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Report

drawn up on behalf of the Committee on External Economic
Relations

on economic and commercial relations between the
European Community and the People's Republic of China

Rapporteur: Mr J. PELIKAN

In the resolution (Doc. 6/79) adopted by the European Parliament on 15 March 1979¹, the Committee on External Economic Relations was requested to draw up a report on economic and commercial relations between the European Community and the People's Republic of China.

On 19 January 1983 the Committee on External Economic Relations appointed Mr Pelikan rapporteur.

The committee considered the draft report at its meetings of 19 October 1983, 1 December 1983 and 24/25 January 1984. The whole resolution was adopted unanimously.

The following took part in the vote: Sir Fred Catherwood, chairman; Mrs Wieczorek Zeul and Mr Seal, Vice-chairmen; Mr Pelikan, rapporteur; Mr Cohen (deputizing for Mr Rieger), Mr Fuchs (deputizing for Mr Radoux), Miss Hooper, Mrs Kellett-Bowman (deputizing for Sir Fred Warner), Mr Mommersteeg, Mr Pasmazoglou, Mrs Seibel-Emmerling (deputizing for Mr Seeler), Sir Jack Stewart-Clark, Mr Zagari and Mr Ziagas.

The opinion of the Political Affairs Committee is attached.

This report was submitted on 30 January 1984.

¹OJ No. C 93 of 9.4.1979, p.57

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution with explanatory statement:

MOTION FOR A RESOLUTION

on economic and commercial relations between the European Community and the People's Republic of China

The European Parliament,

- having regard to its report on the commercial and trade relations between the EEC and the People's Republic of China;¹
 - having regard to its report on the commercial agreement between the EEC and the People's Republic of China;²
 - having regard to the work and discussions carried out by the European Parliament's delegation to the Chinese National People's Congress,
 - having regard to the report of the Committee on External Economic Relations and the opinion of the Political Affairs Committee (Doc. 1-1345/83),
- A. having regard to the plans and to the considerable effort being made to transform the People's Republic of China into a modern and industrialized country;
- B. having regard to China's independent foreign policy and to its support of political and economic integration in Europe;
- C. having regard to China's growing participation in international economic and financial organizations and China's interest in GATT and MFA memberships;
- D. having regard to the increasing importance of China's more than one billion people market for Community industry and agriculture;
- E. having regard to the fact that, for the time being, China is still a developing country;

¹ Doc. 76/77

² Doc. 198/78

1. notes the PRC's efforts to create a sound basis for economic and financial cooperation with foreign countries. (This includes the establishment of special economic zones, the possibility of setting up joint ventures with foreign companies, the adoption of specific legislation allowing direct foreign investment in China, the adoption of specific legislation on taxation and the granting of tax and other incentives to encourage foreign investment in China);
2. Appreciates the significant increase in Community trade with China during 1983 (in particular the substantial rise in EEC exports) and the overall significant growth in mutual trade since the establishment of diplomatic relations in 1975 and the conclusion of the Trade Agreement in 1978;
3. considers that trade exchanges between the Community and the PRC and still far from their potential;
4. Considers that future trade flows will also depend on the Community's ability and readiness to profit from large-scale economic cooperation projects offered by Chinese development and modernization programmes;
5. considers that the renewal of the Trade Agreement between the Community and the PRC should not be limited to a review of the agreement's functioning but should bring about a new impetus for strengthening institutional economic, commercial and financial cooperation;
6. welcomes the Community's decision to increase some quotas for products not yet fully liberalized;
7. Recommends that, in order to promote economic cooperation with China, the Community consider the possibility of participating in infrastructure development projects in the People's Republic, and encourage and assist Chinese trade missions to the Community to promote exports and also examine the possibility of establishing an EEC-China Chamber of Commerce; also welcomes the establishment of China's 'business management centre', the work of which will facilitate commercial contacts between China and the Community;
8. Notes the favourable experience gained during the EEC-China Business Week held in 1981, of the Seminar on the Reform of China's Foreign Trade System in 1982 and of the Seminar on the sales of forming technology also in 1982; It calls upon the Commission and the Council to consider similar new initiatives which would allow the Community businessman to fully use those opportunities offered in connection with the new pattern of economic stabilization in China and with development priorities indicated by China's five-year plan;

9. Asks the Commission to examine ways of extending the financing of the Community's trade with the P.R.C.;
10. Stresses the importance of safeguarding Community investments in the P.R.C.;
11. Appreciates the EEC decision to grant to the P.R.C. a sum of 6 million ECUs within the framework of the 1983 assistance programme to non-associated developing countries. This grant is essential for the realization of cooperation projects resulting from the EEC-China Trade Agreement. In this regard it expresses its wish that China continue to benefit from this aid in the future;
12. Appreciates the increasing cooperation between the Community and the P.R.C. in the energy, raw and rare materials sectors, especially as regards technological cooperation for the exploration and extraction of these resources;
13. Considers that, within the context of a Community energy policy which gives priority to Community coal, the negotiation of long-term contracts for the supply of coal from the P.R.C. to the Community should be considered, in particular as this would help to provide China with the foreign exchange needed to finance its imports from the Community;
14. Notes the first signs of cooperation between the EEC and China in agriculture accompanied by Chinese purchases of agricultural products in the EEC; encourages the Commission to investigate means of improving agricultural trade between China and the Community based on the pursuit of mutual advantage and common interests;
15. Notes the recent efforts of EEC member countries to conclude bilateral agreements with China on protection of investment and intellectual property and actual conclusion of several such agreements. However, it considers that it may be more favourable to investigate the possibility and opportunity to conclude an investment and intellectual property protection agreement with China at Community level;
16. Stresses the importance of rapid renewal of the EEC-China Textile Agreement which expired at the end of 1983 and the quota section of which has been extended until the end of 1984. It draws attention to the fact that, in contrast with other major textile exporters to the EEC, the PRC is an important supplier of raw materials and semi-products needed for the Community's own textile and clothing manufacture;

17. Appreciates the EEC Council of Ministers' decision on April 26 1983 to establish a periodical exchange of views with China within the framework of 'political cooperation';

18. Attaches particular significance to the activities of its permanent delegation for relations with the People's Republic of China, is pleased with the results of the first three interparliamentary meetings, and instructs its delegation to strengthen relations with the National People's Congress of China with a view to developing the essential dialogue between Europe and the People's Republic;

19. Instructs its President to forward this resolution to the Commission and to the Council of the European Communities and to the National People's Congress of the People's Republic of China.

EXPLANATORY STATEMENT

1. In considering the economic relations between the EEC and the People's Republic of China, it is necessary to see not only the present, but first and foremost the future importance of that country. China is the largest country in the world with a population of more than 1 billion which - despite stringent birth controls - will probably reach 1.2 - 1.4 billion by the year 2000.

2. After a long period of dramatic developments during the "cultural revolution", which has had a negative effect on the economic and cultural development of the country, China has today reached political stability, based on a policy of "four modernisations" which will help to develop China into a modern, industrialized state within 15-20 years. Production is growing by 8% - 9% per year and should be quadrupled by the end of this 15 year period. Thus China will become one of the greatest markets for its business partners.

3. The present Chinese leadership is developing an active and independent foreign policy, based on five principles of peaceful coexistence and on complete autonomy towards both super powers - opposing their policy of "hegemony" wherever it appears. At this moment, China is negotiating with the USSR with the aim of "normalising" their mutual state relations, putting forward three basic conditions (the withdrawal of Soviet troops and missiles from the Chinese border, the withdrawal of Soviet troops from Afghanistan and that of Vietnam, supported by the USSR from Cambodia). At the same time, China is developing its political and economic relations with the USA but opposes United States support of Taiwan, considered by the Chinese government as "interference in its internal affairs", since Taiwan is - according to all international agreements - part of China.

In its opposition to bipolarity of international relations, China is seeking close cooperation - both political and economic - with Japan, the countries of the Third World and, in particular, with the European Community thus contributing to the elimination of bipolarity in

international relations and to the easing of international tension.

It is against this background that we should examine the importance of relations of the EEC with the People's Republic of China.

4. In April 1978, the Community and the People's Republic of China concluded a Trade Agreement which heralded a new period in economic trade and political relations.

The agreement, which was the first trade agreement the Community ever concluded with a state-trading country, was based on broad political understanding, which had been developed during the visit to China of the Vice-President of the Commission, Mr. Christopher Soames and his talks with the late Premier Zhou-En Lai.

The Trade Agreement, a non-preferential agreement, has expired and is being renewed from year to year under the provisions of Article 11 of the said agreement.

5. The fact that reasons for the conclusion of the Trade Agreement between the Community and the People's Republic of China were as much political as economic continues to characterise the scope and quality of EEC-China relations. China continues to express its support for economic and political integration in Europe and has asked for the Community to carry out its economic and political influence worldwide. Similarly Community Ministers and Commission officials have repeatedly underlined the fact that while in the past, EEC-China relations were carried out solely within the framework of economic and trade relations, it is clear that the opening of these relations was a definite political choice made earlier by the Community. This major decision determines the Community's relations with China in the economic field as well as its foreign policy attitudes.

6. The European Parliament has devoted much attention to political and economic aspects of EEC-China relations.

Owing to the lapse of time, certain principal features of the Trade Agreement concluded in 1978 need to be explained.

The Trade Agreement established a number of rules to facilitate trade:

- a) It provided for the mutual extension of Most Favoured Nation treatment.
- b) It included an agreement to carry out sincere efforts towards the balancing of trade. In particular, both partners agreed to work together within the framework of the Joint Committee in cases where trade imbalance occurred.
- c) China made an important promise to give favourable consideration to imports from the Community. In exchange the Community promised to increasingly liberalise imports from China.
- d) China accepted the Community's safeguard clause. This clause has a somewhat specific character as the Community agreed that, in case of difficulties, it would first attempt friendly consultations in order to seek a mutually satisfactory solution to a problem.
- e) China accepted the Community's "price clause"
- f) The Trade Agreement greatly improved conditions for visits, technical contracts, trade promotion, trade fairs, etc.
- g) The Trade Agreement established a Joint Committee which meets once a year.

7. A number of other important trade and economic cooperation developments have come about since the conclusion of the Trade Agreement in 1978.

- a) From January 1980, China benefited from the Community's Generalised Preferences Scheme. While initially, GSP extended to China were rather limited; 1981, 1982 and 1983 schemes improved the situation.
- b) The Community and China initiated, in July 1979, a Textile Agreement which was brought fully into effect on January 1, 1980. This agreement, which was concluded outside the MFA framework, expired in December 1983. Negotiations on its renewal have started.
- c) The Trade Agreement allowed the EEC- China Business Week in 1981 to be held in Brussels with the participation of some 800 people from both the Community and China. The business week opened up new possibilities for closer cooperation in ores and metals industry, in leather and skins, light industry, textiles, chemicals and engineering.

An important seminar was organised jointly in July 1982 on the "Reform of China's Foreign Trade System".

More recently, the Community and China embarked on the second stage of cooperation in the energy sector. This cooperation could result in important orders for EEC-made machinery and equipment in the not too distant future.

The Developments in China's Economy

8. The readjustment in China's national economy which have taken place since the conclusion of the EEC-China Trade Agreement, changed the outlook for the development of economic relations. However, China's economic readjustment promises more serious and a longer term outlook for fruitful cooperation.

9. On November 30, 1982 China adopted its five-year plan for 1981-1985 with two years delay. The new five-year plan further changed the priorities contained in the original economic readjustment programme. It provided for more moderate economic growth in the near and medium-term future and created a basis for more rapid economic expansion from 1990 onwards. The five-year plan also contains rough guidelines for economic development till the end of this century.

In principle, the process of economic readjustment which is now taking place will be terminated by approximately 1990. The Chinese Prime Minister has said that output of the national economy will quadruple between the beginning of the 1980's and the end of the century. Foreign trade will witness similar developments.

10. However, Chinese economic reform continues at a cautious rate. China has analysed the reform experience of a number of countries and chosen to apply various reforms only after thorough testing in selected sectors and regions. The size of the country and huge population demand a gradual approach to reform.

11. The five-year plan for 1981-1985 presented by Prime Minister Zhao Ziyang in November 1982 provides for an annual growth rate in industrial

and agricultural output of just over 4%/year and will try to keep budget deficits under \$1.5 billion/year.

China plans to spend most of the \$114 billion allocated for capital construction on increasing coal and oil production. The main points of the plan are:

- the gross value of industrial and agricultural output will rise to about \$435.5 billion - an average annual rise of just over 4%
- the grain output target for 1985 will be 360 million tonnes, compared with 320 million tonnes in 1980.
- oil extraction is expected to increase by 35 million tonnes by 1985 from the present level of just over 100 million tonnes
- coal production is expected to rise 700 million tonnes in 1985 from a 620 million tonnes level in 1980
- steel production is expected to reach 39 million tonnes annually in 1985, a five per cent increase over 1980
- exports are expected to reach \$20.1 billion. Total trade in 1985 is expected to increase by 51.8% over 1980.

China plans a foreign trade deficit for 1985 with exports rising annually by 8.1% and imports increasing by 9.2% /year. The Chinese export priorities are as follows, according to the Prime Minister: textiles, native products, oil, coal and some rare metals. On the other hand, China wants to restrict exports of those commodities whose production is energy intensive. Direct foreign investment and joint ventures will be encouraged. A fundamental role in the expansion of foreign economic and technological exchanges will be played by special economic zones.

12. China faces considerable problems with infrastructure and in the transportation sector in particular. The lack of infrastructure does not permit rapid movement in the development of the energy sector (coal transport problems).

13. Difficulties in the supply of energy are further growth limiting factors. The old oil fields face falling yields and crude oil production has stagnated. A new, but longer term hope arises from offshore oil.

China's reserves of offshore oil are estimated to be considerable. The latest estimate of oil reserves in the South China Sea are between 30 billion and 50 billion barrels. Nearly 50 leading Western companies have formed 8 consortia to explore Chinese off-shore oil and the first off-shore exploration licence was granted in May 1983 to the consortium led by the BP Group. The concluding of contracts with Western companies was delayed because of the unclear situation in such questions as splitting of production quotas, proportion of Chinese drilling equipment, taxes, etc. These problems have already been resolved. As this report is being written other agreements are being signed.

In the nuclear energy sector, China is building its first nuclear power station, and has reached a framework agreement (in particular with France and partly with Britain) on substantial cooperation in the construction of nuclear power stations.

14. China's previous large foreign trade deficits were curbed by the economic readjustment programme. However, China had a trade surplus in 1982. The trade surplus did not result from an expansion of exports but from substantial import curbs. In 1982 imports fell by some 12% and amounted to \$17 billion while exports slightly increased by over 3% to some \$21.6 billion.

Japan continues to be China's main foreign trade partner but its exports to China fell in 1982 by nearly 30% and amounted to \$3.5 billion as compared to over \$5 billion in 1981. On the other hand, Japanese imports from China grew in 1982 by 0.4% and amounted to some \$5.33 billion.

US exports to China fell in 1982 by nearly 19% while imports from China expanded by 20.5%. The US still managed to have some \$630 million surplus with China (exports were worth \$2.91 billion and imports \$2.28 billion).

The Community continues to be the third biggest trade partner for China. In 1982, the EEC exported goods to China worth \$2 billion and imported goods worth \$2.32 billion. Both Community exports and imports fell but there was a significant increase in Community trade with China during the first half of 1983 including a jump in EEC exports to China.

15. The foreign trade plan for 1983 provides for a substantial increase in China's imports which will more than offset the import decrease of 1982. Exports will increase marginally.

Imports will concentrate on raw materials and equipment for modernisation and the expansion of existing industrial plants.

A somewhat more significant increase in imports has been made possible by China's foreign currency reserves which increased recently and have been estimated at some \$10 billion. However, China's primary policy consists of the link between export income and expenditure on imports as China tries to keep its external debt fully under control.

16. Chinese borrowing policy can be characterized as very cautious and consists of a reliance on loans involving a large element of aid (mixed credits). China refused to accept more flexible but expensive financial credits. However, this attitude is changing and China will accept credits on reasonable terms. China also hopes that foreign direct investment will bring in some needed funds. Up to the end of 1982, China had used \$12.6 billion in the form of loans from foreign governments, international financial organisations, banks and partly through direct investment in joint ventures and cooperative enterprises. In May 1983, China announced it would start to pay back IMF loans in late 1983. On the other hand, Mr. A. W. Clausen, the President of the World Bank, indicated that during the next financial year, the World Bank would be ready to commit nearly 1 billion to China to finance more than 20 projects in agriculture, energy, education, industry and communications.

Trade Relations between the Community and the People's Republic.

17. In spite of fluctuations in trade between the Community and China (such as occurred in 1980 and 1982) both the Community and China view their trade and economic cooperation as a long-term commitment. During the first five years of the trade agreement's existence, mutual exchanges increased significantly*. On the other hand, the Community learned that there "will be no quick and easy money earned in China", but that a long-term and sincere effort is needed to establish a firm link with China. Mr. Roy Denman, a former Director General of DG 1 of the EEC

* See statistical data in Annex

Commission, pointed out upon his return from China in November 1981: "it will take time. But the Community must be associated with it. In the end it will pay off. In the end there is a chance of a very large and exciting market slowly developing over the next twenty years".

18. However, while the Community sees China as a long-term market, it needs to make sure that it is maintaining a "fair" share of the Chinese market, in particular where it concerns other major trade partners there: Japan and the United States.

Article 3 of the EEC-China Trade Agreement says : "The People's Republic of China will give favourable considerations to imports from the EEC. To this end the competent Chinese authorities will ensure that Community exporters have the possibility of participating fully in opportunities for trade with China."

Because of the commodity structure of EEC exports to China, Community exports were more effected by China's economic readjustment programme during 1980 and 1981 than those from Japan and the United States. The share of Community exports to China within overall OECD exports to China fell to some 17.5% - 18.1% during that period while Japan's share increased. There was also a significant increase in the US share.

This unfavourable development was discussed during the Joint Committee Meeting in November 1981 and the People's Republic assured the Community it would make a sincere effort to improve the situation. In 1982 the EEC share in total OECD exports to China increased from some 17.5% in 1981 to over 19%, while the share of the United States stagnated, and Japan's share went down significantly by nearly 7 points.

The reasons for the decline in Chinese imports during 1980-1981 were lower imports of steel and fertilizers. US exports to China which mostly consist of grain, fodder and cotton were thus not so much influenced by the economic readjustment programme up till the end of 1982. In 1983 the situation continued to change. The EEC commenced negotiations with China on significant purchases of Community food, which would partly replace Chinese traditional imports from the United States. During the

first six months of 1983 EEC exports to China rose steeply. The EEC is likely to further improve its share in trade with China.

19. The Community's share of exports to China roughly corresponds to its share in imports. While in 1979 the Community represented over 30% of total OECD imports from China, this had decreased to 30% in 1980, to 23.9% in 1981 and to only 21.5% in 1982. On the other hand, the US share quickly increased from only 9.7% in 1979 to 17.7% in 1981 and to 21.1% in 1982. Japan's share slightly increased from some 48.7% in total imports from China, to over 49% in both 1981 and 1982.

20. To a certain degree, trade flows between China and its trade partners reflect the scope of mutual economic cooperation. Over the past few years, China has made a considerable effort to create a sounder basis for economic cooperation. This includes the setting up of special economic zones, adoption of joint venture legislation, adoption of specific legislation on taxation, etc. China has also made significant steps forward in assuring some protection of foreign industrial and property rights.

Recently the government granted tax cuts and other incentives to joint ventures operating in China. This step was followed by a further reduction or exemption from income tax for newly established joint ventures from three to five years.

By the end of 1982, China had made use of more than \$1.7 billion in direct foreign investment in 83 joint ventures, 72 cooperation management schemes, 12 cooperative offshore oil exploitation projects, 872 compensation trade projects and 34 independent foreign enterprises in special economic zones.

In the summer of 1983, China issued more flexible exchange control regulations, granting preferential treatment to foreign enterprises engaged in the joint exploitation of the country's offshore oil resources.

21. So far European companies lag behind the Japanese and American companies in profiting from the joint venture and cooperative possibilities offered by the People's Republic of China. However, an upturn in

cooperation is expected following the current moves aimed at giving more formal guarantees pertaining to foreign investment in China. This applies, for example, to negotiations between China and Belgium or China and France. The Federal Republic of Germany has already concluded an investment protection agreement with China.

22. The Community's institutions as such have done their best to facilitate expansion in various forms of cooperation between Community industries and China. However, it seems that European companies could have been more active in various cooperation schemes with China. If more Community budgetary resources had been made available, more extensive ground work could have been initiated. In spite of limited resources, the following was nevertheless initiated: preliminary studies and preparation of projects aimed at upgrading China's infrastructure, more preliminary studies and preparation for future cooperation in energy, agriculture, raw and rare materials, etc.

23. China has developed an ambitious programme for the installation of a substantial number of nuclear power stations in regions where coal and hydro-electric resources are lacking. Initially, nuclear energy plants will be imported but, at the same time, China is to develop its nuclear energy industry based on acquired technology and experience. The Community needs to make all efforts to assure the EEC's participation in this field, especially as discussions between China and the United States have been progressing and the People's Republic of China has expressed its intention to join the International Atomic Energy Agency.

24. There is considerable scope for closer cooperation between the EEC and China in the field of agriculture. The fact is that the Community benefits less than the United States from Chinese agricultural purchases even if nearly 1 million tonnes of wheat were sold in 1982 and between 1 million - 1.5 million tonnes of wheat sales are being considered this year. The United States and China carry out trade within the framework of a grain delivery agreement. The Community ought to consider the possibility of concluding a similar type of long-term agricultural products delivery agreement. It may be preferable, in view of the CAP,

that trade and cooperation between the Community and China be handled at Community level rather than on a bilateral level between China and the member countries. This is, for example, the case of recent discussions between China and France on expanding cooperation in the field of agriculture. Early in 1983 the two countries expressed the need to carry out cooperation in grape wine production, rubber, coconuts, dairy processing and salt water fishery.

The Chinese pointed out that they may consider larger purchases of agricultural produce from the Community, providing European offers are competitive with those of the USA. They are also seeking a certain degree of reciprocity allowing for larger sales of typical Chinese agricultural products on the Community market.

25. The United States decision to open the way for a substantially increased flow of technology and equipment to the People's Republic of China could have a significant impact on EEC deliveries of advanced technology there. New US export controls to China would permit some 75% of applications for export to the PRC to be processed under a lenient export control policy (the so-called "green zone"). At the time of writing this report, new US export controls for China are still being discussed by COCOM members. If adopted, the control exports to China would be considerably less strict than those applied to other state-trading countries. However, US controls would not, as in the past, have a negative effect on the sales of Community technology to China which incorporates American-made components and know how and therefore needs American permission.

The US Secretary of Commerce estimated that the new policy could increase American sales of electronics and telecommunication equipment to the PRC up to \$2 billion, i.e. more than double the current volume of sales. The Community needs to ensure that the expected upturn in US high technology sales does not negatively influence its own sales prospects.

26. The price clause contained in the EEC-PRC Trade Agreement was broadly respected by the PRC. Over the last three years, the EEC has

only initiated 7 anti-dumping proceedings against China. One of these was terminated on a finding of no injury and two, initiated at the end of 1982 (magnesite caustic burned and magnesite dead burned), the EEC Council did not confirm the provisional duty and let the matter drop.

Similarly the EEC used the safeguard clause only twice. The use of the safeguard clause was made in accordance with the EEC-PRC Trade Agreement, i.e. only after consultation.

27. The Community has proposed a certain improvement in GSP to China for 1984. On the other hand, the PRC emphasizes its position as a developing country and expects further improvements in the systems of generalized preferences in the future.

The proposed improvement in the GSP scheme for 1984 includes the lifting of certain exclusions so far applied to China. In particular, the GSP should be extended to China's exports of copper bars and sections, aluminium bars and sections and aluminium sheets and to exports of zinc sheet. The Commission also proposed removing the few exclusions which still apply to certain agricultural products from China and to allow the country to benefit in the field of agriculture on the same basis as other eligible countries.

28. At the end of 1983, the Textile Agreement, which came into effect on January 1 1980, expired. The negotiations on a renewal of this agreement are still in progress. To a certain extent, the new EEC-PRC Textile Agreement will determine the outlook for further developments in trade and cooperation between the two partners. The first Textile Agreement improved conditions of access for Chinese textiles on Community markets in comparison with the autonomous regime existing beforehand but did not go far enough to satisfy Chinese demands. One of the limiting factors was that the agreement with the Chinese was concluded outside the MFA framework. The Community, however, promised China that the new agreement (once more to be concluded outside the MFA) will take into account the fact that China is a relative latecomer and that the negotiations on the new MFA will take into account the fact that the

first Textile Agreement concluded with China was limited because of this.

When negotiating with China, the EEC will consider experience gained from recent negotiations between the USA and China on textiles.

At the beginning of 1983, there was an interruption to US-China negotiations and both sides imposed unilateral retaliatory measures. Nevertheless, a new agreement was agreed upon allowing for an average annual increase in Chinese supplies to the USA of 3.5%. Imports of 33 products are covered while the previous agreement set quotas for only 28 product groups. In 1982, for example, Chinese exports of textiles to the USA went up by some 20% and were worth \$750 million. In spite of a significant decline in annual growth rate, the PRC is being treated better than for example Taiwan, Hong Kong or South Korea which were granted very marginal increases only. China's exports of textiles to the USA are, however, considerably higher than those to the Community.

The PRC is calling for a relatively high increase in its textile exports to the Community. On the other hand, China has a special position in comparison with other textile exporters. She is an important supplier of raw materials for the EEC's own production. The limiting factor is that during the textile negotiations, the Commission cannot go beyond a global ceiling set by the Council for total EEC imports of textiles from low-cost countries. The Chinese argument is that during negotiations on the first agreement, the Community promised that it would keep sufficient reserve within the global ceilings to permit improvements in Chinese textile exports which was impossible during negotiations on the first textile agreement.

In the longer term, EEC-China relations in textile trade could be significantly influenced by a forthcoming Chinese decision to join the MFA.

29. The fifth meeting of the EEC-China Joint Committee took place in Peking at the end of 1983. Mr Gaston Thorn, the President of the Commission, visited China at the beginning of November 1983. Besides an examination of the functioning of the EEC-China Trade Agreement, the meeting concentrated on the examination of new trade concessions. The Community proposed some increases in quotas for products not yet fully liberalized.

Favourable commercial results achieved by the Community during the first half of 1983 should facilitate discussions.

The meeting of the Joint Committee should also prolong the EEC-China Trade Agreement for another year under the provisions of Article 11 of the Agreement. This may be the opportunity to consider whether the annual renewal of the said agreement could not eventually be used for ensuring proper protection of EEC companies industrial rights in the PRC. As pointed out above, this is currently being done bilaterally between the PRC and individual member states. The introduction of the Community's framework should be favourable for the further expansion of trade, investment and economic cooperation.

It may be noted that, for example, Article VI of the Agreement on Trade Relations between the United States of America and the People's Republic of China concluded on July 7, 1979 in five paragraphs recognizes the importance of effective protection of patents, trade marks and copyright.

Similarly it may be considered whether the annual approval of the agreement might not be used for the drawing up of more detailed guidelines for the prompt and equitable settlement of disputes arising from relations between the Community and Chinese companies.

50. As pointed out in the first part of this report, both the PRC and the Community now have a much clearer view of Chinese development possibilities and programmes. This ought to facilitate the current review of development in economic cooperation.

In view of the potentially large and long-term business opportunities in the PRC, the Community needs to consider a more active policy towards China. This would assure more participation of EEC enterprises in Chinese projects and would create a favourable framework for Community enterprises to challenge the competition on the Chinese market from American, Japanese and other businesses.

The initiatives to be taken may include:

- a) the EEC will increase its financing of various feasibility studies

aimed at resolving problems in infrastructure in China. A number of potentially large and, for the Community, rewarding projects in the energy and raw material sector could be seriously delayed or fail to materialise in a reasonable space of time because of infrastructure and transportation problems.

- b) the Community will make more efforts to familiarise European business with the particularities of doing business with China and will extend all its help to the PRC by sending missions to the Community, training Chinese specialists with a view to creating conditions for future increases in EEC exports to China.
- c) The Community will consider China as a long-term and secure supplier of various raw and rare materials and of coal. To a certain extent, future Chinese imports and imports of investment goods in particular, will depend on China's foreign income generated by exports such as, for example, coal. So far the Community's long-term energy policy seems to be oriented towards traditional coal suppliers and does not take fully into account possible reciprocal advantages and favourable influences for overall Community exports likely to result in the opening of the Community market to Chinese coal supplies.
- d) The Community and its member countries have gained considerable experience in the past from various large-scale and long-term compensation agreements (in the energy sector in particular). The EEC and its member countries will consider the conclusion of such long-term compensation agreements as the proper way to strengthen, speed up and establish on a long-term basis economic cooperation with the PRC.

Considering the large scale compensation agreements already concluded or under negotiation with China, the Community is lagging behind the United States and Japan.

31. The political reasons which were essential for the conclusion of the Trade Agreement between the EEC and China will continue to be one of the stimulating factors in the further developments in trade and economic cooperation. Since the conclusion of the Trade Agreement, the political situation has changed somewhat. China reasserted its policy of autonomy

towards the superpowers. This helped China to aim at "normalisation" in relations with the Soviet Union under certain basic conditions. (see the introduction to this report). Moreover, recent difficulties between the USA and the PRC have been partly resolved. The Chinese Prime Minister is expected in the United States in early 1984 and President Reagan will make an official visit to China in April 1984.

A favourable development in the strengthening of political cooperation between the EEC and China was the Decision of Council of Foreign Ministers taken in April, 1983 to start with a periodical exchange of views with the PRC on the international situation. The first such meeting has already been held in Bonn in June 1983. The meetings will be held every six months between the Political Affairs Director of the Ministry of Foreign Affairs of the country which assumes the presidency of the EEC Council and an accredited Chinese ambassador.

The European Parliament considers that this political cooperation could be further strengthened and that its strengthening will also favourably influence developments in EEC-PRC economic relations.

The European Parliament therefore calls on the Council to upgrade regular consultations with China at ministerial level.

ANNEX I

TABLE I

EEC-CHINESE TRADE IN THE FIRST SIX MONTHS OF1982 and 1983(in 000 ECU)

	Import		Export	
	1982	1983	1982	1983
EC total:	1,126,844	1,278,728	830,808	1,355,892
- Germany	343,414	384,725	373,105	554,342
- France	204,010	222,272	111,231	299,476
- Italy	238,193	222,866	110,592	127,814
- Netherlands	114,479	108,003	30,446	70,382
- Belgium/Luxembourg	89,328	79,941	57,411	117,904
- United Kingdom	192,816	200,852	79,378	147,316
- Ireland	4,938	4,586	190	2,126
- Denmark	26,900	40,050	67,813	32,874
- Greece	12,766	15,428	642	3,658
	Total trade		Trade balance	
EC total:	2,057,652	2,634,620	-296,036	+77,164
- Germany	716,519	939,067	+ 29,691	+169,617
- France	315,241	521,748	- 92,779	+ 77,204
- Italy	348,785	350,680	-127,601	- 95,052
- Netherlands	144,925	178,385	- 74,033	- 37,621
- Belgium/Luxembourg	146,739	197,845	- 31,917	+ 37,963
- United Kingdom	272,194	348,168	-113,438	- 53,536
- Ireland	5,128	6,712	- 4,748	- 2,460
- Denmark	89,713	72,924	+ 40,913	- 7,176
- Greece	13,408	19,086	- 12,124	- 11,770

TABLE II

DEVELOPMENT OF THE STRUCTURE OF EXPORTS TO CHINA

Economic sector	1978		1979		1980		1981		1982	
	mio ECU	%	mio ECU	%	mio ECU	%	mio ECU	%	mio ECU	%
1. Agricultural products (ch. 1 - 24)	29	1.9	45	2.1	20	1.1	121	7.1	155	7.5
2. Mineral products (ch. 25-27)	226	15.1	264	12.6	365	21.2	396	21.0	396	19.4
3. Textiles and clothing (ch. 50 - 63)	37	2.5	168	0.8	58	3.4	163	8.6	96	4.7
4. Base metals and articles of base metal (ch. 73 - 83) Pig iron, iron and steel (ch. 73)	740 694	49.7 46.6	775 745	36.8 35.4	271 256	15.7 14.9	203 174	10.7 9.0	344 268	16.8 13.1
5. Machinery and mechanical appliances, electrical equipment (ch.84-85)	188	12.6	710	33.8	741	43.0	654	34.5	547	26.7
6. Transport equipment (ch. 86 - 89)	107	7.2	113	5.4	34	2.0	49	2.6	188	9.2
7. Optical, measuring, precision and recording instruments (ch. 90 - 92)	37	2.5	78	3.7	83	4.8	76	4.0	83	4.0
8. Other	125	8.5	98	4.8	152	8.8	232	12.2	236	11.5
9. TOTAL	1,489		2,103		1,724		1,894		2,045	

TABLE III

DEVELOPMENT OF THE STRUCTURE OF IMPORTS FROM CHINA

Economic sector	1978		1979		1980		1981		1982	
	mio ECU	%	mio ECU	%						
1. Agricultural products (ch. 1 - 24)	271	29	330	25	470	25	589	26	531	23
2. Mineral products (ch. 25 - 27)	36	3.8	110	8.4	186	10	148	6.6	95	4
3. Chemical products (ch. 28 - 40)	60	6.4	104	8	180	9.6	223	10	255	11
4. Hides and leather and articles thereof (ch. 41 - 43)	98	10.5	133	10.1	168	9	194	8.5	164	7
5. Wood, articles of wood, basketware (ch. 44 - 46)	68	7.3	73	5.6	82	4.4	94	4.1	104	4.5
6. Textiles and clothing (ch. 50 - 63)	276	29.6	402	30.6	516	27.6	662	29.3	809	35
7. Footwear, headgear, umbrellas, artificial flowers (ch. 64 - 67)	21	2.3	26	2	42	2.2	66	2.9	71	3
8. Base metals and articles of base metal (ch. 73 - 83)	28	3	41	3	53	2.8	78	3.4	97	4.2
9. Machinery (ch. 84 - 85)	8	0.9	10	0.8	13.5	0.7	18.6	0.8	26	1.1
10. Other	67	7.2	82	6.5	154.5	8.7	184	8.4	153	7.2
11. TOTAL	933		1.311		1.865		2.257		2.305	

TABLE IV

DEVELOPMENT OF EEC-CHINESE TRADE (BY MEMBER STATE)

(in million ECUs)

