



EU-China Hub

Monthly Report



JULY 2020

YOUR MONTHLY REVIEW
OF KEY EU-CHINA NEWS



About EU-CHINA HUB

We are a Brussels-based, private, non-profit initiative pushing forward dialogue on EU-China relations.

Given China's rapidly rising importance on the global stage, it is now more important than ever for EU-China relations to be better understood not only by an inner circle of professionals and enthusiasts, but also by politicians, business people, and the general public.

This is especially true as Europe struggles to embrace the complexity of its relationship with China as a partner, a competitor, and a rival.

We aim to break down this complexity in a digestible format by aggregating the key EU-China news stories and interviewing important players directly involved in EU-China relations.

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WELCOME TO THE MONTHLY EU-CHINA REPORT!



JULY 2020
(JUNE 1 - JULY 3)

We have revised our format to help you to digest the key EU-China happenings and adjusted the denomination of our reports. From now on you can find each story divided into five sections: a summary giving you an overview of what happened, facts and figures focused on key information, quotes from leading stakeholders, takeaways that put the story into a wider context, and finally a few recommended materials. If you want more details for the stories, you can click on the links in the "dig deeper" section at the bottom of the page. We hope that you will find this new format more practical and that it will encourage you to dive into the latest EU-China developments.

It was a very busy month. Tensions over the highly controversial Hong Kong national security law have brought 'systemic rivalry' back to the forefront of EU-China discussions. The leading force in championing this democratic agenda have been parliaments - including the European Parliament. As Beijing has decided to move forward with its legislation, the formation of the Inter-Parliamentary Alliance on China and the EP's resolution on Hong Kong should not go unnoticed.

At the same time we can observe a trend of the EU moving towards economic and strategic securitization to counter what it sees as hostile moves by China. Interestingly, in this context the EU may be increasingly open to pursuing cooperation with transatlantic and other democratic partners.

These developments culminated in the EU-China Summit, which have brought limited tangible results and was primarily used by the European side for communicating its dissatisfaction to Chinese partners/rivals. As the story of a European "My Way" towards China unfolds, the German Presidency of the Council of the European Union starting on July 1 will mark the beginning of a new chapter.

We hope that you will enjoy this report and encourage you to share it with your network.

Enjoy and stay safe!

Grzegorz Stec
Founder of EU-China Hub

Hear opinions of EU-China experts and decision-makers



CHARLOTTE ROULE

Vice-President of the EU Chamber of Commerce in China



*One Economy, Two Systems:
European Businesses in China Amid the Pandemic*



TAMÁS MATURA

Founder of the Central and Eastern European Center for Asian Studies



*Hungary's China Policy: Orbán's Illiberal Cooperation
and Classified Details of Belgrade-Budapest Railway*



BJÖRN JERDÉN

Head of Asia Program at the Swedish Institute of International Affairs



*Sino-Swedish Relations:
Standing Up for Values While Managing Interests*

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SUMMARY

The EU and China held their 22nd high-level summit on June 22, following a three-month delay. This was the first official meeting between the newly minted EU leadership (von der Leyen, Michel, Borrell) and Chinese leaders Li Keqiang and Xi Jinping, signaling the political importance of the Summit.

The talks ended without a joint statement or an EU-China Agenda 2025, which HR Borrell announced as a potential summit deliverable less than two weeks prior. This is likely tied to the European Parliament resolution which called on the Commission and the Council to make Hong Kong the “top priority” of the Summit. Among the limited constructive outcomes was a decision that another summit should be held in the near future, in place of the postponed one in Leipzig.

The European side used the Summit to clearly communicate its various grievances. These included a perceived uneven playing field for businesses, limited progress on CAI, limited progress in cooperation on WTO reform, and the climate crisis. Importantly, issues linked to ‘systemic rivalry’ also came to the forefront - Hong Kong, human rights, disinformation, and cybersecurity attacks. However, though it adopted a harsher tone, the EU steered clear of being confrontational.

In contrast, Chinese accounts focused on areas of cooperation. An article on Xinhua stressed China pledges further reform and opening up, and called on the EU and China to seek common ground and reconcile their differences.

