

CHINA-EEC RELATIONS : 1980-1989

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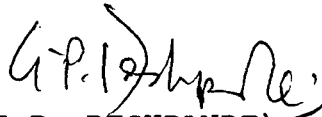
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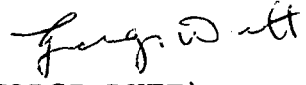
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Certified that the dissertation entitled,
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Shri A. Chandrasekaran, in partial fulfilment of
the award of the Degree of Master of Philosophy
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(G.P. DESHPANDE)
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Supervisor

DEDICATED

TO

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PREFACE

PREFACE

Common interests and mutual goodwill have brought China and EEC closer together in the last few years, with increasing exchanges of visits and growing economic and trade relations. In the 70's China considered the EEC as a 'Centre of imperialist contradictions' backed by the Americans. But in the 80s, both of them preferred to ignore past ideological differences and hostility.

As long as China had close relations with the USSR, it made no serious effort to develop trade and other relations with Western Europe and Japan. With the onset of the Sino-Soviet conflict the two sides - China on the one side and Western Europe and Japan on the other - started to probe each other. With the death of Mao, the new Chinese leadership went about the task of "four modernizations" with a new sense of urgency. It also projected the vision of China becoming the "newest" industrial giant by the turn of the century. They know that it was by no means easy to achieve a breakthrough. Certainly the breakthrough would not come rapidly enough through the Maoist model of self-reliance. Developmental effort of this order required the support of European Economic Community countries and others, for these

countries alone possessed the capital and technology. China clearly sees the 12-nation community as an important political and economic partner and source of development cooperation.

This dissertation consists of four chapters. The first chapter presents the background to China's foreign economic relations under the title Four Modernizations and China's Foreign Economic Relations.

The Second chapter deals with China's attitude towards EEC. It also analyses the security issues, regional and global influence, SDI and Eureka programmes.

The Third chapter discusses the foreign policy perspectives of the European Economic Community and its attitude towards China.

The Fourth chapter is devoted to the study of China - EEC economic cooperation from 1980-1989. It includes economic cooperation and textile agreements. Finally the concluding remarks have been discussed. The methodology used in this study is historical - analytical.

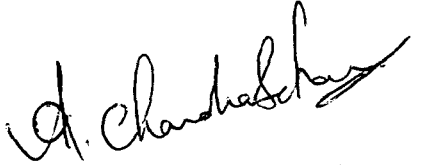
I express my sincere thanks to **PROF. GARGI DUTT** for her excellent guidance and inspiration. But for her constructive criticism and valuable suggestions in time, this would not have seen the light of the day. I am also grateful to **PROF. G.P. DESHPANDE, Chairperson** of the centre for his unstinted cooperation and assistance whenever needed. I owe my special thanks to Ms. Kamlesh Jain.

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(A. CHANDRASEKARAN)

CHAPTER - I

**FOUR MODERNIZATIONS AND CHINA'S
FOREIGN ECONOMIC RELATIONS**

CHAPTER - I

FOUR MODERNIZATIONS AND CHINA'S FOREIGN

ECONOMIC RELATIONS

The third plenary session of the Eleventh Central Committee of the Chinese Communist Party held in December 1978 will go down in history as marking the definitive turning point in the formulation of China's post-Mao policies. Because it has shifted the focus of national development strategy from the Maoist model of self-reliance towards socialist modernization of agriculture, industry, science and technology and defence. Beijing's first dramatic change was its adoption of an "open door policy", which has led to an enormous expansion and diversification of China's foreign economic relations.¹

Link Between the Domestic and Foreign Policy

It can be argued that in contrast with domestic developments, China's foreign policy has not undergone a fundamental structural change since the death of Mao. Thus the thrust of China's foreign policy can be seen sometimes as a continuation of the major realignments begun by Mao

1. Doak A. Barnett, "Ten Years After Mao", Foreign Affairs (New York), vol.65, no.1, Fall 1986, p.53.

and Zhou at the beginning of the 1970s. It was they who initiated the *détente* with the United States, the policy of seeking an international state-centred united front against Soviet social imperialism, the opening to the Yugoslavia, the new relations with the small and medium western powers including Japan.²

The principles guiding the foreign policy of the People's Republic of China are the protection of the country's independence, freedom, territorial integrity and sovereignty, upholding of lasting international peace and friendly cooperation between the peoples of all countries and opposition to the imperialist policy of aggression and war. China's adherence to such principles of foreign policy is determined by the character of its state and society. Along with the policy of opening to the "outside world", the domestic policy has also undergone a see-change by ^aabandoning the policy of "class-struggle as the key link."

Beijing's new foreign policy orientation is an obvious outcome of an assessment of China's international strategic environment. It is also dictated by the imperative of China's domestic economic programme and entails a reordering

2. Michael Yahuda, "China's Foreign Relations and the Modernization Programme", in Jack Gray and Gordon White, ed., China's New Development Strategy, (London, 1982), p.37.

of priorities.³ Deng Xioping himself confirmed his domestic and foreign policy link. "When we decided on the domestic policy of (economic) construction," Deng said "we adjusted our foreign policy" (accordingly)⁴ When it comes to the relative importance of economic and political factors in the formulation of China's policy, it is generally accepted that a close link exists between the domestic and foreign policy. Foreign policy should be made to serve the "modernization" of the national economy.

Four Modernization

In a world of rapid change and intense competition, modernization is virtually a universal goal. Certainly it is not limited to developing countries. Developed countries also feel the constant pressure of either going ahead or falling behind.⁵ The term four modernizations was first coined by China's late Premier Zhou Enlai in his speech to the Fourth National People's Congress in January 1975⁶. At a historic meeting of the Central Committee in

3. James C. Hsiung, "Sino-Soviet d'etente and Chinese Foreign Policy," Current History (Philadelphia), vol.87, no.530, September 1988, p.245.

4. Ibid., p.247.

5. N.T. Wang, China's Modernization and Transnational Corporations (Massachusetts, 1984), p.1.

6. Peking Review, vol.18, no.2, 24, January 1975, p.22.

1978, Deng Xioping called for fundamental policy changes and mounted a major campaign to abandon ideological dogma and to adopt pragmatism symbolised by the slogans "practice is the sole criterion of truth" and "seek truth from facts." He persuaded the party to give highest priority to economic development instead of class struggle and adopt an "open door policy" toward the world.

China has set for its socialist modernization programme an ambitious goal. By effective and better economic performance it hopes to quadruple the gross annual value of industrial and agricultural production in two decades from 710 billion Yuan in 1980 to 2,800 billion Yuan in 2000. It expects to achieve an average annual growth rate of 7.2% from 1981 onwards. This is the outcome of four years of deliberation and preparation since 1981 when the focus of work was shifted to economic construction. By the end of the century, the production technology of the major industrial branches will match the late 1970s or early 80s of the industrialized countries. Some fields are expected to reach advanced world levels. The economy as a whole will become an independent and comprehensive system embracing all departments and equipped with modern science and technology. In terms of gross national income and output of major industrial and agricultural products, this will place China in the forefront ranks of the world. On this basis, the average per capita national income will reach US \$800

annually, taking into account the factor of population growth.⁷

Deng Xioping's change of direction has moved rapidly from extreme totalitarianism toward liberalized authoritarianism, from a command economy toward "market socialism", from autarkic isolationism toward international interdependence.⁸ These trends signal a major new stage in China's long march toward modernization. Fulfilment of the four modernizations was projected for the purpose of enabling the Chinese Communists to catch up or surpass the top world levels in agriculture, industry and science and technology by the end of this century.⁹ The Chinese leaders knew that to achieve this goal was by no means easy to make a breakthrough. The progress of four modernizations - agriculture, industry, science and technology and defence is being discussed in detail in the following pages.

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7. Ren Tao and Pang Yongjie, "Can the Goal for 2000 be Reached?" China in Focus (2) (Beijing, 1983), p.19.
 8. Barnett, n.l, p.37.
 9. Yao Menghsuan, "Teng Hsiao-P'ing's Line and the Four Modernizations", Issue and Studies, (Taipei), vol.XVIII, no.1, January 1982, p.12.

Agriculture :

Mao had not long ago pointed out the need to arrange the national economy in the order of agriculture, light industry, and heavy industry, but this has never been carried out in real earnest even during his time. Agriculture is the foundation of the economy. In a short historical period, China has basically solved the problem of feeding and dressing 22% of the world's population by cultivating 7% of the globe's arable land. The Third Plenary Session of the CCP first grasped the link of agriculture laying emphasis on overcoming the long-standing "left" mistakes in the guidelines in this sphere. This involved restoring and expanding the power of decision of the rural people's communes and their production brigades/teams; restoring the private plots, farming and collective sideline production and village fairs, the system of responsibility for production in which payment is linked to output. At the same time, the purchasing prices of grain and some other agricultural products were raised; then the policies providing for a diversified economy were formulated. As a result, marked changes have taken place in agriculture in which vigorous growth has replaced stagnation.¹⁰ This new policy of contract responsibility system

10 Hu Yaobang, "Create a New Situation in All Fields of Socialist Modernization", Beijing Review, vol.25, no.37, 13 September 1982, p.14.

has stimulated the farmer's enthusiasm.

Altogether 180 million farming households (98% of the total) have moved into this system. The second stage rural reform began in 1985. The main task was to adjust the rural economic structure and to develop the rural commodity economy streamlining the economic relationship between the State and the farmers. The system of monopoly, fixed quota purchase of farm and sideline products, was abolished; in favour of the planned contract system. This way the farmers can gear their production to market needs. The reform has liberated the rural productive forces and initiated moves to industrialize and commercialize China's agricultural economy. By the end of 1985, the rural output value of China's township enterprises reached 270 billion Yuan, accounting for 23% of the total products of the society. The rural economy is developing unevenly, though. Although 94% of the farmers have enough to eat and wear, the living standards of the other 6% especially those in arid Western China, are still very low. That is about 50-60 million people.¹¹ Since implementing the economic reform, an average farmer's annual income increased from 120 Yuan in 1978 to 397 Yuan in 1985. The average income of a worker in a

11. Song Tingming, "Review of Eight Years of Reform", Beijing Review, vol.29, no.51, 22 December 1986, p.14.

state enterprise increased from 608 Yuan in 1978 to 1,148 Yuan in 1985.¹²

Contract purchasing is an important element in agricultural guidance planning. The state planning department will break down the production and purchasing plans for provincial farm products, such cereals and cotton, into provinces, counties and townships. The grass-roots commercial departments will sign purchasing contracts with the farming households before production begins. The contract will set the quantity, quality and prices of the products, the incentives, the quota for chemical fertilizer, diesel oil and other necessities to be supplied at fixed prices and the sum to be paid the farmer in advance.

China's 1984 grain output reached 407.37 million tons, an all-time high. Since 1984 fluctuations have occurred in China's agricultural production and grain output never reached the 1984 level. The origins of China's current agricultural difficulties can be traced back to before 1984. In 1979, the area sown with major crops was 148.48 million hectares. This had dropped to 144.22 million hectares by 1984 - a fall of 4.26 million hectares in just 5 years. From 1980 to 1984 grain output grew by an annual average of 6.2% largely because there were few natural disasters.¹³ Since 1984, China has

13. Wang Haidong, "Agriculture at the Crossroads", Beijing Review, vol.32, no.18, 1-7 May 1989, p.20

12. Ibid., p.16.

experienced an increase in natural disasters (flood & drought). And also it was the reduction in total cultivated area that has been most drastic. Since 1984, raising the purchasing price has had little effect on stimulating agricultural production. The 12% increase in purchasing price in 1987 only produced a 3.4% growth in output.

