. The two judgement criteria are: (i) the EC coordinates its actions with the MS and the international community and (ii) EC interventions complement other actors' actions.

II. EC adds value to the Member States' as well as the international community's engagement with China through coordination.

As recognised in the Paris Declaration of April, 2005 coordination, literally "working together in consultation to order priorities and assign tasks" is a cornerstone of high-quality development cooperation. Yet there are barriers to coordination – inconsistent procedures and requirements, time constraints, inability to rise above competitive behaviour. To the extent that the EC advances coordination in China, whether as a coordinator itself or as a participant in coordination activities, it may add value to the overall international engagement with China.

As indicated by the regular cooperation programme progress and activity reports of the EC Delegation, the EC participates in numerous coordination fora, both regularly scheduled events and ad hoc meetings. The Donor Forum is the main regular coordination venue. Of-

officials of bilateral aid agencies interviewed expressed the view that the Donor Forum is a discussion and information-sharing group, not a working group. In one official's words, it's a "talk shop," not a "work shop." Competitive behaviour among donors persists; for example, it was reported that the EC has had difficulty in convincing MS to forego bilateral activities that overlap with the Information Society Project. Competition between some donors gives the Chinese agencies room to act strategically regarding their goals.

Ultimately, coordination of cooperation programmes is the responsibility of the recipient government. In contexts where cooperation funds are small compared to needs, there is a strong interest in avoiding overlap and exploiting synergies. But in China the GoC has no real need for cooperation funds; it is rather the expertise and international best practice that comes with technical assistance that is needed. This structural factor may underlie the fact, pointed out by a wide range of persons interviewed, that MoFCOM's ability to coordinate line ministries is itself limited.

There are several examples of joint programming, for example with UNDP in the case of the new Governance for Equitable Development Project and with the World Bank in the River Basin Management Programme. It is unlikely that the EC would have been able to stage a major CSO-support cooperation programme without the link to UNDP, which has recognised comparative advantage in this area. Opportunities for joint programming with development banks (the World Bank and the Asian Development Bank) present especially attractive opportunities for the EC to exploit its comparative advantage in providing technical assistance. To give an example, several million Euros of EC technical assistance could be leveraged by attaching it to a World Bank environmental facility many times that size. Such opportunities for leveraging technical assistance have apparently not been exploited to date (the RBMP joint programming exercise consists of the EC attaching to a World Bank loan a grant element targeting poor households).

Coordination activities cover not only cooperation but also policy dialogue. The EC Delegation has effectively promulgated a unified European position in many areas (notably trade). This has allowed MS, especially small ones that do not maintain a large presence in Beijing, to avail themselves of expertise in the Delegation when conducting bilateral discussions with the GoC.

There is also the question of whether the EC could not better coordinate and promote EC commercial interests. However there are several problems in this regard. First, the EC has a mandate to coordinate European policy related to imports, but not exports; export promotion is a national responsibility. Second, there is already a body coordinating European commercial interests on a sector-by-sector basis, namely the European Chamber of Commerce in China (an organisation supported in its early days by the EC). Third, by providing technical assistance to dismantling barriers to trade with China, the EC through its trade cooperation programme is already, albeit indirectly, promoting European commercial interests.

III. The EC approach is complementary to other actors' interventions.

"Complementarity," which should be one result of good coordination, consists of avoiding overlap while ensuring that gaps are filled. The country strategic planning process is little known to many persons interviewed. The CSP refers to consultations with MS donors and with other multilateral organisations, notes a convergence of priorities between the EC and MS, and presents a donor coordination matrix identifying who is doing what in each sector. A weakness is that, apart from noting that the EC may complement MS's provision

of infrastructure by providing technical assistance, the definition of complementarity in the CSP is not explicit. The CSP seems to assume that the mere presence of multiple donors in an area promotes “complementarity”. It states, for example, that the fact that the EU and MS intervene in similar sectors “reinforces the European presence”. Moreover, while the potential of linking EC TA to MS infrastructure provision exists, it is not clear whether this has ever been used.

The CSP promises significantly enhanced donor coordination. It was shown above that such coordination largely takes the form of exchanging information rather than engaging in true coordination, that is jointly ranking priorities and dividing tasks to ensure an optimal use of resources. Some informal sharing of responsibilities has seemingly taken place, albeit on an ad hoc basis. For example, DFID addresses poverty and MDGs in the health sector, in which the EC is little active.

There is broad agreement that the EC has a comparative advantage in providing technical assistance. In the sectoral reviews of trade, social and economic reform, environment, rule of law, democratic governance, and human rights, it was obvious that the EC has actively used this advantage. The EC is viewed by Chinese partners as a “one stop shop”, where a range of European policy responses can be accessed. There is particular interest in the experience of the newer EU Member States with their experience of transition from communism to market-based economies. There is a clear complementarity in matching EC technical expertise and access to international best practice to Chinese ability to finance salaries, seminars, infrastructure, study tours, and so on.