FACTS AND FIGURES



2 calls took place: one between Michel, von der Leyen, Borrell, and Li Keqiang, and another between Michel, von der Leyen, and Xi Jinping.



No joint statement nor an EU-China Agenda 2025 were agreed upon, but a promise remains for a future summit instead of Leipzig.



2 messages from the EU: China is responsible for progress of relations and needs to show more reciprocity; and the EU is taking ‘systemic rivalry’ more seriously



Chinese accounts overlooked EU grievances and talked instead about the potential of EU-China cooperation



10 days before the Summit the European Parliament called for the EU to get tough on Hong Kong.

QUOTES



"The most important was and remains that we must make progress. [...] Progress implies cooperation by both sides, implies reciprocity, and implies trust."

Ursula von der Leyen, EC President



"China and the EU are the world's two main forces, two main markets, two main civilisations. What we advocate, what we are opposed to, what we collaborate on, carry global meanings."

Xi Jinping, PRC President, CCP Secretary General



"We also conveyed that China risks very negative consequences if it goes forward with imposing [the Hong Kong national security] law."

Ursula von der Leyen, EC President

TAKEAWAY

This Summit comes in the context of the EU trying to adjust its stance to China, following the 'Sinatra Doctrine' of approaching China "My Way" amid Sino-American rivalry. What this would entail in practice is still to be defined, but the outcome of the Summit shows increasing assertiveness - though for now only in the form of tougher, not confrontational, rhetoric.

Brussels' showcased its disillusionment with China through von der Leyen's criticisms and the lack of a joint statement. Apart from the EU's complaints about cooperation, its approach to China was also affected by disinformation, as well as the mask and wolf warrior diplomacy that the EU was subject to during the first months of the pandemic.

Throughout June, we saw momentum towards a more assertive attitude build up in Brussels. This came with progress on economic and strategic securitization by the Commission and the European Parliament's renewed emphasis on 'systemic rivalry', which we discuss in detail in other sections of the report.

As Germany takes up the rotating presidency, it now faces the task of moderating the discussion on the "My Way" approach. But it is likely that the European approach to China will remain quite complex and feature a combination of assertiveness and engagement on specific topics.

READINGS

- [Related remarks by President Charles Michel after the 22nd EU-China summit](#) - European Council, Jun 22
- [Related statement by President von der Leyen](#) - European Commission, Jun 22
- [Europe's "Sinatra doctrine" on China](#) - The Economist, Jun 11

SUMMARY

Throughout June, a wider trend of securitization emerged in the EU. The European Commission took decisive steps to protect the common market and to build up the EU's cybersecurity defense.

From an economic standpoint, work on new protective measures for the single market is done, as exemplified by a White Paper (which is now up for public consultation) that seeks to address issues caused by foreign subsidies - general market distortions, impact on takeovers of EU companies and public procurements. Similarly, the EU created a precedent for tackling third-party subsidiaries that exported in the EU on China's behalf - on June 15, it slapped tariffs on two Egyptian glass fiber fabrics exporters who were exporting on behalf of Chinese companies.

The Commission also moved to tackle disinformation. Ursula von der Leyen called out China during the summit with Xi Jinping and Li Keqiang over staging cyberattacks on hospitals and promoting disinformation during the pandemic in Europe. This came less than two weeks after the Commission issued a joint communication which seeks to beef up the EU's capability to defend itself from disinformation and which accused China of having run "targeted influence operations and disinformation campaigns in the EU, in its neighborhood, and globally".

However, challenges remain. For once, the Commission declined to provide tangible proof for its claim on hospitals being the victims of a cyberattack. More importantly, the disinformation analysis department of the EEAS is nearing the end of its budget, and negotiations for a new budget have yet to begin, thus potentially leaving the EU in an information blindspot.

FACTS AND FIGURES



3 modules of the White Paper tackle: general distortions of the common market; subsidies in takeovers of EU companies; impact of subsidies on EU procurement cases.



Landmark decision on the tariffs on the Egyptian companies acting on behalf of China, can impact any third party using in-direct subsidiaries to export into the EU.



The Commission's joint communication on disinformation seeks to tackle the challenge by tagging manipulative content, increasing user awareness, and detecting disinformation quicker.



Twitter deleted 170,000 accounts believed to be tied to China's coronavirus disinformation on June 12, while Zoom came under fire for deliberately shutting down online Tiananmen vigils.



€6 million is the value of the current (and nearly depleted) budget of the EEAS disinformation analysis agency.

QUOTES



"If you ran a club, and you wanted to make sure there was no trouble, you could check people on the door, before they came in. You could also have checks inside the club, to make sure everyone followed the rules once they were in. And it's the same with foreign subsidies – you can check for them in advance, or you can fix the problems as they arise. Or you could do both. So our White Paper puts forward several approaches that would allow us to protect the level playing field."

Margrethe Vestager, EC Vice-President for Europe Fit for Digital Age (Competition)



"We have seen cyberattacks on hospitals and dedicated computing centres. Likewise, we have seen a rise of online disinformation. We pointed out clearly that this cannot be tolerated."

Ursula von der Leyen, EC President



"We have, for the first time, decided to name China in our report. I'm glad we did this because if we have evidence we must say it [...] It's time to tell the truth."

Věra Jourová, EC Vice-President for Values and Transparency

TAKEAWAY

Pursuing securitization also means solving the EU's overdependence on supply chains. The new buzzword around the European quarter in Brussels is "open strategic autonomy", but this begs the question: what is the criteria for a sector to be considered strategic? MEP Iuliu Winkler recaptured the ongoing debate on it, arguing that open strategic autonomy does not imply decoupling from China, or presuming that the EU should close in its shell and adopt protectionist measures that contravene the WTO. Instead, Winkler emphasized the need to pursue diversification and to uphold principles of free and fair global trade.

Open strategic autonomy is inherently related to China, which doesn't shy away from using economic leverage to apply political pressure (recall our brief in late April, which summarized how China weaponizes its status as the world's second largest economy).

However, European businesses settled in China are not inclined to relocate. It is a costly endeavour that does not make much sense, since many of those companies are "in China, for China". According to a survey by the EU Chamber of Commerce in China, only 11% of them declared they have plans to relocate, but not for reasons related to limited market access. Find more on this topic in our interview with the Chamber's vice-president, Charlotte Roule. The momentum for open strategic autonomy will have to be created by policymakers, who will need to carefully craft a list of what does and does not constitute a strategic sector.

READINGS

- [White paper on levelling the playing field as regards foreign subsidies](#) - EC, Jun 17
- [Facing uncertainty, European companies in china find themselves navigating in the dark](#) - EU Chamber of Commerce in China, Jun 10
- [Joint Communication: Tackling COVID-19 disinformation - Getting the Facts Right](#) - EC, Jun 10

SUMMARY

Parliaments trended towards harsher criticism of China. This is most definitely true for the European Parliament, which prides itself as the only EU institution whose members are directly elected. As such, it has always been the upholder of a more 'democratic' pushback against China.

On June 5, 18 lawmakers from 9 legislatures launched the Inter-Parliamentary Alliance on China (IPAC), supporting such a pushback. IPAC is a cross-national initiative that seeks to coordinate a united response of democracies around the world to the challenges China poses. They seek to hold China accountable based on international law; uphold its commitments to human rights; promote fair trade; strengthen security, and shield emerging economies from compromising Chinese investment.

Throughout June, IPAC grew exponentially, as it currently reached 128 lawmakers from 16 legislatures. Numbers aside, the IPAC made strides on June 27, when a report by one of its advisors, Adrian Zenz, who described China's forced sterilization of Uyghurs. One day after the report was published, 28 countries made a call for a UN investigation into the issue and the issue was raised in multiple parliaments.

Also, the European Parliament moved to decisively toughen the EU's stance on Hong Kong a resolution backed by 5 out of the 6 largest political groups. The resolution called on the Commission and the European Council to treat Hong Kong and Xinjiang as top priorities; to sue China at the International Court of Justice; to further human rights protection through the common market's economic leverage; and to enact the European equivalent of a Magnitsky Act. If you are interested in seeing the voting patterns, we compiled some useful graphs and data here.

With the implementation of the Hong Kong national security law on July 1, the resolution becomes even more important, as this is likely to become a major point of contention in EU-China relations in the foreseeable future.

FACTS AND FIGURES



IPAC currently comprises 128 members from 16 legislatures. That's a significant jump from their starting numbers - 18 members from 9 legislatures.



5 goals of IPAC: hold China accountable to international law; uphold human rights; promote fair trade; strengthen security; protect emerging economies from promiscuous Chinese investment.



European Parliament Resolution on Hong Kong was passed by 565 votes in favor, 34 against, and 62 abstentions.



Notice the political divide: 85% of MEPs voting against the resolution and 71% of those that abstained hailed from either Identity and Democracy or Confederal Group of the European United Left/Nordic Green Left.



The Hong Kong national security law entered force on July 1, which makes the EP resolution even more important

QUOTES



"Developing a coherent response to the rise of the People's Republic of China as led by the Chinese Communist Party is a defining challenge for the world's democratic states. This challenge will outlast individual governments and administrations; its scope transcends party politics and traditional divides between foreign and domestic policy."

IPAC Mission Statement



"The EU should use economic leverage to economically challenge China's crackdown on human rights"

EU Parliament Resolution on Hong Kong



"Like the UK, we should give our protection to Hong Kong democrats who need it — taking them in where necessary."

Reinhard Bütikofer, MEP, Chair of EP Delegation for Relations with the PRC

TAKEAWAY

Parliaments are more likely to stress the 'rivalry' in 'systemic rivalry' because, through their nature, they are one of the more tangible expressions of indirect democracy. We have seen this with the European Parliament resolution on Hong Kong and the IPAC report on Uyghur birth suppression rates.

What they advocate should not be understood as the final destination in policymaking. Rather, parliaments are but one of the actors involved in the democratic race that can be informally described as "legislative vs. executive". We saw this in the EU-China Summit: the Parliament asked for sweeping retaliatory measures, while the Commission (in other words, the party representing the EU) adopted a stance that seems assertive without being confrontational.

This doesn't necessarily mean the Commission (or any executive, for that matter) lacks a spine, but it is important that a body without executive responsibilities can stand up for its values, even if its calls don't end up being truly implemented under pressure of the executive's focus on pragmatic results. A prime example of this can be recalled when, during the Foreign Affairs Council of late May, the Swedish minister was the only one to suggest sanctions as a punitive measure for the national security law. As it became evident from our [interview](#) with Björn Jerdén, even the minister's call was a result of push by Swedish MPs.

The adoption of the Hong Kong national security law creates demand for principled stances, which means parliaments in general will have a very important role in debate. Their task will be to steer policymaking as much as possible towards a values-based approach, so as to balance out the more pragmatic-based work of their respective executives.

READINGS

- [Inter-Parliamentary Alliance on China \(IPAC\)](#) - Official website
- [European Parliament resolution of 18 July 2019 on the situation in Hong Kong](#) - EP, Jul 18
- [Minutes of EP Proceedings](#) (How MEP's Voted on the Hong Kong Resolution - pages 338-339)

SUMMARY

The EU is considering tackling some of the challenges related to China in coordination with external partners. June developments suggest the potential for EU-US dialogue, as well as closer cooperation through G7 and NATO.

Josep Borrell suggested creating a transatlantic dialogue on China, during a videoconference on June 15 between him and Mike Pompeo. At the time, Pompeo did not shower the idea with support, but ten days later, he stated in a Brussels Forum webinar that he fully backs the dialogue and hopes teams will be assembled in the coming weeks. Concrete details on the essence of this dialogue have yet to emerge, though Pompeo signaled the basis of it would be a “collective data set” that will lead to a common understanding of what the EU and US believe to be China’s challenges.

