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## THE EUROPEAN COMMUNITY AND CHINA

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## THE EUROPEAN COMMUNITY AND CHINA

### Introduction

Relations between the European Community and the People's Republic of China have blossomed since the seeds were planted in 1975, when the European External Relations Commissioner and the Chinese Prime Minister met in Beijing. The meeting between Sir Christopher Soames and Zhou En-Lai was followed, within months, by the accreditation of China's first ambassador to the European Communities.

There has been a continuous dialogue since then between the European Commission and Chinese representatives. A certain convergence of interests, at both the political and economic level, has ensured the smooth development of EC/China relations. Their two-way trade (1), for example, came to some ECU 11,000 mio. in 1986, as compared to a mere ECU 2,000 mio. in 1975. Among developing countries only two had a bigger two-way trade with the Community in 1986; they were Saudi Arabia and Algeria.

This substantial increase in trade was due in part to the 1978 EC/China trade agreement. The first to be concluded by the EC with a state trading country, it obviously broke fresh ground. All the provisions of the 1978 agreement were incorporated into the 1985 EC/China trade and economic cooperation agreement, which is much broader in scope, as its name indicates.

Under the 1985 agreement the Community is cooperating with China to promote the growth and modernization of the Chinese economy. This cooperation, which has been gathering pace in recent years, is in fields as diverse as agriculture and rural development, industry, science and technology, energy, the environment, trade promotion and vocational training and education.

China clearly sees the 12-nation Community as an important political and economic partner and source of development cooperation. But since the early 1970s they also see in a united Europe a counterweight to the hegemony of the two superpowers; hence the support for European unification so often voiced by the Chinese leaders.

Finally, both the Community and China see their cooperation as contributing to international stability. The Committee on Development and Cooperation of the European Parliament concluded in 1986 that "a fair and consistent" policy of cooperation with China "is a positive option for the future from the point of view of both East-West and North-South relations."

### The 1985 Trade and Economic Cooperation Agreement

The five-year trade and economic cooperation agreement, signed in 1985, marked a new and important stage in EC/China relations, as did the 1978 trade agreement which it replaced. The Preamble notes with satisfaction the development of friendly relations between the two sides. It points to their common desire "to intensify and diversify their trade and actively develop economic and technical cooperation" on the basis "of equality and mutual advantage". Their earlier agreement "to promote and intensify trade between them" is taken a step further with the decision "to encourage the steady expansion of economic cooperation."

(1) exports plus imports

The 1985 Agreement also provides for development aid. The European Community undertakes not only "to continue the development activities" in China but also to look into the possibility of both adding to and diversifying them.

The Agreement, concluded for five years, is to be tacitly renewed each year, provided neither side decides to terminate it. It can be amended, however, "to take account of new situations."

#### **- The Trade Provisions**

The trade provisions of the 1985 Cooperation Agreement are those of the 1978 Agreement. They were incorporated wholesale into the new agreement, having been "satisfactorily applied", as the Preamble puts it. These trade provisions are best examined, therefore, in the context of the earlier agreement.

The basis of EC/China trade relations is most-favoured-nation (MFN) treatment, especially as regards customs duties and formalities. This is significant, given that MFN treatment normally applies to trade between countries that are participants to the GATT (General Agreement on Tariffs and Trade), which is not yet the case as regards China.

The fact is that China occupies a rather special position among the Community's trading partners, and this is reflected in the somewhat special relationship between them. Until it embarked on its current programme of economic reforms, the Chinese economy had all the characteristics of a non-market economy or state trading country, like those of Eastern Europe. In such countries prices, whether for the home or export markets, do not reflect market forces but are set by the state, which also has a monopoly of foreign trade.

This has led the industrialized market economies, including the EC Member States, to maintain additional restrictions in order to prevent or limit imports which are so far below world market prices as to threaten their domestic industries. In their bilateral relations with China individual EC Member States introduced quantitative restrictions on certain of their imports from that country.

Even so, Community policy towards China is different from that towards other state trading countries. The pace of liberalization is faster and its scope broader in the case of imports from China which are subject to these residual restrictions. Today, only 5% of the Community's total imports from China are subject to such restrictions (which are in the form of quotas). When compared to similar restrictions on imports from countries with market economies, the difference is very small.

The commitment to pursue the liberalization of imports was written into the 1978 trade agreement and renewed in the 1985 cooperation agreement. Article 5 stipulates that the EC "will endeavour progressively to introduce measures extending the list of products for which imports from China have been liberalized and to increase the amount of quotas." Action to this end is examined regularly by the EC/China Joint Committee set up under the Agreement.

