

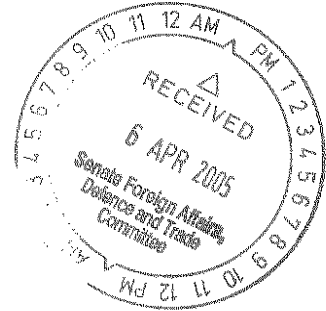


Australian Government

AusAID

Dr Kathleen Dermody
The Secretary
Senate Foreign Affairs Defence & Trade Committee
Department of the Senate
Parliament House

5 April 2005



Dear Dr Dermody

RE: INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH CHINA

Please find AusAID's submission attached. An electronic copy will also be forwarded to your offices.

We appreciate the Committee's decision to extend the deadline.

We would like to publish our submission and accordingly ask your permission to do so.

Yours faithfully,

Peter Callan
A/g Assistant Director General
East Branch



Australian Government

AusAID

**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE INQUIRY INTO AUSTRALIA'S
RELATIONSHIP WITH CHINA**

Submission of the

**Australian Agency for International
Development (AusAID)**

Introduction

The objective of the Australian aid program is to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development. China, with its continuing population expansion, uneven economic growth, poverty, governance, environmental and health issues, presents a variety of challenges and opportunities for the aid program.

This submission seeks to outline how the aid program's response to such issues has benefited and helped to shape Australia's relationship with China. It also highlights the ongoing importance of our engagement for government to government relations.

While not central to the Committee's terms of reference, the aid program touches on many of the areas that will be considered by the inquiry. The aid program plays an important supporting role in the provision of governance programs that assist in creating a sound and stable fiscal environment. The program also contributes to the sustainability of natural resources and social stability through addressing health and economic development issues.

China's Development Context

Despite experiencing rapid economic growth over the past two decades China still has many development challenges, with an estimated 161 million people still living below the poverty line (consumption of less than US\$1 per day – World Bank 2002). Rapid economic growth and increased prosperity have not occurred evenly across the country. The rural poor account for a significant proportion of those living below the poverty line. Disparities in income and wealth, widespread rural poverty and rural-urban migration will continue to act as a drag on China's growth. Bridging the growing gaps between urban and rural, coastal and inland, populations constitutes a significant policy and developmental challenge and is critical to political and economic stability.

Urban unemployment and poverty, mainly due to the closure of State Owned Enterprises (SOEs) is also emerging as a development issue. If restructuring of SOEs does not continue, they will struggle in a competitive marketplace. This will pose significant problems for China's welfare system given that such companies are primary providers of health care, insurance and old age pensions to their employees.

The impact of WTO accession on China's economy is increasing demand for educated and skilled workers and China will need to increase its investment in education beyond the current 3% of its GDP.

Ongoing gaps between social welfare protection and the capacity of provincial public services, absence of social safety nets for most of the poor, a severely degraded environment, and the vulnerability of the financial sector also present significant challenges for China's policy makers and for its development prospects.

In health, the SARS outbreak exposed serious problems in China's public health system. HIV/AIDS is now in all provinces and established in the mainstream population. Without urgent action the number of Chinese infected will exceed 10 million by 2010. In 2003, the number of people living with HIV was estimated to be between 840 000 to one million, of which 80 000 had developed AIDS. Huge income disparities, large-scale labour migration and gender imbalances contribute to increasing the population's vulnerability to HIV. More than 60% of infected people are aged between 15 and 29. Since 1999, the annual rate of increase of reported infections is 30%. Such young adults would be in their most productive years of life. Through their reduced contribution to national economic activity, economic growth and prosperity are diminished, skills are lost and the burden on the national healthcare system increased.

China is also confronted with an aging population, changing family culture, new social policy changes and ongoing gender issues. Gender is one of the few Millennium Development Goals (MDGs) which China is unlikely to achieve.

Environmental challenges stemming from rapid industrialisation also pose significant impediments to sustainable development. Water availability and pollution pose further significant risks and are being exacerbated by ecologically harmful practices in rural and

heavy industrial settings. The World Bank believes 75% of China's rivers are too polluted for drinking, fishing, or irrigation.

At a macro level, institutional capacity and transparency, governance and justice issues, as well as economic instability stemming from incomplete legal and financial reforms, continue to threaten China's social and economic development.

The Australian aid program is working in cooperation with the Government of China to help address many of these issues and support a major Chinese government policy platform of "Balanced Development" which advocates growth with equity.

China's growth will continue to increase competitive pressure on states in East Asia. However, effective synergy with, and adaptation to, a more sophisticated Chinese market will present a number of opportunities for China's regional neighbours. This may, for example, take the form of the realignment of regional industries with China's export industries. The continuing opening up of Chinese markets and demand for raw materials will also be an important driver of regional growth.

These opportunities, however, will be reliant on the ability of China's neighbours to build their capacity in governance and economic and financial management. Already, many APEC economies have set ambitious free trade goals against the backdrop of China's accession to the WTO and before that, the Bogor Goals. Improved governance and initiatives to further lift industrial competitiveness and productivity will allow these countries to participate in future trade liberalisation and take advantage of China's growth.

The Aid Relationship

In 1981, Australia became the first Western bilateral donor to China. Since that time Australia's aid program has continued to play an important role in strengthening the bilateral relationship.

In 2004-2005 Australia expects to expend around A\$49 million in total aid flows to China.

The Chinese Government values Australia's development assistance highly. China sees Australia's aid as helping to address areas of high priority through well-targeted and practical technical assistance where Australia has proven expertise and experience. In recognition of this AusAID was awarded a China Poverty Alleviation Award for International Cooperation in 2004. China maintains a strong interest in Australia's continued engagement, through the aid program.

AusAID has fostered a strong relationship with its counterpart agency, the Chinese Ministry of Commerce (MOFCOM). This relationship has been integral to the effective implementation of Australia's strategy to support China's ongoing social and economic development.

The development cooperation program has evolved through various stages, adapting to changing circumstances. Early phases of the program were based on a philosophy of mutual benefit whereby activities were selected to complement the broader economic and commercial relationship and most activities were based in provinces on the east coast of China. Over time, the program's emphasis has shifted to reducing poverty in the central and western provinces, in recognition of growing regional disparities. The program has also developed a significant level of assistance for improved governance, particularly through supporting China's economic reforms.

In support of China's accession to the WTO in 2001 Australia coordinated, through its 1999-2001 China Country Strategy, programs that sought to promote good governance and assist with China's transition to a market economy. In this period, the strategy also placed a priority on the improvement of environmental and natural resources management, improved rural health and education reform.

Key achievements of the 1999-2001 strategy include:

- Total of 11.15 million children immunised against polio in five provinces;
- Iodine deficiency program provided to 140,000 children and 650,000 women in Tibet and Ningxia Hui;
- More than 500 Chinese officials and representatives of civil society organisations participated in the design and implementation of more than 30 human rights related programs including, freedom of expression, legal and judicial reform, access to justice and minority education;

- Improved natural resource management and agricultural practices were supported in Hebei Province through the implementation of 28 watershed plans;
- More than 600 officials in China increased their knowledge of economics and international trade in support of the country's accession to the World Trade Organisation;
- Access to health care facilitated for 20,700 villagers through the construction of clinics;
- Real incomes were increased by 25-75 % in three project counties in Qinghai;
- 58,000 people in Tibet and Ningxia gained access to safe water.

Current Engagement

The 2002-2005 China Program Strategy focused on two key themes:

- Assisting in the reduction of poverty in selected rural areas of western China, integrated with China's own poverty reduction programs and drawing on recognised areas of Australian practical expertise;
- Contributing to poverty reduction by supporting improvements in governance at central and local levels of government and through working with civil society organisations.

These two priorities reflected China's 10th five-year development plan and were designed to be implemented in partnership with the government of China and other donors. In 2004 it was agreed that Australia's future strategy should move towards a stronger focus on governance, health and the environment. The specific strategy is still under development and is due for Ministerial approval in mid 2005.

Through the 2002-2005 strategy, Australia has assisted China with on-going improvement in governance and policy reforms, including capacity building to enhance regional trade and investment.

Australia's strategy also assisted with health and environmental management and supports activities designed to promote regional security and stability. Australia worked with ten key ministries to undertake fiscal reform, improve technical and vocational education systems, and strengthen health systems in selected western provinces to reduce the spread of communicable diseases, including HIV/AIDS.

Australia, through the Human Rights Technical Cooperation Program, which underpins dialogue between the two countries, supports material activities in legal reform, women and children's rights and ethnic and minority rights.

Key achievements during this period included:

- through the Economic and Foreign Trade Training project, training over 1,700 Chinese officials in liberalised foreign trade policies and procedures and completing five policy studies on agriculture, regional trade agreements, competition policy, foreign investment and government procurement policy to assist in China's accession to the World Trade Organization;
- providing Australian technical experts to purchase essential medical equipment, train Chinese counterparts in infection control and strengthen local level responses to the 2003 SARS epidemic in the provinces of Sichuan, Xinjiang and Shaanxi;

- training and purchasing medical equipment in the Xianyang Integrated Rural Health Service and Bazhong Rural Health Improvement projects to improve rural health sector reforms;
- providing training in sustainable resource use and development of computer-based ground water models in key areas through the Alxa Environmental Rehabilitation and Management project to improve local environmental conditions in Inner Mongolia;
- providing training and promoting strategies to prevent trafficking of women and children and strengthening the capacity of local women's groups to combat trafficking;
- introducing water saving technology and promoting sustainable water resource use through the demonstration of water use efficiency practices in irrigated agriculture in Hebei;
- developing and implementing an integrated flood management system for the upper and middle reaches of the Yangtze River, with increased flood forecast accuracy and greater lead-time and better information for decision makers;
- reducing pollution of water and air and achieving substantial water savings at a coal gasification in Datong, Shanxi province through the introduction of cleaner production techniques and innovative wastewater treatment technology.

Australia also cooperates with China through regional programs and institutions on issues of trans-national significance. For example, Australia is collaborating with China through an Asia Regional Program project (\$10 million over 4 years) designed to tackle the spread of HIV/AIDS in Vietnam, Burma, and southern China. Australia is also supporting the Asia Regional Cooperation to Prevent People Trafficking Project (ARCPPT) in collaboration with China and a number of ASEAN partners.

Australia's development program is also helping to build the capacity of regional economies to participate more effectively in China's rapid economic growth. Australia is contributing \$1.5 million towards the APEC Regional Trade and Financial Security Fund. We also provide funding to the APEC Support Program to increase trade liberalisation across the region as well as to the ASEAN Trade Analysis Reform Project.

Future Aid Relationship

As China's income per capita rises and as it moves towards becoming the region's largest trading nation, Australia's aid program will need flexibility to respond to new challenges and opportunities. The 2006-2010 Country Program Strategy, which is currently under development, will lay the foundation for Australia's future engagement with China.