Year	Crops	Output
1984	grain	407.37 m. tons
1985	grain	379.11 m. tons
1986	grain	391.5 m. tons
1987	grain	404.73 m. tons
1988	grain	395 mi. tons.
1989	grain	405 m. tons

Compared with 1978, the 1988 cotton output was 4.149 million tons or doubled; the output of oil-bearing crops was 13.2 m tons or 2.5 times. The output of sugar, silkworm, cocoons, pigs, cattle, sheep, aquatic products and fruits all doubled on the average.¹⁴ The rapid development of rural industry, the building industry, transport services, commerce and other non-agricultural

14. The Development of China (1949-1989), (Beijing, 1989), p.7.

industries promoted the prosperity of the rural economy as a whole. But China, curiously, has been a consistent importer of foodgrain from 1983-89 with average annual imports exceeding 9 million tonnes.¹⁵ The current food grain situation in China is difficult. Production costs are raising but not procurement prices. All this is not meant to berate China's achievement but to underscore the constraints common to large developing countries.

Industry:

The Third Plenary Session of the 11th CCCP was of the view that due to sabotage by Lin Piao and the "gang of four" over a long period there were still quite a few problems in the national economy, some major imbalances have not been completely changed and some disorder in production, construction, circulation and distribution has not been fully eliminated. First imbalance was in the relationship between light industry and heavy industry. In 1956 in his article on the Ten Major Relationships, Mao pointed out the proper balance between the two. This policy too has never been really carried out.

If it was so why did in the first Five Year plan (1953 -1957 under Mao's guidance) heavy industry took up

15. Times of India (New Delhi), 2 August 1989.

46.5% of the total investment in capital construction while light industry's share was just 5.9%?¹⁶

The post-Mao leadership instead of blaming Mao's policies had blamed only "Gang of Four/Lin Piao" for the imbalances in the economy. The second imbalance was within heavy industry itself. The development of the coal, electric power, petroleum, transportation and building material industries had failed to keep pace with the development of the metallurgical, machine building and processing industries. It is estimated that, owing to the shortage of electric power, about 20% of the nation's productive capacity have not been tapped.¹⁷

The last imbalance was in the relationship between accumulation and consumption. The rate of accumulation has been a bit high, and the scale of capital construction too big, both having exceeded what the national economy could bear.

The main tasks involved in the reform process were:

- a) Readjusting the proportion between accumulation and consumption and gradually improving people's livelihood

16. Shi Zhengwen, "Readjusting the National Economy: Why and How?" Beijing Review, vol.22, no.26, 29 June 1979, p.14.

17. Ibid., p.14.

- b) Scaling down the size of capital construction and making concentrated efforts to build up the projects.
- c) Expanding exports, importing on the basis of exports and developing foreign trade.
- d) The leadership had to face the structural problems. Very high industrial growth rates were being sustained by the rapid creation of bank credit. Although industrial expansion created a supply of new goods. Moreover, increases in supply did not come in a balanced, across-the-board fashion. As a result, shortages intensified in crucial sectors, pushing up prices rapidly. Important problem was supply of basic infrastructure services, in particular, energy supply and transportation. While industry as a whole was growing at a rate of 18-20% in 1987 and 1988, total energy supplies increased only 5.2% in 1987 and 4.2% in 1988.¹⁸

As trade has expanded, Beijing has decentralized decision-making to local authorities and individual enterprises, allowing them to establish direct ties with foreign suppliers and buyers and permitting them to retain for their own use some of the foreign exchange they earn. This, like many of the regime's other, decentralizing

18. Barry Naughton, "Inflation and Economic Reform in China", Current History, vol.88, no.539, September 1989, p.270.

19. The Development of China (1949-1989), n.14, p.7.

policies, has created problems. Nevertheless, decentralization clearly has contributed to China's ability to compete in world markets.

Industrial production has reached a new level:

The total value of industrial output rose from 423.7 billion Yuan in 1978 to 1822.4 billion Yuan in 1988, the growth averaging 12.8% a year in comparable prices. Industrial production in the last 10 years not only increased at a faster speed than the average growth of 11.4% in the previous 26 years, but was characterized by an obvious raising of technological standards.¹⁹

China on its own; is now able to design and build many large, technically complex projects, such as iron and steel plants with an annual capacity of 3 million tons, large coal mines with an annual output of 4 million to 5 million tons; and such difficult projects as the Gezhouba Hydropower station which spans the Changjiang (Yangtze) river and Yangtze Bridge in Nanjing.

Transport and Communications: The length of the nation's railways increased from 21,800 K.M. in the early days of PRC to more than 50,000 K.M. Petroleum and gas pipeline; non-existent in old China, now totals 14,300 K.M. The total length of postal routes extended to 5

19. The Development of China (1949-1989), n.14, p.7.

million K.M. in 1988 compared to 706,000 K.M. in the early 1950s.²⁰

Over the past 10 years, various industrial departments spent 240 billion Yuan on technical transformation, importing more than 10,000 items of advanced technology and equipment. A number of China's hi-tech industries and technologies have stepped into the ranks of the world's advanced.²¹

Science and Technology:

A major overhaul of China's science and technology system was necessary if the country is to achieve its long-range modernization goals. The reform in science and technology system is being closely interwoven with the recent development trends of science and technology abroad and the current large-scale economic construction at home. Relieved from the turmoil of the "Cultural Revolution" and strongly desiring to advance its economy, China began to study the scientific and technological achievements of other countries. What interested China most was, in the first place, Japan's postwar introduction and utilization of foreign technologies, which were

20. Ibid., p.2.

21. Ibid., p.7.

mastered and developed domestically to produce high-tech products for the international market. Second was the practice in the Soviet Union of combining Scientific research institutes and productive enterprises into joint entities, and Romania's remunerative contract system. The widespread publicity of these experiences in China gradually led to important changes in the State's policies concerning Science & technology in recent years.

Major changes include the following:

- a) Emphasis was placed on the co-ordinated development of science and technology with the advancement of the nation's economy and society.
- b) Efforts were stepped up in research and development of applied science and technology.
- c) Horizontal links were established between scientific research institutes and industries, enterprises and local governments
- d) The commercialisation of scientific research achievements was accelerated
- e) The funding system was restructured to give research institutes more stimulus to orient their work towards economic construction.²²

22. Zhou Chengkui, "Revamping Science and Technology System", Beijing Review, vol.29, no.24, 16 June 1986, p.22.

The specific goal is to quadruple the value of the nation's gross industrial and agricultural production by the turn of the century, and to approach the level of developed countries in another 30 to 50 years. To attain such a goal, it is necessary to advance China's S&T. The Science and Technology system reform aims primarily at promoting the integration of scientific research with production, and bringing the role of researchers and technicians into full play.

Efforts of the Reform:

First, the research institute's workers have displayed their high initiative in accepting and carrying out major scientific research projects assigned by the State.

To meet the needs of national construction, China's scientists have taken part in working out an overall plan for the development of north-west and south-west China, as well as some cities, regions, and in research on the comprehensive transformation and development of the Loess plateau, the Huanghe (yellow) - Huaihe river basin plains, the Heilong - Songhua - Wusuli river basin plains and the area around Taihu Lake.

During the 6th Five year plan (1981-85), the Academy of Sciences popularized and applied more than 2000 items of research findings. Technical trade fairs, which have

produced a positive effect on linking research institutes with enterprises and promoting the application of research findings, began to be held across the nation. However, there are two problems worth mentioning:

- 1) Research findings have been utilized in most cases by medium sized and small enterprises and by rural enterprises, rather than by large and key enterprises
- 2) The best sellers at the fairs have been those simple and time-saving technologies which can yield quick economic returns in the process of production

The import of technology in recent years has greatly promoted the technical renovation of some key industries. At the same time, how to integrate technology import closely with technological research and development at home is still a problem that calls for immediate solution. Problems and drawbacks are unavoidable in the course of the reform.²³

Achievements:

In science and technology, the number of natural science and technical personnel working at state units 9.66 million in 1988 (upto 22.7 times from the 1952 figure of 425,000).

23. Bai Yiyan, "Open policy boosts technical Growth" Beijing Review, vol.30, no.39, 28 September 1987, p.19.

Important science and technical results have emerged in great numbers and many have reached or approached advanced world level. They include the gigantic 100 million-bit computer, the launching and recovering of man-made satellites, the launching of experimental telecommunications satellites, the completion and successful operation of the electron position collider, the completion of the heavy iron acclerator, developing a theoretical basis for prospecting the oil and gas belt in the basin of the Bohai Bay.²⁴

Defence:

Economic development requires huge investment while expansion of military strength needs all the more increased funds. It is hardly possible to lay equal stress on both. Nevertheless, modernization of the PLA has gone ahead in many important ways in which the "open door" has played a significant part. Firstly, closer study of advanced military experience in other countries and in modern conflicts such as the 1973 Arab-Israeli war, combined with the effects, of the shop window expeditions and the establishment of a separate Institute of Strategic studies in Beijing, have helped to familiarise China's military planners with the requirements of modern warfare. The experience of the 1979 war with Vietnam highlighted

24. Li Chengrui, "Only Socialism can Develop China", Beijing Review, vol.32, no .40, 2-8 October 1989, p.23.

many logistical, command and co-ordination deficiencies of the PLA. Secondly, China has acquired from the US important advanced radar, computer and other civil-military advanced technology equipment related to surveillance, air defences and aerospace. China now operates two sophisticated American - supplied installations which monitor Soviet military activities in Central Asia. China has also purchased helicopters and anti-tank infantry-operated missiles from France and West Germany as well as upto 1000 heavy-duty trucks and other equipment designed to improve China's logistics. Thirdly, China's naval capabilities, which have been greatly upgraded, have drawn on selective foreign purchases made earlier in the seventies.²⁵

In 1981, Deng Xioping, Chairman of the military commission of the Party Central Committee, issued a call to build the PLA into a powerful and modern regular revolutionary force. In recent years PLA commanders and fighters have made great efforts to realize his goal. Soldiers in China began to wear new uniforms made with better materials for the three services - army, navy and air force - of different colours with different collar badges and epaulets and special insignia. The new uniforms are part of their endeavours. The main aim of the reform is to strengthen interaction between the various services

25. Michael Yahuda, Towards the End of Isolationism: China's Foreign Policy After Mao, (London, 1983), p.163.

and to organize combined army branches. This reform of the military establishment will enhance the combat effectiveness of China's forces under modern warfare conditions.²⁶ The changes and reforms in the military needs to be discussed briefly.

Better equipment and weapons:

Some of the light weapons - like the recently developed new automatic rifle, sub-machine guns, are equal to advanced world standards, which will be of great importance in modern warfare to win final victory after large-scale shelling by tanks and fixed guns.

New Breed of Officer:

With the ongoing change in the military establishment, a new breed of combined branch commanders have emerged. The various armies of the PLA's three services now consider combined tactical military training as their major task. The focus of training has shifted from soldiers to officers.

Changing the Officer Corps:

The PLA has made promoting revolutionary-minded, better educated, more professionally competent and younger

26. Xiong Zhengyan, "PLA Marches Towards Modernization", Beijing Review, vol.28, no .18, 6 May 1985, p.19.

officers as important aspect of its modernization. In promoting younger officers, the Central Military Commission had changed its past practice of choosing "younger ones from among the old" to "choosing the more competent ones from the young".



