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Report

drawn up on behalf of the Committee on External Economic Relations

on the trade agreement between the European Economic Community and the
People's Republic of China

Rapporteur: Mr E. MÜLLER-HERMANN

By letter of 30 March 1978 the Committee on External Economic Relations requested authorization to draw up a report on the trade agreement between the European Economic Community and the People's Republic of China.

Authorization was given by the President of the European Parliament by letter of 17 April 1978. The Political Affairs Committee was asked for its opinion.

On 24 May 1978 the committee appointed Mr MÜLLER-HERMANN rapporteur.

It considered the draft report at its meetings of 24 May and 20 June 1978 and unanimously adopted the motion for a resolution.

Present : Mr Scott-Hopkins, acting chairman; Mr Schmidt and Mr Martinelli, vice-chairmen; Mr Müller-Hermann, rapporteur; Mr Bayerl, Lord Brimelow, Lord Castle, Mr Fitch, Lord St. Oswald, Mr Sandri, Mr Tolman and Mr Vandewiele.

The opinion of the Political Affairs Committee is attached.

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

MOTION FOR A RESOLUTION

on the trade agreement between the European Economic Community and the People's Republic of China

The European Parliament,

- having regard to its resolution of 5 July 1977 on economic and trade relations between the European Community and the People's Republic of China¹,
 - having regard to the trade agreement concluded between the European Economic Community and the People's Republic of China,
 - having regard to the report of the Committee on External Economic Relations and the opinion of the Political Affairs Committee (Doc. 198/78),
1. Welcomes the signing on 3 April 1978 of a trade agreement between the European Economic Community and the People's Republic of China and the speed with which it was brought into force on 1 June 1978;
 2. Notes that this agreement is an important stage in the process, begun in 1975, of forging closer links between the two parties and is further proof of the importance attached by the People's Republic of China to the building of a strong and dynamic European Community;
 3. Considers that the agreement provides an appropriate legal framework for the promotion of trade and the achievement of wide-ranging cooperation between the signatories, based on the principle of mutual advantage and facilitated by the complementarity of their resources;
 4. Notes that the promotion of balanced trade between the two parties will largely depend on the efforts made by the Community to ensure easier access for Chinese products to the markets of the nine Member States and on supplies of goods from the People's Republic of China geared to the Community market, and accordingly welcomes the progress achieved in recent years to liberalize trade;

¹ OJ No. C 183, 1.8.1977, p. 28

5. Emphasizes the importance, for the strengthening of relations between the two parties, of the provisions of the agreement relating to the promotion of visits by persons and groups representing economic, trade and industrial circles;
6. Is of the opinion that the Joint Committee responsible for the administration of the agreement will play a decisive role in fostering closer relations and, with this in mind, calls upon the Commission of the European Communities to begin forthwith its preparations for the first meeting of this body, having regard in particular to the possibilities for Community participation in developing the use of China's resources of raw materials;
7. Welcomes the existence of a price clause provided for in Article 7 of the agreement which will enable the Community, through the Joint Committee, to refuse to admit goods exported at prices fixed, for political reasons, below those obtaining on the market, a practice that causes serious disturbance to the Community market;
8. Recommends that the Commission study how far the implementation of measures to facilitate the financing of exports can contribute to the intensification of trade relations between the two parties and is in the interests of the Community;
9. Considers it essential for the Commission of the European Communities to keep it regularly informed of the outcome of the meetings of the Joint Committee and of the prospects for the development of trade between the Community and the People's Republic of China;
10. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

EXPLANATORY STATEMENTI - PROGRESS OF THE NEGOTIATIONS BETWEEN THE COMMUNITY AND THE PEOPLE'S
REPUBLIC OF CHINA

1. On 5 July 1977 the European Parliament unanimously adopted the motion for a resolution in the report drawn up by Mr Kaspereit on behalf of the Committee on External Economic Relations on economic and trade relations between the European Community and the People's Republic of China (Doc. 76/77).

