

**Country Study for Development Assistance  
to the People's Republic of China**

中国

**“Basic Strategy for Development Assistance”**

**December 1991**

**Country Study Group  
for Development Assistance to the People's Republic of China  
Organized by the Japan International Cooperation Agency**



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## **Abbreviations**

<b>A S E A N</b>	<b>:</b>	<b>Association of Southeast Asian Nations</b>
<b>D A C</b>	<b>:</b>	<b>Development Assistance Committee</b>
<b>G N P</b>	<b>:</b>	<b>Gross National Product</b>
<b>J I C A</b>	<b>:</b>	<b>Japan International Cooperation Agency</b>
<b>J O C V</b>	<b>:</b>	<b>Japan Overseas Cooperation Volunteers</b>
<b>N G O s</b>	<b>:</b>	<b>Non Governmental Organizations</b>
<b>N I E s</b>	<b>:</b>	<b>Newly Industrializing Economies</b>
<b>O D A</b>	<b>:</b>	<b>Official Development Assistance</b>
<b>O E C F</b>	<b>:</b>	<b>Overseas Economic Cooperation Fund</b>
<b>U N C E D</b>	<b>:</b>	<b>United Nations Council of the Environment and Development</b>

## Foreword

Twelve years have passed since Japan inaugurated official development assistance to China following Prime Minister Ohira's official visit to China in December 1979. During this period China has achieved remarkable economic progress, but further growth in its economy and society is needed to achieve its aim of making the Chinese "xiaokang" (reasonably well off) by the year 2000. To establish long-term and stable friendly ties with its continental neighbor and to contribute to the peace and prosperity of Asia, the Pacific region, and the world, Japan must continue its economic cooperation with China and contribute to its stability and development.

Japan's economic cooperation with China over the past 12 years has been carried out based on three principles laid down on the occasion of Prime Minister Ohira's visit. Both China's evolution and changes in the global political and economic context during this time have led to calls to keep up with the times by applying new directions to Japan's cooperation with China. To carry out this collaboration more effectively and efficiently, Japan should on the one hand deepen its dialogue with China by presenting its experts' views on implementation of economic cooperation while on the other hand making greater efforts to explain to Japanese taxpayers, to other advanced industrialized countries, and to China's neighbors in Asia and the Pacific region why Japan must carry out economic cooperation with China and how this cooperation is being implemented.

In January 1989, the Country Study Group for Development Assistance to the People's Republic of China was set up with this object of finding new directions for economic cooperation under consignment from the Japan International Cooperation Agency (JICA). In the midst of its studies, the Tien-an-men Square incident led to a postponement of regular activities while we followed developments in China's social and economic policies. Despite the unexpected interruption, however, the study group met a total of nine times, including one public discussion, conducted two field surveys, and met with Chinese government officials. It made repeated efforts to study the present status of China's economic and social development and to investigate the possibilities for Japanese economic cooperation with China. Through this work the study group was able to produce a report focussing on four new principles that are extensions of original three principles, proposed here as guidelines for future economic cooperation with China.

As chairman, I wish to specifically thank the members of the study group and the staff of the Ministry of Foreign Affairs for their collaboration and the task force, composed principally of JICA officials, for their strong support. This report is the result of our joint work.

In December 1979, as the Ohira Cabinet's Foreign Minister, I had an opportunity to participate directly in the inception of economic cooperation with China. Now, twelve years later (a full cycle in the Chinese calendar), it is deeply satisfying to have this opportunity as the chairman of this study group to propose future directions for cooperation. Next year marks the twentieth anniversary of the reestablishment of diplomatic relations between China and Japan and I sincerely hope that this report will contribute to the implementation of effective Japanese economic cooperation with China and that this cooperation will contribute, in whatever degree possible, to China's growth and to friendly relations between our countries on this occasion.

December 1991

Country Study Group for Development Assistance  
to the People's Republic of China  
Chairman: Saburo Okita



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## Introduction

China is a major power in the developing world, with the world's largest population and the largest territory in Asia: 1.15 billion people, over one-fifth of the world's population, inhabiting a territory about 26 times as large as Japan. China is also Japan's neighbor across the sea. For two thousand years, Japan has been influenced by Chinese civilization, and the history of the exchanges between China and Japan is full of memorable events for Japan. But more than anything else, the Japanese must bear in mind the sufferings Japan inflicted on the Chinese during the Sino-Japanese War — and the fact that when normal diplomatic relations were re-established in 1972, China relinquished claim to reparations for war damages. The twentieth anniversary of this normalization of ties will take place next year, in 1992, and based on this shared history, further progress toward the establishment of stable long-term bilateral ties of friendship is still to be made.

The unification in one nation of 1.15 billion people from 56 different ethnic groups is no easy task. The Chinese Communist Party has pursued this arduous undertaking since the foundation of the People's Republic of China in 1949, based on the unifying principles of socialism and nationalism. Already it has freed its rural population from extreme poverty and virtually achieved the primary goal of giving the people "wenbao" (enough to eat and wear); it is now working to achieve a standard of living where people are "xiaokang" (reasonably well off) by the year 2000. This steady rise in the standard of living of one-quarter of the developing world's population can only be described as a tremendous achievement.

It is also clear, however, that the past forty years have not meant unwavering progress in this arduous task of maintaining and developing national unity. The Tian-an-men Square incident of June 1989 was an unhappy page in this difficult chapter of China's history, and unfortunately, few signs indicate that the task of managing the Chinese nation will become any easier in the future. For example, the fact that China is promoting a drastic population control program is a sign of serious awareness by the Chinese government of the importance and difficulty for China of breaking out of the vicious cycle of poverty, population growth, and environmental destruction. Despite the "One Child Per Family" program, the Chinese population continues to grow because the baby boom generation born in the 1960s is now at the age of marriage and childbirth. In the meantime, total cultivated land has been decreasing since 1957 when arable acreage

peaked. Despite the government's afforestation efforts, forests cover a mere 13% of China's land (compared to 68% of Japan's), and in addition to soil erosion in the Yellow River basin, where it was always a serious problem, erosion has recently worsened in the Yangtze River basin as well. Under the pressure of population growth in poor zones, land basically unsuitable for cultivation has been cleared for farming, accelerating soil erosion and resulting ultimately in less land available for farming. On the other hand, the desire for a higher standard of living in recent years has increased the demand for meat and dairy products and consequently for livestock feed. If the insufficiency of agricultural infrastructure, however, prevents food production from catching up with growing demand, this may add a further element of fundamental instability to Chinese society.

Instability in Asia's largest nation is an extremely grave problem with incalculable possible repercussions — including the mass exodus of refugees — for Japan and the rest of China's neighbors in Asia and the Pacific region. The importance of a stable China for Asia and the Pacific region rivals that of a stable Soviet Union for Europe.

With the Sino-Soviet split after 1960, China chose to become totally self-sufficient, accepting no foreign aid and attempting to build the Chinese nation using only its own resources. But at the third plenary session of the 11th Central Committee of the Chinese Communist Party in December 1978, emphasis was shifted from class struggle to economy building: policies were adopted to stimulate the domestic economy through economic reforms and to open China up to the outside world, through the introduction of foreign capital and technology. In 1979, China decided to accept official development assistance (ODA) from international organizations and advanced industrialized countries, including Japan, and in the next ten years its economic cooperation with foreign countries grew considerably in both quality and quantity. Although the June 1989 Tien-an-men Square incident led to a temporary interruption of cooperation by the advanced industrialized nations, economic cooperation has gradually been resumed by many donors due to growing recognition that China still intends to carry out economic reforms and remain open to the rest of the world as well as to mounting awareness that an isolated China will not have desirable effects on the stability of Asia and the Pacific region. The incident nonetheless shocked the Japanese people and lowered their trust in China. The Japanese fervently hope that China will prevent the recurrence of this type of event.

Thus twelve years have passed since Japan began its economic cooperation with China. Japan is China's largest donor of ODA from DAC members and international organizations, while China receives more Japanese bilateral ODA than any country

except Indonesia. For more than a decade Japan's economic cooperation with China has been promoted according to the three principles proclaimed during Prime Minister Ohira's visit to China in December 1979: (i) no military cooperation, (ii) no assistance at the expense of Japan's ties with other Asian nations, especially ASEAN, and (iii) no exclusive special ties between China and Japan (i.e., Japan's ODA to China should be harmonized with other advanced industrialized nations' policies). Japan has been cooperating to the full extent of its abilities, with China's efforts to modernize through economic reform and opening itself up to the rest of the world.

Japan's economic cooperation together with cooperation by other advanced industrialized countries and international organizations has been playing a major role in promoting China's economic development.

Yet the stage seems to have been reached in Japan's ODA to China, after 12 years, to adopt new approaches. This is due, first of all, to progress in Chinese economic development into a new phase. During development in the 1980s, the Chinese economy underwent rural, then urban, reforms; for a whole decade, production by both the agricultural and industrial sectors rose rapidly at an annual economic growth rate of 8.7%. As a byproduct of this sudden surge forward, the economy overheated and inflation raged, bottlenecks tightened the supply of energy and raw materials, gaps among regions widened, and environmental pollution worsened. Despite these burdens, the Chinese government is moving to use the achievements of the 1980s as a stepping stone toward a further leap forward during the 1990s: the planned quadrupling of China's 1980 GNP by the year 2000. The strategy adopted to achieve this in the recently released national economic and social development ten-year plan and the 8th five-year plan relies on developing an externally oriented economy through active introduction of foreign capital and technology in coastal zones. In other words, China's development in the 1990s first requires direct investment in these coastal economic zones by foreign capital; the pace of this foreign capital activity is already brisk, although not as much as hoped for by China.

With this new strategy, financing from the Export-Import Bank of Japan has come to assume ever more importance. Japan's ODA to China in the 1990s will be asked, on the one hand, to help create and improve the environment for coastal development through cooperation both in the building of infrastructure and other hardware and in the strengthening of macroeconomic control and other intellectual and technical contributions; on the other hand, it will help to fulfill basic human needs, principally in poorer inland zones, in order to redress interregional disparities arising from or aggravated by

coastal zone development.

Significant changes in the international political and economic context of the Sino-Japanese relationship are another reason to develop new perspectives for economic cooperation. The end of the Cold-War and the resulting easing of tensions have led to calls for peace dividends, most notably in Europe. Tensions are also beginning to ease in the Asia-Pacific region, particularly between China and its neighbors. Since the stability of this region is in Japan's national interest, it should seek to promote the further easing of local tensions and thereby contribute to world stability. Japan is being called upon to provide more effective cooperation to China, not only from the perspective of its bilateral ties with China, but also to further promote peace and stability in the Asia-Pacific region and the entire world. In this endeavor, it is important to continue actively to support China's reform and open-door policies, because China's stability is a key factor ensuring the stability of the entire Asia-Pacific region.

Based on the understandings just described, the study group believes that Japan's policies regarding future economic cooperation with China require further development and should be promoted by incorporating the four following principles.

Principle 1: Friendship with China for world peace

Japan shall carry out economic cooperation with China, laying stress on friendship with its neighbor China and demonstrating awareness of the global community's interdependence, in the context of which China's stability and growth are essential to peace and prosperity both in the Asia-Pacific region and throughout the world, and Japan shall seek Chinese understanding of Japan's four guidelines governing the granting of official development assistance (see note 1). As in the past, cooperation shall not extend to military areas.

Principle 2: Support for economic reform and openness

Japan shall continue in the future to respect China's basic policies regarding economic reform and greater openness to the outside world. It shall contribute to China's stable development by supporting policies to give a boost to China's economic development by developing its coastal zones.

Principle 3: Remedies for dislocations brought about by economic growth

Japan shall contribute to sustainable and well distributed growth and development throughout China by strengthening types of economic cooperation with China that protect the environment and alleviate poverty, based on the premise that environmental destruction, interregional disparities, and other dislocations may be caused by rapid development in coastal zones and by the vicious cycle of poverty, population growth, and environmental destruction in poor inland zones.

Principle 4: Consideration for China's immense population and territory

Japan shall support China's self-help efforts for modernization by providing as much economic cooperation as possible. It shall take into account the size of China's population and geographical expanse, as well as the impact that China's development will have on the lives of its 1.15 billion people and the political and economic effects on Japan, the Asia-Pacific region, and the rest of the world.

Note 1: Japan's ODA has been provided based upon (1) humanitarian consideration of problems such as poverty and famine which face developing countries and which cannot be ignored and (2) recognition of the fact that the stability and further development of developing countries is indispensable to the peace and prosperity of the entire world because of the interdependency of nations of the international community.

