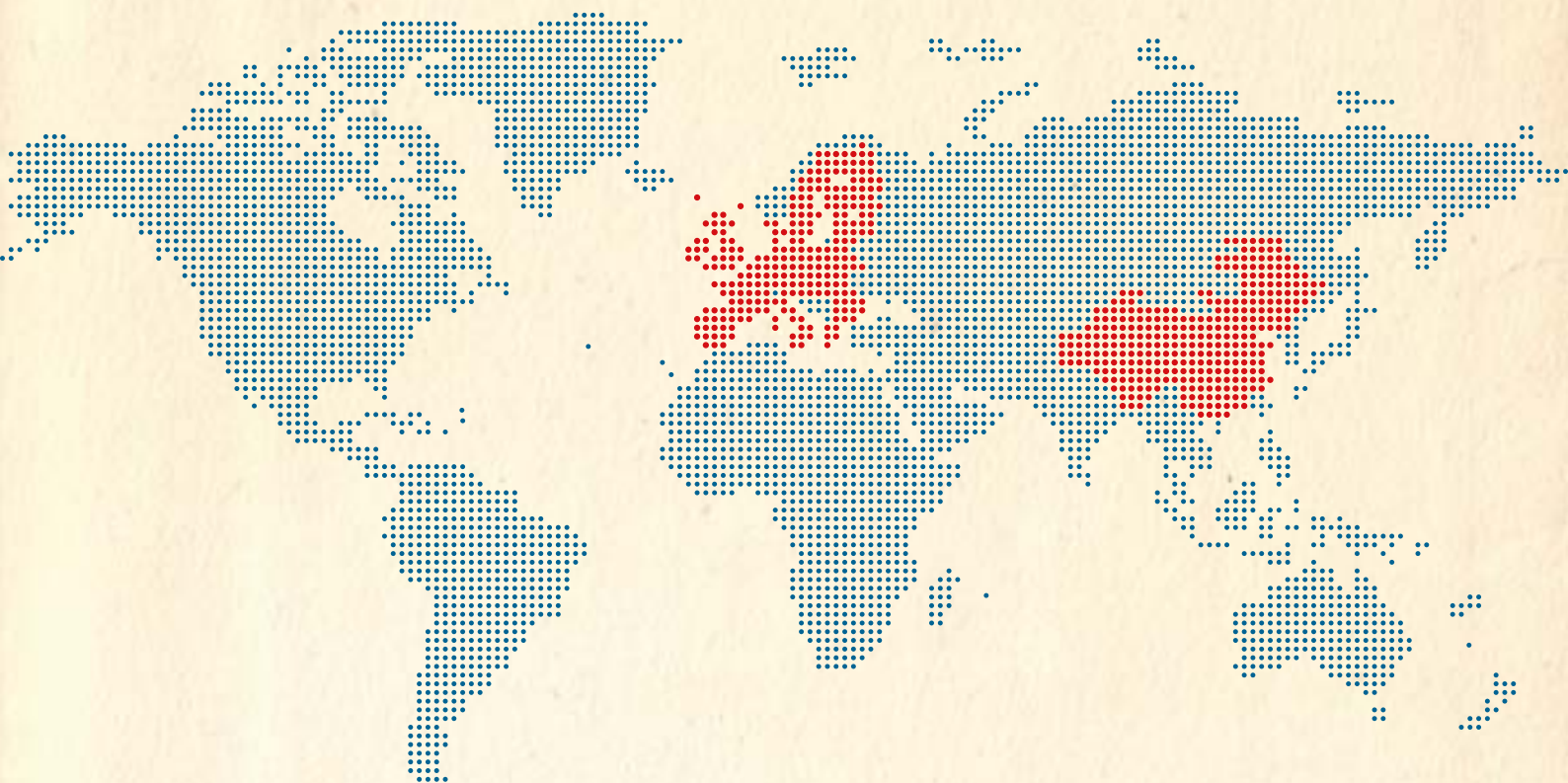




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# Regional Policy in China and the EU

A comparative perspective

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European Commission, Directorate-General for regional policy

Unit B.1 – Communication, Information, Relations with Third Countries

Raphaël Goulet

Avenue de Tervuren 41

1040 Brussels

BELGIUM

Fax: +32 22966003

E-mail: [regio-info@ec.europa.eu](mailto:regio-info@ec.europa.eu)

Internet: [http://ec.europa.eu/regional\\_policy/index\\_en.htm](http://ec.europa.eu/regional_policy/index_en.htm)

# 1. The EU-China Dialogue on regional policy

As large territories with wide economic and social disparities, China and the European Union face many similar challenges and share similar goals in achieving more balanced regional development.

Today, these challenges take on many forms, the acceleration of globalisation and the continuing opening of world trade, the effect of the technological revolution, the increasing role of the knowledge economy, the environment challenges, in particular climate change, the urban-rural divide, the increase in the social and economic disparities, migration and demographic trends. These challenges will have an asymmetric impact on EU and Chinese regions, tending to exacerbate existing differences and create new ones.

Against this background, on 15 May 2006, a Memorandum of Understanding (MoU) on regional policy cooperation was signed between the European Commission and the National Development and Reform Commission (NDRC) of the People's Republic of China to exchange information and best practices on experiences in setting up and implementing cohesion policy.

By launching cooperation with China on regional policy, the European Commission followed up upon the commitment made at the 7<sup>th</sup> China-EU Summit of December 2004 where balanced development and regional policy were identified as key areas on which both sides should share information and experience. Accordingly, the Memorandum of Understanding between the NDRC and the European Commission aims to promote mutual understanding and bilateral cooperation in the field of regional policy and to strengthen the exchange of information on the policy's contribution to growth, competitiveness and employment. The Memorandum of Understanding provides a basis for sharing EU experiences in setting up and implementing regional policy; in governance and partnership issues and in any other topics of mutual interest relating to regional policy.

## 2. EU-China Cooperation Agenda on regional policy 2006-11

The cooperation created within the framework of the Memorandum of understanding signed on 15 May 2006 in Beijing has brought benefits to both parties, leading to increased mutual understanding and to the consideration of new ways in which their respective policies for regional economic development might evolve.

In 2009, through an addendum to the Memorandum of Understanding, the dialogue partners agreed to focus future work on strategic cooperation, especially in the field of innovation and the formation of regional clusters.

Five high level meetings and seminars have taken place, alternately in China and in the European Union on key policy issues such as the classification and definition of regions, multi-level governance, cooperation between regions, regional innovation strategies, sustainable urban development, urban-rural partnerships and regional internationalisation strategies.

Several study visits and training programmes have also taken place aiming at providing insights into European and Chinese experiences on the policy issues mentioned before and a practical opportunity to engage with regional development challenges and solutions.

In this framework, a study which compares aspects of regional policy in China with regional policy in the European Union was carried out in 2008-10.

