"2020 AS A STRESS TEST FOR THE
EUROPEAN UNION: CHALLENGES IN
TIMES OF THE COVID-19 PANDEMIC"
12th German-Nordic-Baltic Forum 2020 Digital Edition

Discussion Paper[1]

Authors

Juha Jokela
Funda Tekin
Niklas Helwig
Vittoria Meissner
Marco Siddi
Tyyne Karjalainen

Key Takeaways

During the 12th German-Nordic-Baltic Forum of 2020, experts and representatives from Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway and Sweden discussed four main topics in the shadow of numerous crises triggered by the COVID-19 pandemic. For each topic, the experts identified specific **policy recommendations**:

1. *Shaping the EU's global agenda through multilateralism*
   - The EU should use the new momentum in transatlantic relations to mitigate a further escalation of tensions between the US and China.
   - The EU needs to continue finding like-minded allies to secure its interests in multilateralism and retain close collaboration with the UK.
   - The EU should advance engagement of civil societies and connections with non-state actors in multilateral platforms, such as the United Nations, in order to reinstall the fora's legitimacy.
   - The EU needs to become clearer in defining its priorities and common positions.
   - The EU should look past semantic differences on EU strategic autonomy in promoting its values. and interests globally, which should include close cooperation with the US.

2. *The EU as a global leader in climate action? A view into the future*
   - The Just Transition Mechanism should ensure that these funds reach the main underdogs from energy transition, but also that their use is compatible with the green agenda.
   - The EU should 'lead by example' and avoid offshoring environmental damage to other nations. It should develop a border carbon adjustment mechanism that does not undermine exports of the global South and incentivises other major polluters to accelerate energy transition.
   - The EU should openly cooperate with the US and China in promoting the climate agenda as well as with neighbours, such as Russia, in reorienting energy partnerships toward renewable energy.
   - The EU should seek trade partnerships granting access to rare earths and raw materials necessary for renewable energy, without adopting a securitised approach to supply chains.

3. *Next Generation EU: Challenges on the path towards economic recovery*
   - The EU needs to strengthen and complete the Single Market to achieve more competitiveness and reinforce not only its global economic role in particular but also its economic resilience in general to create common strategic stocks of critical drugs, pharmaceutical and medical products.
   - The EU needs to use the COVID-19 recovery plan 'Next Generation EU' for structural reforms in member states to address the pandemic's asymmetric effects.
   - The EU needs to encourage and promote new forms of innovation and investment while safeguarding sustainable employment.
   - The EU must play a leading proactive role and step up its robustness in trying to build coalitions with the US, Japan and Australia along with addressing China's unfair trade practices.

4. *Facing crises by building resilience: the EU's way forward*
   - EU member states need to be willing to build (flexible) alliances in different sectors and pool expertise in a variety of areas, such as the development of vaccines and treatments.
   - The EU needs to strengthen societal resilience by informing both its own citizens from an internal perspective as well as key global players from an external perspective on what the EU is and does.
   - In order to strengthen the rule of law, the EU should counteract declining trust in the EU as well as the diminishing appeal of liberal democracy and its values.
   - The EU should set up a centre for the anticipation of major digital challenges such as large-scale cyber-attacks to ensure robust risk assessment and management
   - In order to achieve more cooperation in migration matters, the EU needs to find a strong voice and representation at the supranational level while also reinforcing internal EU solidarity. This needs to be coupled with making common European solutions more appealing than those at national level.

Institut für
Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

Introduction

The COVID-19 pandemic has deeply shaken the entire European Union (EU) with border-crossing effects on health security as well as the economy and general functioning of the EU. Politically, it has exacerbated differences between and within member states' societies, highlighting shortcomings in EU and national decision-making. This discussion paper analyses the present situation and explores what the Nordic-Baltic states could do together with Germany, to provide practical answers in response to such exceptional circumstances and forge a way forward to pass yet another EU stress test.

Expert discussions within the German-Nordic-Baltic Forum (GNBF) 2020 highlight that the EU needs to address current external and internal challenges efficiently, while becoming more resilient. External challenges for the EU that the COVID-19 pandemic has laid bare revolve around three main dilemmas. Firstly, in order to become stronger together on the global stage, EU member states must reconcile an aspiration to build European sovereignty and forge multilateralism. Cooperation as framed by international organisations has to be complemented by strategic and stronger partnerships with key actors, in order to revamp multilateralism as well as the EU's strategic autonomy so as to make progress on its global agenda. Secondly, the disruption of supply chains by the pandemic around the world has highlighted the difficulties in regaining European control, possibly by moving production closer or back to the EU, while also safeguarding the rules-based global trading system as well as the EU's liberal and open economy. Ongoing US-China disputes add to the complexity of this specific dilemma. Thirdly, the EU needs to look more closely at how its climate policy and the European Green Deal are received abroad. Measures such as the Carbon Border Adjustment could be interpreted by third countries as a form of protectionism in disguise. Moreover, the Union needs to engage with other important global players such as China, Russia and the US to forge green partnerships. Climate change and environmental degradation are becoming increasingly serious issues in dire need of multilateral responses.

