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**NATO Parliamentary Assembly**

**SUB-COMMITTEE ON  
TRANSATLANTIC ECONOMIC RELATIONS**

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**VISIT TO BEIJING AND NINGXIA HUI  
AUTONOMOUS REGION,  
PEOPLE'S REPUBLIC OF CHINA**

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**SECRETARIAT REPORT**

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*Assembly documents are available on its website, <http://www.nato-pa.int>*

## **I. EUROPEAN COMMISSION**

1. The EU has worked hard to bring China into the world trade system. That particular goal has been achieved, and the EU now seeks to ask more of China. China holds a shared stake in the international trading order and is no longer simply a beneficiary of that system. It therefore must assume its proper responsibilities within it. This new reality alone has been a key factor in sparking a change in EU-China relations.
2. The EU recognizes that China is something of an economic and political miracle; its economy has grown from 0.5% of world GDP to 5% and its share of world trade is accordingly rising. China is the dominant consumer in the civilian aircraft market and will likely purchase 1000 aircraft over the next ten years. This is only one example of how China's presence will increasingly be felt on global markets.
3. The Chinese economic-political model is also unique. Its political system is based on one party rule and this is unlikely to change over the coming years. Yet, increasingly, decision-making is conducted locally, including public investment decision-making. This economic model has helped produce startlingly successful economic results.
4. Exports and basic infrastructure development have driven China's explosive growth. Social investment has not kept pace. Thus China's housing, healthcare, and basic education systems have suffered, particularly in more remote areas. The relatively low value of the Renminbi and an active exchange rate policy to keep it low has bestowed Chinese producers with an extra margin of competitiveness. This monetary policy has had several negative consequences. It has been a factor in over-investment and over-capacity. It is not coincidental that China's banking system remains plagued by structural weaknesses and outstanding bad debt. This weakness is not simply due to the legacy of the Communist banking system but also to the continued politicization of some loan making as well as relatively easy credit fostered by monetary policy. The system is still vulnerable to a myriad of outstanding bad loans, some of which the state has had to underwrite. In China, monetary policy has been used as a tool of budgetary policy, and this carries with it a degree of risk.
5. There are inherent risks within China's political-economic model. While there seems to be no social class as a whole actively advancing China's democratic development, social unrest is nonetheless evident, particularly among marginalized rural inhabitants. This unrest, however, should not be seen as revolutionary in character. The expanding middle class is highly cautious and has little inclination to directly challenge the reigning order which, after all, has overseen a startling rise in prosperity. China may therefore be exposed to more risks beyond its borders rather than within them. The United States and Europe, for example, could confront rising domestic pressures to erect barriers to Chinese exports. China could partly mitigate this risk by adopting a less mercantilist economic model that encourages greater domestic demand, but this would constitute a major policy change in direction. Official rhetoric suggests that the government aspires to achieve "harmonious development," which could correspond to EU ambitions for China, insofar as this might involve greater social spending and policies that advance the environmental sustainability of the country's economic development. But harmonious development has not yet been fully defined.
6. China's soaring energy needs also pose risks to itself and are undoubtedly a factor in global energy security concerns. China's links with Africa and Latin America are at least partly driven by its energy needs. That said, two-thirds of China's energy requirement are currently met by its domestic coal supplies. China's coal resources are very great, but the challenge lies in finding a way to use this coal in a far cleaner fashion than has heretofore been the case. This is one important area of EU-Chinese cooperation.

7. Broadly speaking, the EU has developed a strong working relationship with the Chinese government. The EU has managed to keep its markets open to Chinese goods despite some internal pressures to adopt a more protectionist stance. In 2005 the EU did apply limits on Chinese textile products due to the surge of imports that followed from the end of the old multilateral textile quota system. The American government also undertook measures to shield parts of its textiles from this sudden surge of Chinese imports.

8. That said, Europe has generally been open to increased trade with China. This may, in part, be due to the fact that Europe's trade deficit with China is significantly less than America's. This has made it politically easier for Europe's leaders to defend relatively unencumbered trade with China. The US deficit is far greater and it confronts more significant protectionist pressures as a result. European investment flows to China are now over Euro six billion a year, which is on par with Japanese and US investment levels. Virtually all of Europe's leading companies have established a presence in China. Scientific cooperation is growing as well. China is participating in the Galileo project, and the EU and China are also collaborating on an ongoing clean coal project. The EU is also supporting capacity building efforts in a range of areas. There is also an ongoing dialogue on security and defense issues that seeks to inject greater transparency and confidence into the relationship.