This book sets out the main conclusions of the study, which can be found in full at [http://ec.europa.eu/regional\\_policy/cooperate/international/china\\_en.cfm](http://ec.europa.eu/regional_policy/cooperate/international/china_en.cfm)

## 3. Joint Study on regional policies in China and the EU

*The study was produced with the support of the EU-China Policy Dialogues Support Facility, a project co-funded by the European Union and the People's Republic of China. The content of the study and the opinions which follow are the sole responsibility of its author/s and translators and can in no way be taken to reflect the views of the European Union or the People's Republic of China.*

The study on practical aspects of policy-making and regional development aimed in particular at delivering European experiences to Chinese experts during the preparation of the 12<sup>th</sup> Five-Year Plan and vice versa regarding the preparation of future EU regional policy. It is not intended to provide tailor-made solutions for Chinese or European reality, but rather to offer experts a source of reference when developing future regional policy measures. It was carried out in 2008-10, with the participation of 22 experts on both sides.

The study was coordinated, on the European side, by Mr Graham Meadows, Special Adviser to Commissioner László Andor and former Director General for regional policy, and by Mr Wang Yiming, Executive Vice President of the Academy of Macroeconomic Research of the National Development and Reform Commission of the People's Republic of China.

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### The authors and participants in the study were:

Jon Bloomfield, Head of European Policy at the West Midlands Regional Development Agency, United Kingdom and Honorary Research Fellow at the Institute of Local Government Studies, University of Birmingham.

Ding Ding, Associate Research Fellow at the Institute of Energy Research, Academy of Macroeconomic Research of the National Development and Reform Commission of the People's Republic of China.

Michael Dunford, Professor of Economic Geography at the University of Sussex, United Kingdom and visiting professor at the Institute of Geographical Sciences and Natural Resources Research at the Chinese Academy of Science, Beijing.

Steve Fothergill, Professor at the Centre for Regional Economic and Social Research at Sheffield Hallam University, United Kingdom.

Gao Shiji, Deputy Director General and Research Fellow at the Department of Development Strategy and Regional Economy, Development Research Centre of the State Council of the People's Republic of China.

Richard Harding, Senior Adviser to transition countries and new Member States on management of EU Pre-Accession and Structural Funds.

Margareta Griessler-Hermann, Senior Adviser for International and European Affairs to the Mayor and Governor of Vienna and Fellow at the Department of Chinese Studies, University of Vienna.

Huang Kun, Chinese Academy of Social Sciences.

Liu Feng, Director and Research Fellow in the Department of Development Strategy and Regional Economy, Development Research Centre of the State Council of the People's Republic of China.

Liu Weidong, Deputy Head, Research Fellow of Human Geography and Regional Development Studies, Institute of Geographic Sciences and Natural Resources Research of the Chinese Academy of Sciences.

Ouyang Hui, Vice Division Head of Urban Research and Associated Research Fellow at the Institute of Spatial Planning & Regional Economy, Academy of Macroeconomic Research of the National Development and Reform Commission of the People's Republic of China.

Peter Ramsden, Manager of Freiss Ltd, Pole Manager of URBACT for social inclusion and governance.

Shen Bing, Division Head of Urban Research and Research Fellow at the Institute of Spatial Planning & Regional Economy, Academy of Macroeconomic Research of the National Development and Reform Commission of the People's Republic of China.

Sun Xuegong, Deputy Director General and Research Fellow at the Institute of Economic Research, Academy of Macroeconomic Research of the National Development and Reform Commission of the People's Republic of China.

Kadri Uustal, Counsellor of EU Resources and regional policy at the Estonian Permanent Representation to the European Union.

Laurent van Depoele, Professor at the Institute for International and European Policy, Faculty of Social Sciences, Catholic University of Leuven, Belgium.

Tony Venables, Director of the European Citizen Action Service (ECAS), Brussels.

Thomas Wobben, Director of the Representation of the Federal State of Saxony-Anhalt to the European Union, Brussels.

Wang Qingyun, Deputy Director General and Research Fellow, Training Centre of the National Development and Reform Commission of the People's Republic of China.

Yu Xiaoli, Vice Head of the Foreign Affairs Office at the Academy of Macroeconomic Research of the National Development and Reform Commission of the People's Republic of China.

## EU perspectives on regional policy

The differences between the EU and China make it unlikely that techniques for EU cohesion policy implementation can be easily transplanted from one to the other, but their shared characteristics are sufficiently numerous to suggest ways in which the EU may be able to learn from several aspects of China's internal policy for economic development, such as:

### ● The importance of a clear objective

China's policies for regional development seek to stimulate growth in a number of specified urban centres at the same time as helping rural areas to raise their productivity and, thus, incomes. It is widely understood, therefore, that the objective of economic and regional development policies in China is to reduce poverty. In the EU, there is less clarity about the objective of EU cohesion policy: sometimes it is expressed as creating more and better jobs; sometimes as economic convergence or closing the income gaps between the poorest and average regions; sometimes as seeking economic modernisation and greater competitiveness. EU cohesion policy would benefit from clarifying its goals (focus of the policy would be poverty reduction and increased employment) and thus making sure that they were widely understood. Their objectives could, therefore, be quantified so as to take account of the Union's 2020 objectives.

### ● Target regions

Chinese policy is currently creating a system which will classify its counties according to their suitability for development, using a range of factors: economic, resource-endowment and environmental. The final system will enable policy-makers to achieve greater precision in their efforts to reduce poverty, drawing a distinction between those counties which can support high levels of industrialisation and inward migration of workers, and those where, for resource or environmental reasons, intensive industrial development should be carefully regulated or, even, discouraged. Cohesion policy in the EU has modified its classification system during its 20-year evolution and currently divides its regions into two types – Convergence regions (those at 75% of EU GDP per head or below) and Competitiveness regions (all others). There are indications that the binary system, even when it is supplemented by temporary arrangements, does not accord with the EU's long-term strategic vision and does not reflect the economic reality of regional development. EU policy-makers might, therefore, consider the advantages to be gained by introducing, say, two more regional groupings so that the intensity of financial support was reduced in three steps as opposed to one.

### ● Evaluation

The evaluation and monitoring of EU cohesion policy investment and social programmes is of key importance in securing improved efficiency in policy delivery and, thus, the highest value for money. China also bases its internal development policies on thorough evaluation – frequently introducing initiatives on a large-scale pilot basis – before applying them more widely. But there is a significant difference between China and the EU. In the EU, evaluation is carried out internally – through the European Commission or Member States evaluating their own programmes. China also carries out evaluations in this way but, as an

aid recipient in a development context, has regularly had its performance evaluated by donor organisations and organisations like the World Bank. This attitude has been maintained and, even when it evaluates for itself its national policies, it is not uncommon for China's policy-makers to include international experts in evaluation teams.

Evaluations of the working of EU cohesion policy might also benefit either by being carried out by an outside-EU agency or by including experts from outside-EU agencies.

### ● Decentralisation and visibility

In EU cohesion policy, decisions on investment and social projects are taken in a decentralised way, by programme partnerships throughout the EU, and are influenced by guidelines adopted by the central EU institutions. In this way, the EU seeks to empower regions and cities to decide and implement their own 'development policies' – more usually called programmes – whilst ensuring that decentralised decision-making takes place within the overall EU framework determined by its 2020 goals.