IMPORTS	EUROPE 10	D	F	I	NL	B/L	UK	IRL	DK	G
	1975	668	182	139	105	65	36	121	2	18
1977	859	247	163	141	83	39	156	4	25	2
1978	929	278	165	157	98	38	164	4	23	2
1979	1.329	375	221	288	114	62	215	6	30	7
1980	1.907	562	337	315	197	137	288	8	45	18
1981	2.284	664	415	360	221	167	376	9	54	18
1982	2.334	681	402	435	209	148	375	8	55	21
EXPORTS										
1975	1.155	424	303	118	107	39	144	0	18	2
1977	792	437	84	69	45	42	95	1	14	5
1978	1.491	778	155	148	103	159	137	1	6	2
1979	2.103	1.089	247	203	117	95	329	3	17	2
1980	1.734	823	219	185	107	75	283	2	32	9
1981	1.894	910	246	291	86	104	203	1	34	9
1982	2.044	870	352	214	68	213	183	5	138	2
BALANCE										
1975	487	242	164	14	42	3	23	- 2	0	1
1977	- 67	190	-79	-72	-38	3	-61	- 3	-11	3
1978	562	500	-10	- 9	5	121	-27	- 3	-17	0
1979	785	714	26	-85	3	33	114	- 3	-13	-5
1980	-173	261	-118	-130	-90	-62	- 5	- 6	-13	-9
1981	-390	246	-169	- 69	-135	-63	73	- 8	-20	-9
1982	-290	189	-50	-221	-141	65	-192	- 3	83	-19

MOTION FOR A RESOLUTION (Doc. 6/79)

tabled by Mr MARTINELLI on behalf of the
Christian-Democratic Group (EPP Group),
Lord BESSBOROUGH on behalf of the
European Conservative Group and
Mr BERKHOUWER on behalf of the
Liberal and Democratic Group

with request for an early vote
pursuant to Rule 47(5) of the Rules of Procedure

to wind up the debate on oral question
(Doc. 661/78)

on relations between the People's Republic
of China and the European Community

The European Parliament,

- conscious of the possibilities which exist for cooperation
between China and Europe,
 - aware of the Chinese government's intention to modernize the
country's economy,
 - convinced that the European Community can play an important
part in this task,
 - noting the trade agreement signed by the European Community and
the People's Republic of China on 3 April 1978,
 - noting the visit by the President of the Commission of the
European Communities to the People's Republic of China from
21 February to 1. March 1979,
1. Calls on the European Community to develop with the People's
Republic of China a mutually beneficial system for long-term
cooperation on the basis of appropriate technologies and other
measures;
 2. Proposes the establishment of a Standing Conference of
representatives of the People's Republic of China and of the
European Community as a forum for regular dialogue on subjects
of mutual interest;

3. Calls on the Commission to set up, in addition, a joint committee of experts with representatives of the People's Republic of China as a forum in which to tackle economic problems;
4. Calls on the leaders of the various industrial sectors in the European Community to seek opportunities to associate with Chinese undertakings in the development of projects in China and calls on the European Community and the People's Republic of China to agree a patent convention for the transfer of technology;
5. Calls on the European Community to establish working parties and advisory groups to encourage small and medium-sized firms and state undertakings to associate with Chinese enterprises in fulfilling their commercial objectives;
6. Requests the Commission to take account of the growing need of Community firms for energy and raw materials in the context of China's potential capacity to supply energy carriers and raw materials;
7. Requests the Commission to appoint a European Community delegation to the People's Republic of China responsible for diplomatic representation of the European Community;
8. Calls on the Foreign Ministers meeting in Political Cooperation to explore all possibilities for the realization of these proposals;
9. Instructs the appropriate Committees to review and report annually on the action called for in this resolution;
10. Instructs its President to forward this resolution to the Council and Commission and to the Governments of the Member States.

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Political Affairs Committee

Draftsman: Mr DENIS

At its meeting of 28-30 September 1983, the Political Affairs Committee appointed Mr DENIS draftsman of the opinion.

The committee considered the draft opinion at its meeting of 25-27 January 1984 and adopted its findings by 14 votes in favour with 18 abstentions.

The following took part in the vote: Mr Rumor, Chairman; Mr Haagerup, 1st Vice-chairman; Mrs Charzat, 2nd Vice-chairman; Mr Denis, draftsman; Mr Antoniozzi, Mr Barbi, Mr Bournias, Mr Deschamps, Lady Elles, Mr Ephremidis, Mr B. Friedrich, Mrs Gredal, Mr Habsburg, Mr Hänsch, Mrs van den Heuvel, Mr Israel (deputizing for Mr Lalor), Mr Klepsch, Mr Lomas, Mr Majonica (deputizing for Mr von Hassel), Mr de la Malene, Mr van Minnen (deputizing for Mr Cariglia), Mr Mommersteeg (deputizing for Mr Schall), Mr d'Ormesson, Mr Penders, Mr Piquet, Mr Plaskovitis, Mr Schieler, Sir James Scott-Hopkins, Mr Segre, Mrs Theobald-Paoli (deputizing for Mr Jaquet), Mr Van Miert and Mr Walter.

The development of relations between the EEC and China is one of the great imperatives of our time. It has important implications for the parties concerned, as regards both their mutual interests and the need to improve international relations and reduce tension. It could be said that behind the individual identities of the European developed countries and of China, which is part of the Third World, we can see an image of the diversity of today's world, with its differences in society, politics, economic development and culture.

It is in our mutual interest to meet and intensify relations. This cannot but have positive effects on the quest for new international relations and peace.

I. SHARED INTERESTS

The European peoples, like the Chinese people, aspire after progress, each in their own way.

China itself has pursued a new policy since the mid-1970s, creating a promising new context for mutual relations.

This large country has set itself the long-term goal of internal development, by pursuing a policy of 'modernization' and 'readjustment'. It will be carried out in two stages: the present decade to lay the foundations, and the last decade of the 20th century to make more rapid progress. Chinese leaders stress that the constitution recently adopted reflects the growing political stability characteristic of the past few years.

Substantial results have already been obtained, for example an average industrial growth rate of 8%. Another achievement is the success in the sensitive sphere of food self-sufficiency. As was confirmed by the World Bank's report for 1981, the country feeds a quarter of the world's population using one seventh of the cultivated land.

At this stage in its history, China, whilst stressing the importance of self-reliance, needs to cooperate with industrialized countries in order to become modernized. The EEC needs to develop its enormous capacities in widely ranging fields and to export, especially in the face of the economic crisis which it is experiencing. Mutually advantageous trading flows may thus be established and grow continuously, as the respective needs and capacities are in many cases complementary.

This development goes a long way towards meeting the need for the establishment of a new international economic order. This is clearly a question which goes beyond its own merely economic limits or relations between industrialized countries and the Third World (although China is very interested in the EEC's experience in North-South cooperation). In fact, what is involved is the whole range of relations in international cooperation in our time. In this context, the deepening of the relationship between the EEC and China is also helping to create new relationships between developed and developing countries and between countries with differing social and political systems, in other words, more universal cooperation.

All this is desirable and can only help to promote world peace, which is a vital need for China as much as for the EEC. Disregarding political groupings, and respecting each other's sovereignty, links and existing alliances, they can contribute towards healthier and more constructive international relations.

Chinese leaders stress that their country's foreign policy is based on what they describe as the five principles of peaceful co-existence: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in internal affairs, equality and mutual benefit and peaceful co-existence. Foreign relations are being established in a spirit of diversification and restoration of balance. China has thus opened up a dialogue with both the EEC and its Member States as well as with non-aligned and other countries.

Whilst economic relations with the United States have been developing a series of high-level political talks have already taken place and will be continued in the near future. Matters in dispute include the transfer of technologies and sales of arms to Taiwan (including, in more general terms, the question of the 'two Chinas').

A process of normalization of relations with the USSR is beginning to get under way, marked by some degree of development in trade. Political talks at government level, a higher level than before, are in progress between the two countries and have revealed continuing differences of opinion on three subjects in particular: the extent of the armed forces at the frontiers, Afghanistan and Cambodia.

At the same time, China is increasing its presence - or is in some cases resuming activity - in various international political and economic bodies; it makes a point of stressing the importance it attaches to the world-wide role of the UNO.

A situation constantly changing and developing in this way demands that China's partners make a special effort to appreciate fully the short- and long-term prospects for bilateral and multilateral relations.

II. A MUTUAL DESIRE TO DEVELOP COOPERATION

The recent visit to China by the President of the Commission, Mr THORN, confirmed the idea that cooperation is only in its initial stages and that there are ample prospects for developing political and economic relations.

China seems very attached to the idea of an independent Europe. Its spokesmen have made it clear that they would like to develop cooperation between their country and the EEC and at the same time between it and each of the Member States individually. In their opinion such links should neither clash with nor replace each other.

After the last visit by a Parliamentary delegation to Strasbourg and various countries in the Community, the chairman Mr Chen Pixian, vice-president of the National People's Congress and member of the Communist Party secretariat, stated (according to European Report of 9.12.1983) in a speech made to the People's Congress on 6 December 1983 that China attached considerable importance to the establishment of political, economic and scientific cooperation with Western Europe and that China meant to give it priority in its policy of economic openness.

Comments such as this, symptomatic of the willingness found whenever there is an opportunity to talk with the EEC's Chinese partners, show clearly that the Community, whilst asserting its own economic and political personality and participating fully in cooperation, would be favourably placed to fulfil many of China's needs for modernization.

These comments on the nature of the relations between the two sides suggest that the European peoples and European cooperation have everything to gain by wholeheartedly seeking to establish good relations with China, which is emerging from under-development and is growing in importance on the international scene.

* * * * *

III. GIVING A NEW IMPETUS

All this emphasizes how desirable a new impetus in EEC/China relations is as far as Europe is concerned.

To this end and in the interests of getting to know each other better, we can only advocate the smooth functioning of the political cooperation recently established between the EEC and China and an intensification of political exchanges, in particular the mutually beneficial relations which are already established practice at Parliamentary level and will be confirmed by the European Parliament delegation's next visit to China. In the promising field of cultural relations, the forthcoming tour by the European Youth Orchestra should be noted; the President of the European Parliament will attend its first concert in Peking.

In view of China's interest in questions of development and the EEC's experience in this field, especially with the ACP countries, a useful element in political cooperation might be 'north-south relations' and their bearing on international cooperation.

The report by the Committee on External Economic Relations - whose proposals should meet with Parliament's approval - quite rightly notes that the EEC is lagging behind its rivals in trade with China. The EEC authorities responsible must be urged to examine all measures likely to step up trade with China. The Chinese are particularly concerned about access to advanced technologies, seeing in this a test of an independent European policy.

Everyone knows how much political importance China attaches to its territorial integrity. We can see that the Chinese Government is determined to settle the problems of Hong Kong and Taiwan according to peaceful principles, and the Political Affairs Committee cannot but appreciate this kind of political and diplomatic settlement for current problems.

Likewise, it cannot help being pleased at the positive attitude shown by each of the ten Member States of the EEC, the Commission and the Council as regards establishing EEC diplomatic relations exclusively with the Government of the People's Republic of China and strictly respecting China's sovereignty and territorial integrity. The opening of negotiations between China and Great Britain is to be welcomed in this context, as is the announcement that they are proceeding smoothly, and it is to be hoped that by 1997 the procedure for handing Hong Kong back to China will have been laid down in as constructive a way as possible.

As regards Taiwan, all the parties concerned must respect the principles recognized in the Sino-American communique of 17 August 1982. To this end, a progressive reduction in arms supplies to Taiwan would help to create an atmosphere of trust favourable to a resumption of negotiations, which is to be desired.

A majority of the members of the Political Affairs Committee consider that the concerns expressed in the recent resolution on human rights in the world should be recalled with reference to their violation in China.

In conclusion, the Political Affairs Committee stresses:

- how vitally important development, mutual interest, non-interference and equal rights are for EEC/Chinese cooperation;
- consequently, that a significant intensification of relations between the EEC and China is very much to the mutual advantage of the peoples concerned, both in the immediate future and in the long term, and is in accordance with the wishes of both;
- the importance that China attaches to its territorial integrity;
- the positive consequences, for world peace, for a deeper understanding between countries with different social systems and levels of development and for trade between the two parties, of a development and intensification of political, economic and scientific cooperation between the EEC and China.