Additionally, tightly linked to external issues, the EU is facing three internal challenges. Firstly, the rule of law that is currently coming under duress in certain member states, should be seen as the bedrock of EU resilience. Hence, its defence and promotion along with other core values are of vital importance. Secondly, in regard to the EU's economic crisis there is a need to strengthen the Single Market and pursue an open economy, thereby championing economic competitiveness and investment in innovation. Thirdly, there is a question of the EU's ability to make independent policy choices on a world level and foster solidarity between its members. The EU's success in solving common global challenges has always been built on internal (and external) cooperation, hence its ability to act independently according to its own interests and values in order to compete with major international players.

Institut für Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

1. Shaping the EU's global agenda through multilateralism

Context

Since the end of the second World War, multilateralism has been a key tool for nation states to deal with common challenges, prevent conflicts and share global responsibility. Following the COVID-19 pandemic and mindful of notable global challenges such as climate change, the necessity for international cooperation will be vital. Yet, multilateralism is currently under pressure. Due to intensifying **rivalry among great powers** and the US's current state of introspection, the 75-year-old rules-based international order and its multilateral institutions are at least temporarily facing serious efficacy and legitimacy problems.

The EU represents a distinctively deep form of multilateralism, which has gradually developed towards a political community with a full-fledged legal order. Given the Union's sui generis character and its key assets, such as regulative and market power, advancing multilateralism globally has been a **key strategic interest**. The degradation of multilateralism presents a major concern for the EU in promoting its values and defending its interests, hence its efforts to respond not only by defending multilateral institutions and arrangements, but also by promoting reforms to increase their effectiveness. Furthermore, member states have set up new initiatives in order to defend multilateralism jointly with like-minded states. Examples include the French-German initiative on the Alliance for Multilateralism along with the Nordic foreign and security policy cooperation to support multilateralism.

Given their economic characteristics, history and geographic position, countries in the **Nordic-Baltic region** have a distinct perspective on multilateralism. They perceive this as a way of promoting free trade and competition-based market principles, to which they are fundamentally committed, on top of widely recognised gains related to smaller states' international influence and security. However, Nordic and Baltic states also have a long tradition of thinking about security threats in a comprehensive manner, involving civil society and the private sector in the process. Hence, they recognise the increasing geo-economic challenges and the need to reduce vulnerabilities related to foreign investment, supply chain dependencies and technological competition. They perceive multilateral fora as forming a useful tool in **mitigating such geo-economic competition risks**.

The crisis of multilateralism, uncertainties in the transatlantic partnership and an increasingly assertive China, have led to a lively debate on **EU strategic autonomy**. This concept reflects an aspiration to manage interdependencies with third parties and create the capacity to implement self-determined policy decisions. The EU's ambition for autonomous action also impacts its multilateral engagement, in vowing to further its values and interests more boldly within international settings. The emphasis on 'autonomy' has raised questions in some Nordic and Baltic

Institut für
Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

countries on the grounds that it might be interpreted as decoupling from the US and NATO, thereby signalling the EU's position as being equidistance from China and America. Instead, the transatlantic-minded Nordic and Baltic states tend to underline that the ability for a self-determining EU to be competitive within the global environment can be achieved only through a strong transatlantic partnership. This aspiration might rather be reflected in the term '**cooperative sovereignty**', but it ultimately depends on the implementation of policies rather than conceptual debates.

One of these policy questions is how the EU positions itself in relation to growing competition between the US and China. Election of the multilateral-oriented Biden administration in America opens up the possibility of closer cooperation, using the proposed **'Summit for democracy'** to coordinate common multilateral approaches with like-minded states. At the same time, global challenges such as climate change, stress the need for broader collaborations across ideological lines. At times, the EU should not merely content itself with old alliances, but rather extend its horizons in the search for new strategic partnerships, for example, when it comes to building digital infrastructure in Europe. In other words, the EU stands to lose from great power competition that is sharply defined along ideological lines and must instead find ways to mitigate Sino-US rivalry.

Internal and external challenges

Current trends in world politics force the EU to adapt its strategy towards international cooperation in general, but particularly regarding multilateralism. The US withdrawal from multilateral fora under Trump's administration, the aspirations of newly emerging powers to reshape multilateral institutions and arrangements, together with increasing competition between the two dominant powers make achieving multilateral solutions to global challenges very difficult. These problems are becoming progressively more evident as the UN increasingly struggles to come up with collective responses to international security challenges. America's attempt to 'snap back' UN sanctions on Iran can be seen as the latest example. Similarly, it is feared that functionality of the World Trade Organization will become the victim of trade wars between the US and China.

Since the US commitment to multilateralism weakened during Donald Trump's presidency, many hopes are now attached to the restoration of America's role during Joe Biden's forthcoming term. However, in regard to the Nordic and Baltic states, Trump's presidency has not led to a complete downturn in transatlantic cooperation. When it comes to security and defence, much of the close partnership has continued over the past four years, displayed for example in support for Baltic defence. Furthermore, many of the challenges experienced in multilateral cooperation with the US are unlikely to disappear under Biden's administration.

Russia's engagement in dialogue on multilateral platforms is a priority for the EU in general and the Nordic and Baltic states in particular. However, as often highlighted especially by the Baltic states, the EU should maintain a cautious approach when engaging with Russia in multilateral fora and not compromise when its key values are challenged. The importance of this has again been highlighted by the political crisis in Belarus which started after the August 2020 presidential elections. Similarly, the EU should remain true to its values when cooperating with other global actors that do not necessarily share the EU commitment to human rights, for example.