Experience in the EU and China is similar in this respect. Both see action against poverty to be central; both set poverty alleviation as a 10-year goal – the EU fixing a 10-year objective for 2020, China a 10-year objective in its Poverty Alleviation Plan; both superimpose the 10-year goal on a five-year political cycle – the EU's five-year programmes for each session of the European Parliament, China's Five-Year Plans; and both seek a decentralised implementation of anti-poverty policy. Yet, currently, it is China which seeks the greater decentralisation. In the 1980s, its poverty alleviation policy connected the centre to the provinces (the provinces being roughly equal to the EU's Member States), while the EU was more ambitious and connected the centre to its regions, cities, parts of cities and even villages, through rural development policy's Leader initiative. Since then, China has sought to extend the delivery of its anti-poverty policy to its villages, which may have a population of three or four thousand people or less, charging villages with the task of targeting support on the poorest families. At the same time, EU cohesion policy, in the name of 'simplification', has retreated from trying to connect the EU centre to its citizens, seeking only to connect the EU centre to Member States or regions. A new approach seems needed to connect



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EU cohesion policy to EU citizens, and their needs and wishes, and which seeks to restore to the policy its ability to experiment and innovate in its methods of implementation. The loss of this ability – unwittingly eroded by the incremental increase of administrative and financial controls – is reducing both the policy's value-for-money and its ability to respond to changing political priorities and emerging problems.

### Chinese perspective on regional policy

Since China was founded in 1949, its regional<sup>1</sup> policy has undergone several major adjustments in line with the changes to its environment and national development strategies. Prior to the Chinese economic reform, which was influenced by the former Soviet Union model, China implemented a development strategy giving priority to heavy industries, and centralised the allocation of resources under a planned economy, focusing on investments in and development of inland areas. As a result, a number of energy, new materials and processing industry bases were built. China's regional policy played a secondary role during this period and had no independent goals. In the early 1980s, China established the guidelines for the economic reform and the national strategic focus shifted to the eastern coastal regions. At the end of 1987, the Coastal Economic Development Strategy was brought forward and implemented, determining that open coastal regions should develop an export-oriented economy, take the lead in international competition and implement preferential policies on finance, taxation, credit and investment. The adjustment of China's regional policy after the introduction of the economic reform has optimised the allocation of resources and has effectively improved the efficiency of the allocation of resources.

Since the mid-1990s, targeting increasing regional disparities, the focus of China's regional policy has shifted to coordinated regional development and interregional equity, and a series of policies has been implemented to promote the development of central and western regions. Since 2000, China has implemented strategies to develop western regions, revitalise old north-eastern industrial bases, and promote the rise of central regions. Different emphasis is placed on development according to the characteristics and comparative advantages of the western, north-eastern and central regions. The central government has increased policy and financial support in key areas in these three regions. Following this phase, the overall strategic plan of China's regional development has basically taken shape.

Since the launch of the 11<sup>th</sup> Five-Year Plan, China has attached more importance to scientific development, emphasising the coordination between economic and social development and population, resources and the environment, and, therefore, implemented a strategy of development priority zones. A regional policy of category management has been implemented according to the development priorities of different regions. The central government continually increases transfer payments to agricultural priority zones and ecological priority zones to enhance basic public services and environmental protection in these areas.

Overall, the general objectives of China's regional policy at present and in the near future include: controlling regional disparities within a reasonable range, ensuring equal basic public services for all regions, putting regional comparative advantages into full play, increasing overall competitiveness, and coordinating the regional economy, society and resources, as well as the environment.

## The Definition and Economic Classification of Regions

### EU perspective on regional policy

The European Union has steered a delicate course to create a regional classification and information system which, at the same time, respects different national administrative arrangements and yet provides a reasonably common and harmonised territorial system for EU policy-making. The NUTS classification system and the REGIO domain of the New Cronos information system have provided, since its thorough reform in 1989, a foundation for the implementation of EU cohesion policy, providing a moving image of regional disparities, assembled on a basis which allows comparison between the EU Member States, and, therefore, permits policy to draw fine economic distinctions between regions and groups of regions. The adoption of the NUTS Regulation in 2003 helped cement earlier progress in establishing a common classification of territorial units for the collection, preparation and dissemination of harmonised regional statistics and, in particular, laid down a set of clear rules that established some order in the management of unavoidable changes in the administrative structures of Member States and that reduced their impact on the availability and comparability of regional statistics.

The European Statistical Office, which manages the NUTS classification, has also developed its system of Urban Audits adding a detailed socio-economic picture of cities and large towns to its regional data. The data collected by the Urban Audits has been suggestive for the development of policy, indicating targets which might be pursued by policy-makers as they seek to reduce socio-economic disparities.

But EU cohesion policy operates in a context which is changing; new problems are coming forward creating a demand from users for new types of data. At the same time, new methods of data collection and data handling are being developed.

Areas which indicate a continuing need for better data range from those related to the need to reduce global warming and carbon emissions to those dealing with the need to strengthen and exploit research endowments more effectively. It will be some time before new indicators are available in sufficiently long series to serve as the basis for the selection of policy areas. In relation to cohesion policy, income data will, therefore, continue for the time being to serve as the dominant yardstick. But the wider needs of the political context cannot be ignored and, while the new range of data series is being created, policy-makers will be looking for ways of using, for example, carbon emissions data, to modify the patterns of financial allocation.

<sup>1</sup> The geographical area studied by Chinese experts is mainland China, excluding Hong Kong, Macau and Taiwan

The other important developments relate to the growing importance of geographical information systems. One way, for example, to solve some of the problems associated with the non-coincidence of administrative regionalisations with the underlying geography of the phenomena central to policy analysis is to supplement data for administrative areas with grid square data. At present, a movement in this direction is constrained by the fact that few national statistical offices in Member States collect this type of data. In the years to come, it is, however, desirable that raster data for grid squares of equal sizes be exploited to provide additional and largely complementary data to that collected for administrative areas.

### Chinese perspective on regional policy

China's classification of regions is continually being adjusted with changes in economic development stages. In the early days after the foundation of New China, the country was classified as a combination of coastal regions and the inland to balance the development of the regional economy. In the 1960s, it was adjusted to first-tier, second-tier and third-tier regions in consideration of national defence and security. After the economic reform, to meet the needs created by the fast development of the regional economy, the classification of regions was adjusted more often, from coastal regions and the inland during the 6<sup>th</sup> Five-Year Plan period, to eastern regions, central regions and western regions during the 7<sup>th</sup> and 8<sup>th</sup> Five-Year Plan periods, and to seven economic zones during the 9<sup>th</sup> Five-Year Plan period. Since the turn of the century, with the implementation of strategies to develop the west, revitalise the old industrial bases in the north-east and promote the rise of the central regions, China has a new classification of regions with four regional categories: the coastal regions, the north-eastern regions, the central regions and the western regions.

