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POSITION CONCERNING THE INCLUSION OF CHINA
AMONG THE GSP BENEFICIARIES TO BE TAKEN BY
THE COMMUNITY AT THE FIRST MEETING
OF THE EEC-CHINA JOINT COMMISSION

(Communication from the Council to the Commission)

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Position concerning the inclusion of China among the GSP beneficiaries to be taken by the Community at the first meeting of the EEC-China Joint Commission

1. During the course of his recent visit to China, President JENKINS informed the Chinese authorities that following an in-depth examination of the economic and political aspects of this problem (1) the Commission would give sympathetic consideration to the inclusion of PR China among the beneficiaries of its GSP. The Chinese authorities were also informed that China might be excluded from GSP benefit for certain sensitive products and that the possibility of benefitting from the GSP in the field of textiles would be conditional upon the satisfactory outcome of the current negotiations for an agreement in the textile sector.
2. The detailed mechanics for this inclusion would be spelt out when the Commission presented the Council with its GSP scheme for 1980.
3. The first meeting of the Joint Committee set up under the EEC-China agreement starts on 3 May. On that occasion the Chinese will raise the question of the GSP as they have already done on several previous occasions. This is the reason why the Commission considers that it is both advisable and important that the Council should declare itself before that meeting in favour in principle of the inclusion of China on such a basis.
4. More than a year after the signature of the Agreement with China, this taken together with the current textile negotiations, would constitute one of the first concrete acts to give flesh to this agreement and would contribute to the strengthening of trade between the two parties.
5. In view of the timetable, it appears necessary for the Council to take a decision at its next meeting on 2/3 April 1979.
6. The precise details of the communication to the Chinese authorities will be worked out in collaboration with the 113 Committee during the work to prepare for the abovementioned Joint Committee.

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(1) See Annex

7. It remains understood that a decision in principle by the Council of this kind in no way prejudices the proposals which the Commission will in due course have to put forward on a GSP after 1980.

Analysis of the impact of including the People's
Republic of China among the beneficiaries of the
Community's GSP

1. The decision to admit a country to the list of beneficiaries under the Community's GSP has always been based on two criteria : membership of the Group of 77 or, if the country concerned is not a member of the Group, the actual merits of the case. Since the People's Republic of China is not a member of the Group of 77 the wish it has expressed must therefore be examined on the basis of its economic situation and the state of its relations with the Community.

2. Examination of the basic economic indicators, details of which are given in the attached annexes, shows that China ought to be considered as a developing country. It may be pointed out in particular that China's per capita GNP in 1976 was USD 410, which is comparable to that of other less-developed developing countries, such as Zambia and Honduras. Furthermore, although China is making strenuous efforts to industrialize, agriculture remains the basis of its economy and still employs 68% of the labour force. Moreover, as regards energy for example, per capita consumption in 1975 was 693 kg (of coal equivalent), which puts China on a level with countries such as Peru and Iraq.

3. China's trade balance with the Community has regularly been in deficit since 1958, and a marked surplus was not recorded until 1977, probably as a result of certain internal problems. In the first 11 months of 1978 the Chinese deficit had already risen to 471 million UA, which represents 56% of Chinese exports to the Community. One can foresee this balance staying negative for some time taking into account the capital equipment which China needs to carry out its industrialisation.

4. With regard to the implications of including China in the GSP, the following points may be noted:

- (i) the proportion of total imports into the EEC from China which would be covered by the GSP in the case where no sector were to be excluded, represented 34,1% in 1976 and 54,2% in 1977;
- (ii) in 1977 these imports were made up as follows: 16.4% agricultural products, 60.4% industrial products and 23.4% textile products;
- (iii) with regard to agricultural products, the composition of China's exports to the EEC is such its inclusion among the beneficiaries should not cause any particular problems;
- (iv) in the case of industrial products, 62% of imports into the EEC comprise non-sensitive products and should not therefore cause serious problems; where sensitive products are concerned, however, China's inclusion could give rise to difficulties in crisis sectors (footwear, leather goods, etc.);
- (v) in view of the volume of China's exports of textile products, the difficulties that might arise as a result of the inclusion of China in the list of GSP beneficiaries could be avoided by the conclusion of a comprehensive agreement covering this sector; negotiations to this end began on 23 January 1979;
- (vi) a study on theoretical utilization of the GSP based on the 1977 scheme shows that if China's use of the preferential advantages were equivalent to the average rate of use by the present GSP beneficiaries, namely 60%, it would come in eighth position, with total imports under the GSP amounting to around 200 million EUA.

It should be pointed out in this connection that one donor country - Australia - has already decided to accord China GSP treatment without requiring an official application, and that according to our information Japan is giving favourable consideration to the inclusion of China among the countries covered by its scheme.

SECRET

Overall economic situation of the People's Republic of China¹

Area: 9 597 000 km²

Population: 835.8 million (1976)

The average annual growth rate for the period 1970-75 was 1.7% (3.3% for the urban population and 1.5% for the labour force); 33% of the population is under 15 and 61% is of working age.

The projected population in the year 2000 is 1 093 million, rising to a hypothetical stationary figure of 1 398 million in the year 2090.

GNP per capita: USD 410 in 1976

Index of per capita food production (base 100 in 1965-67) = 108 (1974-76)

Agriculture: 68% of the labour force is engaged in agriculture. In the period 1975-77, production of grain, sweet potatoes and soya remained stationary at around 280 million tonnes (which resulted in imports of wheat going up from 2.5 million tonnes in 1976/77 to 10 million tonnes in 1977/78). The 1985 production target (400 million tonnes) will probably be hard to achieve in view of the significant gap between some regions and those - which are still few in number - where production levels are very high. Rice exports now amount to no more than 700 000 tonnes per year.

Industry: Between 1972 and 1975 USD 3 000 million was spent on importing turnkey factories from Japan, the United States and the Community; under the 1978-85 programme 120 industrial projects are to be put into operation (including ten steel complexes, nine non-ferrous metal complexes, eight coal mines, ten oil and gas developments, thirty large power stations, six major railways and five major ports.

Energy: Annual growth of production was 4.6% between 1960 and 1965.
Per capita consumption (kg of coal equivalent): 693 (1975).

NB: Although the results taken overall are good, the level of achievement is nevertheless modest and not always solidly based: per capita production of steel, fertilizers and energy is still very low.

TRADE

1. China's trade balance, which was in deficit both generally and vis-à-vis the Community up to 1975, moved into surplus from 1976 onwards. However, this situation would seem to be due to the internal political problems during this period and represents only a passing trend.

China's overall trade balance

<u>USD million</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>exports</u>	5 636	6 054	6 000	6 087
<u>imports</u>	7 260	7 040	5 923	5 267
<u>Balance</u>	- 1 624	- 986	+ 77	+ 820

2. In external trade, the proportion of Chinese exports accounted for by the EEC has fluctuated between 11% and 11.5% (19% to Japan, 17.5% to the CMEA countries, 21% to Hong Kong). In 1976, imports into China from the Community represented 19.72% of total imports, compared with 32.2% from Japan and 17.8% from the CMEA countries.

EEC-China trade balance

<u>million u.a.</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
EEC imports from China	687	626	1 183	857 ¹
EEC exports to China	771	1 084	1 120	787
Balance	+ 84	+ 458	- 63	- 70

Source: SOEC

It should also be noted that imports into the Community from the People's Republic of China account for only 0.5% of total EEC imports.

¹The reason for the drop between 1976 and 1977 was the stoppage of gold exports to the Community.

