

China--EU: the Economic Complementarity in the Next Century

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December 1996

Paper prepared for the Fifth Biennial International
Conference European Community Study Association
May 1997, Seattle, Washington

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China--EU: the Economic Complementarity in the Next Century

I. Introduction

In the world surroundings, all nations are interdependent to some degree. This is because every nation takes the consideration of the economic interest as the first and foremost important factor since the collapse of the East-West confrontation. Thus the international relations of economic interdependence has been deepened as well as the competition in world market continuously strengthened in a multipolar world.

In this process, the China has terminated a long time isolation both in politics and economy. Chinese economic reform launched in late 1970s, since then China opened widely up to the world. After 15 years of economic reform, China's economy has already become one of the largest in the world. According to the International Monetary Fund and World Bank's statistics, on the basis of purchasing power parities, the Chinese economy is similar in size to the Japan and second to the USA. The China's Gross National Products(GNP) have grown 12-13% in the last three years, the industrial output and investment growing at over 20% for several years. China's total trade rose from \$20 billion to \$237 billion between 1979 and 1994, growing twice as fast as output.

China's sustained economic development and social change have caught attentions from all over the world. China's economy has developed rapidly toward a primary period of socialist market economy. For the furthering development, China needs a stable economic, political and social environment internally, and seeks more involvement in the regional economic integration and world economic integration externally:

1). China actively participated the regional fora--Asia-Pacific Economic Cooperation(APEC) in November 1991 the Hong Kong and Taiwan, sharing responsibility and role to coordinate and promote the regional economic growth and development.

2). China positively negotiated the membership of the World Trade Organization, for China it would guarantee that its goods and services have open access to export markets around the world. China decided to increase the imports in 1996, which was a big step to open the Chinese potential market widely to the world.¹

On the other side of this process, the rise of China economy represents enormous opportunities and challenges to the international world system. China and Europe, being on the two extremes of the Eurasian Continent, are two major economic and political powers in the multipolar international surroundings, playing ever more important roles in the world economy and political affairs.

European Community and China have a diplomatic relations for 20 years, and 10 years of bilateral trade and economic cooperation ties. The economic relationship developed smoothly during the 1980s and it was interrupted by the Tiananmen Square event on June 6, 1989, with the EEC economic sanctions on China like all other industrial nations. It was in 1992 the "South Tour" by Deng Xiao Ping confirming the re-opening door policy that enabled China presenting a new imagine in the international arena.²

Then in 1994, the Essen European Council endorsed a *New Asia Strategy*, aimed at to strengthen the European economic presence in Asia in cooperation with the member states and private sector. Under this spirit, European Committee developed a *Long term Policy for Chain-Europe Relation* in May 7, 1995.

¹ In November, 1995, Chinese President Jiang Ze Min made a speech at the summit meeting of Asia-Pacific Economic Cooperation Forum in Osaka, Japan.

² In 1992, Mr. Deng Xiao Ping visited the special economic zones Southern China and arrived in Shanghai to make a speech of opening up the Pudong development zone.

The new EU policy toward China includes 4 parts: to promote the political dialogue, to develop the trade and economic relation, to strengthen the cooperation in all sides, to set up a new imagine in China.

This report could be considered as a new turning point of the relationship between EU-China. With the EU's proper positive evaluation on China's importance for the Europe based on two aspects of global economic stability, and competitiveness of the world's most dynamic markets, Europe's relations with China would be bound to be a cornerstone in Europe's external relation, both with Asia and globally.³ The potential economic and trade cooperation between China--EU is full of brilliant prospects. The economic interdependence, complementarity between China-EU will be strengthened in the next century.

This paper is divided into 5 sections. First is an introduction; secondly reviewing the historical economic relation between China--EU; then approaching the results of Chinese economic reform and its important strategy in the international affairs; fourthly, forecasting the economic complementarity development prosperity of China and the EU in the next century; fifth section is a conclusion.

I used the methodology in the paper: A). to review the books, official documents and magazines listed in the bibliography; B). to use the economic and trade statistics to support my analysis; C). to draw my research experience to reach the logical conclusion.

