

# The Top Five U.S. Priorities for European Policy in 2021

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## KEY TAKEAWAYS

2021 will be an inflection point for transatlantic relations. It is essential that the U.S. and Europe work together to address the challenges of Russia and China.

The COVID-19 pandemic is likely to exacerbate the existing imbalances of the Eurozone, with destabilizing economic, social, and political consequences.

The U.S. and the EU need to work together to limit these consequences—and to provide a united democratic cornerstone for the world.

The current year will be an important inflection point for transatlantic relations. A new U.S. Administration and Congress should focus on reinforcing the transatlantic partnership and working with European allies to address threats from aggressive state actors, while meeting the monumental challenges posed by the COVID-19 pandemic. The real policy differences between the U.S. and Europe on key issues will not disappear under a Biden presidency, but the need to work together remains essential: U.S. security rests first and foremost on the strength of the transatlantic alliance.

The top five priorities on which the U.S. should focus its efforts are: (1) concluding a U.S.–U.K. Free Trade Agreement (FTA); (2) sustaining and building on improved North Atlantic Treaty Organization (NATO) deterrence; (3) meeting the challenges of the pandemic; (4) encouraging a united and robust

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response to rising threats from China; and (5) ensuring that the U.S. and its European allies do not squander the progress and potential of the Three Seas Initiative.

## 1. Concluding a U.S.–U.K. Free Trade Agreement

On December 31, 2020, the United Kingdom completed its exit from the European Union. Shortly before, it concluded a trade deal with the EU. With its full exit from the EU, the trade deals that Britain has signed with 91 national or territorial governments around the world came into effect. The U.S. should take advantage of Britain’s demonstrated commitment to free trade by rapidly concluding the ongoing negotiations for a U.S.–U.K. FTA.

The way is clear for a U.S.–U.K. FTA. The U.K. and the EU have resolved their trading differences. The difficult and complex issue of the Irish border has been addressed in a way that fully respects the Good Friday Agreement. The U.K. has already concluded its first free trade area—with Japan—and will announce this year its intention to apply for membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the successor to the trading area from which President Donald Trump unwisely removed the United States in 2017.

Heritage Foundation experts were the first to call for the U.S. and the U.K. to negotiate a free trade area. In 2018, Heritage experts, working in collaboration with trade experts on both sides of the Atlantic, participated in drafting an ideal U.S.–U.K. FTA.<sup>1</sup>

A U.S.–U.K. FTA should:

- Eliminate tariffs and quotas on visible trade;
- Ensure the continuation and deepening of investment freedom;
- Develop new approaches to trade in emerging areas, such as digital trade; and
- Develop mutual recognition of standards in high-value areas, such as pharmaceuticals.

A free trade deal would benefit both nations, promote the development of a wider and renewed U.S. free trade agenda, and set a valuable example of liberalization for the rest of the world.

It is inevitable that there will, sooner or later, be free trade between the U.S. and the U.K.: In a world where the U.S. has free trade agreements with Colombia, Jordan, and Panama, it is unthinkable that the U.S. will not reach an agreement with the U.K., a G7 economy and its closest ally. Now is the right time to take the final step toward such an agreement.

## 2. Building on Improved NATO Deterrence

In recent years, NATO has made significant strides in advancing deterrence. The years from 2015 to 2020 saw steady growth in defense spending across the Alliance. NATO has estimated that in 2020, 10 member states reached the benchmark of spending 2 percent of gross domestic product on defense, and 16 member states met the benchmark of spending 20 percent of defense budgets on equipment expenditures.<sup>2</sup>

Over the past years, NATO has rightly emphasized readiness to deter—and, if necessary, to engage in—high-intensity conflict with Russia. The U.S. has led the way in this effort by proposing the 30-30-30 plan for increased readiness, and by backing NATO’s formal Readiness Action Plan. NATO currently deploys a multinational battalion to each of the Baltic states and Poland as part of the Alliance’s Enhanced Forward Presence. After a draw-down under the Obama Administration, the U.S. has reinvested heavily in Europe, through force deployments as well as through increased expenditures to improve infrastructure and fund deployments.<sup>3</sup>

Although NATO’s ability to defend member states on its eastern flank has improved, it is far from mission accomplished. It is not possible for NATO to be fully effective if Germany is weak, and the state of the German armed forces is extremely troubling.<sup>4</sup> Just as important, the 2020 Report of the NATO Reflection Group pointed to the necessity for closer political cooperation and sustained political commitment to NATO from all its member nations.<sup>5</sup> Central to this necessity is the vital need to ensure that the EU does not develop a defense identity or ambitions that would detract in any way from NATO. Finally, the economic challenges posed by COVID-19 threaten to derail and reverse all the budgetary—and hence military—progress the Alliance has made over the past five years.