The United Kingdom's withdrawal from the EU brings another layer of concerns in regard to multilateral cooperation. The UK has been an important Nordic and Baltic states' partner within multilateral fora, cooperation that needs to be redefined after Brexit, which is also likely to prompt an increased significance for NATO, already a highly relevant multilateral institution, especially for the Baltic states. Future British relations and those with the more demanding Turkey as non-EU NATO members highlight in particular the need for Germany's active approach to multilateral cooperation as a key member in both organisations.

The EU also has other important internal issues to resolve, which threaten its credibility as one of the last bastions of multilateralism. The Rule of Law challenges reported in some member states have damaged the EU's international credibility. Moreover, an increasingly competitive global environment has made it difficult for member states to address alleged European overrepresentation in multilateral institutions.

Finally, funding is a key topical issue for multilateral institutions to resolve: according to a recent Brookings study (2018), 53 multilateral organisations cost around USD 63 billion annually. There is clear pressure to equate EU financial contributions to multilateral fora with its level of economic power. Most importantly, the Union should take the lead in developing multilateral institutions more effectively, seeking at the same time to cooperate with likeminded allies such as Canada and the UK. The reforms initiated should reflect long-term EU ambitions and focus on areas where progress is possible.

Key issues to be addressed

- The **US retreat** from multilateral fora (looking likely to be reversed under the new Biden administration), the aspirations of emerging powers to reshape multilateral arrangements and increasing geopolitical competition, make achieving multilateral solutions to global challenges more difficult.

- The increasing great **power competition between the US and China**, including an intensifying ideological confrontation, risks putting the EU in an uncomfortable position

where it has to choose between a close transatlantic economic and security partnership and growing trade and industrial ties between Europe and China.

- The **United Kingdom's withdrawal** from the EU and the Rule of Law challenges in some member states exert pressure on the EU's sui generis character as defender and embodiment of multilateral cooperation.

Recommendations:

- The EU should use the new **momentum in transatlantic relations** to mitigate a further escalation of tensions between the US and China. While adherence and promotion of democratic and liberal values are central to Nordic and Baltic foreign policy, a negative spill-over of ideological and economic competition between the US and China into areas of pragmatic cooperation should be avoided.

- The EU needs to continue finding **like-minded allies** to secure its interests in multilateralism and retain close collaboration with the UK in multilateral fora. Especially when engaging with emerging powers, issue-based networks might be a good option for the EU in its efforts to deepen cooperation. The EU and the Alliance for Multilateralism should increasingly work through the G20 and G7 to secure political supporters and much-needed reforms of the multilateral institutions.

- The EU should advance **engagement of civil societies** and connections with non-state actors in multilateral platforms, such as the United Nations, in order to reinstall the fora's legitimacy. The Nordic and Baltic states could serve as an example, in their sharing long traditions of engaging with civil societies on security and policy questions.

- The EU should put forward **joint candidates** to fill high ranking positions in international organisations. Coordination within the Nordic states on UN Security Council membership campaigns is a good example to follow. In general, the EU needs to become clearer in defining its priorities and common positions amongst the 27 member states which should then be delivered as one in multilateral institutions. The EU's funding of international organisations should be balanced to match its economic power.

- The EU should look past semantic differences on **EU strategic autonomy** in promoting its values and interests globally, which should include close cooperation with the US. At times this might involve pursuing a 'third way', distinct from those of China and the US, for example on digital regulations.

Institut für
Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

2. The EU as a global leader in climate action? A view into the future

Context

In recent years, the **climate crisis** has become increasingly evident, as highlighted by the melting of polar ice and glaciers, record high temperatures and a succession of catastrophic forest fires in Sweden, Siberia, Australia as well as the US in 2018-20. For the Baltic region, winter 2020 has been one of the warmest on record. In Europe, influential **civil society movements** – such as 'Fridays for Future' – have emerged, calling for urgent climate action. Simultaneously, though, right-wing **populist movements** and politicians that call into question scientific evidence about climate change have gained support in several countries. Within the Baltic region, they have increased their vote share in Germany and Sweden, joined a government coalition in Estonia and have won all elections in Poland since 2015. Amidst these controversies, the European Union has endorsed the Paris climate agreement. In December 2019, it launched the European Green Deal, a roadmap of upcoming policies and strategies to promote energy transition and achieve climate neutrality by 2050 (see Siddi 2020). By 2030, the European Commission is seeking a reduction in greenhouse gas emissions of at least 55% (compared with 1990 levels).

Internal and external challenges

The European Green Deal includes, in particular: a climate law; a new industrial strategy; a 'farm-to-fork strategy' concerning the sustainability of the food chain; a new circular economy action plan; expansion of the EU Emission Trading System; and the introduction of a border carbon adjustment mechanism. EU institutions are debating a climate law that will codify the **climate neutrality** target for 2050. Nordic countries have been particularly ambitious concerning the green agenda and emission reduction targets.

However, some member states – especially in East-Central Europe – are concerned about the cost of energy transition due to their continuing reliance on coal. Following the COVID-19 pandemic, Polish and Czech officials have argued that the Green Deal should be deprioritised. Poland and Hungary, EU members that are critical of the Green Deal, have been accused of breaching the **rule of law**. When the EU announced its intention to make funding (including green funds) partly conditional on respect for the rule of law, Poland and Hungary vetoed the Union's budget for 2021-2027. This led to an intra-EU impasse and delayed the Union's green agenda.

