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## Report

drawn up 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

Rapporteur: Mr G. KASPEREIT  
Chairman of the Committee

PE 47.759/fin.

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English Edition



By letter of 12 May 1976 the Committee on External Economic Relations requested authorization to draw up a report on economic and trade relations between the European Community and the People's Republic of China.

In his letter of 10 June 1976 the President of the European Parliament authorized the committee to report on the problem.

On 3 September 1976 the committee appointed Mr Kaspereit rapporteur.

It considered the draft report at its meeting of 26 April 1977 and unanimously adopted it at the same meeting.

Present: Mr Kaspereit, chairman; Mr Schmidt, vice-chairman; Mr Martinelli, vice-chairman; Mr De Clercq, Mr Didier, Mr Klepsch, Mr Müller-Hermann (deputizing for Mr Kunz), Mr Pintat, Mr Price, Mr Pucci and Mr Spicer.



C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION .....	5
B. EXPLANATORY STATEMENT .....	7
I. Europe as seen from Peking .....	8
II. Relations between the People's Republic of China and the European Community .....	9
III. China and international trade .....	11
IV. The bases of the Chinese economy .....	13
V. The development of China's external trade .....	14
VI. What type of agreement can the Community conclude with the People's Republic of China? .....	18



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

The European Parliament,

- having regard to the report of the Committee on External Economic Relations (Doc. 76/77),

1. Welcomes the establishment, since 1975, of normal diplomatic relations between the Community and the People's Republic of China and the support given by the latter to the efforts of the Member States to endow the Community with an identity of its own in its relations with third countries;
2. Notes also with satisfaction the rapid development of economic and trade relations between the two parties that has enabled the Community to become, in the space of a few years, the second largest trading partner of the People's Republic of China;
3. Points out that, since 1 January 1973, the Community has had sole authority to administer the Nine's commercial policy and to negotiate with the People's Republic of China a new agreement which will replace the existing bilateral conventions between the Member States and that country.
4. Notes with satisfaction the **approval** given by the People's Republic of China several months ago to the opening of negotiations with a view to the conclusion of such an agreement and the intention recently shown by that country's Ambassador to the Community to resume shortly the **preparatory talks to that end;**
5. Observes that, pending such an agreement, the Community has introduced autonomous import arrangements for the People's Republic of China and is gratified that substantial progress has been made in recent years towards liberalizing trade between the two parties;
6. **Considers it desirable** for the future agreement to go beyond the customs administration provisions laid down in the draft outline agreement addressed by the Community to the **state-trading** countries and contain a

framework and instruments for closer and more diversified economic relations between the two parties;

7. Requests the Council and Commission of the European Communities to report to it regularly on the progress of negotiations between the Community and the People's Republic of China;
8. Instructs its President to forward this resolution, together with the report of its committee, to the Council and Commission of the European Communities.



EXPLANATORY STATEMENT

1. At this start to 1977 the People's Republic of China remains, in the eyes of Western observers, a world apart, disconcerting and deeply mysterious. However, the size of the country, its population and economic potential make it an increasingly active force in international political life. Rare indeed are the questions on which China's voice is not now heard. This has not always been the case - far from it. Founded on 1 October 1949, the People's Republic of China was, from the outset ignored and often opposed by the Western powers. For some 15 years People's China maintained only the most tenuous diplomatic relations with the West. Of the present EEC Member States, only the Netherlands and the United Kingdom had, from the beginning of the 50's, exchanged *chargés d'affaires* with the Peking government.

2. The split between the Soviet Union and the People's Republic of China in the years 1959-60 (which nearly all the 'sinologists' had failed to foresee) led the Western countries to consider their relations with Peking from a new angle.

The decision taken by General de Gaulle, the President of France, in January 1964 to recognize the government of Peking as sole legitimate representative of the Chinese people and to establish diplomatic relations with the latter at ambassadorial level was a striking illustration of this will to develop closer relations with the world's most populous country and to permit its re-entry into the concert of nations.

3. However, the eruption of the Cultural Revolution in 1966 and the resulting disorders and excesses which were to last for three years prevented the incipient rapprochement between People's China and the Western world from producing significant results.

4. Thus, it was not until the years 1970-71 that relations between the EEC Member States and the People's Republic of China were normalized. In turn, Italy in 1970, Belgium in 1971, the Federal Republic of Germany and Luxembourg in 1972 established diplomatic relations with the Peking government. This normalization at political level was to bring with it the rapid development of trade relations between the People's Republic of China and the Member States of the European Community.

5. If it sometimes seems artificial to separate politics from economics in the relations between States, this distinction makes no sense at all in the case of the People's Republic of China. All aspects of life, whether concerning the individual or the State, are based, in this country, on the

primacy of ideology and politics. Under the new 1975 constitution (Article 2), the thoughts of Mao Tse-Tung, together with Marxism-Leninism, form the theoretical foundation on which the People's Republic of China bases its thinking.

The importance which the Chinese leaders attach to Community Europe and to international trade, can best be considered by reference to the principles of Marxism-Leninism and the thinking of Mao Tse-Tung.

#### I. EUROPE AS SEEN FROM PEKING

6. The position of the Chinese authorities on European construction has been defined many times, notably during the numerous visits paid from 1971 onwards by prominent figures from the Nine Member States and the talks in May 1975 between Sir Christopher Soames, then Vice-President of the Commission in charge of external relations, and senior Chinese officials.

7. Although the European Community, as seen from Peking, is a grouping of a capitalist nature, it is nonetheless of obvious interest since it helps to strengthen the independence of Western Europe vis-à-vis the two superpowers. According to Chinese leaders, the present political and economic situation makes it possible to divide States into three worlds. The United States and the Soviet Union make up the First World; the developing countries of Africa, Asia and Latin America constitute the Third World; in between, the developed countries (Europe, Japan, Canada etc.) compose the Second World. The objective of Chinese policy is to bring international forces together to put an end to the reign of the superpowers. But it is not just the Third World that has to unite. The industrialized countries of the Second World, which the two superpowers endeavour to keep under their control, must also unite to build an independent economy and pursue an autonomous policy.

8. To quote Chinese leaders at the end of 1975: 'The Third World is the principal force in the struggle against the superpowers; but, to a certain extent, it can win over to its cause the countries of the Second World. We support the countries of the Third World in their efforts to strengthen their unity and safeguard their independence in face of the superpowers; we support the efforts of the Second World countries to safeguard national independence.'

According to Chinese leaders, the policy of influence which European countries seek to pursue cannot be taken very far, since it concentrates on certain regions, is lacking in resources and is opposed by the two 'dominant imperialisms'. The two superpowers seek to control the economic life of these countries and occasionally put military pressure on them.

9. Thus Chinese diplomacy firmly supports the principle of the European Community as meeting the aspirations of the peoples of Western Europe. However, Europe is coveted by the superpowers. In the words of Mr Kiao Kuan-Hua, then Minister of Foreign Affairs of the People's Republic of China, on 5 October 1976 before the UN General Assembly: 'The strategic focus of the rivalry between the two superpowers, the Soviet Union and the United States, is Europe and this is determined by their fundamental interests .... the West European countries have made new progress in their efforts to attain union. We support the union of Western Europe, and we want to create a powerful Western Europe'. According to Chinese leaders, any power that has pretensions to world hegemony must first exercise its hegemony over Europe, given the economic and human potential of that continent. Thus they consider it probable that Europe will be at the heart of the inevitable conflict that will one day break out between the two superpowers even if one of them - the United States - is now on the defensive and apparently in decline.

## II. RELATIONS BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE EUROPEAN COMMUNITY

10. These arguments have been recalled in order to make clear the reasons prompting the Peking government to desire a powerful Community and to establish close relations with it.

China's interest in European construction dates back, as we have seen, to the early 70's. In several interviews published in the Western press between 1971 and 1973, the Prime Minister of the time, Chou-en-Lai, spoke of China's support for the European Community, though pointing out at the same time his country's ignorance as to the Community's responsibilities.

11. At the same time, the Chinese press welcomed the enlargement of the Community seeing in this a further defensive reaction by the Western European countries against the hegemony of the superpowers. In May 1972, in an interview granted to the Agence France Presse, Chou-en-Lai mentioned the possibility of accrediting a diplomatic mission to the Community. On the opening of a Chinese embassy in Belgium, informal contacts were established between the embassy and Commission representatives, the Chinese diplomats being anxious to learn about the working of the Community and its internal and external evolution. Correspondents of the press agency 'New China' were accredited to the Commission during October 1973. The European Parliament, for its part, conscious of the importance of the development of Chinese policy, invited the Commission, at its February 1973 part-session, to take all appropriate initiatives to strengthen economic and trade relations between the Community and the People's Republic of China. In addition, the Council held a first exchange of views on this question at the beginning of 1974.

12. In addition to the purely political aspects, questions of a more technical character also encouraged the strengthening of contacts between the two parties. The bilateral trade agreements between the People's Republic of China and the EEC Member States were due to expire at the end of 1974, under decisions taken by the Community authorities concerning the introduction of a common commercial policy. Accordingly, in November 1974, the Community forwarded to the People's Republic of China, and to other state-trading countries, a memorandum accompanied by an outline agreement laying down broad provisions for the conclusion of a possible trade agreement between the two parties. This was followed at the beginning of 1975 by an invitation from the Chinese Embassy, on behalf of the Chinese Institute for External Relations, to Sir Christopher Soames, then Vice-President of the Commission specially responsible for external relations, to pay an official visit to China.

13. The visit lasted from 4 to 11 May 1975. During talks between the Vice-President and senior officials, the Chinese government made known its decision to establish official relations with the Community as such and to accredit an ambassador to it. At the same time, Chinese officials notified their intention of giving favourable consideration to the Community's proposal for the negotiation of an appropriate trade agreement between the two parties to replace the bilateral agreements that were then running out.

14. At its June 1975 part-session the European Parliament extensively discussed relations between the two parties on the basis of a question by Sir Peter Kirk.

On that occasion, Sir Christopher Soames expressed satisfaction at the results of his visit to Peking and his feeling that trade with China offered the Community, in the long term, considerable possibilities. These will depend on the Chinese government's decisions concerning the rate of domestic economic development as well as, of course, the ability of Community industries to compete, in particular, with their Japanese and American rivals.

Shortly afterwards, China appointed its ambassador to the Community and, at the beginning of January 1976, reiterated its intention of making preparations for negotiations with a view to concluding a trade agreement.

At the same time, explanatory talks were begun between the two parties. These were, however, to remain strictly technical, the Commission representatives merely informing their partners of the powers granted to the Community in matters of trade policy. These talks were less regular after April 1976.

15. Things have changed little since then, at least as far as official contacts are concerned. The turbulence of Chinese political life in 1976 is probably the reason for this lack of progress. It must also be recognized

that Chinese and Europeans have a different sense of time and that it is futile to seek to explain the behaviour of Chinese officials in the light of our own criteria for expediency and efficiency. Be that as it may, there seems to be no cause for concern over such delays since the Chinese position towards the Community has not changed. It can reasonably be hoped, therefore, that 1977 will see substantial progress in this sector<sup>1</sup>.

Before considering the possible tenor of such an agreement, it would seem advisable to take a close look at the views of the Chinese authorities on international trade since, as we have already said, everything in that country is a matter of ideology.

### III. CHINA AND INTERNATIONAL TRADE

16. The leaders of the People's Republic of China have been deeply affected by their country's experience in the second half of the 19th century and the beginning of the 20th. The Europeans, Americans and Japanese had turned China into a source of raw materials and a wide open market and directly controlled its customs, finances and taxes as well as deciding what goods should be imported and exported.

17. Thus, when the People's régime was established in 1949, the external trade situation was radically changed.

External trade is now subject to the exclusive control of the State. Only the Chinese import and export companies - commonly known as 'corporations' - are authorized to sign purchase or sale contracts, and they are the sole interlocutors in trade negotiations. There are now eight corporations all coming under the Ministry of External Trade; each has responsibility for a particular sector of the economy, covering both imports and exports (national Chinese import/export corporations for textiles, machines, food products, chemical products, etc.). These Chinese corporations have representatives in the chief provincial towns as well as abroad.

18. Furthermore, external trade is based on the principle of 'independence and autonomy, self-reliance' which directs all aspects of Chinese life. Here again China remembers the traumatic experiences caused by the semi-colonization of the country at the time foreign concessions were granted and, more recently, by the precipitate departure of the Soviet technicians in 1960. As applied to external trade, this principle implies that it is the Chinese government

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<sup>1</sup> At the end of February 1977, the People's Republic of China's ambassador to the Community, Mr Huan-Hsiang, informed Vice-President Haferkamp that his country was ready to resume as soon as possible the technical explanatory talks for a trade agreement between the two countries, which had become less frequent after April 1976

alone which decides on the variety and quantity of imports and exports, and that the country should rely on the domestic market, not the international market or foreign products.

This does not mean, however, that economic and technical exchanges with other countries should not be developed, as long as they are based on the principle 'equality and mutual advantage, complementarity'. External trade, thus understood, is, in the eyes of the Chinese authorities, helpful in stimulating the economic development of the parties concerned.

19. However, like all dogmas, this one may be interpreted in many different ways, according to the men and the circumstances, and the thoughts of Mao, to which everyone continues to profess allegiance, can be construed very differently. Beyond the uncertainties that remain, it appears that the struggles waged in 1976 between the representatives of the 'Shanghai group' and, first, Teng Tsiao-Ping, then Hua Kuo-Feng, concerned, among other things, the place that should be accorded to imports of foreign technology, these being financed by the sale of raw materials abroad.

20. The elimination of the 'Band of Four' in October 1976 - which was violently opposed to such practices - should, according to Western observers, lead to greater recourse than in the past to imports, and notably capital goods. As the 'People's Daily' said last November, the introduction of the necessary advanced technology from abroad has helped to increase China's power by enabling it to develop its economic strength and its autonomy.

The same article denounced those elements of the party which had opposed imports of foreign technology, since 'China can learn much from the experiences and products of other countries', a judicious use of foreign goods being necessary in order to give the country a solid economic basis. The emphasis laid for some weeks now on the 'ten major reports' presented in April 1956 by Mao Tse-Tung, suggests that the new leaders are determined to develop their foreign trade, China needing, according to this document, to take as its model the strong points of all other countries.

21. The prospects thus seem good, at the beginning of 1977, for a rapid development of trade between Europe and a China which, as various newspapers have said, appears to be looking again towards the West.

What is this China which could give a larger place to foreign trade? What are the bases of its economic power? What are its development objectives?

#### IV. THE BASES OF THE CHINESE ECONOMY

22. To all these questions cautious and modest answers must be given. The foreigner knows something about China, but, generally speaking, the quality of the information, on both its political and economic life, is poor. This is largely due to the fact that the Chinese authorities only seldom and belatedly publish precise statistics. The exact size of the Chinese population is still open to question with estimates varying by as much as 50 to 100 million.

23. With the usual reservations, however, the following figures help to pinpoint China's place in the world economic map.

- China is the world's leading producer of cereals (first place for rice, second for maize after the United States, third for wheat after the USSR and the United States), third for cotton;
- it occupies fifth place in the list of iron and steel producers (29 million tonnes of steel in 1975) but this is only a fifth of the Community's total production;
- it takes third place for coal, after the USSR and the United States (400-420 million tonnes in 1975);
- its oil production was reported to total 78 million tonnes in 1975, 88 million tonnes in 1976;
- it is the world's leading producer of cotton goods.

24. In spite of the considerable progress it has made since 1949, China remains, in the opinion of its leaders, a developing country, largely rural (four-fifths of the population are peasants), whose industry has many weak points.

Aware of this weakness, Chou En Lai presented to the fourth People's National Assembly in 1975 the framework and objectives of the efforts to be made in the economic sector in the years ahead. A long-term programme, covering ten years, subdivided into five-year and one-year plans, was drawn up with a view to equipping China with 'independent and fairly complete industrial and national economic systems' to enable it to 'attain the rank of a major industrial power before the end of the century' through the modernization of agriculture, industry, defence, science and technology.

25. After being relegated into the background since the death of Chou En Lai at the beginning of 1976, the objectives of this ten-year programme have again been given prominence since the elimination of the 'Band of Four'. Anxious to speed up the country's industrialization, the new leaders do, however, admit that China needs a pause in the growth of its foreign trade to

'compensate for the harm done to the economy through the actions of the four expelled leaders'.

V. THE DEVELOPMENT OF CHINA'S EXTERNAL TRADE

26. People's China has considerably increased its trade with the outside world since 1970. In 1969 total Chinese imports and exports were worth about 3,900 million dollars. This figure rose to 14,000 million in 1974 and seems roughly comparable for 1975 and 1976. Although growing rapidly, China's external trade remains very limited, considering the country's size, and represents about 2% of world trade (roughly the same as Taiwan's - 12,000 million dollars in 1975 - which has only 15 million inhabitants).

At all events, the marginal importance of this trade - less than 5% of the national product - seems to bear no relation to China's importance on the world scene.

With which countries does China trade?

EXTERNAL TRADE OF THE PEOPLE'S REPUBLIC OF CHINA

(in millions of dollars)

	Exports (fob) to China		Imports (cif) from China	
	1975	1976 First half	1975	1976 First half
Belgium/Luxembourg	47	30	45	27
Denmark	22	9	22	12
Federal Republic of Germany	523	388	223	129
France	373	201	174	100
Ireland	-	-	3	2
Italy	145	74	129	76
Netherlands	134	31	81	42
United Kingdom	178	81	132	77
Austria	30	8	13	9
Finland	15	14	23	5
Greece	2	-	1	3
Iceland	11	-	-	-
Norway	108	17	8	4
Portugal	-	-	1	-
Spain	23	11	34	29
Sweden	42	17	47	23
Switzerland	57	31	31	19
Turkey	2	2	22	1
Canada	371	112	55	37
United States	304	120	171	99
Japan	2,258	1,081	1,529	603
Australia	326	141	86	46
New Zealand	15	9	13	7
OECD TOTAL	4,986	2,427	2,843	1,349
Hong Kong	34	13	1,372	732
Singapore	40	13	273	126



27. As can be seen from the table above (which takes no account of state-trading countries, trade with whom totalled \$1.155 thousand million in 1974), China's trade flows in two main directions:

- Japan and Hong Kong
- Western Europe.

28. Since the establishment of diplomatic relations in 1972, Japan has become the leading trade partner of the People's Republic of China. The geographical proximity of the two countries, the vitality of the Japanese economy, the complementarity of their economies explain the strong development of relations between the two Asian giants. In 1974 Japan accounted for about 27% of China's external trade and China's deficit vis-à-vis its partner totalled about \$700 million.

29. Hong Kong plays a significant role in the external trade of the People's Republic. The Colony is already its second most important client and could soon even overtake Japan. China has a considerable surplus in its operations with Hong Kong (+ \$1.3 thousand million in 1975), that territory importing from the People's Republic a good deal of its requirements in food products and raw materials.

30. After Japan, the countries of the European Community are China's second most important trade partner (in 1975, \$742 million worth of imports, \$1,322 million worth of exports, corresponding to a Chinese deficit of \$580 million).

The Federal Republic is its leading supplier, followed by France and the United Kingdom.

31. Trade between the People's Republic of China and the United States, which was for a long time non-existent on account of the American embargo, has grown rapidly since the establishment of near-normal political relations between the two countries in 1972 (\$4.9 million in 1971, \$752 million in 1973, \$922 million in 1974) but declined considerably in 1975: \$470 million.

32. The structure of China's external trade with the abovementioned countries is almost identical.

Chinese imports - which include scarcely any consumer goods - can be divided into two main groups:

- raw materials and semi-industrial products (lead, copper, nickel, iron and steel products, rubber, chemical fertilizers),
- cereals and other agricultural products,
- capital goods.

33. During the last two to three years the relative importance of each of these three categories of imports has changed as China has considerably developed its industrial and agricultural production. It seems that in 1976 China's cereal imports did not exceed 2.5 million tonnes (against 3.5 million tonnes in 1975 and 7 million tonnes in 1974). Imports of chemical fertilizers - 3.5 million tonnes in 1975 - should fall rapidly in view of the forthcoming entry into service of installations built by foreign firms. It is also to be expected that imports of iron and steel products will drop considerably in the next few years. The notable reduction of imports of agricultural products is the reason for the sudden drop in Chinese purchases from Canada and the United States. The savings made in these sectors will enable China to make better use of its resources to buy capital goods and 'turnkey' factories, so vital for its development.

34. For these capital goods, China draws, mainly for political reasons, on the 'Second World' countries. This is part of the explanation for the spectacular increase in 1976 of imports from the Federal Republic of Germany and France and in general from all the West European countries. Western Europe's share in China's total imports rose from 25% in 1974 to 33% in 1975 and on the basis of the figures for the first half of 1976, should now be about 40%.

35. To pay for its imports, China must export. Because of the state of underdevelopment which still characterizes the country, as even its leaders admit, exports consist of raw materials (salt, pig iron, coke) and, above all, agricultural and stockfarming products (rice, tobacco, groundnuts, tea, silk, pork). China is, however, endeavouring to diversify and develop its exports of manufactured products but, with the exception of fabrics and cotton goods, none have yet been exported in large quantities.

36. In addition, for some years now the People's Republic of China has been an oil exporter. Production - negligible until 1960 (1.450 million tonnes in 1957), has rapidly developed since then: 20 million tonnes in 1970, 78 million tonnes in 1975, 88 million tonnes in 1976, so that it now exceeds the country's needs.

In 1973, Japan, anxious about the prospects of an energy shortage, concluded with Peking a series of agreements for the purchase of Chinese oil. It has since transpired that the quality of this oil did not exactly meet Japanese requirements. In 1976, probably because of the current situation in China,

exports to Japan fell (7.9 million tonnes purchased by Japan in 1975, 6.8 million tonnes in 1976) and the two countries were unable to agree on the signature of a long-term supply agreement.

37. By their very nature Chinese exports are of little interest to most Western countries. This explains the difficulties China has had for some years now in balancing its external trade, as was the case up to 1973.

Since then the People's Republic of China has had a fairly substantial deficit, which has admittedly diminished in the last two years. It is thought to have been about \$500 million in 1973, \$1.3 thousand million in 1974, and to have narrowed to \$790 million in 1975 and would seem to have fallen below the latter figure in 1976. It was in order to reduce this deficit that China cancelled a number of orders from abroad in 1975 and 1976<sup>1</sup>.

38. The appearance of this deficit confronted leaders with the problem of recourse to credit. China had always paid for its purchases in cash, regarding credit as a perversity of the capitalist banking system. China has, however, adopted a somewhat more flexible position in this connection, financing its wheat purchases from the United States and Canada by means of short-term credits. Since 1972 it has made increasingly frequent use of the system of deferred payments for the purchase of capital goods and turnkey factories.

39. Certain signs suggest, however, that China is willing to align itself more closely with international financial practices. Since August 1974 the renminbi is quoted daily against other foreign currencies. The Bank of China is seeking to channel its foreign currency deposits towards its Singapore, Hong Kong or London branches. Agreements on mutual deposits have been concluded with Japanese banks.

The trade deficit is also financed by gold sales effected by Peking from time to time on the London market. This has resulted in a fall in China's convertible reserves amounting at the end of 1976 to some \$1 thousand million (compared with \$3.18 thousand million 18 months earlier).

40. Although new, this deficit, being relatively small, does not pose insurmountable problems for the Chinese authorities. As we have seen, the latter sometimes resort to short-term loans and, if they wished, would have

<sup>1</sup> However, according to information made public in February 1977 by Jetro, a Japanese semigovernmental external trade organization, based on various documents compiled by that body, the People's Republic of China showed an external trade surplus of at least \$900 million in 1976. Chinese exports calculated on an FOB basis amounted to \$7.1 - 7.2 thousand million, 3.4% up on 1975, while imports calculated on a CIF basis totalled between \$6 and 6.2 thousand million, 19.20% less than in the previous year

no difficulty in securing longer-term loans on the normal terms of the international market.

41. However, China would reject any clause which it felt represented a threat to its full independence. For this reason the Chinese authorities seem more and more interested in barter agreements, capital goods or turnkey factories being paid for in raw or semi-processed materials produced by these installations or exploited through them. A number of projects in this connection have been planned with various Western countries (a consortium of German firms might supply coal-mining equipment in exchange for the annual delivery of 10 million tonnes of coal). Because of the internal political difficulties in 1976 these projects have not yet been implemented.

