

USAID/China

Annual Report

FY 2005

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China

Performance:

Background: China's recovery from nearly ¾ of a century of war and internal strife began in 1976 with the death of Chairman Mao and an overthrow of his "Gang of Four." By 1979, Deng Xiaoping, the orator of the quote: "Whether a cat is black or white makes no difference. As long as it catches mice, it is a good cat," firmly took the helm and put this into practice. Regardless that his single party state continued to speak with the same colored communist ideology, China instituted market-oriented reforms and opened up to the outside world. Not only did the People's Republic of China take over China's permanent seat in the UN Security Council and earn recognition from the United States, the initial impact of swift decollectivization was enormous on farmers and small producers who became free to trade their production. Nevertheless, macroeconomic control began to fail in 1988 and by mid-1989, through a combination of high inflation and unemployment, student-driven political unrest found a welcoming audience throughout the country but was subsequently brutally repressed.

Although this led to a brief period of slower growth, international sanctions, and loss of investor confidence in China, by 1992, the government began a new push for further economic reform, particularly allowing eastern seaboard population centers greater autonomy over local revenues, plans, and trading regimes. This new growth was driven by freer flows of domestic goods, newly partially privatized township and village enterprises (TVEs), foreign direct investment and international trade. Although it has also led to further reduction of poverty on a wide-scale, it has led to greater income disparity between the western and eastern provinces along with large scale rural-urban migration. Foremost on the minds of the Chinese leadership is how to reduce these pressures while emphasizing political and social stability under a managed market economy that continues to hold onto inefficient state owned enterprises and banks with non-performing loans, and while at the same time, searching for ways to steer any re-emergence of the overheated economy of 1988 into a soft landing.

U.S. Interests and Goals: For the United States, seeing the People's Republic of China (PRC) fully integrated into the global economic and trading system is critical for regional security, prosperity, environmental protection, and peace. Not only does China now play a key role in international security affairs, it is home to the world's largest population, its fastest growing economy and its largest recipient of Foreign Direct Investment. As China grows, trade between it and the United States continues to increase annually, totaling almost \$180 billion in 2003. For these economic and security reasons, the United States actively seeks a good relationship with China.

Currently, there is no USAID presence in the PRC. The United States, however, maintains principled and purposeful engagement with the Government and people of China. Although significant differences remain, this engagement has led to important gains in a number of critical areas, such as human rights and tariff reductions. The Chinese Government does not share core American values on human rights, religious freedom, or democracy, and the United States and China also disagree on the best policies for Taiwan and Tibet. To narrow these differences and take advantage of the many areas where U.S. and Chinese interests coincide, the United States undertakes regular contacts and dialogue.

Donor Relations: China does not have a formal aid group. Important donors include Japan, Germany, and the United Kingdom. Sweden, the United Nations, Australia, Italy, New Zealand, and Canada also provide support. Multilateral donors include the World Bank, the European Union, the Asian Development Bank, and the United Nations Development Program.

Challenges: Maintaining stability and unity in areas with significant numbers of any of the 55 non-Han minorities has also been a great challenge for the Chinese leadership. Although minorities only comprise

8% of the population, minority groups are indigenous to 65% of China's land area, mostly in border regions. These provinces and autonomous regions boast rich natural resources-forests, minerals, water and others that are crucial to the economic development of China. Most challenging of all is the Tibetan Autonomous Region where minorities outnumber Han.

In order to maintain stability, the Chinese Government has made a significant effort to promote the rule of law, although legal regimes remain weak. At an uneven pace since 1979, China's leaders have instituted reforms towards a legal system to restrain abuses of official authority and revolutionary excesses. In 1982, the National People's Congress adopted a new state constitution that emphasized the rule of law under which even party leaders are theoretically held accountable. Since the drive to establish a functioning legal system began in the late 1970s, more than 300 laws and regulations, most of them in the economic area, have been enacted.

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With its entry into the World Trade Organization (WTO) in 2001, China agreed to lower tariffs and ease import and export restrictions for Chinese and foreign business people. This opens up new opportunities for U.S. industries and service providers, particularly in the banking, insurance, and telecommunications fields. However, hundreds of laws and regulations still need to be put into place, and enforcement of existing laws and regulations needs to be strengthened, before China can comply fully with WTO requirements. Over the years, China has come to rely more upon foreign financing and imports, but modernizing the banking and legal systems to accommodate increased foreign ties remains a major hurdle.

In addition, decades of ruinous rural practices and fast paced urban growth have led to widespread environmental problems. Upland shifting cultivation practices and illegal logging have accelerated deforestation; five of the world's most polluted cities are in China (Beijing, Shanghai, Xian, Shenyang, and Guangzhou); loss of arable land was accelerating to the point that total farmland has declined by 20 percent; water pollution continues to worsen as municipalities and factories continued to dump human and industrial waste into the nation's rivers.

Key Achievements: Both program areas under earmarks for USAID work in China have begun to bear fruit:

1. In the Temple University implemented rule-of-law program, a total of 57 students completed LL.M. degrees in China and in the US. Graduates include senior staff of the National People's Congress and other Ministries. Sixteen minorities have participated in the program. Separate training courses were directed at judges and prosecutors in the Chinese Government. The accompanying US-China legal dialogue continues to thrive with a number of resulting academic papers on legal issues regarding the internet, health, and the environment.

2. The Bridge Fund (TBF), despite a difficult implementation environment, has achieved substantial results through its school programs. A new three grade primary school was built in Yushu county, enabling students from over 50 households to attend school for the first time, and a new middle school dormitory and kitchen were built in Trindu county, enabling 54 students from distant villages to attend this middle school. Volunteer teaching internships were also offered to 15 high school and vocational college graduates to teach math, English, and Chinese at primary schools in Ganzi prefecture, following three weeks of teaching methodology training. A scholarship program for the current academic year funded students pursuing a wide range of university and vocational college degrees including: medicine, law, finance, architecture, tourism, hydropower, construction, fine arts, nursing, animal husbandry, and

Tibetan literature. The main building of the Snowland Development Institute, a new development training center, was also completed. The center was built in an attractive traditional style and has excellent potential to become a focal point of activity and learning for Qinghai's growing local NGO community. As a result, not only do individual children have a better chance of developing their skills, but it is hoped that government officials, citizens and other schools will strive to emulate these programs.

The TAF also made sub grants to the Tibet Poverty Alleviation Fund (TPAF) and the University of Virginia (UVA). TPAF estimates that the Tibet Artisan Initiative generates sales income for more than 500 local artisans, while UVA expects that the adoption of Tibetan Unicode fonts will revolutionize the use of Tibetan script in computers and on the web.

Results Framework

- 435-001 Tibetan Community Support
- 435-002 Chinese Embassy Settlement
- 435-003 Selected Foreign Policy Objectives Achieved