Classification by development priority zones and classification by special regions are also important in China's current classification of regions. For classification by development priority zones, based on the resources and environmental carrying capacity, the current development density and the development potential of different regions, and in consideration of the future population distribution, economic distribution, land use and urbanisation patterns, the country has been classified into optimal development zones, key development zones, restricted development zones and non-development zones according to their development priorities. In order to facilitate the development of key regions and the governance of 'problem areas', China has also classified several special regions, such as special economic zones, coastal open cities, poor regions and resource-based cities.

Compared with the classification of regions in Europe, disparities in political, economic and administrative systems have a greater impact on the classification of regions in China. Regional development strategies determine how regions are basically classified. Regarding China's classification of regions, the spatial range of each unit is too large and needs to be improved in the future classification of regions.

## Governance

### EU perspective on regional policy

In EU regional policy, each programme is developed through a collective process involving authorities at European, regional and local level, social partners and organisations from civil society. This partnership applies to all stages of the programming process, from design, through management and implementation to monitoring and evaluation. This approach ensures that action is adapted to local and regional needs and priorities. In China, regional development policy is also delivered through multi-level governance, involving five rather than four levels – central government, provinces, counties, townships and villages. It can be seen in operation in the huge reconstruction effort being undertaken in the zone affected by the Wenchuan earthquake and its aftershocks in May of 2008.

An important part of the reconstruction is being carried out in 4 834 poor villages in the provinces of Sichuan, Gansu and Shaanxi where, once the emergency reconstruction of homes and basic infrastructure has been completed, priority will be given to the rebuilding and development of economic potential. This urgent regional development is being carried out by the State Council's Leading Group Office for Poverty Alleviation and Development (LGOP). Under LGOP guidance, each of the affected villages has prepared a programme for its development, has been allocated an amount of funding and has been asked to indicate its priority projects. In this way, multi-level governance in China is reaching even closer to the citizen than in the EU. Aid from NGOs – Oxfam will finance projects in about 40 villages – is being coordinated with the state's main effort.

NGOs and civil society play a considerable part in the delivery of EU cohesion policy, which is made more effective by civil society's close connection with the grassroots of regional economies and with community development. Indeed, this is one area where the system for implementing EU cohesion policy is sharply distinguished from policy delivery in China: civil society is integral to the delivery of regional development and social policy in the EU.

The value of civil society participation to the delivery system for EU cohesion policy is that 90% of the sector is at local community level, frequently with cross-border links which enhance regional integration and with very diverse organisations which ensure that civil society is adaptable to different circumstances. The growing awareness of corporate social responsibility – a trend in China as well as in Europe – is strengthening the link between private business and civil society.

Mobilising the largely untapped potential of civil society in European regional policy has to be a perceived mutual advantage. Public authorities have to be convinced that not everything can be done by the public sector and private industry, so that they see more clearly the role of the 'third sector'. This sector, in turn, has to be convinced about its own role in economic and local community development in partnership with other actors. European funding mechanisms must be made sufficiently user-friendly. Instruments such as global grants, technical assistance and

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European programmes can help improve the capacity of civil society to play its part in policy implementation.

### Chinese perspective on regional policy

During the planned economy period before the economic reform, the government controlled most economic and social resources, and regional governance was led by the government. It was characterised by the implementation of highly centralised, top-down vertical management, weak regional economic ties, the government playing an overwhelmingly dominant role in regional management, and a very low degree of participation by social organisations and the public.

After the economic reform, to adapt to marketisation, the central government devolved to local governments the rights to tax, investment management and corporate jurisdiction. Many public issues across different administrative areas came up in regional economic development, resulting in the rapid rise of regional governance. This becomes clear in the following overview:

Firstly, inter-provincial economic cooperation and construction of inter-provincial systems have been carried forward rapidly. Inter-provincial regional economic cooperation networks of different forms, sizes and characteristics have been gradually formed, and new cooperative systems have been built to establish the appropriate contract mechanisms and coordinate different interests.

Secondly, economic integration of metropolitan areas and governance of urban agglomerations have been strengthened. The Yangtze River Delta urban agglomerations can be taken as an example: 16 cities in this region have strengthened integrated cooperation in inter-city transportation and infrastructure construction (such as communications, and environmental and ecological governance). A business credit monitoring system and a notes settlement and property trading platform have been established for these cities.

Thirdly, the maintenance and regulation of regional market orders have been strengthened. The administrative decentralisation reform has also enhanced the motivation for local governments to seek local interests while stimulating their enthusiasm for economic development. In order to strengthen market regulation and regulatory capacity, China has implemented the vertical leadership system below the provincial level for market regulators such as the department of industrial and commercial administration and the department of quality supervision.

Fourthly, a regional mutual aid system with Chinese characteristics has been formed. The regional mutual aid system is the regional governance pattern with the most Chinese characteristics. Firstly, a long-term, stable partner assistance relationship has been established between developed regions and underdeveloped regions, e.g. Beijing assisting Inner Mongolia, and Shanghai assisting Yunnan. After the Wenchuan earthquake on May 12, 2008, it was agreed upon that 19 provinces and cities would assist the areas affected by the earthquake for three years. At present, China's partner assistance has shifted from being led by the government to a broad participation of social forces, and the emphasis

has shifted from economic aid to the improvement of the life of local residents and public services in the assisted regions.

And finally, the channels of social organisation and public participation have been expanded. Various regions and departments have established government information disclosure systems. Moreover, they have implemented public consultation systems, and are continuously improving public participation and transparency in regional management decision-making processes.

## Financing Solidarity

### EU perspective on regional policy

Since its inception, the EU's range of policy commitments has steadily widened and successive enlargements have increased the Union's size from, at first six, to 27 Member States. As part of this process, the EU budget has grown in real terms and its appropriations in 2007 were €115.5 billion. However, as a share of EU income and public expenditure, the EU budget is small, standing at less than 1% of Gross National Income (GNI) and at less than 2.5% of public expenditure. And, although the size of the budget has increased in real terms, it was reduced as a share of EU GNI when it was last fixed. The reduction was decided in May 2006 when the Union agreed its seven-year financial framework for the period to the end of 2013.

Cohesion policy was allocated €308 041 million in 2004 prices (€347 410 in current prices) for the period 2007-13. The revised cohesion policy architecture for 2007-13 identified three objectives and three financial instruments. It concentrates its resources (81.4% of total cohesion policy resources) on the Convergence objective, which aims to stimulate economic growth in the poorest regions of the EU, those which, in the selection period, registered an average income equal to or below 75% of the EU average GNI per head.

The allocation of EU regional policy financial resources is driven by a number of factors:

- The first is the set of overarching criteria, of which the most important relates to the capping of resource allocations to match the recipient economy's absorption capacity. It is designed to restrict the allocation of funds to an amount equal to a pre-determined share of the state's national GDP that, it was agreed, the state could invest effectively.
- The second is a set of needs-driven formulae derived mainly from indicators of GDP in Purchasing Power Standard (PPS), GNI in PPS, population and unemployment. Other indicators include educational attainment, employment rates, and land surface. A strong case can be made for increasing the weight attached, in particular, to employment rates as opposed to unemployment rates, to indicators of green GDP in view of the increased importance of sustainability, and to indicators of human development rather than simply of the wealth or income created in the regions in which people reside.



