EU-China Hub

Monthly Report

EU-China Hub

AUGUST 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!

EU-China Hub

AUGUST 2020

(JULY 1 - AUGUST 1)

July saw the continuation of the trends that we have been following over the last few months within the EU-China relations. Brussels has further securitized relations with Beijing as the EU has been shaping its responses to the new Hong Kong National Security Law and to Huawei's involvement in European markets. In the course of this, the European capitals have been placing greater emphasis on "systemic rivalry" and enhancing coordination on China. However, we are still far from seeing a coherent European China policy.

At the same time, throughout July, the EU has been trying to maintain a delicate balance between Beijing and Washington as the tensions between the two have been intensifying. Washington's new "free world vs. China" campaign has caused quite a commotion, adding to the negative outlook in global affairs. The EU continues to emphasize its alignment with the US in terms of shared values and assessment of China, but it disagrees with Washington's methods. This is consistent with the EU's "Sinatra Doctrine," in which the EU protects and promotes its own interests and values amidst the Sino-American competition by finding a delicate balance between the two superpowers.

There have also been new developments in the CAI negotiations. The discussions held during the 8th High-level Economic and Trade Dialogue are likely the last possible chance of concluding the negotiations in 2020, and reflect the EU's growing impatience towards China. Success on this front could provide momentum to counter the worsening of the EU-China relations.

As we enter August, we look forward to monitoring and analyzing the build-up to a high-level videoconference between President Charles Michel, President von der Leyen, Chancellor Angela Merkel, and President Xi Jinping on September 14th.

In the meantime, we wish you a very enjoyable summer period and hope to see you here next month!

Enjoy and stay safe!

Grzegorz Stec
Founder of EU-China Hub

Hear opinions of EU-China experts and decision-makers

IULIU WINKLER

Vice-Chair of the European Parliament's Committee on International Trade

Open Strategic Autonomy and EU-China Relations
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BLEAK PROSPECTS FOR HUAWEI IN EUROPE

SUMMARY

Huawei has seen an increasingly challenging environment in Europe throughout July. In the UK, the government issued a plan that would completely phase out Huawei tech in 5G networks by 2027. There are conflicting reports on the motive. Donald Trump claimed US sanctions on Huawei pushed the British to adopt the ban (which was confirmed by British government officials in a private meeting with Huawei). However, UK officials - including British Secretary of State Dominic Raab - publicly denied being influenced by Washington, and stated their interests simply aligned.

Important developments also happened in the EU's three biggest telecom markets. In France, authorities imposed a limit on telecom operators' renewal of their existing agreements with Huawei - resulting in a de facto ban by 2028. In Germany, the situation is more complex. DT (which is also Europe's largest operator) is a strategic partner for Huawei, which provides 65% of its base stations and antennas. When news emerged that Huawei agreed to bear the costs of any supply problems for DT (e.g. US sanctions), divisions across the German political spectrum were highlighted. Chancellor Angela Merkel has been resisting pressures to ban Huawei (likely a strategic choice meant to avoid undermining relations with China), but this drew criticism from heavyweights such as Foreign Minister Heiko Maas, Merkel's potential successor Norbert Röttgen, and even a Bundestag coalition. In Italy, the country's biggest telecom operator TIM unilaterally excluded Huawei from its tender on 5G equipment. The Italian government was divided on how to act at first but later moved to send operators a secret note that imposed extra oversight over their choice of suppliers.

A July 24 report on the status of 5G Toolbox implementation by member states showed that a majority of member states have yet to provide reform plans on assessing high-risk suppliers and on ensuring diversity of suppliers, both of which are critical issues for Huawei. For our full readout of the report, click here.

FACTS AND FIGURES

UK - No new Huawei 5G kit starting 2021, and all existing equipment will be phased out by 2027. However, telecoms using Huawei's 2G, 3G, and 4G tech can keep using it.

The ban was said to cost £2 billion and delay the rollout of 5G by 2-3 years. BT (UK's largest operator) countered that it would cost no more than £500 million, while Ericsson said the phase-out could be done before 2027.

France - Huawei could be de facto banned by 2028. French authorities allegedly banned telecom operators from renewing their contracts with Huawei. Current license span from 3-8 years in length.

