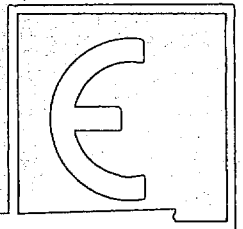


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THE EUROPEAN COMMUNITY AND THE PEOPLE'S REPUBLIC OF CHINA

79/85

<u>Contents</u>	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
THE AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE EUROPEAN COMMUNITY	2
IMPLEMENTATION OF THE AGREEMENT	3
<i>Joint Commission meetings</i>	3
<i>Promotion of exchanges and contacts</i>	4
(1) <i>Training schemes: research students, interpreters, statistical experts, customs officials, business management and modernization</i>	4
(2) <i>Information and study visits</i>	5
<i>New forms of contact between the People's Republic of China and the European Community</i>	6
THE TEXTILE AGREEMENT BETWEEN THE COMMUNITY AND THE PEOPLE'S REPUBLIC OF CHINA	6
THE GENERALIZED SYSTEM OF PREFERENCES	7
TRADE PROMOTION EVENTS	8
<i>EEC-China Business Week</i>	8
<i>Seminar on the reform of China's foreign trade system</i>	9
<i>Seminar on the sale of technology</i>	9
<i>Chinese purchasing visits</i>	9
ENERGY COOPERATION	9
FINANCIAL AND TECHNICAL ASSISTANCE	10
EXCHANGE OF VISITS	10
THE TRADE AND ECONOMIC COOPERATION AGREEMENT BETWEEN THE EUROPEAN COMMUNITY AND THE PEOPLE'S REPUBLIC OF CHINA	11

Annex : The Community's trade with China

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INTRODUCTION

On 3 April 1978 the People's Republic of China and the European Community signed a Trade Agreement which marks an important stage in the rapprochement between Europe and China.

A new Trade and Economic Cooperation Agreement was initialled on 26 September 1984.

The Textile Agreement initialled on 18 July 1979, supplemented by an Additional Protocol in March 1984, covers a major trade sector.

The Commission is continuing to provide training for Chinese officials, not only in its various departments but in China as well, and is shortly due to launch a major programme of business management training.

The EEC-China Business Week in the spring of 1981 brought China's largest-ever high-level trade delegation, a hundred strong, to the Community and is an important landmark in relations between the parties after the signing of the Trade Agreement. It was the first such event to be run by the Commission with a non-member country, and provided an opportunity to look at new prospects for both Chinese exports to the Community in areas of effective demand and Community plant and machinery exports to China.

The foundation for wide-ranging long-term cooperation on energy was laid by a visit to China by senior Community officials in November 1981 and a return visit by Chinese energy officials to the Commission and Member States in February and March 1982.

Relations between the Community and China have taken on a new dimension since June 1983, with the inauguration pursuant to a Council decision of 26 April that year of consultations linked to the European political cooperation system.

BACKGROUND

The interest China has shown in the development of the European Community goes back to the early 1970s.

Politics apart, issues coming under the common commercial policy have also prompted a strengthening of contacts between the People's Republic of China and the Community. Bilateral trade agreements between Member States and China were due to expire at the end of 1974, in accordance with decisions taken by the Community institutions regarding the introduction of a common commercial policy. In November 1974 the Community therefore sent a memorandum, together with an outline agreement, to the People's Republic of China (as well as to other state-trading countries) indicating its readiness to conclude a trade agreement.

Sir Christopher Soames, then Vice-President of the Commission with responsibility for external relations, visited China in May 1975. In the course of his talks with the late Premier Zhou En Lai, the Chinese Government announced its decision to establish official relations with the Community and to appoint an ambassador to it. At the same time the Chinese authorities promised to give favourable consideration to the Community's proposal that a suitable trade agreement be negotiated between the two parties to replace the bilateral agreements that had expired.

On 15 September 1975, His Excellency Mr. Li Lianbi presented his credentials to the President of the Council and the President of the Commission of the European Communities as Head of the mission of the Chinese People's Republic to the European Communities. The exploratory talks with a view to negotiating the agreement started in July 1975.

A commission delegation visited China from 4 to 13 July 1977 to continue the exploratory talks with the Government, and was received by the Minister of Trade, Mr. Li Qiang.

The negotiations proper took place in Brussels and led to the initialling of a Trade Agreement on 3 February 1978.