The U.S. should not view NATO as a multi-tool capable of tackling any problem, but as a means to deter Russian aggression and defend the territorial integrity of the member states. NATO does not need out-of-area operations to achieve relevance: It has enduring challenges, and an enduring strategic role in its own central theatre of operations. The U.S. and its NATO allies have not yet achieved effective deterrence and must continue

to think and act comprehensively to deter aggression against all its member states, especially those in the Baltic and Black Sea regions.

### 3. Meeting the Challenges of COVID-19

The challenges posed by the COVID-19 pandemic are complex. Of course, at its core, COVID-19 is a public health crisis of grave severity. But the political, social, and economic consequences of COVID-19 may well have more enduring and troubling effects than the tragic deaths caused by the virus itself. Leaving aside the strictly medical aspects of the crisis, COVID-19 poses three fundamental challenges to U.S. policy in Europe in 2021 and beyond.

First, if the transatlantic area is to continue to be the world's center for democratic values, its members must not permanently sacrifice their liberties in pursuit of public health goals. Restrictions may be necessary, but these should be limited, temporary, and undertaken in a spirit of regret—not one of enthusiasm about the opportunity to impose of new governmental controls. The U.S. must strive to work with Europe to develop mechanisms that combine the greatest safety with the maximum freedom of travel and commerce, and which will be removed as soon as possible. Any other approach means the destruction of the values the U.S. is pledged to protect.

Second, virtually all the nations of the Atlantic region have undertaken new and enormous borrowing, and quantitative easing, to combat the economic effects of the pandemic. The knock-on effects of these measures are as yet unknown, but one result is very likely to be substantial pressure to cut defense budgets across NATO. This would be a dangerously shortsighted approach. Effective defense and deterrence against Russia, in particular, cannot be achieved in an environment of relentless budgetary, and therefore strategic, chopping and changing.

Third, the effects of the pandemic are likely to exacerbate the existing imbalances of the Eurozone, with economic, social, and political consequences that could be profoundly destabilizing for the EU, all of Europe, and the world. The U.S. and Europe need to work together to limit these consequences. In May 2020, Heritage Foundation experts put forward the “U.S.–European Economic Partnership Recovery Plan” aimed at improving seven areas of potential transatlantic cooperation between the U.S. and Europe that offer realistic ways for Americans and Europeans to help each other.<sup>6</sup> From cooperation on energy security to collaboration on fifth-generation wireless technology, the plan demonstrates that there are effective ways for Europe and the U.S. to speed recovery from the pandemic.

## 4. Working with Europe on a United Response to the Rising Threat from China

On December 30, 2020, the European Commission and China reached a Comprehensive Agreement on Investment (CAI), which commission president and former German defense minister Ursula von der Leyen described as an “important landmark in our relationship with China and for our values-based trade agenda.”<sup>7</sup>

German Chancellor Angela Merkel views the agreement as the capstone of her tenure in office, and the culmination of her Chinese engagement strategy. Germany, which held the rotating EU presidency for the latter half of 2020, is heavily reliant on trade with China, especially for key domestic industries like automobiles.<sup>8</sup> For China, the agreement was an opportunity to further interweave the EU and Chinese economies, as well as a chance to open a gulf between the U.S. and Europe, just as Europe was slowly drifting away from China. President Xi Jinping’s personal intervention granting the EU new concessions shows the geopolitical importance that Beijing places on the agreement.

If approved by the EU Council and EU Parliament, the CAI will be a deeply flawed approach to the threat from China and will significantly hamper future transatlantic cooperation. The CAI is, frankly, a kick in the teeth to the Biden Administration. While the U.S. and EU share many concerns about China, the EU’s conclusion of negotiations on the eve of a new U.S. Administration was meant to constrain the U.S.’s maneuverability and influence by presenting the Biden team with a *fait accompli*.

