



European Economic and Social Committee

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EU-China Relations

Brussels, 16 July 2003

OPINION

of the European Economic and Social Committee

on

EU-China Relations

On 17 January 2002, the Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

EU-China Relations.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 24 June 2003. The rapporteur was **Mr ETTY** and the co-rapporteur **Mr Dimitriadis**.

At its 401st plenary session of 16 and 17 July 2003 (meeting of 16 July 2003) the European Economic and Social Committee adopted the following opinion unanimously.

1. Introduction

1.1 The transition process of the Chinese economy is one of the major events in today's world. Its political, economic and social impact will have far-reaching consequences for the world at large. It is a double transition: from a command economy into a market economy, and from an agrarian into an urban/industrialised society. It embodies an enormous growth potential, but also frightening risks. The EU is right to follow this process as closely as possible, not only because of the impact it has - and will increasingly have - on EU interests, but also with a view to the chance it has to influence it to both its own and China's benefit. In cooperating with China, however, it should never lose sight of the limitations of its role of a partner in change.

1.2 Placed against this background, the basic principles underlying the EU strategy vis a vis China are sound and the objectives of the strategy can be supported. At the same time, it must be observed that, after almost two decades of EU-China cooperation and three Commission strategy papers, it is difficult to judge what has resulted from the efforts made. The 1998 Commission reports were presented as a stocktaking operation. They documented a large number of important activities, but did not try to draw a clear and concrete balance of successes and failures. Neither do the most recent documents.

1.3 It is not clear whether policies of the Commission and of the Member States have always been in harmony and whether or not efforts are being made to coordinate them. Perhaps it is too ambitious yet to aim for that. However, with a view to the limited means of the EU on the one hand, and the unique dimensions of China and the magnitude of the problems it is facing on the other, it is desirable that this aspect of the EU's relations with China will be dealt with more adequately in future Commission documents.

1.4 The five main policy objectives of the EU strategy are well chosen. For the European Economic and Social Committee (EESC), as the voice of economic and social interest groups in the EU, three out of the five are of particular importance, i.e.:

- supporting China's transition to an open society, based on the rule of law and respect for human rights;
- helping to integrate China into the world economy by bringing it more fully into the world trading system and by supporting the process of economic and social reform; and
- increasing mutual understanding between the EU and China.

In discussing these three objectives, the Committee will (as in its 1997 opinion on EU-China relations) concentrate on issues closest to its own interests, competence and experience and try to avoid duplication of positions taken by the European Commission, Council and Parliament.

1.5 In the six years which have passed since the Committee produced its earlier opinion, major changes have occurred as regards the major questions it discussed. No doubt, the most important was China's entry into the WTO in November 2001. Issues of particular interest for the Committee then as well as today include:

- the implementation of China's rights and obligations as a member of the WTO;
- conditions for foreign investors in China;
- the development of a market economy in China;
- the implementation in law as well as in practice of human rights, embodied in the UN Human Rights instruments that China has ratified (and in particular the Covenant on Economic, Social and Cultural rights) and in the fundamental international labour conventions of the ILO;
- the establishment in China of a climate conducive to the development and functioning of a genuine civil society;
- training and education; and
- the situation in Hong Kong and Macao since the "handovers" respectively in 1997 and 1999.

2. **General remarks**

2.1 In twenty-five years of transition from a command to a market economy China has realised impressive economic progress while retaining a regime falling short on democratic processes. The regime seems to be convinced that this process can be continued without real changes in the realm of governance and the rule of law, other than those immediately linked to economic requirements.

2.2 Among the main accomplishments of this period are significant progress towards a market economy; high (often double-digit) growth figures, and poverty reduction.

2.3 On the negative side are corruption, violations of human rights, poverty (despite the progress made), unemployment, the virtual absence of social security, increasing social and regional inequalities and continued limitation of freedom of expression and of information.

2.3.1 A sad recent example of the lack of change in political culture, compared to the transition in the economic field, is the dramatic mishandling of the SARS (Severe Acute Respiratory Syndrome) epidemic in China.