Margrethe Vestager also backed the idea of EU-US cooperation on cybersecurity in a Brussels Forum webinar that also featured US Senator Mark Warner. This message came just one day after Pompeo issued a statement signaling the lack of trust Huawei has among European partners (particularly with CEE member states). The EU and the US could find a common working ground in NATO, whose Secretary General issued a reflection for NATO 2030 that included a response to China’s security challenge in terms of both tech and cybersecurity.

The EU has warmed up to working with partners on a response to Hong Kong. Josep Borrell joined the G7 ministers in condemning the national security law as a breach of the “One Country, Two Systems” principle. This contrasts with the decision in late May to decline issuing a common statement on Hong Kong alongside the UK, the US, and Australia. It remains to be seen whether the EU will further cooperation on China with external parties, for instance with the UK, which has come in crosshairs with Beijing for offering citizenship to all Hongkongers with BN(O) status.

FACTS AND FIGURES



Pompeo supported an EU-US dialogue on China on June 25, but details have yet to be decided.



His decision comes 10 days after Borrell pitched the idea loosely, which Pompeo did not immediately support.



8 EU states that support Huawei restrictions in principle: Czech Republic, Poland, Sweden, Estonia, Romania, Denmark, Latvia, and Greece



The US plans to withdraw 9500 soldiers from Germany, but the EU and US could cooperate on countering cyberattacks and disinfo through NATO.



3 million Hongkongers who hold a status of British National (Overseas) have been offered a route to UK citizenship

QUOTES



"[The proposal of EU-US Dialogue on China was] a suggestion that I put on the table during my conclusion, but nothing more than that."

Josep Borrell, EU High Representative



"What we're counting on is this dialogue won't be a resistance or, as you described, an outlet for energy with no action, but rather a catalyst for action."

Mike Pompeo, US Secretary of State



"[On digitalization] We have to work together and push for the things that we believe in to be maintained and developed within our line of values"

Margrethe Vestager, EC Vice-President for Europe Fit for Digital Age (Competition)



"[China's rise is] multiplying the threats to open societies and individual freedoms, and increasing the competition over our values and our way of life."

Jens Stoltenberg, NATO Secretary General

TAKEAWAY

EU-US cooperation is unlikely to take a very comprehensive form at this stage.

The proposed dialogue may highlight agreement on topical issues (trade, cybersecurity, etc.), but the EU is not fond of being seen as a partner to Donald Trump's confrontational rhetoric on China. The EU may not like China's growing assertiveness, but it understands that issues related to fighting the pandemic, tackling climate change, or maintaining a multilateral global trade order are impossible to achieve without Beijing's cooperation. As such, the EU will most likely use the dialogue with the US to further highlight its grievances about the uneven playing field and the cybersecurity threats stemming from China, but we should not expect a full-on alliance against China.

Similarly, do not expect a radical position on Hong Kong either. The EU will gladly join hands with allies to uphold the international order, but with Germany arriving at the helm of the Council, no tectonic shift is expected. At the opening press brief of the German presidency, Angela Merkel stated she sees no need for Germany to extend its asylum policies to people from Hong Kong beyond the current measures.

The US president elections in November will be decisive for the EU-China relations. European policymakers see a potential change in administration as a prospect catalyst for improved transatlantic cooperation on China. Developments in June further suggest to Brussels that working with the current president may not be desirable : John Bolton's book noted how Trump bargained with Xi the Phase 1 trade deal, so as to portray a policy success ahead of the November presidential elections; the EU and US disagreed on digital taxes that would have an effect on Silicon Valley giants; and Trump himself has been on the receiving end of criticism on disinformation.

READINGS

- [Vestager on EU-US Cooperation on Cybersecurity and Disinformation](#) - Brussels Forum, Jun 25
- [Pompeo on EU-US Dialogue on China](#) - Brussels Forum, Jun 25
- [The future of trans-Atlantic collaboration on China: What the EU-China summit showed](#) – Brookings (Paul Gewirtz), Jun 26

SUMMARY

On July 1, Germany assumed the rotating presidency of the Council of the European Union (colloquially, the Council). It does so as part of a 'trio' of countries complemented by Portugal and Slovenia.

The top priority will be guiding the fight against COVID-19, meaning "the virus must be curbed, the European economy must recover and social cohesion in Europe must be reinforced", as per the Presidency Program. As presidents of their respective Council formats, German ministers will chair essential negotiation rounds, particularly on the Next Generation EU recovery fund, the MFF budget 2021-2027, but also the final Brexit deal.

Relations with China will be the priority in terms of foreign policy, with the goal of establishing "more reciprocity in all areas". In the context of the European Parliament's resolution on Hong Kong, a draft of the Program shared with Reuters talked about the need for the EU's China policy to be "oriented towards long-term common EU interests and values" – the addition of "values" should be noted, as it was not present in previous drafts.

As Angela Merkel herself said, the economic success of an undemocratic state like China is a challenge for liberal democracies. Nonetheless, she maintained that China remains an essential negotiating partner on climate change and trade, and expressed hopes that an agreement on investment will be finalized and a high-level summit will be organized, after the Leipzig Summit scheduled for September was postponed.

FACTS AND FIGURES



The German Presidency will run between July 1 and December 31.



The Presidency Trio: Germany, Portugal, and Slovenia



Four Focus Areas of the Presidency: Overcoming the consequences of the pandemic and the economic recovery; the Multiannual Financial Framework; Brexit negotiations; climate and digitalization.



China is the main foreign policy priority of the German presidency.



The Leipzig Summit scheduled in September was postponed, but Germany still motivated to make it happen.

QUOTES



"The example of China shows that even an undemocratic state can be economically successful, which is a major challenge for our liberal democracies"

Angela Merkel, Chancellor of Germany



"The policy on China adopted by all EU institutions and Member States should be united and balanced, and shaped by long-term common EU interests and values"

Excerpt from German Presidency Program



"Germany wants to be a driving force and facilitator during its Presidency of the Council of the EU. Our task will be to build bridges and find solutions that ultimately benefit everyone in Europe."

Heiko Maas, Minister of Foreign Affairs of Germany



It is also indispensable for Europe to speak with a single voice to China! This is all the more important now, given the need to investigate the pandemic and the increasingly robust action taken by China in Hong Kong and its neighbourhood."

Heiko Maas, Minister of Foreign Affairs of Germany

TAKEAWAY

The German Council presidency comes at the right time for the post-pandemic recovery. The German economy makes up for almost one quarter of the EU's GDP and the Franco-German agreement on a recovery fund shows Berlin is fully committed, politically and economically, to the European project (recall that Germany turned 180 degrees on the topic of debt mutualization) and is conscious of its leadership role in the Union.

German policymakers should keep in mind the ECFR study, which shows European citizens are not so keen on federalization along Hamiltonian lines. Instead, a Milward moment is brewing, with the general mood being much more pragmatic in demanding protection from the state from external challenges. Because of this, policymakers ought to shape rhetoric which portrays joint, European sovereignty (not European values) as the saving force for relevance of the European states.

Germany has been the country that traditionally toned down assertiveness on China on multiple occasions. Angela Merkel herself sought to focus relationship on economic and other types of cooperation, a sentiment shared by many German companies keen to operate in China's vast market.

The mood is changing now, as German policymaking circles are growing more skeptical of China's global intentions. This gives impetus for Germany, as chair of Council meetings, to moderate a debate that would craft a single, streamlined European response on China. However, don't expect this to be a radical mood shift, but rather, a more pragmatic approach, as exemplified by Merkel's stance on taking China to the UNSC over Hong Kong.

READINGS

- [Together for Europe's recovery](#) – German EU Presidency Program, eu2020.de
- [Opening address by Foreign Minister Heiko Maas at the Virtual Annual Council Meeting of the European Council for Foreign Relations \(ECFR\)](#) – Federal Foreign Office, Jun 29
- ['For Europe to survive, its economy needs to survive': Angela Merkel interview in full](#) - The Guardian (Philip Oltermann), Jun 26

SUMMARY

In May, the Commission put forward a €750 billion recovery fund and a €1.1 trillion proposal for the 2021-2027 budgetary period. 'Next Generation EU' recovery fund combines loans and grants comprises three pillars - support to member states for investment and reforms; support for private investment; and investment in prevention and crisis preparedness, with the top beneficiaries being Italy and Spain.