## **II. WORLD BANK**

9. China has been the most successful developing country over the last 25 years. But the country also faces very serious risks. The first risk is a short-term macroeconomic one. The current economic boom in China is partly predicated on US overspending and China's lending to the US which has helped underwrite American spending. In essence, China has been lending substantial sums to a country 30 times richer than itself. This is not economically sustainable. Yet, establishing a new pattern must be handled carefully. If US spending were to suddenly contract, both the US and China would pay a high economic price.

10. Environmental degradation and energy shortage pose important longer-term risks to China. Many regions of that country are already suffering from water shortages that, in turn, threaten to plunge its agricultural sector into a crisis. Existing water supplies, moreover, are highly polluted. Although China has substantial coal supplies, it is increasingly dependent upon imported energy. Heavy coal use has already exacted a high toll on China and is, in turn, an important reason why 20 of the 30 worst polluted cities in the world are Chinese. China is now the second largest producer of greenhouse gas and will soon become the first. Desertification is also a growing problem and widespread deforestation has helped trigger dust storms that can effect conditions as far away as Beijing, Korea, and even across the Pacific. The government has acknowledged this problem in its most recent five-year plan, and has laid out ambitious goals to improve energy efficiency.

11. The third risk relates to rural development. Although China's rural living standards have risen, the gap with urban regions is rapidly widening. China now has the largest rural-urban divide ever recorded according to World Bank studies. Rural overpopulation is certainly part of the problem. Mass migration to the cities, however, exacerbates certain problems. For example, rural governments pay for the education, training and health care of people who subsequently move to the cities. Rural communities are thus investing in people who do not stay long enough to effectively pay the regions back for the investment. The net effect is that rural governments are increasingly reluctant to undertake expensive social investments, and this, in turn is a factor in rural poverty. Adding to the tension is the fact that local officials are reaping profits by seizing farmland from farmers, often without compensating them, and then selling this land to commercial developers. Of course, this leaves disenfranchised people with nothing.

12. China does not receive subsidized lending from the Bank and, in fact, pays a higher interest rate on Bank's loans. World Bank profits on those loans help underwrite projects in Africa and other parts of the developing world. The Bank currently lends \$1.5 billion a year to China, making it the Bank's largest client. OECD countries largely finance these projects and the Bank is particularly focused on underwriting Chinese plans that can have a beneficial development and global impact. This is why so much attention is paid to environmental projects. Water is a priority area, and the Bank is working with 100 Chinese cities on water management. The Bank has also worked on renewable technology, wind farms, and funded efforts to implement clean coal use. The Bank has also worked with Chinese officials to revamp a pension system that remains significantly short of resources.

### **III. ASIAN DEVELOPMENT BANK**

13. The Asian Development Bank's (ADB) overall strategic objective is to help foster pro-poor economic growth by helping to create economic opportunities for the poor. The ADB's overarching mission is poverty reduction. The ADB lends to China's private sector and offers advice to help developing countries deal with a range of challenges. It has 67 member countries, 47 of which are from the region and 36 of which borrow money. The ADB has 26 offices. China joined the ADB 20 years ago and the Beijing office has been open for six years.

14. The ADB is underwriting a range of projects in China. These include rural infrastructure; irrigation and water management; flood control and flood damage rehabilitation; and combating land degradation. Transport projects include: expressway and rail construction as well as local and urban transport. In the social sector the ADB funds projects in regional cooperation, connectivity infrastructure and wastewater treatment. Transport and communications projects have received the largest share of ADB funding, but their share will likely fall in future.

### **IV. FOREIGN MINISTRY OF THE PEOPLE'S REPUBLIC OF CHINA**

15. China enjoys a strong relationship with the European Union and looks forward to deepening this relationship, especially in the political field. China recognizes that the EU is a key player in foreign affairs and has identified a set of common interests with it. China and the EU, for example, embrace multilateral approaches as fundamental to building a more peaceful and stable global order. In the economic field, the EU is making progress on integration, while China seeks to foster integrative regional economic and political ties in Asia. This, too, creates space for cooperation.

16. China's trade with the EU has grown very quickly and this is also deepening political and cultural cooperation. Last year three million Europeans came to China and one million Chinese visited the EU.

