

USAID/China
ANNUAL REPORT FY 2003

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A. Program Level Narrative

Program Performance Summary:

Background: Since 1979, China has been engaged in an effort to reform its economy, an effort the United States firmly supports. In addition to reducing the role of ideology in economic policy, the Chinese leadership has emphasized political and social stability, economic productivity, and public welfare. This has included increased support for personal income growth and consumption. In the last 20 years, China has made the largest single contribution to global poverty reduction of any country. However, challenges still remain. Over 200 million Chinese live on less than \$1 a day, many of them in poor and remote regions of the country. The number of urban poor is also on the rise.

In the 1980s, China tried to combine central planning with market-oriented reforms to increase productivity, living standards, and technological quality without exacerbating inflation, unemployment, and budget deficits. China also pursued agricultural reforms, dismantling the commune system and introducing a household-based system that provided peasants greater decision making in agricultural activities. Other initiatives have included the promotion of self-management for state-owned enterprises, increased competition in the marketplace and freer contacts between Chinese and foreign trading-enterprises. 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.

The Chinese Government's efforts to promote rule of law are significant and ongoing. After the Cultural Revolution, China's leaders worked to develop 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 1979, when the drive to establish a functioning legal system began, more than 300 laws and regulations, most of them in the economic area, have been enacted.

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 before China can comply fully with WTO requirements.

U.S. Interests and Goals: Cooperation between the United States and China is vital to regional security, prosperity, and peace. In addition to its increasing importance as a U.S. trade partner - trade between the two countries totaled more than \$120 billion in 2001 - China plays a key role in the stability of East Asia. The United States is interested in integrating China fully into the global economic and trading system to increase its stake in the prosperity of the region. In addition, the United States would like to maintain regular interaction and a broad dialogue with China on human rights, democracy and freedom. These goals are intrinsic to USAID's rule of law strategic objective (SO) in China. To improve China's capacity to be an active member of the global economic system, USAID is training legal professionals in the key elements and principles of international law, including treaty obligations and legal ethics. USAID is also providing technical assistance to help China address the new issues that are emerging with its transition to a market economy, including regulations for the Internet and e-commerce, property laws and tort law.

Challenges: While tariff reforms and increased foreign investments in the service industry should make the transition into the WTO easier for China, in the short term, sectors such as agriculture, automobiles, banking, insurance and telecommunications are facing some difficulties. In addition, hundreds of laws and regulations need to be revised to make them consistent with the WTO rules. While all these changes will build a foundation for China to be fully integrated into the world economy, the current transition period requires political support and dedication. To assist the sectors that are being pressured by the transition, the Government needs to speed up economic and legal reforms and create a more pro-business environment. Priorities should include increasing the transparency of regulations, streamlining administrative procedures and improving legal and accounting practices. As in many parts of the world,

the global economic slow down also has affected China, which relies heavily on its export industry. Until the depth of the global slump has been determined, the effects on China's economy will be difficult to gauge.

Key Achievements: FY 2002 was a year of progress for the USAID program in China. Significant numbers of legal professionals with the capacity to shape the legal system were trained to help create a more effective and transparent legal infrastructure that addresses the needs of individuals and civil society and is consistent with international law. The challenge will be for them to use that knowledge to reform China's legal system in a way that promotes human rights, freedom of speech, the continued growth of a market economy and a responsible role in the world economy and trading system.

Rule of Law: Under this SO, USAID supports activities that increase the capacity of China's legal professionals to design legislation that supports an emerging market economy, protects individual rights and ensures compliance with international treaties. In FY 2002, over 650 members of the legal profession were trained, meeting USAID targets. In addition, an advisory group of U.S. legal experts worked with the drafters of the Chinese Property Law Code and with the legal professionals responsible for WTO affairs and economic cooperation. These programs will help China face the challenges that will surface in the coming years as it institutes more market-oriented reforms and enacts the measures required by its membership in the WTO. In the coming years, USAID plans to build on these experiences to address the potentially contentious issue of Internet regulation and to assist in designing legislation to help control the dramatic explosion in HIV/AIDs that is threatening parts of the country.

Environmental Compliance: Not applicable

Country Closeout & Graduation: Not applicable

D. Results Framework

435-001 Tibetan Community Support

Discussion:

435-002 Chinese Embassy Settlement

Discussion:

435-003 Selected Foreign Policy Concerns Addressed

Discussion: