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INFORMATION

EXTERNAL RELATIONS

THE PEOPLE'S REPUBLIC OF CHINA AND THE EUROPEAN COMMUNITY

106/75

The Presidents of the Council and the Commission of the European Communities recently received His Excellency Li Lien-pi, who handed in his letters of accreditation as head of the Mission to the E.E.C. of the People's Republic of China. The note below contains an outline of the main development of relations between the EEC and China prior to this event.

China and the members of the European Community

In recent years relations between China and the countries of Western Europe have shown a marked improvement. All the Nine States of the European Community have officially recognised the People's Republic of China; and since 1971 the many visits to the country by leading european personalities are a clear sign of the progress secured in the relations between Europe and China. Between July 1972 and April 1975 visits to Pekin have been made by the Foreign Ministers of eight of the nine EEC member countries; and in September (11-17) 1973, Georges POMPIDOU, then President of the French Republic, was the first head of an EEC member country to be received in China.

During the same period a number of leading chinese personalities also visited Community countries. Among these may be mentioned the visit to France and Great Britain in June 1973 of the Foreign Affairs Finister, Mr. Chi Peng-Fei and of his successor Mr. Chiao Kuan-Hua to France and Federal Germany in October 1974. The first Deputy Prime Minister, Mr. Teng Hsiao-Ping, was received in France in May (12-17) 1975.

On several occasions during these mutual visits the chinese leaders reiterated their country's support for the process of west european integration.

China and the European Community

Chinese authorities have always criticised the European Community as a capitalist organisation; but since the sixties (e.g. in an article in Hong Qi dated March 16 1963) they have also been emphasising the importance of the Community as a factor of strength in the independence of Western Europe from the great powers. Since 1964 Pekin diplomacy has divided the world not into two (communist and capitalist) blocs, but into four zones. These consist first, of the revolutionary countries and secondly, of the imperialist (USA and USSR) blocs; and between them the first intermediate zone, comprising the peoples of the Third World, and the second intermediate zone made up of industrial capitalist nations seeking their own independence.

The chinese press has paid increasingly close attention to the development of the European Community in recent years. In 1971 and 1972 several articles published by the New China Agency welcomed the enlargement of the EEC as another defence measure by the countries of Western Europe against the "hegemony of the super powers". The chinese press also commented favourably on the Paris Summit and the 1972 agreements with the EFTA countries.

More recently the chinese newspapers have been commenting on Community policies towards developing countries. They approved of the Community desire to enter into discussions with oil-producing countries and attempting to avoid any kind of confrontation between producers and consumers. Extremely favourable comments appeared regarding the Lomé Convention, which is represented not only as a victory for the Third World in its struggle to overthrow the former international economic order, but also as a new step by the Nine towards the improvement by negotiation of their economic relations with the countries of the Third World.

China's official interest in the Community has been reflected in her administration and diplomacy. At the end of 1972 the Foreign Affairs Ministry set up a separate division to deal with european affairs, which had previously been handled in a department which was also concerned with Oceania and America. As soon as a chinese embassy had been accredited to the Kingdom of Belgium, chinese diplomats began making informal contact with Commission officials to ascertain how the Community functioned and to appraise its internal and external development. On October 11 1973 the New China Press Agency opened its office in Brussels and two correspondents were thereupon accredited to the Commission.

In May 1972 the chinese Premier, Mr. Chou En-Lai, granted an interview to a special correspondent of Agence France Presse, mentioning the possibility that a diplomatic mission might be accredited to the Community. The dutch Foreign Affairs Minster, Mr. Van der Stoel, when he came back from Pekin on January 6 1975, definitely announced that the Pekin government desired permanent contact with the Community. In April 1975, Mr. Chou En-Lai told

M. Tindemans, the belgian Premier, who was making a 10-day visit to China, that his country contemplated appointing an Ambassador to the Community.

The European Community itself has taken steps to preserve the continuity of existing trade links with China. It was part of the process of setting up a common commercial policy for the Community that the bilateral trade agreements between the member countries and China should expire at the end of 1974; and the Community has now submitted to the chinese government — as it has to those of the other State-trading countries — an outline proposal for an agreement to indicate the main lines which could be followed in negotiating a possible trade agreement between China and the Community. This was sent to Pekin in November 1974 through the chinese Embassy in Brussels. After this, at the beginning of 1975, the chinese Embassy transmitted to Sir Christopher Soames (Vice-President of the Commission) an invitation to visit China from the Chinese People's Institute for International Relations.

Sir Christopher Soames' talks in Pekin

Sir Christopher Soames made his visit to China on May 4-11 1975. He was accompanied by senior Commission officials.

During his visit he met the Prime Minister, Mr. Chou En-Lai and the Deputy Premier Mr. Li Hsien-Nien and also had discussions with Mr. Chiao Kuan-Hua, Minister for Foreign Affairs. At a dinner given by Mr. Chiao on May 6, Sir Christopher had talks with Mr. Li Chiang, Minister for External Trade and Mr. Yao I-lin, Deputy Minister for Foreign Affairs with whom he had further talks on the following day. After this discussions were held between members of the Commission delegation and senior officials in the chinese Foreign Affairs Ministry.

The exchanges of views with the chinese government authorities were very wide in scope and extremely frank. The subjects discussed included a number of international questions, such as relations between industrial and developing countries; energy, raw materials and foodstuffs; development prospects for the European Community; and the future relations of the EEC with other parts of the world. Alike in his public statements and in conversation with his

chinese hosts, Sir Christopher had the opportunity of explaining the development of the Community and describing the main aspects of its policy, especially in regard to the developing world. The Chinese, too, gave a further account of their own ideas, which are already quite well known and include support for closer european unity. The two parties agreed on the need for future discussions on international economic problems to be handled in a spirit of discussion and cooperation rather than of confrontation and rivalry.

The discussions also had a bearing on future relations between China and the European Community. They brought out two important points. The first was, that the chinese Foreign Affairs Minister told Sir Christopher that his government had now decided to enter into official relations with the Community as such, and to appoint an Ambassador to it. Sir Christopher welcomed this decision on behalf of the Community, adding that it was a very constructive step towards closer and more fruitful future relationships between China and the Community.

Secondly, Sir Christopher confirmed the implications of the outline agreement by saying that the Community was willing to negotiate a suitable trade agreement with China to replace the previous bilateral agreements with member countries which had now expired. The chinese ministers announced their decision to examine this proposal in a favourable light; and before the visit ended it was possible to make a start with a preliminary exchange of views — both at the ministerial and the official level — on various aspects of the agreement. It was agreed that the next stage in the exploratory talks should take place in Brussels. In conformity with the usual Community practice, it is only after these exploratory talks that the Commission will draft precise proposals to Council regarding the official opening of negotiations.

Both at Pekin and in the European Parliament (June 18 1975) Sir Christopher expressed the Commission's satisfaction at the substantial progress made possible by his visit; and this satisfaction was echoed in the debate by most of the parliamentary political groups. The decision of China, after mature reflexion, to accredit an Ambassador to the Community, sets relations between the EEC and China upon a normal basis in line with the similar action taken by a hundred or more countries in different parts of the world.

This will certainly lead, Sir Christopher said, to more extensive understanding between the two parties. The accreditation and acceptance of an Ambassador will make it possible to develop frequent and natural contacts with all the Community institutions. This will make for deeper knowledge and understanding of the respective standpoints and interests of the People's Republic of China and the Community.

At the press conference which followed the meeting of the European Council on July 17 1975, the President in Office, Signore Moro, stated that the Council was gratified by the decision of China to establish official relations with the Community, thus opening the way to closer relationships between China and Europe.

Trade between China and the Community

Consistent growth: The trade between the Community and China has shown a regular expansion in recent years. The jump in 1973 was due to the inflation, but the 1974 figures show a more normal growth.

	Trade between EEC and China (million units of account)			Increase on previous year (percent)		
	1972	1973	1974	1973	1974	
Imports	432.5	535.0	689.0	23.8	28.7	
Exports	381.9	597.0	772.0	56.0	29.3	
Total	814.4	1,13270	1,461.0	39.0	29.0	
Balance	-50.6	+62.0	+83.0			

(Source: Statistical Office of the European Communities)

The share of China in the total external trade of the Community amounted in 1973 to only 0.8 %.

The share of the Community in China's trade has been growing smaller, amounting to 14.2 % in 1972, followed by 12.3 % in 1973 and about 11 % in 1974. On the 1973 figures the Community share of 12.3 % ranks after Japan (22.8 %) and Hong Kong (13.1 %), but before the United States (8.6 %) and the Soviet Union (2.7 %).

Structure of the trade: About 90 % of the Community exports to China consist of industrial plant items, transport materials, miscellaneous manufactures and chemicals.

Among the chinese exports to the Community, food products and raw materials account for about half the total, but the proportion of manufactured goods has been increasing.

The composition of the trade in 1973 showed various changes compared with the previous year. The Community exports of chemicals rose from 11.5 to 15.6% of the total, while those of machinery and equipment came down from 31.1 to 25.4%.

Among the exports from China the proportion accounted for by raw materials fell from 36.2 to 21.4 %, while the exports under the manufactured goods headings rose from 30.6 to 44.9 %.