2.4 Although China has made impressive progress in transforming its economy during the reform era (begun in 1978), the important engines that have driven China's growth in the past are losing their dynamism today.

2.5 The main reason is that China's economy has become badly fragmented and segmented, and this led to increasing inefficiency and under-utilisation of resources. Trade and investment liberalisation, although it will require difficult adjustments by some segments of the economy, will stimulate other segments and bring positive net benefits to the economy as a whole in the long-term. However, trade and investment liberalisation alone are unlikely to solve the basic problems now impeding China's economic development.

2.6 China's economy has reached a stage that calls for some important changes in the way economic reforms are carried out. As the economy has become increasingly exposed to market forces and the scope for self-contained development of individual sectors has narrowed, economic problems have become more and more interdependent. Conditions in particular segments of the economy, such as labour markets, industry, the financial system, and regional development, now depend more and more on developments in other areas of the economy than on developments or policies within that specific segment.

2.7 The rapid and continuing growth of China's public debt in recent years has raised concern among economists, investors and the general public over China's economic future. The pursuit of expansionary fiscal policy, the poor performance of state enterprises, and the slow growth of local government revenue will add to public debt.

2.7.1 Of great importance is China's rural economy. In 1980, agriculture employed virtually the entire rural workforce and supplied nearly all of its income. However, rising productivity within agriculture was accompanied by the large-scale exit of workers from agriculture to industry. Today agriculture employs about 50% of the country's workforce and is characterised by relatively scarce land in relation to labour and small-scale production using little mechanisation.

2.7.2 Of particular concern is that farm incomes may fall, exacerbating rural-urban and inter-provincial (especially Western-Eastern) income inequality and possibly adding to rural poverty. This trend has become apparent since 1998.

2.8 All of this, together with a population of 1.3 bn and a vast territory, has made China number one in the world in terms of bad debts, unemployment, the number of workers laid off, and probably also with respect to income gap problems.

2.9 This is reflected most fundamentally in the "three inequalities" between:

- the rural and urban population;
- the south-east and the remainder of the country;
- those in the official core of the economy (with all its present difficulties) and those trying to survive in petty and “informal” economic activities.

2.9.1 From 1978 to 1998, the per capita income of rural residents increased from 133.5 yuan (€16.5) to 2,160 yuan (€268), an actual increase of 350% after allowing for price rises, with its yearly average growth rate exceeding 8%. The per capita income of urban residents increased for 343.3 yuan (€42.5) to 5,425 yuan (€670.6), an actual increase of 200% after allowing for price rises, with its yearly average growth rate exceeding 6.2%.¹ For the country as a whole, the World Bank reported GDP year-on-year growth rate of 8% for 2002.²

2.9.2 Nationwide, rural income in 1999 averages 2,210 yuan (€273), but it was 2,971 yuan (€367.3) in the east, 2031 yuan (€251) in the central region and only 1,448 yuan (€179) in the western region. Whereas farmers in the east saw a modest 4.3% increase in income in 1999, those in the central region received an increase of only 2.4%, while those in the West saw income rise by 2.7%.

2.9.3 The east coast appears much better positioned to capitalise the opportunities that WTO presents. The east has advantages in human capital, management, information, transportation and infrastructure that other areas cannot match and therefore will capture the biggest share of new foreign direct investment (FDI).

2.9.4 The heavily industrialised north-east is likely to face a formidable challenge in adjusting to WTO. Manufacturing industries are not in China’s comparative advantage, and so they will face continuing lay-offs.

2.10 WTO-membership will put the accomplishments of transition to the test and threatens to aggravate the major problems. On the other hand it opens new perspectives for more openness, transparency, accountability and for good governance. As regards the WTO’s economic requirements, a great deal of preparatory work has been done by the Chinese authorities and their trading partners, including the EU. One can be assured that they will have their full attention in the years to come. Not so much thought has been given to the solution of the economic and social repercussions of WTO-membership in China. For the time being, they seem to be considered mainly with a view to the threat to stability they might pose.

2.11 China's WTO membership, making it part and parcel of a rule-based world wide system, will at the same time be a formidable impulse for the economic transition process and a decisive step towards integration into the global economy. It is an important milestone along the

¹ The Information Office of the State Council, “Progress in China’s Human Rights for 1998”, People’s Daily, April 14, 1999

² [http://Inweb18.worldbank.org/eap/eap.nsf/Attachments/updateapr03/\\$File/china.pdf](http://Inweb18.worldbank.org/eap/eap.nsf/Attachments/updateapr03/$File/china.pdf)

reform path China has been following for more than twenty years, rather than a new direction. The true significance of WTO is on the institutional side – laws, legal practice, regulatory practices. There will be an institutional convergence towards a market economy and it will facilitate development of the private sector. The opening to international markets promotes market discipline, access to technology, and other qualities that have been important goals of domestic economic reforms. In this respect, WTO entry is a complementary aspect of the next phase of China's reform.

2.11.1 The policy changes still to be made to fulfil WTO obligations will affect all areas of China's economy. Numerous commentators predict a dramatic effect on agriculture and hence rural areas, because reforms in China over much of the 23 years largely ignored the country's trade policies for farm products. China was required by its trading partners to commit to major changes in those farm trade policies by 2005 – commitments that appear far greater, and faster, than other developing countries committed to in the Uruguay Round Agreement on agriculture.

2.12 China's WTO entry gives new impetus to EU-China trade growth. The entry provides effective institutional and legal guarantees for bilateral trade.

2.13 WTO rules stipulate that members should abide by the principle of non-discrimination and most favoured nation treatment which, in the case of EU-China trade, includes tariff reduction, lifting import quota restrictions, and easing market entry criteria.

2.14 China's further opening to international markets (WTO membership) will force substantial adjustments to industry and a further increase in FDI. Although higher FDI will create jobs, it will put competitive pressure on domestic enterprises.

2.14.1 Today about 10% of China's FDI inflows originate in the EU. These investments are of particular importance for China as European FDI is known to be much more capital intensive and go along with the introduction of newer technology than the bulk of China's FDI inflows originating in Asia. The development impulse associated with European FDI is therefore deemed to be very considerable. Seen from the perspective of the EU and its member states, however, China is still of minor importance as a host country for European FDI. On average less than 1% of the EU Member States' FDI outflows are directed towards China.

2.15 According to recent UNCTAD estimates, FDI inflows to China may more than double to \$100 billion per annum in 2006.

2.16 China's WTO membership will push the country to open its markets further and to improve the investment environment; it will provide foreign investors with the same treatment as nationals.

2.17 According to WTO rules, China is committed to reducing tariffs on 150 varieties of industrial products from the EU. It will open the farm produce market and allow the EU to enter its tertiary sector.

2.18 Meanwhile, the EU will take measures to give China better access to its market. The EU also partially lifted restrictions on the entrance of China's farming products.

2.18.1 With respect to the importance of food safety, it should be recalled that the relevant international standards have been set by the FAO/WHO Codex Alimentarius Commission.

2.18.2 An early, crucial issue affecting the relations between the EU and China, shortly after China's entry into the WTO, was that the EU placed bans on certain animal products originating from China. All imports for human or animal consumption from China have been suspended since the end of January 2002, because they were found to contain unacceptable levels of chloramphenicol. China has protested strongly over the moves taken by the Netherlands to destroy containers of Chinese animal products stored in Rotterdam and reacted against the EU imposing bans on certain products imported from China. During **Commissioner Lamy's** recent visit to Beijing, the Chinese decided to lift progressively the embargo on Dutch products and are to send a technical mission to Europe, which has so far been delayed because of the SARS epidemic.

2.18.3 Finally, anti-dumping cases against Chinese products have already significantly decreased.

2.19 China's obligations to implement its WTO commitments (reduction of tariffs, abolition of administrative and approval procedures for the imports of goods, liberalisation of a broad range of financial and professional services and of its investment regime) have received wide publicity and have been hailed by the Commission as an important negotiation success. There has been less discussion on EU commitments (e.g. phasing out of China specific qualitative restrictions with respect to textiles and clothing).

2.20 In addition to China's WTO membership, the launch of the euro is another driving force for the growth of EU-China trade. The good performance of the euro so far has put the US dollar under pressure and has eased China's dependence on the US dollar in foreign trade settlements. Now that the euro has integrated the European currency system, the risks in China's EU-related transactions, incurred from changes in the foreign exchange rate of different European countries' currencies, will be reduced.

2.21 The integration of the European currency system enables Chinese exporters to orient their business to one integrated euro zone, instead of several individual countries, thereby saving transaction costs.

2.22 The Committee remains convinced that there is a direct link between stability and respect for international norms in China. It welcomes China's ratification of the International Covenant on Economic, Social and Cultural Rights (although it regrets that the Chinese Government has made a reservation on its Article 8: 1(a) which protects trade union rights).

2.23 There has been progress in the development of civil society in China. Nevertheless, the Government needs to lift many unnecessary restrictions in order to bring Chinese civil society on a par with the international community.

2.24 Experiences in Hong Kong and Macao with “one country, two systems” have not been fully satisfactory so far. Certain developments in the sphere of democracy and respect for human rights give rise to concern.

2.25 The Committee thinks that it has a special contribution to make in the development of EU-China relations and it has found an interested counterpart in the China Economic and Social Council. It has stressed the important contribution to economic and social development which free, independent and representative interest groups of employers, workers, farmers, etc. can make in China and will continue to do so.

3. **Specific Remarks**

3.1 In the discussion about China’s WTO-membership and its further integration into the global economy, the main accent is put on bringing its economic and financial regulations and performance in line with the WTO. Important as that is, the Committee thinks that these efforts should be combined with respect for other relevant international standards regarding product safety, sustainable development, and fundamental labour rights.

3.2 The Committee welcomes the WTO related co-operation projects of the EU with China, as well as the monitoring of China's progress in the implementation of its WTO obligations.

3.3 The Committee was struck, during its visit to China in July 2002, by the confidence of its Chinese counterparts as regards their country's ability to conform to the WTO rules before 2005. They stressed their long and thorough preparation and the training given to relevant officials at national, regional and local level. Nevertheless, the Committee notes that well-informed observers have stressed that the main obstacles in China will be found at the regional and local level and that the Ministry of Commerce, which is responsible for enforcement of WTO rules in China, is not in a position to command other ministries or provincial authorities. The EESC has therefore pleaded for a specialised mechanism for WTO enforcement in China.

3.4 Corruption is one of the most acute problems in China’s economic development. A recent estimate of the outflow of embezzled funds by Government and state-owned enterprise-officials amounts to US\$ 48 billion in 2001. That is a slightly higher figure than the total amount of foreign direct investment in China recorded in the same year. Organised crime and triad involvement in large scale corruption of senior Government officials has been acknowledged to be serious.

3.4.1 Some of the serious problems in China’s banking and accounting system are intimately connected with this phenomenon.

3.4.2 Malpractices, corruption and abuse of power are among the main popular grievances against the Government. An important remedy against these major shortcomings of governance would be effective check and balance and watchdog mechanisms which would help to make enterprise owners, managers, and officials accountable. Organised civil society, as a major contributor to democracy, has to play a prominent role in such mechanisms. Freedom of information and a free press are of great importance in this context.

3.4.3 Taking a look at China's industry, the biggest problem impairing industry performance is the widespread inefficiency in enterprise operations. Added to this the inadequate technology and the limited capacity to innovate are particular weaknesses of much of Chinese industry.

3.4.4 Some key obstacles to the improvement of industry performance are continued government interference in enterprise management, poor financial discipline, the restriction of exit and other modalities for re-deploying resources.

3.4.5 Technology standards for a large portion of domestic firms are far below international standards. Moreover, technology transfer by foreign enterprises to Chinese firms seems to have been limited in both amount and scope.

3.4.6 In the mid-term the Chinese financial sector will have to catch up with international best practices as the availability of state-of-the-art financial intermediation will be the key for successful WTO membership and long term growth because:

- the enterprise sector's international competitiveness relies on the availability of modern financial services;
- attracting capital from the world capital market – at reasonable costs – relies on modern financial institutions;
- in a market economy macro-economic stability is based on sound financial markets.

3.4.7 These necessities will speed up the modernisation of China's financial system and by doing so create the preconditions for full convertibility.

3.5 Although the fight against poverty has been a priority for the Chinese Government for several years now, the figures remain alarming. The World Bank estimates that, despite the improvements which have been achieved, 130 million people still live below the poverty line. Mass dismissals in state-owned enterprises without social safety nets continue in the industrialised areas of the country and grave problems in rural China will keep the issue high on the agenda. In the short and medium term, the consequences of China's WTO membership will probably only aggravate an already very difficult situation.

3.5.1 What must be highlighted in this context is the feminisation of poverty. Large scale migration of (male) surplus labour from the countryside leaves women to take up the bulk of farming

on the countryside. They largely live on the verge of poverty. Women farmers are often deprived of the right to own their farmland. In recent years, many employers in industry as well as in the civil service stipulate that only male applicants will be considered for its vacancies.

3.6 Unemployment in China today is probably closer to 15-20% of the national workforce of 730 million than the official 4%. Nearly half of the 100 million strong workforce in the state-owned sector has been made redundant in the last few years and the end is not yet in sight. In the short and medium term, China's entry in the WTO will bring to bear negative influences and perhaps even pose an immediate threat to the livelihood of its agricultural workforce of 400 million (among whom there are already some 150 million surplus workers). A large number of them, possibly about 100 million people, are presently looking for work outside their area of origin.

3.7 In order to employ the workers coming from agriculture, local governments were encouraged to foster the growth of rural-non agriculture enterprises (REs), also known as TVEs. REs are small- and medium-sized enterprises in rural areas that specialise in labour-intensive products, and along with foreign funded enterprises produce most of China's exports.

3.8 REs have been the main vehicle for absorbing workers from agriculture and an important engine of China's growth, as it has been for other rapidly developing countries in the past. Today REs are suffering from financial problems and operating inefficiencies nearly as severe as those afflicting the State Owned Enterprises (SOE) sector.

3.9 Quite rightly, the Commission identifies the establishment of a social safety net as a crucial task for the Chinese Government. The majority of the population is currently not covered by social security regulations. Many who used to be covered as workers in state-owned enterprises have found that their money has disappeared in the course of "restructuring". One crucial problem in the maintenance or establishment of social security provisions is the absence of sound monitoring mechanisms. This has resulted in malpractices and misappropriation of funds; frequently one of the major causes for recent social unrest. Social security is typically an area where the absence of genuine, independent organisations representing the interests of workers and employers is being felt.

3.10 Growing social dissatisfaction and unrest represents a real threat to stability. It is widespread in the cities and perhaps even more in the countryside. Causes in addition to those already mentioned are growing income disparities and massive ecological damage. There has been a sharp increase of protest actions in terms of numbers, scale and militancy, both in urban and in rural areas. In most cases they have been dealt with by police repression. There appears to be an urgent need for reconciliation machinery.

3.11 Against this background it is of great concern that basic trade union rights (freedom of association, right to bargain collectively) continue to be violated. The 2001 amendment of the trade union law fails to satisfy ILO Convention 87 and 98 as well as the International Covenant on Economic, Social and Cultural Rights. The monopoly position of the All China Federation of Trade

Unions is not only reconfirmed, but also its function as an instrument of the Communist Party is underlined.

