

## BACKGROUND INFORMATION

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BACKGROUND NOTE

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### EEC, CHINA SIGN TRADE AGREEMENT

The first trade agreement between the nine-nation European Economic Community, the world's largest trading bloc, and the People's Republic of China was initialed last week in Brussels.

The five-year commercial accord is the first the Community has signed with a strict, state controlled market and the second with a Communist country. The Community has had a trade agreement with Yugoslavia, which is considered a mixed economy, since 1970.

Most Eastern European countries, like the Soviet Union, do not recognize the European Community. The Soviet news agency, Tass, last week referred to the EC-China talks as "being conducted in an anti-Soviet spirit with the aim of increasing Chinese access to European technology."

The Chinese have made it clear that they see the European Community as an important counterbalance to Soviet political power in Europe. The current Chinese government is also eager to obtain advanced techniques and equipment for its industrial and agricultural programs. Peking officials have said they hope to use the new EC agreement to double trade with the nine Community nations so that it nears the level of Chinese trade with Japan, China's chief trading partner.

Sir Roy Denman, director general of external relations for the Community, said the non-preferential agreement was "of profound political significance because it represents...the most evident demonstration of the excellence of relations" between China and the Community. Sun Sou-Chang, director of the third department of the Chinese Ministry of Foreign Trade, headed the seven-person Chinese delegation at the negotiations.

Under the new agreement, each side offers the other most favored nation status, the first time the world's most populous nation has made this trading concession.

Trade between the Community and China has grown steadily over the past several years. In the first six months of 1977, China had a trade surplus of \$108 million with the Community, compared with a \$355 million deficit in the whole of 1976. China, however, accounts for under 10 per cent of the Community's exports, while the EC is China's second largest trading partner. (See EC press release No. 4, January 27, 1978.

According to a communique issued in Brussels, the objective of the agreement is to promote and intensify trade between the Community and China. The two parties said they would seek to create favorable conditions for trade and to ease the structure of their trade to allow greater diversification.

To avoid trade difficulties should any particular product cause problems on the other's market, the two sides agreed to set up a consultation procedure. In addition, a Joint Committee will meet at least once each year to review progress in the EC-China trade situation.

The two parties also agreed to promote visits and other contacts on the economic, commercial and industrial level.

The agreement is to be signed within two months, when Chinese Trade Minister Li Chang is expected to visit Brussels.