Not all member states agreed with the substance of the proposal and these disagreements carried on throughout June. The most vocal opposition came from the Frugal Four (Sweden, the Netherlands, Denmark, and Austria), who are not fond of mutualized debt or of grants being handed instead of loans, and who ask for widespread reforms tied to the money. Some disagreement also comes from the Visegrád Four, who fear the recovery instrument will be funded with cuts in cohesion funds.

A European Council meeting on June 19 failed to bridge the divergence, as leaders emerged from it solely with reiterations of their positions. Even member states supporting the idea said the proposal did not give enough details. As such, Michel called a European Council for July 17-18, and Chancellor Merkel left no doubt that the German presidency of the Council will prioritize finding agreements on NextGen EU and the MFF.

Markets may lose confidence in the European economy if a deal is not reached in July (which many diplomats doubt). Time has become a luxury, with ECB President Christine Lagarde expecting an 8.7% contraction for 2020, with the worst reverberations on (youth) employment having yet to come.

FACTS AND FIGURES



Commission's Proposal: €1.1 trillion EU budget for 2021-2027 and €750 bn recovery fund



3 countries getting the most: Italy (€81.8 bn grants, €90.9 bn loans), Spain (€77.3 bn in grants, €63.1 bn in loans), and Poland (€37.7 bn in grants, €26.1 bn in loans)



All countries have amendments they want to propose, but resistance comes mainly from the Frugal Four (Austria, Netherlands, Sweden, Denmark) and the Visegrád Four (Hungary, Czech Republic, Poland, Slovakia)



The ECB expects 8.7% contraction, with Q2Q decline of 13% in Q2 2020. Recovery only in 2021 by +5.2%



Unemployment rate in the EU risks increasing to 10%, currently at 7.3%

QUOTES



"Reaching a swift and ambitious agreement on the European recovery package is the EU's highest priority for the coming weeks."

Ursula von der Leyen, EC President



"The Chancellor [Merkel] and I put it on paper: It's our absolute priority. Without this [recovery fund], Europe wouldn't rise to the challenge."

Emmanuel Macron, President of France



"The recovery package should be far, fast, flexible and firmly anchored in economic reforms. The faster the package is agreed, the better for the EU economy."

Christine Lagarde, ECB President

TAKEAWAY

There is a term in European law, "in foro interno, in foro externo". It refers to the principle that if the EU has an internal competence, an external competence in that policy arena is also present. Moreover, whichever level of unity and solidarity the EU will display internally will have strong reverberations on its external image, and particularly in the relation with China.

This sense of disunity undermines the block's ability to develop a single voice on China; it may also push member states hardest hit by the virus into closer relations with China. Recall the ECFR study in which 21% of Italian respondents said their perception of China improved and 77% of them said the pandemic highlighted the need for more EU cooperation.

Chinese economic leverage over Europe may increase if insufficient funds are unlocked for a proper economic recovery. Such disagreement could jeopardize a united response on Hong Kong or a cohesive demand for a level playing field for businesses, and would most likely be ground zero for the spread of disinformation.

Michel issued an early compromise on the negotiations which maintains the €750 billion recovery fund, but reduces the MFF for 2021-2027 by a small fraction. More conditionality would be attached, as the Council would get an important role in decision-making over fund distribution. On top of that, rebates would be maintained, meaning that richer countries would get some money back from their contributions.

READINGS

- Europe's pandemic politics: how the virus has changed the public's worldview - European Council of Foreign Relations (Ivan Krastev, Mark Leonard), Jun 2020
- ECB's Lagarde urges quick EU recovery plan as economy in 'dramatic fall' - The Guardian (Jan Strupczewski, Gabriela Baczynska, Andrius Sytas, Kevin Liffey), Jun 19
- Next EU Budget Previewed - POLITICO Brussels Playbook (Florian Eder) - Jul 2

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