The comparative importance of the different categories in 1972 and 1973 was as follows:

	Community exports to China (percent)		Community imports from China (percent)	
	1972	1973	1972	1973
Food products		0.06	22.7	26.8
Drink and tobacco Raw materials (excl.	-	0.02	1.8	0.5
mineral fuels)	2.3	2.6	36.2	21.4
Mineral fuels, lubricants and connected products	· -	<u>-</u>	0.3	0.3
Oils, fats and greases				
(animal or vegetable)	0.4	0.3	1.1	0.7
Chemicals Manufactured goods class-	11.5	15.6	7.0	5.2
ified by material used	45.1	50.3	21.9	33.4
Machinery and transport				
material.	31.1	25.4	0.3	0.3
Miscellaneous manufactures Goods and transactions not	1.3	1.9	8.6	5.6
classified by product	0.3	3.8	0.1	5.9
Total	100.0	100.0	100.0	100.0

China's foreign trade policy: Unlike other State-trading countries, China does not resort to long-term credits in the attempt to cover her important requirements of investment goods. The volume of the trade is determined by the growth in China's exporting capacity.

The chinese authorities have confirmed the principle of refusing foreign credits. At the end of 1972, an exception was introduced by the use of the delayed payments formula, and this became general in 1973 and 1974 in the purchase of a large number of complete plant units.

Community rules applying to trade with China:

To ensure continuity in the trade pending negotiation of a Community trade agreement, the Council adopted in March 1975 an autonomous system of imports applying to China and to other State-trading countries. This determines the quotas and other import facilities to be opened in 1975 by the individual member countries for products subject to quantity restrictions; and it lays down the rules and procedures for the making of any desired changes in the import arrangements.

Considerable progress has lately been made in liberalising the trade.

Out of 1,098 headings in the common customs tariff of the EEC, the Community liberation list, as applied to China, now includes 857 headings (including 99 partial derestrictions).

As regards the duties chargeable, the Community is anxious to avoid compromise to the expansion in trade. It accordingly adheres to the terms of its statement made on November 12 1974, applying the most-favoured-nation clause subject to the usual exceptions.

APPENDIX

The Chinese Economy

In area the People's Republic of China is the third largest country in the world, covering 9.6 million sq.km, which is surpassed only by USSR and Canada. Its population is between 800 and 900 million, and is thus bigger than any other country in the world. The present annual growth-rate is 2 % p.a., so that China expects to have a population of a billion within about 10 years.

Estimates of the GNP and the national income in recent years have been approximately as follows:

(billion dollars)	1970	1971	1972	1973	1974
GNP	120	132	139	150	157
National Income	95 - 90	95 – 100	103 – 107	110 - 115	117 - 120

The GNP in 1974 compared as follows with the EEC, the USA and the USSR: (billion dollars)

China	157
EEC	890
USA	1,220
USSR	620

Those in charge of the destinies of China assign an absolute priority to <u>agriculture</u>. The principle they follow is that agriculture should be taken as the foundation and industry as the principal side-factor.

China is still a developing country and 80 % of the population consists of country-dwellers. It has adopted a development strategy primarily aimed at providing early cover for the vital requirements of the population. The campaigns of the chinese authorities are therefore primarily directed at increasing agricultural production and to a lesser extent to the

setting up of light industry. The results of this policy are, for the most part, encouraging; and on the agricultural side, China can proudly boast that she has eliminated famine.

Agricultural production per inhabitant is estimated at about 300 kg of cereals. Since 1960 the annual imports of grain have been 6 million tons (in 1973 raised to 9 million tons).

The chinese production in 1973 included 250 million tons of cereals, 4.7 million tons of sugar and 12 million tons of meat. According to official chinese sources 1974 was a good crop year for cereals, with a total of 260 million tons. On the <u>industrial</u> side light industry has priority over heavy industry, even though the biggest individual investments have been in heavy industry.

The provincial systems are organised around a five-industry nucleus -- steel, coal, cement, chemical fertilizers and agricultural equipment. The experiment is still in its early stages. The accent is put on keeping the balance between the different regions. Chinese industry has shown a certain pragmatism in its development. Material stimulants of a collective character are sometimes put into operation.

In 1973 China produced 100 billion kWh of electric energy, 25 million tons of steel, 360 million tons of coal and 24 million tons of cement. A fact to be noted is China's rapid expansion as an oil producer. In 1963 the production of crude oil was only 6.5 million tons, but 10 years later it had reached 50 million tons. China was an importer of oil in the fifties and sixties, but in 1970 she had become an exporter.

The economic growth-rate in 1974 was around 8 %. The expansion rates in industry tend to run ahead of those in agriculture.

It is estimated that the 1974 production of oil will have been between 65 and 75 million tons of crude.

Prospects:

The current five-year development plan came into operation in 1971; and since then the total economic growth has been 41 %. Indications available regarding the plan targets suggest that, at the end of the five years, the expected growth of 50 % will have been secured.

The next five-year plan, coming into operation in January 1976, is aimed at an industrial growth-rate of 15 % p.a., so that production will have doubled by 1980. Agriculture is still the central preoccupation of the chinese authorities. The national agricultural development programme, which was to have been completed by 1967, will have been surpassed by 1980. It seems that after 1975 the accent will be on making cultivation more intensive, which is likely to result in a bigger demand for fertilisers and agricultural machinery.