Education Vital:

There are now more than 100 well-equipped military colleges and institutes for teaching and scientific research operated by the PLA, which have played an important role in training various kinds of personnel needed by the army. Vice-Chairman of the military commission of the party central committee Yang Shangkun, said recently, "The educational level of the Chinese army is now the highest in its history".²⁷

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It is a fact that the military modernization has the lowest priority of the Four modernizations. Military statistics shows that China's defence budget was 19.33 billion yuan in 1980, Y20.96 billion in 1987 and Y21.53 billion in 1988. Defence's share has dropped from 15% of GNP to less than 6% of GNP.²⁸ For the first time in many years, soldiers' and officers' pay was raised in 1988,

27. Ibid., pp.20-21.

28. Military Balance 1988-89 (London, 1989), p.147.

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but even officers' pay still lags far below that of factory workers. The million-man reduction left the PLA at about 3.5 million - still the world's second largest military force.²⁹

FOREIGN ECONOMIC RELATIONS

Opening to the outside World:

For forty years China has made remarkable progress in all fields of endeavour. Its foreign economic relations and trade have gone from being small part of the country's national economy to a large and flourishing sector. Especially since the Third plenary session of the Eleventh CCCP in 1978, foreign-economic relations and trade, guided by the policy of reform and opening to the outside world, have expanded rapidly.³⁰ The guiding ideology of China's foreign economic and trade has seen major changes since reform and opening to the outside world. China has established the strategic position of foreign economy and trade in the drive for its modernization. The development of the national economy needs to fully use domestic and

29. Harlan W. Jencks, "The Military in China", Current History, vol.88, no.539, September 1989, p.267.

30. Zheng Tuobin, "China's Foreign Trade in the past 40 years", Beijing Review, vol.32, no.40, 2-8 October 1989, p.10.

and external markets.

Of all the innovations resulting from the open door policy, the decision to solicit direct foreign investment from capitalist nations has been the most startling, since even discussion of such a possibility was taboo in the Maoist era. The Chinese have attempted rapidly to create the legal framework necessary to attract investment - including a joint venture law and special laws regulating cooperative ventures in offshore oil development. Beijing has shown remarkable flexibility in its willingness to accept diverse forms of cooperation with foreign corporations. China's preference clearly has been for joint equity ventures, but it has also promoted coproduction agreements, compensation trade, counter trade and even wholly owned foreign enterprises in China. It has "created" four special economic zones and granted special rights for dealing with foreign traders and investors to many other cities, provinces and regions, especially those in coastal areas.³¹

The open door policy also has led to a broad range of other changes in China's foreign economic relationships. Beijing has become a major participant in virtually all important international economic organizations. It has signed a large number of economic and technical agreements with foreign governments. Chinese

31. Barnett, n.l, p.55.

scientific and educational institutions have established broad ties with counterparts abroad. Perhaps most important, China has sent more than 30,000 scholars and students (the majority in scientific and technical fields) to capitalist countries - something no other communist country has done. These developments have involved China more deeply in the world economy than ever before and have created new pattern of economic interdependence. Many Chinese whose ideal is still self-reliance are either ambivalent about recent trends or openly critical of growing foreign influence. Nevertheless, Deng and other reform leaders appear determined to make the opening of the country a long term policy.³² In foreign economic relations, there have been a number of great achievements. The total volume of import and export was US \$102.8 billion in 1988. Between 1979 and 1988 a total of 16,377 agreements worth \$78.5 billion concluded between China and foreign investors.³³ In 1989 total volume of export and import reached US\$111.6 billion.³⁴

Modernization programme requires the support of Hong Kong, Japan, the EEC countries and the US, for these countries alone possessed the capital and technology.

32. Ibid., p.56.

33. Li Chengrui, n.24, p.23.

34. Yao Jianguo, "How is China's Economy?" Beijing Review, vol.33, no.11, 12-18 March 1990, p.4.

During the talks with Zenko Suzuki, Japanese Premier, Zhao Ziyang put forward three principles for the promotion of economic relations between China and Japan in the first week of June, 1982. They are: (1) The economic relations between China and Japan should be developed energetically on the basis of their present peaceful and friendly ties and in line with the 1972 Joint Statement of the Chinese and Japanese governments and the 1978 Sino-Japanese Treaty of peace and friendship. (2) The economic relations between China and Japan should speedily develop in scope and depth according to the principles of equality and mutual benefit and proceeding from each other's needs and make up for each other's deficiencies. (3) The development of economic relations between the two countries, while conforms to the fundamental interests of the two people's and their aspirations for friendship from generation to generation, should be lasting and stable and impervious to international storms.³⁸

By the mid-1980s, China's annual trade with Japan had reached \$19 billion, as compared to a mere \$3.7 billion a decade earlier.³⁹ In 1988 Japan has extended sizeable credits, totalling \$4 billion, in support of China's economic reforms.⁴⁰

38. Beijing Review, vol.25, no.24, 14 June 1982, p.6.

39. James C. Hsiung, n.3, p.248.

40. Ibid., p.277.

China's Foreign Economic Relations with Hong Kong:

The Basic Law of the Hong Kong Special Administrative Region (SAR) has been passed by the Third Session of the Seventh NPC and the concept of "one country, two systems" has been written into law on April 4, 1989 which guarantees for continuing the Capitalist System in Hong Kong fifty years beyond 1997.³⁵

In terms of economic relations, in 1989, the volume of the PRC's import and export trade with Hong Kong reached 22,233 million US\$ six times that of 1979; its exports to Hong Kong 14,267 million US\$, four times that of 1979.³⁶

Japan -

China's relations with Japan today are the closest and by far the most comprehensive of all her bilateral relations. The basis of this remarkable interaction is the commonality of interests that has developed between the two countries against a common background of an age-old cultural heritage. Special mention should be made of the Baoshan Steel Mill, since it was once considered to be the show-piece of Sino-Japanese cooperation.³⁷

35. Beijing Review, vol.32, no.18, 1-7 May 1989, p.21.

36. Hong Kong-trade figures, SWB: Weekly Economic Report: 11-4-1990, FE/W0123 A/7.

37. Reinhard Drifte, "China and Japan", in Harish Kapur, ed., The End of an Isolation:China After Mao; (Dordrecht, 1985), p.24.

Ties with the U.S.:

Since the establishment of normal diplomatic relations between China and the US in 1979, and the China's opening to the outside world, Sino-American ties have grown wider and deeper. In 1979 the two countries signed the Sino-US Trade Relations Agreement with stipulated that from February 1980, each country would grant the other most-favoured-nation treatment. The agreement created favourable conditions for the growth of economic and trade relations between the two countries. Since 1983, six meetings have been held in rotation in the capitals of the two countries. In 1987 the total trade volume of the two countries soared to US\$7.875 billion compared to the 1978 figure of US\$990 million. The US has become China's third largest trading partner after Hong Kong and Japan, and China rose to become the 13th largest US trading partner.⁴¹

Ties with the EEC:

The historic decision to establish diplomatic relations was taken in 1975 at a meeting in Beijing between the then Chinese Prime Minister, Zhou Enlai, and the European Commissioner for External Relations, the late

41. Wang Pingqiang, "Sino-US Trade Cooperation Expands", Beijing Review, vol.31, no.25, 20-26 June 1988, p.14.

Sir Christopher Soames. There has been a continuous dialogue since then between the Chinese and European commission representatives. A certain convergence of interests, at both the political and economic level, has ensured the smooth development of China-European Commission relations.⁴² It is discussed in the subsequent chapters in detail.

42. Commission of the European Communities, Europe Information, External Relations, (Brussels), No.90, March 1988, p.1.

CHAPTER - II

CHINA'S ATTITUDE TOWARDS EEC

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The important factors that have influenced China's foreign policy are domestic needs, politics, national interest, ideology, nationalism, international environment, the balance of power, historical experience and cultural values. However, it is believed that China's foreign policy and foreign relations have actually and largely hinged on its relations with the two superpowers. When its relations with one or two of them changed or altered, its relations with many countries also changed accordingly.

It is in this context that China's relations with Western Europe in general (political) and European Economic Community in particular (economic) attracts our attention. People's Republic of China has formally set up diplomatic ties with the European Economic Community by sending its first ambassador Li Lienpi to the council chairman in Brussels on 15th September 1975. Thus China became the 103rd country to send a mission to the E.E.C.¹

1. China to have diplomatic ties with EEC. Economic Times, (New Delhi), 14 September 1975.

China and the Second World

Sino-American rapproachment has brought a decisive change in China's position in the world (and the United States as well) has down played ideology and shifted its emphasis in the direction of trade, economic, cultural, and technological cooperation with other countries. China's foreign policy towards Europe has also been influenced by its relations with the two superpowers. In the 1950 Peking considered Western Europe as part of the capitalist camp headed by the United States.² "In the 1960's Peking encouraged West European countries to assert their independence from both superpowers. Since the 1970s Peking has considered West European unity as an effective instrument against Soviet hegemonism and as a factor in the United Front Strategy. The Chinese--West European relations are gradually emerging as an important factor in the international scene. In particular, the Chinese see Western Europe as a key area of attention in their search for greater strategic security, economic development and regional and global influence. The Europeans are also aware of the commercial and security value of China. To the extent that both sides share common

2. Chun-Tu Hsueh, ed., China's Foreign Relations : New Perspectives, (New York, 1982), p.4.

interests in their quest for a greater voice in an increasingly multipolar world, they can be regarded as "objective allies."³

Evolution of a New Relationship

In recent years, growing relations between the People's Republic of China and the nations of Western Europe have become a notable feature of international politics. The two sides have not yet developed their relationship to the point of formal alliance, nor are they likely to, in view of the substantial differences between them. Nonetheless, there has been a dramatic increase in their mutual ties, and a continuation of this trend is possible in the immediate future. A new relationship, based on a growing convergence of interests, is gradually taking shape between China and the major states of Western Europe, both on a bilateral basis and within the broader framework of European community. This relationship has contributed significantly to the emergence of China and Western Europe as major actors in the multipolar global system of the 1980s.⁴

3. Ibid., p.5.

4. Stephen J. Morris, "Chinese Policy Towards Eastern Europe Since 1968", Contemporary China vol.2, no.3, Fall 1978, pp.10-22.

"On the Chinese side the possibilities for gain are substantial, and this has stimulated Beijing's desire to court the Europeans. The People's Republic of China has three distinct foreign policy interests in Western Europe, namely, strategic security, economic modernization, and regional and global influence, in that order of importance. The Chinese hope that closer relations with European Communities will give them greater opportunities to pursue a balance of power strategy toward the Soviet Union, and, to a lesser extent, the United States. Better ties have provided Beijing with the advanced weapons and technology required to bring China's military forces up to modern world standards. In addition, the People's Republic of China has in recent years embarked upon an ambitious programme of economic development involving the acquisition of high-level industrial technology in Western Europe. This will necessitate a greater Chinese export drive in the European community countries to pay for these costly purchases, and avoid excessive trade deficits and over-reliance on external financing. Finally, the Chinese believe that stronger links with Europe will help augment their influence in the Asian region and in the global system as a whole. In this light

closer Sino-European relations are highly attractive to Peking."⁵

It is hoped that with the emergence of China and the European community bloc as major centres of influence, the evolution of a global balance of power system will become possible. Indeed, so keen were the Chinese to argue their case for an independent European foreign policy, that they sometimes went too far. To many bemused observers, the Chinese, in their fervent exhortations for greater vigilance against the superpowers, seemed to be "plus Européens que les Européens."⁶

Background to Chinese Policy :

Thus, as we enter the 1980s China's ties with West Europe have taken on a significance that was not apparent in the cold war years. The 1980s proved to be a period of considerable importance as the two sides strive to define their foreign policy goals. Over the years,

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5. Dick Wilson, "China and the European Community", China Quarterly, no.56, July-September 1973, p.650.
 6. Raymond, F., Wylie, "Chinese Policy Toward Western Europe : A New Relationship in the 1980s" - in Chun Tu Hsueh, n.2, p.100.

Peking has built up an effective institutional structure for dealing with policy toward West Europe. There is a West European department within the Ministry of Foreign Affairs, and its staff includes both area and functional specialists with personal foreign experience.⁷

In the Ministry of Trade there is a West European section within the third bureau that is responsible for overall trade with the west, excluding Japan. Chinese embassies throughout Europe were expanded and upgraded in the course of the 1970s. These embassies keep China well informed about current developments in their host countries, as does the New China News Agency, which has set up offices in all major West European capitals.

Security Issues

Western Europe is a valuable resource for the Chinese defence effort vis-a-vis both Moscow and Washington, although current Beijing leaders have continued the Maoist policy of aligning with the United States against

7. George, P. Jan, "The Ministry of Foreign Affairs in China Since the Cultural Revolution." Asian Survey, (California), vol.17, no.6, June 1977, pp.513-29.

the Soviet Union. Western Europe is gradually modifying its dependent relationship with the United States and the trend toward a new, distinctive European voice in world affairs is reinforced by the continuing growth of supporters of European unification, even in its political dimensions, although they are aware of the many obstacles that lie in the way.⁸ Still, Beijing does not wish to encourage a complete break between Europe and the United States for the simple reason that American military might in Europe is more impressive to the Russian than anything Europe, United or not, is likely to put in its place. So, while supporting the European Community and the distant goal of European unification, the Chinese are also careful to voice their approval of a continuing American military presence in Europe. In particular, they are enthusiastic backers of NATO, which is headed by the United States, and even express fears that the alliance might not be strong enough to cope with burgeoning Soviet Power.⁹ In the eighties, not only the relationship between China and the US has improved significantly but also the normalization of US-Soviet ties has taken place especially after the withdrawal of Soviet troops from Afghanistan and partial pull out of Vietnamese troops from Kampuchea.

8.. Beijing Review, vol.23, no.3, 10
January 1980, p.15.

9. Ibid., vol.23, no.48, 29 December 1980, p.10.

Economic Modernization

It is earnestly hoped that a concerted effort for the remainder of the century will bring about major advances in agriculture, industry, defence and science and technology, at which time China will join the ranks of the World's developed societies. The outcome of this campaign is uncertain, but Beijing has stated explicitly that "China needs the European community's advanced technology and equipment in its drive for realizing the four modernizations" in the shortest possible time.¹⁰ China-EEC economic cooperation is discussed in Chapter IV.

Regional and Global Influence

Chinese leaders are determined, on the basis of the realization of its enormous economic and military potential, to achieve for their country a greater role in world affairs. They are seeking an international position fully commensurate with their present strength. Beyond the Asian region, the Chinese aspire to a genuine global role, not in the sense that they will be able to dictate policy in remote corners of the world, but only that their

10. Zhou Cipu, "China and the European Communities : Growing Economic and Trade Relations," Beijing Review , vol.22, no.11, 16 March 1979, p.24.

opinions will count in determining outcomes of importance to them.

New Chinese Diplomacy

It is interesting to note that hardly any attention was paid to the European Economic Community during the cultural revolution. Thus the cultural revolution has rendered the Chinese decision-making process completely inoperative in the field of diplomacy, and the whole period, is principally characterized by the absence of any real foreign policy towards Western Europe.¹¹ From the evidence that is available, especially after the cultural revolution, it could even be argued that the European Community was the most acceptable and the most visible tip of the Chinese diplomatic iceberg. A combination of factors and developments favoured the new position. In this context four important points have been outlined by Harish Kapur in the following paragraphs.¹²

In the first place, within the framework of the new diplomacy, the EEC was more acceptable because in the

11. Harish Kapur, China and the European Economic Community : The New Connection, (Dordrecht, 1986), p.19.

12. Ibid., pp.24-25.

newly-reviewed Maoist thinking, it was perceived as one of the two "intermediate zones" with which the establishment of close relations was ideologically permissible.

Secondly, the EEC had become a major economic centre manifesting some degree of autonomy from the United States on a wide spectrum of issues.

Thirdly, the ongoing trend towards economic autonomy might also eventually result in military autonomy, thus introducing into the international political scene a new autonomous force that could counteract both the United States and the Soviet Union.

Lastly, the community had an additional political attraction. China no longer had any major areas of conflict with any of its members. Thereby clearing the way for a possible China - Third World - EEC entente - a possibility which China considered as significant. Thus the path was clear for China to break out of her self-inflicted isolation. The national and international situation had developed into an appropriate setting for a completely different approach to the EEC as an important and very visible target of new Chinese diplomacy.

Common Views

There are solid political foundations to develop long-term and stable economic and other cooperation between China and the European communities. They have no conflicts of fundamental interests, and share common or similar views on many issues. China's way to stand up to the present tumultuous world situation is to strengthen itself, go ahead with its national construction and eliminate poverty and backwardness. And a prosperous and stable China is in the interests of Europe as well as other areas.¹³ Western Europe and China can combine their respective strong points to make up for their weaknesses. China has abundant resources and a vast market while Western Europe has advanced technology and funds. Further development of economic and technical cooperation is both necessary and beneficial for both sides. Chinese foreign minister Wu Xueqian spoke positively of the European communities' desire for relaxation of East-West relations as one of the manifestations of the growth of forces for peace in the world.¹⁴ In other words, both China and Western Europe now seem to be adopting an appropriately subtle realism toward the subtle realities of our increasingly plural world. That is why both welcomed

13. Ibid.

14. Xinhua News Agency, Beijing, 8 December 1985.

the Geneva summit and the relaxed atmosphere in East-West relations after it.¹⁵ The potential of such cooperation is great and prospects are bright. It will be wise to perceive this cooperation from a long term point of view.¹⁶

Stablizing Factors

Until recently in their pursuit of global domination, the super powers were contending for nuclear supremacy worldwide and particularly in Europe. It is precisely in this context that China understands, respects and supports the mass movement for peace and nuclear disarmament in West Europe and elsewhere. In a world where the main source of turmoil and instability is the superpower contention for world hegemony, it is wrong to go along with either without deliberation and reservation.¹⁷

Both China and the EEC have common interests in maintaining peace and stability. An enduring peace is indispensable for China's modernization. And, Western Europe

15. Shen Shouyuan, "Sino-European Relations in the Global Context", Asian Survey, vol.XXVI, no.11, November 1986, p.1175.

16. China Daily, 12 November 1983,

17. Ibid.

twice ravaged in the holocaust of world war during this century, naturally craves for peace. China has always thought highly of the important role Europe plays in the world, and has repeatedly stated that "a united and strong Europe is an important force making for world peace."¹⁸

Chinese' Policy Statements toward EEC Since 1979

The applicability, coherence and utilization of identical language by different Chinese leaders to explain their point of view is a characteristic feature of Chinese diplomacy.¹⁹ From 1979 to 1988 we can see the use of identical language in the form of statements by the Chinese leaders. An even more significant sign than the press articles on this change of new diplomacy seemed to be the positive and the benevolent declarations by the Chinese government leaders. Apart from this, the appearance of news, favourable commentaries, interviews and declarations in the Chinese and foreign press were presumably expected to serve the purpose of signalling to West Europeans the new Chinese attitude towards the EEC.

18. Shen Showyuan, n.15, p.1177.

19. Kapur, n.11, p.29.

Premier Hua Guofeng on February 24, 1979 when he met with Mr. Jenkins, President of the commission of the European communities said that "China hopes to see a united and strong Europe. Our European friends also hope that China will be prosperous and powerful. This is our common starting point in developing relations between China and the European communities."²⁰

On 7th November 1983, Deng Xioping said at a meeting with the EEC President, Gaston Thorn that a united and strong Europe is necessary for maintaining world peace. "We also hope that the European countries pursue a policy of independence", he said.²¹ The same day at a meeting with Gaston Thorn, Premier Zhao Ziyang said that friendly cooperative relations between a united and strong Europe and a prosperous and strong China will constitute an important factor in maintaining world peace and stability.²²

On 10th May, 1988, Premier Li Peng talked about Europe during a meeting with Irish President Hillery. China considers Europe a partner in economic, scientific and technological cooperation, Li said. He also noted "Since Europe, both Western and Eastern, is a force for

20 Zhou Cipu, n.10, p.23.

21. China Daily, 8 November, 1983.

22. Ibid.

peace, China wants to see united and powerful Europe. China also wishes to see increasing contacts and cooperation between the continents - Eastern and Western blocs."²³

Towards the western Europe, China has tripolar structure of objectives within a cohesive concept (i) to preserve and strengthen the political independence, (ii) the military strength and (iii) the economic competitiveness of Western Europe. This policy is to prevent Western Europe from being even more dominated by the USA and thus use tension within the Western camp to China's own advantage on the one hand and, on the other, to ensure western Europe's security in the face of the Soviet threat, thus bolstering China's own security. Naturally, Beijing realises that Western Europe can not look after its own defences - either now or in the foreseeable future. This has resulted in a change of China's attitude towards NATO and the alliance's significance for the defence of Western Europe. Beijing's more relaxed relations since the beginning of the 1980s with both Washington and Moscow have added some weight to its ties with the European countries.²⁴

23. FBIS China Daily Report, CHI - 88 - 990, 10 May 1988.

24. Peter J. Opitz, "China's Policy Towards Western Europe" Aussen Politik (Hamburg), vol.37, no.3, 1986, p.253.

China's Interest in a Strong Western Europe :

There has been no major change to this day that a strong Western Europe is in China's vital interest.²⁵ It is to be noted that "China is the only major power to desire, without reservations, that Europe should become more powerful."²⁶ It is in this context that the Chinese policy remained unchanged regarding the strengthening of Western Europe's political independence, military strength and economic competitiveness.

The Enlargement of the European Community

The Chinese leadership is no longer moved by its earlier motivation of exploiting contradictions among the member countries of the EEC, and of attempting to play one against the other.

As a consequence to the tripolar structure of objectives, Beijing kept a close watch on the European unification process and applauded not only the 1973 enlargement of the community by Britain Denmark and

25. Ibid., p.258.

26. Ibid.

Ireland but also further enlargement plans in 1981 by Greece and in 1986 by Portugal and Spain.

EUREKA . Beijing sees the EUREKA programme not only as "an important step towards a united and strong Western Europe" but also as an evidence of the "old world's determination to become independent of the USA militarily, economically and technologically."²⁷

SDI and EUREKA

Strategic Defence Initiative Programme was announced in 1983 by Reagan administration and invited Europeans to participate in it. For China this amounts to a new attempt to harness Western Europe's resources for the struggle with the Soviet Union over world rule, to prevent a Finlandisation of Western Europe and to cement America's own control over it. Beijing is particularly sensitive to the danger that the SDI programme could "siphon funds, technologies and expert personnel from Europe to the USA and that it could thus downgrade European resources to mere processing factories for American technology."²⁸

27. Ibid., p.260.

28. Beijing Review, vol.28, no.47, 15 November 1985, p.15.

Change of Attitude Towards NATO

While in the 1970s, NATO had been attacked as an alliance of imperialist states, it now, (in the 1980s) in the light of the anti-Soviet unity front, begun to be viewed as an indispensable pillar of Western strength and European security in the face of the Soviet threat. The regard in which NATO was now held so great that China was on occasion referred to as the 16th NATO member.²⁹

Europeanisation is considerably more positive in China's assessment of the "new trend" towards a "Europeanisation" of West European diplomacy in a bid to avert a confrontation of the two superpowers. Beijing welcomed not only Western Europe's trend towards a Europeanisation of its diplomacy but also its efforts to bring the two superpowers back to the bargaining table and to expand relations with East European countries and thus build bridges to detente, understanding and stability within Europe. Beijing also hopes that Western Europe's EUREKA programme would prevent a looming monopoly of space by the two superpowers.³⁰

29. Opitz., n.24, p.261.

30. Ibid., p.262.

Beijing's influence on military and political developments in Europe is minor and basically restricted to diplomatic advice. The only sector in which China can have a direct influence is that of economic cooperation.

CHAPTER - III

**FOREIGN POLICY PERSPECTIVES OF THE EUROPEAN
ECONOMIC COMMUNITY AND ITS
ATTITUDE TOWARDS CHINA (1980's)**

CHAPTER - III

FOREIGN POLICY PERSPECTIVES OF THE EUROPEAN ECONOMIC COMMUNITY AND ITS ATTITUDE TOWARDS CHINA

(1980's)

BACKGROUND

The European Economic Community (EEC) established in 1957, has twelve member countries with a population of over 320 million. It grew from a desire to build a peaceful and prosperous Europe after the horrors of two world wars with its main aims - promoting peace, providing a better life for Europeans, helping world trade and making Europe's voice heard in the world. The community is a group of free and democratic states committed to pursuing an even greater degree of unity through common economic rules and policies. However, it does not pretend that this will be easy.

The European community is the world's largest trading unit. It accounts for 22 percent of world trade and has commercial links with almost every country in the world. The community is much more than customs union aimed at the free movement of goods, labour and capital in Europe. It has a common commercial policy for trade with countries outside the community. So far it has negotiated trade

agreements with more than 120 countries and maintains diplomatic relations with 126 countries.¹ It also has a common agricultural policy and is implementing shared policies and strategies in fields as diverse as : development aid, industry, energy, transport, fisheries, social and regional policy, the environment, scientific research, company law and monetary affairs.² Political cooperation lies at the heart of the European community.

Framework of the Foreign Policy

The European Community took almost two decades, from its first steps towards the economic unity, before embarking on the difficult waters of foreign policy coordination. However, great strides have been made in integrating the economies of its members. There has also been progress towards the development of a common foreign policy. Since the community is a customs union, it had from the beginning to adopt common external policies in many areas, of trade and economic relations. But there was no Treaty obligation to consult on foreign policy as such, It was some years before the interaction of external economic policy and foreign policy proper led

1. Delegation of the Commission of the European Communities for South Asia, The European Community, (New Delhi), 1985.

2. Ibid.

the members to establish the system which bears the somewhat colourless title of European political cooperation. So political cooperation grew naturally out of economic integration. And over the years the realization has grown that economic policy and foreign policy are Siamese twins.³

In politics, as in economics, the countries that make up Western Europe are too small today to operate successfully on their own. They have to find a unified response to modern problems if they are to control their own destinies. The political side has in fact moved faster in recent years than the economic, catching up with the economic integration registered in the early period.

It is of vital importance to know what are the major areas of activities of which the community takes interest. Firstly, the more controversial area of European activity is the middle east. It is in this context that the critics of the European efforts in this field sometimes forget that the Venice Declaration of June 1980 was issued at a time when the Camp David process was for various reasons in doldrums and likely to remain so far

3. International Herald Tribune, (Paris), 9 October 1982.

some time.⁴ At that time, even the most moderate Arab leaders were demanding to know what the West as a whole was doing to promote the generally accepted goal of a just and lasting settlement. The US was unable to give a satisfactory answer. At Venice the European community, whose economic interests of course were even more indirectly involved in the region that were those of the US, suggested some principles for progress. They were balanced and realistic. They included, of course, Israel's security. But they also covered the Palestinian problem with an emphasis different from that of Camp David. The community drew attention to the right of the Palestinian people to determine their own future and suggested that the Palestinian Liberation Organization must be associated with any peace efforts.⁵

Regarding the Soviet invasion of Afghanistan, the community exposed to the world the hollowness of Soviet claims to champion peace and self-determination. Moreover, it continued to work hard for a Soviet withdrawal,

4. Lord Carrington, "The Foreign Policy of the EEC : Europe in the 1980s", (Address, 23 September 1981) Vital Speeches of the Day (New York), (48), 15 October 1981, p.8.

5. Ibid.

so that Afghanistan may regain its independence. The community also called for total withdrawal of Vietnamese occupation troops from Kampuchea to pave the way for the political settlement of the long standing Kampuchean problem.⁶ While delivering a lecture to the Foreign Policy Association of New York, the former British Secretary of State for Foreign and Commonwealth Affairs, Lord Carrington said, "In the years ahead, I expect European political cooperation to develop pragmatically. There will be no grand design, no abolition of national foreign policies, no Euro-Foreign office, no one Foreign Minister to the power of ten. (Since 1986 twelve members). But my nine colleagues and I will meet more often. We shall extend the range of subjects on which we concert. We shall launch more initiatives, and more of them bring results."⁷

So far the community has either at the Foreign Minister's level or in the European parliament, discussed in detail all the major political developments in every regions of the world and adopted several declarations on human rights. Now the question is, will this develop-

6. EC calls for Vietnamese Troops Pull out from Cambodia, FBIS (China Report), 26 July 1988, p.10.

7. Ibid.

ment of European political cooperation be in America's interests? In fact, it is, because the community feels that it would be fruitful, not harmful, for Europe to operate in parallel to the US.⁸ Europe has political and commercial ties with areas of the world with which America is less familiar. In Africa for example, there are leaders who are used to dealing with the Europeans and who feel at ease with them. The links that are being built up between the Community and the Association of South East Asian Nations (ASEAN) may in time produce something similar in another region of the world. European political cooperation by involving all the community members directed to the world as a whole can give the west a greater flexibility and diversity in its international efforts. It can enhance both a sense of responsibility and a sense of involvement. The traditional concept which stresses that only the superpowers can play a role on the world stage has been challenged nowadays. Hence, Europeans attach a very high priority to arms control negotiations which will make a real contribution to Western security.⁹

8. "Western Economic Summit", Bulletin of the European Communities, vol.22, nos.7/8, 1989, p.131.

9. Carrington, n.4, p.8.

Community's Attitude Towards China

The European commission reacted positively to Chinese signals. With the acquisition of a new mandate to negotiate commercial treaties on behalf of all member states, with state trading countries, with effect from 1 January 1975 and with other countries a year earlier, the stage was set for an increased international role. In fact, in some areas, it had already begun to do what the member states had done so far outside the community: cooperate with other international organizations, participate in international conferences, accept foreign diplomatic representations and set up its own diplomatic offices in third countries. However, this new role which anticipated actually conducting negotiations with governments, was clearly a qualitative leap in the development of the commission's international character.¹⁰

Admittedly the commission had to operate under the supreme authority of the European council, whose enlarged mandate on the EEC's foreign relations had become evident, but the fact that the commission had been assigned new responsibilities to negotiate international

10. Harish Kapur, China and the European Economic Community : The New Connection (Dordrecht, 1986), p.30

trade agreements was viewed as an opening and as an incentive for an even more extensive role in the future.¹¹

The Chinese signals, therefore, could hardly be ignored as the establishment of relations with them could only contribute to the further enhancement of the commission's role in the ongoing process of becoming an international participant. The general circumstances were sufficiently favourable for inauguration of EEC China normalisation. The international setting was favourable. The US was no longer an obstacle. Nixon's official visit to China in February 1972 had put the two countries on a course of normalisation, thus putting an end to more than two decades of troubled relations.¹²

Moreover, developments within the community opened up possibilities for developing relations with China. All the members states of the community had established diplomatic relations with China. In addition, the European council had already had its first favourable discussion on China (beginning of 1974), and the European parliament conscious of the political support had extended to west European integration had taken the

11. Ibid., p.31.

12. Ibid.

initiative to recommend to the European Commission, at its February 1973 session, to take 'all appropriate initiatives to strengthen economic and trade relations between the community and the People's Republic of China.¹³

Economic factors, too, favoured the development of relations with China. The Chinese economy at least in the early seventies was perceived to offer major prospects of a vast market, which if not cornered in time, might be lost to the Japanese, who were already active in China, and to the Americans who were actively involved in developing relations with China.¹⁴ The Chinese market was considered to be so great that reports were published in Brussels regarding the vastness of China, the richness of her raw materials, the impressive level of growth, and the potential capacity of that nation to effectively absorb goods emanating from other countries. The report of the European Parliament's Committee on External Economic Relations, which underlined the importance of dealing with China : 'the world's most populous country whose human and natural resources are immeasurable and which will play an

13. European Communities, European Parliament, Working Documents, 1976-77, 5 May 1977, Document 76/77, p.9.

14. Harish Kapur, "China and the European Economic Community," in Harish Kapur (ed.), The End of an Isolation : China After Mao, (Dordrecht, 1985), p.83.

increasing role in the last quarter of the century.'¹⁵ The declaration of the president of the European Commission who considered that China was 'potentially an enormous market',¹⁶ and who accepted the optimistic Chinese estimates of their capacity to absorb \$ 25 to 35 billion worth of goods from the outside. All these factors reflected the great possibilities of Sino-EEC understanding.

However, this general mood of economic optimism was not only limited to the community institutions. The West European business circles were also attracted by the 'next growth market',¹⁷ and it is more than likely that their pressure on the community to make contact with China was by no means negligible. A number of companies had begun to send more and more executives to establish contact, to participate in trade fairs, to hold discussions in technical forums and to negotiate contracts. The extent of their growing interest can be gauged from the trade fairs they organised.

16. European Communities, European Parliament, Working Document, 5 May 1977, p.147.

17. Clyde H. Farnsworth, 'China with Energy Potential Seeks Goods, Arms in Europe', International Herald Tribune, 12 November, 1975.

Over 350 West German companies opened a trade fair called 'Techno Germa' which was the biggest foreign exhibition ever organized in China.¹⁸ The commission held a seminar on the reform of China's foreign trade system in Brussels on 7 and 8 July 1982. In response to the wishes of the Chinese authorities, the commission has organized a new trade seminar in Brussels from 2 to 7 December 1985. Around 300 European companies took part in this seminar. A 200 strong Chinese delegation headed by Mr. Zhang Jinfu, State Counsellor, and including notably leaders from the 11 large provinces, had gone to present nearly 240 projects concerning the purchase of equipment, technology and investment.¹⁹

The commission therefore took two initiatives. While continuing to maintain informal contact with the diplomatic personnel in the Chinese embassy accredited to Belgium, it forwarded to China as it did to other State Trading countries (a memorandum in November 1974) accompanied by an outline agreement, laying down broad provisions for the conclusion of a possible trade agreement between the two parties. Furthermore, it responded

18. Ibid.

19. Commission of the European Communities, Europe Information External Relations (Brussels), no.83, November 1985, pp.9-10.

favourably to the official invitation to Sir Christopher Soames, then commissioner for Foreign Relations to visit China.²⁰ The manner in which the agreement was transmitted showed an EEC bias towards China. Whereas the outline agreement was transmitted to the Soviet Union and to the East European countries through normal diplomatic channels, Soames made it a point to receive the Chinese ambassador to Belgium personally in order to hand him the outline agreement, and to explain at length the intention and content of the invitation to China to conclude an agreement with the EEC. The decision to discriminate in favour of the Chinese by using a more personnel and more direct channel was clearly intended as a gesture to place China in a privileged position in relation to the other socialist countries.²¹

China's response to the EEC memorandum was positive. It accepted the invitation to negotiate a trade agreement, but made it clear that China would not like to be placed in the same category as the Soviet Union and other East European countries. In effect, Beijing

20. Harish Kapur, n.9, p.34.

21. Ibid.

was making it a point to separate herself from other socialist countries. This was not only a reflection of the Sino-Soviet dispute, but was also an attempt on China's part to put herself in a favourable situation vis-a-vis the community in the hope that it would probably help in obtaining more beneficial treatment than other socialist countries.²²

The fact that this strategy did pay off is evident from the liberal attitude adopted by the EEC regarding Chinese imports. Pending the negotiation of a trade agreement and in order to ensure continuity of trade, the community adopted import arrangements for state trading countries under which the Chinese were slowly allocated higher quotas than the other state trading countries.²³ Later on China's request to be excluded from the regime of state trading countries was also met.