- The third driver is precedent, since, in the allocation of EU cohesion policy resources, previous levels of assistance provide a starting point. The automatic application of tapering is, however, potentially problematic in that it presumes that the situation will improve and that relative underdevelopment is a relatively short-lived transitional state.

In view of the revision of EU cohesion policy in connection with the fifth financial perspective, to cover the period 2014-20, the study underlines the desirability of viewing the EU budget as an instrument of policy and not, as has been the case in the past, viewing policy as being an instrument of the EU budget. The difference in approach may seem small but can be vital. The former allows EU cohesion policy to take its place as one of the EU's three policies in support of economic growth and employment creation and allows a political emphasis on regenerating sustainable economic activity and on carbon-neutral and equitable growth. The latter emphasises the relative importance of EU cohesion policy in the overall EU budget and focuses on cost-cutting. In present conditions, this budgetary perspective might lead to decisions to withdraw the policy from the Union's better-off Member States, thus weakening its overall effect.

Possibly the biggest weaknesses in the policy as it stands are its brutal treatment of growing regions, in particular, and its lack of sensitiveness to shifts in relative regional development. In what is in effect a binary, or on-off, policy system, EU cohesion policy support for a poor region which is improving its performance is rapidly reduced once it passes the trigger point equal to 75% of EU GDP per person. This already low level of income, hallowed as the trigger point since the policy's revolutionary reform in 1989, has been devalued by almost 20% by the EU enlargements which have taken place since. Acknowledgement of this weakness would indicate that the next reform of the policy is the moment to install a more graduated approach. The study explores the effect of classifying regions into two extra categories, making four in all. Regions would then move from one category to another as their GDP per person rose or fell in relation to the Union average, while the degree of support could be more graduated. Such a reform would: respond to the reduction in the policy's trigger level as a result of the accession into the EU of poorer Member States; better reflect the economic reality that regional economies remain fragile as they regenerate from very low levels of income; recognise that there are powerful forces that constantly alter the relative position of regional economies of which the differential impacts of the latest recession is just one example; avoid abrupt changes in the intensity of funding; provide policy-makers with a revived policy instrument with which to pursue economic modernisation and the drive for greater competitiveness.

## Chinese perspective on regional policy



Since the founding of New China, China's financial system has undergone four stages: the centralised revenue and expenditure financial system, the centralised leadership and decentralised management financial system, the different level responsibility financial system, and the tax sharing financial system.

Based on the 1995 tax sharing reform, China's current financial and taxation system implements a system consisting of one financial system for one level of government, and in accordance with the principle that financial power and administrative power should be matched, divides central and local revenues by tax categories: taxes necessary to safeguard national interests and implemented macro control are central taxes, taxes directly related to economic development are shared taxes, and taxes suitable for local collection and administration are local taxes. A system of tax rebates and transfer payments from the central finance system to the local finance system has also been established.

China's financial and taxation policies to promote coordinated regional development mainly include transfer payments, tax preferences and financial assistance. The transfer payment system includes tax rebates, settlement subsidies (or solutions), and other subsidies. To promote coordinated regional development, China has also introduced a wide variety of preferential tax policies and financial assistance policies.

The direct government investment policy is an important financial and taxation policy in China for promoting and coordinating regional development, and mainly includes special financial funds to support regional development and the central local government budgetary and extra-budgetary investments. Special funds are mainly used to support the economic and social development of the elderly, children, border regions and poor regions, including national anti-poverty funds, financial anti-poverty funds and ethnic minority development funds. Chinese government budgetary investments are mainly used in economic and social areas where the market cannot effectively allocate resources and government support is needed, including public welfare and public infrastructure investment projects, projects to protect and improve the ecological environment, projects to promote the economic and social

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development of underdeveloped regions, and projects to promote technological progress and high-tech industrialisation, and the financing forms include direct government investments, investment subsidies and financial discounts.

Policy banks and policy-based loans are another important financial tool in China to support regional development. Currently, there are three policy banks, namely the State Development Bank of China, the Agricultural Development Bank of China and the Export-Import Bank of China. Chinese policy banks take coordinated regional development more into consideration for credit allocation than commercial banks, and provide more financing for government projects on underdeveloped regional development.

### Capital Movement, Industry Transfers and Innovation

#### EU perspective on regional policy

The content of European Union cohesion and regional policy has shifted over the past 20 years. In the 1980s, it worked mostly with the public sector. Although some of its support was used to bolster state aid to large private companies, its financial focus was fixed on subsidies for improvements in basic infrastructure. Public funds from the EU were used to support those from national and regional governments for investment in publicly-owned infrastructure. Now, the private sector is key. The focus is on investments which are appropriate to the needs of a knowledge economy – support for innovation, for example; for small and medium-sized businesses; and new financial instruments for private businesses. Now, more and more, public funds from the EU support investment in privately-owned businesses – the public funds becoming, therefore, private capital – and this shift has brought with it complex problems. Chief among them is the risk that public finance will distort private markets. Policy interventions in already complex market systems require sophisticated management to ensure: first, that the use of public funding is confined to areas of market breakdown; second, that the private projects it supports will bring a public benefit; and third, that the projects, once implemented, will be carefully monitored and controlled. To ensure the best use of public money in the general interest, policy-makers require an ever-deeper understanding of how complex market and enterprise systems work.

In mature economies, the need to encourage capital to migrate to places with lower returns or higher risks, or both, has led to the emergence of a 'new regional policy' which emphasises the role of indigenous potential and the development of innovation. Traditional regional policy was centrally driven by national governments and used a combination of mostly automatic investment incentives and infrastructure development to improve the attractiveness of regions with high unemployment. New approaches are driven by lower levels of government (regions, city-regions, cities), are often based on an integrated approach, and introduce the idea of 'soft infrastructures', for example to stimulate innovation, SME development or access to capital.

Investments in EU cohesion policy have shifted to this new paradigm. In the current programming period of EU regional policy (2007-13), over a quarter of investments focus on stimulating innovation through the introduction of new products and processes in businesses. The current European Regional Development Fund links productive investment to the creation of sustainable jobs and allows for direct investment in SMEs, infrastructure and endogenous potential through regional and local development. It refers to financial support and services to enterprises, and to financial instruments such as venture capital, loan and guarantee funds, local development funds, and interest rate subsidies.

This change is only partial and varies across the EU Member States. It is likely that most regions will go through stages in the content of their regional programmes. In general, the most rapid transitions have been made in the EU's Competitiveness regions, which are undergoing structural adjustment. In the poorer Convergence regions, where GDP per head is lower than 75% of the EU average, many investments are needed in hard infrastructures in order to catch up with the



Nanjing Binjiang Development Zone

infrastructure endowment of more developed parts of the Union and, even when they spend money on innovation, it is often through investments in science parks and other infrastructures. The key for each region is to find the right mix of actions that are relevant to its own economy. A focus on creative industry clusters might be relevant in metropolitan regions but would be inappropriate in a region with smaller cities focused on industrial production. Choosing the right strategy is all about horses for courses.