The resolution welcomed the fact that approval had been given by the Chinese authorities to the Community's proposal for concluding a trade agreement to replace the existing conventions between the nine Member States and China, and expressed the hope that the future agreement would 'contain a framework and instruments for closer and more diversified economic relations between the two parties.'

2. The debate on this report more or less coincided with the arrival in Peking of a delegation of senior Commission officials who had been instructed to open a new round of exploratory talks with a view to the conclusion of a trade agreement between the two sides. These talks, which up to that time had been of an exclusively technical and explanatory nature, had begun in January 1976 shortly after the appointment of a Chinese ambassador to the Communities and following the first declaration by the Peking authorities of their desire to conclude a formal trade agreement with the Community.

3. The many upheavals that shook Chinese political life throughout 1976 (the death of the Prime Minister, Chou En-Lai, in January, his replacement by Hua Kuo-feng in February, the removal from office for the second time of Teng Hsiao-ping in April, the death of Chairman Mao Tse-tung in September and the opening of the campaign against the 'Band of Four' in early October) probably explain why the talks took place at fairly long intervals from April 1976 onwards.

It was not in fact until the end of February 1977 that the new Ambassador of the People's Republic of China to the Communities, Huan-hsiang, informed Vice-President Haferkamp that China was ready to

resume at the earliest possible date the explanatory technical discussions already begun by the two sides.

4. Talks were held in Peking in July 1977 to allow the two sides to clarify their respective positions further. In view of the encouraging results of these talks, the Commission considered it opportune to open negotiations with the Chinese authorities and, accordingly, sought the necessary authorization from the Council on 29 September 1977.

5. The Commission envisaged a 5-year non-preferential agreement which would boost and intensify trade between the two sides. Under its provisions China would be accorded the most-favoured-nation treatment by the Community. A joint committee would be set up to ensure the smooth functioning of the agreement and to examine problems that might hinder the development of trade between the two parties.

6. On 22 November 1977 the Council approved the directives authorizing the Commission to negotiate a trade agreement with the People's Republic of China on the basis of the guidelines outlined above.

After further exploratory talks between officials from both sides at the end of December 1977 and the beginning of January 1978, the official negotiations opened on 30 January. The Chinese delegation was led by Sun Su-chiang, Director of the Department of External Trade at the Chinese Ministry of Foreign Affairs.

7. The negotiations were brought to a successful conclusion on 3 February 1978 after five days of intensive discussions.

On 7 March the Council endorsed on behalf of the Community the text of the agreement that had been initialled on 3 February. The agreement was officially signed on 3 April 1978 in Brussels in the presence of Li Chiang, Chinese Minister for Foreign Trade, Mr Andersen, President-in-Office of the Council, and Mr Haferkamp, Vice-President of the Commission.

The final text of the agreement was published in the Official Journal of the European Communities of 11 May 1978. On completion of the requisite internal procedures, it entered into force on 1 June 1978.

8. This account of the progress of the negotiations was considered necessary to give some idea of the rapidity with which the two sides first normalized and then intensified their political and commercial relations.

Only three years after the visit paid by Sir Christopher Soames, former Vice-President of the Commission, to Peking (from 4 to 11 May 1975), during which the Chinese Government announced its decision to establish official relations with the Community as such and post an ambassador to Brussels, the People's Republic of China has become the first country of the socialist world (apart from Yugoslavia) to establish official and friendly relations with the Community.

In view of the increasingly important role played by China on the world political stage, the immense size of its population and the sheer volume of its requirements and resources, this must be seen as a significant event for both China and the Community.

Before considering the content of the agreement and assessing the prospects it opens up for the development of relations between the Nine and the world's most populous country, it is proposed to review briefly the political and economic factors which prompted the two parties to forge closer links.

II - THE POLITICAL AND ECONOMIC BACKGROUND TO THE TRADE AGREEMENT BETWEEN THE COMMUNITY AND THE PEOPLE'S REPUBLIC OF CHINA

9. As Mr Kaspereit pointed out in his aforementioned report, it makes no sense at all to draw a distinction between politics and economics in the case of the People's Republic of China. Even after the death of Chairman Mao, all aspects of life, whether concerning the individual or the State, are based on the primacy of ideology and politics.