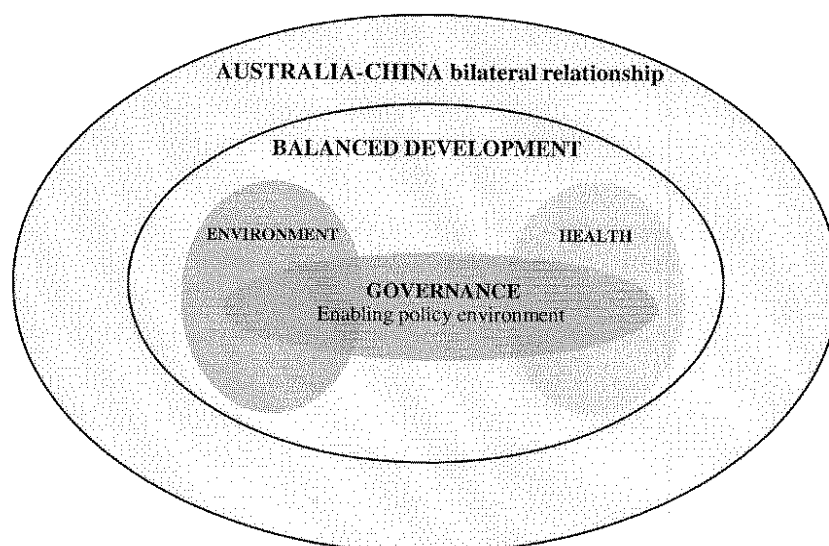
Country Program Strategy 2006-10

The new strategy offers the opportunity to refocus the development cooperation program more effectively on areas of critical interest to both countries and to address the challenges described above. In developing a strategy consideration will be given to: support for improved governance through assisting China with ongoing structural and policy reforms, including capacity building for regional trade and financial management; health, specifically centred on HIV/AIDS and other communicable diseases; and environmental protection, with a focus on the management of water resources.

Our focus will be consistent with China's own development priorities, broadly described as "balanced development". Balanced development is a concept of even development between urban and rural, coastal and inland areas, and strikes a balance between economic and social development. It also favours continued opening to the outside world as a means of pushing forward reform and economic and social development.

Our overarching framework for the program will integrate "balanced development" into the three key focus areas of governance, health and environment. Support for improved governance will be a general cross-cutting issue reflecting the program's shift to upstream policy engagement. Refer Figure 1 below.

Figure 1.



The future of Australian engagement with China also lends itself to a “whole-of-government” approach where aid program objectives converge with the China priorities of other Australian government agencies.

China’s growing economic strength and increasing willingness to play a more active role in the region means that it will increasingly shape regional dialogue and cooperation in East Asia. Greater cooperation between China and Australia may help to strengthen the aid program’s current work within the region and with its institutions.

Australia and China have a particular interest in cooperating on communicable diseases such as SARS and Avian Flu, which pose a particular threat in a region with such mobile populations. Opportunities for cooperation on emergency responses, medical treatment and preventative health and disease control are just some possible areas for further cooperation.

Similarly, there is scope for expanding cooperation on HIV/AIDS, as is occurring with the South East Asia Regional Program, both bilaterally and within the framework of regional institutions.

Environmental issues, such as fisheries and access to water, also provide scope for cooperation. China will inevitably play a central role in future efforts to forge a joint regional security approach. Reducing poverty levels and regional inequality will be essential to regional security, while addressing the vulnerability of the poor to transboundary issues, including drugs, people movement and trafficking will be of great importance.

Of particular value to Australia will be collaboration with China on “over the horizon” issues with significant transnational implications.

Conclusion

As China continues to meet its evolving development challenges, Australia's expertise in policy, planning, responsible public administration and management of water resources, the environment, health services, welfare systems and fiscal programs, will continue to grow in value.

In response, Australia's development cooperation will orientate towards the provision and transfer of ideas, expertise and systems. This approach will be assisted through drawing on expertise of other Australian Government agencies working with Chinese counterpart agencies. The future program will also align with China's own development framework and priorities, and individual activities will have stronger links to national policy, planning and management.

This more strategic approach will invest the program with the flexibility necessary to respond to China's changing development needs and promote mutual benefit through closer government to government ties.

While in dollar terms Australia's development assistance is small, the outputs are high-value. Relationships forged through the aid program have had flow-on effects in a number of areas of Australia's relations with China, such as in trade and security and increasing opportunities for collaboration on regional transboundary issues such as HIV/AIDS and organised crime.