Chinese commitments like those in the CAI have in the past proven to be of dubious value. The European Commission negotiated an agreement for increased EU business access to Chinese markets, but it ignored China’s continued human rights abuses, and trumpeted China’s vague and unenforceable commitments to clamp down on forced labor. Key Chinese industries, in particular its tech sector, will benefit from increased EU investment. U.S. export bans on Chinese chip manufacturers have fueled China’s ambitions to expand its domestic technological capabilities and capacity.<sup>9</sup> China’s efforts have centered on intellectual espionage—for instance, the expansive Chinese hacking of Taiwanese chip manufacturers<sup>10</sup>—while it has sought to lure eager European semiconductor and equipment manufacturers into supplying crucial components to China’s burgeoning domestic industry.<sup>11</sup>

If approved and implemented, the CAI will further tie the economies of the EU to China, undermine transatlantic security, and blunt U.S. efforts to

form a united transatlantic front against China. The security of European supply chains will decrease yet again, while China will gain greater political and economic influence in Europe in exchange for concessions that are either limited or will never be implemented. The EU Commission's negotiation of the CAI is also troubling because it both resembles and highlights the EU's desire—in particular, Germany's desire—to prioritize trade over security and human rights in the cases of Iran and even Russia. The EU regularly proclaims its desire to conduct a values-based foreign and trade policy, but in practice, the U.S. is far more willing than the EU to sacrifice its trade and financial interests for the sake of broader security and values considerations.

It is essential that the U.S. and Europe work together to address the challenge of China. The U.S. should seek to convince the EU to reject the CAI. The U.S. must also seek to find common ground on China with Brussels and Europe by, for example, consistently calling out Chinese human rights abuses and the wider geopolitical support it gives to autocratic regimes. At the same time, the U.S. should work with European nations to bolster their woefully inadequate investment screening mechanisms and to secure vital telecommunications networks.<sup>12</sup>

## **5. Continuing to Rely on the Three Seas Initiative as a Cornerstone of Engagement**

Launched in 2016, the Three Seas Initiative (3SI) aims to improve trade, infrastructure, energy, and political cooperation among the 12 nations bordering the Adriatic Sea, the Baltic Sea, and the Black Sea. A strong, prosperous, and secure Eastern Europe is in the interest of the United States: If appropriately funded and given adequate political support, the 3SI can buttress the strength of Eastern Europe.

The 3SI allows the U.S. to strengthen transatlantic business, energy, and geopolitical ties to the region, while counterbalancing Chinese and Russian efforts to make regional inroads. The U.S. should therefore continue its bipartisan efforts to support the 3SI.<sup>13</sup>

The Biden Administration should keep the U.S. pledge to match Three Seas Initiative Investment Fund contributions up to \$1 billion and encourage every 3SI member to contribute to the fund, including lobbying wealthy non-members, such as Germany and the U.K., to make similar, matching contributions to those of the U.S.

The U.S. should also consider support of the 3SI by using the Better Utilization of Investments Leading to Development (BUILD) Act of 2018 to

allow U.S. funding for 3SI projects that advance U.S. economic, security, and geopolitical interests. Finally, the U.S. should push for the expansion of the 3SI Initiative, which currently includes only EU member states.

## Conclusion

This year is full of both opportunities and risks for U.S. policy in Europe. In December, the EU Commission published its “new EU–US agenda for global change.” The agenda barely mentions the challenges of China and Russia.<sup>14</sup> It contains instead a multitude of asks on priority issues where the EU is keen for U.S. involvement, yet falls short on offers to meet the U.S. halfway on issues where American strategic interests desire greater European cooperation. Disappointingly, the agenda is filled with ill-conceived multilateral agreements that do little to help the transatlantic community address the biggest problems of the day. The U.S. and Europe should focus their efforts on concrete areas of mutual interest, with a particular focus on the five key policy areas outlined here.

If U.S. policymakers work to bring about successful outcomes in these key areas in 2021, they will place U.S. policy toward Europe on a course that will advance U.S. interests in the region. These interests center—now as in the past—on a long-standing U.S. mission to promote security and prosperity in Europe, so that the U.S. and Europe can provide a united democratic cornerstone for the world.

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