3.11.1 The Government should seek reconciliation with the tens of thousands of protesting workers through tripartite consultation instead of repression or (in incidental cases) buying them off. Organisers of autonomous unions or non-violent workers' actions should not be victimised. Arbitrary detention of labour organisers should stop in respect of ILO Convention 87 and 98 (which China, as a member of the ILO, is expected to respect and implement even if it has not yet ratified them) and the recommendations made by the ILO Governing Body Committee on Freedom of Association in recent complaint cases should be followed up.

3.12 China's economic and political restructuring initiated since 1978 creates the basic political, economic and legal environment for the rise of civil society. At the same time, the emergence of civil society will in due course exert a great influence on social policy and economic activities, change governance to a large extent and effectively promote good governance.

3.13 In decentralisation, the Government and the Party have widened the scope for certain non-governmental organisations (NGOs) to perform previously state-run, or newly-established, functions of service provision (as in the field of healthcare) and resource mobilisation. However, NGOs should also be allowed to assume other essential functions in advocacy, monitoring of public policies, community organisation, and interest representation. In order to reconcile rising social and economic tensions, a process of civil dialogue and consultation needs to be built urgently. Interest representation can only be meaningfully materialised on the basis of freedom of association, and NGOs can play a crucial role in that process. The Committee was impressed by the frankness of several NGOs, who assumed a proactive stance in the face of Government-led quasi NGOs during discussions held during the EESC's visit in July 2002.

3.14 There are obvious differences between China's NGOs and those in the EU. In comparison with those in EU, China's NGOs have the following special features:

- China's civil society is, generally speaking, under tight government control and has an obvious official-civil duality. It is a distinctive feature of China's civil society that the government directs important key organisations.
- China's NGOs came into being during the transition period. Typical features such as autonomy, voluntary action, close contacts with the population, absence of governmental interference are not much in evidence. They are still at an early stage development and they are still struggling to define their structures and functions.
- In line with the above features, many of China's NGOs are not firmly institutionalised. Although the Ministry of Civil Affairs revised and promulgated the new management regulations for civil organisations in 1998, the institutionalisation process has only just begun and is ongoing. Many restrictions to their functioning, including political censorship still remain.

3.15 Nevertheless, there is a growing body of more independent NGOs.

3.16 The development of NGOs in China today is rather uneven. There are great differences in social, political and economic influence and status between different civil organisations, often depending on the degree of government support and control.

3.17 The EESC stresses that the serious difficulties facing foreign NGOs wanting to establish operations in China remain virtually unchanged.

3.18 More in-depth discussion between the EU and China on the important role of NGOs in the transition process may contribute to widening the space of operation on independent NGOs. This may also create better conditions for the development of free and independent workers' and employers' organisations.

3.19 The European Commission's China development cooperation programmes target several of the most pressing problems China is currently facing. They include encouragement and assistance to ratify major international conventions. What is, as yet, not addressed in an articulate way in its discussions with the Chinese authorities is the nature and the prospects of the key issue of social instability. The Commission cooperates to a great extent with quasi-governmental bodies instead of the growing community of independent NGOs in China. Recently, it has started on a modest basis to work with these independent NGOs.

3.20 Hong Kong was identified by the Committee in its 1997 Opinion as an area of special interest, in particular with respect to developments pertaining to fundamental rights to organise and to bargain collectively after the "hand-over" in July 1997.

3.20.1 Now, five years later, the Committee thinks that the Hong Kong Government is not demonstrating convincingly its commitment to uphold internationally recognised human rights standards as well as the integrity of its rule of law. Certain political and civil rights, and also economic and social rights, which were already limited in the pre-1997 period, are clearly under pressure (freedom of assembly, freedom of expression, freedom of the press, basic trade union rights). A recent cause for special concern are the recent Government proposals to implement Article 23 of the Basic Law, dealing inter alia with sedition and subversion.

3.20.2 An asset for Hong Kong is its active organised civil society. It plays an indispensable role in defending human rights. It is also an important source of inspiration and support for the emerging civil society in mainland China.