II. Historical Economic Relation

Early in the 1970's, China was the first socialist country in favor of the process of European Economic Integration. Relations between China and the member states of the European Economic Community (EEC) were normalized during that time. Between July 1972 and April 1975, eight of nine member states of the EEC visited Beijing, Mr. George Pompidou, the President of French Republic, was the first head of the EEC member country to be received in China. During the same time, Chinese Foreign Affairs Minister Mr. Chi Peng-Fei visited France and Britain in June 1973, and Mr. Chiao Kuan-Hua visited France and Germany in October 1974. The first Deputy Prime Minister Mr. Deng Xiao-Ping visited France in May 1975.

Political mutual recognition brought a rapid development of trade based on bilateral agreements between China and the member states of the EEC. During the end of transitory period, the EEC made a decision that the member states of the EEC couldn't sign the bilateral commercial agreements with the third country, only the EEC was responsible for the Commune Commercial Policy concerning the commune tariff modification, the export policy and economic, commercial and cooperative agreements. All the bilateral commercial agreements between the member states and the third countries would expire at the end of 1972. The EEC sent the agreement schedules to the representatives of the third countries in Brussels or Geneva with a memorandum declaring to open new negotiations to substitute the commune commercial agreements for the bilateral commercial agreements with the member states. The Chinese Government was the first country who replied the EEC with the invitation of vice-president of Commission Mr. Christopher Soames to visit Beijing in May 1975. At the same time, the Chinese Ministry of Foreign Affairs announced a decision to establish the diplomatic relationship with the EEC.⁴

Since China and the EEC have established their diplomatic relations in 1975, remarkable progresses have been made in their two-way trade and economic cooperation. In January 1976, the Chinese Government appointed Ambassador to the Community and indicated that they were

³ P-1, Communication from the Commission of the European Communities, "A Long Term Policy for China-Europe Relation", COM (95) 279 Final

⁴ See P-3, Edoardo Martino, "Gli Accordi di Cooperation tra la CEE e la Repubblica Popolare Cinese" *Annali Istituto di Studi Europei 'Alcide De Gasperi'*

interested in opening negotiations toward a trade agreement. The broad evolution of China and the EC's economic relations began in 1978, after signing several accords on both sides.

----The first trade agreement between the EEC--China was signed in Brussels on 3 April 1987, which was a non-preferential agreement for a period of five years.

----The first textile agreement between the EEC--China was signed on 18 July 1979.

----The Trade and Economic Co-operation Agreement Between the EEC--China was assigned in Brussels on 21 May 1985 replacing the Trade agreement of 1978.

----The second textile agreement was signed on March 1984 in replacement of the first on of 1979.

After 1975, China had an important diplomatic office presented in Brussels and the EEC set up representatives in Beijing. Also the China-EEC Joint Committee was the most institutionalized component of the bilateral interaction, though an annual joint meeting to undertake several economic activities, such as organizing numbers of joint seminars, discussing the economic and technical problems raising up among mutual economic relations, promoting the training agreements of the young professionals and the mutual high-official visits. These active interactions offered good chances to the mutual understanding and finally assured a smooth operation of the trade and economic agreements in resulting of the rapid development of the economic relations between China and the EEC in the 1980s. Based on a very lower level, the following two tables could be clear to demonstrate the rapid and health increase between the bilateral trade and economic relations in this period.

Table 1. China's Foreign Trade with the EEC

Year	Trade Volumes (ECU million)		Percentage (%)	
	1975	1989	1975	1989
Import	696	9149	0.52	2.05
Export	1173	6396	0.99	1.54

Sources from EUROSTAT: *Foreign Trade Statistic Yearbook*, 1993

Table 2. EEC's Foreign Trade with China

Year	Trade Volumes (ECU million)		Percentage (%)	
	1975	1989	1975	1989
Import	1596	9125	24.24	15.43
Export	770	4880	13.28	9.22

Sources from EUROSTAT: *Foreign Trade Statistic Yearbook*, 1993

In view of the above tables, it is worth to mention that the EEC enjoyed a positive trade balance between 1983 to 1987. The bilateral trade and economic relation between China, with rich natural resources and low-cost labors, and the EEC, the industrialized countries with advanced technology have more positive economic complementarity in trade structures and sectors, and less trade conflicts like that of China-USA. For example, the Chinese exports to the EEC were main concentrated in sectors like textile and clothing, toys, leather goods and footwear,

while the EEC exports to China were machinery, both mechanical and electrical, transport equipment and the nuclear reactors.⁵