17. Chinese officials believe that Iran is entitled to have access to nuclear technology if the end is peaceful, but Iran's attitude toward inspections may make this difficult. China hopes that Europe can help resolve this problem without resorting to the kinds of threats that could foment even greater tension. China has supported the dialogue between the EU and Iran. Resolving this tense situation demands patience and calm.

18. On North Korea, China has made vigorous efforts to find a solution through the six-party talks. The recent nuclear tests in North Korea are deplorable and the Chinese government does not want to see nuclear testing on the peninsula. The UN Security Council resolution on 15 October reflects the longstanding position of China - it is firmly opposed to a nuclear-armed North

Korea. China believes that the six-party talks are an effective channel to advance denuclearization, and it working to encourage North Korea to return to negotiations.

19. The Chinese see North Korea as a very poor and isolated country, not so dissimilar to China 40 years ago. According to officials North Korea had not made a decision about its nuclear program a year ago, but the Bush administration's "axis of evil" rhetoric and the threat of economic sanctions may have pushed the government to adopt a more aggressive posture. From the North Korean government's perspective, the benefits of possessing nuclear weapons may well have seemed greater than the risks associated with developing them. The Chinese government believes that the world needs a concerted effort to bring about denuclearization. As for Korean reunification, China would not block the eventual reunification of Korea.

20. As for China's relations with Africa, the Chinese assert that these relationships are based on shared interests in advancing economic development. China is now cooperating with African countries in a wide range of areas. The Africa-China summit meetings in Beijing that were to take place the week after the NATO PA delegation visit were designed both to celebrate 50 years of cooperation and to deepen these relations based on equality and mutual benefit.

21. The Chinese government also wants to improve relations with Taiwan through its one China policy and ultimately aspires to re-unification. In the meantime China wants to improve mutual understanding while encouraging greater trade and people exchanges. China looks to the EU to support China's position.

22. Finally China is looking to reduce its share of energy use in its economy over the next five years. It is also seeking an energy dialogue with both energy consumers and producers. China and the EU had their first energy dialogue this year, and China is looking to more cooperation in this field.

## **V. MEETING AT THE MINISTRY OF AGRICULTURE**

23. 900 million Chinese, or 70% of the total population live in the countryside. Agriculture accounts for only 2% of GDP and only 12% of the country's land is arable. The average amount of land per household is 0.1 hectares while per capita GDP currently stands at US\$1700. By comparison per capita rural income now stands at US\$400. 23 million Chinese citizens are living on \$0.23 a day.

24. Farming in China is labor intensive, and the quality of output has been increasing. Living standards and incomes have also greatly improved in the 28 years since China began introducing market mechanisms. Grain production has increased and the country is now 90% self sufficient in that commodity, the production of which grew 6% between 2004 and 2005.

25. Officially, Chinese policy seeks to build a "harmonious" rural society - a label currently very much in vogue among Chinese policy makers and one that is used to describe a range of both domestic and international policies. In this instance, the idea is that the government seeks to give more to the rural population than it takes away in the form of taxes. Indeed millennia old rural tax polices have recently been scrapped, while subsidies to grain, vegetable and farm machinery have risen. Price levels, however, are set by market conditions although there are "protection" or floor prices for beef, maize and cotton. Farmland is still owned by the state, although farmers are entitled to 30-50 year leases on the land. The state communicates with farmers through agricultural outreach officers. It has also encouraged dialogue through village committees and through the establishment of farmer associations and co-ops. There is, in fact, the outline of a democratic dialogue occurring in the countryside and officials want to see this strengthened.

26. China has an important stake in the outcome of WTO multilateral trade negotiations and hopes to see those talks resume. It wants to see a lower EU subsidy rate and lower market entry standards in Europe, which would foster a fairer environment for developing country farmers like those in China.

## **VI. MEETING WITH STUDENTS AND THE DEPUTY DIRECTOR OF THE INSTITUTE OF INTERNATIONAL RELATIONS AT THE UNIVERSITY OF BEIJING**

27. The meeting began with a description of the Institute and its many programs. The institute teaches and conducts research on many international relations topics, and enjoys cooperative relations with many other universities around the world. The three most important issues that the Institute studies are: Chinese foreign policy as a means for internal development; political reform in China, which does not necessarily mean moving toward democracy; and the development pattern of China.