THE AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE EUROPEAN COMMUNITY

The official signing ceremony took place on 3 April 1978, when Mr. Li Qiang was visiting Brussels. The Agreement was signed on the Community's behalf by Mr. K.B. Andersen, President of the Council, and Mr. Wilhelm Haferkamp, Vice-President of the Commission. It came into force on 1 June 1978.

Concluded for a period of five years, with yearly tacit renewal thereafter, the Agreement is of a non-preferential nature and sets out a number of rules aimed at promoting trade.

The parties agree to accord each other most-favoured-nation treatment in respect of tariffs.

A special clause requires the parties, each by its own means, to try and attain balance in their trade, and stipulates that in the event of obvious imbalance the Joint Commission will study ways of remedying the situation.

China undertakes to give favourable consideration to imports from the Community, while the Community is to aim at an increasing liberalization of imports from China. This is the first time such a clause has been incorporated in a trade agreement (Article 4).

Whilst providing for friendly consultations in the event of difficulties concerning trade, the parties agreed that they could take unilateral measures in exceptional cases "where the situation does not admit any delay".

The parties also undertake to promote visits by individuals, groups and delegations from the economic, commercial and industrial spheres, facilitate exchanges and contacts and encourage the organization of fairs and exhibitions.

The Agreement contains a price clause specifying that trade in goods and services will be effected at market-related prices.

It is managed by a Joint Commission which normally meets once a year.

IMPLEMENTATION OF THE AGREEMENT

Joint Commission meetings

The Joint Commission has so far met six times, alternating between Beijing and Brussels : July 1979 and November of 1980, 1981, 1982, 1983 and 1984.

The general feeling has been that the implementation of the Agreement is going smoothly.

At the first Joint Commission meeting the Community announced its intention to grant concessions to China on most products under the Generalized System of Preferences (GSP).

Concessions announced at various Joint Commission meetings have added a number of products to the Community liberalization list annexed to the Regulation on common rules for imports from China; the list now contains 853 Common Customs Tariff (CCT) headings or subheadings out of the total of 1012 headings.

Despite its economic problems the Community has steadily increased the level of quotas under the autonomous import arrangements.

Although since 1980 trade between the parties has not attained the high levels which it reached in 1978 and 1979, participants at the fourth meeting of the Joint Commission were satisfied with its overall trend since the entry into force of the Agreement. China accepted the Community's proposal that the validity of the Agreement, which was due to expire on 31 May 1983, be extended for one year.

Following the revision of China's internal policies in 1979, Community exports declined in 1980 but started to pick up again in 1981-82. At the 5th meeting of the Mixed Commission the two delegations noted with satisfaction the significant recovery of commercial exchanges in 1983. A small decrease in exchanges in 1984 was noted at the 6th meeting of the Mixed Commission. However, this should only be a temporary phenomenon given the potential of the Peoples Republic of China and the political will of its leaders. The importance of the opening of the Chinese Commercial Centre in Hamburg, inaugurated on 7 February 1985 in the presence of Mr. De Clercq, has been underlined. The accent has been placed on the success of purchasing missions and cooperation in the modernisation of businesses.

Promotion of exchanges and contacts

- (1) Training schemes : research students, interpreters, statistical experts, customs officials, business management and modernisation.

A number of grants were awarded at the beginning of 1979, mostly to post-graduate research students, for both short-term and longer courses of specialist study at Community universities.

In 1979 and 1980 the Commission's Joint Interpreting and Conference Service admitted three professors from the n° 1 Foreign Language Institute in Beijing for the interpretation of conference.

From 1981 to 1984 the Joint Service provided training for ten official interpreters from three ministries in the People's Republic of China.

Contacts established following a visit by senior Chinese customs officials to the Statistical Office of the European Communities (SOEC) in July 1979 have been renewed. The SOEC and the Computer Centre take a number of officials each year from the central Chinese customs administration to familiarize them with the Community's statistical system.

Since 1982, Community customs experts have been giving courses at the Foreign Trade Institute in Beijing, as part of a programme spread over several years.

In November 1983 a number of Chinese customs officials spent a month with the Commission's Customs Union Service, and a similar exercise took place in 1984.

In recognition of the importance the Chinese authorities attach to business management training, the Commission has allocated 3.5 MECU from its programme of aid to non-associated developing countries for a project - the largest of its kind ever undertaken by either party - in the People's Republic.

The project will strengthen the Beijing Business Administration Centre and enable it to offer a new master's degree in business administration (MBA).

The Community aid will finance the first two intakes of MBA students, from 1985 to 1989.

After following an intensive English course, students will carry out consultancy assignments in industrial firms around Beijing.

The aim of the project is to see how European management methods can be applied in Chinese industry.

Sixty lecturers from Europe will be taking part in the programme, and successful MBAs will have an opportunity to round off their studies by a period of training in Europe.

Running the project on behalf of the Commission will be the European Foundation for Management Development, representing the main European business schools, while the China Enterprise Management Association will supervise the Chinese side.

(2) Information and study visits

Chinese visitors to the Commission include radio and television journalists, teachers and students.

A series of special programmes designed to familiarize Chinese officials with the European Community was inaugurated in June 1979, when three senior officials from the foreign ministry, trade ministry and Institute for Research in International Affairs visited Community institutions in Brussels, Germany, Luxembourg, the Netherlands and the United Kingdom.

A second programme was arranged for a head of department from the trade ministry and two officials from the National Import-Export Company, who visited Brussels and Luxembourg from 23 November to 12 December 1981.

A third programme, which ran from 7 to 20 June 1982, involved 12 senior trade officials from the Chinese provinces and officials from the Ministry of Foreign Economic and Trade Relations. They visited Brussels, France, Germany, Luxembourg, and the Netherlands.

A fourth programme was run from 15 to 29 October 1983 for 10 officials from the Ministry of Foreign Economic and Trade Relations and provincial foreign trade departments, together with an official from the Ministry of General Planning.

The group visited Belgium, Italy, Luxembourg and the Netherlands.

The fifth programme ran from 7 to 21 November 1984. Some ten senior staff from various light industry import and export sectors took part. Apart from visiting Community institutions, they went to the Netherlands, Ireland and France.

New forms of contact between the People's Republic of China and the European Community

Realizing the usefulness of the exchanges of views at meetings of the Joint Committee, China and the Community agreed during a visit by Mrs. Chen Muhua, the Minister for Foreign Economic and Trade Relations, to initiate high-level consultations in the interests of widening discussions to include all matters of mutual interest, thereby adding a new dimension to relations between China and the Community.

The first consultations took place in Beijing at the end of September 1984.

The decision taken at the Council meeting of the Community's foreign ministers held on 25 and 26 April 1983 to initiate within the framework of European political cooperation regular exchanges of views on current international topics of interest to both parties is a further example of the widening of contacts between China and the Community.

Consultations will take place every six months in the form of a meeting between the political director of the foreign ministry of the Member State holding the Presidency and the Chinese ambassador accredited to the country concerned.

THE TEXTILE AGREEMENT BETWEEN THE COMMUNITY AND THE PEOPLE'S REPUBLIC OF CHINA

The Textile Agreement fits into the general framework of trade relations between China and the Community, for both of which it constitutes an important and concrete application of the EEC-China Trade Agreement.

It was initialled on 18 July 1979 and given effect on a transitional basis for the rest of that year by an increase in the quotas under the unilateral Community system governing textile imports from China. The Agreement was brought fully into effect from 1 January 1980 and was valid initially until 31 December 1983.

The Agreement sets out a five-year framework for imports into the Community of Chinese textiles and garments of cotton, wool or man-made fibres. Although it guarantees significantly increased access for these products to the Community market, the Agreement takes full account of the considerable difficulties faced at the present time by the clothing and textile industries of the "Ten", and of the interests of other suppliers which have concluded agreements with the Community.

While giving vital protection to Community industries, the Agreement will at the same time offer Chinese exporters guaranteed access to the Community market.

A system of double administrative control – checking at the export and the import stage – applies to all products, not merely to those subject to import limits.

The Agreement is an important first step towards the development of economic relations between China and the European Economic Community on a basis of mutual advantage.

An Additional Protocol to the Agreement was initialled on 29 March 1984.

It embodies China's assent to incorporation in the Agreement of the anti-fraud and "anti-surge" clauses already included by the Community in the bilateral textile agreements negotiated with its other trading partners. The "basket extractor" procedure, which provides for the introduction of new import limits, has also been brought more closely into line with that included in the other agreements (negotiated by the Community under the Multifibre Arrangement).

The Additional Protocol also sets out the quantitative arrangements for trade in textiles from 1 January 1984 to 31 December 1988. Five more categories of products exported by China are now subject to limitation, and some 34 new restrictions have been imposed on imports into various parts of the Community. In return, the Community has agreed to increase some quotas, including those on highly sensitive products.

One special feature of the 1979 Agreement were the clauses guaranteeing the Community access to certain raw materials (raw silk, cashmere and angora), and these continue under the Additional Protocol. There is also provision for industrial cooperation, in the form of new opportunities for outward processing trade¹.

THE GENERALIZED SYSTEM OF PREFERENCES (GSP)

Visiting China in February 1979, Mr. Roy Jenkins told the Chinese authorities that the Commission was considering admitting China to the ranks of the GSP beneficiaries. The scheme offers these countries duty-free access to the Community for their industrial exports, within certain quantitative limits, and reduced tariffs for some processed agricultural exports.

¹ "Economic outward processing traffic" is a form of industrial cooperation whereby a Community manufacturer supplies a subcontractor in a non-Community country with fabric manufactured in the Community to be made up into garments which are then re-imported back into the Community. Sometimes technical assistance is supplied where help is needed with making up the finished goods.

China duly became a GSP beneficiary from 1 January 1980, gaining concessions on most of its industrial exports other than certain sensitive products, and its exports of quota-free farm products. The list of eligible industrial and agricultural products has been progressively extended under the successive annual schemes.

The Commission arranged seminars in Beijing, Tianjin, Shanghai and Guangzhou, from 20 to 30 January 1980, to answer Chinese officials' and businessmen's questions about GSP, and Commission officials also held a GSP seminar in Nanjing from 23 to 27 March 1982.

TRADE PROMOTION EVENTS

EEC-China Business Week

This, the major event since the signing of the EEC-China Trade Agreement, took place from 30 March to 10 April 1981 in Brussels under the auspices of the Commission and the Chinese Government. Both political and economic matters were on the agenda.

Political talks were held between Mr. Thorn, Mr. Davignon and Mr. Haferkamp and a Chinese delegation led by the Deputy Prime Minister, Mr. Gu Mu, and including three other deputy ministers, Mr. Wei Yuming of the State Commission for Import Control, Mr. Jia Shi of the Ministry of Foreign Trade and Mr. Fu Zihe of the State Planning Commission.

Economically speaking the EEC-China Business Week, bringing together over eight hundred officials and businessmen from China and the Community, marked a further stage in the development of relations between the two sides since 1975, particularly since the signing of the Trade Agreement on 3 April 1978.

After the opening talks on general background topics, a series of meetings was held to review the situation in certain industries chosen in the light of China's new economic priorities, the two sides' import and export strategies and the scope for investment: the sectors covered were ores and metals, hides, skins and leather, light industry, textiles, chemicals and engineering.

Most of the Business Week was taken up by individual meetings between Community businessmen and Chinese officials concerned with these six industries, with the aim of identifying specific trade opportunities, discussing practical problems and clarifying the prospects for a medium-term expansion of trade and cooperation.

One aim of these personal contacts was to enable the Chinese and European delegates to explore and take advantage of the opportunities which China's new internal policies and enthusiasm for foreign trade have opened up.

By way of a follow-up to the EEC-China Business Week, the Commission held a seminar in Brussels on 7 and 8 July 1982 on the reform of China's foreign trade system.

This seminar enabled the participants (businessmen, representatives of banks and trading firms and officials from bodies in the Member States concerned with foreign trade) to find out about the reorganization of China's foreign trade system, particularly with regard to the measures taken to decentralize decision-making to local bodies and the recently established special economic zones.

A delegation of senior Chinese officials from central and local foreign trade bodies made a lively contribution to the seminar.

A Commission-organized seminar on the sale of plastics processing technology was held in China from 18 to 29 October 1982.

This seminar, which took place in Beijing and was then repeated in Tianjin, enabled sales engineers from the Community to show several hundred Chinese engineers and technicians advanced European technology in the field of plastics processing.

It was followed up by a visit to Europe in September 1983 by a Chinese delegation of engineers specializing in this field.

Since 1983 the Commission has paid for a number of visits to the Community by prospective Chinese buyers of industrial goods, and has also sent European experts out to China to assess the need for industrial modernization.

ENERGY COOPERATION

Following a fact-finding trip to China in November 1981 by Mr. Carpentier, Deputy Director-General for Energy, a delegation of senior Chinese energy officials visited the Commission from 16 February to 18 March 1982, when the joint projects discussed on the earlier occasion were worked out in further detail.

The Chinese delegation was headed by the Vice-President of the State Science and Technology Commission, Mr. Yang Jun; it met officials from the Commission and the Member States, representatives of industry and scientists, and toured energy plants in most of the Member States.

The delegation had discussions with Mr. Davignon and ministers in the Member States visited on policies for coal, electricity and oil, energy conservation, new energy sources, and energy programming.

In Brussels, the delegation's visit provided an opportunity to put the finishing touches to the first joint energy projects, and contracts were signed for:

- (i) a visit to China by European experts from April to October 1982 to train Chinese officials, energy managers and university staff in energy programming;
- (ii) advanced energy planning courses for Chinese officials at the Ispra Joint Research Centre;
- (iii) a methodological study on energy supply and demand trends in both rural and industrial China.

There has been continued activity in this field since 1982.

FINANCIAL AND TECHNICAL ASSISTANCE

On 4 November 1983 the Council approved a Commission proposal to grant China 6m ECU under the Community's programme of aid to non-associated developing countries.

This special allocation from the 1983 budget is without prejudice to future decisions on Community aid to China. The money will be used for a number of cooperation projects being carried out under the EEC-China Trade Agreement, including studies and technology transfer operations concerned with agriculture and agri-food stuffs.

EXCHANGE OF VIEWS

A considerable number of high-level visits have taken place since 1978.

There have been four meetings between representatives of the European Parliament and the National People's Congress, in June 1980, July 1981, October 1983 and April 1984.

Mr. Thorn paid an official visit to China from 1 to 6 November 1983. This was the second such visit by a President of the Commission, Mr. Jenkins having made the first early in 1979.

Mr. Thorn's visit was the occasion for the two sides to announce the establishment of diplomatic relations between China and the ECSC and Euratom. Mr. Thorn also had talks with the Prime Minister, Mr. Zhao Ziyang, Mrs. Chen Muhua, Minister for Foreign Economic and Trade Relations, Mr. Wu Xueqian, Minister for Foreign Affairs, and Chairman Deng Xiaoping.

Prime Minister Zhao Ziyang visited the Commission on 4 December 1984, the first time that such a high-ranking Chinese leader had met the Members of the Commission.

Also on 4 December 1984, Jia She, Deputy Minister for Foreign Economic and Trade Relations, was received by Mr. Haferkamp and Mr. Narjes.

THE TRADE AND ECONOMIC COOPERATION AGREEMENT BETWEEN THE EUROPEAN COMMUNITY AND THE PEOPLE'S REPUBLIC OF CHINA.

On 26 September 1984, on the occasion of the first session of high-level consultations between the Commission and the Government of the People's Republic of China, agreed upon in November 1983, Mr. Haferkamp and Mrs. Chen Muhua, Minister for Foreign Economic and Trade Relations, initialled the Trade and Economic Cooperation Agreement to replace the Trade Agreement of April 1978.

No spheres of future cooperation are excluded from the agreement. To begin with cooperation will cover industry, transport and communications, environmental protection and cooperation in third countries; the forms of cooperation will include joint ventures, transfer of technology, exchange of economic information, contacts between economic operators, seminars, investment promotion, cooperation between financial institutions.

As regards assistance for the development of Chinese industry, "in view of the two Contracting Parties' levels of development, the EEC is prepared, within the context of its development aid activities, within the means at its disposal and in accordance with its rules, to continue its development activities in China. It confirms its willingness to examine the possibility of stepping up and diversifying these activities."

In the sphere of trade, the provisions of the existing Trade Agreement are confirmed, in particular China's commitment to give favourable consideration to imports from the EEC.

There is a Joint Cooperation Committee to examine the functioning of the agreement and to make recommendations for specific cooperation work.

The duration of the agreement is five years, with automatic renewal from year to year thereafter.

ANNEX

THE COMMUNITY'S TRADE WITH CHINA

(million ECU)

	1977	1978	1979	1980	1981	1982	1983	9 months 1983	9 months 1984
Imports	863	940	1329	1907	2284	2334	2665	1951	2378
Exports	796	1489	2103	1734	1894	2044	2758	2029	2362
Balance	-67	+549	+774	-173	-390	-290	+90	+78	-16

Source : EUROSTAT

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