Over the years the EC has in fact progressively reduced these restrictions. While some two hundred remain, most are limited to only one or two Member States. When Commissioner Willy De Clercq visited Beijing in

1987 he could point to the continued progress in liberalization. Indications of further, and in some cases substantial, increases in the size of a number of quotas were given by the EC representative at a recent Joint Committee meeting. Part of the answer lies in Chinese hands, however: it is to diversify exports and reduce the concentration on sensitive products.

An important feature of the Agreement is the undertaking by China "to give favourable consideration" to imports from the EC, and to provide Community exporters "the possibility of participating fully in opportunities for trade with China." This provision, contained in Article 5, reflects the important role of the Chinese authorities in regulating their country's imports.

Good intentions are not enough, however, before trade can expand economic operators from the two sides must have ample opportunity to meet each other. The two sides therefore undertake to promote visits by persons, groups and delegations from economic, trade and industrial circles, to facilitate industrial and technical exchanges and contracts connected with trade. They also agree to foster the organization of trade fairs and exhibitions.

The 1978 - and therefore 1985 - Agreements also contain provisions which reflect China's special economic situation. One of them stipulates that trade in goods and services "shall be effected at market-related prices and rates". As for payment for transactions, they can be in Member States' currencies, Renminbi or any convertible currency acceptable to the two parties to the transactions.

#### **- The Economic Provisions**

The provisions for economic cooperation represent as much of an advance in EC/China relations as the trade provisions did when first adopted in 1978. The basic ideas had been developed by the EC in its discussions with India and ASEAN in the early 1980s. They resulted in the conclusion of "framework" agreements, so called because the agreements set out the objectives of economic cooperation but left it to the countries and industries concerned to decide on individual projects in cooperation with the EC.

This is also true of the EC/China Agreement.

The objectives the two sides have set themselves are wide-ranging. They include: diversifying their economic links; encouraging scientific and technological progress; opening up new sources of supply and new markets and helping to develop their economies and raise their respective living standards. The areas of economic cooperation specifically listed in the Agreement include industry and mining, agriculture and agro-industries, science and technology, energy, transport and communications, environmental protection and cooperation in third countries.

The Agreement also lists the activities the EC and China will try to promote to attain their objectives. Among them are joint production and joint ventures, common exploitation of natural resources, the transfer of technology, cooperation between financial institutes, the organization of visits, seminars and symposia, consultancy services and technical assistance, including training of staff.

Given Chinese efforts to attract foreign investments, it is hardly surprising to find an Article of the 1985 Agreement devoted to this subject. The EC and China undertake "to promote and encourage greater and mutually beneficial" investment and, to this end, "to improve the existing favourable investment climate." This is to be done mainly through bilateral investment promotion and protection arrangements, based on principles of equity and reciprocity.

The 1985 Agreement provides for development aid also, "in view of the difference in levels of development." The Community indicates its readiness "to continue its development activities" in China and to look at the possibility of doing more. But the wording of the Article in question hints at a disproportion between China's development needs and the resources the EC as such has at its disposal.

#### **- The Joint Committee**

A key feature of the 1978 Agreement was its provision for the setting up of an EC/China Joint Committee for Trade. Under the 1985 Agreement the Joint Committee is continued with the same membership - representatives of the EC, on the one hand, and the People's Republic of China on the other. Its range of activities has been extended, however, in keeping with the enlarged scope of the new Agreement.

As before, the Joint Committee will monitor the functioning of the Agreement and examine any questions arising from its implementation. But it will also review the various cooperation schemes, look at ways of developing trade and economic cooperation and make recommendations aimed at reaching the Agreement's objectives, in the areas of common interest.

Normally, the Joint Commission meets once a year. Given the tasks it is entrusted with, and the scope of the 1985 Agreement, the frequency of its meetings may seem very low. But the European Commission and China's diplomatic mission to the EC in Brussels are in regular contact with each other, while the political impetus which is necessary to the development of EC/China relations is provided by the high level consultations, and visits by China's political leaders to the European Commission and by individual commissioners to Beijing. For example, during his official visit to China in 1986 Commission President Jacques Delors met President Deng Xiaoping, the Prime Minister and the Minister of Foreign Affairs.

The following year the European External Relations Commissioner, Willy De Clercq, took part in high level consultations in Beijing, and signed an agreement on the establishment, by the European Commission, of its own office in the Chinese capital.

