欧盟中国商会《周•知》

WEEKLY UPDATES

The Euro and the Renminbi in the global economy

The focus of this week is undoubtedly the High-Level Trade and Economic Dialogue between China and the European Union (EU), which has allowed exchanges on the economic, trade and diplomatic fronts. This was complemented by bilateral talks by Foreign Minister Wang Yi, who reached out to his counterparts in the most important EU countries.

At the same time, following the approval of the EU recovery fund for EUR 750 billion, the euro has strengthened against international currencies such as the US dollar and the renminbi, and its exchange rate with the renminbi has reached a new high in nearly six years. In parallel, the EU's GDP is going down, and inflation is rising on the continent.

The China Chamber of Commerce to the EU (CCCEU) believes that China and the EU will open up their financial markets to each other, support the construction of an international financial centre, and coordinate support for the internationalization of the renminbi and the euro. This will be a new field of China-EU cooperation: the potential of the two major markets would be fully tapped, making them the two major engines of global growth.

The 8th High-Level Trade and Economic Dialogue

On Tuesday, Chinese Vice-Premier Liu He, accompanied by several Vice-Ministers, and the European Commission's Executive Vice-President Valdis Dombrovskis, accompanied by Commissioner for Trade Phil Hogan, held the 8th High-Level Trade and Economic Dialogue via videoconference. The Trade and Economic Dialogue is one of the numerous sectorial dialogues China and the EU entertain on a regular basis. The meeting was the occasion for the two sides to exchange views on the ongoing negotiations on the Comprehensive Agreement on Investment and to discuss other topics in China-EU trade relations, such as market access and regulatory issues in the financial services, including cooperation on green finance, equivalence assessments, and the international role of the Euro and of the renminbi.

In its comments on the high-level dialogue, the CCCEU found out that the EU's understanding of China's opening to foreign companies is limited and not fully based on reciprocity, because the EU often forgets that the EU business environment is becoming increasingly unfriendly to foreign businesses, as the 2019 CCCEU Report had showed.

The High-Level Trade and Economic Dialogue was held some days after the 31st round of negotiations on the EU-China investment agreement, which took place on 20-24 July 2020 by videoconference. The next round is scheduled for 21-25 September, after the traditional summer break for the Brussels-based EU institutions. In the past round, the EU registered significant progress made on level playing field related issues, but it also highlighted its expectations for further work on market access.

The Euro strengthens against the Renminbi and the US Dollar

While China and the EU agreed at the High-Level Dialogue to open each other's financial market and to support the international role of euro and renminbi and the construction of global financial centres in each other's territories, the euro-renminbi exchange rate hit a six-year record this week: on Monday 27 July, 1 euro (EUR) was now worth 8.234 yuan (CNY) – back to the levels last seen in August 2014, according to the monitoring by the European Central Bank. Essentially, despite some reduced fluctuations, the rate rise has been constantly intensifying since April 2015, when the exchange was EUR 1 = CNY 6.563. The news is undoubtedly positive for Chinese companies, especially the exporters, but not for importers and for those families whose children are studying the euro zone: for the latter, costs are increasing.

The euro has also strengthened against the dollar, with an exchange rate at USD 1.1743 which has not been seen since Mid-September 2018. This seems the inversion of a trend which has been going on since early 2018, apart from a spike in the opposite direction in February and March 2020, when the EU was facing the early phases of the COVID-19 crisis. This reversing of the depreciation trend is surely linked to the economic impact of coronavirus on the global economy, and on the USA economy specifically. In June the Congressional Budget Office projected that the virus will reduce the USA economic output by 3% in the coming decade, for a total loss of USD 7.9 trillion by 2030.

Less telling is the relations between the US dollar and the yuan. In fact, the USD-CNY exchange rate does not show a clear trend in either direction, contrarily to the EUR-CNY. Early 2018 was showing an appreciation trend for the yuan against the dollar (USD/CNY close to 6.300), but in the second half of the year the exchange rate went quickly back to the levels of late 2016, following a sharp depreciation trend. A similar story happened in the first months of 2019. Overall, the result is now a stronger US dollar, despite few occasions in which the yuan was trying to invert the trend and to go back to the 2014 levels.

Amid the ongoing trade war between the USA and China and the harsh economic crisis propelled by the COVID-19 pandemic, global trade is facing a halt. Thus, looking at the exchange rates' trend for euro, dollar and yuan can foster reflections about the shifting economic and political relations between the major players in the global economy.

An update on the EU's economy

Today Eurostat, the European Statistical Office, published the latest data about the European economy. In particular, it is interesting to notice that in July 2020, Euro area annual inflation is expected to be 0.4%, up from 0.3% in June. Food, alcohol and tobacco are expected to have the highest annual rate in July (2.0%), followed by non-energy industrial goods (1.7%, well up from 0.2% in June).

Eurostat also estimates that the seasonally adjusted GDP in the second quarter of 2020 decreased by 12.1% in the euro area (11.9% in the EU) compared with the previous quarter, when it had decreased by 3.6% in the euro area (3.2% in the EU). According to the news release, these are by far the sharpest declines observed since 1995. The COVID-19 crisis is indeed showing that its impact on the European economy is much worse than the 2008 economic crisis.

China's relations with key countries in Europe

At the same time as the China-EU High-Level Dialogue, Chinese Minister for Foreign Affairs Wang Yi had several meetings via phone and video with his counterparts in important European countries.

It began already last week, when Minister Wang met via video his German counterpart Heiko Maas on 24 July. Minister Maas defined China as a "key partner for [Germany], but also a competitor and systemic rival" and added that "it is crucial that […] we continue to engage in dialogue on sensitive issues." In the call, the Foreign Ministers discussed economic cooperation, Hong Kong and cooperation in the United Nations, because Germany holds the Presidency of the UN Security Council in July 2020. The two sides also talked about the China-EU investment agreement and agreed to speed up negotiations for an early signing of a comprehensive, balanced and high-level agreement.

On Tuesday 28 July, Minister Wang spoke on the phone with UK Foreign Secretary Dominic Raab on political issues, such as the recent events in Hong Kong. The press release of the British government says that "the Foreign

Ministers agreed that there are wide-ranging opportunities, from increasing trade to tackling climate change where the two countries can work productively and constructively together.” Yet, the statement and Q&A of the Chinese ambassador to the UK Liu Xiaoming on China-UK relations, posted live on twitter on Thursday, sheds additional light which allows to go beyond the British composure: according to Ambassador Liu, China-UK relations are at a historic political juncture following the recent disputes over Hong Kong and Huawei. He invited the UK government to seek closer cooperation with China and reminded that “decoupling from China means decoupling from opportunities, decoupling from growth and decoupling from the future.”

On the same day, Minister Wang also spoke with his French counterpart, Jean-Yves Le Drian, praising the fruitful results in the new round of China-France strategic dialogue, which took place in mid-July. According to the press release, Wang Yi noted that China and France should open to each other and promote mutual benefits and win-win outcomes, in order to uphold a fair and just market and to avoid discriminatory policies against any business. In fact, as Reuters revealed last week, France is now considering a de facto ban on Huawei’s 5G technologies.

On Wednesday, instead, Minister Wang met Italian Foreign Minister Luigi Di Maio via videoconference, and said that China and Italy have supported each other to fight the virus, thus deepening their traditional friendship and setting a good example of solidarity for the international community. The Ministers discussed numerous topics, among which cooperation on connectivity in the framework of the Belt Road Initiative, and on health and economic matters. Minister Di Maio also said that Italy will take an active part in the third China International Import Expo, scheduled for November this year.

This round of phone and video calls does not come at a random time. In fact, in this moment of raising scepticism among the European governments towards political matters and the participation of Chinese providers in the 5G infrastructure development, it is important for the Chinese government to reassure its European partners: ultimately, good relations at political level translate into more opportunities for economic cooperation, to which they also grant stability.

Leadership changes in international economic institutions

In many important international institutions dealing with economic and trade issues, some terms are coming to an end this year. The most quoted in the press in the vacant post for of Director-General of the World Trade Organization (WTO). So far, eight people have been nominated by their governments for the selection process which decides the successor to Roberto Azevêdo, the Brazilian career diplomat who has led the institution since 2013. Originally nominated for a second term until September 2021, he announced he will step down on 31 August 2020.

Candidates held their presentations in mid-July and are now expected to make themselves known to members, possibly striking alliances and compromises before the September vote. In its search for a position for Global Britain, the UK nominated a candidate: Liam Fox, Member of Parliament and former UK Secretary for International Trade and President of the Board of Trade, who downplayed the importance of Brexit in his bid to be the first British boss of WTO. Nonetheless, seeing the CVs of the other candidates, especially those from Kenya, Mexico and Nigeria, things will not be easy for Fox, as Barbara Moens (POLITICO) argues.

At the same time, the Secretary-General of the Paris-based Organisation for Economic Co-operation and Development (OECD) Angel Gurría is not seeking an additional mandate to lead the Organisation. Gurría, who took on the role in 2006, firmly established the Organisation as a pillar of the global economic governance architecture and broadened OECD’s membership with the accession of Chile, Estonia, Israel, Latvia and Slovenia. The selection process will be launched on 1 August 2020, amid a difficult moment for the global economy. As the Washington-based Centre for Strategic and International Studies (CSIS) presented in a report, the OECD is facing a decision point in 2021: the origin, educational background and experience of the next Secretary General will be key for the work of the Organisation.

Lastly, the Asian Infrastructure Investment Bank (AIIB) also held the election of its President, during which Jin Liqun was elected to a second term by the Bank's Board of Governors. After an outstanding career with leadership positions in China International Capital Corporation, the Asian Development Bank, and China's Ministry of Finance, Mr Jin has led the AIIB since January 2016 and will now continue in this role for a five-year term.

Updates from the CCCEU

On Thursday 30 July, the CCCEU held a closed-door event about the China-EU Comprehensive Investment Agreement, bringing together experts from the policy sector and academia to discuss the impact the agreement will have on the activities of Chinese enterprises investing in the EU.

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

- "*China works with the EU and Japan to save multilateralism*" - The EU should know that, as the world's second-largest economy, China has entered the stage of industrial and consumption upgrading, and the EU, with its industrial advantages, can deepen cooperation with China to add strong impetus to its own economic recovery. [link]
- "*Europe's renminbi dilemma*" - China is pushing for its currency to be used all over the world and its renminbi trading infrastructure is particularly good in the European Union. Maximilian Kärnfelt, Analyst at the Mercator Institute for China Studies, says this looks set to bring the Europeans real commercial benefits – but create some geopolitical problems. [link]
- "*AIIB likely to engage in more areas, experts say*" - The Asian Infrastructure Investment Bank is expected to engage in more areas beyond infrastructure investment, in order to leverage additional funds from the private sector globally and boost the post-pandemic recovery, writes Chen Jia from China Daily. [link]
- "*The Challenges of the Post-Pandemic Agenda*" - The pandemic has highlighted the vulnerability of human societies and fortified support for urgent climate action. But while the small government, free-market template of the last four decades suddenly looks terribly outdated, history suggests that transitions between phases of capitalist development can be harsh and uncertain – writes Jean Pisani-Ferry, Senior Fellow at Brussels-based think tank Bruegel, who also holds the Tommaso Padoa-Schioppa chair at the European University Institute. [link]
- "*A Marshall Plan for Planetary Health*" - The devastating impact of COVID-19 has highlighted the urgent need for ambitious, all-encompassing reforms rather than incremental, piecemeal measures. A global scheme to improve planetary health would constitute a radical new approach, and would be an important step toward safeguarding the future of fast-growing cities – writes Tolullah Oni. [link]