28. In response to a student's suggestion that China was not interested in democracy if it simply implied decision making based on voting, delegation members expressed their own understanding of what democracy is and how it works. An interesting discussion about the meaning of democracy followed and delegation members were very quick to assert that democracy implies far more than voting and majority rule. Indeed, they suggested that democracy is also about transparency of decision making, the protection of minority views, the right to organize politically and culturally, freedom of religion, and a free press which, it was argued, represents the best means to ensure transparency in decision making and is accordingly a key weapon in the fight against corruption.

29. In response to a delegation member's question about Chinese views of NATO, one professor suggested that there were many views, but that, in general terms, China had some concerns about NATO's presence in Central Asia, which is a region close to China's border. There was some discussion about possible areas of Chinese-NATO cooperation including the area of peacekeeping in which China plays an important role. One student, however, suggested that even here, China would likely want to keep its distance from NATO.

30. On Wednesday October 25 the delegation traveled to the Ningxia Hui Autonomous Region in order to gain a better sense of the development challenges China faces. The delegation visited the Bai Jitan National Nature Reserve in Lingwu, a major project to plant new forestland in order to protect the Yellow River basin from the encroaching desert. It also met with the regional Vice-President and toured rural regions to see conditions in the farmland, meet with local farmers and also saw projects designed to advance development including the Yanghuang irrigation systems and a new highway that the ADB has helped finance. Members had an opportunity to make a number of observations about the conditions in this relatively poor Muslim region in China. The delegation visited the historic Tongxin County Mosque and noted as well that the countryside was dotted with many new mosques. The gap between conditions in the city of Yinchuan and the hinterland were very apparent. The city itself appears to be bustling and there are signs everywhere of newfound prosperity. The hinterland was clearly far less affluent. The farmers the delegation visited were apparently better off than many others and this was reaffirmed in the friendly discussions the delegation had with them. It was also very apparent that water is a clear problem for the region as a whole. The region is very dependent on the Yellow River for water but there are problems not only with water rationing but also with the pollution of that river. Desertification is a related concern and when asked, officials also expressed apprehensions about the problem of global warming, which would clearly have a powerful impact on a region that is already suffering from very obvious water shortages. On a long bus trip on 26 October, members also saw important coal mining and industrial regions in the countryside. The lack of pollution

control was also very obvious. The delegation travelled down a new highway with very light traffic. There were brand new modern petrol stations and other facilities along the road showing that officials anticipate significant increases in automobile traffic in the coming years through the region and are building transport infrastructure with this growth in mind.

#### **VII. MEETING WITH OFFICIALS OF THE NINGXIA HUI AUTONOMOUS REGION'S DEPARTMENT OF FINANCE, DEVELOPMENT AND REFORM COMMITTEE, AND POVERTY RELIEF OFFICE**

31. In this meeting local officials provided a description of the Ningxia Hui Autonomous Region. The region is small by Chinese standards and covers 66,000 square km. It has a population of six million. The regional economy revolves around agriculture. It is also very dry and averages 300 days of sunshine a year. Substantial coal deposits provide a significant source of energy and are seen as an important resource. The region has also benefited from upgraded infrastructure, and has undergone an annual growth economic rate of 10%. The regional government has tried to speed up the process of industrialization, particularly in mineral processing, medical products and digitally controlled tools industries. It anticipates growing urbanization and has sought to develop new transport, water treatment facilities and heating systems for its cities. The regional government is focused on the construction of new towns and anticipates a rapid rate of internal migration. Introducing sustainable agriculture practices is also priority. The government plans to expand power generation facilities as well, while simultaneously cutting pollution by 20% - a position that is consistent with national policy.

32. Regional authorities point to several important structural problems. The Ningxia Hui Autonomous Region suffers from a shortage of highly skilled workers, and this impedes its competitiveness. The lack of water is another problem and is compounded by the challenges associated with industrial waste treatment. Unemployment poses another serious challenge. Still growth is having a very positive effect on poverty. The region once had 500,000 highly impoverished people, but that figure has shrunk to 70,000, indicating that even in this region, many people have been pulled out of conditions of abject poverty.

33. Questions for the panel related to: developing tourism in the region; the likelihood of reducing pollution while simultaneously increasing production; and the structural problem of small farmers. Officials believe that the region has made protection of the environment a priority and are making good progress on this front, including improving water quality and industrial pollution standards and technology. The panel agreed that the persistence of very small farms represents a problem, and that internal migration to the cities will have to be part of the solution. At the same time, local authorities are putting significant resources into improving agricultural productivity.

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