Conflict over arms embargo at EU-China summit

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The seventh annual EU-China summit held in The Hague on December 8 highlighted not only the burgeoning economic ties between the major European powers and China but also moves toward closer political relations. Germany, backed by France, pushed for and achieved an in-principle agreement for the EU to work toward lifting the arms embargo imposed on China after the Tiananmen Square massacre in 1989.

The arms embargo has been an obstacle to stronger strategic ties. In the lead-up to the summit, China branded the ban as "political discrimination" and "the result of the Cold War". During his recent visit to China, German Chancellor Gerhard Schroeder expressed the hope that the summit would "give an important signal" for the removal of the ban. French President Jacques Chirac also declared his government in favour of rescinding the embargo during a visit to China in October.

Schroeder and Chirac called for an EU commitment to lift the embargo in the face of considerable opposition. A grouping of states led by Britain, Sweden and the Netherlands rejected any immediate end to the ban. The European parliament passed a resolution in November opposing any lifting of the embargo, as did the German parliament in late October.

In calling for the maintenance of the ban, various European politicians invariably cite China's appalling human rights record and argue that European arms should not be used for "internal repression". They also claim that the embargo is necessary to preserve "regional security"—a reference in particular to the long-standing tensions between China and Taiwan. Any lifting of the ban, they insist, has to be tied to a "code of conduct" which, among other conditions, would require EU members to disclose full details of their arms exports to China for a three-year period.

However, the main reason for the reluctance to lift the arms embargo has nothing to do with concern over the lack of basic democratic rights in China. After all, European investors are making huge profits by exploiting cheap Chinese labour, disciplined by police state measures. Rather, the opposition reflects pressure from Washington, which has strongly objected to any change.

The US has repeatedly declared that providing China with advanced European weapons would undermine Taiwan's security and change the balance of forces in East Asia. Behind the US opposition lie broader concerns that a stronger China military, along with closer strategic relations between the EU and China, would undermine the present US hegemony in North East Asia.

Prior to the summit, the Bush administration lobbied EU members to oppose the move by France and Germany to lift the embargo. The EU member states that vocally resisted the change are those most closely aligned to the US, notably the Blair government in Britain. Japan—a major US ally—also urged the EU to retain the ban. A US State Department official welcomed the EU decision not to specify a timeframe, saying: "The key thing we were concerned about was whether they would come up with any dates. They didn't and that's a good thing."

Nevertheless, the joint statement adopted at the summit was a partial victory for France and Germany in asserting a more independent European stance toward China. The EU, it declared, "confirms its political will to continue to work towards lifting the embargo". For its part, Beijing "welcomed the positive signal, and considered it beneficial to the sound development of the comprehensive strategic partnership between China and the EU".

Political and strategic considerations are closely tied to the lucrative profits being made by European corporations in China. In 1980, China was only ranked 25th among the EU's trading partners. Now, it is the second largest after the US. Bilateral trade between the EU and China has doubled since 1999 to €142.3 billion, making the EU China's largest trade partner.

Arms are already part of this trade. The embargo has been routinely flouted since it was imposed. In 2002, for example, EU states sold $US281 million in weapons and defence equipment to China, with French companies accounting for half of the total. Even Britain admitted in its annual arms trade report to having sold combat aircraft components to Beijing.

A number of bilateral agreements were signed at the Hague summit to accelerate economic relations. These included €20 million to assist China with "social security reform"; €17.2 million toward a "management exchange and training program" for Chinese and European corporate executives; and €15 million to develop telecommunication networks in China between coastal areas and the less-developed interior provinces. China's commitments to economic restructuring as a World Trade Organisation (WTO) member and the impact of ending international textile quotas were also discussed.

EU Trade Commissioner Peter Mandelson summed up the mood in European capitals when he called on the EU to "place China firmly and centrally on our radar. We must review and lift our relations with China to a new and higher, more intense level... Europeans have to sit up and take notice because in absolute and relative terms, China is a huge phenomenon to be reckoned with.”

Germany’s central role in pushing for an end to the arms embargo is related to the fact that German corporations have been major beneficiaries of developing EU-China ties. Germany is by far the largest EU exporter to China, accounting for 44 percent of the total. Bilateral trade between China and Germany reached $43.6 billion this year—a 31 percent annual increase—and is expected to double by 2010.

Some 2,000 German companies, including major banks, operate in China. Even though China is often hailed as the “workshop of the world”, it is heavily reliant on imported machinery and technology, especially from Germany and Japan, the world’s two largest exporters of machine tools. Nearly two-thirds of EU exports to China are in the category of “machinery and vehicles”.

According to a research paper issued by Deutsche Bank in August, 80 percent of German investors in China are major corporations in the automotive, steel, mechanical and chemical industries. BASF and Bayer, for instance, are the largest chemical firms in China.

Volkswagen currently controls 30 percent of the Chinese car market, where sales surged to five million units this year. Last year, Volkswagen produced more cars in China than in Germany and Chinese sales accounted for one third of the company’s global net profit. The company has recently unveiled plans to invest another $US6.5 billion in China to increase its annual production there to 1.6 million vehicles by 2008.

German investment in China is rising dramatically. Since 1995, it has increased 10-fold, from just €800 million to €7.9 billion by 2003, making Germany China’s seventh largest foreign investor. Deutsche Bank noted: “Without doubt, cost pressures are a driving factor behind investment in China. Looking at the massive share of manufacturing companies among German investors, Germany’s industry has recognised the advantage of using China as a low-cost manufacturing site, especially if the goods produced are earmarked for exports.”

The German ambitions in China were clearly displayed during Schroeder’s three-day visit to China on the eve of the Hague summit. Accompanied by 44 business leaders from major corporations such as DaimlerChrysler, Siemens and Deutsche Bank, the German chancellor signed 22 agreements with the Chinese government. These included the sale of Airbus commercial jets worth $US1.3 billion, as well as $480 million in railway locomotives and $280 million in power-generation equipment.

Schroeder declared that China’s fast-growing car industry—now dominated by German companies—could be the “engine” of China’s economic growth. He laid the cornerstone for a new DaimlerChrysler plant in Beijing and attended the opening ceremony of the second joint-venture factory between Volkswagen and First Auto Works, China’s largest vehicle producer in Changchun, in northeastern China. He told Chinese officials that German corporations were very interested helping to “restructure” China’s northeastern heavy industries.

The northeastern provinces, or Manchuria, are a key focus of German attention. The region has been the centre of China’s state-owned heavy industry. The privatisations and restructuring during the 1990s has seen thousands of factories closed down and millions of workers laid off. In recent years, Beijing has provided incentives to attract foreign investment to “regenerate” the region. German companies such as BMW and Thyssen are already operating in Manchuria, attracted by the availability of cheap skilled labour and easily accessible oil, coal and iron ore.

The Deutsche Bank report noted that German corporations face fierce competition and urged them to make up for lost time. “Many competitors have been active in China longer than the German firms, as EU companies have so far lagged behind their Asia peers and behind the dollar block (USA, Canada, Australia, New Zealand) in getting involved in this vast market. Competition is particularly tough in manufacturing, which received two-thirds of foreign investments.”

The dispute over the arms embargo is just one aspect of growing great power rivalry in China and North East Asia as a whole. The EU has ambitious plans to establish transcontinental transport links not only to China, but via North Korea to the large markets of South Korea and Japan. If efficient and reliable land transport could be established between Europe and East Asia, it would slash the time involved in transporting goods by sea by weeks.

The Korean peninsula, and the adjacent northeast region of China, are also crucial to plans to transport oil and gas from Central Asia to East Asian markets. Pipelines from Central Asia and China’s western Xinjing province have already been built to northeast China. Beijing is also seeking agreements with Russia for pipelines from Siberia to Manchuria.

The US, however, regards these moves as a challenge to its own economic and strategic interests in East Asia. Washington’s bellicose policy toward the North Korea has, in part, been aimed at undermining such plans by creating an atmosphere of constant insecurity. US threats over North Korea’s nuclear programs have disrupted efforts both by China and South Korea—backed by Europe—to open up the country to foreign investors through free market restructuring.

The efforts by the EU and China at the Hague summit to cement closer ties are no surprise. Both sides are looking for a means to counter to Washington, particularly in the aftermath of the US-led invasion of Iraq. The conflict over the arms embargo is another sign that the eruption of American militarism is rapidly sharpening inter-imperialist conflicts over domination of markets, resources and geopolitical influence.