#### **EC/China Trade**

The Chinese market clearly is a major attraction for European industry and finance; and China's numerous export organizations view the 12-nation Community market as a major outlet for their products. Even so, the Chinese market is much less important to European exporters as a whole than is the EC market to their Chinese counterparts.

Community exports to China came to only 2% of its total exports (extra-EC) in 1986, while Chinese exports represented 13% of the country's total exports. The EC is also much less dependent on China for its imports: they amounted to just over 1% of the total in 1986, while the corresponding figure for China was 18%.

Given the sheer size of the EC's total imports (ECU 336 billion in 1986), few countries can hope to enjoy the status of a major trading partner. Even so, China was the 11th biggest market for European exports and ranked 20th among the the EC's external suppliers in 1986.

The Community, however, is a major trading partner for China. It ranked third in 1986, when imports and exports totalled \$11,640 mio., on the basis of Chinese statistics. Japan was first (\$17,200 mio.), followed by Hong Kong-Macao (\$15,450 mio.). The United States was in fourth place (\$7,340 mio.). However, if trans-shipments through Hong Kong are taken into account, the EC is probably China's second largest trading partner.

The following table shows the changes in EC/China trade in recent years.

**EC Trade with China, 1978 and 1983-87(\*)**  
(million ECU)

In brackets, percentage change over previous year.

	1978	1983	1984	1985	1986	1986 . 1987 (7 months)
EC IMPORTS	942(9)	3211(20)	3211(20)	3926(22)	4223(8)	2414 2837(17)
EC EXPORTS	1491(86)	2756(35)	3508(27)	7180(104)	6533(-9)	3788 3257(-14)
TRADE BALANCE	549	91	297	3254	2310	1374 420

(\*) EC-12 from 1985 onwards.

Source: EUROSTAT. Trade statistics kept by one country seldom tally with those kept by its trading partner. Thus Chinese exports to the EC rose by 39% in 1986, on the basis of Chinese figures. The differences are the subject of a joint study.

The Agreements of 1978 and 1985 have contributed to the expansion of EC/China trade, although many other factors have also been at work (e.g. the level of economic activity on both sides). Between 1978 and 1986 China's exports to the EC rose each year; this upward trend continued in 1987 as shown by the figures for the first seven months. The EC's exports to China rose between 1978 and 1985 but declined in 1986 and again in 1987 (7 months). As a result, there was a better balance in their two-way trade; China's deficit with the EC fell in 1986 and again, and even more sharply, in 1987.

China's imports are likely to remain substantial, however, especially in the short and medium term. Given the country's vast development needs and its government's determination to modernize all sectors of the economy, this is only to be expected. This drive to modernize is reflected in the Community's exports, which consist largely of raw materials for industry and manufactured products, many of them incorporating advanced technology.

Machinery, industrial plant and electrical equipment accounted for 51% of the total in 1986, steel products 15%, chemicals 12% and precision instruments and transport equipment 5% each. The EC also emerged as the leading supplier of technology in 1986, when it accounted for 45% of the total value of the contracts signed by China for the transfer of technology and sales of high technology products, according to Chinese sources.

China's exports to the EC reflect the country's growing industrialization. Raw materials accounted for only 19% of the total in 1986, as against 31% in 1978. What is more, exports of manufactured products have been growing faster than exports as a whole, to the point where the EC has become a major market for these products, ahead of Japan and the US.

But many of the manufactured products are still low-technology and have a low unit value. This is largely true, for example, to Chinese exports of textiles and clothing, which accounted for 33% of total exports in 1986, making China the Community's second largest external supplier (in terms of volume). Chemicals were another important category of manufactured products, accounting for 9% of total exports, while food exports (15%) included processed items. But alongside the exports of manufactured products were also hides and skins (7%) and minerals (7%).

### Trade Cooperation

Trade statistics tell only part of the story, of course. Much of the credit for developing their exports to the EC must go to the Chinese themselves. But recognizing the importance of foreign trade for China's development the Community has tried to help in a number of ways.

The most striking perhaps has been the organization of two EC/China Business Weeks, held in 1981 and 1985. A third will now take place from 29 February to 4 March 1988, with the aim of promoting Chinese exports. Like the two others it will be held in Brussels and will bring together representatives of 10 Chinese corporations (representing such key sectors as agriculture, handicrafts, light industry, chemicals, metals and minerals and technology) as well as a large number of European traders, industrialists, bankers, etc. (They were 300 in 1985.)