VI. WHAT TYPE OF AGREEMENT CAN THE COMMUNITY CONCLUDE WITH THE PEOPLE'S REPUBLIC OF CHINA?

42. In view of the foregoing, what is likely to be the scope and size of the agreement which the People's Republic of China has said it is ready to conclude with the Community?

We have already explained why such an agreement is necessary: since 1 January 1973 the Community has sole authority to administer the commercial policy of the Member States.

43. The outline agreement forwarded by the Community to the latter countries provides for a number of higher quotas and the final elimination of others. In return, these countries would undertake to exercise restraint on all articles no longer covered by quotas.

The general agreement also provides for the granting of most-favoured-nation treatment. Chinese imports already benefit de facto from this, so that a trade agreement with China would turn the factual situation into a legal arrangement.

44. Pending the negotiation of a Community trade agreement, and in order to ensure continuity of trade, the Council adopted on 27 March 1975 autonomous import arrangements for China as well as other state-trading countries. This decision lays down the quotas to be opened in 1975 by the Member States for products subject to quantitative restrictions, and the rules and procedures for any amendments to the abovementioned import arrangements.

Notable progress has recently been made in connection with the liberalization of trade. Of the 1098 headings in the Common Customs Tariff, the Community's liberalization list in respect of goods from the People's Republic of China comprises 857 headings (99 of which are partial).

45. These quotas are renewed annually. At the beginning of October 1976 the Council decided to renew for 1977 the 1976 quotas, this date having the advantage of enabling Community importers and Chinese exporters to acquaint themselves with trade possibilities at the time of the Canton Fair (15 October - 15 November). Since then - on 1 January 1977 - the Community decided to slightly increase the quotas for non-liberalized imports from the state-trading countries, by 5% (compared with 76) for quotas expressed in terms of value, and by 3% for those fixed in terms of volume. On that occasion the quotas applicable to China were increased, on average, by a higher percentage than that fixed for other sources.

46. Is it possible, in the future agreement to be concluded with China, to go beyond the conventional customs management provisions laid down in the draft outline agreement and to draw up more specific cooperation provisions between the two parties?

47. It seems to us that, although extensive cooperation between the Community and the People's Republic of China appears desirable, care must be taken to avoid over-hasty approaches to a country that puts its desire for independence above all else and remains deeply marked by its cooperation experiences with other countries. To quote a common saying: 'You don't sell to the Chinese, its the Chinese who buy'. This continues to hold good, whatever ruling team is in power in Peking. As we have seen, the tendency of the leaders now in power seems to be towards more intensive recourse to foreign technology and, more generally, a greater openness to the outside world. However, it should not be forgotten that Chinese policy is notorious for its many unexpected developments and surprises!

48. In its relations with the People's Republic of China the Community possesses distinct advantages over its competitors: for political and military reasons China wholeheartedly supports the regrouping of European nations while mistrusting American power and not wishing to develop its relations with Japan any further. China has on several occasions expressed an interest in the achievements of European technology and has clearly indicated that, quality and price being equal, its preference would go to European products.

49. It seems to us that, under these circumstances, the agreement to be concluded with China should be used not only to settle the technical trade and customs problems contained in the outline agreement, but also to provide a framework for a progressive and pragmatic development of economic relations between the parties. To this end, it would seem advisable to set up a highly flexible structure for contacts between the signatories so that, when the need is felt, a regular assessment can be made of the working of the agreement and the prospects for the cooperation of European technology in the development of China's natural wealth.

For this purpose, the agreement could be based on the accord concluded by the Community with Canada in 1976 which gives a joint cooperation committee wide powers to facilitate economic and trade cooperation between the parties.

50. It should not be forgotten that China is an age-old civilization which is in no hurry since it believes, rightly or wrongly, that time is on its side. The delays in starting the negotiations on a trade agreement with the Community should therefore cause no surprise, let alone disquiet. In recent years the People's Republic of China has clearly shown its interest in the unification of a Europe which is not progressing as fast as it would like.

Consequently, the European Parliament, conscious of the importance of intensifying the Community's relations with the world's most populous country, whose human and natural resources are immeasurable, and which will play an increasing role in the affairs of the last quarter of the century, hopes that the conditions will soon be right for the signature of a general agreement between the Community and the People's Republic of China and that, to this end, the Commission will shortly forward to the Council precise proposals for the opening of official negotiations with that country.

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