3.20.3 Subsidiaries of Hong Kong (as well as Taiwanese and Korean) companies and their subcontractors are among the foreign investors with the worst reputation in labour relations in mainland China. Local trade unions and NGOs have been campaigning to improve the situation. Government and the business community should lend an ear to these campaigns.

3.20.4 For many decades, gaming-led tourism has been the main economic pillar of Macao, which was handed over in 1999. The Macao Government has defined the future direction of the Special Administrative Region's economic development in the next decade as follows: gaming-led tourism will function as the main driving force and the service industry will act as the main stay for the co-ordinated development of other sectors. The aim is to establish Macao as an international centre for gaming-led tourism and as a hub for international conferences and exhibitions. Various sectors and industries in Macao stand to benefit from this strategy, as well as the expected strong development of tourism worldwide. There are concerns about the over-reliance of the economy on very few sectors. Efforts to reduce this over-reliance and to diversify should be supported.

3.20.5 Industrial relations, tripartite consultation and socio-economic interest representation in Macao are clearly below the modest Hong Kong standards. The same is true for its civil society. For the time being, the climate does not appear to be conducive to significant improvements.

3.21 During its July visit, the European Economic and Social Committee and the China Economic and Social Council decided to engage in consultation, dialogue and research on economic and social issues of common interest as well as on issues related to human rights and the rule of law, so as to promote economic development and social progress.

4. Conclusions and recommendations

4.1 One major question has hardly been raised in the EU-China dialogue so far: whether a successful transition to a market economy can be made without sweeping political reform. However, the key issue (for both China and its partners in trade and investment) of stability appears to be intimately linked with the tension between the two. This question therefore requires special attention in future EU-China contacts, including those between the EESC and the China Economic and Social Council (CESC).

4.1.1 The Committee believes that the crucial issue for China to succeed is development in terms of further political pluralism, rule of law and privatisation. This might put an end to the quasi omnipresence of the state in the economy and bring its role closer to the role played by the state in a social market economy.

4.2 Monitoring of implementation of the enforcement of WTO rules in China will not be an easy task, in particular not at the levels where the main problems may arise: the regional and the local. Hence, the Committee strongly supports the continuation of EU support for the efforts made by China to train legislators and members of the judiciary involved in China's implementation of the WTO rules at the various relevant levels. The Commission might suggest to the Chinese authorities the establishment of a public watchdog.

4.2.1 The Committee recommends that the Commission should cooperate closely with the EU Chamber of Commerce in China, which is in a position to give it first-hand accounts of enforcement of WTO rules by drawing on the experience of its 200 members.

4.2.2 The Committee will contact the European side of the EU-China Business Dialogue to draw their attention also to this problem and to suggest they include this matter on the agenda of their meetings with their Chinese counterparts.

4.3 To tackle the negative aspects of transition - and the probable aggravation of some of them as a consequence of China's WTO membership - the real and full involvement of organised civil society seems highly desirable. The European Commission is aware of the crucial role NGOs can play. Unfortunately, they have so far paid little attention to the role of free and independent economic and social interest groups.

4.4 In light of the increasingly vital role of NGOs in furthering China's development and fostering international cooperation the EESC proposes that, in close cooperation with the CESC, work should be undertaken on the following issues:

- the improvement of transparency and clarity in regulations by clearly defining the registration procedures and requirements for foreign NGOs and specifying the ministries responsible for their governance and sponsorship;
- the elimination of ambiguities in current regulations regarding how NGOs attain independent legal status, hire employees, and gain access to foreign currency.

4.5 China, as a prominent member of the International Labour Organisation, should ratify all eight fundamental human rights Conventions of the ILO and implement them in law and practice. As an ILO Member State China is already expected to meet the requirements of Conventions 87 and 98 on the basic workers' and employers' rights, irrespective of ratification. China should also withdraw its reservation on Article 8:1(a) of the International Covenant on Economic Social and Cultural Rights.

4.6 In its human rights dialogue with China, the European Commission should pay even more attention to China's persistent violation of the right to organise and the right to bargain collectively, systematically address the fate of detained and imprisoned labour activists and stress the importance of full involvement of free, independent and democratic economic and social interest groups in the transition to a market economy, of NGOs and of freedom of information and a free press.