Due to the June 4 1989's Tiananmen event, the EEC, like other industrial countries, implemented economic sanctions on China and the bilateral economic and trade relations has been blocked. Two parts opened the new negotiations in 1992 to normalize and to sign a new bilateral trade agreement. In Feb. 1994, the China-EC Joint Committee hold a meeting in Beijing, reviewing the evolution of bilateral economic relation, discussing the problems existing in the agriculture, finance service, the intellectual proprietary, as well as continuing to persist the principle of non-discrimination, the anti-dumping policy in the bilateral economic and commercial relation.

With the mutual economic and trade development, EU-China trade total two-way trade exceeding 30 billion ECU in 1993, and reaching 35 billion ECU in 1994. But the EU's exports haven't kept pace with imports, the EEC trade deficit began in 1988, and grown rapidly in the past years. The statistics for 1994 indicated that China's bilateral trade surplus with the European Union (EU) exceeded 10 billion ECU. The trade deficit caused by one reason is that some of Chinese industrial sectors are formally and informally protected by the national market; and other reason is that Chinese trade structures and regulations not well-established according the international free and fair trade rules.

EU's trade deficit with China is less than that of US; EU share in total imports grew from 11% to 15 % in the first half of this decade, a better performance than the US(12%); the EU market share in China is higher than that enjoyed by the EU in other parts of the Asian region. In order to promote the EU exports to China, it is most urgent to promote the negotiation on China World Trade Organization (WTO) accession, and to help China reforming its economic and trade system, rendering it essentially compatible with international trade standards.

Table 3. EEC's Foreign Trade with China

	Trade Volumes (ECU million)						
Year	1988	1989	1990	1991	1992	1993	1994
Import	7539	9148	10587	14972	16783	19538	16783
Export	5801	6372	5271	5605	6852	11302	6852
Balance	-1204	-2276	-5316	-9367	-9931	-8236	-9931

Sources from EUROSTAT 1994

III. Chinese Economic Reform Achievements

Substantial success has been achieved in Chinese economic development since the implementation of reform policy and opening up to the world in 1979. Here I examine the three important economic aspects in Chinese economic achievements:

1). The increase of Gross Domestic Products. In 1995, China's Gross Domestic Products (GDP) totaled 5,773.4 billion yuan, an 10.2% increase over the previous year calculated in constant price, 4.9 times than

⁵ See P-24, 'Trade by Product Category' Communication from the Commission of the European Communities, "A Long Term Policy for China-Europe Relation", COM (95) 279 Final

that of 1978.⁶ China became the rapid economic developed country and the most dynamic increased market in the world.

2). The development of foreign trade. China had established economic and trade relations with 227 countries and region in the world. In 1995, China's foreign trade totaled US\$ 280.9 billion (US\$148.8 billion in exports and US\$ 132.1 billion in imports), 13.6 times than that the trade volume in 1978, an increase of 18.7 % over 1993(see the table 4). In 1995, Chinese Government for the first time made public an important plan. By the end of this century, China's total accumulative import volume will reach US\$1,000 billion, equivalent to one seventh of the current global annual trade volume.⁷ This five years plan demonstrates the significant prospects for China's economic construction as well as the nation's tremendous potential market for the world.

Table 4. The Chinese Foreign Trade Volumes (Including Imports & Exports)
(10 billion Yuan (RMB))

Year	1950	1978	1985	1990	1995
Total	11.3	206.4	696.0	1154.4	2808.5
Exports		108.9	422.5	620.9	1487.7
Imports		97.5	273.5	533.5	1320.8

Sources from Book, *China-1990*, Xing Xing Publishing House, Beijing, 1996

3). The introducing of the foreign investments. China absorbs foreign capital in two ways--though foreign loans and director foreign investments. Utilizing foreign capital, China has improved its energy resources, transport and telecommunications facilities and raw material industry and has technically renovated a number of old enterprises. In turn, foreign investors have gained markets and earned profits in China. From 1979 to 1995, China actually used US\$137.6 billion in direct investment. Currently there are 234,000 foreign-invested enterprises operating in China. In 1995, China approved 37,126 foreign investment projects in China, with an agreed capitals of US\$90.288 billion; a total of US\$48.4 billion in foreign capital was actually used in China last year, 11 percent more than the previous year, of which direct foreign investment was US\$37.7 billion.