As far as its dealings with third countries are concerned, China continues to adhere to the theory of the founder of the People's Republic that divides the world into three separate blocs. The Peking authorities consider this theory to be the 'scientific statement of the objective reality of the class struggle now taking place throughout the world'. In February 1974, during talks with a Third World statesman, Chairman Mao said that in his view 'the United States and the Soviet Union make up the First World, the medium-sized powers such as Japan, Europe and Canada compose the Second World, while all Asia (apart from Japan) and the whole of Africa and Latin America constitute the Third World'.

10. To the Chinese leaders, the Soviet Union and the United States are the common enemies of the peoples of the world, while the Soviet Union is the most dangerous potential source of world conflict.

The countries and peoples of the Third World are considered by the Peking leaders to represent the main opposition to imperialism, colonialism and superpower domination, while the Second World is seen as a force capable of being won over to the fight against the would-be hegemonies. With the superpower confrontation steadily escalating the risk of war, the countries of the Second World have a duty, according to the Chinese leaders, to strengthen their union and work for greater solidarity with the Third World and with whatever allies they can find, thereby committing themselves to the struggle against the common enemies. Only if they are united can they safeguard their independence or, indeed, their continued survival.

As the Minister for Foreign Trade, Li Chiang, said when the agreement was signed: 'the People's Republic of China supports the efforts of Western Europe to strengthen itself through union and to carry forward the fight against superpower domination'.

11. In the opinion of the Chinese leaders, China's efforts to establish some political rapport with the countries of the Second World, and in particular with the European Community, have been strengthened by the emergence of a new political climate in China following the death of Chairman Mao and the defeat of the 'Gang of Four'.

The decision of the Central Committee of the Chinese Communist Party of 23 July 1977 to reinstate Teng Hsiao-ping as Vice-Premier and the declaration by Chairman Hua Kuo-feng, in the final communiqué of the XIth Party Congress held in August 1977, of the Government's intent, now that the 'Gang of Four' had been overthrown, to press for the achievement of 'stability and unity and to maintain law and order throughout the country' are clear proof of the determination of the new leadership to give a new direction to the country's economic policy.

12. Prominence has once again been given to the four-point modernization programme which had been submitted to the IVth National People's Congress in January 1975 by Premier Chou En-lai but was subsequently shelved during the public disturbances of 1976. The object of this programme is to make the Chinese economy one of the strongest in the world through the modernization, before the end of the century, of agriculture, industry, national defense and science and technology.

13. To attain these ambitious objectives, the Chinese authorities have encouraged the state enterprises to carry out a number of specific projects and to improve their management while increasing, speeding up and improving the quality of their production. As an incentive, the wages of several categories of workers have been increased for the first time in 14 years, production premiums reintroduced, specialization of the units of production encouraged and the management of the economy modified with a view to increasing productivity and, more generally, strengthening authority and discipline. At the same time, the educational reforms introduced in the autumn of 1977 have removed the obligation on school-leavers to work in a production unit before entering university courses and restored the traditional examination system.

14. At the March 1978 National Conference of Sciences in Peking, the new leaders stressed the role played by science and technology in China's economic development. As pointed out by Vice-Premier Teng Hsiao-ping, 'the most important aspect of the four-point modernization plan is the modernization of science and technology'. Reporting on the work of the Government to the Vth National People's Congress, Chairman Hua said that 'there must be a massive expansion of our external trade. While observing the principle of equality and mutual advantage, we must use our skills and abilities to achieve our commercial objectives'.

15. An ambitious programme of scientific and technological development extending over a period of eight to ten years was presented to the National Conference of Sciences. It is hoped that the progress made under this programme will enable China to make up the time it has lost over the past 15 to 20 years in numerous different fields. Priority will be given to eight key areas, namely: agriculture, energy (particular stress being placed on the need to accelerate the construction of nuclear power stations), materials (emphasis being placed on the development and production of steel and rare metals), computers, lasers, space, high energy physics and genetics. To facilitate progress, the Chinese authorities plan to promote scientific exchanges with other countries and to send missions abroad to build on existing knowledge.