The EC plans to conduct an ambitious training programme in 1988, during the course of which some 100 officials belonging to major Chinese export-import corporations will be trained in modern marketing and export promotion techniques. Some of them will also undergo training in specialized institutes in the Community. This is a pilot project, which the Chinese authorities could then duplicate themselves.

The EC is also financing a number of sectoral projects in the field of export promotion. Two on-going projects relate to mink, on the one hand, and shrimps on the other. Two projects under study cover silk and angora wool. In view of the role of advertising in trade promotion, the EC organized a training programme in 1987 for 15 Chinese officials in European agencies and specialist institutes.

But successful export promotion, especially of manufactured products to such a highly competitive industrialized market as the EC, requires the modernization of not just export industries but industry in general, along with the country's economic infrastructure. Hence the importance of the EC-funded programmes of economic cooperation.

The EC has been helping with the modernization of Chinese enterprises since 1983. Under this particular programme European experts are sent to Chinese factories selected by the authorities to analyse their operations and draft plans for their modernization. These plans are forwarded to the Chinese Government, the EC Member States and bodies representing European industry.

Experts were sent to some 70 Chinese enterprises in 1986 and 1987. In some cases European companies have already begun talks on the implementation of the modernization plans.

An inadequate infrastructure can also act as a brake on foreign trade. Following a Chinese request for help with the modernization and expansion of the country's port installations, the EC joined forces with Community port authorities to organize a seminar in October 1987. The Chinese officials who attended it saw for themselves the operation of a number of EC maritime and river ports.

### Generalized System of Preferences

In addition to a commercial cooperation programme designed to meet China's specific needs, the country has also been included among the beneficiaries of the EC's generalized system of preferences, or GSP, since 1980. Under this scheme, variants of which are operated by all industrialized countries, the Community's imports of manufactures from developing countries are exempt from customs duties, although within certain quantitative limits (quotas and ceilings). In the case of processed agricultural products, imports into the Community of a wide range of such products pay lower rates of duty than the most-favoured nation rates, but for unlimited quantities in nearly all cases.

China invariably is among the 10 major beneficiaries of the Community's GSP scheme. Between 1981 and 1985 it increased its utilization of GSP benefits by 46%. In 1986 exports worth ECU 981 mio. benefited from the scheme, as compared to ECU 590 mio. in 1981. This represented some 22% of China's total exports in 1986. Of course part of China's exports consist of products on which no tariffs are levied (e.g. raw materials). In other cases the EC's import duties are not especially high, thanks in part to successive GATT trade rounds, so that European importers do not always bother to apply for GSP treatment. In earlier years, ignorance of the necessary formalities was also responsible for the scheme's under-utilization, but the EC remedied this by organizing information seminars in China.

The main aim of the GSP is to help developing countries build up their exports of manufactured products during the early years of their industrialization, when they are handicapped in relation to established manufacturers. In recent years the EC has begun, therefore, to apply a policy of "differentiation" - i.e. to limit and, since 1987, even withdraw GSP benefits entirely from beneficiary countries for those products for which they are deemed to have reached a high level of competitiveness (as measured by their market share for the products in question).

The EC has not applied its differentiation policy to China, although it has become very competitive for a number of products, notably chemicals. On the contrary, China has benefited from the re-distribution of the GSP benefits which have become available through the application of the policy of differentiation to other developing countries. As a result of this redistribution, the quantities entitled to duty-free entry have increased in some cases by 10 to 20%, and in the case of five sensitive products of particular export interest to China by more than 20%.

Imports of textiles and clothing from the "low-cost" countries have presented all industrialized countries with problems, which is why some have excluded them from their GSP schemes. The EC, however, has included them from the very beginning, although the scheme operates somewhat differently for textiles and clothing and its benefits are reserved for countries with which it has bilateral agreements under the GATT Multifibre Arrangement (MFA). In 1987 the Community decided to remodel this scheme. The quantities entitled to duty-free entry now amount to a fixed percentage of the imports of the 12-nation Community for each category of textiles and clothing. As a result, the total quantity of Chinese exports entitled to GSP benefits will have risen from 1,230 tonnes to 2,300 tonnes in 1989.

But the EC has also withdrawn GSP benefits from the most competitive exporting countries for a limited number of products. China clearly falls in this category: it accounted for 7.3% by volume of the Community's imports of all MFA products in 1986, as compared to 7.4% for Hong Kong. The EC decided, nevertheless, to treat China differently from its other dominant suppliers, in view of its low per capita GNP. In practice it has withdrawn GSP benefits only for those products for which its imports from China exceed 15% of the total for a given category (as against a cut-off point of 10% for the other dominant suppliers).