Since 1980 China has established Special Economic Zones (SEZS) in Shenzhen, Zuhai and Shantou in Guangdong and Xiamen in Fujian. And then designated the entire province of Hainan a special economic zone to better effect reform and opening to the outside world and stimulate economic development. Most of China's five special economic zone are located in southeast China, benefiting from preferential policies and special economic managerial systems intended to facilitate the export orientation. Primarily geared towards exporting processed goods, the SEZS integrate science and industry with trade, offering preferential conditions to foreign investors as the followings;

----foreign investors enjoy more favorable tax rates in the special economic zones than in the inland areas;

----entry and exit procedures for foreign business people have been relaxed to expedite their passage to and from the country;

----the state has increase the parameters of the special economic zones' right to independent economic management.

In 1995, the GDP of these five special economic zones reached 180 billion yuan, and their total import and export volume amounted to US\$ 55 billion, a 3 times increase over 1990 respectively. The Chinese economic development has been pulled forward by two engines: domestic and external marketization. In this

⁶ See P-60, 'Economic Development and Economic Structure Reform', from the book "China----1996", Qing Shi (edit), Xing Xing Publishing House, Beijing, 1996

⁷ See P-88, 'Foreign Economic Relations and Trade', from the book "China----1996", Qing Shi (edit), Xing Xing Publishing House, Beijing, 1996

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process, the term "Greater China", being the large transnational Chinese economic, political and cultural interactions, has created the most dynamic growth in inter-Chinese economic development.⁸

SEZS were created in Guangdong, with clear cultural ties to Hong Kong, and Fujian, the ancient homeland of many Taiwanese. Hong Kong was the first to take advantage of the China's new economic reform policy; to enjoy tax, trade preference and the investment incentives; to share a common language-cantonese, familiar customers; to undertake trade and investment to move briskly in and out of China. Taiwanese traders and investors could not move directly into the China's opening Market till 1987, when the Taiwan trade policy changed and the travel to China was permitted. This allowed Taiwan businessmen pouring into China, their native places to set up Joint-Ventures. These joint-Ventures were mainly that of market -driven, labor-intensive, export and consumer goods-oriented, highly mobile industries of intermediate technology.

It is clear that Greater China are becoming economically interdependent; China relies on investment from the two regions to fuel the double-digit economic growth; the two regions need China's lower cost labor and growing consumer market to keep production and exports. By 1994, Hong Kong and Macao accounted for \$20.2 billion (60 percent) of the \$33.8 billion total actual foreign investment in China, Taiwan with \$ 3.39 billion (10 percent). At the same time, Taiwan and Mainland China trade soured to \$ 16.5 billion (20.1 Percent) in 1994, and was expected to reach \$20 billion in 1995.⁹

The economical ties between Greater China will be continuing to expand in some degree, how about the political ties? Hong Kong and Macao will be transferred the sovereignty to China in 1997 and 1999, which was made clear by the two Joint Declarations signed by China and the United Kingdom and Portugal respectively. Both regions have distinctive characteristics to be respected, and run their own economic and trade policy under the principle of 'one country and two systems'. The unofficial negotiation of the unification between China and Taiwan began in 1993 between the Straits Exchange Foundation from Taiwan and the Association for Relations Across the Taiwan Straits from China. And All Chinese believe an ancient proverb that *Chinese People on both Sides Straits are Blood Brothers*. The unification of Taiwan to China is a historical and political issues. With the simultaneously dynamic economic ties between China-Taiwan, the Chinese people will be expected the eventually unification in the near future.

IV. Economic Complementarity Between China--EU in the 21st Century

4.1 EU's New Strategy Toward Asian Region

The EC has long time to incline to see prior political obligations of the third world countries covered by Lomé Conventions, which has been appreciated by China for the EC's efforts in promoting the dialogue between the North-South relations. By expanding the EC's involvement's in Latin American or the other depressed regional market, they have lost much world trade shares on the Asia-Pacific region.