Germany - DT operates in 50 countries (17 in EU) with 184 million clients. Huawei provides 65% of DT's base stations and antennas, and it is currently working on upgrading DT's 4G networks offering DT a 'care-free package'.

14 member states reported their exposure to high-risk suppliers is either Medium or High. 8 member states have not provided any data.

QUOTES

"As a result of US sanctions, we have to look with a clear-sighted perspective... and we have taken a decision based on that. [...] But I don't think there is any question of strong-arming."

Dominic Raab, UK's Foreign Secretary & First Secretary of State

"France's position is similar to that of Britain, but the government's communication is different. [...] Huawei can't do much about it."

Reuters' sources in French establishment

"Work is still ongoing in many Member States on defining the content and scope of the measures and in some cases, political decisions still need to be made in this regard. In addition, even where measures are in progress or being planned, not all Member States have shared detailed information about every measure "

5G Toolbox Implementation Report

TAKEAWAY

The UK has taken a series of steps that may serve as an inspiration for EU member states seeking to craft a policy starting from the 5G toolbox, especially as anti-Huawei sentiments continue to grow. The counter-balance to the UK is the German government, which has explicitly supported Huawei's 5G rollout, but, as we will discuss in a separate news item, Merkel is increasingly becoming isolated in her stance on Huawei (and China, in general).

What is interesting to observe here is the US factor. The UK had discussed phasing out Huawei even before Washington's sanctions on the Chinese company. However, private conversations between the UK government and Huawei representatives seem to indicate (unless it is a narrative served specially for Beijing's ears) that US "geopolitical influence" played a significant role in London's decision-making. That being said, British authorities have publicly dismiss these claims, seeking to present a process completely independent from the US interference.

As we mentioned above, **a considerable majority of member states have yet to implement measures** to address the challenge of "high-risk vendors," and they are unprepared to ensure diversity of providers. For the member states that distrust Huawei, the British case may prove very informative. The UK's decision came amid the growing Sino-American tensions and Cold War-like side-picking, and it shows how hard it is for a country to maintain a constructive relationship with China from going sideways following such a decision.

One other thing to keep an eye on should be the operation costs of sidelining Huawei. The UK government appears to have overestimated the costs and delays caused by banning Huawei, according to BT and Ericsson. If that is the case, Huawei has even less ammo for its case, but bear in mind that both BT and Ericsson also have their agenda.

READINGS

- 5G security: Member States report on progress on implementing the EU toolbox and strengthening safety measures, European Commission, Jul 24
- UK orders ban of new Huawei equipment from end of year, Financial Times (George Parker, Nic Fildes, Helen Warrell, and Demetri Sevastopulo), Jul 14
- How US restrictions drove Deutsche Telekom and Huawei closer together, Politico (Laurens Cerulus), Jul 6

'QUOTES' PICTURES

1,2,3) Twitter Profile Picture

GERMANY AND EU UNITY - SEARCH FOR A COHERENT CHINA POLICY

SUMMARY

As Germany started its Council presidency on July 1, Foreign Minister Heiko Maas described Germany's presidency goals along the lines of solidarity and sovereignty. In this line, he argued that the EU must "speak with a single voice to China." But achieving this will not be easy.

An ECFR survey of European policymakers suggests that Berlin-Paris collaboration could lead to a more coherent EU foreign policy. With Germany's influence in Eastern Europe and France's in Southern Europe, the two could lead the crafting of a geopolitical strategy for Europe amidst the US-China competition, which, at least according to France, engages with Moscow to prevent it from becoming Beijing's ally.

However, the study also highlighted that China does not rank highly in the agenda of the EU countries. While China policy is among the top 5 priorities for France and Germany, it ranks 12th on average for the EU27 overall, with Russia being considered (especially in CEE) a more significant challenge. Moreover, 23 member states are not interested in significantly changing the EU's current policy on China, which sees it as both a rival and a partner.