The technical obstacle which had come on the way to Sino-EEC normalisation also disappeared. On the one hand, the textile agreement between the EEC and Taiwan

22. Ibid.

23. European Communities, European Parliament, Working Documents (Brussels) 1977-78, Document 188/77, p.7.

has expired on 1 October 1973 an indispensable pre-condition for Sino-EEC normalisation. On the other, the community considered the Government in Beijing 'as the sole legal Government representing the Chinese people and that it had no official relations with Taiwan.'²⁴

Since bilateral trade agreements between China and the EEC member states have expired at the end of 1974, as a result of decisions taken by the community authorities regarding the introduction of a common commercial policy. Thus, all the technical obstacles have been removed.

Finally, both the community and China see their cooperation as contributing to international stability. It is of vital importance to draw the attention here that the committee on Development and Cooperation of the European Parliament concluded in 1986 that 'a fair and consistent' policy of cooperation with China 'is a positive option for the future from the point of view of both East-West and North-South relations.'²⁵ The year

24. EEC President, Gaston Thorn visits China., China Daily, 8 November 1983.

25. Commission of the European Communities, Europe Informations - External Relations, no.90, March 1988, p.1.

1988 will be marked by a further milestone in EEC-China relations: the opening by the European Commission of its own office in Beijing, to be more formally known as the Delegation of the European Commission to China.²⁶

EEC & Tiananmen Square incidents

The relationship between the community and China has been progressing very smoothly. But the Tiananmen Square incident in Beijing on 4 June 1989 has, of course, disturbed the relationship between the two temporarily. The West criticises the Chinese leadership because of their violent repression of peaceful protestors. Sanctions against China were imposed by the World Community - particularly the US, European Community members and Japan. In this regard the Twelve issued the following declaration on China in the form of joint statement in Madrid and Brussels on 6 June 1989:

'The Twelve, deeply shocked by the tragic developments in China, strongly condemn the violent repression used against peaceful demonstrators, which has resulted in widespread loss of life there. They note that serious unrest continues.

26. Ibid., p.16.

The Twelve urge the Chinese authorities to stop the use of force against the unarmed civilian population in Peking and elsewhere.

The Twelve appeal to the Chinese leadership to engage without delay in the search for a peaceful solution to the present conflict. Such a solution can not be attained without political dialogue. Continuing repressive actions, in violation of universally recognized human rights principles, will greatly prejudice China's international standing and compromise the reform and open-door policies which the European Community and its Member States have actively supported'.²⁷ In the follow-up action, the European council thought it necessary to adopt the following measures:²⁸

- (i) Raising of the issue of human rights in China in the appropriate international forums; asking for the admittance of independent observers to attend the trials and to visit the prisons.
- (ii) Interruption by the Member States of the community of military cooperation and an embargo on trade in arms with China.
- (iii) Suspension of bilateral ministerial and high level contacts.
- (iv) Postponement by the community and its Member States of new cooperation projects.
- (v) Reduction of programmes of cultural, scientific and technical cooperation to only those activities that might maintain a meaning in the present circumstances.

27. Bulletin of the European Communities, vol.22, no.6, 1989, p.87.

28. ibid., p.17.

(vi) Prolongation by the Member States of visas to the Chinese students who wish it.

Taking into account the climate of uncertainty created in the economic field by the present Chinese authorities, the European Council advocated the postponement of the examination of new requests for credit insurance and the postponement of the examination of new credits of the World Bank.

However, EEC countries agreed at the Strasbourg Summit in December 1989 to restore government export credit financing.²⁹ It shows that "sanctions" imposed on China is a temporary arrangement. Moreover public opinion in the Western Europe can not be ignored by the community.

While reacting to the sanction imposed on China, the Chinese leadership felt that certainly it has caused temporary difficulties for China. But it will not yield to foreign pressure, nor will it be destroyed by such "sanctions". China believes that it relies mainly on its own resources for national construction, while at

29. Colina MacDougall, "China's Move to win Western Favours", Times of India, (New Delhi), 15 January 1990.

the same time, it opens its door to the outside world and absorbs advanced foreign technology, management expertise and funds. China feels that, on the contrary, imposition of "sanctions" will cause greater losses to those who take such actions.³⁰ In this respect, the party general secretary Jiang Zemin also said 'No economic blockade or sanctions of any kind can produce decisive efforts on China with its vast territory and large population'.³¹

The more recent announcement by the head of the delegation of the commission of the European community for South Asia, Robert Houlston that EEC's aid to Asia and Latin America is proposed to be doubled for the period 1991-95 (2,900 million ECU's), with the accent on tackling problems of poverty and environment.³² Thus, the proposed assistance would set at rest fears of any erosion in EEC's policies of cooperation with developing countries especially in Asia.

30. Dai Yanian, "China's Second Strategic Goal", Beijing Review, vol.33, no.1, 1-7 January 1990, p.5.

31. Ibid., p.7.

32. EEC plans to Double Aid to Asia, Financial Express (Bombay), 20 May 1990, p.3.

Houliston explained that there were now essentially two distinct approaches to cooperation between EEC and the developing countries in Asia developing assistance on the one hand through financial and technical cooperation and food aid, and economic cooperation on the other by promoting exports and European investment as well as training, cooperation in industry, science and technology. While development aid was necessary, he pointed out economic cooperation met the mutual interest of the community, and the developing countries.³³ Moreover, from Houliston's announcement regarding the relationship between the EEC and the developing countries in Asia, We can strengthen our argument by saying that "sanctions" imposed on China is only a temporary arrangement. Even the Chinese side feels that it has caused certain temporary difficulties for China.

The European community's basic policy perspectives in general and its attitude towards China in particular draws our attention to certain concluding facts that EEC acts on its blue print for a multi-layer structure of association with third world countries including

33. Ibid.

China. They are (i) to seek stabilization of the situation in some third world countries mainly through political and economic means ("Europe - Arab - Africa" dialogue and "North-South " dialogue) (ii) to make economic concessions which do not impair the basic interests of the industrialised countries, and lastly, to form, whenever possible, through preferential arrangements like most favoured nation treatment, signing of cooperative agreements and various kinds of "assistance", an EEC centred political and economic system embracing certain countries in the third world.³⁴ Hence, by opening to the West, China benefits a lot from the European Economic Community.

34. Guo Fengmin, "West European Countries - The Canons of their Foreign Policy", China and the World(2) (Beijing, 1982), p.114.

CHAPTER - IV

CHINA-EEC : ECONOMIC COOPERATION

Chapter - IV

China-EEC : Economic Cooperation

Of particular interest to China is the fact that EEC countries have been more liberal than other western countries in sales of technology. Of the 3000 items of technology purchased by China over the past three years from 1983-1986, 40% came from EEC countries.¹ During the same period EEC has been alternating with America as China's third or fourth largest trade partner.² Marked progress has been made in China-EEC economic and technical cooperation.

In the meantime, frequent exchange of visits by top leaders and fruitful consultations on various levels have brought closer political ties. For instance, the President of EEC, Jenkins visited China and discussed with Premier Hua Guofeng³ and in 1980 French President Giscard d'Estaing paid a week long official visit.⁴ In addition to institutionalized regular political consultations between the Chinese government and the European Community there have been regular annual sessions

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1. China Daily, 1 January 1986.
 2. People's Daily, 3 January 1986.
 3. Zhou Cipu, "Growing Economic and Trade Relations: China and The European Communities", Beijing Review, vol.22, no.11, 15 March 1979, pp.23-24.
 4. Beijing Review, vol.23, no.43, 27 October 1980, p.3.

of mixed committee and annual ministerial conferences, between China's Ministry of Foreign Economic Relations and Trade and the Commission of the European Community. In 1984, China established official relations with the European Coal and Steel Community and the European Atomic Energy Community.⁵

Promotion of exchanges and contacts

- 1) Training schemes : research students, interpreters, statistical experts, customs officials, business management and modernisation.

Education and vocational training are as necessary to the development process as capital and technology. They have gained added importance in the context of "the four modernisations" programme. The result is a very wide range of educational and training programmes which the community has set up, both in China itself and in the Member states.

A number of grants were awarded from 1980 onwards, mostly to postgraduate research students, for both short-term and longer courses of specialist study at the community's universities.

5. Beijing Review, Vol.27, no.16, 16 April 1984, p.10.

In 1980 three professors from the no.1 Foreign Language Institute in Beijing have been admitted by the Commission's Joint Interpreting and Conference Service for the interpretation of Conference.

From 1981 to 1984 the joint service provided for ten official interpreters from three ministries in the People's Republic of China.

Contacts established following a visit by Senior Chinese Customs officials to the Statitistical Office of the European Communities (SOEC) in July 1979 have been renewed. The SOEC and the Computer Centre have been a taking number of officials each year from the central Chinese Customs administration to familiarize them with the community's statistical system.

Since 1982, community customs experts have been giving courses at the Foreign Trade Institute in Beijing, as part of a programme spread over several years.

In November 1983 a number of Chinese customs official spent a month with the commission's Customs Union Service, and a similar exercise took place in 1984.

In recognition of the importance the Chinese authorities attach to business management training, the commission

has allocated 3.5 million ECU from its programme of aid to non-associated developing countries for a project - the largest of its kind ever undertaken by either party - in the People's Republic.⁶ The aim of the China-EEC Business Management Centre, Beijing, was both to set up a new post-graduate institution and develop teaching methods specifically adapted to the Chinese situation. Lectures are given by European professors. The community aid was to finance the first two intakes of MBA students, from 1985 to 1989. The course lasts 2 years and is followed by a 6-month period of training in Europe.⁷ The first group of 34 students was awarded their MBAs in Brussels in June 1987. The next group of 66 embarked on the course in March 1987.⁸

A programme of inter-university cooperation was begun in 1987, following a meeting between rectors of Chinese and European universities.

(2) Information and Study visits

Chinese visitors to the Commission include radio and television journalists, teachers and students.

6. China Daily, 15 February, 1985.

7. China Daily, 7 March, 1985.

8. Commission of the European Communities, Europe Information: External Relations, no.79, May 1984. p.4.

"A series of special programmes designed to familiarize Chinese officials with the European community was inaugurated in June 1979, when three senior officials from the foreign ministry, trade ministry and Institute for Research in International Affairs, visited community institutions in Brussels, Germany, Luxembourg, the Netherlands and the United Kingdom. A second programme was arranged for a head of department from the trade ministry and two officials from the National Import-Export Company, who visited Brussels and Luxembourg from 23 November to 12 December 1981. A third programme, which ran from 7 to 20 June 1982, involved twelve senior trade officials from the Chinese provinces and officials from the Ministry of Foreign Economic and Trade Relations. They visited Brussels, France, Germany, Luxembourg, and the Netherlands. A fourth programme was run from 15 to 29 October 1983 for ten officials from the Ministry of Foreign Economic and Trade Relations and provincial foreign trade departments, together with an official from the Ministry of General Planning. The group visited Belgium, Italy, Luxembourg and the Netherlands.