During the course of the Gulf Crisis and its aftermath, the question of armaments in developing countries, and the necessity of enhancing international efforts toward arms control and disarmament, etc. attracted attention both in Japan and abroad. It was, therefore, considered appropriate and important to clarify the basic view of the Japanese government regarding its ODA in relation to such questions.

In the context of the above-mentioned background, the Japanese government announced in April 1991 that it will continue to implement its ODA based on former policy, and at the same time give full attention to the implementation of ODA according to the following four guidelines:

(i) Trends in military expenditure by the recipient countries in the context that developing countries are expected to allocate their financial, human

and other resources appropriately for economic and social development and to make full use of such resources.

(ii) Trends in the development and production, etc. by recipient countries of weapons capable of mass destruction in the context that the international community is strengthening efforts to prevent the proliferation of weapons capable of mass destruction such as atomic weapons and missiles.

(iii) Trends in the export and import of weapons by recipient countries in the context that international conflicts are not to be promoted.

(iv) Efforts by recipient countries to promote democracy and the introduction of a market-oriented economy and the securement of basic human rights and freedom.

Decisions on economic cooperation will be made by comprehensively taking into account such factors as bilateral relations with the recipient countries, the status of the recipient country with respect to international security, economic cooperation needs, the economic and social situation in the recipient country and etc.

Of the four new principles enunciated above, the first comprises and further develops all three of the previously established principles guiding Japan's economic cooperation with China. The basis of Japan's ODA to China will continue to be abstention from military cooperation, avoidance of damage to Japan's ties with the rest of Asia, and harmonization of actions with other advanced industrialized countries. The first of the new principles, however, specifically identifies economic cooperation with China as important because it offers leverage to achieve peace and prosperity in the Asia-Pacific region and the world. Given the changes in the world over the past twelve years, the use of economic cooperation as a pivot for peace and prosperity is now possible if it is planned and executed taking into account the coordination with China's neighbors such as the Soviet Union and the Mongolian People's Republic; an approach which was out of the question up until very recently. This first principle also clarifies that, taking into account the lessons of the Gulf War, trends in military expenditure of all countries receiving economic cooperation from Japan and the status of human rights in those countries will be taken into account as basic elements in planning cooperation with all countries, including China.

The second principle specifically states that in the framework of its future economic cooperation with China, Japan will respect China's basic policies of economic



reform and openness and support the development of China's coastal zones, which are destined to propel China's economic development. The third principle is tied to this and complements it: because rapid economic growth of the coastal zones may cause or aggravate environmental destruction and regional disparities, Japan will make cooperative efforts also to right the imbalances created by economic growth.

The fourth principle makes clear that Japan will take into account the important political and economic repercussions of China's development on Japan, on the Asia-Pacific region, and on the world as a whole in light of China's geographical size and large population and development's impact on the lives of 1.15 billion people, and that Japan will support economic cooperation with China in its self-directed efforts to modernize as much as possible. The evolution of China's ability to assimilate economic cooperation must be watched closely, but given China's enormous development financing requirements, Japan should increase its economic cooperation within the limits of its ability to give cooperation and supply financing. To enable cooperation to be increased, however, tomorrow's economic cooperation with China must be presented to Japanese taxpayers as an even more persuasive cause than in the past, and it must be acceptable to other advanced industrialized countries. To this end, we Japanese must first clarify our own philosophies for carrying out economic cooperation with China, and in JICA, the Overseas Economic Cooperation Fund (OECF), and other institutions involved directly or indirectly with Japan's ODA, ways must be sought to increase the efficiency and effectiveness of economic cooperation with China. It is also essential that Japan asks China straightforwardly to use its cooperation effectively. In addition, the appropriateness and impact of economic cooperation should be evaluated opportunely and the methods of its implementation be revised accordingly.

For the permanent friendship between China and Japan, both countries must express their opinions to the other with utter frankness; it is on this assumption that this report presents unreserved proposals regarding the future of Japan's economic cooperation with China.

## Chapter I Basic Principles Governing Economic Cooperation with China

### Principle 1: Friendship with China for world peace

Japan shall carry out economic cooperation with China, laying stress on friendship with its neighbor China and demonstrating awareness of the global community's interdependence, in the context of which China's stability and growth are essential to peace and prosperity both in the Asia-Pacific region and throughout the world, and Japan shall seek Chinese understanding of Japan's four guidelines governing the granting of official development assistance. As in the past, cooperation shall not extend to military areas.

Japan's economic cooperation with China, as symbolized by our many "friendship projects," is characterized by a major focus on the goal of developing the long established and enduring ties of friendship between Japan and China. As mentioned in the Introduction, the history of Sino-Japanese ties contains pages that Japan can only remember with humility and regret; this is the backdrop against which economic cooperation with China has bilateral friendship as its major objective. Its promotion is and will continue to be the basic orientation of Japan's economic cooperation with China.

There are aspects of Japan's stress on its ties with China that are not always correctly understood by other advanced industrialized countries. At the outset of Japan's economic cooperation with China, Prime Minister Ohira noted in a public address during his visit to Beijing on December 7, 1979 that there were apprehensions in some parts of the world that Japan's economic cooperation with China might lead to a Japanese monopoly of the Chinese market; when he specified that the Sino-Japanese relationship was not intended to exclude others, he did this especially to correct such misunderstanding by advanced industrialized countries. As a result of Japan's initiatives designed to avoid isolating China internationally after the Tien-an-men Square incident, their comprehension of Japan's economic cooperation with China has increased somewhat, but some advanced industrialized countries still harbor strong misgivings about letting Japan-China ties predominate over others'.

Based therefore on the perception that the global community is interdependent and that China's stability and development are keys to the stability and development of the Asia-Pacific region and contribute to global peace and prosperity, it is important for Japan to continue to point out to the advanced industrialized nations and to countries in the Asia-Pacific region the indispensability of a long-term stable Sino-Japanese relationship. Japan must repeatedly stress to the world that, as a member of the Asia-Pacific region, Japan is especially concerned about China's stability and development; that economic cooperation with China is not intended to monopolize the Chinese market, rather its objective is to contribute to China's stability and development and thereby to the peace and prosperity of the Asia-Pacific region and the entire world.

The international context of Japan-China ties began to change significantly a few years ago. The Cold War is over: easing of tensions is especially noticeable on the East-West front in Europe, although relations are also improving in Asia between China and the Soviet Union, between China and Korea, and between Korea and the Soviet Union; a North-South thaw is also visible on the Korean peninsula, together with signs of an end to North Korea's isolation, as symbolized by the simultaneous inauguration of U.N. membership by the two Koreas. Diplomatic ties between China and Vietnam have normalized and progress is also being seen toward peace in Cambodia. China has normalized its ties with Indonesia and Singapore resulting in China's significantly improved diplomatic relations with ASEAN countries. Thus the international situation in the Asia-Pacific region enveloping Japan and China is making major progress toward easing of tensions. For Japan, which is located in the Asia-Pacific region, it is important that its cooperation with China should take these changes into account and stress the continuity of its contribution to regional peace and prosperity through promotion of further reciprocal cooperation in this region than in the past.

Specifically, Japan must first state with yet greater clarity and emphasis that its cooperation with China is intended to assist China's policies of economic reform and greater openness as China seeks to tighten its cooperative ties with the advanced industrialized nations and with neighboring nations and regions. Second, in the implementation of Japan's future economic cooperation with China, Japan is called on to pay attention, as in the past, to coordination with the advanced industrialized nations and, in addition, to coordinate actions with the Soviet Union, the Republic of Korea, the Mongolian People's Republic, ASEAN, and other neighbors of China and to welcome and promote their participation in economic exchange and Japan's economic cooperation

programs with China. In other words, Japan is being asked to play an active role in building an inter-complementary relationship in the industrial structure and economic exchange uniting countries and regions within the Asia-Pacific region both by carrying out economic cooperation and private sector investment in China and by repeating efforts to further improve access to Japan's domestic markets for countries and areas in the Asia-Pacific region, including China. Meriting consideration are efforts within this framework to promote peace and prosperity in the Asia-Pacific region through tripartite jointly run cooperation programs in border regions involving China, China's immediate neighbors, and Japan and through the formation and development of special economic and free trade zones.

The domestic and external prospects for the 1990s do not indicate a very smooth path for China. The negative side-effects of China's economic growth surge and the impact of the conservative hard-liners' failed coup d'etat in the Soviet Union are worthy of mention here as events to follow closely due to their impact on China's status — domestic and external, political and economic. The rapid economic growth of the 1980s generated disparities among different regions of China and conspicuous environmental pollution as well as economic friction between China and the United States. A further surge by the Chinese economy in the 1990s may aggravate these internal and external problems. Economic conflicts in the context of a reduced Soviet threat may aggravate advanced industrialized countries' apprehensions about China. This is the context in which China faces a period of leadership handovers that cannot be avoided.

The Asia-Pacific region's stability is in the national interest of Japan; Japan must therefore strive to alleviate China's domestic regional disparities and environmental destruction and to prevent friction between China and advanced industrialized countries. Development of the coastal zones, the locomotive of China's economic development, should be conducted principally via private-sector economic exchange and Export-Import Bank financing, while ODA should be limited to infrastructure building through loan assistance (see note 2) and to technical cooperation. Narrowing the gaps between regions and controlling and preventing environmental pollution caused by coastal zone development should receive emphatic cooperation, combining loan assistance, grant aid, and technical cooperation. The United States (whose Foreign Assistance Act does not allow it to give foreign assistance to communist countries) has strong apprehensions that Japan's support (through an integrated government and private sector) for economic development in China is one of the causes of its own growing trade deficit with China.

Japan must therefore repeatedly stress to the world that the improvement of the conditions for investment in China's coastal zones is intended to facilitate direct investment by private capital from the advanced industrialized countries, the NIEs, ASEAN, and other nations.

Note 2: Throughout this report, "loan assistance" refers to assistance with funding carried out through OECF. It counts as ODA. (The term "yen loans" is also used with the same meaning.) Loans granted by the Export-Import Bank of Japan for cooperation programs do not count as ODA (they are classified as "other official flows") and in this report will be referred to as "Export-Import Bank financing."

In order to relieve the advanced industrialized nations' suspicions that Japan's cooperation with China will be inordinately large and to ease their apprehensions in China's regard, one other thing is also important: Japan should repeatedly explain and seek greater comprehension of the four guidelines governing Japan's ODA in the global scene. When Prime Minister Kaifu visited China in August 1991, he explained and sought to increase comprehension by the Chinese of the purpose of these four principles. Japan must continue to strive at every future opportunity to foster Chinese understanding of this point. When it does, Japan must seek to find out enough itself about both China's position in international affairs including security, and China's domestic situation, inasmuch as China must attempt to stabilize and unify a gigantic nation and raise the standard of living of 1.15 billion human beings; Japan will monitor China's efforts basically in the light of its domestic circumstances. Conversely, it is also hoped that China will appreciate Japan's position with regard to the four guidelines governing its ODA and strive at every occasion to actively promote disarmament, world peace and democratization and improve respect for human rights. We wish to stress that this will enable steady progress to be made in Japan's economic cooperation with China.

**Principle 2: Support for economic reform and openness**

Japan shall continue in the future to respect China's basic policies regarding economic reform and greater openness to the outside world. It shall contribute to stable Chinese development by supporting policies to give a boost to China's economic development by developing its coastal zones.

Since the third plenary session of the 11th Central Committee of the Chinese Communist Party in 1978, China's national economic development has emphasized economic reforms and openness to the outside world; these policies are still in place today, even after the economic dislocations caused by inflation and other symptoms of the economy's overheating beginning in 1987 and the political unrest that culminated in the Tien-an-men Square incident. The continuance of economic reforms and openness to the outside world is due to recognition by China's leaders that these policies clearly stimulated the economy and improved the people's standard of living over the past 12 years. In the future, the Chinese government is expected to adhere to these basic policies for China's stable development, though some political and economic adjustments will be necessary.

The Chinese government is seeking to invigorate the economy and increase production capacity by aligning its economic growth programs with these policies, namely by introducing market economy mechanisms and by attempting to resolve the contradictions in its domestic systems that impede the achievement of these goals. The bottlenecks that are curbing economic growth are becoming increasingly apparent in terms of deteriorating food production infrastructure, insufficient industrial infrastructure, shortages of energy and raw materials, lower corporate productivity, defects in financial and distribution systems, and worsening environmental pollution. To remedy these shortcomings, China needs private-sector direct investment by the advanced industrialized countries (especially Japan), Export-Import Bank financing, and ODA.