16. This desire to forge links with the outside world and to make increasing use of foreign technology as a means of modernizing the country's economy became abundantly clear at a national conference on external trade held in Peking in July 1977.

At this conference Yu Chiu-li, Vice-Premier in charge of the State Planning Commission, pointed out that if China remained loyal to the Maoist dictum it 'must rely on its own resources', this did not mean that it should 'refuse to consider the best achievements of foreign countries and follow a closed-door policy'; he criticized the thesis of the 'Gang of Four' that 'to export is to betray the nation' while 'to import is to be servile to the outside world' and expressed the view that China must export the products of its labour in order to obtain in exchange the high technology equipment needed for its development.

17. In recent months the Chinese leaders have stepped up their fact-finding missions to the Community with a view to importing the advanced technology of the Western industries in the light of the requirements of the ten-year economic development plan (1976-1985) recently adopted by the Vth National Congress.

Special importance is attached to electronics which, according to an editorial published in December 1977 in the People's Daily, is the 'key to all modernization and a decisive factor for the growth of agricultural and industrial productivity'.

It will be clear from the foregoing that the agreement between the Community and China has come at a particularly opportune time for the development of trade between the two parties.

III - THE MAIN PROVISIONS OF THE TRADE AGREEMENT

18. Concluded with the aim of developing, on a basis of equality and mutual advantage, economic and commercial exchanges between the two parties and of giving a new impetus to relations between them, the agreement that entered into force on 1 June 1978 takes the form of a short and general text (11 articles spread over 2 pages of the Official Journal).

Since it is a trade agreement, concluded on the basis of Article 113 of the Treaty of Rome, consultation of the European Parliament was not mandatory prior to its entry into force. On 14 March 1978 in Strasbourg, however, in accordance with the 'Luns-Westertep procedure', the President-in-Office of the Council informed the responsible committees of the European Parliament of the outcome of the negotiations.

19. The Committee on External Economic Relations felt that, given the importance of the agreement, it should form the subject of an opinion by the European Parliament. It therefore requested and obtained authorization to draw up this own-initiative report.

20. The agreement has been concluded for a period of five years, will be tacitly renewed every year thereafter, is non-preferential in character and lays down a number of rules for promoting trade between the two parties.

21. (a) Granting of the most-favoured-nation treatment (Article 2)

It is normal to include such a provision in trade agreements of the type concluded.

It should be noted in this connection that Chinese exports to the Community already benefit from de facto preferential treatment. The agreement simply provides the existing arrangements with a suitable legal framework. However, the Article relates only to customs duties and other charges. It seems that during the negotiations the Chinese delegates had requested that the clause should be extended to cover trade restrictions which, as far as liberalization is concerned, would have meant treating China on the same footing as the GATT countries. The Community could not accede to this request and it was dropped by the Chinese negotiators.

22. (b) A trade balance clause

This was included at the request of the Chinese authorities (Article 3). It provides that the two parties must contribute, each by its own means, to the attainment of a balance in their trade and that, in the event of an obvious imbalance arising, the Joint Committee must consider the measures to be taken to improve the situation.

It appears that the Chinese authorities had originally requested that the obligation to maintain a balance should be explicitly covered by a separate clause and provision made for the application of an automatic mechanism to restore the balance, where necessary.

It will be recalled that the Community's trade balance with the People's Republic of China, though regularly in surplus up to 1976, showed a deficit for the first time in 1977 as a result of a sharp drop in exports.

(c) Undertaking by China to give favourable consideration to imports from the Community and by the Community to increase the liberalization of imports from China (Article 4)

23. The measures to be adopted under this Article are complementary. According to the Chinese authorities, the objective for China will be to bring the level of Community imports gradually up to that of imports from Japan, its main supplier.

In return, the Community has undertaken 'progressively to introduce measures extending the list of products for which imports from China have been liberalized and to increase the amounts of quotas'.