Even so, China continues to enjoy substantial benefits under the GSP scheme for textiles. The additional quantities now available to it more than offset those that have been withdrawn. It therefore stands to gain, provided it continues its policy of diversifying its textile and clothing exports.

### **Textiles and Clothing**

Under the GATT Multifibre Arrangement (MFA) the EC, together with most other industrialized countries, has concluded self-restraint agreements with the "low-cost" textile exporting countries - essentially the developing countries in Asia and Latin America and some East European countries. In 1979 the EC negotiated a similar agreement with China for a 5-year period. An additional protocol was concluded in 1984, when China adhered to the MFA. It brought the agreement more into line with those concluded under the MFA and extended its life to 31 December 1988.

The following table shows the development of China's exports since 1979 of all products covered by the MFA:

**EC: Imports of textiles and clothing from China, 1979-80 and 1983-86**

**(tonnes)**

In brackets, percentage change over previous year.

	<u>1979</u>	<u>1980</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
All MFA products	40867	59231(45)	87957(48)	96479(10)	107490(11)	136153(27)
Textiles	35386	46538(32)	65892(42)	70362( 7)	78096(11)	95387(22)
Clothing	5481	12693(132)	22065(74)	26117(18)	29394(13)	40766(39)
Percentage increase in total EC imports of all MFA products		2	5	7	4	17

Between 1979 and 1986 China's textile and clothing exports to the EC increased by 233%, and it is now the Community's second largest supplier, in volume, just behind Turkey. Equally striking, however, is the increase in Chinese exports of clothing, which have a higher unit value than textiles. In 1979 clothing accounted for only 13% of China's total exports to the EC; in 1986 this figure had risen to 30%.

Negotiations for a new agreement will be conducted in 1988. With European demand for textiles and clothing growing very slowly, the EC must strike a balance between the needs of its domestic industry for an adequate share of its home market and demands from overseas suppliers for greater access to this market.

**EC Investments in China**

For the European Community, private investments are an essential component in the flow of financial resources to the developing countries. But they are also important because they favour the development of business links and are usually associated with a transfer of technology. The Chinese government favours foreign investments; it agrees that they can help modernize the country's economy and raise the level of its exports. Under their 1985 Cooperation Agreement the EC and China agreed to promote "mutually beneficial investments" in order to attain the Agreement's objectives.

The EC ranks well behind the other major foreign investors, however. In the lead are Hong Kong and Macao, followed by the United States and Japan. The Community is in fourth place, some distance behind them. In 1987, for example, European investments were well below American investments according to Chinese sources.

The situation is very different as regards the transfer of technology, through licensing agreements and the sale of industrial equipment, for example. The EC was China's leading supplier of technology in 1986, according to the Chinese themselves. This was largely because of the greater flexibility shown by European companies as compared to their main competitors.

The European Commission, aware of its limitations when it comes to promoting European investments in developing countries generally, has approached the task indirectly. In 1987 it gave European investors an opportunity to meet the Chinese at an investment symposium it organized in Beijing. Some 100 Europeans and an equal number of Chinese took part in four round tables. They discussed issues related to investing in China, including how to conduct negotiations, the legal and fiscal aspects of foreign investments, managing companies in China, etc. The Europeans also discussed over 30 projects which had been identified prior to the opening of the symposium as well as another 40 or so presented by the Chinese during the symposium itself. At the end of it the European participants prepared a report for the Chinese authorities.

The Community encourages technology transfers, and possibly direct investments also, through certain of its economic cooperation projects. An obvious example is the programme for the modernization of Chinese enterprises. Here the implementation by the Chinese of the plans prepared by the European experts could lead to European firms being asked to supply the necessary equipment.

Cooperation in science and technology can also help create more favourable conditions for technology transfers. Since 1986 a number of European research institutes, universities and the mining industries of the United Kingdom and the Federal Republic of Germany have been working with the Chinese on a series of projects on the geology and metallurgy of non-ferrous metals. The European companies taking part in these projects should find it easier to work with Chinese firms in the commercial exploitation of China's vast mineral resources.

Finally, several of the training programmes which have been set up, both in China and in various EC Member States, can only predispose the Chinese officials and experts taking part in these programmes in favour of European technology and practices, whether in industry or business. This is true not only of the experts who have received training in technical standards but also the graduates of the EC-China Business Management Programme.