In these economic reform and open foreign access policies, the emphasis falls on development of areas and geographical zones that will propel economic development. Area by area, China must strive to unblock the bottlenecks that slow its economic structure. Zone by zone, it must proceed to build up, strengthen, and improve key locations where the market economy can be invigorated through exchange with the out-

side world. The ten-year plan for national economic and social development and the eighth five-year plan, both recently published, regard the development of the coastal zones as very important seminal steps toward establishing such key locations; by encouraging direct investment in coastal zones by foreign private companies and allowing the effects to spread throughout the country through the development of commerce and industry, these national development plans are attempting to achieve stable economic growth for China. China counts most on the advanced industrialized countries for engagement in direct private sector investment in coastal zones; China hopes to better the investment environment in both physical and intangible ways through its economic cooperation with Japan and other advanced industrialized nations.

China's priority on coastal zone development is similar to Japan's former policies for rapid economic growth and subsequent key-industrial-zone development designed to foment economic and social growth. Japan's positive and negative experiences and its knowhow in this field can help to promote China's economic growth. It is therefore to be hoped that technical and management knowhow will be provided, infrastructure will be improved, and capital will be invested by deploying comprehensive economic cooperation based on tieups among private-sector direct investment, Export-Import Bank financing, and various types of ODA.

The economic cooperation earmarked for coastal zone development is intended to support China's efforts at self-reliance and is therefore based on the principle of efficiency. The programs directed at poor zones mentioned in Principle 3 are intended to narrow the gaps among zones arising in conjunction with coastal zone development and to guarantee that decent minimum living standards are kept; this cooperation is based on principle of humanity, or on the requirement for basic human needs. Major disparities exist among zones of China due simply to its tremendous geographical size; it is feared that they will be accentuated by intensive development of the coastal zones. Japan's economic cooperation must provide effective cooperation in response to both of these guiding principles.

**Principle 3: Remedies for dislocations brought about by economic growth**

Japan shall contribute to sustainable and well distributed growth and development throughout China by strengthening types of economic cooperation with China that protect the environment and alleviate the poverty, based on the premise that environmental destruction, interregional disparities, and other dislocations may be caused by rapid development in coastal zones and by the vicious cycle of poverty, population growth, and environmental destruction in poor inland zones.

Concern has been mounting, all over the world, in both advanced and developing nations, about global warming, destruction of the atmosphere's ozone layer, desertification, acid rain, and other environmental problems on a worldwide scale, and with this mounting concern, the necessity of sustainable development is becoming widely understood. At the Human Environment Conference held in Stockholm in 1972, developing countries had called for development before environmental protection; now, most acknowledge that they are trapped in the vicious cycle of poverty, population growth, and environmental destruction (see note 3).

In China, environmental pollution and depletion of natural resources are already at a stage that cannot be overlooked, ranging from widespread contamination of drinking water by untreated industrial effluents and urban sewage, severe acid rain damage caused by the burning of coal in thermal power plants, factories, and homes, and soil erosion due to cultivation of unsuitable land. But it is feared that intensive rapid development of coastal zones and stagnation in inland poverty enclaves will further aggravate environmental destruction. Though the Chinese government is aware of the severity of the problem and making serious efforts to put China on the road to sustainable development, it is seriously impeded by its lack of technology and financial resources. Given the size of its population and territory, the success or failure of China's attempts to solve these problems will determine the future not only of China but also of neighboring countries including Japan and the entire globe. It is therefore imperative for Japan to support China's own efforts by providing the requisites: both technology and funds.



Note 3: The Ministerial Conference of Developing Countries on Environment and Development held in Beijing in June 1991 looked squarely at the vicious cycle of poverty, population growth, and environmental destruction affecting many developing countries and identified it as the responsibility of the industrialized nations, inasmuch as it is caused by the present international economic structure's slant toward benefits for industrialized countries. At this conference, the Beijing Declaration was adopted calling for technological and financial assistance for the developing nations.

Though it could be said equally well of all developing nations, most of China's requests for economic cooperation put a high priority on development at any cost. The projects in China's third yen loan petition, for example, included a coal-burning power plant but did not include a request for cooperation in installing desulfurization facilities or for any other anti-air-pollution equipment. Most developing countries consider that spending ODA funds on environmental protection not only reduces the funds available for development but also increases project costs and lowers profits, threatening loan-funded project profitability and making it more difficult to pay back loans. Planners therefore shy away from including environmental protection in their proposals.

It is important for Japan first to ask China to understand the need for sustainable development and to encourage its self-help efforts through policy dialogues and through other channels. It must be repeatedly stressed to the Chinese that Japanese taxpayers will not support economic cooperation for environmentally destructive projects. To promote environmental protection investments in developing countries, a separate framework of financial cooperation must be set up that makes the more favorable terms available for environmental protection projects (see note 4).

Note 4: The agenda of the United Nations Conference on the Environment and Development to be held in Brazil in June 1992 will address the question how to provide the funds needed for environmental protection in developing countries. It is advisable for Japan to study the framework of Japan's financial cooperation for environmental protection in developing countries in preparation for this meeting and then, after hearing the views expressed at the UNCED, to build a stronger framework.

Excessive widening of the economic gap between different zones, which may happen as a result of development of the coastal zones, is not desirable for stable economic growth. The Chinese government fully realizes this, and the recently announced ten-year plan for national economic and social development and the eighth five-year plan indicate that steps will be taken to correct disparities by, for example, promoting cooperation between the economically developed regions represented by the coastal zones and the economically underdeveloped poor, minority, and peripheral zones. In Japan's economic cooperation with China as well, it is desirable for Japan to contribute to balanced national development by promoting grant aid and technical cooperation focused on basic human needs to provide backup support for these efforts by the Chinese government. Illiteracy affects about 220 million people in China, the majority of whom are rural women, and the illiteracy rate is especially high in poor zones. This presents a tremendous obstacle to alleviating poverty; because the role of women in development is so important, Japan will strive to study China's basic policy on women's role in the development of economically underdeveloped zones and reflect this issue in its cooperation.

**Principle 4: Consideration for China's immense population and territory**

Japan shall support China's self-help efforts for modernization by providing as much economic cooperation as possible. It shall take into account the size of China's population and geographical expanse, as well as the impact that China's development will have on the lives of its 1.15 billion people and the political and economic effects on Japan, the Asia-Pacific region, and the rest of the world.

As mentioned in Principle 3, China is faced by environmental problems on two sides: the environmental destruction caused by urbanization and industrialization in the zones and the vicious cycle of severe poverty, population growth, and environmental degradation in the poor inland zones. The government is making efforts to deal with the difficult task of national administration to put China on the road to sustainable development. Its success or failure in these efforts, because of the size of China's population and territory, will determine not only China's future but also the future of

Japan, other neighboring countries, and the entire globe. Greater technical and financial cooperation from advanced industrialized nations and international organizations is essential because the problems are vast in scale and China's own means are limited. For China to enable itself to overcome the dislocations generated by economic development such as environmental destruction and widening disparities among zones, it is necessary to ensure first that coastal zone development, China's chosen strategy for economic growth, succeeds, and then that the resources it produces will enable China to correct the resulting dislocations. It is essential to improve the conditions for investment to support coastal zone development with tangible and intangible outlays — hardware, funds, and knowhow — in greater quantities than ever before.

Therefore, in considering future economic cooperation with China, Japan must give greater high-priority economic cooperation to China to further promote China's policies of reform and openness, basing programs on China's own efforts to modernize while taking into account on the one hand China's development requirements, capacity to assimilate cooperation, ability to repay loans, demographic immensity, and environmental problems, and on the other, the limits of Japan's ability to supply cooperation and funds.

To reinforce this cooperation, the design of cooperation programs must be more acceptable than in the past in order to satisfy both Japanese taxpayers and advanced industrialized nations that are concerned that Japan's economic cooperation with China should not outweigh cooperation from other nations. In other words, before increasing its amount, Japan must first strive to improve the quality of its cooperation with China. Qualitative improvement is also necessary in view of the fact that Japan's ability to supply cooperation is limited quantitatively. Indispensable specific steps include systematic evaluation of the effects of Japan-China cooperation, review of project selection criteria and other cooperation procedures, franker exchange of views than in the past through more extensive policy coordination between Japan and China regarding economic cooperation, and improvement and strengthening of implementing structures for economic cooperation with China.

China regards ODA from foreign countries and international organizations, regardless of the form in which it is given — loan assistance or grants (including technical cooperation) — as a valuable source of foreign exchange and advanced technology that primes further private-sector direct investment. Yet ODA's role in China's economic and social development planning is hardly a large part of total financing: 2.0% of total "social

fixed asset" (capital) investment and 0.5% of GNP (in 1989). Therefore it must be borne in mind that even if Japan were to increase its economic cooperation with China, its quantitative impact would be limited and the principal role would still be played by the Chinese.

## **Chapter II Areas to be Improved in the Implementation of Economic Cooperation with China**

### **1. Outline of economic cooperation with China**

Japan's economic cooperation with China began with Prime Minister Ohira's visit to China in December 1979. Japan — China's largest source of ODA — has contributed substantially to China's economic development.

Since December 1979, when Prime Minister Ohira declared that Japan would cooperate to the maximum degree possible with China's modernization efforts during an official visit to China, Japan has been actively carrying out economic cooperation with China, which it regards as one of the most important focuses of its economic cooperation. From 1982 until 1986, China was the recipient of more Japanese bilateral ODA than any other country; since 1987, it has occupied second place after Indonesia in terms of the amount of ODA received. Japan gave \$723.02 million in ODA to China in 1990 on a net disbursement basis — 10.42% of Japan's bilateral ODA.

From China's standpoint, Japan is the largest donor of all Development Assistance Committee countries and international organizations. DAC members gave China ODA totaling \$1,494.9 million in 1989 on a net disbursement basis, the principal donors being Japan (55.7%), France (12.0%), and Italy (7.9%). International organizations gave a total of \$659.68 million in 1989 (also on a net disbursement basis), mostly from the International Development Association (also known as the Second World Bank; its share was 76.6%) and the World Food Program (6.7%) and this cooperation was focused on agriculture. In the same year, the International Bank for Reconstruction and Development (the World Bank) provided funds totaling \$542 million, but this does not qualify as ODA because of the terms under which the money was lent.

Japan's ODA to China is broken down according to type of cooperation as follows. On a net disbursement basis in 1990, total ODA consisted of grant aid (\$37.82 million, 5.23%), technical cooperation (\$163.49 million, 22.61%), and loan assistance (\$521.71 million, 72.16%). Loan assistance accounts for an overwhelming share of the total. This can also be said of ODA in the case of Indonesia, the largest Japanese ODA recipient,

where \$700.72 million, 80.75% of the total, \$867.78 million, is given in the form of loan assistance. In both cases, the loan assistance share is far greater than the average for Japan's bilateral ODA to all recipients, which is a little over fifty percent.

Loan assistance to China consists of the following: the first yen loan of a total value of ¥330.9 billion in project loans for four projects in railroad and port development and in commodity loans took place in the period 1979-1984, the second yen loan in the period 1984-1989 amounted to ¥470 billion on an exchange of notes basis involving 16 projects whose aim was the improvement of railroad, port, hydropower, communications, urban water supply and sewage, gas distribution, and other services. Fund recycling took place in fiscal 1988 through a two-step loan of ¥70 billion for an export base development plan. The third and most recent yen loan in the period 1990-1995 will total about ¥810 billion and cover a total of 42 projects related to economic and social infrastructure in the six years beginning fiscal 1990, as expressed by the then Prime Minister Takeshita when he visited China in August 1988. Japan's loan assistance to China is generally untied: in 1989 and 1990, only about 30% (a very low percentage) of work funded by ODA loans was performed by private Japanese companies.

Grant aid is given mainly for health and medical care, agriculture, and human resources development. The China-Japan Friendship Hospital, the Japan-China Youth Center, and other facilities were constructed through grant aid. In response to the willingness expressed by the Chinese regarding the urgency of environmental protection, Prime Minister Takeshita expressed Japan's intention during his visit to China in August 1988 to build the Japan-China Friendship Environmental Research and Development Center, and preparations and work on the construction plans have been underway since then.

Technical cooperation is taking place in a wide variety of areas, from agriculture to industry to business administration to sanitation and health care and involves the acceptance of Chinese trainees in Japan (total 3,150 as of the end of FY1990), the dispatch of Japanese experts to China (total 1,924), and the assignment of overseas cooperation volunteers to posts in China (total 91). Project-type technical cooperation includes 18 projects thus far, including the China-Japan Friendship Hospital, Enterprise Management Center, Beijing Posts and Telecommunications Training Center, and the Sanjianpingyan Agricultural Research Center. Since 1978, development surveys have also been under way with the object of drafting master plans and preparing feasibility studies for development programs; a total of 61 projects were completed or under way as

of the end of FY1990, including Shanghai Air Pollution Control, Hainan Island Integrated Development Plan, Factory Modernization Program and construction plans for dams, railroads, highways, and ports.

In addition, both OECF and JICA have a system through which direct support is given to Japanese private companies carrying out development projects in developing countries. These programs have the merit that management and technical know how are transferred via private sector economic cooperation in a package including needed capital. JICA's development cooperation programs in China involve financing commitments to private Japanese companies carrying out agricultural, forestry, or mining industry development in China worth ¥3.7 billion in seven projects as of the end of fiscal 1990. Financing for a total of 11 projects (¥2.5 billion in loans) has been approved by OECF as loans to and equity investment in corporation as of the end of fiscal 1990.

Altogether, total economic cooperation with China by international organizations and advanced industrialized nations, including Japan, is a relatively minor part of China's total development budget: it is no more than 2.0% of China's total "social fixed asset" (capital) investment and 0.5% of GNP (in 1989). However, it is through the "show-me-how effect" of advanced technology and its contribution of needed foreign currency as well as the priming effect of direct investment by the private sectors of the advanced industrialized countries that ODA can be said to have a substantial ripple effect on the Chinese economy.

## **2. Areas to be improved in the economic cooperation with China**

Japan's economic cooperation with China requires improvement in several particular areas whose characteristics are tied to the characteristics of this cooperation itself; suitable attention to these areas by both the Japanese and the Chinese is indispensable to the effective performance of cooperation. Desirable improvements include, among others, the following:

- (1) Stronger operational structures for economic cooperation by both sides;
- (2) Narrower gaps between Chinese expectations and Japanese capabilities;
- (3) Better liaison among the various Chinese cooperation channeling agencies;

- (4) More emphasis on environmental protection;
- (5) Greater flexibility in methods of providing loan assistance;
- (6) More diversity in grant aid projects;
- (7) Better understanding by advanced industrialized countries of the necessity for economic cooperation with China.

**(1) Stronger operational structures for economic cooperation by both sides**

Given the immensity of China, its population, and its territory, Japan's economic cooperation with China has always been carried out with attention to the ripple effect of cooperation. Our Chinese counterparts have likewise strictly screened their requests for cooperation with indirect impact in mind.

These efforts to maximize the effect of cooperation must be continued by both sides and strengthened. Through evaluation of past cooperation projects, it is necessary to augment the structures that are permanently in charge of formulating and implementing the most suitable cooperation strategies relying on ripple effects, because inadequacies in organizing structures engender disproportions between the costs and the benefits of cooperation. Partly because Japanese cooperation has increased rapidly in the past few years, it requires improvement in many ways, both in terms of economic cooperation's efficient and effective planning, implementation, and evaluation and in terms of the organizations and systems that carry them out. This has been pointed out by many observers already. The implementation of economic cooperation with China having a maximum ripple effect is crucially dependent on the steady improvement of Japan's ODA itself.

**(2) Narrower gaps between Chinese expectations and Japanese capabilities**

China's expectations with regard to technical cooperation are usually very high in terms of the areas and the level of technology involved, and often a gap arises between these expectations and what Japan can actually offer through ODA. This is caused by several factors. For one, the technologies sought by China belong to private sector businesses based in Japan or in other advanced industrialized countries and are difficult to incorporate into cooperation on an ODA basis; and conversely, it is difficult for a private



company to introduce this technology into China because the conditions for direct investment are not yet adequate. In addition, the Chinese requesting and request-channeling organizations tend to be most interested in the newest technology and to undervalue the development and spread of appropriate technology.

**(3) Better liaison among the various Chinese cooperation channeling agencies**

The different facets of Japan's economic cooperation with China have been under the supervision of different channeling organizations in China: technical cooperation under the State Science and Technology Commission, grant aid under the Department of International Relations of the Ministry of Foreign Economic Relations and Trade, and loan assistance under the Department of Foreign Finance Administration of the same ministry. Moreover, Export-Import Bank financing passes through the Bank of China, while cooperation from other countries and international organizations passes through other channels. The effectiveness of cooperation may suffer unless conscious efforts are made to coordinate these channels more closely.

**(4) More emphasis on environmental protection**

China's development policies have tended in the past to over stress production to the detriment of pollution prevention and other forms of environmental protection; in the economic cooperation requests that China has presented to Japan thus far, no financial cooperation has ever been requested to build pollution control facilities. For China's development to be sustainable, attention must be paid to environmental protection, and because Japan has experience and technology available in this area, China should make use of both forms of Japan's economic cooperation, technical and financial, for environmental protection.

**(5) Greater flexibility in methods of providing loan assistance**

Loan assistance to China has thus far taken the form of "rounds" of cooperation; this has enabled loans to be used as planned to finance China's economic development by linking them to China's five-year plans and to provide large loans to fund multiple projects, with considerable positive aspects and effects. On the other hand, however, approved projects undeniably tend to become vested interests of the controlling ministry,

and even when, with subsequent changes in the economic situation, the priority for China's economic development of other projects outside the previously agreed scope increases, a negative aspect is that the Chinese government is inflexible making substitutions and changes extremely difficult. Comprehensive comparison and study is needed of these different positive and negative aspects concerning the present procedures for the provision of loan assistance.

#### **(6) More diversity in grant aid projects**

During the past twelve years, which can well be considered the initial phase of Japan's economic cooperation with China, a number of Sino-Japanese friendship projects were inaugurated to commemorate Japanese prime ministers' visits to China. Facilities built through Japanese grant aid contribute greatly to demonstrating symbolically the friendship between Japan and China and have the effect of embellishing the ties that exist; to use the Chinese phrase, they "add flowers to a brocade," in other words, they make perfection more complete. These projects have been concentrated in Beijing, where the conditions were best for their implementation. We must use the results of the first phase as a basis upon which to build steadily in the second phase of cooperation with more practical, more down-to-earth cooperation. It is best for this reason that efforts be made to geographically distribute grant aid projects more widely and to diversify and reinforce the content and scale of projects.

#### **(7) Better understanding by advanced industrialized countries of the necessity for economic cooperation with China**

The advanced industrialized countries have not adequately understood in the past that China's stability and development are essential to the peace and prosperity of the Asia-Pacific region and the world and that for this reason it is important to build up stable, long-term ties between Japan and China. On the one hand, there have arisen misconceptions of Japanese economic cooperation with China as a concerted attempt by Japanese business and government to penetrate and monopolize the potentially immense Chinese market. On the other hand, there is also the danger that China's development, the highly desirable ultimate result of cooperation, will be retarded by the insufficiency of economic cooperation with China by advanced industrialized countries other than Japan. Though Japan has sought in the past to clear up these misunderstandings by advanced industrialized countries, it must do more.

### **3. Measures for the improvement of economic cooperation with China**

In the problem areas described in the previous section, we must systematically find ways and take measures to improve economic cooperation with China and make it more effective and efficient. By way of example, such measures include the following:

- (1) Give higher priority to improving cooperation qualitatively rather than quantitatively.
- (2) Reinforce operational structures for economic cooperation both in Japan and in China.
- (3) Promote advanced industrialized countries' understanding of the importance of economic cooperation with China.
- (4) Improve the Chinese investment environment through wide-ranging cooperation.
- (5) Focus environmental cooperation on priority areas to be identified through a study for development assistance to the Chinese environment sector.
- (6) Make forms of loan assistance more flexible.
- (7) Diversify grant aid.
- (8) Exploit the special nature of China-Japan ties in technical cooperation.
- (9) Orient and implement cooperation in ways that maximize ripple effects.
- (10) Reinforce tripartite cooperation by Japan, China, and China's neighbors.
- (11) Strengthen domestic publicity concerning Japan's cooperation with China.

#### **(1) Give higher priority to improving cooperation qualitatively than quantitatively.**

China has immense needs for technology and funds for its development: even if Japan were to continually increase its cooperation quantitatively, it would be absolutely impossible for Japanese cooperation quantitatively to meet all of China's needs. In improving its economic cooperation, Japan's basic approach is therefore to make maximum efforts to improve the content of cooperation programs before expanding their

scale. Only by improving programs' substance will it be possible ultimately to create all of the conditions for their effective quantitative expansion.

Improvement of content is, moreover, the responsibility of both sides, Chinese and Japanese; it must be carried out through joint efforts. China is one of the recipients of Japanese economic cooperation whose performance has been the most exemplary, and we can expect further substantial, material improvement in our cooperation if we work together.

**(2) Reinforce operational structures for economic cooperation both in Japan and in China.**

Japan's basic approach toward improving the quality of its economic cooperation is to determine China's needs accurately and then to cooperate in areas where Japan is strongest. Although this has always been the basis of Japan's economic cooperation with China in the past, we must strive even harder in the future to establish systems for accurately assessing needs by strengthening tie ups with China's diverse channeling organizations and other bilateral and multilateral economic cooperation organizations. We must jointly establish methods and systems for integrated management of cooperation projects, from their screening to their preparation, implementation, and evaluation. And to make this possible, we must strengthen Japanese ODA implementation organizations, while asking China to strengthen its channeling organizations in terms of personnel and other areas.

**(3) Promote advanced industrialized countries' understanding of the importance of economic cooperation with China.**

By repeatedly stressing, at high-level discussions among the leaders of industrialized nations as well as through contacts with other bilateral and multilateral economic cooperation organizations, that China's stable development is important, indeed indispensable, for the peace and prosperity of the world, Japan must try to increase understanding in advanced industrialized countries that improvement of the Chinese investment environment resulting from Japanese ODA will stimulate direct investment by the private sectors of other countries, not just by Japanese businesses, and will in turn promote the NIEs' and ASEAN's economic development as well. Japan must continue to urge other countries and other organizations to increase their economic cooperation with

China.

**(4) Improve the Chinese investment environment through wide-ranging cooperation.**

China is striving, through its policies of reform and openness, to introduce market economy mechanisms into its planned economy system and thereby to establish a new system combining the two. Japan's experience in the area of management of the economy can be useful in many ways. China's economic reform and improved openness policies are aimed at achieving the transfer of private-sector know how and technology to China via direct investment by private companies from advanced industrialized nations. Therefore in its economic cooperation with China, Japan must give the highest priority to improvement of China's investment environment and increase the effectiveness both of domestic investment by China itself and of direct foreign investment in China by the private-sector of other countries. This can be done through industrial infrastructure improvement which relies on loan assistance and Export-Import Bank financing, the establishment of systems for intellectual property protection, amelioration of finance and trade practices, and the establishment of methods of administrative guidance and macroeconomic control through technical cooperation.

**(5) Focus environmental cooperation on priority areas to be identified through a study for development assistance to the Chinese environment sector.**

Japan must quickly obtain China's collaboration and carry out a study for development assistance to the Chinese environment sector with the object of obtaining an overall picture of China's environmental problems, determining the orientation of China's environmental protection programs, and of clarifying the nature of required economic cooperation for environmental protection. Based on the findings of the study, Japan must then discuss specific cooperation plans and methods with the Chinese. A special focus of the study should be the definition of specific cooperative measures to be taken to promote afforestation and to control and prevent acid rain. Present orientations are described below.

Firstly, acid rain could cause massive repercussions in China and the countries surrounding it; we must continually request that the Chinese government pay special

attention to this matter and seek improvements in methods of coal use in homes and factories. It is especially important to ensure that steps more effective than those taken presently to prevent the formation of acid rain be made obligatory in the case of newly constructed coal-burning thermal power plants. We must also request that the Chinese government implement the principle that the cost of antipollution measures is part of the overall costs of the polluting enterprise, which must pay the costs both of constructing and of operating antipollution equipment.

We must improve cooperation structures both technically and financially to assist Chinese efforts toward improvement in this area accordingly. Environmental protection is indispensable for China's sustainable development, but it is not always a high priority in China's development policies; because the Chinese may hesitate to apply for financial cooperation in this area, it is worth considering the offer of cooperation on Japan's own initiative.

Next, there must be more cooperation in relation to greening programs and reforestation. Soil erosion and partial or total desertification are making inroads into the upper and middle reaches of the Yangtze River and the "three northern districts" (Dongbei, Huabei, and Xibei: northeast, north, and northwest China); these areas must be made the focus of efforts combining technical and financial cooperation to re-green China. Through technical cooperation, China and Japan can jointly develop technology to restore vegetation and plant cover; financial cooperation is needed to support afforestation projects using the technology resulting from these research projects.

**(6) Make forms of loan assistance more flexible.**

We must conduct a comprehensive comparison of the positive and negative features of the way in which money has been lent to China and study more flexible ways to improve loan assistance so that it will be better adapted to China's economic development needs.

**(7) Diversify grant aid.**

Grant aid should be conducted in the spirit of helping those in need when they need help most: doing as the Chinese do when they say, "xue zhong song tan" (sending charcoal in snowy weather) or, reaching out to offer a helping hand. Japan's grant aid must meet

a variety of needs in terms of geographical location, scale, and nature of the cooperation, but it should be basically focused on helping to meet basic human needs in poor zones of inland China. Cooperation in the construction of facilities should be avoided, however, since the Chinese can do this by themselves, and supplies should be procured locally whenever this is possible.

**(8) Exploit the special nature of China-Japan ties in technical cooperation.**

In our technical cooperation, we should take advantage of the special features of China-Japan ties and strive for more efficient cooperation by setting up special training courses given in the Japanese language for Chinese, supporting cooperation based on sister-city ties between Japanese and Chinese cities, sending skilled Japanese engineers to China, etc. Realizing that we must deepen both peoples' understanding and knowledge of the other's society and culture in order to cement future Sino-Japanese relations, we should promote wider exchange between young people from both countries, including the expansion of exchange student programs, and strengthening our support for Japan studies and Japanese language programs in China. Nor is it necessary that cooperation be implemented directly by Japanese nationals: in view of the need to increase the efficiency of cooperation, the possibility of enlisting the help of the overseas Chinese who are productive citizens of countries throughout southeast Asia and the rest of the world must be studied. An alliance with overseas Chinese drawing on their know how and experience could help, because of their close linguistic and cultural affinities with mainland Chinese, to provide a very cost-effective type of cooperation.

**(9) Orient and implement cooperation in ways that maximize ripple effects.**

In view of China's geographical immensity, Japan must establish directions and methods for cooperation that maximize ripple effects by coordinating its work with that of the Chinese and with other bilateral and multilateral economic cooperation agencies.

- Japan must seek to achieve overall coordinated effects by advantageously and synergistically combining different forms of cooperation: private sector direct investment, Export-Import Bank financing, loan assistance, grant aid, technical cooperation, and cooperation by nongovernmental organizations.

- In the case of large-scale cooperation projects such as project-type technical cooperation, and in the case that such projects are planned as model projects for demonstration purposes, Japan must adjust them from the beginning to China's strategy of maximizing ripple effects on all of China.
- For example, in areas such as agricultural development which are affected by the climate, Japan should cooperate in model projects based on a climatological division of Chinese territory.

**(10) Reinforce tripartite cooperation by Japan, China, and China's neighbors.**

Japan should activate personnel exchange in the region surrounding China and thus contribute to regional stability by urging China's other neighbors to take part in economic cooperation with China. We must promote joint cooperation by strengthening cooperation involving three-way tie ups between China, Japan, and other nations. It is also considered that joint efforts will be made in other countries, for example, to support the prevention of desertification in Africa, combining Japanese ODA funding for this with activities by Chinese afforestation experts.

**(11) Strengthen domestic publicity concerning Japan's cooperation with China**

In order to improve Japan's economic cooperation with China both qualitatively and quantitatively, we must appeal constantly to the Japanese people seeking their comprehension and support and informing them of the status and importance of Japanese cooperation with China and likely future trends, of China's present state of development and challenges, and of the significance of economic cooperation with China as a promoter of world peace and prosperity, especially in the Asia-Pacific region. It is consequently necessary for JICA to further reinforce the organization of its domestic public relations efforts in this area.

Next year, on the occasion of the twentieth anniversary of the reestablishment of diplomatic relations between China and Japan, we should plan and carry out a wide appeal to the Japanese people, informing them of accomplishments thus far and future challenges to face in Sino-Japanese economic cooperation and effect in the process a permanent strengthening of the relevant public relations structures.



## **Chapter III Priority Geographical Zones, Priority Cooperation Areas, and Projects**

### **I. Policy regarding priority geographical zones and zone-wise cooperation**

China can be divided into three zones as targets for Japanese economic cooperation: the coastal zones, the inland zones endowed with natural resources, and the inland poverty-stricken zones. Japan should take into account their peculiarities and inter linkages and base cooperation on Chinese government development policy toward these zones.

1. The coastal zones are the locomotives that will drive China's economic development; to give outside assistance in their development, Japan should center economic cooperation on software (intangible) cooperation, specifically through technical cooperation, and on improvement of economic infrastructure through Export-Import Bank financing and loan assistance.
2. The resource-rich parts of inner China must be helped to play a greater role as supply bases of raw materials and food for the coastal zones, and loan assistance, Export-Import Bank financing, and technical cooperation must also be provided, alone or in suitable combinations, with due attention to the independent development of these parts of China also.
3. In poverty-stricken parts of China, cooperation, mainly grant aid and technical cooperation, must aim at satisfying basic human needs from the standpoint of redressing inequalities among different zones.

China is geographically vast — about 26 times as great as Japan — but its inter-regional differences in climate, weather, availability of resources, and socio-economic development are also vast. Cities are better off, especially in economic terms, than the rural areas and the coastal zones are economically better off than the inland parts of China. Because the coastal zones especially are hubs for exchange with the outside world and benefit from various forms of special policy treatment, it is likely that the gaps

between them and the rest of the China will widen. We must draft guidelines for Japan's economic cooperation that take into account these regional disparities and are harmonious with the Chinese government's own development policies.

For China's future sustained and self-reliant development, it is indispensable, as stated in the eighth five-year plan, to further promote development of the coastal zones and to use their growth to promote the development of the rest of China. It is earnestly hoped that greater private-sector direct investment will be made in these zones. Japan's economic cooperation is aimed at improving the investment environment and Japan must offer economic cooperation in ways that will elicit maximum private sector activity. Measures should be specifically focused on support for development of Hainan Island, Guangzhou, Shenzhen, Qingdao, Tianjin, Pudong in Shanghai, and the northeastern coastal zones including Dalian, through improvement of industrial infrastructure to prime private sector investment and "software" (technical and intellectual) cooperation. And Japan must actively cooperate at the same time to prevent the spread of air and water pollution as a byproduct of industrialization.

Though great challenge is posed by efforts to narrow the disparities in levels of economic development between the coastal and poorer inland zones, especially the areas that have no appreciable natural resources, economic development of coastal zones is essential in order to generate the funds necessary for the development of the interior. As things now stand, it is realistic to promote development of the coastal zones as a model for the subsequent development of other areas. On the other hand, however, because coastal zone development will conceivably accelerate and increasingly widen disparities in living standards, Japan's economic cooperation must also put gradually increasing weight on redressing the imbalance between the richer and the poorer parts of China and support balanced development.

Those of the interior zones with substantial mineral or energy resources and those with agricultural development potential must be helped to play more important roles as raw-material and food production and supply bases for the coastal zones. Industrial and regional development taking advantage of these resources must be encouraged. In the poverty-stricken zones that have been left out of economic development, assistance is possible in the formulation and implementation of model regional development plans, in satisfying such basic human needs as education, sanitation, and health care, and in the operation of poverty-pocket development projects now being carried out by the Chinese government. Finally, in view of the need to protect the entire global environment,

cooperation should always stress environmental protection, by for example promoting afforestation, especially in the badly deforested northern parts of China (the "three northern districts": Dongbei, Huabei, and Xibei).

## **1. Coastal zones**

Inflation in the Chinese economy has been brought under control by the government's economic readjustment policy since 1988, but both consumer spending and activity by large state enterprises are stagnant. Although there was a temporary cooling of investment immediately after the Tiananmen Square incident, coastal zone development is still continuing and it is clear from the eighth five-year plan that the previous policy of improved outside access to the coastal zones has not been changed. Foreign investment in China's coastal zones by companies in labor-intensive sectors of production is growing steadily; smaller businesses, both from Japan and from newly industrialized economies like South Korea and Taiwan, are setting up production facilities in China, because of severe domestic labor shortages in Japan and soaring labor costs and consequent flagging competitiveness in NIEs.

It is necessary to think in terms of maximizing the private sector's contribution in these zones. Therefore, Japan's ODA should be used to provide only secondary support in this area. Japan must improve the investment environment of coastal zones implementing, on one hand, the coordinated loan assistance, Export-Import Bank financing, and technical cooperation for the improvement of industrial infrastructures (energy supply, transportation and communications), which is the biggest specific bottleneck in China's economic development, and promoting, on the other hand, technical cooperation for setting up of an intellectual property protection system and improvement of financial and trade practices.

## **2. Resource-endowed zones of the interior**

China is one of the countries best endowed with energy (coal, hydropower) and mineral resources (especially iron ore, aluminum, and rare metals). The zones where these mineral and energy resources are produced are mainly located in the interior; China's insufficient transportation infrastructure has created serious problems and generated shortages of electricity, fuel, and raw materials for the coastal industrial zones, imposing major constraints on China's development. The status of existing

reserves, moreover, makes inevitable a gradual shift in emphasis in future large-scale resource development toward more remote interior parts of China. Meeting the challenge of transporting these mineral and energy resources from these remote areas is becoming an ever more urgent problem, more serious even than in the past. It is hoped that these zones can play a greater role as production bases supplying China with food and other agricultural products. In terms of redressing widening economic imbalances between these zones and the coastal industrial zones, it is necessary to seek ways to achieve regional development consonant with each region's reserves of natural resources.

Cooperation in these zones should have as its first object to stably produce and supply China with mineral and energy resources and food. Specifically, more extensive mineral and energy resource studies and augmented Export-Import Bank financing are needed for energy resource development; technical cooperation should be directed at improved productivity and safety; and both loan assistance and technical cooperation should be used in focused projects to improve resource shipment and transportation capacity via railroads, roads, and ports and to improve the efficiency of electricity transmission; finally, it is simultaneously necessary to formulate cooperation packages that organically coordinate different forms of cooperation schemes. Cooperation programs in the area of agricultural production and food supply should suitably and flexibly integrate low-interest loans and technical cooperation to promote improvements in farming infrastructure and in facilities for the distribution, storage, and processing of agricultural produce. Finally, more attention should be paid to the fostering of existing industries in keeping with regional characteristics and needs.

### **3. Poor zones**

In China's rural districts, more than 40 million people are thought still to be living without "wenbao" (the government's minimum standard of living target consisting simply of enough to eat and wear). Production conditions have always been poor in these poor zones, often in remote mountainous areas or revolutionary outposts or areas inhabited by minorities. Attempts to force these zones to be self-sufficient in food often backfired with devastating effects, triggering a vicious cycle where clearing and cultivation of forested land or sloping pasture land destroyed the natural ecosystem, causing erosion of surface soil, even worse harvests, and the need to clear more virgin land for farming. Too little has been invested in transportation, communications, electric power, and education, making stubborn adherence to old customs another major reason for the

perpetuation of poverty.

Economic cooperation for these zones is mainly given in the form of grant aid and technical cooperation due to the need to satisfy basic human needs. Specific needs include the fostering of indigenous industries suited to local characteristics, the improvement of farming productivity, cooperation in the social sector in primary and secondary education and sanitation and health care, and cooperation in the environmental sector through afforestation and other projects. One promising approach is that whereby Japan and China together formulate and implement model regional development plans, especially for poorer zones, and find ways to work together to develop the zones in question and then turn the development and growth process in this joint work into a model to promote subsequent independent efforts by the Chinese on their own. Support for the various poverty-enclave development projects now being carried out by the Chinese government should also be studied.

## II. Priority Aid Areas

Listed below are the areas of priority for Japan's economic cooperation with China. We have made an extensive list, including all areas that would contribute significantly to China's economic and social development and to friendship between Japan and China henceforth, irrespective of Japan's capacity to provide economic cooperation. It is impossible therefore, for Japan to cover all of these areas of economic cooperation. We do hope, however, that through close policy dialogue between the Chinese and Japanese governments, the projects with the highest priority can be selected, prepared, and implemented with reference to these priority areas and to China's development planning and domestic and international environments. In view of China's geographical and demographic immensity, attention should be paid to the ripple effect of projects in addition to or even more importantly than their direct impacts. For this reason, we wish to draw specific attention to the fact that human resource development is the first fundamental step to be accomplished in each of the areas mentioned below.

1. Promotion of economic reform and development
  - Support for economic reform
  - Unblocking of bottlenecks retarding economic growth
2. Promotion of balanced economic development
  - Expansion of food production capacity
  - Redressing of regional disparities
  - Solutions to urban problems
3. Realization of sustainable development
  - Environmental protection and pollution prevention
  - Reforestation and afforestation
4. Promotion of Sino-Japanese cultural exchange

Though China's policies of economic reform and openness to the outside world are likely to require some political and economic adjustments in the future, China will still in all likelihood adhere closely to this line as its basic policy on stable development. The Chinese government is hoping to stimulate the economy and increase production

capacity by introducing market economy mechanisms to spur economic growth under present policies and is striving to remove domestic obstacles. A number of underlying problems are becoming particularly evident with rapid economic growth: the deterioration of food production infrastructure, the insufficiency of industrial infrastructure, shortages of energy and raw materials, and defects in China's financial and distribution systems. Solutions to these problems are urgent necessities. Japan's cooperation must strive to support China's economic reform and development by offering cooperation that both assists the process of reform in intangible ways and contributes to unblocking the above mentioned bottlenecks that retard economic growth.

The redressing of gaps in stages of economic development between different zones — gaps that will widen with rapid economic growth in the coastal zones — is a task that must be undertaken in the course of China's efforts to achieve balanced economic development. As a counterweight, therefore, to the facets of Japan's economic assistance that channel private capital into China's coastal zones and other priority development areas to accelerate their development, Japan must consider shifting the main focus of its cooperation gradually toward parts of China's interior that tend to be excluded from the benefits of economic growth. It must consider the ripple effect of projects to these disadvantaged zones and offer cooperation that fosters suitable local industries, improves agricultural infrastructure, and contributes to integrated regional development and the narrowing of disparities among zones. Especially in poor zones, basic human needs should be the focus of cooperation through technical cooperation and grant aid intended to support programs run by the Chinese government to reduce disparity and alleviate poverty.

Awareness has been rising in recent years of the seriousness in China of the vicious cycle of poverty, population growth, and environmental destruction. The Chinese government is beginning to strive to achieve sustainable development to interrupt this cycle. Due to China's immensity, its behavior will affect the whole world's future, not just China's. And due to the seriousness and urgency of this problem, Japan is requested to evaluate China's own efforts in this area and, given China's limited means, support China actively in this area through close coordination with other advanced industrialized nations and international organizations.

The promotion of friendly, stable relations between China and Japan is the condition sine qua non for tomorrow's peace and stability in the Asia-Pacific region and for world peace. For our friendship to endure, it is necessary also to promote cultural

exchange between Japan and China involving the participation of the citizens of both countries at every possible level of exchange, and not to limit ties to political and economic cooperation and official declarations of amity. It is indispensable that there be mutual understanding between the young people of both countries who will carry on these bilateral ties in the future. And there is another dimension to this need: China is the repository of countless cultural treasures and archeological monuments that represent and embellish the heritage of all humanity, and for this reason Japan should lend further support toward the maintenance and conservation of China's cultural wealth.

## **1. Promotion of economic reform and development**

### **1.1 Support for economic reform**

#### **(1) Improvement of macroeconomic control systems**

China is faced by the challenge of rationalizing the Chinese economic system using economic structural reform and open-door policy as levers to achieve continued economic growth and to promote balanced development. Japan's role in this effort should be to provide technical cooperation, particularly in the area of institutions and structures, to assist China in implementing its policies, especially economic reform (agriculture, industry, pricing, fiscal policy, financial system, distribution, etc.). Such improvements as better systems for macroeconomic control are especially urgent tasks in the context of promoting economic reform. In addition to demonstrating Japanese macroeconomic control techniques to the Chinese by sending experts to China and training Chinese officials in Japan, we must consider conducting theoretical and methodological studies in collaboration with Chinese researchers on economic systems and operating mechanisms that would incorporate market-based control into China's planned economy, producing a "socialist planned commodity based economy." There is a great and significant possibility of cooperation in this area such as the improvement of economic forecasting and industrial policy-making techniques and the contribution to the economy's structural reform.

#### **(2) Improvement of corporate productivity and quality of industrial goods**

Both inefficiencies in the management and the undependable quality of goods in state enterprises are two of the most serious problems facing the Chinese economy.



Remedies are major challenges for economic reform policy. China's technology structure is predominantly burdened by old-fashioned techniques and obsolete facilities requiring modernization. Faced with these tasks, Japan must aim to harmonize its cooperation programs with Chinese government policies which give greater autonomy to state enterprises and to improve productivity by making improvements and innovations in the management and control systems used in state enterprises, to improve yield by introducing quality control, to modernize factory equipment, and to boost the international competitiveness of Chinese products by improving their quality.

Specifically needed are both technical cooperation that contributes to the improvement of management and control techniques, production technology, quality control, energy consumption reduction, and other industrial technologies, and cooperation in studies and other work being carried out on plant modernization and improvements in existing facilities. Development of human resources, especially middle-level managers and engineers, is vital. Financial and technical cooperation to support improvement of the investment environment and introduction of foreign capital will create direct benefits for China, such as foreign exchange earning and more job opportunities — in addition to these direct effects — in indirect ways also, the presence of foreign capital will have a major impact on Chinese enterprises by stimulating, we hope, reforms in domestic businesses. But in the final analysis, the greatest impediments to improved corporate productivity in China lie in faults in the market environment and macroeconomic control systems. It must be borne in mind that no fundamental solution will be found until solutions are found to these problems.

### **(3) Cooperation toward promoting tertiary industry**

Commerce and distribution are part of tertiary industry (services), whose importance is stressed in the eighth five-year plan; it is hoped that services will play a major role in the introduction of a market economy system in the future, and Japan should consider cooperation in a variety of ways, including support from the aforementioned macroeconomic control to promote adequate growth by this sector. Most know-how in the area of commerce is located in the private sector and for this reason, cooperation in this area, should be carried out in collaboration with private sector businesses. Technical cooperation is conceivable in such specific areas as the collection and analysis of data through market research to ensure that production and sales efforts will be carried out based on a real demand, in the development of products that meet consumer requirements, in industrial design, and in the improvement of advertising techniques. In the

field of distribution, it is urgent to build and improve storage and distribution systems, for example, by building and deploying refrigerated storehouses and vehicles.

The promotion of tourism would certainly contribute to China's future independent development, being both a source of foreign currency and a labor-intensive industry that requires little energy and few natural resources and creates little pollution. This area has much potential for growth and under appropriate promotion policies that take tourism's effects on local communities into account, it is possible for China, now the repository of immense scenic and cultural resources, to become a tourist superpower in the near future. Tourism is usually not a field where ODA plays a major role, but because of its importance and potential in China's case, Japan should cooperate with China in formulating basic plans to promote tourism, to train the needed personnel, and in transferring technology by sending experts or training Chinese in Japan. Improvement of transportation and communications infrastructure and the extension of the water supply and sewage systems and electric power facilities in the process of regional development are among ways that the tourist industry can be indirectly promoted.

## **1.2 Unblocking of bottlenecks retarding economic growth**

Much effort has been spent thus far on improving railroad, road, port, airport, inland water transportation, communications, and electric power facilities, and Japan's economic cooperation has also emphasized two aspects: energy on the one hand and transportation and communications on the other. As things presently stand, however, demand is increasing at an accelerating rate and facility expansion cannot keep up with this growth. The absolute shortage of industrial infrastructure together with energy constraints is the most serious obstacle to China's industrial development. Japan's cooperation must therefore work to build and improve infrastructure — transportation, communications, electric power — using loan assistance and Export-Import Bank financing, as it did in the past, and it must combine this with appropriate forms of technical cooperation if this is needed to make the maintenance, management, and operation of this infrastructure more efficient.

Especially in the case of coastal zone industrial infrastructure, Japan must consider the relationship with private-sector investment and efficiently link its cooperation to industrial development projects so as to assist the entry and activity of private businesses.

### **(1) Improvement of transportation infrastructure**

Huge investments are necessary in order to make up the absolute shortage of facilities in this area and it is far beyond the capacity of Japan; Japan should therefore, plan its cooperation carefully and limit it to priority areas and priority geographical locations. In the short term, rail transport capacity should be increased by making existing lines more efficient, for example, building bypasses to alleviate the traffic load on existing lines, the main arteries in the road network should be improved and expanded, and facilities and container handling capacity should be expanded in important ports; technical cooperation should also be envisaged to assist China to efficiently maintain, operate, and control transportation facilities. In the medium and long terms, Japan should adopt methods that concentrate funds on priority regions and priority projects based on an overall development plan covering whole transportation systems and energy supply.

### **(2) Improvement of telecommunications facilities**

It is essential that information services be made more widely and rapidly available to facilitate China's economic reform and open-door policies; improvement of the telecommunications facilities that support access to information is of growing importance. Improvement of communications infrastructure is especially vital to international businesses activities. Japan's economic cooperation should be used to improve the telecommunications infrastructure — especially in the coastal zones — with the main objective of improving the investment environment. In view of China's vast geographical size and possession of its own communications satellite technology, cooperation must also be directed to improving the satellite communications infrastructure. In this area where high technology is required, not only hardware but also software, namely the training of personnel taking into account operation and maintenance aspects as well, is important.

### **(3) Developing and securing supplies of mineral and energy resources**

In this area, development surveys on coal, other mineral and energy resources will be carried out and technical and financial cooperation will be given to promote the improvements in productivity, in quality control, and in safety. As in the past, in the case of coal, oil, and other major energy resources, Export-Import Bank financing will be used to promote resource development, loan assistance, and technical cooperation will be used to improve shipping capacity, and technical and financial cooperation will be used to improve productivity and safety. Comprehensive forms of cooperation linking these

various cooperation schemes together will also be considered.

Coal is the basis of China's energy economy, accounting for more than 70% of China's energy production and consumption, and China has adequate confirmed reserves for the future. Considering its importance, therefore, Japan should assist China comprehensively in the research, development and use of efficient ways to use coal that solve the many problems involved, which include transportation, environmental impact, quality, and safety.

#### **(4) Increasing electricity supply and promoting energy conservation**

The construction of new coal-burning thermal and hydropower plants is one of the ways that come immediately to mind of implementing cooperation in this field. In practice, however, before deciding the location, size, and type of new facilities, it is necessary to take into account comprehensive national forecasts of future demand for electric power, methods of transporting coal, distances that electricity must be transmitted, environmental impact, availability of water resources, etc. A comprehensive development policy is needed on the demand side that will allocate massively energy-consuming industries to regions where energy resources and electricity are available in abundance; cooperation should therefore be considered at the planning and policy levels also. Japan should also promote more efficient use of energy by helping China to improve its electricity transmission networks and to build long-distance power lines spanning different provinces of China and should promote the efficient use of finite resources to narrow the gap between energy demand and supply by making energy saving technology available to the industrial sector. Finally, Japan ought to provide technical cooperation for the improvement of efficiency and safety in nuclear power plants and cooperate in the diversification of energy sources.

## **2. Promotion of balanced economic development**

### **2.1 Expansion of food production capacity**

While the Chinese agricultural, livestock, and fishing industries have made remarkable progress since the reforms announced at the third plenary session of the 11th Central Committee of the Chinese Communist Party in December 1978, their development is still far from sufficient and a greater effort will be needed to achieve "xiaokang" (acceptable living standards). China has a reputation for being "stable when there is

enough food and restless when there is not." Given China's resource constraints and foreseeable population growth, the future is fraught with difficulties. In view of the state of China's agriculture and fisheries industries, therefore, Japan could cooperate in a wide range of ways. Because China has a large underemployed agricultural labor pool and very little chance for expansion in its arable land area, its most pressing short-to-middle term goal is to improve the productivity of its limited land resources. Over the long-term, however, greater agricultural productivity will be achieved together with demographic shifts as the population moves from agriculture into manufacturing or tertiary industries. It should be borne in mind that job creation through coastal zone development and by town and village enterprises is crucial for such demographic shifts to take place smoothly.

### **(1) Development of agricultural infrastructure**

China will need to improve its farmlands and secure adequate water supplies if it is to increase its agricultural production and produce enough food for the population. Given the foreseeable population growth, there is evident need for cooperation in the development of the country's agricultural base. To make such projects effective, however, cooperation in the formulation and implementation of land use plans and regulations and the development of suitable technology for the maintenance and management of irrigation facilities should be made. Cooperation will also be needed for the building of facilities to process, store, and distribute agricultural products, and for transferring Japanese know-how regarding efficient agricultural distribution systems.

The 1991 floods wreaked havoc in both rural villages and urban areas; the number of people affected by the disaster is estimated at over 200 million. Though natural factors were also at work in the flooding, much of the blame must also go to such manmade factors as excessive logging, lack of irrigation, drainage, and flood control facilities, and declining performance by existing facilities caused by the dismantlement of the people's communes. Japanese cooperation will be needed to prevent similar disasters from occurring in the future, or at the very least, to minimize the damage should they occur. This cooperation should include reforestation (which will be covered later) as well as the enhancement of irrigation, drainage, and flood control facilities, and should cover both tangible areas such as equipment supply and intangible areas such as training and supervision.

## **(2) Promotion of the agricultural materials industry**

Cooperation will be needed to increase the production of fertilizers, agricultural chemicals, and agricultural vinyls, and to ensure China an adequate supply of these and other farming supplies. Specifically, Japan should consider long-term, low-interest financing for the construction of factories to manufacture these materials. In loan negotiations, it may be convenient to consider the possibility of requesting the guarantee that materials produced at Japanese-financed factories will get to the farmers who need them, smoothly, at low cost, and without becoming an object of speculation. Furthermore, in order to assist the poorest regions, it would be worthwhile to consider requiring that a set percentage of the materials produced be earmarked for poor zones.

## **(3) Transfers of agricultural technology**

Transfers of agricultural technology should be handled as they have been thus far: variety improvement (hybrid) technologies and advanced cultivation technologies such as bio-technologies should be transferred wherever possible and in accordance with priorities set by China. However, currently the gap is excessively large between China's laboratory technologies and the techniques actually used by farmers. To alleviate the often serious problems this is causing, it would be worth considering a collaborative effort with NGOs or JOCV to organize the diffusion of agricultural technology. These efforts should concentrate on giving Chinese farmers direct instructions in easily-mastered technology that will lead to an immediate increase in yield, will not harm the environment, and is appropriate for their situation.

The use of OECF's loans to and equity investment in corporation and JICA's development cooperation programs should also be considered to provide direct support for Japanese private-sector companies willing to undertake development projects in China, thus placing the managerial expertise of Japanese private companies at the service of Chinese agricultural development.

## **(4) Livestock**

Consideration should be given to cooperation for the rearing and proliferation of more feed-efficient breeds. Long-term, low-interest loans for the improvement of pasture lands should be considered bearing in mind the necessity of the promotion of herd grazing. Particular consideration should also be given to the selective breeding of quality grasses for use in the development of southern pasture lands.

## **(5) Fisheries**

It is important for Japan to provide cooperation for fishery management policies that put an end to the deterioration of resources in the Sea of Japan and the Yellow Sea, increase Chinese fish catches to the required levels, and maintain good fishing grounds for the future. These policies should therefore provide for large-scale incubation and stocking projects and breeding ground protection. Cooperation should also be considered for the development of integrated processing systems that provide for more efficient use of fishing resources. Such systems would include everything from shipboard processing to distribution, and sales. Japan should also place more emphasis on conducting joint research with Chinese universities and laboratories and on inviting Chinese researchers in this field to Japan.

## **2.2 Redressing of regional disparities**

Cooperation for the rectification of inter-regional differences should include agricultural and industrial development projects in poor zones, integrated regional development programs, and the improvement of such basic human needs as education, health care, drinking water, and rural electrification. Grant aid in particular should emphasize these kinds of poverty-alleviating measures. Other conceivable areas of cooperation include programs to improve basic technologies in the agricultural sector, develop appropriate technology, and develop and produce regional specialties along the lines of Japan's "one local specialty per village" program. In implementing this cooperation, Japan should take care to support and link up with projects already being implemented by China, and to decide geographical priorities in accordance with China's development policies. Japan should also consider the use of model projects or other ripple-effect techniques that will enable the impact of achievements in one district to spread to other areas of this large country.

### **(1) Formulation and implementation of regional development programs**

A particularly effective way to go about regional development would be to take a region-by-region "bottom-up" approach. Several regions could be selected that are particularly poor but have future development potential through appropriate development programs. These districts would be considered model districts, and would be made part of a development package that, depending on the needs of the district, might include

improvement of agricultural infrastructure (irrigation, drainage, rural roads, electricity, drinking water etc.), improvements in agricultural technology, promotion of diversification, improvement of distribution channels, promotion of smaller agricultural businesses, or promotion of the production of speciality items. To make this cooperation more effective, Japan should offer advice on project planning and formulation, providing for ripple effects to spread results to other areas of the country and transferring its planning skills to China so that China may formulate and implement programs on its own in the future.

## **(2) Support for the social services sector**

The focus of cooperation in health, medical care and sanitation should be on creating and enhancing medical institutions in regional cities and rural communities and on providing training and skills-improvement for medical practitioners and primary health care personnel in rural communities. The dismantling of the people's communes might have widened the gaps between the medical services available in prosperous and poverty-stricken zones, and could result in a decline of medical services at the bottom end of the chain. That is why it is necessary to train primary health care personnel and assist in the establishment of medical institutions at the provincial level and below. Japan should also provide cooperation not only for treatment and prevention techniques for major diseases but also for information gathering and the improvement of study techniques about those diseases which are the major causes of death in China: cardiovascular disease, neurological disorders, cancer, and certain contagious diseases. Another area requiring continued cooperation is child and maternal health and family planning. These programs need to be enhanced and their techniques improved. Cooperation should therefore go towards expanding educational and publicity networks, improving statistical analysis skills, and training personnel. Likewise, cooperation is required for water systems, sewer systems, and other sanitary facilities, as well as for the improvement of their operation and management technologies, and the training of personnel in these areas.

The main goal of cooperation in the educational sector should be to rectify gaps between regions in basic education. Consideration must be given to support for elementary and secondary education and literacy programs in poor rural areas. More specifically, grant aid and technical cooperation should be used to expand elementary and middle school facilities, provide instructional materials, and train and retrain teachers. Thought should also be given to expanding the number of science and math teachers sent



from JOCV. Economic constraints often cause low school attendance and high drop-out rates in poor areas, which not only deprives the region of the human resources required for development, but leads to the formation of a new class of illiterate and poor people. The Chinese government has therefore been extremely active in addressing this problem, one example being the "Hope Project" to reach out to drop-outs in poverty-stricken areas. JICA should consider support for this and similar projects now being run by the government of China.

### **(3) Promotion of town and village enterprises**

Two things are required for the balanced development of the Chinese economy: a population shift from agriculture to other industries and adequate employment opportunities in rural areas to curb the sharp population shifts to urban areas. To achieve both goals, the further development of town and village enterprises is indispensable. Japanese cooperation should therefore emphasize town and village enterprises in the interior, particularly those located in poor zones. Japanese assistance should encourage town and village enterprises to take advantage of their regional strengths and develop in harmony with the surrounding environment. One aspect to be considered is long-term, low-interest financing for town and village enterprises to be established according to acceptable business plans. Another is technological cooperation. This would involve mostly sending experts to solve the problems that town and village enterprises face: lack of funding, energy, and raw materials; overheated competition; low productivity and inefficiency; low technical standards and poor quality; and pollution. The dynamism of town and village enterprises located in coastal zones comes from the vitality of the private sector. Japanese cooperation with these enterprises should therefore be limited for the time being to pollution control and related areas.

## **2.3 Solutions to urban problems**

Cooperation on urban problems conceivably includes various areas from cooperation for tertiary industries that provide urban services to the construction and operation of urban facilities, to assistance in city administration (including urban planning) and environmental protection. Japan should make use of the vast reservoir of expertise and know-how that its local governments have developed in these areas and should consider developing cooperative relationships with them. While many urban problems need solving, Japan should probably focus its efforts on the two below:

### **(1) Improvement of urban environments**

Japan should help China to expand its urban industrial activity and improve the living environments of urban residents. This would include support for basic urban infrastructure: water systems, sewer systems, roads, electricity, communications, gas, and food storage and processing facilities. In addition, technical cooperation for the formulation of urban development plans and urban administration, improvement of housing and residential environments, and disaster-prevention and emergency medical services should also be considered. Moreover, in order to improve urban environments, support will also be needed for solutions to the four major environmental problems facing urban communities: air, water, noise pollution and solid wastes.

### **(2) Cooperation for solving transportation problems**

China's cities generally lack mass-transit facilities, especially commuter trains. And while the number of vehicles has increased sharply in recent years, automobiles, bicycles, and horse-drawn carriages still share the roads, leading to massive congestion and high accident rates. Japan should consider providing China with studies of appropriate forms, sizes, construction methods, and operating methods for mass-transit systems in the country's principal cities. It should also look into loan assistance for their construction, and technical cooperation for appropriate maintenance, management, and operation. It is also important to cooperate with China in programs designed to make existing roads more efficient and to provide better traffic safety education.

## **3. Realization of sustainable development**

### **3.1 Environmental protection and pollution prevention**

Investments in factory pollution prevention should be based on the "Polluter Shoud Pay Principle." Japanese cooperation in this area will therefore focus on technical cooperation and loan assistance. Investments in this area do not provide for a direct or short-term return, but they are necessary for the sustained development of the Chinese economy, as well as for the protection of the environment in Japan, China's other Asian neighbors, and indeed the entire world. For a developing country, the Chinese government is making superb efforts in the area of environmental protection: 0.7% of the GNP, for example, has been earmarked for pollution-prevention investments. Unfortunately, that is still not enough, considering the size of the problem. The problems are

compounded by the fact that China's requests to Japan for loan assistance give priority to development projects. Pollution-control projects generally do not reach the funding application stage.

In this, China is similar to other developing countries. Assignment of ODA funds for the investments in environmental protection reduces their availability for development, besides which they add to the cost of the project without bringing any profits on their own, undermining project profitability and making it harder to repay loans. Many developing countries therefore shy away from "green investments." As such it is necessary for Japan to use bilateral policy dialogue to convince the Chinese of the need for sustainable development, to encourage self-help efforts on their part, and to drive home to them that the Japanese public will not countenance economic cooperation for projects that destroy the environment. Japan has positioned environmental projects as one of the focal points of its international cooperation programs and so must consider providing incentives to China and other developing countries to protect their environments. This would include using technical cooperation, grant aid, loan assistance, and loans from the Export-Import Bank in an organic and efficient manner that encourages recipients to take appropriate measures.

China's environmental problems are vast and complex. Japan needs to cooperate with Chinese researchers in order to gain an overall picture of the extent of the country's environmental problems, study possible directions to be taken in comprehensive environmental protection and elucidate, screen, and implement the economic and technical cooperation programs that are required.

#### **(1) Cooperation for green projects by the industrial and urban sectors**

The first problem to be tackled in this area is the training of people to administer environmental policy. This effort will be carried out by the "Japan-China Friendship Environmental Research and Development Center." This Center must be encouraged to develop ties to provincial level training centers working in the same field in China and to set up networks between Chinese and other Japanese-assisted environmental protection centers in Thailand and Indonesia. It will also be important to establish a cooperative relationship between this Center and the United Nations Environment Programme (UNEP) technology center to be established in the near future in Japan.

The second issue to be dealt with is the development of comprehensive methods for preventing water and air pollution. In the case of water pollution, for example, it is not

enough to merely control the individual sources. The characteristics of individual water systems must be studied to determine the requirements in each particular case. After that is done, factory production processes must be modernized, water treatment facilities established, new factories suitably sited, sewer systems and sewerage treatment plants built, use of septic tanks encouraged, and solid waste collection and treatment methods improved. Japanese cooperation should proceed along these general lines, and should focus on technical cooperation for the preparation of programs to prevent pollution in China's major water systems and to prevent air pollution in each of the country's major regions. Financial cooperation would be an effective way to support these programs. And in the event that private-sector Japanese capital participates in Chinese economic development, it is important that they set an example by adopting adequate antipollution measures.

Third, China needs to strengthen its environmental impact assessment system. Considerable care for the environment is required if the economy is to develop any further in the already highly-polluted coastal zones but at present assessment of the environmental impact of development projects is not satisfactory. Japan should support the Chinese environmental assessment system by participating in joint assessment activities that facilitate transfers of environmental assessment technology.

Fourth, China needs to modernize its factories. Much of China's pollution comes from inefficient resource and energy use by pre-modern, obsolete thermal power plants, steelyards, cement factories, and coal gasification equipment. Yet one of the things holding Chinese economic development back is the shortage of raw materials and energy. Modernization of factories and equipment would therefore alleviate pollution while at the same time reducing the resource and energy bottleneck and is an area in which Japan needs to provide more cooperation than it has in the past. To do so, however, will require engineers that are experienced with what are now outmoded facilities. Unfortunately, most of these people have already retired, so ways must be found to bring them into the program, including a substantial expansion of budget to support the activities of veteran engineers. Immediate consideration must also be given to financing, including two-step loans intermediated by Chinese financial institutions. These loans, furthermore, should go both to polluters in rural areas such as town and village enterprises and to national corporations.

The fifth and final issue to be brought up is acid rain, which affects not only China, but also its neighbors and indeed the entire world. Acid rain's prevention is more,

however, than just a technological problem. Comprehensive regulatory and fiscal strategies are required. Cooperation could start by making a joint China-Japan study on a general strategy for acid rain prevention using cities in southern China as models. There is much to do, even if the scope is limited to purely technological issues. A comprehensive approach must be formulated that includes the rationalization of factory and home energy use, preprocessing of fuels (especially coal), improvement of combustion processes, and treatment of waste gases. More specifically, to combat acid rain, a combination of factory modernization (energy conservation), centralized heat supplies, switch-overs to natural gas, wider use of coal briquettes in homes and smaller factories, use of fuels with lower sulfur content, improvement of combustion processes through use of fluidized-bed furnaces, and waste gas treatment should be developed for the particular needs of each region and industrial sector. Other than the formulation of this general strategy, cooperation could be provided for such projects as joint development of manufacturing technology for less-polluting briquettes and joint development of simple desulfurization facilities. Since Japanese desulfurization facilities are too expensive, private-sector cooperation should be enlisted for a joint Japanese-Chinese venture to develop and manufacture desulfurization facilities that are lower priced, even if they are also slightly less efficient. At the same time, however, the financial cooperation framework should be strengthened so as to encourage installation of desulfurization facilities at coal-based thermoelectric plants. China has not been imposing fines or fees for sulfur dioxide emissions, but the National Environmental Protection Commission recently announced plans to do so. While this is a step forward, experience with other types of pollution shows that companies that have neglected to take antipollution measures will probably find it cheaper to pay the fines than obey the regulations. Bilateral policy dialogue should therefore stress the need to empower environment agencies to impose regulations sufficiently strict to stop companies from polluting.

## **(2) Cooperation for environmental protection under the sister cities arrangement**

In both Japan and China, local governments, not the central government, are the leaders in environmental protection and antipollution regulations. Likewise, it is the employees of local governments that have and need practical expertise in these areas, not the members of the central government. It is therefore important to pursue parallel environmental cooperation programs at both the central and the local government levels.

Fortunately, there are many Japanese prefectures and cities that have friendly relations with Chinese provinces and cities. More than a few of these cities use their relationships to swap information and ideas, but these exchanges are so constrained by local government budgets that they cannot possibly have the depth required for adequate technology transfers. ODA, however, could be used to provide active support for these activities, relieving some of the funding constraints and mobilizing some of the latent potential for international cooperation at the local level.

### **(3) Protection of the habitats of valuable species**

Many valuable species live in China's vast and varied wilderness areas, among them the panda, the Yangtze dolphin, and the ibis. But unsustainable development, particularly in the poorest areas of the interior, has caused their habitats to deteriorate and threatens these species' survival. Up to now, Japan has provided China through cultural grants with equipment to observe and protect the panda, has done joint research into the protection and breeding of the ibis, and sent experts to study the breeding of the Yangtze dolphin. These programs, however, must be stepped up to include protection of these animals' habitats if they are to be saved from extinction. Essential to the success of these efforts is the achievement of sustainable development in the poor areas of the interior, and one way this could be done is by promoting "eco-tourism," in other words, by presenting virtually untouched nature as a tourist resource. Model programs for habitat-protection should be developed along these lines.

## **3.2 Reforestation and afforestation**

China is engaged in a massive project dubbed the "Green Wall" and designed to prevent desertification in its northeastern, northern, and northwestern regions. Excessive logging has subjected the upper and middle reaches of the Yangtze to heavy soil erosion in recent years. The reforestation of the northern regions and the Yangtze basin are vital for both China and the rest of the world.

Because the restoration of vegetation is so difficult, the northern regions are the highest priority area in Chinese reforestation and afforestation programs, and require significantly more Japanese technical and financial cooperation. More specifically, a program for the restoration of vegetation in desert and semi-arid areas is needed. Its initial goal should not be so much to rebuild forests but to stabilize the sandy soil and

prevent erosion by planting shrubs and helping vegetation to return. Once vegetation has been restored and stabilized, appropriate forest species could be planted on this land or it could be put to use in other ways. Japan should also consider long-term, low-interest financing for Chinese greening and afforestation programs in the upper and middle reaches of the Yangtze and similar areas.

Cooperation with Chinese reforestation and afforestation programs does not end with China. The experience and expertise the country gains in fighting desertification and replanting arid regions will be useful in similar programs around the world. Japan should therefore be promoting tripartite cooperation, in which, for example, Chinese expertise on turning back desertification is combined with Japanese ODA programs to assist in combating desertification in Africa.

#### **4. Promotion of Sino-Japanese cultural exchange**

The promotion of stable, friendly relations between Japan and China is a prerequisite for peace and stability in the Asia Pacific Region and indeed in the entire world. In order to cement the future relationship, however, the people of both countries must have a greater knowledge and understanding of each other's society and culture. This requires more than just cooperation and friendship on a political and economic level; greater exchange is also necessary at the cultural level. Cultural exchange in the broadest sense is not a matter just for academics: broad-based mutual understanding should be fostered by wider contacts at all levels of society. Exchange between the younger generations that will be responsible for Japanese-Chinese relations in the twenty-first century is particularly important in this respect and it will be necessary to promote greater contacts between our young people; this should include increasing the number of foreign exchange students.

There have always been high levels of interest in Chinese studies and in the Chinese language in Japan, and recently Chinese interest in Japanese studies and the Japanese language has also grown. Support for Japanese linguistic and cultural studies in China will therefore be an important way to promote a greater understanding of Japan.

China is one of the cradles of civilization. Its recorded history alone dates back 4000 years, and it houses a vast number of cultural treasures and ruins, prime among them being Tun-huang and the cities along the Silk Road. These treasures and ruins are

a legacy not only for the Chinese, but for all mankind and Japan should therefore provide more equipment and technical cooperation for their maintenance, restoration, and conservation. It should also promote more contacts between scholars by providing assistance for technical cooperation and grants for joint studies and research on these cultural treasures.

As is the case with other fields, interchange between Japan and China is increasing in scope. Local governments, private organizations, and individuals in both countries are now engaged in a wide range of activities with each other. The national governments should help to create deeper, more friendly relations by forging ties with these local and private organizations and providing them with support. As mentioned previously, expanded economic cooperation between Japan and China will mean more trained Japanese technical experts and JOCV volunteers being sent to China, more Chinese trainees and students coming to Japan, and more direct contacts and joint research between academics in both countries. It is our hope that these exchanges will be more than just meetings of people and technologies, that they will be meetings of the heart that contribute widely to better, more friendly relations between our two countries.



### III. Priority Projects

Priority areas		Priority projects	Loan assistance	Grant aid	Technical cooperation	Other
Promotion of economic reform and development	Support for economic reform	<ul style="list-style-type: none"> <li>• Joint research on macroeconomic control systems</li> <li>• Cooperation in administrative software (to improve national fiscal policies and financial systems, to develop economic forecasting techniques, etc.) needed to introduce a market economy</li> <li>• Institution building to permit introduction of foreign capital</li> <li>• Improvement of business administration and management systems</li> <li>• Improvement of business productivity, quality, and energy conservation</li> <li>• Training of middle-level managers and engineers</li> <li>• Improvement of marketing ability</li> <li>• Improvement of storage and distribution systems</li> <li>• Promotion of tourist industry (formulation of basic plans, personnel training, etc.)</li> </ul>	○		○	
	Unblocking of bottlenecks retarding economic development	<ul style="list-style-type: none"> <li>• Improvement of industrial infrastructure (roads, railroads, ports, communications, electricity)</li> <li>• Improvement of industrial-infrastructure maintenance, management, and operating technology</li> <li>• Conduct of mineral and energy resource development surveys</li> <li>• Improvement of productivity and safety in the mineral and energy resource sector</li> <li>• Promotion of resource development via resource loans</li> <li>• Promotion of comprehensive research on coal utilization</li> <li>• Construction of thermal and hydropower plants</li> <li>• Improvement of nuclear power technology</li> <li>• Promotion of energy diversification and conservation</li> </ul>	○		○	
Promotion of balanced economic development	Expansion of food production capacity	<ul style="list-style-type: none"> <li>• Development of agricultural infrastructure</li> <li>• Formulation and implementation of land use plans and regulations</li> <li>• Development of appropriate technology for the maintenance and management of irrigation facilities</li> <li>• Development of processing and distribution facilities for agricultural products</li> <li>• Development of irrigation, drainage, and flood-control facilities</li> <li>• Expansions in agricultural materials production</li> <li>• Organization of transfer and diffusion of agricultural technology</li> <li>• Livestock development (breeding of better stock; improvement of pastures)</li> <li>• Maintenance of fishing grounds and expansion of fish production (incubation, stocking, fishery management)</li> <li>• Effective use of fishing resources (processing technology, distribution systems)</li> </ul>	○	○	○	

Priority areas		Priority projects	Loan assistance	Grant aid	Technical cooperation	Other
Promotion of balanced economic development	Redressing of regional disparities	<ul style="list-style-type: none"> <li>• Formulation and implementation of regional development plans</li> <li>• Development and production of regional specialty goods</li> <li>• Training, retraining, and skills improvement programs for teachers and medical workers</li> <li>• Provision of facilities and materials for primary and secondary schools in poverty-stricken areas</li> <li>• Improvement of sanitation and health facilities in poor zones</li> <li>• Support for Chinese poverty alleviation programs</li> <li>• Improvement of prevention and treatment of major diseases and data collection and surveying skills</li> <li>• Enhancement of child and maternal health and family planning programs</li> <li>• Provision of water, sewer, and sanitary systems and improvement in operating skills</li> <li>• Suitable promotion of town and village enterprises in poor rural areas</li> </ul>		○	○	
	Solutions to urban problems	<ul style="list-style-type: none"> <li>• Formulation of urban development plans</li> <li>• Improvement of water, sewer, road, electricity, telecommunications, and gas facilities</li> <li>• Improvement of food storage and processing facilities</li> <li>• Technical cooperation for urban administration</li> <li>• Improvement of urban environments (air, water, noise, solid wastes)</li> <li>• Studies, construction and improvement of mass-transit systems; and improvements in maintenance and management skills</li> </ul>	○	△	○	
Realization of sustainable development	Environmental protection and pollution prevention	<ul style="list-style-type: none"> <li>• Research on the general state of the environment</li> <li>• Promotion of environmental impact assessment</li> <li>• Acid rain prevention measures</li> <li>• Measures to prevent air and water pollution</li> <li>• Establishment of networks by Chinese environmental training centers</li> <li>• Establishment of ties with environmental protection centers in other countries</li> <li>• Promotion of factory modernization</li> <li>• Links with local governments in Japan</li> <li>• Protection of the habitats of valuable species</li> </ul>	○	○	○	○
	Reforestation and afforestation	<ul style="list-style-type: none"> <li>• Promotion of reforestation and afforestation projects</li> <li>• Prevention of global-scale desertification</li> </ul>	○	△	○	

Priority areas	Priority projects	Loan assistance	Grant aid	Technical cooperation	Other
Promotion of Sino-Japanese Cultural Exchange	<ul style="list-style-type: none"> <li>• Expansion of youth exchange programs (including foreign student programs)</li> <li>• Support for Japan studies and Japanese language programs</li> <li>• Maintenance, restoration, and conservation of cultural treasures and ruins</li> </ul>		○	○	○
Other	<ul style="list-style-type: none"> <li>• Tripartite cooperation including other Chinese neighboring countries (Asia Highway, etc.)</li> <li>• Links with overseas Chinese</li> <li>• Support for cooperation programs based on sister city ties</li> <li>• Sending of more "veteran engineers"</li> </ul>			○	○

Notes: 1. This table contains examples of possible projects in priority areas. It is not a comprehensive list.

2. This table does not imply any decision to implement the projects contained therein.

3. The forms of cooperation to be provided have not been decided.

4. Forms of cooperation are explained below:

Loans : Includes loans from OECF and the Export-Import Bank of Japan.

Grants : Funds that do not have to be repaid.

Technical cooperation :

Includes training of Chinese in Japan, sending of Japanese experts to China, development surveys, provision of equipment, assignment of JOCV personnel, and technical assistance by NGOs.

Other : Other non-specific forms of assistance.

5. The triangle (  $\Delta$  ) indicates that this form of cooperation is to be used to assist other forms of cooperation (for example, a development survey for an electric power plant).