The fifth programme ran from 7 to 21 November 1984. Some ten senior staff from various light industry, import and export sectors took part. Apart from visiting community

institutions, they went to the Netherlands, Ireland and France."⁹

(3) Research Scheme

In April 1988, the Ministry of Water Resources and Electric Power has approved a study report on a Sino-European Community project to tap the hydropower potential of Youxi river in Hunan. The project, which calls for building a series of power stations at different heights along the 67 km river, aims to gain experience in developing rivers of medium and short lengths in developing countries.¹⁰

(4) Symposia

Plastics Processing

A symposium on exchange of technology in plastics processing organized by the China Council for the Promotion of International Trade and the EEC was held in Beijing between 18th and 22nd October 1982.¹¹ A nine-member delegation from the EEC and 150 Chinese experts and technicians from light industrial and machinery departments discussed processing techniques.¹²

9. Ibid., p.6.

10. SWB, Weekly Economic Report, Part-3, FE/Woo21 A/7
13 April 1988.

11. Ibid., FE/W1201 A/22, 10 November 1982.

12. Ibid.

New Technology

A China-EEC symposium on new technology, marking the tenth anniversary of the establishment of diplomatic relations between China and the EEC opened in Beijing on 4 October 1985.¹³ During the four-day meeting, thirty nine Chinese and foreign experts presented papers on such subjects as the impact of the revolution in technology on economic and social development; the relationship between new technologies and traditional industries, information technology and bio-technology, the principles and measures to promote new technological industries and science policy and management.¹⁴

(5) Modernization

At the meeting of the China-EEC joint committee on 12 November 1982 in Beijing, the two sides reviewed the development of their trade relations since the signing of a trade agreement in 1978. During the discussions, the EEC side expressed its readiness to contribute to China's "Four modernizations" programme.¹⁵

(6) Food Aid

China benefitted from the EEC's food aid scheme when

13. China Daily, 5 October 1985.

14. Ibid.

15. SWB, Weekly Economic Report, Part-3, FE/W1212 A/16
24 November 1982.

the Fujian region was severely damaged by typhoon in July 1988. EEC has sent 5,000 tons of cereals as emergency food worth 1.2 million ECUs.¹⁶

New forms of contact between the People's Republic of China and the European Community

Realizing the usefulness of exchanges of views at meetings of the joint committee, China and the Community agreed during a visit by Mrs. Chen Muhua, the Minister for Foreign Economic and Trade Relations, to initiate high-level consultations in the interests of widening discussions to include all matters of mutual interest, thereby adding a new dimension to relations between China and the community. The first consultations took place in Beijing at the end of September 1984. The second one was held on 23 May 1985 between Mr. De Clercq and Mr. Zeng Tuobin.¹⁷

The decision taken at the Council meeting of the Community's foreign ministers held on 25 and 26 April 1983 to initiate within the framework of European political cooperation regular exchanges of views on current international topics of interest to both parties is a further

16. Ibid., FE/W0036 A/04, 27 July 1988.

17, China Daily, 24 May 1985.

example of the widening of contacts between China and the Community.¹⁸ It was decided to have consultations every six months in the form of a meeting between the political director of the foreign ministry of the Member state holding the Presidency and the Chinese ambassador accredited to the country concerned. The last meeting took place on 25 September 1985.

The Textile Agreement Between the Community and The People's Republic of China

The Textile Agreement fits into the general framework of trade relations between China and the community, for both of which it constitutes an important and concrete application of the EEC-China Trade Agreement.

It was initialled on 18 July 1979 and given effect on a transitional basis for the rest of that year by an increase in the quotas under the unilateral community system governing textile imports from China. The Agreement was brought fully into effect from 1 January 1980 and was valid initially until 31 December 1983.¹⁹

18. Ibid.

19. Commission of the European Communities, Europe Information : External Relations, no.79, May 1985 pp.6-7.

The Agreement provided a five-year framework for import of Chinese textile into the Community and garments of cotton, wool or manmade fibres. Although it guaranteed significantly increased access for these products to the Community market, the framework helped in tackling the difficulties faced by the trading parties even after its expiry. The agreement played a vital role by providing protection to community-industries, and simultaneously offering Chinese exporters, a guaranteed access to the community market. A system of double administration control - checking at the export and the import stage - applied to all products, not merely to those subject to import limits.

The Agreement has been an important first step towards the development of economic relations between China and the European Economic Community on a basis of mutual advantage.

An Additional Protocol to the Agreement was initialled on 29 March 1984. It embodied China's assent to incorporation in the Agreement of the anti-fraud and "anti-surge" clauses already included by the community in the bilateral textile agreements negotiated with its other trading partners. The "basket extractor" procedure, which provided

for the introduction of new import limits, has also been brought more closely into line with that included in the other agreements (negotiated by the community under the Multifibre Arrangement).²⁰

"The Additional Protocol has also set out the quantitative arrangements for trade in textiles from 1 January 1984 to 31 December 1988. Five more categories of products exported by China were subjected to limitation, and some 34 new restrictions have been imposed on imports into various parts of the community. In return, the community has agreed to increase some quotas, including those on highly sensitive products."²¹

One special feature of the 1979 Agreement were the clauses guaranteeing the community access to certain raw materials (raw silk, cashmere and angora) and those continued under the Additional Protocol. There was also provision for industrial cooperation, in the form of new opportunities for outward processing trade.²²

A second round of negotiations between China and the community on the renewal of the bilateral Agreement on trade in textile products took place in Beijing from 26 to

20. Ibid.

21. *ibid.*

22. "Economic Outward Processing Traffic" is a form of

30 September 1988 because the Additional Protocol to the agreement was to end on 31 December 1988. The two sides agreed that the provisions of the existing agreement, should serve as a basis for the new one. Progress was also made on narrowing the differences between the two delegations' positions on the economic content of the agreement. The objective on both sides was to work out a package which would give Chinese textile products greater access to the community market, but which would also entail a check on the trend of imports of certain products which were causing particular difficulties for the Community textile and clothing industry.

Between 1979 and 1985 China's textile and clothing exports to the European Community increased by 233%, and it was the community's second largest supplier, in volume, just behind Turkey.²³ Equally striking, however, was the increase in Chinese exports of clothing, which had a higher unit value than textiles. In 1986 this figure had risen to 30%.

industrial cooperation whereby a community manufacturer supplies a subcontractor in a non-community country with fabric manufactured in the community to be made up into garments which are then re-imported back into the community. Sometimes technical assistance is supplied where help is needed with making up the finished goods.

23. Li Chanzjiu, "Sino-EEC ties growing", China Daily, 6 June 1985.

The 1985 Trade and Economic Cooperation Agreement

The Five-year trade and economic co-operation agreement, signed in 1985 marked a new and important stage in China-EEC relations, as did the 1978 trade agreement which it replaced. (The complete text of the 1985 Agreement is included in the appendix.) The preamble notes with satisfaction the development of friendly relations between the two sides. It points to their common desire "to intensify and diversify their trade and actively develop economic and technical cooperation" on the basis of "equality and mutual advantage". Their earlier agreement to "promote and intensify trade between them" was taken a step further with the decision "to encourage the steady expansion of economic cooperation."

The 1985 Agreement also provides for development aid. The European Community undertakes not only "to continue the development activities" in China but also to look into the possibility of both adding to and diversifying them. The Agreement, concluded for five years, is to be tacitly renewed each year, provided neither side decides to terminate it. It can be amended, "to take account of new situations."

- Trade Provisions

The basis of China-EEC textile relations has been the most-favoured-nation (MFN) treatment, especially as regards customs duties and formalities. This is significant, given that MFN treatment normally applies to trade between countries that are participants to the GATT (General Agreement on Tariffs and Trade), which is not yet the case as regards China.

The fact is that China occupies a rather special position among the community's trading partners, and this is reflected in the somewhat special relationship between them. The commitment to pursue the liberalization of imports was written into the 1978 trade agreement and renewed in the 1985 Cooperation Agreement. Article 5 stipulates that the community "will endeavour progressively to introduce measures extending the list of products for which imports from China have been liberalized and to increase the amount of quotas." Action to this end is examined regularly by the China-EEC Joint Committee set up under the agreement.²⁴

24. Commission of the European Communities, Europe Information: External Relations, no.90, May 1988. pp.1&2.

- The Economic Provisions

The provisions for economic cooperation represent as much of an advance in China-EEC relations as the trade provisions did when first adopted in 1978. The objectives of the two sides have set themselves are wide-ranging. They include : diversifying their economic links; encouraging scientific and technological progress; opening up new sources of supply and new markets and helping to develop their economies and raise their respective living standards. The areas of economic cooperation specifically in the Agreement include industry and mining, agriculture and agro-industries, science and technology, energy, transport and communications, environmental protection and cooperation in third countries.²⁵

The Agreement also lists the activities China and EEC will try to promote to attain their objectives. Among them are joint production and joint ventures, common exploitation of natural resources, the transfer of technology, cooperation between financial institutes, the organisation of visits, seminars and symposia, consultancy services and technical assistance, including training of staff. As for payment

25. Ibid.

for transactions, they can be in Member States' currencies, Renminbi or any convertible currency acceptable to the two parties to the transactions.²⁶

- The Joint Committee

A key feature of the 1985 Agreement was its provision for the setting up of China-EEC Joint Committee for Trade which consisted of representatives of the community and China. The work of the Joint Committee was to monitor the functioning of the Agreement and examine any questions arising from its implementation. But it would also review the various cooperation schemes and make recommendations aimed at reaching the Agreement's objectives in the areas of common interest. It meets once a year. For example in 1986 Commission President Jacques Delors met top leader Deng Xiaoping, the Prime Minister and the Minister for Foreign Affairs. In 1987, Willy De Clercq, European External Relations Commissioner, took part in high level consultations in Beijing, and signed an agreement on the establishment, by the European Commission, of its own office in the Chinese capital.²⁷

26. Ibid.

27. Ibid., p.4.

China-EEC Trade

The Chinese market clearly has been a major attraction for European industry and finance. At the same time, China's numerous export organisations view the 12-nation community market as a major outlet for their products. Even so, the Chinese market is much less important to European exporters as a whole than is the EC market to their Chinese counterparts. European Community exports to China came to only 2% of its total exports in 1986, while Chinese exports represented 13% of the country's total exports. The EEC is also much less dependent on China for its imports. For instance, EEC's imports from China amounted to just over 1% of the total in 1986, while the corresponding figure for China was 18%.²⁸ The Community, however, has been a major trading partner for China. It ranked third in 1986.

"As a part of the trade promotion scheme, the Commission organized a community presence - for the first time in China - at the specialized trade fair on telecommunications, information technology and office automation, Telecomp China 1987, which was being held in Beijing from 8 to 13 September 1987. The European pavillion

28. Ibid., p.5.

housed 49 exhibitors, including large and small firms from eight Member states and a Commission stand presenting the joint research programmes, in the telecommunications sphere."²⁹

Trade between China and the Community has expanded considerably over the years. China's main exports are textiles and clothing, agricultural products and chemicals. Its main imports are machinery, steel products and again chemicals. The Community emerged as the leading supplier of technology in 1986.

CHINESE TRADE WITH EUROPEAN COMMUNITY

	(million ECU)									
YEAR	1980	1981	1982	1983	1984	1985	1986	1987	1988	*
IMPORTS	1734	1894	2044	2758	3508	7180	6533	4729	5788	
EXPORTS	1907	2284	2334	2665	3211	3926	4223	5238	6946	
BALANCE	+173	+390	+290	-90	-297	-3254	-2310	+509	+1158	

* Without the trade of Greece (EC - 12 from 1986 onwards)

Source : EUROSTAT

The table above, shows the changes in China-EEC trade from 1980 to 1988. It is evident from the table that China's

29. Bulletin of the European Communities, (Brussels), Vol.20, no.9, 1987, p.65.

exports to the Community has been increasing each year; this upward trend continued from 1980 to 1982 with surplus trade.³⁰ From 1983 to 1986 the deficit was on the Chinese side. Again in 1987 and 1988 this trend was reversed in favour of China. The Community's exports to China rose between 1980 and 1985 but declined in 1986 and again in 1987. As a result, there was a better balance in their two-way trade; China's deficit with the community fell in 1986 and again, and even more sharply, in 1987 and 1988. China's imports remained substantial, especially in the short and medium term. Given the country's vast development needs and its government's determination to modernize all sectors of the economy, their relationship has become stronger. EEC's steady increase in export to China reflects China's drive towards modernization.