In the Nordic region, right-wing populist parties pose an internal challenge to climate action and related EU policies. For instance, the Finns Party has been campaigning against so-called 'climate hysteria'. It cannot simply be assumed that Nordic EU members will always be ambitious in climate policy, as views such as those expressed by the Finns Party may be mainstreamed and begin to influence the public debate. In Germany, the Alternative for Germany Party is sceptical about

Institut für Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

climate change and opposes transferring Green Deal strategy powers to the European level. Nonetheless, both in Germany and Nordic EU member states, the majority of citizens are (deeply) concerned about climate change.

Implementation of the climate agenda requires **international cooperation**, especially bearing in mind large global emitters such as **China**, the **US** and **Russia**. Climate cooperation also needs to be sustained in future relations with the United Kingdom following **Brexit**. The Green Deal proposes making the EU a global leader in climate action through multilateral diplomacy and the inclusion of sustainability commitments in **future trade agreements**. However, there has been little consistent evidence of this to date. Moreover, the EU's plan to introduce a **border carbon tax** could lead to disagreements with third countries and accusations of 'green protectionism'. There is also evidence that EU meat and agricultural imports contributed to extensive deforestation and degradation of vast territories, particularly in tropical regions (see Fuchs et al. 2020). As a destination market for a large share of products made in the global South and as a historic polluter, the EU has a moral obligation to prioritise climate action over mere economic profit.

Another international challenge stems from the **changing configurations of energy security** during energy transition. As the EU progressively switches from fossil fuels to renewable energy, it will reduce its reliance on oil and coal providers, which will incur economic losses and potential domestic instability. Simultaneously, the EU will become more dependent on rare earth minerals and energy storage technology related to renewables.

Key issues to be addressed

- The EU needs to overcome **divisions between member states** concerning the priority and substance of Green Deal policies, mindful in particular (but not only) of the East-West divide.

- Another challenge stems from **divisions within member states**, where right-wing populist parties have often cast doubts on the urgency of measures to counter climate change and facilitate energy transitions.

- **Effects of the COVID-19 pandemic** may influence the Green Deal and climate agenda. There is a risk that the focus will shift to dealing with the pandemic and economic recovery, leaving sustainability and the green agenda as secondary considerations.

- For the EU to become a global leader in climate action, its measures have to improve sustainability standards and lead to **international cooperation**, rather than alienate other actors. Measures such as border carbon adjustment may be perceived by third countries as 'green protectionism' and unfair policies of 'rich Europe' towards the global South.

Recommendations

- The European Commission has launched a **Just Transition Mechanism**, with a current financial allocation of EUR 17.5 billion, in order to alleviate the costs of energy transition in those European regions that are most reliant on fossil fuels. It will be essential to ensure not only that these funds reach the main losers from energy transition, but also that their use is compatible with the green agenda. Respect for the **rule of law** and basic EU values should also be an important precondition for acquiring funds.

- The EU should '**lead by example'** and avoid offshoring environmental damage to other nations. It should develop a border carbon adjustment mechanism that does not undermine exports in the global South and incentivises other major polluters to accelerate energy transition. Climate finance, technology diffusion and transfers are essential to foster **global climate solidarity**, ensuring that poorer countries make their industrial sectors more efficient and participate in the energy transition. Trade agreements should include sustainability requirements without shifting costs onto less wealthy partners.

- The EU should **cooperate with the US and China** in promoting the climate agenda. Both the new US administration led by Joe Biden and China's upcoming five-year plan are likely to prioritise energy transition. Despite Brexit, cooperation with the United Kingdom will remain important, particularly in view of the COP26 Glasgow conference in 2021.

- The EU should **cooperate with neighbours** in reorienting energy partnerships from the current focus on fossil fuels progressively toward renewable energy. Neighbours such as Russia and Algeria have vast resources for energy transition, ranging from solar and wind energy production to rare earth elements. Member states such as Germany and Finland can draw on their long-standing partnerships with external energy providers such as Russia. Green cooperation with Russia is particularly important for the Baltic region.

- The EU should seek trade partnerships granting access to rare earths and raw materials necessary for renewable energy, without adopting a securitised approach to supply chains.

- Due to the interlinkages between energy and **digital transitions**, cooperation on both with international partners should be pursued in a spirit of openness and reciprocity.

Institut für
Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

3. Next Generation EU: Challenges on the path towards economic recovery[2]

Context

The COVID-19 pandemic has caused economic disruption of historic proportions leading to a widespread common EU shock with **asymmetric effects**. The EU experienced an 11.4% drop in GDP for the second quarter of 2020 compared with 2019, projecting a deep and uneven recession (Eurostat, 2020). Hence, while all countries experienced economic disruption, the impact across EU member states was heterogenous: Western European countries such as France (19%) and Italy (17%) suffered the deepest decline in economic growth, whilst that in the Scandinavian member states and the Baltic countries was less severe. Least affected was Lithuania with a 4% reduction. These asymmetric effects can be ascribed to three factors. Firstly, there was a **lack of coordination** regarding lockdown measures – Lithuania and Germany for example were among the frontrunners in introducing restrictive measures and lockdowns, while Sweden applied a very liberal and open strategy. Secondly, EU countries have **different economic structures**. Those countries that have been economically affected the most are highly dependent on tourism, which has in turn been deeply impacted by the lockdown measures. Thirdly, the crisis revealed **vulnerabilities** in many member states' economies, which cause divergent reactions among them when the shock hit. This heterogeneity is at least temporarily driving EU states economically apart and hence leads to a dispersion of different recovery paths. Accordingly, the EU needs an economic recovery that overcomes these divergences, mitigates shock from the pandemic and paves the way for a sustainable future through structural long-term reforms.

Internal and external challenges

On 21 July 2020, the EU Council successfully agreed on the new '**Next Generation EU**' recovery instrument worth EUR 750 billion and the seven-year EU budget (the Multiannual Financial Framework) costing an overall EUR 1,074.3 billion. Despite initial vetoes from Hungary and Poland, the EUR 1.8 trillion to power the EU's recovery was finally approved in December 2020, thanks also to Germany's intervention as holder of the Council Presidency. Nonetheless, the economic impact of this pandemic is greatly increasing public borrowing. The EU's public debt will rise and test the limits of fiscal and monetary policies, as deleveraging took place slowly at the high end of the economic cycle. In the longer term, a need to restore public finances and tackle debt overhang may risk replaying the austerity policies which followed the 2008 financial crisis (EPRS 2020: 14). Nordic and Baltic countries as well as Germany are divided on this issue. Whereas Denmark and Sweden have been among the so-called '**frugal five**' – although Finland could also

---

[2] The authors would like to thank John Niedergesäss for his research work on this section.

be seen as somewhere in-between – by demanding a larger amount of loans instead of grants, Estonia, Latvia, Lithuania and Germany are in favour of a sustainable and inclusive economic recovery plan, which fuels long-term growth. Whether or not the EU's **economic recovery plan** will sufficiently address future internal as well as external difficulties, such as possible upcoming economic crises, remains to be seen.

While short-time work proves to be effective in preventing high rises in unemployment, the EU's unemployment rate rose to an overall 6.6% in April 2020 and many self-employed workers have lost their income (European Commission, 2020). Moreover, the pandemic has had a profound impact on **sustainable employment** and widened the gap of **income inequality** even in the Nordic Region, where it has been increasing since the financial crisis (State of the Nordic Region 2020).

The COVID-19 pandemic has further caused unprecedented disruptions in global and European **supply chains**, which are highly integrated within the EU and throughout the world. Current restrictions as well as the uncoordinated closure of EU borders during the pandemic have brought European supply chains to a halt, especially in the medical and car sectors. In relation to the challenges highlighted in the 1st part of this paper on the European Union and Multilateralism, by disrupting supply chains the US could further increase the damage caused by its punitive tariffs, whereas when looking towards the East, massive disturbances in global supply chains and slower growth could cause over-indebted Chinese companies to fail and threaten the solvency of lenders. EU countries might be strongly affected by these developments (EPRS 2020: 18). The EU's way forward needs to entail solutions which counteract future disruptions of supply chains and strengthen the Union's **economic power** on the world stage vis-à-vis other global players such as the US and China. However, these two aims are intertwined with specific complex dilemmas, as highlighted in the introduction.

Key issues to be addressed

- The development, strengthening and eventual completion of the **Single Market** as well as the related **four freedoms** have to be at the core of EU economic and social recovery, in order to strengthen the Union's economic power globally.

- The EU needs to pursue more **economic autonomy** to build resilience and diminish any potential vulnerability.

- The **fragility of EU supply chains** is a further weakness, which has been identified during the pandemic and this must be counteracted.

- The EU needs to overcome **economic structural divergences** among its members while mitigating the common shock caused by the pandemic.

- The EU needs to bypass the **Hungarian-Polish blockade** to save its recovery plan and gain approval for its seven-year budget.
- The EU needs to strike the balance between free trade in a **global market** and its own EU interests.

Recommendations

- **Strengthening the Single Market** would lead to a more competitive EU and reinforce not only its global economic role in particular but also its **economic resilience** in general. A stronger Single Market could also foster positive public opinion, since it would increasingly reveal the benefits of economic integration. A process of managed interdependence would allow for a symmetric dependency between EU countries and simultaneously strengthen economic integration while advancing its role as a global economic trading power.

- Completing the Single Market should be a top priority for EU policymakers so as to increase **economic autonomy**. Furthermore, member states should work towards reinforcing coordination at EU level to secure economic autonomy more effectively in strategic areas (e.g. active pharmaceutical ingredients), thus reducing their dependence on third countries (EPSR 2020: 11). More autonomy should not translate into protectionism.

- The recovery fund's magnitude would make possible the presentation of concrete measures to address **supply chain** disruptions in key sectors, which should be covered by **risk analysis frameworks** and **preparedness scenarios**. The EU needs a functioning internal market in order to create common strategic stocks of critical drugs, pharmaceutical and medical products as well as equipment.

- The EU needs to use the COVID-19 recovery plan '**Next Generation EU' for structural reforms** in member states to address the pandemic's **asymmetric effects**, especially mindful of public debt in Italy, France and Spain. Structural changes in states' economies need to be connected to **long-term** thinking and skilling. The EU needs to **invest smartly** in order to create employment across Europe and foster economic growth. At the heart of Next Generation EU is the **Recovery and Resilience Facility (RRF)**, a new tool that provides EU member states with financial support to step up public investment and reforms in response to the crisis. This recovery plan temporarily creates additional fiscal space for EU member states by making possible public investment, which leads to higher employment rates, and by encouraging governments to implement structural reforms that can boost economic growth in the long term. This mechanism can stabilise national economies thereby preparing states for any future crises and external challenges. At the

Institut für
Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

same time, financial support provided through the RFF needs to be aligned with the EU's overall objectives, first and foremost the European Green Deal.