4.7 The EU should support and enhance dialogue between organised civil society, economic and social interest groups in China and the EU on issues such as social justice (poverty reduction, gender, greater participation, environmental protection, etc.). This should include dialogue on issues as human rights, good governance and minorities' policies.

4.7.1 The Olympic Games to be held in Beijing in 2008, as well as the EXPO 2010 to be held in Shanghai could prove a major opportunity for the deepening cooperation in all fields if China

puts an end to human rights violations and makes substantial progress in the democratisation of the political system.

4.8 The development of political and civil rights, as well as of economic, social and cultural rights under the conditions of “one country, two systems” in Hong Kong and Macao will be closely followed by the European Economic and Social Committee.

4.8.1 The European Commission might wish to draw the attention of the Hong Kong authorities and business community to the possibility of using the OECD Guidelines for Multinational Enterprises as a reference point for the activities of Hong Kong based companies and their subcontractors in mainland China. The Commission should, in close cooperation with its EU member states, encourage enterprises based in the EU with significant investment in and trade links with China to respect the OECD guidelines and to encourage their Chinese business partners to do the same. In this connection, it should pay special attention to living and working conditions in Export Processing Zones (EPZ) in China.

4.9 The EESC delegation to Hong Kong and Macao concluded that relations between the EU and Hong Kong and between the EU and Macao have continued to be excellent since the hand-over, but it is perhaps now time to place the relationship between the EU and both the two Special Administrative Region (SARs) in a more systematic framework. In this framework, special attention should be paid to the diversification of Macao's economic development and to the development of democracy and civil rights as well as basic economic, social and cultural rights there, both in law and in practice.

4.10 With respect to development cooperation, the EESC believes that there should be a number of actions regarding:

- 1) improvement of the living conditions and social justice, maintaining/restoration of the natural basis of life; examples for that are: poverty reduction, improvement of environment and food security, empowerment of women;
- 2) employment and social security issues: for instance establishing/improving social security systems in urban and rural areas, promoting self-employment in the small scale sector; restructuring of the rural financial system (credit co-operatives, particularly for self-employed people and for women);
- 3) support for business training, in particular with regard to the small- and medium-sized sector, as well as for the establishment of independent business associations in this sector.

4.11 The EESC agrees that the EU should further encourage the transfer of know-how, technology or policy experiences through joint ventures and other forms of partnership either between companies, municipalities/regions or public bodies. Such contracts, strengthen the links between EU and China, and could also give additional impetus to the reform process. The success of Asia Invest

and “Local Authorities” programmes in China show real potential in this sector, focusing in particular on SMEs links.

4.11.1 The Committee believes that in order to take full advantage of trade and investment liberalisation, China’s economy should require extensive restructuring of firms, improvement in their governance and management, and reallocation of resources. Particular attention should be given to SMEs (producing labour-intensive products) who will need to integrate into international production chains if they are to be successful in world markets.

4.12 The European Commission China programmes should more prominently reflect the importance it places on governance, civil society, human rights, and sustainable development. Regular and systematic reviews will help to improve the relevance and effectiveness of EU programmes along these guiding principles.

4.12.1 There is a need to have a women-specific agenda and strategy in all poverty reduction programmes in China.

4.13 The EESC and the China Economic and Social Council have decided to engage in consultation, dialogue and research on economic and social issues of common interest as well as on issues related to human rights and the rule of law. They intend to do this on a regular and institutionalised basis. These contacts should also be used to address relevant issues coming up in Hong Kong and Macao.

4.14 Future visits of the Economic and Social Committee in China should not only be used to strengthen contacts with the China Economic and Social Council, but also to renew and to widen contacts with the NGO community in China, (and in particular with the free and independent among them) working in areas such as healthcare and environmental protection, along the same lines as during the visit of July 2002.

Brussels, 16 July 2003.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini