East Asia

Pillars of Aid: Understanding Aid Needs of China and Assistance for Mongolia

JICA has supported China in promoting its open and reform policy for over 20 years since the launch of the policy at the end of the 1970s, greatly contributing to its remarkable economic development. However, situations surrounding the ODA to China have drastically changed. China’s aid needs have changed due to its rapid economic growth and changes in socio-economic structure. Improvement in aid effectiveness and efficiency is warranted under Japan’s severe economic and financial conditions. As such, the Japanese Ministry of Foreign Affairs (MOFA) issued the China Economic Cooperation Plan in October 2001.

In March 2006, the Chinese government formulated another five-year plan aiming at a balanced society. Based on this five-year plan, JICA is working to understand China’s aid needs in detail. In line with the China Economic Cooperation Plan, JICA implements cooperation with a focus on the following four priorities, while paying attention to Japan’s support for activities carried out by the private sector and the progress of multilateral cooperation.

1) Cooperation towards resolving environmental and other global issues
2) Assistance for open and reform policy
3) Promotion of mutual understanding
4) Assistance for poverty alleviation

Mongolia’s economy fell into chaos due to the breakdown of the COMECON system in 1991. However, the economy has stabilized gradually since 1995 by means of rigid economic stabilization policies and aid from other countries, including Japan. Support for Mongolia, which is in the process of promoting its transition to a market economy, is based on Japan’s Country Assistance Program for Mongolia issued by the MOFA in November 2004. JICA’s cooperation is conducted in line with this Program, which identifies the following four priority areas.

1) Support for institution-building and human resources development necessary for promoting a market economy
2) Support for rural development
3) Support for environmental conservation
4) Support for the development of infrastructure to promote economic activity

Understanding Aid Needs of China and Assistance for Mongolia

Cooperation results by country in East Asia (FY2005)

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount (¥1,000)</th>
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</thead>
<tbody>
<tr>
<td>Mongolia</td>
<td>1,457,481</td>
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<tr>
<td>China</td>
<td>5,204,764</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>6,662,245</strong></td>
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* This is the total amount of bilateral cooperation. The amount of cooperation provided to Asia including cooperation that covers a group of countries is 54,091,326 thousands of yen.

Current State of Development

China—Aiming at a Balanced Society

China has successfully maintained high economic growth over a long period of time, with an average rate of real economic growth of over 9% per year for the last two decades. Real GDP per capita, which was US$225 in 1978, reached US$1,490 in 2004. Since China joined the World Trade Organization (WTO) in December 2001, it has increasingly more impact on the world economy. The total volume of China’s trade has reached US$ 1.4 trillion, more than twice that at its entry into WTO, which makes it the third in the world. In its relation with Japan, China is the largest trade partner.

On the other hand, the activity report of the government of China issued in March 2006 pointed out that many contradictions and problems must be solved in order to build a balanced society. Such problems include environmental contamination, mass consumption of resources and energy, expanded disparities between urban and rural areas, or among areas. The Economic Survey of China 2005, conducted by the Organisation for Economic Co-operation and Development (OECD) also indicated these points, calling for establishment of a legal framework in the economic area and improvement of governance such as solid enforcement.

Mongolia—Solutions to Issues Involving Transition to a Market Economy Urgently Required

Though the average rate of GDP growth of Mongolia was 2.7% per year between 1995 and 2002, it increased to 5.5% in 2003 and jumped to 10.6% in 2004. Based on this situation, all international organizations and donor countries recognize that the
reform groundwork toward transition to a market economy has been completed.

However, while the macro economy is in good shape, finance and trade areas show deficit trends. Also, nearly 30% of the population lives in absolute poverty (i.e., living on less than US$1 a day) and the gap between rich and poor has grown prominent. The expansion of regional disparities between the capital and rural areas need to be solved. In addition, urgent solutions are required for numerous issues such as enforcing and expanding services in the economic infrastructure sector (transportation, traffic, etc.) and social infrastructure sector (education, health, etc.) in terms of both quality and quantity, building institutions for a market economy, and developing human resources to support the institutions.

Addressing Priority Issues in JICA Programs

**China—Global Issues as Well as Promotion of Mutual Understanding**

First, environmental issues and the spread of infectious diseases are still very serious in China. These issues can affect Japan beyond national boundaries, requiring response through international cooperation. In addition to measures against acid rain and yellow sand storms, JICA supports measures to prevent global warming and provides policy and technical support to promote a circular economy. JICA also supports the conservation and recovery of a natural environment, the development of human resources who will contribute to sustainable usage of water resources, planning, and technology development.

In order to address infectious diseases, using its experience in contributing to the eradication of polio in China, JICA cooperates in combating tuberculosis, HIV/AIDS, and the SARS epidemic in cooperation with the World Health Organization (WHO).

Secondly, from the perspective of supporting activities carried out by Japan’s private sector, it is important to establish a market economy system in compliance with international rules. JICA cooperates in China’s efforts to achieve it. Specifically, JICA supports the development of economic laws and corporate-related laws and introduces Japan’s experience and current situations and develops human resources in order to establish and disseminate tax systems, intellectual property rights, and technical and compliance standards in accordance with international rules.

Thirdly, to deepen mutual understanding between the peoples of Japan and China forms a basis for a sound, long-term relationship. Through the dispatch of volunteers, promotion of exchange between local governments, the Youth Invitation Program, training of young and middle-level executives in Japan, and assistance to NGO activities, etc., JICA seeks to expand opportunities for the peoples of both countries to interact directly and enhance mutual understanding of culture and society from various aspects.

Finally, in order to alleviate economic disparities between the coast and inland areas and between urban and rural areas, JICA supports the efforts of the Chinese government through development of policies and institutions as well as human resources development with the purpose of improving local governance and self-reliance of the poor. Such assistance not only leads to social sta-

**Mongolia—Development of Social Infrastructure Required for Economic Growth**

Now that Mongolia has completed the process of building a foundation for reform toward a market economy society, stable economic growth is essential for the future. In the meantime, JICA provides assistance in educational areas, particularly with an emphasis on basic education, primarily to develop human resources who are involved in administration, including strengthening taxation functions, and who will play a leading role in the future of Mongolia. With an aim to activate the private sector, which accounts for 80% of GDP, JICA also places importance on the development of a law enforcement environment to facilitate economic activities, as well as the development of human resources related to the private sector with the help of the Mongol-Japan Human Resource Development Center.

The Sino-Japan NGO Forum co-hosted by JICA office and the China Association for NGO Cooperation: feasibility of cooperation activities of NGOs from both countries and its expansion were confirmed. (China)
Secondly, in the rural development area, JICA promotes cooperation for reducing disparities between rural areas and the capital primarily by strengthening and supporting the livestock and agriculture sector, which is a key industry.

Thirdly, cooperation associated with environmental conservation is promoted, including measures to manage solid wastes in urban areas and yellow sand storms that adversely affect north-eastern Asia by crossing national boundaries.

Finally, the development of infrastructure forms the basis of Mongolia’s economic growth. JICA will promote cooperation for formulating a plan to develop infrastructure in Ulaanbaator, which is experiencing a rapid population concentration.

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**Front Line China**

**Study on the Improvement of the Rural Pension Insurance System**

Supporting the Correction of Domestic Disparities through Cooperation for Pension Reform

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**Pension system necessary for rural residents**

Though social security systems, including pensions, have been developed in urban areas in China, the benefits of such systems have not reached rural residents. Their retirement was not addressed by national social insurance systems, and thus retired persons had to rely on self-subsistent farming or their families.

However, the function of providing for the family has been weakened in recent years even in rural areas due to the aging population and the flight of young people to urban areas. Therefore, it is urgent to develop a pension insurance system that establishes a framework to support retirement of rural residents. With a decision made by the government of China in 1992, the Rural Pension Insurance System was inaugurated throughout the nation. However, due to inadequacies in the system and the implementation system as well as the impact of the Asian financial crisis, the funds failed in many areas and the existing system had to be reformed in 1998.

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The Labor and Social Security Department of China, which had taken over the relevant operations since 1998, sought ways to re-establish the system. Since 2002 in particular, it has strengthened efforts for establishing the system, which include guidance and support for test operations of the system in local areas. Against this background, the request for this project was made.

**Tackle complicated issues related to the Chinese economy and society**

The Rural Pension Insurance System, which is the target of this project, is a pension insurance system for rural residents. Rural residents are those who reside in rural villages and are not necessarily those engaged in agriculture. In the project, JICA studies the direction of system development to support the development of the implementation system with regard to system reform and establishment, which the Chinese government has worked on.

It is JICA’s first full-scale cooperation in the area of pension insurance. This project is by no means an easy task because this area is associated with extremely complicated issues such as the three rural issues (agriculture, rural villages, and farmers), which are the most serious issues in China, the rapidly aging population in the foreseeable future, etc. Nonetheless, it is a quite significant cooperation that responds to issues that may impede China’s stable socioeconomic development and benefit rural residents who suffer from economic disparities with urban residents. (JICA China Office)

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Field study at a pilot site (Sichuan Province) of the Rural Pension Insurance System

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Supporting the Correction of Domestic Disparities through Cooperation for Pension Reform