#### Chinese perspective on regional policy

Foreign direct investment (FDI) is the main form of international industrial capital transfer towards China. FDI is concentrated on China's east coast and has driven the concentrated development of industries in the east. After the financial crisis, FDI in China has shown a new trend: cross-border mergers have become the main form of FDI, the trend of FDI sole proprietorship has been given a boost, the number of companies establishing R&D institutions has increased, and the financial, business and service outsourcing sector has grown rapidly. FDI is speeding up the transfer from the coast to the inland. Facing this new situation, the

east is optimising the FDI structure, while the central and the western regions are seeking innovative ways to attract investment. For example, when introducing the computer manufacturing industry, Chongqing adopted the model of 'one end' (raw materials, spare parts and complete units) inside and 'one end' (market) outside, which is different from the processing and trading model in the east of 'two ends outside', i.e. raw materials and the market abroad and processing in China.

Domestic industrial transfer and capital flow are closely linked to China's regional policy. After the economic reform, China opened up the coast first, driving the transfer of resources, funds and labour from the inland to the coast. Since the turn of the century, with the increase of prices on the coast, under the gradient transfer rule, international industrial capital and the industrial capital of the east have begun to transfer to the central and western parts of the country. Currently, the scale of industries transferring from the coast to the inland is increasing, showing a trend that labour-intensive industries are transferred first, companies are transferred in groups, consumer goods industries are transferred to inland regions with large markets, and resource-based industries are transferred to inland regions rich in resources. However, eastern provinces and regions are more willing to transfer their companies to underdeveloped areas within their provinces, and the central and western regions face weak local industrial basics, poor coordination support and a lack of technical personnel.

## Rural Development and Urban-Rural Integration

### EU perspective on regional policy

There is a strong similarity between the EU's experience with its Leader initiative and the present form of China's policy for rural development and poverty reduction. Two similarities which are noteworthy are the benefits to be gained from a grassroots approach to economic development, operated within a centrally-determined set of development priorities and objectives, and from higher levels of education for farmers and other rural residents. Put another way, China decides the direction and objectives of its rural development policy at a macro-level and implements it at a micro-level. The Leader initiative and its distinctive 'Leader approach' have the same properties and it has generated results which have gone far beyond those which could have been achieved by central policy-makers acting alone. It has shown the importance for rural development of a territorial approach, of the participation of local actors and of the formation of networks between them. It has been instrumental in bringing a local and territorial identity, or dimension, to local development strategies, thus reinforcing the coherence of development projects and magnifying the effects of synergy. Areas which were formerly anonymous have become 'unique' with their own strong identity.

Placing an element of 'local identity' at the core of a territorial strategy has made it possible for unused, neglected or even forgotten resources to regain their economic and social value. This has given rise to unique products resulting from unusual combinations of different elements

and sectors. Good examples are the 'Village of Bread' in Belgium and the 'route du vin' in France, but there are many more.

Participation has enabled local actors to 'imagine' a future for their rural area – to build a consensus around a 'vision' for their socio-economic development – and this, in turn, has created opportunities for previously under-represented groups to play a role. For example, it is remarkable to note the strong participation of women in local action groups. Also, it has become clear that the decline of certain areas, even where it is well-advanced, is never terminal because local players make it possible to explore new avenues of development. In some cases, visionary players came forward to present a totally new product or service which then has a multiplier effect. In addition, new technologies have been introduced, such as 'tele-medicine' in France.

Networking has similarly led to exchanges of experience, to mutual willingness to learn from each other, and to the possibility of cooperation between rural areas by establishing vital European Leader-initiative networks of local groups. Cross-border cooperation has allowed the planning and implementation of joint projects and, even more importantly, has provided a concrete demonstration of the possibilities for the development of rural Europe.

The 'Leader approach', incorporated into integrated rural development strategies, has allowed experiments with local (territorially-based) small-scale actions (pilot projects) using the endogenous potential of the locality. The underlying assumption is that development processes involve a different mix of relevant factors that are unique and typical of a particular geographical space and time and, therefore, development programmes need to be conceived at local level. The actions are invented and executed by local players at the grassroots (bottom-up) and can often, if successful, be transferred to other territories.



Experience of the Leader initiative clearly illustrates that the success of the projects also depends on good management. There is an absolute need for young and intelligent people to be in the driver's seat and the optimum arrangement is that the best people should be on duty in the most fragile areas. The mainstreaming of all features of the Leader methodology (bottom-up, territorial, partnership, integrated approach...)

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strengthens rural development policy by making it more adequate for dealing with the increased diversity of the European Union, but it should be handled in such a way that it does not lead to the loss of the many excellent and extremely motivated animators and managers of local Leader projects.

EU rural development policy continues to aim at the maintenance of a lively and healthy countryside. Its technique is the diversification of rural activities and the use of a set of simple transparent instruments for agriculture, the environment, job creation, growth and sustainable development in rural areas on the basis of a territorial approach. This allows the valorisation of the Union's immense territorial diversity and, at the same time, helps to preserve the Union's cohesion. These essential objectives are achieved on the basis of the involvement of the local stakeholders, which serves as a Europe-wide example of participative democracy.

### Chinese perspective on regional policy

Since the economic reform, the financial and social resources of Chinese governments at all levels have favoured cities, and urban-rural gaps are continually widening. Affected by the urban-rural split system, lack of capital investment in rural areas, the 'top down' supply decision-making mechanism and other factors, the infrastructure – such as roads, irrigation works, power, telecommunications and energy – in rural Chinese areas is still lagging behind, and rural public services such as education, culture and social security remain inadequate. To promote rural development, China has implemented a series of new policies including village self-government, the abolition of agricultural taxes, the development of a new, socialist countryside, the 'two exemptions and one subsidy' policy for compulsory education in rural areas, the new rural cooperative medical system, the pilot pension insurance for rural areas, and a system whereby home appliances are transferred to households in the countryside.

To promote rural development, China continually deepens rural reform. In the land reform, China has established the fundamental policy of strictly protecting cultivated land and intensively using land and a long-term land contract system, severely restricting the expropriation of rural land, and improving the rural homestead system. In recent years, China has actively innovated the new rural financial system, relaxed rural financial access and strived to form a rural financial system combining commercial finance, cooperative finance and policy-based finance in Chinese rural areas.

An important method for China to promote rural development is by driving agricultural development with industry and promoting rural development with the assistance of the cities, in an attempt to achieve coordinated economic and social development between the cities and the rural areas. The objectives of Chinese urban and rural coordination policy include: firstly, increasing transfer payments to rural finance; secondly, planning the city and the rural areas as a whole to achieve united planning and the infrastructural connection of the cities and the rural areas; thirdly, integrating public services to establish an equal and balanced public service system between the city and the rural areas; and fourthly, unifying the labour market between the cities and the rural areas.

