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VISIT TO CHINA BY SIR LEON BRITTAN

Sir Leon Brittan's visit to China from February 26 through to March 1 will focus on this year's EC-China Joint Committee, and several key issues in our relations with China - notably Chinese accession to the GATT, bilateral trade problems, the state of the EC's trade deficit with China and economic cooperation - can be expected to arise.

Sir Leon's meetings will include a round table meeting with European businessmen; the EC-China Joint Committee, followed by joint press conference (Monday, 12.00); a meeting with Mrs WU Yi, Chinese Minister foreign trade; a reception at the Ministry of Foreign Affairs, the inauguration of an interpretation centre; meetings with other Ministers from the Chinese Government.

The Chinese economy

China's economy is the 10th largest in the world, using traditional GNP figures. Using more realistic purchasing power parity measures of GNP, China already has one of the four largest economies in the world, roughly equivalent to that of Germany. In a recent report the IMF reckoned that if the Chinese economic area continues to grow at 10% per annum from now to the year 2000, it will become twice the size of the Japanese economy, three times larger than that of Germany and a touch larger than that of the US. Chinese economic growth owes much to the contribution of the 50 million Chinese living abroad: already the Chinese diaspora provides three quarters of foreign direct investment in China, mainly among the 90 million inhabitants of China's special export zones in the South.

China's application to join the GATT

Hong Kong's membership of the GATT, which will not change after 1997, has already brought the whole region closer to the multilateral system. The EU has unequivocally welcomed China's and Taiwan's applications for membership, and discussions are under way in Geneva for both. Following consultations with the leading players in Geneva, the European Union has clear views on the sort of protocol that could enable China to join. Successful Chinese membership would give full credit for the reforms accomplished to date. But as long as further reforms have still to be achieved on the road to a market-based economic system, the terms of membership must provide a variety of transitional provisions. Sir Leon Brittan recently highlighted a few: a selective safeguard clause and transitional maintenance of some quotas; a ceiling binding import duties somewhere between 15 and 25 percent; progressive exchange rate liberalisation; and progressive liberalisation of the right to engage in foreign trade, and of the right to invest.

Bilateral trade issues

Talks are likely to cover such areas as alcoholic drinks, non-tariff measures, non-ferrous metals, financial services, and phytosanitary measures.

The EU's economic relations with China

Trade

In parallel with China's booming trade, bilateral trade with the EU has also risen considerably. Total bilateral trade in 1978 was only 2.4 billion ECU (nine member states), and it grew to 4.6 billion ECU in 1982, 10.7 billion ECU in 1986, 15.5 billion ECU in 1989 and 23.6 billion ECU in 1992. The EU's trade with China has therefore increased almost ten-fold since the beginning of reform in China. Estimates for 1993 put the total bilateral trade at over 31 billion ECU.

Regarding the trade balance, the EC ran a 3.2 billion ECU trade surplus in 1985, but by 1988 China was running a surplus of 1.2 billion ECU, which doubled every year until 1991, as follows: 1988: 1.204 BECU; 1989: 2.776 BECU; 1990: 5.316 BECU; 1991: 9.367 BECU; 1992 9.930 BECU.

The deterioration of the EC's trade deficit then slowed down as exports to China in 1992 grew faster (22.2%) than did imports from China (12.1%). In 1993, EC exports to China grew by 85% while imports grew by 15%, leading to the first reduction of our bilateral trade deficit for five years, to around 8 billion ECU. The contrary is true of the United States, whose trade deficit with China continued to grow rapidly during 1992 and 1993.

In 1990 and 1991, all EC member states were showing growing bilateral trade deficits with China (France had the only surplus in 1989). During 1992 only Germany managed substantially to reduce its deficit, which however remained by far the biggest of all member states. During 1993, most member states have seen a reduction of their bilateral deficits, and Germany's deficit fell by almost a half.

The EC, US and Japan have all lost market share in China during the 1980s to reach a share of around 10% each in the early 1990s, although the EC managed to retain its relative position far more successfully than did the US or Japan.

EC exports continue to be concentrated in mechanical and electrical machinery, transport equipment, nuclear reactors and other forms of technology, which toogether account for over half our exports to China. Imports from China are mainly in textiles and clothing (22% of the total), toys (12%), electrical material (11%), leather goods (7%), and footwear (4%).

Investment

From 1972 to 1992, foreign companies set up 90,710 joint ventures in China,

with a total value contracted of $110 billion ($36 actually used). These joint ventures employed over 1.1 million workers and represented around 25% of China's total trade. Figures up to September 1993 show that the number of joint ventures rose to 150,000, with a contract value of $193 billion (actual value $49.6 billion). Hong Kong and Macao are by far the biggest investors in China, followed by Taiwan.

From the rest, the performance of the EC, US and Japan in the 1972-1992 period was as follows. The EC launched 1,000 projects, with a contract value of $4 billion ($1.6 billion used); the US launched 5,260 contracts with a value of $8.084 billion ($3.174 billion used); Japan launched 3,800 contracts with a value of $5.825 billion ($3.879 billion used). EU companies therefore lag behind their main competitors both in the number of joint ventures and the capital invested, although the average size of EU projects tends to be bigger than those of other origin. Of the EU's member states, Germany is the biggest investor, with 251 projects (contracted capital: $1.267 billion), followed by the UK (274 contracts, contracted capital: $1.056 billion), France (239 projects, contracted capital: $0.674 billion) and Italy (236 projects, contracted capital: $0.397 billion).

Cooperation:

In October 1990, the EC Council of Ministers decided on a gradual resumption of cooperation with China, and the European Parliament decided to put China back on the list of countries eligible for cooperation as of the beginning of 1992. This has enabled the Commission to restart several projects frozen since 1989, and to launch new ones corresponding to the EC's new priorities established in February 1992, namely: the promotion of good governance and economic reforms, the environment, poor regions and minorities.

Cooperation is showing steady progress in all the following sectors:

Training (the China-EC Management Institute in Beijing, co-funded by the EC, has acquired a solid international reputation, and the moment has come to turn it into a fully fledged Business School, with legal, academic, financial and managerial autonomy);

The Dairy Development Project is drawing to a close, and following a Chinese request for a new phase, it is now likely to concentrate its efforts predominantly in the poorer areas of China.

Intellectual Property (the EC has trained Chinese IPR experts since 1993);

Environment (the EC sent two missions to China last year to identify ways of stepping up cooperation);

Further projects are under way in science and technology, IT and telecommunications, energy, customs, statistics, and university education.

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