30. China Daily, 24 January 1985.

CONCLUSION

CONCLUSION

As a result of Four modernizations programmes, the Chinese economy has been exposed to the international economic cooperation and trade. By opening to the outside world, China's capacity to compete in world markets has also been strengthened. Thus, Four modernizations and China's foreign economic relations have become closely inter-related. In order to implement the modernization programme China needed more capital and technology. During the last ten years of modernization and reform programmes China has been experiencing radical changes in agriculture, industry, science and technology and defence.

For instance, the introduction of planned contract responsibility system in agriculture has stimulated the farmer's enthusiasm against the earlier system of monopoly. Modernization programme has introduced diversified economic activities. On the one hand, almost 94% of the people in the rural areas have enough to eat and wear. On the other, China has been importing foodgrains in order to adjust the difficulties caused by natural disasters like flood or drought. Over the years, percentage of total irrigated land has also been declining. It resulted in foodgrains shortage.

Production cost are raising steadily but not the procurement prices.

As in the case of industry, budgetary allocation has been in favour of heavy industries. Light industries have been neglected. The linking of development trends in science and technology abroad with the large-scale economic construction at home became necessary to achieve its long range modernization goals. Open door policy has played a very significant role in the modernization of defence with the acquisition of latest weapons and reduction of defence personnel to the required level.

The open door policy has led to a broad range of other changes in China's foreign economic relations. Beijing became a major participant in virtually all important international economic organizations.

Throughout the 80s, China's attitude towards EEC remained the same. During this period, characteristic feature of Chinese diplomacy was the applicability, coherence and utilization of similar language by various Chinese leaders. More and more political level contacts brought closer interaction. China always wanted to see united and powerful Europe. This ambition could in no way go against the US interests. However, China's interest in Eureka programme and European integration

explained its desire for an independent Europe.

The attitude of EEC towards China in the 80s, was "a fair and consistent policy of cooperation with China" and there was a "positive option" from the point of view of both 'North-South and East-West' relations.

The good political relationship provided favourable conditions for economic and technical cooperation. In line with its independent foreign policy, China has been making continued efforts to diversify its world trade and avoid overdependence on any particular partners. That is why it finds in EEC a desirable complement and alternative. It was also expected that trade relations between China and EEC would be adversely affected by the increase of Sino-Japanese and Sino-US economic and trade relations. But it did not happen, as the Joint Committee has been set-up to study ways and means to expand trade between China and EEC.

The biggest obstacle in expanding trade between the two sides lay with the imbalance in trade, from 1983-1986 there was a trade deficit on the Chinese side. From 1986-1988 deficit existed on the EEC side. Since then two sides have made joint efforts to reduce the imbalance as far as possible and achieve balance in the end so that their economic and trade relations could move forward smoothly and rapidly.

1. Shen, Souyuan, " Sino-European Relations in the Global Context", Asian Survey, Vol. XXVI, no. 11, Noveber 1983, pp. 1164-83.

Problems and Constraints

There are, thus, no major conflicts between China and EEC; nor are there major obstacles to the development of their mutual relations. But the Tiananmen Square incident has certainly and temporarily disturbed the relationship. Even though EEC has imposed "Sanctions" on China it could in no way severe their political relations. In the political field, the question of Hong Kong and Macao has been settled satisfactorily with Britain and Portugal by recognising the concept of "one country, two systems."

Beyond particular disputes, the differences between Social Systems, ideologies, and cultural legacies do create certain constraints on the development of relations. In the economic field, although the volume does not yet account for a large proportion of China's trade and China-EEC trade is still below the level it should have reached.² Given their respective economic structures, China-EEC trade is likely to remain complementary rather than competitive for the foreseeable future.

2. Ibid.

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APPENDIX

AGREEMENT

On Trade and Economic Cooperation between the European
Economic Community and the People's Republic of China

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA,

NOTING with satisfaction the development of friendly
relations between the European Economic Community and
the People's Republic of China,

CONSIDERING that the Trade Agreement between the European
Community and the People's Republic of China, signed on
3 April 1978, has been satisfactorily applied.

INSPIRED by their common will to introduce a new stage
into their commercial and economic relations,

DESIRING on the basis of equality and mutual advantage,
to intensify and diversify their trade and actively
develop economic and technical cooperation in line with
their mutual interests.

HAVE DECIDED TO CONCLUDE THIS AGREEMENT, THE TERMS OF
WHICH ARE AS FOLLOWS:

Article 1

The two Contracting Parties will endeavour, within the
framework of their respective existing laws and

Source: Official Journal of the European Communities
(Brussels) 19.9.85 No. L.250, pp.2-5.

in all matters regarding:

- (a) customs duties and charges of all kinds applied to the import, export, re-export, or transit of products, including the procedures for the collection of such duties or charges;
- (b) regulations, procedures and formalities concerning customs clearance, transit, warehousing and transshipment of products imported or exported;
- (c) taxes and other internal charges levied directly or indirectly on products or services imported or exported;
- (d) administrative formalities for the issue of import or export licences.

2. Paragraph 1 shall not apply in the case of:

- (a) advantages accorded by either Contracting Party to States which together with it are members of a customs union or free trade area;
- (b) advantages accorded by either Contracting Party to neighbouring countries for the purpose of facilitating border trade;
- (c) measures which either Contracting Party may take in order to meet its obligations under international commodity agreements.

regulations, and in accordance with the principles of equality and mutual advantage:

- to promote and intensify trade between them;
- to encourage the steady expansion of economic cooperation.

CHAPTER 1

Trade Cooperation

Article 2

The two Contracting Parties confirm their determination:

- (a) to take all appropriate measures to create favourable conditions for trade between them;
- (b) to do their utmost to improve the structure of their trade in order to diversify it further;
- (c) to examine, each for its own part and in a spirit of goodwill, any suggestions made by the other Party, in particular in the Joint Committee, for the purpose of facilitating trade between them.

Article 3

1. In their trade relations, the two Contracting Parties shall accord each other most-favoured-nation treatment

Article 4

The two Contracting Parties will make every effort to foster the harmonious expansion of their reciprocal trade and to help, each by its own means, to attain a balance in such trade.

Should an obvious imbalance arise, the matter must be examined within the Joint Committee so that measures can be recommended in order to improve the situation.

Article 5

1. The People's Republic of China will give favourable consideration to imports from the European Economic Community. To this end, the competent Chinese authorities will ensure that Community exporters have the possibility of participating fully in opportunities for trade with China.

2. The European Economic Community will strive for an increasing liberalization of imports from the People's Republic of China. To this end it will endeavour progressively to introduce measures extending the list of products for which imports from China have been liberalized and to increase the amounts of quotas. The procedure for implementation will be examined within the framework of the Joint Committee.

Article 6

1. The two Contracting Parties shall exchange information on any problems that may arise with regard to their trade and shall open friendly consultations, with the intention of promoting trade, for the purpose of seeking mutually satisfactory solutions to those problems. Each of the two Contracting Parties will ensure that no action is taken before consultations are held.

2. In an exceptional case, however, where the situation does not admit any delay, either Contracting Party may take measures, but must endeavour as far as possible to hold friendly consultations before doing so.

3. Each Contracting Party will ensure that when it takes the measures referred to in paragraph 2, the general objectives of this Agreement are not prejudiced.

Article 7

The two Contracting Parties undertake to promote visits by persons, groups and delegations from economic, trade and industrial circles, to facilitate industrial and technical exchanges and contracts connected with trade and to foster the organization of fairs and exhibitions by both sides and the relevant provision of services. As far as possible, they must grant each other the necessary facilities for the above activities.

Article 8

Trade in goods and the provision of services between the two Contracting Parties shall be effected at market-related prices and rates.

Article 9

The two Contracting Parties agree the payments for transactions shall be made, in accordance with their respective existing laws and regulations, in currencies of the Member States of the Community, Renminbi or any any convertible currency accepted by the two parties concerned in the transactions.

CHAPTER II

Economic cooperation

Article 10

Within the limits of their respective competence, and with the main aims of encouraging the development of industry and agriculture in the European Economic Community and in the People's Republic of China, of diversifying their economic links, encouraging scientific and technological progress, opening up new sources of supply and new markets, helping to develop their

economies and raise their respective standards of living, the two Contracting Parties agree to develop economic cooperation in all the spheres subject to common accord, and in particular:

- industry and mining;
- agriculture, including agro-industry;
- science and technology;
- energy;
- transport and communication;
- environmental protection;
- cooperation in third countries.

Article 11

According to their needs and within the means at their disposal and as far as they are able, the two Contracting Parties shall encourage the application of the various forms of industrial and technical cooperation, for the benefit of their undertakings or organizations.

In order to attain the objectives of this Agreement, the two Contracting Parties shall endeavour to facilitate and promote, among other activities:

- joint production and joint ventures;
- common exploitation;
- the transfer of technology;

- cooperation between financial institutions;
- visits, contact and activities designed to promote cooperation between individuals, delegations and economic organizations;
- the organization of seminars and symposia;
- consultancy services;
- technical assistance, including the training of staff;
- a continuous exchange of information relevant to commercial and economic cooperation.

Article 12

1. In order to attain the objectives of this Agreement, the two Contracting Parties shall agree, within the framework of their respective laws, rules and policies, to promote and encourage greater and mutually beneficial investment.

2. In addition, the Parties undertake to improve the existing favourable investment climate in particular through encouraging the extension, by and to the Member States of the Community and by and to the People's Republic of China, of investment promotion and protection arrangements based on the principles of equity and reciprocity.

Article 13

In view of the difference in the two Contracting Parties' levels of development, the European Economic Community is prepared, within the context of its development aid activities, within the means at its disposal, and in accordance with its rules, to continue its development activities in the People's Republic of China.

It confirms its willingness to examine the possibility of stepping up and diversifying these activities.

Article 14

Without prejudice to the relevant provisions of the Treaties establishing the European Communities, this Agreement and any action taken thereunder shall in no way affect the powers of any of the Member States of the Communities to undertake bilateral activities with the People's Republic of China in the field of economic cooperation and conclude, where appropriate, new economic cooperation agreements with the People's Republic of China.

CHAPTER III

Joint Committee

Article 15

1. The two Contracting Parties shall set up, under this Trade and Economic Cooperation Agreement, a Joint Committee comprising representatives of the European Economic Community on the one hand and representatives of the People's Republic of China on the other :

2. The tasks of the Joint Committee shall be as follows :

- to monitor and examine the functioning of this Agreement and review the various cooperation schemes implemented;
- to examine any questions that may arise in the implementation of this Agreement;
- to examine problems that could hinder the development of trade and economic cooperation between the two Contracting Parties;
- to examine means and new opportunities of developing trade and economic cooperation;
- to make recommendations that may help to attain the objectives of this Agreement, in the areas of common interest.

3. The Joint Committee shall meet once a year, in Brussels and Beijing alternately. Extraordinary meetings may be convened by mutual agreement, at the request of either Contracting Party. The office of Chairman of the Joint Committee shall be held by each of the two Contracting Parties in turn. Where both Parties consider it necessary, the Joint Committee may set up working parties to assist it in its work.

CHAPTER IV

Final Provisions

Article 16

As far as the European Economic Community is concerned, this Agreement shall apply to the territories in which the Treaty establishing the European Economic Community is applied and under the conditions laid down in that Treaty.

Article 17

This Agreement replaces the Trade Agreement between the European Economic Community and the People's Republic of China of 3 April 1978, which entered into force on 1 June 1978.

Article 18

This Agreement shall enter into force on the first day of the month following the date on which the Contracting Parties have notified each other of the completion of the legal procedures necessary for this purpose. It is concluded for a period of five years. The Agreement shall be tacitly renewed from year to year provided that neither Contracting Party notifies the other Party in writing of its denunciation of the Agreement six months before the date of expiry.

However, the Agreement may be amended by mutual consent of the two Contracting Parties in order to take account of new situations.