It was in July 1994, that the Commission of the European Communities published a paper "Toward a New Asia Strategy" with the aim at strengthening the European presence in Asia. The report was based on an important fact that the uprising of Asian region has changed greatly the world economy order and the EU feel under represented, with the dynamic economic development of the region, fear missing out on the boom. The EU's new strategy was a whole policy package rather a single action. Its proposals for implementation by the EU to assert its presence in the Asia-Pacific region with the combinations of the economic emergence of Asia and its impact on the respective trading partners; and the EU's competitive ability with the US and Japan.

⁸ See P-270, George T. Crane, "Greater China: the Ties that Don't Bind", China- Current History, September 1995.

⁹ See P-271, George T. Crane, "Greater China: the Ties that Don't Bind", China- Current History, September 1995.

The EU's interests in Asia cover both political aspects of three topics: the growing military expenditure in East Asia; human rights issues; policies to combat drugs; and economic aspects of three sides: the existing relation including "market opening" in the global economy; the intention on integrating China, India, Vietnam and Pakistan as emerging market economy; and the providing the experiences to help the less developed countries in the region.

The implementation of this new strategy rests very much on the EU's stance and the interests of the member states. The governments of European countries encouraged their firms to emerge in the Asia-Pacific region to do business and the governments have promised to provide as much conveniences as possible on policy and administrative management since 1992. The EU's new strategy could be considered as a "common" foreign policies toward the Asian region using one voice externally. In examining the past relation, I think that there are at least three advantages in the whole cooperation between the EU-Asian region.

Firstly, less obstacles exist in the whole further cooperation between EU-Asian region. In geography, Europe is far distant from the Asian region, there are neither political direct conflicts nor complains caused by the historical world war.

Secondly, there are large spaces for potential cooperation between EU-Asian region. In compared with the US and Japan, the EU has less presence and involvement in the Asian region, and the new package policies will open the prospective cooperation in the Asian region.

Thirdly, the economic structure and complementarity between EU-Asian region dependent that the Asian countries need EU's capitals and technology, in verse, the EU will expand in the exports in the Asian dynamic market. This will promote the ever increasing economic development between two sides.

4.2 EU's Involvement of the Chinese Potential Great Market

EU's new long-term policies toward China based on an interest in a stable and peaceful Asia. China's decision on how to employ its economic and political weight will have an essential on this. In order to encourage the mutual goal of full China participation on the regional and global affairs, EU's new framework for bilateral political dialogue was set up in June 1994. The bilateral dialogue included two aspects:¹⁰

1. Human rights. The importance attached this issue has been raised immediately after the Tiananmen Square events in June 1989, when EU imposed a number of sanctions on China as well as senior European Ministers and Commissioner raised human rights at the time of meeting their Chinese opposite numbers. The EU will pursue the issue of human rights for a dialogue at three levels: to support and to liberalize all areas of Chinese life toward the development of a civil society on the rule of law; to regularly and systematically continue to make a dialogue with China; to encourage the international community United Nations in the dialogue with China. These proposals have been accepted by the EU and China of the Declaration and the Programme of Action of the World Conference on Human Rights of Vienna in June 1993.

The World Conference on Women in Beijing in September 1995 were full efforts to internationalize China with a strong and consistent position on human rights, it is a long-term strategy of engagement. Recently a new dialogue specifically devoted on human rights has been launched at China's suggestion. It created on a biannual meeting between the EU troika and the Chinese government to provide the flow of information as well as the opportunity for the detailed discussion of concrete action. As China continues its policy of opening up to the world, the improvement of human rights will be more important in societies with free flow of trade, investment, and people's ideas.

¹⁰ See P-3, "Political Relation-Engaging China in the International Community", Communication from the Commission of the European Communities, "A Long Term Policy for China-Europe Relation", COM (95) 279 Final

2. Hong Kong and Macao. The historical ties and close relations between EU and both Hong Kong and Macao demonstrated EU's particular interests. The two Joint Declarations signed by China and United Kingdom and Portugal for the transfer of sovereignty to China, Hong Kong in 1997 and Macao in 1999. Both regions are closely related to the EU. Hong Kong is the EU's eleventh trading partners; five member states have bilateral trade with Hong Kong over 2 billion ECU; 40 EU banks and 45 insurance companies licensed in Hong Kong; And some 40,000 EU citizens are resident in Hong Kong.

China has agreed the two regions continue to operate as an independent entity after transfer of sovereignty. The EU will regard both regions as important gateways for the EU to reach other regions of China for the increase of EU's trade and investment in China's market. The most significance is that the free trade and market internationalization established by two regions will serve China as important examples to set up the market economy and join the international community.

As for the economic aspects, the EU-China economy are complementary in the most part. From China's perspective, EU is an ideal partner--a source of good term of trade and long-term Loans that are virtually a form of foreign aid. Furthermore there is little likelihood of the sort of trade dispute and no broader dispute. The disadvantage in Chin-EU trade and economic relations seem very few indeed.¹¹ The furthering economic and trade cooperation between EU-China are full of prospects. There are a broad space for the EU industries and exports' presence and involvement in China dynamic potential market.

The EU direct investment in China is less bright, sharing around 4% in China's total FDI, far lower than its share in other markets. EU's companies are lagging clearly behind than that of the US and Japanese companies. EU(15) companies invested a total of \$2.5 billion in the 1979-1993 period in some 3,000 projects of automobiles, telecommunications, and pharmaceuticals. This presents less than half of the investment of either US or Japanese companies, clearly showing that EU companies less dynamic than their competitors and missing the opportunities in Chinese market for EU's global competitiveness.(see the following tables)

Table 5. Foreign Investment in China

	Projects	Contracts (\$ million)	Used (\$ million)
EU (12)	2,741	6,952	2,442
EU (15)	3,070	7,319	3,549
USA	12,019	14,659	5,237
Japan	7,182	8,935	5,203

Sources from P-25, "EU-China Trade & Investment", Communication from the Commission of the European Communities, "A Long Term Policy for China-Europe Relation" COM (95) 279 Final

Table 6. Foreign Investment in China

	Projects	Contracts (\$ million)	Used (\$ million)
France	547	920	602
UK	616	3,018	578
Germany	569	1,458	527
Italy	467	552	397

Sources from P-25, "EU-China Trade & Investment", Communication from the Commission of the European Communities, "A Long Term Policy for China-Europe Relation" COM (95) 279 Final

¹¹ See P-119, Donald W. Klein, "Japan and Europe in China's Foreign Relation", from book, Samuel S. Kim, "China and the World----Chinese Foreign Relations in the Post-Cold War Era", Westview Press, Inc. 1994 (Third Edition)

The Challenge for Europe 's Future Trade and Investment. To explore possible openings in China's market, it is more important for the EU to help EU companies to make well-informed investment decisions about the opportunities on Chinese market by promoting better the two ways information on investment conditions as well as direct business-to-business contracts. How about to solve the ever increase EU trade deficit 8-10 billion ECU with China? The most importance is to improve the Chinese trade system; to reduce the import licenses or quotas; to eliminate the import regulatory tax; to establish a trade rules and regulations on a open free fair trade. The open the import market to the Europe as well as to the world will also an impact to the Chinese economy into the integration of world economy system. China will make more efforts to perfect its foreign trade system to be near the rules and regulations of the international trade.

The EU set up three key targets for the further EU-China cooperation; human resources development; environment cooperation and scientifically & technological cooperation.

The human resource development between EU-China. The EU entrepreneurs find that their opportunities to expand in China market are held back by the lack of appropriate skills in China. The EU should build on the China-Europe International Business School(CEIBS) in Shanghai in 1994, to bring the best of European expertise in education and training policy-making and business program development to Chinese young professional, to provide also new program of technical and vocational training targeted on the needs by economic entrepreneurs coming from various provinces of China.

The Environmental Challenge Between China--EU. Faced by the rapid developing, China has been recognized by Chinese government in its "Agenda 21" follow up program to the Rio Earth Summit in 1992, with its accompanying list of specific projects leading to sustainable development. In May 1994, a delegation of nine officials from Chinese government visited the European Commission. Since the global nature of many environmental problems has become more evident, the main objective of the visit is to achieve effects and fruitful cooperation in the field of the environment between the EU-China. A key factor in this proceed is the way in which environmental concerns are integrated in the planning and execution of economic development policy. Commissioner Mr. Paleokrassas said that this visit marks a further step in what is expected to become a broader and deeper form of environmental co-operation between two sides.¹²

In EU's *A long Term Policy for China-Europe Relation*, it stated that "the critical importance is the need to integrate environmental considerations into other areas of policy, such as economic planning. A new working group has been set up to discuss how the EU can best help Chinese efforts. A contribution must be defined clearly before it is launched and must best use of ECU expertise in environmental policy-making and technology, including clean energy technology".

Scientific & Technological Cooperation Between China--EU. Scientific & Technological cooperation with China, which began in 1984, should be pursued under the Community's Fourth Framework Program(1994-1998) at the aim of strengthening the European scientific and industrial base and of contributing to other Community cooperation with China, with strong supporting innovative research, mobilizing complementary skills, promoting the development of human and institutional capital and with a particular emphasis on the training young researches.

In the past several years, the scientific cooperation has shifted to the implementation of joint research activities with a high added value scientific content and involving research institutes on topics of mutual interest. More than 70 joint research projects have been funded, notably in biotechnology applied to agriculture and medicine, health, thermonucleus fusion, and environmental sciences including global change, earth observation and monitoring.

4.3 Interdependence Between China-- EU Economy

¹² See European Community document, "China: Global Cooperation and New Development Model", speech given by Commissioner Paleokrassas, July 4, 1994, Beijing

The end of the cold war characterized by bipolar coincided with many important changes in the future development of international economy. Firstly, it means the world economy is getting more and more interdependent with the internationalization of production, capital and trade, which has become more volatile, complex and tightly interconnected in a fragile interlocking system. Secondly, both in the industrial nations and developing countries, the widening of economic integration and the deepening of the integration process are perhaps the most striking phenomenon in the international surrounding, which strengthen the reciprocal interaction and interdependence. Thirdly, many developing and socialist countries began their economic reforms embracing the market-oriented policies and opening up to the international economy system.

After 16 years of Chinese opening up to the international economy system, the significant economic developing happened in the China's construction and real society with remarkable changes. The China's actively involvement in the Asia-Pacific Economic Cooperation, and the *Great Chinese Economic Community embracing Hong Kong and Taiwan* have demonstrated that China has the possibility to be the regional economic power and the great potential market to the world in the next century.

Under the international environment, Chinese statements on the interdependence have been increasingly favorable as several points, hereby, I quoted an important notion of interdependence concerning the economics as the following:

----"Interdependence is described as not only a fact but indispensable to China's economic development, such components of it as economic cooperation, capitalist investment in China, exchanges, International cooperation, in producing goods and services, and similar cooperation between Chinese and foreign "sister" cities and provinces all being viewed with favor."¹³

From the above notion, it is clear that Chinese interdependence concerning the entire economic modernization plan rests on its ability to tap international environment for resources, including monetary, technological and human capital. In the past experience, Chinese economic interdependence to the world has got a substantial growth in its national economy, foreign trade and investment. Therefore, China is planning to open widely up to the world, especially to increase the total import volume to \$1,000 billion by the end of this century, equivalent to one seventh of the current global annual trade volume.¹⁴

When we discuss the economic interdependence of industrial nations and developing countries, we could find clearly that the economic interests have already been the first and the most important element in every nation's consideration. With the reviews of evolution of China--EU's economic relation, it gives us a strong evidence that the opportunity and challenge of Chinese economic reform achievements have been the important interests for the Europe in the further mutual economic interests and cooperation.

In the European Community's *A long Term Policy for China-Europe Relation*, the EU defined the two major importance of China for the Europe in the next century;

1). Competitiveness: in order for European industry to be globally competitive, the Europe must be present on the world's most dynamic markets. China is now the Union's fourth largest market and fourth largest supplier. China's market could become the largest in the world in many high tech sectors, from telecommunications to aircraft and from computers to energy. An active role for EU business in China, where US and Japanese competition is already fierce, is essential;

2). Global economic stability: China's size and influence on the world trade gives its economic policy global significance. It is in the world's interest, as well as China's, that Chinese economy continues to grow and open up, and that China takes its place as a major player in the world system of economic rules and

¹³ See P-190, Thomas W. Robinson, "Interdependence in China's Foreign Relations", from book, Samuel S. Kim, "China and the World---Chinese Foreign Relations in the Post-Cold War Era", Westview Press, Inc. 1994 (Third Edition)

¹⁴ See P-88, "Foreign Economic Relation and Trade", from book, Qing Shi (edit), "China---1996" Xing Xing Publishing House, Beijing, 1996

policies. It is also essential to help China to participate fully in the rules-based system of the World Trade Organization.¹⁵

From China's perspective, Europe is always an adapted partner. Historically, Mao Zhe Dong created the well-known "three worlds theory" in 1970s under the political and economic situation of that time. He divided the United States and the Soviet Union as the first world; the developing countries of Africa, Asia, Latin America as the third world; in between, the Europe, Japan and Canada as the second world. The Europe was considered as an united force to be against the two superpowers in China's foreign policy, therefore China was firmly to support the economic integrating of the European countries.

Chinese government is always favorable for the EU endorse to promote the South-North dialogue in helping the economic development of less developed countries within its region, the developing countries covering Lomé Convention, and the former socialist countries in East Europe, with the financial aid and technical assistance as well as humanity aid.

There is no political conflict on the relation of EU-China. The only sensitive issue is the ever growing trade relation between Europe and Taiwan. The EU insisted an "unofficial" relation with Taiwan and member states dealt very cautiously with the relation of Taiwan. Chinese government would claim some time for the sale of weapons to Taiwan by some member states of EU. But the EU supports the eventually unification of China and Taiwan in international community.

Although the EU's involvement in China's economic reform and market is less the that of USA and Japan, the real economic and trade growth between the cooperation of EU-China in the past 16 years have had a significant indexes. With the ever growing role of China in the regional integration as well as in the world, and the gradually improving the Chinese foreign trade system and rules, the further cooperation under the EU's new strategies extending to all sides toward China will bear fruits in mutual economic and trade relation in the next century.

VI. Conclusion

In view of the past health economic and trade cooperation, and the less trade disputes between two partners, I think that the China--EU economy interdependence in the next century, there are three significant impacts on the international economy and world political affairs:

First, the China's gradual economic reform strategy has resulted the tremendous achievements in its economic developments, with reaching the obviously aim "Socialist Market Economy" of Chinese characteristics at the end of this century. If China's economic reform could succeed completing the transformation from the centralized-planned economic system to the socialist market economic system, this is definitely a great contribution either theoretically or practically to the world, especially setting an example for the current developing countries and the former Eastern European countries who are undertaking the economic reform toward the market economic system.

Second, the EU strongly supports China's sharing in the opportunities and responsibilities in the Asian regional integration and the international community. China has wishes to join the international economy and world affairs; the application of reintegration GATT(now WTO) raised in 1986, the realization of the full integration of China into the WTO system is in the interest of all trade nations. For WTO members it would contribute to guaranteeing the continuation of China's reform process till the establishment of a mature market economy, on the other side, for China it would guarantee that its goods and services opening access to export markets around the world. A great potential market with 1.2 billion consumers will have significant

¹⁵ See P-2, "China's Importance for Europe", Communication from the Commission of the European Communities, "A Long Term Policy for China-Europe Relation" COM (95) 279 Final

meaning to the interest of Europe as well as to the world, if China could meet the extensive requirements and principles of WTO membership and rejoin the WTO system.

Third, as the main source of development assistance and humanitarian aid to the third world countries, the European Union is always an international actor to make a better dialogue with the developing countries (Development and Financial Cooperation under the Lomé convention) and take an increased responsibility in world affairs. This has been appreciated greatly by the Chinese Government. If the further EU-China economic cooperation would be developed healthily with both the presence of international actors, a strong Europe and a stable economic and political China in the international affairs, this kind of cooperative model will not only be a good example of North-South dialogue, but to make a contribution to the stable development of the world economy in a new international order characterized by "one superpower and multipolar world" in the next century.

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