24. It will be recalled that in recent years the Community has already done much to liberalize imports from China. Of the 1,098 headings in the CCT, the Community's liberalization list vis-à-vis China covers imports of all the products listed under 758 headings and some products under a further 99 headings.

Quotas for non-liberalized imports have also been increased slightly. Significantly, the increase allowed in respect of China's quotas was one percent more than the increase authorized for all the other state-trading countries.

(d) A friendly consultations clause (Article 5)

25. This clause turned out to be the main item of discussion during the negotiations.

The Community hoped that it would be accorded the right to introduce safeguard measures unilaterally in the event of difficulties arising over imports. The Chinese negotiators took the view, however, that words like 'safeguard' and 'disturbances' were out of place in an agreement between friendly countries.

While reaffirming the principle that friendly consultations should be opened in the event of difficulties arising over trade, the two parties finally agreed on a carefully worded passage to the effect that 'in an exceptional case, where the situation does not admit of any delay, either Contracting Party may take measures...' (Article 5(2)).

(e) A clause on prices

26. Article 7 specifies that 'trade in goods and the provision of services between the two Contracting Parties shall be effected at market-related prices and rates'.

The Community had apparently originally proposed that the agreement should specify that each party would endeavour to ensure that the prices of its exports were not lower than those obtaining on the market of the other party. This proposal was not accepted by the Chinese negotiators.

The vaguer formula finally adopted, which was taken almost verbatim from the existing agreement between China and the Federal Republic of Germany, signifies, according to Commission sources, that the prices in question are those obtaining on the internal market, i.e. within the Community.

In your rapporteur's opinion, a similar clause should also be included in any agreements concluded between the Community and other state-trading countries in order to prevent any manipulation of the price of goods exported to the Nine.

Mr Ku Mu, Deputy Prime Minister of the People's Republic of China, who recently visited Europe, also gave your rapporteur a personal assurance that his country had no intention of flooding the Community with low-price articles and that, because of the size of its internal market, it had only limited export potential.

(f) The Joint Committee

27. Following the established practice with agreements of this kind, administrative responsibility is entrusted to a Joint Committee which is to meet once a year, in Brussels and Peking alternately. One of this Committee's principal tasks will be to examine the measures adopted by the Community with a view to extending the liberalization list for imports from China and increasing the quotas for those imports.

28. The date of the first meeting of the Joint Committee will probably be fixed when Vice-President Haferkamp pays a further visit to China, together with representatives of the economic, social, industrial and financial sectors of the Member States, in September 1978. The meeting will in all likelihood take place before the end of this year.

29. In view of the importance of the role to be played by this Joint Committee, the European Parliament, at its April 1978 part-session, asked the Commission to give its views on various problems connected with the constitution and proceedings of such a body (see Oral Question with debate No. 27/78 - Report of Proceedings of 11 April 1978 - Debates - OJ No. 229). The question was raised whether, if the two parties considered it necessary, the Joint Committee might form working groups to assist it. Some Members expressed the view that one meeting a year was insufficient.

In his answer to the question Mr Haferkamp said that the Joint Committee should serve as a permanent forum for the discussion of questions of joint interest.

30. During the debate, several speakers also stressed the importance they attached to Article 6 of the agreement, which bound both sides to an undertaking 'to promote visits by persons, groups and delegations from economic, trade and industrial circles, to facilitate..... contacts connected with trade and to foster the organization of fairs and exhibitions'.

Your rapporteur also attaches importance to this clause and considers that it would be desirable for representatives of the European Parliament to participate in the various meetings with the Chinese authorities, which are likely to increase over the next few years.

IV - THE PROSPECTS HELD OUT BY THE TRADE AGREEMENT

31. The trade agreement that entered into force on 1 June 1978 offers considerable scope, in the opinion of your rapporteur, for the achievement of positive cooperation between the Community and China.

Even though the Community has for several years been the third largest customer (after Japan and Hong Kong) for Chinese goods and China's second largest supplier (after Japan), trade between the two sides has nonetheless been extremely limited.

In 1976 Community imports from the People's Republic of China amounted to EUR 756 million, while exports totalled slightly more than EUR 1 thousand million. It will be noted that these figures are more or less the same as for Community trade with Taiwan.