## Urban Development and Urbanisation

### EU perspective on regional policy

An urban policy has developed out of EU cohesion and regional policy in response to the understanding of the nature of the Union's urban mosaic. Whereas, the first awareness of cities and towns was of the problems caused by industrial restructuring or the existence of areas of severe deprivation, they are now seen as the important motors of growth and development. In line with this changed perception, EU cohesion policy has developed new instruments for urban areas: its first step demonstrated that the policy could operate at the micro-level by 'miniaturising' its programming and implementation procedures (examples, the Urban initiatives and 'Pathways to Integration'); its second step has been to promote networking between cities and towns so that they form 'virtual' clusters sharing knowledge and experience in the search for a development advantage (example, the URBACT initiative).

The EU's urban mosaic exerts a major socio-economic influence over the EU territory and, indeed, there are very few areas which are not within a 45 minute drive-time of an urban centre – in other words, within a convenient commuting or shopping journey. On this basis, persistence of the urban-rural dichotomy in the EU may be considered as an anachronism.

There is no conflict for EU cohesion and regional policy in operating at different levels – regions, smaller city-regions, neighbourhoods. Indeed, operating urban policy as part of wider cohesion and regional policy enables it to confront urban deprivation with tried and tested techniques for implementing development policy – techniques which have proved their value in city neighbourhoods and in rural villages, since the Leader initiative, in effect, applies regional instruments on a micro-scale. A policy that is sensitive to the different scales of intervention is better adapted to maximising economic efficiency and to the needs of multi-level governance arrangements.

The main advantage of organising development assistance for neighbourhoods or rural villages as part of a city-region or region-wide programme is that poorer localities can more easily tap into the economic development opportunities that are stimulated at regional level. For example, the organisation and timing of local training schemes, investment projects and community development can all benefit by being integrated into the wider effort for regional development – as the 'Pathways to Integration' initiative was integrated in Liverpool-Merseyside. There will also be advantages of flexibility in financing and in programming which would not be available in smaller, more narrowly-drawn programmes. This would suggest that policy-makers seeking urban development should oppose any fragmentation of cohesion and regional policy. They might even seek to ensure that it covers rural communities to counter any tendency to replace its economic growth objective with one which seeks to compensate for territorial handicaps. A second advantage of operating neighbourhood policy with an eye on the city-region is that it helps to avoid the negative externalities and spill-over effects which may result from targeting only some of the disadvantaged neighbourhoods in a city.





Castelldefels, Spain, Institute of photonic sciences

One factor of overwhelming importance, whatever structure is chosen for urban and rural development policy, and for cohesion and regional policy in general, is the availability of qualified personnel to implement and manage the development effort. In both urban and rural areas, this is frequently done with local partnerships, and, as we have seen, the task of ensuring that local people can work in harmony with other levels of government is complex. Experience with the 'Pathways to Integration' initiative and in the first and second Urban initiatives demonstrates that a common factor in their success is the added concentration and extra effort put in by personnel at all levels of government. Such close attention helps these schemes and others like them, to work on an experimental scale and to achieve important results with relatively small amounts of finance. But the fruits of such experimental work can only be achieved when the innovations are rolled out across the whole region, and across all regions. This is the ultimate challenge and it is one which is difficult to meet – too frequently the construction of policy is blamed for indifferent results when the fault has been poor and patchy implementation. In this respect, innovations in policy and its implementation are similar to those in industrial processes; they require knowledgeable staff to make them work.

### Chinese perspective on regional policy

From 1949 to 2009, China's urban population increased from 57.65 million to 621.86 million, and the level of urbanisation increased from 10.6% to 46.6%. China's urbanisation rapidly increased after the economic reform. The implementation of the urbanisation strategy during the 10<sup>th</sup> Five-Year Plan period gave strong impetus to the urbanisation of many regions. From 2000 to 2009, China's urbanisation level increased from 36.2% to 46.6% with an average annual increase of 1.15%.

The level of urbanisation is not enough to reflect the whole picture of China's urban development. In 2009, 145 million people from rural areas around the whole country left their hometowns to work in the cities; this group of people is called migrant workers. According to current statistics of urban population, a significant section of migrant workers is counted as urban population, but urban public services, including education, health, social security and housing security, are only supplied to registered urban households, while migrant workers and their family members are not able to enjoy these services. Therefore, recognising

migrant workers, who have stable labour relations and have lived in a town for a certain number of years, and their family members as urban residents will be an important urbanisation task during the 12<sup>th</sup> Five-Year Plan period and even a certain period after that.

Another important task in China's urbanisation and urban development process is to improve urbanisation layout and form, that is, with the support of large cities, focus on small and medium cities as they gradually grow into large areas, and to coordinate the development of large, medium and small cities, as well as small towns. For the planning of functional orientations and industrial layouts of different cities in urban agglomerations, large cities should identify the boundaries of urban development, standardise the construction of new towns and new districts, increase the population density of built-up areas, adjust and optimise the structure of land for construction, avoid excessive expansion of megacities, and prevent and resolve 'urban diseases'; small and medium cities should enhance industrial functions, strengthen public services and residential functions of small cities and towns, and relieve pressure from megacity centres. Moreover, they should actively promote united construction and network development of infrastructure such as transportation, telecommunications, power supply, water supply and drainage of large, medium and small cities in urban agglomerations, expand green areas and public spaces, accelerate the construction of urban public cultural and sports facilities open to the public, value and protect urban cultural heritage, and improve the urban living environment and human environment.

## Challenge of Migration

### EU perspective on regional policy

Both Europe and China face major challenges, some of which are distinctive, others which are similar. Both are experiencing the effects of uncontrolled migration and the resulting inequality. The study argues that there are three dimensions to managing this issue, namely controls on the flow of migrants, their effective integration at their place of destination and concentrated programmes of economic development in their home regions, so that these themselves become places of sustainable growth. On the issue of migration, a balanced package of measures which addresses all three aspects is crucial. Both the EU and China are addressing elements of this approach but neither is tackling all three in a coherent and coordinated fashion.

- For the EU, this is becoming a more pressing issue, especially as it has greater pressures from beyond its borders than China currently faces. EU politicians rarely address this issue in a comprehensive manner, yet it has a number of policy instruments which it can use or refashion.
- First, as it looks to the future, the European Social Fund, perhaps re-titled the Fund for Combating Inequality, could be promoted as a broad, cross-cutting programme to tackle the specific skills, educational and training issues affecting low income, low-skilled workers, including migrants, across the whole of Europe. The new name and purpose



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would signal to the general public the EU's determination to address its main social challenges and to tackle inequality.

- Second, the EU could also emphasise that the express purpose of the European Regional Development Fund is to promote balanced growth across the whole EU territory. It is a policy for coherent spatial development. One objective which should be stated explicitly is that of boosting lagging regions so that they retain rather than discard labour.

Both of these funds are key instruments in showing that EU policies are designed to promote economic, social and territorial cohesion which over time will reduce migratory pressures from within the EU and ensure the more effective integration of those citizens who do migrate.

- Third, the implementation of the provisions of the Charter of Fundamental Rights and agreement on EU-wide frameworks on working time and agency working would provide political and legal backing to the EU's social dimension.