And even Germany itself seems divided on China. Angela Merkel's commitment to maintaining close economic ties with Beijing often sees her taking a highly diplomatic stance on sensitive issues such as Hong Kong or Xinjiang. Over the last month, Merkel's stance on China has drawn criticisms across the German political spectrum. Norbert Röttgen, a main voice in the CDU, said Merkel promotes self-censorship. MEP Reinhard Bütikofer, a Green MEP and the EP chair of the delegation for relations with the PRC stated Merkel does not understand that China has become an "increasingly totalitarian regime with a claim to hegemony." Nils Schmid, the foreign policy spokesman of the SPD, Merkel's coalition partner, said her assumptions and policy towards China were "behind the times" and her belief that China will change through trade is "out of date". The SPD even released its own China policy document, calling for a more "assertive, rules-based, and transparent" relation with China. Nonetheless, German industries back Merkel's stance, especially the auto sector that has operations in China. Over last weeks, Volkswagen, Daimler, and Mercedes all deepened partnerships with their Chinese counterparts.

FACTS AND FIGURES

ECFR survey - China ranks 5th and 4th for German and French policymakers respectively, as a policy priority, but it is only priority #12 for EU27 overall.

Pragmatic View - Aside From Greece, Bulgaria, Cyprus, and Estonia, all other member states prefer to maintain the current pragmatic view of China as both a partner and a rival.

GER-CN Trade - With a trade volume of €206 billion, the Sino-German trade relation is Germany's largest, excluding trade within the EU - e.g. Germany's trade with V4 countries exceeds that with China).

Merkel - Since Merkel first became Chancellor in 2000, German exports to China increased fivefold. Especially during the 2008 Global Financial Crisis, when the trade with China helped the German economy avoid a collapse.

GER-CN Future - 77% of German businesses operating in China said they are not planning to move capacity outside of China, and 67% said they plan to further invest in China in the next two years.

QUOTES

“For all the benefits that Merkel’s China policy delivered in the past, these days it is behind the curve”

Reinhard Bütikofer, Chair of EP Delegation on Relations with the PRC

“[Merkel] still sticks to this idea of convergence, that as we deepen our economic ties with China, it will become more liberal and western-oriented. But that’s just out of date.”

Nils Schmid, SPD's spokesperson for foreign affairs

“I have always been convinced and I still believe that change can be achieved through trade”

Peter Altmeier, German Minister of Economic Affairs and Energy

It is important to have a"relationship of trust where one can openly say one's opinions to each other with mutual respect. [...] And there will be differences of opinion, but I hope also common results."

Angela Merkel, German Chancellor

TAKEAWAY

Merkel’s commitment to economic relations with China is not new, nor are the counterarguments provided by her critics. However, recently these critics acquired more ‘ammo’ for their arguments: controversies over China reporting on the virus (also to WHO), its disinformation campaign, and „wolf warrior diplomacy,” as well as the repercussions on Hong Kong of the national security law. All these contributed to a shift on China across the German political spectrum. A potential change of heart in Germany (which, don’t forget, also holds the rotating Council presidency until the end of 2020) could have a substantial impact on the ongoing discussions about a common EU policy on China.

A significant, sudden change in China policy is unlikely to happen soon. Most member states are simply not that interested in changing the status quo, as they acknowledge the need for pragmatic engagement with China. To their end, calling China both a negotiation partner and a systemic rival is sufficient.

However, EU seems to be headed to a more coherent and assertive policy on China. We find signals in the latest EU-China Summit, the fortification of the single market, the 5G Toolbox, new measures against disinformation, as well as the White Paper on foreign subsidies. Also, it appears that Paris and Berlin, despite the delay, managed to support an EU-wide response on Hong Kong as well. EU is headed to shaping common stance on more controversial China issues. But a potential game-changer is Merkel’s political retirement coming in 2021. If her successor turns out to hold a very different stance on China - for example, as Norbert Röttgen does - this may significantly impact the EU's discussion on China. Another key factor is the US election in the coming November.

READINGS

- The Big Engine That Might: How France And Germany Can Build A Geopolitical Europe - European Council on Foreign Relations (Jana Puglierin and Ulrike Esther Franke), Jul 2020
- Merkel comes under fire at home for China stance - Financial Times (Guy Chazan), Jul 7
- How Dependent is Germany on China? - Echo-Wall (Zhu Yi), Jun 10

'QUOTES' PICTURES

1,2,3) Twitter Profile Pictures
4) eu2020.de

EUROPEAN COUNCIL REACHES DEAL ON RECOVERY PACKAGE

SUMMARY

The European Council reached a deal on July 20 for the Next Generation EU recovery fund and the MFF - the EU budget 2021-2027. Before that, with a majority of leaders seeking to find a compromise in July, Charles Michel issued a compromise proposal of €750 billion recovery fund (€500 bn grants, €250 bn loans) and a budget decreased from €1.21 trillion to €1.074 trillion. But from the get-go, three possible vetoes were on the table: Hungary - which refused the rule of law conditionality; Poland - which refused the green conditionality; and the Netherlands/the Frugals - which asked for unanimity on the disbursement of funds.

The summit lasted five days and featured heated negotiations. Still, in the end, the EU27 agreed on a €750 bn recovery fund (€390 bn grants, €360 bn loans) and a €1.074 trillion budget, despite cuts on foreign aid, climate protection, digital transition, health, youth, culture, research, and border management. The agreement is historic, as the EU can borrow money on the markets and levy Union-wide taxes to repay the debt. This paves the way for potential plans on common Union-wide taxation, but it could also result in the euro becoming a reserve currency.

However, negotiations are not finished. As the European Parliament reviews the Council's deal (with the power to amend the budget), EU leaders will have to sort out two key problems with MEP's. First, the rule of law conditionality is ambiguous and leaves much room for interpretation. According to one interpretation, supported by Hungary and Poland acting on this conditionality would require unanimity in the Council (which would make it unenforceable). But according to other interpretation, which is supported by the European Commission the recovery package has a built-in rule of law conditionality, which can be enforced by the Council through qualified majority (which would mean that Hungary and Poland would not have a blocking minority). Secondly, the disbursement governance is also ambiguous. In order to access the recovery grants (part of the Next Generation EU), member states will be required to pursue economic reforms ensuring that the funds don't get mismanaged. But the mechanism is highly political. If one country believes another state is squandering the money from the fund, the former can take the issue to the European Council. Then, the matter must be discussed "exhaustively" before the Commission makes a decision. What "exhaustively" means here, remains unclear creating a potential loophole.

Overall, tough negotiations are ahead. Finding consensus with the EP won't be a walk in the park. Not only do MEP's want a proper mechanism to tie the money to the rule of law, but they also made it explicit they want the EU budget to be higher.

FACTS AND FIGURES

Commission's Initial Proposal (May 27) - €750 billion recovery fund (€500 bn grants, €250 bn loans) + €1.1 trillion MFF. Charles Michel's Consensus Proposal - €750 billion recovery fund (€500 bn grants, €250 bn loans) + €1.074 trillion (though with cuts in important policy areas)

Final Agreement - €750 billion recovery fund (€390 bn grants, €360 bn loans) + €1.074 trillion

5 Days of Negotiations Led to the Agreement - the longest European Council to this day.

Cuts were made in the following programmes: Horizon 2020, InvestEU, Just Transition Fund, neighbourhood policy, Solvency Support Instrument

The European Parliament did not accept the proposal for the MFF 2021-2027, and Rule of Law conditionality is still unclear. If QMV is used to vote on the rule of law issues in the Council, then Hungary and Poland will lack a blocking minority.

QUOTES

"It's the first time in European history that our budget will be linked to our climate objective, the first time that the respect of the rule of law is a decisive criteria for budget spending"

Charles Michel, President of the European Council

"We have managed to avoid even further cuts as some member states wanted [...] But this MFF is a difficult pill to swallow, and I know this house [EP] feels the same way."

Ursula von der Leyen, EC President

[The European Parliament] will not rubber stamp a *fait accompli*

EU Parliament

Prior to the negotiations, and even during the negotiations, there were some attempts to [...] educate us about rule of law. We made it clear that it is not acceptable that anybody criticize us, the freedom fighters who came from a very difficult period of communist times, on the rule of law.

Viktor Orbán, Prime Minister of Hungary

[The recovery package] could have been better, but it's a very ambitious project actually

Christine Lagarde, ECB President

TAKEAWAY

Even before the European Council's Summit, the Parliament was clear about its intentions to lift the ceiling of the EU budget and to uphold the rule of law. Weirdly enough, Hungarian PM Viktor Orbán and Polish PM Mateusz Morawiecki went home claiming victory, arguing the EU won't hurdle disbursement based on the rule of law conditionality. On the other hand, both Charles Michel and Ursula von der Leyen said the conditionality is there, which is bound to leave some MEPs puzzled. The EP will also find itself at odds with the Frugals, as it seeks to create more sources of revenue.

Despite these unresolved issues, this deal is a real breakthrough. First of all, the EU will have more money to spend. Let's put things in perspective. The previous MFF (2014-2020) had a cap of €959.51 billion, which pales in comparison to the Next Gen EU and the MFF 2021-2027 of almost €1.8 trillion. Secondly, it is a breakthrough in the sense that common debt will be assumed, which opens the way for further common taxation at the Union level. The deal also allows the euro to become a reserve currency since the common EU debt created to pay for the Next Generation EU will be payable up until 2058. All in all, while negotiations are ongoing, this agreement should be celebrated for the historical breakthrough that it is (once all negotiations are over, of course).

READINGS

- The EU budget and recovery deal — in charts - Politico (Lili Bayer and Arnau Busquets Guàrdia), Jul 27
- EU long-term budget deal must be improved for Parliament to accept it - European Parliament , Jul 23
- EU crosses the Rubicon with its emergency recovery fund - Financial Times (Martin Sandbu), Jul 22

'QUOTES' PICTURES

1,2,3,5) Twitter Profile Pictures
4)EU2017EE Estonian Presidency

THE US TRIES TO ENCOURAGE EUROPE TO GET HAWKISH TOGETHER

SUMMARY

The Trump administration has brushed aside cooperation with Europe on China in the past. However, this seems to be changing.

In a video conference with Mike Pompeo on June 15, HR Josep Borrell suggested creating an EU-US Dialogue on China. Borrell's suggestion came just one week after NATO General Secretary Jens Stoltenberg highlighted that one of the core points of his vision for NATO 2030 is to acknowledge the challenges posed by China. While the HR's idea is not new and pitched without success in the past, on June 25 Pompeo exhibited unexpected enthusiasm for it, saying that the US was "very interested".

In an attempt to facilitate greater cooperation with Europe, Trump dispatched Matthew Pottinger and Robert O'Brien on July 13 to talk about China with their counterparts in Italy, France, the UK, and Germany. In a similar vein, Pompeo went on an official visit to the UK on July 21 hoping to build a coalition of countries to "push back" against China.

Pompeo's July 23 speech given at the Richard Nixon Presidential Library, titled "Communist China and the Free World's Future," is the clearest sign of the change in the US policy. Pompeo lambasted the "old paradigm of blind engagement with China" and called on the leaders of democratic countries to team up with the US and actively push back against the rise of communist China. As for Europe, Pompeo decried "a NATO ally of ours that hasn't stood up in the way that it needs to," pointing to Germany's inclination to prioritize economic relations with China.

Hours after Pompeo's address, German and Chinese foreign ministers Heiko Maas and Wang Yi, respectively, held a phone call. Wang discredited US attempts to contain China, while Maas reiterated the partner-competitor-rival stance on China. Wang held a similar call on July 29 and on 30 with his French and Italian counterpart, Jean-Yves Le Drian and Luigi di Maio. In it, Wang reiterated calls for other countries to "resist" the dawn of a new Cold War.

In a blog post on July 31, HR Borrell reiterated that the EU needs to seek its own way amid the growing Sino-American rivalry. He argued that while the EU and the US are "political cousins" sharing a similar axiological background, the need to engage China to "planet-size problems" cannot be ignored. As such, the EU should follow its own values and interests, while hoping that the EU will give up its unilateralist approach and join other democracies in engaging China in an assertive, but constructive fashion.

FACTS AND FIGURES

Pompeo expressed support for an EU-US Dialogue on China within 10 days of Borell's suggestion. The timeline underscores the mood change in the US about collaboration with Europe.

Pompeo decried "blind engagement" with China in the Richard Nixon Library, the library of the president who re-established diplomatic ties with the PRC in 1972.

Mike Pompeo is seeking to recruit liberal democracies for a US-led campaign against the Chinese Communist Party, which is reminiscent of old Cold War narratives.

The change of heart on collaboration with the "free world" on China comes at a sensitive time for Donald Trump. Gallup has his approval rating at 38% and he even suggested delaying the election in November.

However, Europe may not jump on the bandwagon. According to the ECFR, 23 EU member states would prefer to keep relations with China as they are, with not a single EU state preferring a focus on the systemic rivalry.

QUOTES

“...if we want to have a free 21st century, and not the Chinese century of which Xi Jinping dreams, the old paradigm of blind engagement with China simply won’t get it done. We must not continue it and we must not return to it.”

Mike Pompeo, US Secretary of State

“It’s time for free nations to act. Not every nation will approach China in the same way, nor should they. [...] But I call on every leader of every nation to start by doing what America has done – to simply insist on reciprocity, to insist on transparency and accountability from the Chinese Communist Party.”

Mike Pompeo, US Secretary of State

"Precisely because we agree with the US on many points on China, we regret that the chosen methods in terms of American foreign policy have lately so often been unilateral in nature, without consulting the EU and, at times, harmful in substance to EU interests."

Josep Borrell, EU's High Representative

TAKEAWAY

The change of heart in Washington is bound to raise some eyebrows in Brussels, particularly because of its timing. With 3 months left until the presidential election, observers suspect “China” serves as a boogeyman for the Trump administration to distract the public attention from issues ranging from the historic 33% plunge in GDP and mishandling of the coronavirus crisis to race relations marked by Black Lives Matter protests.

The reality is that the Trump administration does not have the credibility as a defender of the liberal world order. The president’s loose approach to the truth, the repeated attacks on both the EU and NATO, hints he may not accept the results of the election, as well as the dismantling of multilateral institutions and flirting with non-democratic leaders (among many others) have undermined Europe’s trust in this administration. Even countries like Japan or Australia, which have been more direct in criticizing China, remain hesitant in fully joining the Trump administration in its new Cold War.

Furthermore, Trump polls well below his counter-candidate Joe Biden. A new administration may present better opportunities to collaborate on China in 2021. To that end, it is essential to note that a draft of the 2020 Democratic Party platform says, “We believe Europe is our natural partner in managing areas of competition with China and will work to establish common priorities, strategies, and tools.” With or without Trump, the EU is unlikely to rethink its China policy radically. Aside from Bulgaria, Cyprus, Estonia, and Greece, all other 23 MS prefer to maintain the current pragmatic policy of treating China both as a rival and a partner.

READINGS

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- Communist China and the Free World’s Future - US Department of State (Mike Pompeo), Jul 23
- China, the United States and us - European External Action Service, Jul 31

'QUOTES' PICTURES 1,2, 3) Twitter Profile Pictures

EU RESPONSE PACKAGE ON HONG KONG RELEASED

SUMMARY

The Hong Kong national security law entered force on June 30 and quickly derided international outcry for its clampdown on the city's freedoms. In particular, the law's Article 38, which extends the jurisdiction of the law to the entire globe, has raised much concern in the West. Furthermore, the disqualification of 12 pro-democracy candidates from running in the legislative elections in September, the arrest of four Hong Kong students under charges of secessionism, and issuing warrants for likes of the US citizen Samuel Chu have already demonstrated how Beijing will interpret the national security law. Given the sensitive situation, there are even expectations that Chief Executive Carrie Lam will postpone the September elections by a year.

Albeit at a slow pace, the European response to the law crystallized through July. On July 2, Ursula von der Leyen was the first major EU head to express support for a "confident and [...] united position". Later, on July 9, news emerged that Franco-German cooperation pushed forward a proposal to ban exports of police equipment to Hong Kong, as well as potentially offering asylum to fleeing Hongkongers.

The first announcement of a concrete response came from Josep Borrell after the Foreign Affairs Council (FAC) meeting on July 13. Topics discussed included export bans on "sensitive technologies," and suspending extradition treaties with Hong Kong and creating new visa schemes allowing more accessible entry to Hongkongers. Borrell indicated that parts of the response package will be adapted at the member state level. Additionally, the Council announced on July 27 to closely monitor the development of the legislative elections in September, which is reportedly anticipated to be unlawfully delayed by a year.

On July 24, the EU27 foreign ministers reached an agreement to be implemented at both the EU and member state-level. Among others, the response package considers granting asylum; export control of sensitive equipment and technologies that could be used for repression, interception of communications, or surveillance; and scholarships and academic exchanges to Hong Kong students. An important support for the package came from the European Parliament, which exerted pressure from the very beginning, urging the Commission and the Council to tell China that the EU will take serious measures if the law is not pulled.

By comparison, other international reactions took more direct stances. In the UK, the government offered details of its right of residence granted to 3 million BN(O) holders in Hong Kong, on top of suspending its extradition treaty with Hong Kong (a decision also taken by Canada). The United States suspended preferential treatment and export license exceptions to Hong Kong, and banned military equipment and technology sales.

FACTS AND FIGURES

12 pro-democracy candidates were banned on July 30 from running in the Hong Kong Legislative Elections in September, under the new national security law.

The EU response package on Hong Kong leaves it to the member states to decide on asylum, but takes steps to limit exports of sensitive tech and encourages scholarships for fleeing students.

The impetus for the response is owed to Franco-German cooperation. Their agreement on July 9 kick-started the FAC to draft a response package.

However, the EU's response is less confrontational than those of the UK, US, or Canada.

Still, it attracted a very assertive response from China, as the spokesperson of China's Mission to the EU urged the European block to "stop meddling in Hong Kong affairs and China's internal affairs in any way"

QUOTES

"The EU will follow closely the political situation in Hong Kong in the lead-up to the Legislative Council elections on 6 September."

Council of the EU

"To China, the message is that the recent actions change the rules. This will require a revision of our approach and will clearly have an impact on our relations"

Josep Borrell, High Representative of the EU for Foreign Affairs and Security

"We see also the interests of European business and citizens in Hong Kong at stake — and there could be consequences also for European citizens outside Hong Kong, because the law has an extraterritorial scope."

European Official for the Financial Times

"We urge the EU to truly respect China's position on safeguarding national security in Hong Kong and to stop meddling in Hong Kong affairs and China's internal affairs in any way."

Mission of the People's Republic of China to the EU

TAKEAWAY

After about a month of wait time, the EU came up with a Union-wide response to Hong Kong. Since foreign affairs remains an area where member states retain vast competences, the package sketches some bare guidelines on which the EU27 can build up. China already responded to the package, telling the EU to stop interfering in China's internal affairs and "focus on maintaining the sound development of China-EU relations."

But the existence of this package testifies that member states are willing to coordinate and are likely to end up making decisions together on responses on Hong Kong in the future. We say "in the future" because the arrest of the four students is bound to have an impact on the Hong Kong legislative elections that are expected in the fall. The EU has been one of the actors that indicated it would keep an eye on ensuring the elections are free and fair. Of course, the ban on the 12 pro-democracy candidates already and potential delay meddle with these prospects, so Hong Kong is bound to keep being an important testing point for how the EU defines its systemic rivalry with China.

READINGS

- EP group leaders deeply worried over the situation in Hong Kong - European Parliament, Jul 6
- Council conclusions on Hong Kong - Council of the EU, July 24
- Hong Kong elections: candidate disqualification faces international criticism - South China Morning Post (Stuart Lau), Jul 31

'QUOTES' PICTURES

1,2,3,4) Twitter Profile Pictures

SUMMARY

The EU and China have been diverging in July on economic issues, thus lessening the probability of reaching an agreement on the Comprehensive Agreement on Investment (CAI) in the near future. A key point of contention is SOEs, which, in the peak of the pandemic, were essential in providing protective equipment, producing medicine, and building hospitals. In July, the central government approved a 2020-22 SOE actions plan, which is going to further boost the position of the enterprises in the time of the economic recovery and gearing up amid US decoupling. This fits a broader Xi Jinping's vision of centralization (outlined in his article published in Qiushi -periodical published by the Central Party School and the Central Committee of the Communist Party of China- on July 15), which would see more power in the hands of a further centralized Party. The move has upset policymakers in Brussels, who were urging Beijing to take a more market-based approach following the tense CAI negotiations held in 2020.

On the other hand, the EU has been fortifying its economy. The newest buzzword in Brussels is "open strategic autonomy" (OAS), which was also mentioned by Trade Commissioner Phil Hogan when he consulted the EP International Trade Committee on the Commission's Trade Policy Review. Hogan detailed the EU hopes to restore the rules-based global order, but he was adamant in arguing that the world changed since the last Trade Review published in 2015, and that the EU "must use [its] influence to shape that change." In an interview with us, MEP Iuliu Winkler detailed that OAS is not about self-sufficiency, but about the resilience of the single market, pursued both offensively (supply chains and trade partner diversification) and defensively (trade defense instruments, strategic stockpiling).

This divergence makes it difficult to reach a deal on the CAI, which saw its 31st round of negotiations between the EU and China between July 21-24. During the 8th High-level Economic and Trade Dialogue on July 28, Commission VP Valdis Dombrovskis and Trade Commissioner Phil Hogan conveyed to the Chinese Vice-Premier Liu He (Xi Jinping's main man on trade) the EU's concerns about barriers to market access erected by China both before and after COVID-19, China's commitments to phasing out coal and sustainable development, financial cooperation, and subsidies to state-owned enterprises. According to three anonymous EU diplomats, the European side told their Chinese counterparts that the 2025 EU-China Cooperation Agenda will not be signed until a deal is reached on the CAI.

FACTS AND FIGURES

China has about 130,000 SOEs, though 97 of them are truly important, as they represent industrial conglomerates that report directly to SASAC.

Despite being privileged with state-backing and easy credit, Chinese state-owned enterprises have a return on assets of just 0.7%.

Open Strategic Autonomy s both offensive (it seeks to diversify the EU's trade partners and supply chains) and defensive (it seeks to add layers of protection to the single market from distortive practices).

The OAS is also bi-dimensional: it has an internal dimension (adopting internal measures to boost the strength and safety of the EU economy through, among others, strategic stockpiling) and an external aspect (actively engaging with global partners).

The EU has allegedly linked the EU-China 2025 Agenda (a key priority for China) with a conclusion to the CAI negotiations (a key priority for the EU).

QUOTES

“The European Union is the champion of open and free and fair trade and we have to remain as such. Self-sufficiency was not realistic 15 or 20 years ago. And equally, it's not realistic today. More than this, it's not efficient. So it would be quite inefficient to force—by regulatory measures or by administrative or political decisions—the increasing of the EU self-sufficiency.”

Iuliu WInkler, MEP, Group of the European People's Party

"Strengthening the party's leadership over economic work and comprehensively improving the party's leadership in economic work is an inevitable requirement for adhering to democratic centralism, and it is also an advantage of our political system."

Xi Jinping, PRC President, CCP Secretary General

"By pulling together, we can recover more quickly economically, and make progress on areas of mutual interest such as trade and investment relations”

Valdis Dombrovskis, Executive Vice President of the European Commission

"Today I have called upon China to engage in serious reform of the multilateral system and its rulebook and to remove existing barriers impeding access to the Chinese markets of EU exporters of goods and services as well as European investors."

Phil Hogan, EU Commissioner for Trade

TAKEAWAY

State-owned enterprises versus open strategic autonomy look like a clash, as it coherently points out how divergent are the interests of the EU and China right now. However, we are not living in normal times. China is eager to maintain its recovery, and the EU wishes to limit the contraction of its economy (estimated at 8.7%) as much as possible. Thus, both sides have an incentive to meet each other halfway. Theoretically, one could argue China’s publicly announced (though methodologically shaky) 3.2% GDP growth in Q2 2020 gives it some leverage over the EU. As a result, it doesn’t feel too much pressure in agreeing on EU demands in the CAI. In practice, the fact that the CAI was linked to the 2025 Agenda shows Brussels is tired of the deadlock and is willing to negotiate at the macro-level, as opposed to a compartmentalized tit-for-tat.

How China will respond to this proposal will truly make or break the CAI in 2020. If Beijing is not interested enough in outlining the plans for the next five years of the relations with Brussels, there is no reason why EU policymakers should rush to finalize a bad deal on the CAI. Hopefully, the July signing of agreement on geographic indicators that was agreed upon last year (touted as “the first significant EU-China bilateral trade agreement”) is a good sign of breakthroughs to come.

READINGS

- EU and China discuss trade and economic relations - European External Action Service, Jul 29
- China taps old growth model for recovery, as EU and US economies flounder - South China Morning Post (Finbarr Bermingham, Amanda Lee), Jul 31
- IULIU WINKLER: Open Strategic Autonomy and EU-China Relations - Is Trade a Panacea? EU-China Podcast, Jul 19

'QUOTES' PICTURES

1,3,4) Twitter Profile Pictures
2) CGTN.com

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