In 1977, for the first time in several years there was a sharp decline in trading and the Community's trade balance with China showed a deficit.

Exports to China account for less than 1% of the Community's total exports, while imports from China represent only about 0.5% of total imports.

32. Trade between China and Japan, on the other hand, was worth \$3.03 thousand million in 1976 (Japanese exports and imports amounting to \$1.6 thousand million and \$1.3 thousand million respectively), a 20% drop on 1975.

Nevertheless, the long-term trade agreement concluded between the two countries at the end of 1977 will give a considerable boost to their trade.

Under the terms of this agreement, from 1978 to 1985 China will supply Japan with oil and probably coal in exchange for steel plants and advanced technologies, e.g. petrochemicals, fertilisers, metallurgy, mechanized farm transport, etc. In 1982, as much as 13 million tonnes of the oil used by Japanese industry will be imported from China.

Japan is fast emerging as China's leading trading partner (notwithstanding the size of its trade with Taiwan, which for the two countries was worth \$4.1 thousand million in 1976).

33. Despite this pattern, the Chinese authorities are now contemplating a phased increase in China's trade with the Nine to bring it up to the level of its trade with Japan. It is essential that the Community take full advantage of this opportunity. It is an opportunity which the heads of industry in the Nine have been quick to recognize, as is evident from the frequency of recent visits to Peking (visits by the German Foreign Affairs Minister and employers' representatives in October 1977, by representatives of the Sino-British Trade Council in December and by the French Prime Minister in January 1978, etc.). Although Japan's geographical position gives it a considerable advantage over other competing countries in increasing its sales on the Chinese market, as Vice-Premier Ku Mu pointed out to your rapporteur, the Community is nevertheless in a position to achieve a substantial increase in its trade with the People's Republic of China.

34. Thus, at the end of Mr Genscher's visit to Peking, both sides issued statements to the effect that it was possible to develop their relations in all spheres. Two agreements worth DM 260 million were concluded for the delivery to China of 250,000 tonnes of steel pipes and spares for the iron and steel complex at Wuhan.

35. From these visits and those paid by different Chinese leaders to the Community countries it has become apparent that China is anxious to step up its purchases of oil drilling and prospecting equipment, coal mining equipment, materials for energy production and materials for its chemical, metallurgical, telecommunications and transport industries. It has also become apparent that the Chinese authorities are interested only in high quality products and advanced technology.

36. The exploratory talks that have taken place in recent months will enable the Chinese leaders, who have already determined China's needs up to 1985 on the basis of the 10-year development plan, to decide, before the end of 1978, on the type of equipment to be imported.

37. However, the intensive negotiations for the purchase of expensive foreign goods and advanced foreign technology have raised the whole problem of import financing.

It is well known that up to now People's China has always officially refused to accept credits from foreign banks or governments.

Even so, many banking and government organizations do in fact regularly contribute to the financing of exports to China by granting credits to export firms.

Moreover, the staggering of payments for goods ordered from foreign firms has now become standard practice, and in recent years China has resorted to short-term credits (12 to 18 months) as a means of financing purchases of cereals from the United States and Canada. It has also contracted loans on the Euro-dollar market via banking houses in Hong Kong.

38. It seems that in recent months the Chinese authorities have considered buying complete factories from the Western countries, using their exports to pay for them. This procedure could be extended to the exploitation of China's natural resources, in particular oil and metalliferous ores.

The Chinese authorities are no longer, it seems, opposed to the idea of establishing cooperation between the Bank of China and the Western Banks for the purpose of financing medium and long-term commercial loans.

39. This change of attitude can only be to the advantage of the Community countries. It is legitimate to expect, therefore, that the agreement that entered into force on 1 June 1978 will provide the legal framework for the progressive achievement of wide-ranging cooperation, based on the principle of mutual advantage, between two partners with complementary resources.

40. In this connection it is to be hoped that the work of the Joint Committee will lead to a joint decision on the phasing of China's orders for capital goods. In the past, the irregular and unpredictable way in which China has placed its orders has resulted in considerable fluctuations in the volume of the Community's exports.

41. The level of trade will naturally depend on the volume of imports into the Community of Chinese goods. At present these mainly consist of raw materials and semi-manufactured products. Your rapporteur believes that, as things stand at present, it will be difficult to increase substantially the quotas granted to China in the textiles and cotton goods sector, even though China would like to boost its sales of these products to the Community.

Nevertheless, as China has shown a desire to maintain friendly relations with the Community and fully recognizes its existence, some effort should be made to accommodate its wishes.

42. It is reasonable to hope, therefore, that People's China will be accorded more advantages than third countries which refuse to recognize the Community's existence.

The special advantages accorded to China must not, however, be confined to quotas or the liberalization of exports. There must also be special conditions for the financing of Chinese purchases of capital goods. One possible arrangement might be for preferential loans to be granted to China via the European Investment Bank and for the Community budget to bear the cost of the interest subsidies.

43. As Li Chiang said in his address on the occasion of the signing of the trade agreement between the Community and China, 'we would like to see a united and powerful Europe and we are certain that the countries of Europe would also like to see a strong and prosperous China'. The agreement that entered into force on 1 June 1978 is, we feel, an appropriate vehicle, not only for promoting awareness of the common interests of the world's most populous country and the world's leading trading power, but also for the progressive and regular development of their trade.

It is essential, therefore, that the agreement be regarded as a means to an end and not merely as an end in itself.

44. Without underestimating the importance of what has been achieved in the past few months, your rapporteur would call upon the Commission to prepare forthwith for the first meeting of the Joint Committee and to report regularly to the European Parliament on the progress made towards establishing a precisely defined form of cooperation between two powers which, though until recently existing in separate worlds, are now fast becoming aware of their common interests in the face of the challenges and dangers of this last quarter of the XXth century.

OPINION OF THE POLITICAL AFFAIRS COMMITTEE

Letter from Mr BERTRAND, chairman of the Political Affairs Committee to Mr KASPEREIT, chairman of the Committee on External Economic Relations

Luxembourg, 22 June 1978

Dear Mr Kaspereit,

At its meeting of 19 June 1978 the Political Affairs Committee held a detailed exchange of views on the trade agreement signed on 3 April 1978 by the EEC and the People's Republic of China, on which it was asked to deliver its opinion for your committee.

The following are the conclusions unanimously adopted by the Political Affairs Committee at the end of its discussions¹:

The Political Affairs Committee welcomes the conclusion of this agreement, which is an expression of the determination of both parties to establish relations based on equality and mutual advantage.

The Political Affairs Committee is aware that the agreement's political significance goes beyond its commercial importance. China is the first state-trading country to recognize the Community as such and to encourage and support its efforts to achieve European unification. Because of its ongoing character the trade agreement should lead to an expansion of trade beneficial to the Community, especially as the People's Republic of China has recently opened its frontiers to Western markets in an effort to acquire the technology and equipment it needs to support its economic effort.

The undertaking contained in the agreement to promote visits by individuals, groups and delegations from economic, trade and industrial circles should be regarded as contributing not only to trade but also to better mutual understanding between China and the European Community.

¹ Present : Mr Bertrand, Chairman; Mr Johnston and Mr Brugha, vice-chairmen; Mr Berkhouwer, rapporteur; Mr Amadei, Mr Blumenfeld, Mr Hamilton, Mr Holst, Mr Jahn, Mr Kofoed (deputizing for Mr Bangemann), Mr Klepsch, Mr Mitchell, Mr Pintat, Lord Reay, Mr Scott-Hopkins (deputizing for Mr Fletcher-Cooke), Mr Seefeld, Mr Sieglerschmidt and Mr Soury (deputizing for Mr Ansart).

However, while welcoming the entry into force of the agreement on 1 June 1978, the Political Affairs Committee regrets that the European Parliament was not given the opportunity of delivering a prior opinion.

Yours sincerely,

(sgd) A. BERTRAND

Luxembourg
P.O.B. 1601