- The EU needs to encourage and promote new forms of innovation and investment to protect its citizens and its companies from the adverse impacts of social and economic shocks. In its [programme](), the German Council Presidency committed itself to a **forward-looking EU structural policy** that strengthens European regions' competitiveness. The focus is on seeking innovative economic change and safeguarding **sustainable employment**. This should include targeting inequality resulting from regional disparities through effective allocation criteria for the available funding as well as a European legal instrument for a minimum wage (EPRS 2020: 81). The Support to mitigate Unemployment Risks in an Emergency (**[SURE]()**) could represent an effective tool for preventing rising unemployment and economic divergence in the poorer EU countries, such as southern and central-eastern member states, to which the RRF will provide significant liquidity support to help in combatting economic challenges.

- The EU is currently seeing new groups partnering up and forming coalitions. It is the dawn of a new **blocking** 'duo', namely Hungary and Poland, as well as of a new blocking group, namely the 'frugal five'. The latter group of states would currently like to extend the issues on which to cooperate within this specific group. At the same time, the Franco-German motor is sputtering in the EU. Finding an **in-between balance** is pivotal in order for the EU to move forward.

- The EU should focus on removing **US-EU** bilateral trade obstacles and persuade the US to engage in reforms of the WTO. The EU must play a leading **proactive role** and step up its robustness in trying to build coalitions with the US, Japan and Australia along with addressing China's unfair trade practices. The EU also needs to build a new transatlantic agenda and strengthen a balanced transatlantic relationship, while also making progress in negotiations for a **bilateral investment agreement with China** (see also EPSR 2020: 72).

Institut für Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

4. Facing crises by building resilience: The EU's way forward

Context

In recent decades, the EU has been facing many different crises. This fragile context requires resilience-building processes to facilitate long-term sustainability. Resilience is defined as the ability to face shocks and respond to persistent structural changes in such a way that societal well-being and EU values are preserved, without compromising the heritage for future generations (Manca *et al.* 2017: 5). Resilience is a multidimensional phenomenon with numerous cross-cutting aspects and internal – specifically in terms of **solidarity** between its member states – as well as external dimensions – especially with regard to its **neighbourhood**. The European Union Global Strategy (EUGS) argues that a "resilient state is a secure state", with security and democracy closely intertwined (EUGS 2016: 24). Accordingly, one of the EU's key priorities is also to build state and societal resilience in its neighbourhood, following the European Neighbourhood Policy's primary objective of creating a '**ring of friends**' around EU borders (Petrova, & Delcour 2020: 342).

Given recent economic shocks, such as the COVID-19 pandemic, political changes and security threats, Europe needs positive action in strengthening its internal and external resilience, especially with regard to the rule of law, its health policy, social cohesion and solidarity between member states, its neighbourhood as well as digitisation.

Member states' initial responses to the COVID-19 pandemic lacked sufficient **EU-wide cooperation, coordination** and **solidarity**. A recent [survey](#) commissioned by the European Parliament on social perceptions of solidarity within the EU in times of the pandemic highlighted that most citizens were in favour of the EU having more competences to deal with crises. While the survey revealed that there was substantial overall trust among citizens in the EU playing a stronger role, it also indicated that countries in the South are very supportive of the EU having more competences when it comes to crises, whereas Northern countries tend to be rather sceptical. However, the survey registered differences also within the Nordic region; for instance, whereas in Sweden those that agree with the EU having more competences are the second lowest (48%), in Denmark they are relatively high (62%). Based on citizens' rather low support for a stronger EU, governments might echo these trends by pursuing regional rather than EU-wide cooperation.

Within the EU, there are many examples of regional coordination and cooperation, which have historic traditions, as for instance between Nordic countries or amongst the Baltic states. The so-called [Haga](#) cooperation ensures cross-border cooperation among Nordic countries to manage and prevent incidents together. The Baltic States have also developed a common approach for the mutual assistance and coordination in disaster prevention, preparedness and response. They plan to exchange information about crisis situations and to ensure implementation of the 2018 Agreement on Cooperation in Disaster Response for the Baltic states (Baltic Assembly 2020).

Institut für Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

Internal and External Challenges

The COVID-19 pandemic has exacerbated existing challenges, making even more urgent the need for preventive and transformative policies to strengthen regional as well as EU internal and external resilience (see also EPRS 2020). Three factors, that are important in building post-crisis resilience, have been highlighted by the pandemic. Firstly, it is as yet unfortunately impossible to estimate a **clear end to the crisis**. Secondly, a global **peace time alliance** is lacking. Hence, the EU needs to strengthen its role as a European peace time alliance for its member states. Thirdly, while global **leadership** is completely absent, the EU is witnessing a competition for leadership, for instance in the case of the Franco-German political tussle. Besides these overall challenges, the pandemic and consequent health crisis have deepened wealth and gender **inequalities**, thus increasing social challenges (State of the Nordic Region 2020). At the same time, **nationalism and populism** are becoming increasingly evident across the EU, leading to reduced social cohesion. This is also the case in the Nordic-Baltic-German region, for instance in Estonia, where the openly nationalist Conservative People's Party has made significant electoral gains (Mickus & Kuusik 2019).

Subsequent coronavirus waves or other future serious disease outbreaks could keep putting a heavy strain on **healthcare systems** as well as the solidarity between member states. While many EU states closed their national borders to almost all of their neighbouring countries during the height of the pandemic, the Baltic states Estonia, Latvia and Lithuania opened their borders only to one another creating a 'travel bubble'. Overall, the EU still lacks a clear set of rules regulating the temporary **reintroduction of borders** without disrupting the functionality of the Schengen system (see De Somer, Tekin and Meissner 2020).

Even prior to the pandemic, the EU had identified cases of **decline in democracy** with Poland and Hungary. Emergency measures to contain the COVID-19 pandemic have further exacerbated rule of law violations in these EU member states.

COVID-19 is also leading the EU to even more dependence on digital platforms, making it more vulnerable to large-scale **cyber-attacks**.

The crisis has further laid bare the need for the EU to devote more effort to anticipatory governance and specifically to **foster resilience in an unstable neighbourhood**. The latter objective bears the challenge for the EU to develop cooperation in a way that can enhance societal resilience without strengthening autocratic regimes' resilience (Petrova, & Delcour 2020: 352). Ongoing protests in Belarus, for instance, which are the result of human rights, democracy and rule of law violations in the country, require a common and clear response from the EU, albeit this represents a difficult endeavour.

Key issues to be addressed

- The EU has to identify measures that **strengthen solidarity and cooperation among member states**, especially in view of **a European health policy** and firm up proposals for a European Health Union.

- The EU needs to learn from the COVID-19 pandemic in pursuing **resilience-building processes** internally by strengthening **social cohesion** as well as coordination and cooperation among its members.

- The further **erosion of the rule of law and democracy** in Hungary and Poland has to be strongly counteracted, by making the receipt of EU funds by a member state dependent on its respect for the rule of law and EU values.

- The EU needs to strengthen resilience in its **neighbourhood** without strengthening autocratic regimes.

- The EU has to be well-equipped in preparation for medium and long-term external risks such as cyber-attacks, whilst fostering **digital innovation**, which has become all the more important following the COVID-19 pandemic.

- Initially, EU member states had reintroduced internal border controls in an uncoordinated way as a response to the pandemic. At present, this no longer seems to be so and the internal functioning of the **Schengen** system could thus be preserved. Yet, the EU needs to turn to its **external borders** and address outstanding reforms in the related EU's migration and asylum policy to keep working towards a shared European response to potential future mass **migration** flows.

Recommendations

- The pandemic is a driver of pre-existing political, societal as well as economic trends and challenges. Accordingly, the EU and its member states need to adapt and find common answers to complex multidimensional developments. The quest for resilience should not be dependent on other countries' behaviour, but should rather be derived from the EU member states' political willingness to compromise, trust in one another and demonstrate **solidarity**. This crisis has highlighted the EU's limited competences in the **health sector** and its need to increase **crisis management capabilities** in terms of early warning systems and shared data collection, in order to be better prepared for future crises, albeit they might be inherently different from the current pandemic. The goal should be to **build alliances** in different sectors and **pool expertise** in a variety of areas, such as artificial intelligence or the development of vaccines and treatments. Every state thus commits with its own expertise and capabilities. Countries should also **harmonise methodology** at EU level to

Institut für
Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS

have comparable statistics on other instances of epidemics and deal with the spill-over effects of uncoordinated responses through a reinforcement of existing institutional bodies such as the European Medicines Agency.

- One of the key challenges in building resilience is to preserve unity and find solutions that are acceptable to all 27 EU members. This proves to be very difficult due to their differences in interests, capabilities and capacities. Besides the health sector, effective resilience could, therefore, be designed also in other policy areas by aiming at more **flexibility** generally when it comes to cooperation and by coordinating resilience only among some member states in some areas of interests, in which they are committed to work on, for instance when sharing technological knowledge. However, EU states should resort to these flexible forms of cooperation only with moderation.

- The EU needs to communicate its achievements effectively. In order to increase public knowledge of EU policies and its competencies, the EU has to provide **more coordinated EU-wide civic education** on European matters. The EU needs to strengthen **societal resilience** by informing both its own citizens from an internal perspective as well as key global players from an external perspective on what the EU is and does.

- In order to strengthen the **rule of law**, the EU should also improve its digital capabilities, for example the digital justice system in order to have courts working with minimal disruption. Moreover, the EU is still struggling in its demonstrating governability and legitimacy as well as assuming a **leadership role** vis-à-vis its member states and citizens. In order to tackle these challenges, the EU should counteract declining **trust** in the EU as well as the diminishing appeal of liberal democracy and its values.

- The EU must also **strengthen societal resilience in neighbouring countries** by supporting grass-roots initiatives, civil societies and the proactive private sector. Autocratic regimes make it very complex and difficult for the EU to support such initiatives, but there are some sectors in which the EU can play a vital role, for instance in issues to do with gender equality, sustainable development, education and the health sector.

- Major external challenges are attached to increasing **digitalisation** across policies. The EU should consider setting up a centre for the anticipation of major digital challenges such as **large-scale cyber-attacks** to ensure robust risk assessment and management as well as structured contingency planning as well as the stress-testing of existing and future policies. It should also support businesses in securing industrial data, developing artificial intelligence technology and expanding the digital infrastructure.

- In September 2020, the European Commission presented the **Pact on Asylum and Migration**, which should represent a compromise between EU member states on how to cooperate on migration matters. In response to the increasing influx of asylum seekers, over the years the Nordic countries have employed various measures to stem immigration. Despite some efforts from governments in the region to combine national policies aimed at reducing the number of asylum seekers while improving efforts to integrate those already residing in the respective countries, national reluctance is still forming an obstacle to more cooperation on migration among the Nordic states (State of the Nordic Region 2020). In order to achieve more cooperation in migration matters, above all the EU needs to find a strong voice and representation at the supranational level while also reinforcing internal EU solidarity. This needs to be coupled with making common **European solutions more appealing** than those at national level.

References

Baltic Assembly (2020). Comprehensiveanalysis of thecooperation of the Baltic states during COVID-19 crisis https://www.baltasam.org/images/1_2020/0_Session/3B_cooperation_COVID-19.pdf

De Somer, M., Tekin, F. & Meissner, V. (2020). Schengen under Pressure: Differentiation or Disintegration?. EU IDEA Policy Papers, No. 7.

Eurobarometer (2020). Public opinion in the EU in time of coronavirus crisis.

European Commission (2020). European Economic Forecast Summer 2020 (Interim). Institutional Paper 132.

European Parliamentary Research Service, EPRS (2020). Towards a more resilient Europe post-coronavirus - An initial mapping of structural risks facing the EU. EPRS Study, PE 653.208.

Eurostat (2020). Quarterly national accounts - GDP and employment.

Fuchs, Richard, Brown, Calum & Rounsevell, Mark (2020). Europe's Green Deal offshores environmental damage to other nations. Nature, 26 October, https://www.nature.com/articles/d41586-020-02991-1.

Helwig, Niklas (2020). EU strategic autonomy: A reality check for Europe's global agenda. FIIA Working Paper 119. https://www.fiia.fi/en/publication/eu-strategic-autonomy

Manca, Anna Rita, Benczur, Peter & Giovannini, Enrico (2017). Building a Scientific Narrative Towards a More Resilient EU Society. JRC Science for Policy Report, JRC28548.

McArthur, John & Rasmussen, Khrista (January 9, 2018). Who actually funds the UN and other multilaterals? Brookings. https://www.brookings.edu/blog/order-from-chaos/2018/01/09/who-actually-funds-the-un-and-other-multilaterals/

Mickus, Justinas and Kuusik, Piret (2019). Baltic Expert Assessment of Risks and Trends Facing the Baltic Region. Vilnius Institute for Policy Analysis and Estonian Foreign Policy Institute / International Centre for Defence and Security.

MSB – Swedish Civil Contingencies Agency (2020). Nordic Cooperation: https://www.msb.se/en/about-msb/international-co-operation/nordic-co-operations/

Petrova, Irina & Delcour, Laure (2020). From principle to practice? The resilience–local ownership nexus in the EU Eastern Partnership policy, Contemporary Security Policy, 41:2, 336-360.

Siddi, Marco (2020). 'The European Green Deal: Assessing its current state and future implementation', FIIA Working Paper 114, Helsinki: Finnish Institute of International Affairs, available at https://www.fiia.fi/wp-content/uploads/2020/05/wp114_european-green-deal.pdf.

Siddi, Marco (2020) 'What are the prospects for the European Green Deal?', LSE EUROPP, 16 July 2020, https://blogs.lse.ac.uk/europpblog/2020/07/16/what-are-the-prospects-for-the-european-green-deal/.

State of the Nordic Region (2020). Nordic Council of Ministers, available online at https://pub.norden.org/nord2020-001/

About the authors
Dr Juha Jokela is Director of the European Union Programme at Finnish Institute of International Affairs;
Dr Funda Tekin is Director at Institut für Europäische Politik Berlin;
Dr Niklas Helwig is Leading Researcher, European Union Programme at the Finnish Institute of International Affairs;
Tyyne Karjalainen is Research Fellow, European Union Programme at the Finnish Institute of International Affairs;
Dr Vittoria Meissner is Research Advisor at Institut für Europäische Politik Berlin;
Dr Marco Siddi is Senior Research Fellow at Finnish Institute of International Affairs.

About IEP
Since 1959, the Institut für Europäische Politik (IEP) has been active in the field of European integration as a non-profit organisation. It is one of Germany's leading research institutes on foreign and European policy. IEP works at the intersection of academia, politics, administration, and civic education.

Institut für Europäische Politik e.V.
Bundesallee 23 10717 Berlin
info@iep-berlin.de
www.iep-berlin.de
@iep_berlin
@IEP.Berlin
@iepberlin

About FIIA
The Finnish Institute of International Affairs is an independent research institute that produces high-level research to support political decision-making as well as scientific and public debate both nationally and internationally.

Finnish Institute of International Affairs
Arkadiankatu 23 b
POB 425 / 00101 Helsinki
Telephone +358 (0)9 432 7000
Fax +358 10 9 432 7799
info@fiia.fi
www.fiia.fi
@FIIA_fi
@upifiia

Institut für Europäische Politik

FIIA
FINNISH INSTITUTE
OF INTERNATIONAL AFFAIRS