

BACKGROUND NOTE

EUROPEAN COMMUNITY - CHINA RELATIONS

EC Commission Vice-President Wilhelm HAFERKAMP recently visited the People's Republic of China. This visit marks the inauguration of a new phase of EC-China cooperation with the holding of the first session of ministerial level consultations. Mr. Haferkamp met Mrs CHEN Muhua, Minister of Trade, and other high ranking personalities. These ministerial level talks are planned to become a regular feature of EC-China relations.

Among the topics on the agenda were an exchange of views of the economic situation in the world and the development of bilateral relations between the European Community and China.

These consultations took place at an important moment in EC-China relations. Negotiations have just been concluded for a new economic and commercial cooperation agreement which will replace the 1978 Trade Agreement.

The new agreement provides a solid legal framework within which ongoing economic cooperation can be strengthened. The agreement is open-ended in nature not excluding, a priori, any form of economic cooperation within the competence of the Community. Among the sectors covered, at an initial stage, by the new agreement are industry, mining, agriculture, science and technology, energy, transport and communications, protection of the environment and cooperation in third countries. The cooperation activities envisaged include joint ventures, exchanges of economic information, contacts between economic operators, seminars, technical assistance and investment promotion.

The Community declares its readiness to continue, in the framework of its development aid programme, its actions promoting the economic development of China and it confirms its willingness to examine the possibility of increasing and diversifying these actions.

The agreement will have a duration of 5 years with automatic annual extension after the initial period.

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Development of the EC-China Relationship

Exchanges of visits between the two parties have been numerous in recent years. President Gaston E. Thorn visited China in 1983 as did former President Roy Jenkins in 1979 and Vice-Presidents Sir Christopher Soames, Wilhelm Haferkamp and Etienne Davignon in 1975, 1978 and 1982. In June 1984, the Prime Minister of China, Mr. Zhao Ziyang, made an official visit to the Commission as did Vice-Premier Gu Mu on the occasion of the EC-China Business Week in 1981 and Vice-Premier Wang Renzhong also in 1981. The Minister of Trade Mrs. Chen Muhua visited the Commission in 1983. Formal diplomatic relations between China and the European Economic Community were established in 1975 with the accreditation of an ambassador to the EEC, recently extended to the European Coal and Steel Community and Euratom.

The Commission and the Chinese authorities have agreed to hold regular ministerial level meetings to discuss all aspects of EC-China relations. Moreover, consultations take place between the Chinese authorities and the Ten at ministerial level in the framework of Political Cooperation within the Community.

EC-China Trade Agreement

Trade relations between China and the EC Member States were regulated by bilateral agreements between China and the EC Member States till the end of 1974. At this point the Community took over responsibility for all trade relations with state-trading countries and in November 1974 the Commission sent a memorandum to the People's Republic of China (as also to other state-trading countries) indicating its readiness to conclude a trade agreement. Following the positive Chinese reaction, exploratory talks began in July 1975 and a single formal negotiating session took place from 30 January to 3 February 1978. The agreement was signed in Brussels on 3 April 1978, and came into force on 1 June of the same year.

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

The two parties will apply Most Favoured Nation treatment as far as tariffs are concerned.

An equilibrium clause makes provision for both parties to contribute (each according to its means) towards achieving balance in their trade. In the event of obvious imbalance the Joint Committee, set up by the Agreement and which normally meets once a year, is to study ways of remedying the situation.

China undertakes to consider Community imports in a favourable light and the Community to increasingly liberalise imports of Chinese origin. The import rules for Chinese products which the Community subsequently introduced are indeed more favourable than the common rules for state-trading countries.

Provisions are aimed at promoting visits by individuals, groups and delegations from the economic, commercial and industrial spheres, facilitating exchanges and contacts and encouraging the organisation of fairs and exhibitions.

Generalised Preferences

China was included in the list of countries eligible for the Community's Generalised Preference Scheme for the first time in 1980. The range of products for which China obtained tariff free entry under the Scheme has gradually been increased.

Textiles

In the first half of 1979 the Community and China negotiated a textile agreement which was valid till the end of 1983. It has subsequently been extended for a further 5 years.

This agreement defines a framework for imports into the Community of Chinese textiles and clothing. In return for increased access to the Community market the Chinese authorities undertake to maintain the present balance of trading in textiles between the two parties, to supply minimum guaranteed quantities of certain raw materials necessary for the European processing industry (pure silk, angora, cashmir) and to respect a price clause.

In a protocol to the agreement, initialed in Beijing in March 1984 the Chinese authorities agreed to continue their policy of export-restraint towards the Community for a further 5 years. The new Protocol also makes provisions for the application of the anti-surge and fraud clauses, similar to those negotiated with the Community's other textile trading partners and the alignment of the basket exist system (by which new quantitative restrictions can be established) on the model used in other agreements.

Commercial Cooperation

In April 1981, the Commission organised the EEC-China Business Week in Brussels. This meeting brought together more than 800 representatives of European and Chinese economic life. As a follow-up to the Business Week the Commission organised a seminar in July 1982 on the reform of China's foreign trade system, with the participation of Chinese officials, in July 1982.

The Commission has since financed the visit of Chinese buyers' missions to Europe and has sent consultants to China to help evaluate future Chinese needs for modernising factories.

In March 1984 the Commission agreed to allocate 3.5 MECU from its programme of assistance for non-associated developing countries to a management training project in China. The Community will provide aid for the launching of a Master of Business Administration programme in Beijing which will be based on project work in China and the opportunity for successful students to do further on the job training in Europe.

Scientific and Technical Cooperation

The Community and China have cooperated in the energy field since 1981. This has consisted mainly of aid to China in training of officials in energy management and various visits in both directions by experts to study specific problems in this area.

Trade Structure and Development

Trade between the European Community and China has expanded greatly in the last ten years. The Community's imports have gone up from 668 million ECU in 1975 to 2665 million in 1983. While EC imports have shown a steady increase, the rise in EC exports has been very variable over the years, reflecting China's adjustment policy. A very promising sign for Community exporters has been the sharp increase in Chinese imports from the EC in 1983 while China exports to the EC have remained relatively stable. The Community's main imports from China are textiles and clothing, textile fibres and agricultural products. The main exports to China are machinery, iron and steel and chemicals.

Trade between China and the EEC

	(Million ECU) (*)						
	1975	1977	1979	1980	1981	1982	1983
EC Imports	668	865	1320	1907	2284	2334	2665
EC Exports	1154	801	2104	1734	1894	2045	2755
Balance	486	-64	784	-173	-390	-289	90

Source: EUROSTAT

(*) The exchange rate ECU/dollar varies daily as the various EC currencies, which make up the ECU, vary against the dollar. One ECU was worth CAD\$ 1.2 in 1973, CAD\$ 1.6 in 1979, CAD\$ 1.8 in 1980, CAD\$ 1.3 in 1981, CAD\$ 1.2 in 1982 and CAD\$ 1.1 in 1983.

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