Coronavirus is pushing the EU in new and undesirable directions
by Charles Grant
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It is far too soon to judge how COVID-19 will transform the EU – we are still in the early phases of a story that will last for several years. But one can tentatively say that six trends which emerged before the virus struck are now accelerating: greater economic autarky, a bigger role for national capitals, a strengthening of borders, a backlash against green policies and widening of both east-west and north-south divisions within the EU. In various ways all these trends are likely to help the cause of anti-EU populists.

Deglobalisation
COVID-19 has given extra ammunition to those arguing for greater national or European self-sufficiency. Long before it arrived, there was talk of 'deglobalisation' and 'reshoring' supply chains.

This stemmed in part from politics: Donald Trump's protectionist policies threatened international supply chains, as did the UK's pursuit of a hard Brexit and EU plans for border taxes to reflect the carbon emitted during the manufacture of imports. The arguments of many green and other politicians that free trade agreements undercut European social and environmental standards were gathering traction.

But economics was also important. Wage differentials between emerging economies like China and rich countries were diminishing, reducing the advantages of offshoring production. Furthermore, new technologies such as 3D printing were promising easier and cheaper manufacturing at home.

Since the arrival of COVID-19, concerns about the security of supply of drugs, medical equipment and even key components for the car industry have strengthened the hand of those arguing for more national or European autonomy of supply chains. Those concerns have blended with a general worry about dependence on China, which Huawei's attempts to provide 5G telecoms equipment to Europe have reinforced. The European Commission is preparing a report on what it sees as Europe's dangerous dependence on imports of rare-earth metals from a handful of countries, including China.

Before the virus struck there was a movement to make EU rules on competition policy more accommodating of 'European champions'. The EU is considering revising the criteria for deciding the relevant market when considering proposed mergers; a focus on monopolies in global rather than

European markets would encourage more European champions to emerge, but (as John Springford [wrote](#) recently) at the risk of reducing innovation and increasing costs for European consumers.

At the same time, EU governments have become more suspicious of Chinese companies that profit from generous state aid to buy up European firms – especially those that have pioneered advanced technologies. In April a new EU regulation introduced more stringent rules on screening foreign investments.

None of this is to say that globalisation will go into reverse or that it may not deepen in some respects, such as international collaboration over vaccine development. But COVID-19 has contributed to shifting the *zeitgeist* away from the idea that the world's destiny is ever-deeper globalisation.

National capitals in charge
A second trend is for national capitals to gain clout vis-à-vis the EU's institutions. Through much of this century, these institutions have been losing ground to the member-states, because capitals resent the powers that 'Brussels' has accumulated.

In hard times the key capitals assert their authority, as they did a decade ago during the financial and eurozone crises, when they had to provide the bail-out money. A similar pattern is emerging with COVID-19. The Commission's scope for leadership is limited by the fact that most of the key powers on health, fiscal policy and frontiers reside at national level. Furthermore, in a crisis many people are inclined to rally around their flag and look to national leaders to navigate the difficulties.

The Commission has done its best to keep the 27 together and to promote the common interest, for example by relaxing rules on state aid and budget deficits, and by chivvying governments not to apply national export bans on medical equipment. But the Commission's efforts to co-ordinate responses to COVID-19 have generally taken second place to the actions of individual member-states. In the long run, it is at least possible that governments will see the case for a greater EU role in dealing with health emergencies.

Stronger borders
Third, before the coronavirus struck, the EU had made significant efforts to strengthen the Schengen zone's external border, after the surge of migrants seeking refuge in Europe that began in 2015. Frontex, the EU's border agency, took on a bigger role in supplementing the work of national border guards. But this hardening of the external frontier did not prevent some member-states from imposing controls on intra-Schengen borders, to minimise the risk of irregular immigration.

The coronavirus has evidently increased suspicion of foreigners, and on March 16th the Schengen countries agreed that they would all close their external border to non-essential travellers – after some of them had already done so unilaterally. More obstacles to movement within the Schengen area have sprouted, including controls between France and Germany.

At some point governments will have got the virus more-or-less under control, but they will then be very wary of softening the Schengen border. Visitors from parts of the world where the disease may still be rampant will not be welcome. The crisis is likely to hit some of the EU's neighbours very hard, fuelling instability and further waves of migrants. Many politicians, and not only populists, will want to make life

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15 May 2020
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2

as difficult as possible for irregular migrants. The case of the Greek border guards who illegally fired on migrants in early March may become more typical than one would wish.

Anti-greenery
The fourth trend is hostility to policies that are designed to moderate climate change and make us live greener lives. Before the virus arrived, populists such as the Sweden Democrats, the AfD in Germany, Nigel Farage in England and the *gilets jaunes* in France were using hostility to green policies as a means of drumming up support – alongside fears of immigration, perceptions of growing inequality and a general opposition to established political elites. The EU's leaders were increasing their efforts to pursue climate-friendly strategies, but perhaps overlooking the growing resentment of some voters towards policies that may make them poorer and force them to change their lifestyles. In the May 2019 European elections the greens performed well overall, but won remarkably few seats in Central and Southern Europe.

The economic consequences of the coronavirus seem likely to strengthen opposition to climate-friendly policies. Many voters whose standards of living are falling dramatically will not want to take a further hit by embracing radical measures designed to lessen climate change. As the French economist Jean Pisani-Ferry has noted: "Poorer citizens will likely be more reluctant to bear the cost of replacing obsolete 'brown' capital embedded in heating systems, cars and machines with greener but costly capital, because this would destroy even more of the old jobs and leave even less income available for short-term consumption."

For the time being, Europe's leaders are adamant that their plans for curbing carbon emissions are sacrosanct. They are even trying to push them further – German Chancellor Angela Merkel has called for stricter carbon-reduction targets and the French government says that Air France must promise significant cuts in emissions if it wants a bail-out. But as the coronavirus-induced recession bites, the pressures on leaders to moderate their green agenda, including from industry, will strengthen.

East v West
Fifth, for several years an east-west division has been festering within the EU, with the 'east' consisting of Hungary, Poland and sometimes other Central European states. The issues that have set east and west apart are the distribution of irregular migrants from outside the EU – with some eastern countries refusing to take any; targets for reducing carbon emissions, with several Central European countries heavily dependent on coal; and, increasingly, the 'rule of law', with Poland and Hungary defying the majority of member-states with their disregard for the independence of the judiciary and, especially in the case of Hungary, media pluralism.

COVID-19 has widened the rift. Central Europeans fear that in the arguments over the forthcoming EU seven-year budget cycle, structural fund payments will be diverted from them to the southern countries worst afflicted by the virus. Meanwhile, as Ian Bond and Agata Gostyńska-Jakobowska have written, Hungary's Viktor Orbán has used the pandemic as a justification for introducing rule by decree, exacerbating fears that in his efforts to establish what he has termed an 'illiberal democracy' he is creating a de facto dictatorship. The EU cannot function properly unless all its member-states accept the rule of law, including the authority of the European Court of Justice.

CER INSIGHT: CORONAVIRUS IS PUSHING THE EU IN NEW AND UNDESIRABLE DIRECTIONS
15 May 2020
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3

North v South

The sixth and arguably most troubling trend is the north-south fissure which emerged in the eurozone crisis ten years ago. Then, and in subsequent years, Germany, the Netherlands and their northern allies agreed to credits rather than grants to the southern countries in difficulty – channelled through institutions such as the European Stability Mechanism (ESM) – and demanded tougher rules and oversight in return.

The northerners' concern was moral hazard: if Italy, say, knew that the EU would always bail it out, it would lack incentives to limit spending and undertake the painful structural reforms required to improve its long-term economic performance. In the end it was mainly promises by the European Central Bank (ECB) to buy sovereign bonds that convinced the financial markets that Italy and the other crisis-hit countries would stay in the eurozone.

But the southerners remained resentful of the painful austerity that they had to endure, to reassure the markets of their credit-worthiness. Particularly in Italy, many people felt abandoned by the rest of the EU – not only over divergences within the eurozone but also over the influx of irregular migrants and refugees, many of whom ended up in Italy and Greece (as well as Sweden and Germany).

And then the coronavirus struck the EU asymmetrically. The southern countries – particularly Italy and Spain – suffered more deaths than most other member-states, started the crisis with higher levels of debt and depend on industries such as tourism that are badly affected. Moreover, they cannot afford the levels of financial support that the northerners are pumping into their economies to preserve firms, jobs and income – more than half of all the state aid approved by the Commission since the crisis began has been paid out in Germany.

Southern countries want solidarity from the north, ideally in the form of transfers and common European debt. This would involve the EU as a whole borrowing money, secured by member-states' guarantees and a larger EU budget, and then disbursing grants to the countries most severely affected (one of the more serious proposals for such a mechanism is from Christian Odendahl, Sebastian Grund and Lucas Guttenburg).

EU leaders have moved some way towards the southerners' wishes, agreeing on an ESM credit line to support health-related spending, a Commission plan to subsidise national short-time working or furlough schemes and a new lending facility for the European Investment Bank. More significantly, the EU will set up a 'recovery fund' to support the worst-affected regions and kick-start a recovery. The precise workings of this fund have yet to be established but it is likely to provide more loans than grants. That is because the 'frugal' member-states remain unwilling to pay for large-scale transfers to the south.

Such stinginess delights populist anti-EU politicians such as Matteo Salvini in Italy, who is skilled at exploiting every perceived slight from the EU. One opinion poll in April (carried out by Tecnè) found that 49 per cent of Italians wanted to leave the EU.

The southerners and their ally Emmanuel Macron, the French president, rightly fear that if in such an existential crisis the north cannot agree to a larger common budget, including transfer mechanisms, it never will. The alternative is to saddle the southern members of the eurozone with even more debt, and once again depend on the ECB to ensure that financial markets stay calm; that would call into question

the currency's ability to survive in the long-term. The stubbornness of the northern governments is based on their voters' hostility to transfers. But they need to make a stronger case for a more deeply integrated eurozone, which in the end would probably benefit the northern countries economically.

Unwelcome shifts
None of these six shifts in the character of the EU is to be welcomed. If Europe pushes self-sufficiency too far, it will impair the benefits that trade delivers to all continents. Closing frontiers within the Schengen zone or on its borders, once COVID-19 is under control, would achieve very little. And when the EU is faced with transnational challenges such as economic depression, a pandemic or climate change, strong central institutions are in everyone's interest. As for the climate emergency, EU leaders are right that carbon targets must be adhered to. The east-west rift is alarming and cannot be resolved by the EU allowing disrespect for the rule of law.

The north-south divide is particularly dangerous. At a technical level, the ECB may be able to do enough to keep Italy and other southern member-states in the eurozone, in a very sub-optimal way – despite the best efforts of the German constitutional court to tie the ECB's hands. But the politics of an unresolved north-south rift may turn very nasty, increasing anti-EU sentiment across the Union – and could conceivably lead to a country leaving the EU or the euro.

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CER INSIGHT: CORONAVIRUS IS PUSHING THE EU IN NEW AND UNDESIRABLE DIRECTIONS
15 May 2020
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5