### **China's Membership of Gatt**

The European Community favours China's membership of the General Agreement on Tariffs and Trade, better known as GATT. Membership involves prior negotiations, however. The very specific nature of China's economic system, allied to the fact that it is in the process of change, points to the complexity of the task facing the 96 GATT contracting parties (as the signatories to it are officially known). The negotiations, which open in early 1988, will seek to define the terms on which China can apply GATT rules and principles, so as to achieve an overall balance in the advantages for all contracting parties.

The EC has assured China that it is approaching the negotiations in a positive spirit. The visit by the Chinese Vice-Minister, Li Lanqing, to the European Commission in June 1987, showed both sides ready to look for practical solutions to the problems arising from the special character of the Chinese economic system, which is a changing mixture of central planning and market economy.

The Chinese maintain that their programme of economic reforms will lead to the virtual disappearance of the gap between the conduct of their country's foreign trade and GATT rules. The Community's attitude is likely to be influenced by the effect of these reforms, especially in such key areas as the setting of export prices.

### Economic Cooperation

#### - Financial and technical aid to agriculture

Chinese agriculture faces a daunting task: it must not only feed a population of 1.1 billion but also provide the raw materials for such rapidly growing industrial sectors as textiles and an exportable surplus. Some idea of the scale of the problem can be had from the fact that the increase in grain production of 5 million tonnes forecast for 1987 represents only 10 days consumption.

Thanks to the rural reforms launched at the end of the 1970s, Chinese agriculture has made dramatic progress. It cannot afford to rest on its laurels, however, but must continue to raise productivity, diversify production and press ahead with research and training. When President Delors visited China in 1986 he was asked for Community funding for an EC/China agricultural centre, to serve as a focal point for the transfer of technology in agriculture and the agro-industries, and their adaptation to China's socio-economic conditions. The scale of the project has required a feasibility study, which will be the basis of the Community's decision, expected in 1988.

The EC meanwhile is already contributing to the modernization of Chinese agriculture through some 15 projects in a variety of sectors. They include fruit processing, sugar-beet production, fish breeding and fisheries, rubber production, soil protection and flood control. Other projects are under study. The Community is limited, however, to projects involving technical aid and technology transfers because the amount at its disposal (roughly ECU 6 mio. a year) does not allow it to finance investment projects also.

As a major donor of development aid the European Community has acquired such a wealth of experience in numerous fields that this represents an important resource in itself. One such field is dairy development. The EC has been a major contributor, along with the World Bank, to a project in India for raising milk production in order to meet urban demand.

One of the aims of China's current 5-year plan (the seventh, incidentally) is to raise milk production in order to ensure better supplies to certain urban centres. The Government wants to extend an on-going project covering six large cities to twenty cities and their surroundings, with a total population of over 120 million. The total cost of the project has been put at ECU 240 mio., 52% of which (ECU 125 mio.) would be provided by the Chinese government.

The EC, which has been contributing to the earlier project through the World Food Programme, has agreed to take over the implementation of the enlarged project. It has undertaken to supply 45,000 tonnes of skimmed milk powder and 15,000 tonnes of butteroil over a 5-year period (1988-92). The two items would be recombined into liquid milk, whose sale in urban areas would generate counterpart funds worth an estimated ECU 75 mio. These funds would be used to finance the purchase of "milch cows" by local producers, improved milk yields, set up a milk collection and distribution network and provide training. The subsequent rise in local production would make further EC aid unnecessary.

**- Cooperation in science and technology**

Modern inputs are needed if economic growth in the developing countries is to keep up with what has been described as "the revolution of rising expectations." Cooperation in science and technology is an important feature, therefore, of the cooperation agreements the EC has concluded in recent years with developing countries in Asia and Latin America. Under their 1985 Cooperation Agreement the EC and China agree to develop cooperation in science and technology. But this cooperation had already begun in 1983, which is not surprising, given that science is one of the areas covered by China's "four modernizations" programme.

**- Research and Development**

Of the 30 or so activities launched since 1983, a number are in the field of agriculture, another of the areas which the Chinese have singled out for modernization. Some of these projects are in the framework of the European Community's initial research programme in science and technology for development, which promotes cooperation with research institutes in developing countries in not only agriculture but also medicine and health in tropical and sub-tropical areas. They have proved so encouraging that their number and scope is certain to be increased under the second programme (1988-91).

The agricultural and medical applications of biotechnology represent another important area of cooperation. An EC/China biotechnology research centre is to be set up in Beijing under an agreement reached in March 1987. It will promote cooperation between research institutes in the Community countries and China on a basis of equality. The new centre will coordinate projects, especially those in the field of training, organize information exchanges and research and development. The twenty scholarships granted since 1986 have already given Chinese researchers an opportunity to work with their European colleagues and draw up joint research projects.

Other areas of cooperation include meteorology and chemistry. The National Meteorological Centre in Beijing has been collaborating with the European Centre for Medium-term Weather Forecasting in Reading, England, since 1987. European and Chinese universities are currently working on two projects on catalysts, both with industrial applications.

**- Information Technology and Telecommunications**

The success of China's economic policies depends partly on its progress in the related fields of information technology and telecommunications. The Chinese have shown a keen interest in cooperating with the EC in these two fields, and the European Commission has responded by offering both advice and expertise in helping train Chinese experts. It is cooperating with the State Science and Technology Commission (SSTC) and the Beijing Institute of Informatic Management on a project to equip the SSTC with an advanced data processing system. A team of Chinese experts has already received training in the EC to manage the system and another 50 are currently being trained for this purpose.

On-going projects are in such diverse fields as databases and technical standards. China wants to develop its own databases and to have access to European ones. A permanent satellite link between Beijing and Luxembourg, where the EC's own databases are located, has already been established, and training programmes are being organized for 1988.

Chinese interest in international standards is understandable. The introduction of new technologies in a country the size of China requires a uniform policy on standards. The European Commission is cooperating with the China State Bureau of Standards, in liaison with the SSTC. Some hundred experts received training in EC countries in 1986, and the training programme has been expanded since then, in view of China's manifest interest in standards in the fields of information technology and telecommunications.

**- Energy**

China is rich in reserves of energy, including coal, oil, natural gas and hydro-electricity. But their exploitation and management has led to bottlenecks, partly because of the ambitious targets the country has set itself. In 1981 China's State Science and Technology Commission and the EC Commission entered into a cooperation agreement relating to the development of coal and electricity, on the one hand, and the development of analytical tools and training programmes on the other. Today, some 600 experts are being trained each year in seven centres, located in five cities: Beijing, Tianjin, Nanjing, Hangzhou and Harbin. Their training covers energy policy (prices, investments, energy management) and energy programming (forecasting, energy models).

The cooperation programme received an important stimulus in 1987, with the visit to China of the Energy Commissioner, Nic Mosar. A memorandum which he signed with Mr. Ruan Chongwu, SSTC Vice-President, extended the scope of the on-going study on energy programming, which is being carried out by European experts; instead of being limited to the municipality of Beijing, the study will now cover energy flows for the entire country.

Another important area of cooperation is nuclear safety, given that China plans to invest in nuclear power. While in Beijing Mr. Mosar opened the EC/China Centre for Training in Nuclear Safety. The Centre has been set up in response to a request made to Commission President Jacques Delors in 1986 by the country's National Nuclear Safety Administration. During 1987 the EC also organized a course in nuclear safety in Beijing, which was attended by 25 inspectors.

How to save energy is another major Chinese preoccupation. This has resulted in what is one of the most promising projects. It consists of the modernization of a factory in Shanghai, to serve as a model of energy conservation for the city's 5,000 factories and a focal point for the new EC/China Training Centre in Energy Management, to be opened in Shanghai in 1988.

China, like many developing countries with a large territory, is interested in developing decentralized energy systems for the supply of energy to rural areas. A pilot project, jointly financed by the EC and China, is currently being implemented in the Dachen islands.

#### **- Human Resources Development**

Education and vocational training are as necessary to the development process as capital and technology. They have gained added importance in the context of "the four modernizations" programme. The result is a very wide range of educational and training programmes which the Community has set up, both in China itself and in the Member States. The most ambitious, no doubt, is the business management project.

Begun in 1984, it was the very first of its kind undertaken by the EC. The aim was both to set up a new post-graduate institution and develop teaching methods specifically adapted to the Chinese situation. Lectures are given by European professors in the framework of the EC/China Business Management Centre in Beijing. The course lasts 2 years and is followed by a 6-month period of training in European companies. The first group of 34 students was awarded their MBAs in Brussels in June 1987. The next group of 66 embarked on the course in March 1987. The EC is expected to continue to support the MBA programme financially after 1988.

A programme of inter-university cooperation was begun in 1987, following a meeting between rectors of European and Chinese universities. While many of the training programmes necessarily are organized by specialized institutions on the Community's behalf, the European Commission is running a number of them itself. One of the most important of these trains up to 15 Chinese interpreters each year since 1985 in the demanding task of servicing international conferences.

#### **- Statistics**

This is one of the earliest areas of cooperation between the EC and China - which is not surprising, given that the running of a modern economy requires the effective collection and handling of statistics. The EC has organized a number of training courses since 1979, covering trade statistics in particular. However, in view of the numerous demands for technical assistance and equipment, the European Commission agreed in 1986/87 to finance three pilot projects before drawing up a more long-term programme of cooperation. As a result, the equipment for the computerization of statistics is being installed in the Chinese Ministry of Foreign Economic Relations and Trade (MOFERT) and two specialized agencies, including the customs administration.

## - High Level Meetings

One of the most significant aspects of EC/China relations is the extent to which they have been fostered - and furthered - by high level meetings and consultations. The decision to establish diplomatic relations was taken in 1975 at a meeting in Beijing between the then Chinese Prime Minister, Zhou En-Lai, and the European Commissioner for External Relations, the late Sir Christopher Soames.

In the years since then key members of China's leadership have been received by the European Commission in Brussels. The visit of Prime Minister Zhao Ziyang in 1984 marked a turning point in China's relations with the EC. Since his visit the Chinese government has clearly manifested its interest in cooperating with the Community because of what it can offer China in terms of a market for its products and technology for its economic development.

Other important visitors to the Commission have included State Counsellor Chen Mohua (1983), Zheng Tuobin, Minister of Foreign Economic Relations and Trade (1985) and the Foreign Minister, Wu Xueqian (1986). Three European Commission Presidents have paid official visits to China, the most recent of which was that of Jacques Delors (1986). During his visit the Commission President held talks with President Deng Xiaoping, Vice-Premier Li Peng and the Foreign Minister, Wu Xueqian.

Several of President Delors' colleagues have also visited Beijing, including the External Relations Commissioner, Willy De Clercq (1987), who was accompanied by representatives of the chemical and pharmaceutical industries. Mr. De Clercq took part in high level consultations with Zheng Tuobin. This was the third such meeting in a series inaugurated in 1984.

Mr. Abel Matutes, who has responsibility for the Community's policy towards SMEs, headed the EC delegation to the investment symposium held in Beijing in December 1987. Lord Cockfield (1986) and Karl-Heinz Narjes (1985) also visited China for talks with senior Chinese leaders on issues of common interest.

The most important visitor to the Commission since the thirteenth Party Congress, which re-confirmed the reform of the country's economic system, was Li Tieying. Mr. Li, who is in charge of the reform programme, arrived in Brussels at the head of a 9-member delegation of senior officials in early February 1988. His aim in spending a week at the Commission's headquarters was to familiarize himself with all aspects of the Community, whose achievements cannot fail to interest the Chinese as they seek to transform their own economy.

There is no doubt that these high level exchanges, which are almost unprecedented in their frequency, have provided the necessary political stimulus for the development of EC/China relations. Significantly, the Community's Member States have also sought to institutionalize political consultations with China. The EC Council of Ministers agreed in 1983 to hold a regular exchange of views with China's representatives on international issues. In addition, the EC and China have begun to take advantage of the annual sessions of the UN General Assembly in New York to meet at ministerial level.

The European Parliament has closely followed the development of EC/China relations. In a report drawn up by the Political Affairs Committee in 1987 the rapporteur noted: "The achievements of the first ten years of dialogue between the Community and China may be summarized in a few words: liberal-mindedness on both sides and increased trade".

The year 1988 will be marked by a further milestone in EC/China relations: the opening by the European Commission of its own office in Beijing, to be more formally known as the Delegation of the European Commission to China.

### Conclusions

The Years since 1975 have witnessed a steady growth in the European Community's relations with China. Their two-way trade has increased substantially and has become more balanced since 1987. At the same time the EC has continued its efforts to help China expand and diversify its exports. The fact that the EC imports more manufactured products from China than any other industrial nation is a measure of its success.

The Community still lags behind other major industrialized countries as regards the level of its investments in China. However, it has sought to promote them in various ways, including an investment symposium held in Beijing in 1987.

The efforts by the EC and China to cooperate across almost the entire field of economic endeavour have borne fruit. The European Commission has tried to compensate for the relatively limited amounts available for this purpose by putting the emphasis on the imaginative nature and quality of its projects. The Chinese response, prompt and whole-hearted, has been clear evidence of their desire to develop their relationship with the Community.

Finally, the positive outcome of a dozen years of economic and commercial cooperation is not only of benefit to the EC and China, but also contributes to the stability of their respective regions, and therefore to world stability.

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