欧盟中国商会《周•知》

WEEKLY UPDATES

Green and digital at the heart of China-EU cooperation

This week's agenda was especially busy with green and digital - key sectors for both China and the European Union (EU).

In the green dimension, China and the EU have partnered internationally for climate action, becoming global leaders of the fight against climate change. Domestically, they are undergoing big transformations to make their economies greener and sustainable. In the digital domain, China has become a global leader, especially thanks to the Chinese champions in high-tech, 5G and artificial intelligence. At the same time, the EU is undertaking a digital transformation of its economy and society, for which it could benefit from the support of Chinese companies to achieve its goals.

The CCCEU monitors these sectors closely and attentively, because important business, economic and political developments are on their way in the green and digital transitions.

A green week for EU policies

The past week was a "Green Week" for EU policy. It started with the 4th session of the Ministerial on Climate Action, which took place in a virtual format on 7 July. Minister for Ecology and Environment Huang Runqiu co-chaired the Conference with the Commission's Executive Vice-President Frans Timmermans and the Canadian Minister for Environment and Climate Change Jonathan Wilkinson.

On 8 July, the Commission unveiled the EU Strategy for Energy System Integration, which will provide the framework for the green energy transition. Currently, energy consumption happens separately in each sector, with transport, industry, gas and buildings having separate value chains, rules and infrastructure. Through this Strategy, the Commission aims to create a more circular energy system which would operate as a whole, with energy efficiency at its core, and to achieve greater direct electrification of end-use sectors, with clean fuels for the sectors where electrification is difficult.

The same day, the Commission launched the European Clean Hydrogen Alliance, which brings together the stakeholders from the industry, public sector and civil society participating in the hydrogen value chain. The alliance is expected to establish an investment agenda and to support the development of a clean and globally competitive hydrogen industry in Europe. In parallel, the Commission also presented the Hydrogen Strategy for a climate neutral Europe, which addresses how to harvest the potential of hydrogen-based decarbonisation through investments, regulation, market creation and R&D: for the initial phase, the plan foresees the installation of at least 6 gigawatts of renewable hydrogen electrolysers in the period 2020-2024, with hydrogen becoming an intrinsic part of the EU's integrated energy system by 2030. Nonetheless, the Commission's intention to make the EU a global leader in a new clean hydrogen economy might turn out to be more difficult that it seems.

At the end of the week, the Parliament and the Council of the EU adopted the Mobility Package I, a major reform of the EU road transport sector. The new rules are expected to improve drivers' working conditions, introduce clear rules on posting of drivers in international transport, and update provisions against illegal practices. Yet, Commissioner Vălean, in charge of transport, raised the concern that some elements are possibly not in line with the European Green Deal's ambitions, and said that the Commission will follow up with the impact assessment of these provisions.

A gloomy forecast for Europe, while China is doing better

Despite a very green policy agenda this week, the outlook for the economic was not so promising. The Directorate-General for Economic and Financial Affairs (DG ECFIN) released the European Economic Forecast for Summer 2020, which depicts a gloomy view on the second half of 2020: the more gradual pace for lifting of lockdown measures worsens the EU's deep recession, and the economy of the euro area will contract by 8.7% in 2020 (8.3% for the EU), before growing by 6.1% in 2021 (5.8% for the EU). The President of the European Central Bank (ECB), Christine Lagarde, cast her doubts on the Euro area economy, in spite of the ECB's effective measures: the recovery will be "constrained, uncertain and fragmented."

On the other side of the Eurasian continent, China's currency hit the highest level since March, as stocks surged: the Renminbi rises past important 7 to the dollar mark, against the backdrop of soaring shares. According to the research conducted by analysts at the Institute of International Finance, the Chinese economy has staged a clear V-shaped recovery, resulting in an impressive rebound from the COVID-19 shock. At the same time in June, China's consumer inflation remained generally stable under the country's policies for the economic recovery, whereas factory-gate prices picked up from May as the demand warms, according to data from the National Bureau of Statistics.

EU politics: preparation for the EU Council, and new President of the Eurogroup

On Wednesday 8 July, German Chancellor Angela Merkel was in Brussels to present the programme of the Germany Presidency of the Council of the EU to the EU Parliament. She also met with the presidents of the three major EU institutions to discuss the recovery plan and the new long-term EU budget. The leaders agreed that it would be essential to reach an agreement during the European Council meeting on 17-18 July, when EU leaders will meet physically in Brussels to discuss these topics. Speaking to the MEPs, Chancellor Merkel also said that the EU must not waste time arguing on the recovery fund, and that all sides must give ground over the package.

In the meantime, alliances are forming among member states: the prime ministers of Italy and Spain presented a united front among two of the hardest-hit EU countries and called for the adoption of the Commission's ambitious proposal. At the same time, the European Parliament has become vocal in addressing the EU's lack of capabilities for public health, saying that that the EU needs stronger tools to deal with health emergencies.

On Thursday, Paschal Donohoe, Irish Minister for Finance and Public Expenditure and Reform, was elected as the President of the Eurogroup, and will take office on 13 July 2020 for two years and a half. The Eurogroup is an informal body for the finance ministers of the eurozone, i.e. the 19 EU member states which have adopted the euro as their official currency: in the meetings, they discuss monetary matters and related aspects of the EU's monetary union, such as the Stability and Growth Pact, focusing in particular on the coordination of economic policies. In an interview before the vote, Mr. Donohoe affirmed that the main priority of the next Eurogroup president is to get the EU's recovery fund in place to overcome the pandemic's economic fallout.

Artificial intelligence, 5G and digitalisation

The 2020 World Artificial Intelligence Conference (WAIC) kicked off on Thursday in Shanghai, under the theme of "Intelligent World, Indivisible Community", welcoming more than 500 companies and agencies. As the event is broadcast online, about 3000 participants are expected to attend the WAIC via the internet, and about 200 attend in person. The WAIC will fully showcase the globalizing trend of AI technology applied in various kinds of scenarios, and will include tech giants such as Microsoft, Amazon, Alibaba, Tencent, Huawei and JD, the leading auto manufacturer SAIC, and AI unicorn companies like SenseTime and Cloudwalk.

Speaking at the WAIC 2020, John Hoffman, CEO of GSMA Ltd, said that AI has the potential to contribute nearly 16 trillion U.S. dollars to the global economy by 2030, boosting local economies by up to 26%. Needless to say, businesses and the private sector, as well as citizens and consumers, understood the benefits coming from digitalisation: tech innovation can help countries emerge from the pandemic. According to the White Paper on the Development of China's Digital Economy, the economic value of China's digital economy reached 35.8 trillion yuan ($5.11 trillion) in 2019, accounting for 36.2% of China's GDP.

The fact that the WAIC 2020 still takes place despite the difficult circumstances caused by the pandemic is another confirmation that the digital sector is booming worldwide, not only in China. For instance, the Korean high-tech giant Samsung projects a 23% rise in its quarterly profit despite the pandemic, because a robust demand for chips – linked to the surge in online activity – is now offsetting the company's virus-hit smartphone sales. However, Huawei likely replaced Samsung as the world's top smartphone maker from April through June.

However, the position of several countries vis-à-vis the digital transition seems to have solidified around stubborn ideas: following the US sanctions and hostility towards Huawei, the UK also too the decision of excluding, by phasing out, the Chinese telecoms company from its 5G networks development. Nonetheless, Huawei said that it will remain open to discussions with the British government so that Britain can maintain its current lead in 5G. In order to reassure about the security of Chinese 5G technology suppliers and to safeguard their interests, China urged France to make independent choices over its 5G network construction, and to provide an open, fair, just and non-discriminatory business environment for all companies, including the Chinese ones.

Updates from the CCCEU

On Thursday, the CCCEU published a position paper on 5G, focusing on the enforcement, of the 5G Security Toolbox, which was released in January 2020 by the European Commission. The CCCEU found increasing discrimination towards Chinese providers of 5G technologies to be a common element of the policies adopted by the EU and its member states and raised its concerns in this regard.

On Friday morning, the CCCEU organized a closed-door seminar with representatives of member units, experts and scholars to discuss the EU economic recovery plan and new opportunities for Chinese enterprises in the post epidemic era.

The Long Read – suggested readings, selected for you by the CCCEU

- "*Merkel looks east as ties fray between Germany and US*" – according to POLITICO EU, Berlin aims to reenergize its commercial links with Beijing amid the coronavirus crisis. [link]
- *"Europe's China problem: investment screening and state aid"* – the Brussels-based think tank Bruegel looks into the European perception of China's economy and of the challenge to the EU's openness to foreign investment. The analysts argue that, against the backdrop of collapsing global capital flows and limited existing FDI from China, there is little risk of excessive exposure: on the contrary, a deepening of bilateral investment flows would be beneficial for both economies. [link]
- "*Why globalisation may not be dead, after all*" – according to the Financial Times, global trade is recovering from the lockdown lows, while the fears of mass reshoring could prove unfounded. [link]
- "*Artificial intelligence's great impact on low and middle-skilled jobs*" – according to analysts at Bruegel, artificial intelligence and machine learning will significantly transform low-skilled jobs that have not yet been negatively affected by past technological change. [link]
- "*Fostering Europe's Strategic Autonomy - A new Agenda for Trade and Investment*" - Johan Bjerkem, from the think tank European Policy Centre, argues that the EU should make active use of its trade and investment policies in its pursuit to act more strategically and autonomously on the global stage. [link]
- "*China as an Economic Bogeyman*" – Many Western economists presume that governments are not very good at identifying industries that merit support, and that domestic consumers and taxpayers incur the bulk of the costs. By the same logic, if Chinese policymakers effectively targeted activities where social benefits exceed private benefits, then it is not clear why foreigners should complain. Prof. Dani Rodrik, argues that the objective should be to build more productive, more inclusive economies at home – not simply to outcompete China or try to undercut its economic progress. [link]