Migration need not provoke resentment and anger. If action is taken in all three areas discussed here, then population movement can be a more controlled process, bringing all-round economic benefits and reducing the degree of social upheaval and public unease. Without this, there is a danger of significant public turmoil and a pattern of development that will be neither stable nor harmonious. The suggestions made in the study propose a course of action which could enable both China and the EU to pursue a course of economic growth which is both geographically balanced and socially just.



## Chinese perspective on regional policy

As mentioned above, in China there is a group of people from rural areas who work in the city. They are called migrant workers. They mainly flow from the central and western regions to the eastern regions, especially to the Yangtze River Delta regions and the Pearl River Delta regions. In 2009, migrant workers in these two regions accounted respectively for 19.4% and 22.6% of the total migrant workers in China. Most of these migrants are from a new generation of migrant workers born after 1980. In 2009, migrant workers in the 16-25 and 26-30 age groups accounted for 41.6% and 20% respectively, totalling 61.6%. In terms of education, migrant workers are usually less educated, and those with junior middle school as their highest level of education accounted for 64.8%. As far as occupation is concerned, migrant workers in the manufacturing sector accounted for the largest percentage in 2009, i.e. 39.1%.

At present, China has approximately 497 million employees in rural areas and has transferred out 200-230 million. Agriculture requires about 180 million labourers and there are still about 90-120 million surplus labourers in rural areas, so the general trend of rural labourers continuing to transfer to urban areas will not change. Providing appropriate public services to the large population of migrant workers and their family members has become a challenge faced by Chinese governments at all levels. Policies to solve this issue include:

- Promoting the household registration system reform, actively and steadily establishing a household registration system integrating rural and urban areas and registering households based on location of residence and employment. The current focus is to further relax household registration conditions in small and medium-sized cities and towns.
- Improving the educational conditions of migrant workers' children in urban areas, relying mainly on full-time public elementary and secondary schools in locations where migrant workers flow to, ensuring that their children have equal access to compulsory education, and creating a good connection with education in senior middle schools.
- Strengthening social security for migrant workers, gradually including migrant workers who have established a stable labour relationship with companies into basic urban worker old-age pension insurance and medical insurance schemes, and establishing a relief system for migrant workers who temporarily encounter difficulties.
- Strengthening employment services for migrant workers, establishing a basic training subsidy system for migrant workers, promoting the planning of migrant workers' training funds at provincial level, developing a standardised labour market system where urban and rural areas are open, and creating employment agencies to provide migrant workers with information on employment.
- Improving migrant workers' living conditions through multiple channels and systems, and encouraging local governments to adopt various methods to include migrant workers who meet the conditions into the urban housing system.

## Sustainable Development and Climate Change

### EU perspective on regional policy

Whilst economic development has brought increased wealth to both the European Union and China it has also resulted in greater demand for natural resources, increased pollution of land, water and air and negative effects on biodiversity and risks to human health. Economic development without concern for environmental protection is unsustainable because, clearly, development needs natural resources of all kinds to support it. Environmental protection, therefore, must be integrated into different levels of economic development policy. This applies to China just as to the EU, although there are notable differences in terms of the policy instruments each uses to achieve this objective and in the way they are applied.

Both China and the EU have particular strengths and weaknesses in implementing sustainable resource use through regional development. China's key strength is its ability to mobilise environmental protection activity quickly and on a grand scale, as can be seen from recent examples of afforestation and wind power generation. For the EU, the main strength lies in the maturity and comprehensive nature of its environmental governance as illustrated in this chapter. Cooperation between China and the EU on environmental policy is already well-advanced but the importance of environmental protection and the shifting nature of sustainable development priorities will always dictate the usefulness of further and closer cooperation. Some potential fields for further cooperation might be:

- further ways to improve national, regional and local enforcement of environmental regulations – including environmental taxation;
- strategic environmental assessment as a means to give added sustainability to regional development;
- the closer integration of sustainability into the economic governance of regional development;
- the further development of 'green' public procurement;
- better interregional cooperation in economic development, along the lines of integrated river basin management;
- a closer involvement of environmental authorities in regional development policies – networking and capacity building – to achieve a closer partnership between developers and environmentalists.

**Global warming** represents a major challenge to the EU and China. Concrete action against climate change requires investment in huge volumes on a global scale. In EU policy terms, cohesion policy – in its leader role – will be at the spearhead of investments to implement the new development model on the ground.

Many EU Member States and regions are beginning to consider building a carbon-neutral approach in their Structural Funds Programmes under the next phase of EU cohesion policy. Through this approach, economic development investments which generate 'greenhouse' gas emissions would need to be completely offset by carbon-reducing investments, such as those highlighted above, in the context of a regional development programme as a whole.

There is tremendous potential for mutually beneficial collaboration between China and the EU to integrate emissions reduction into the heart of regional development policy. The field is still relatively new for both partners. Aspects like using carbon pricing in strategic and project level environmental assessment or planning an implementation of regional investment programmes which embody a low-carbon or carbon-neutral approach can provide practical subjects for collective work.



Tianjin harbour

### Chinese perspective on regional policy

The Chinese government attaches great importance to the sustainable development strategy, and centred on this strategy, has implemented a series of ecological protection and environmental governance projects. Ecological protection projects include the Green Wall of China, returning farmland to forests, returning grazing land to grassland, natural forest protection, Beijing and Tianjin sandstorm source control, and Qinghai three-river source protection. Environmental pollution governance projects include Huaihe River water pollution control, Dianchi Lake governance, sulphur dioxide emission control and governance actions.

Starting from the 11<sup>th</sup> Five-Year Plan, China has adopted energy saving as an important strategic task. By 2010, energy consumption per 10 000 yuan of GDP had been reduced by 20% compared to 2000, and pollutant emissions had been reduced by 10%. The 12<sup>th</sup> Five-Year Plan includes the target that by 2015, energy consumption per unit of GDP should be reduced by 16% and CO<sub>2</sub> emissions per unit of GDP should be reduced by 17% compared to 2010.

To ensure the implementation of regional sustainable development strategies, China has explored an ecological compensation scheme, and established systems based on the 'polluter pays' principle, as well

as the principles 'who damages the mining environment pays', and 'who protects the forest benefits'. It has also formed a strict evaluation system on energy conservation and emissions reduction, publishing the results of regional evaluations for the general public.

In terms of climate change, in addition to emphasis on the control of greenhouse gas emissions in economic and social development planning, China has also introduced five special plans and national programmes to deal with climate change. At the same time, China has also prepared and submitted an Initial National Communication on Climate Change in the People's Republic of China to enhance studies on interregional carbon balance trading frameworks and develop a low-carbon economy to increase carbon productivity.

In order to secure the implementation of national schemes, China has completed the preparation of provincial schemes to deal with climate change in 31 provinces, municipalities and autonomous regions in an attempt to implement national schemes through local strategies and actions. With the construction of provincial organisations and strengthening of the capacities to deal with climate change, China has increased public awareness, established partnerships between new financing partners and technological development and transfer, and included climate change in local development and action plans.

