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The Three Seas Initiative Is a Strategic Investment that Deserves the Biden Administration's Support

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KEY TAKEAWAYS

The Three Seas Initiative (3SI) helps the U.S. to strengthen ties to Central and Eastern Europe, while counterbalancing Chinese and Russian efforts in the region.

If nations in Central and Eastern Europe—already reliant on Russian energy—cannot get American, or British, or German investments, they will also turn to China.

The Administration and Congress should maintain U.S. funding pledges for the 3SI, encourage continued contributions, and promote the idea of non–EU state membership.

Launched in 2016, the Three Seas Initiative (3SI) is a valuable project for strengthening trade, infrastructure, energy, and political cooperation among countries bordering the Adriatic Sea, the Baltic Sea, and the Black Sea. A strong, prosperous, and secure Eastern Europe is in America's interest, and the 3SI plays an important role in making this happen.

The 3SI has received strong bipartisan support in the U.S. since its inception, and despite the ongoing COVID-19 pandemic, the initiative has continued to gain momentum over the past year. In 2021, the Biden Administration and Congress should continue to feature the 3SI as a central component of U.S. policy in Europe. The initiative is a force multiplier that bolsters security in Europe and strengthens transatlantic trade ties by marrying private capital with some of the most dynamic and growing economies in Europe, while also helping to stymie Chinese and Russian efforts to make inroads in the region.

The U.S. should double down on supporting the 3SI while encouraging allies with large economies and outsized geopolitical influence, such as Germany and the United Kingdom, to support it in a similarly robust manner.

The Need for, and Opportunities of, the 3SI

The territory located between the Baltic, Black, and Adriatic Seas is strategically important. The 12 countries in the 3SI (Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) account for 28 percent of European Union territory and 25 percent of its population, but only 13.4 percent of its gross domestic product (GDP).[1]

A vestige of the Cold War means that most infrastructure in the region runs east to west, blocking greater regional interconnectedness. In fact, the International Monetary Fund (IMF) "reports that the Three Seas region faces an overall infrastructure gap in excess of €500 billion ($598 billion)."[2] Travel in the region for instance can take an estimated two to four times longer than in the rest of the EU.[3] Developing north–south interconnections, pipelines, roads, rails, and electrical grids will spur economic growth, prosperity, and security. This north–south corridor in Eastern Europe could one day become the economic backbone of Europe.

Already the countries forming the 3SI contain much of Europe's economic dynamism. Indeed, "[b]efore the coronavirus pandemic struck, they enjoyed the highest economic growth in the EU, approaching 3.5% compared to the bloc average of 2.1%."[4] One recent report, compiled pre-pandemic, predicts an average GDP growth rate in the Three Seas Region of 2.4 percent through 2030.[5] Even taking into account the deleterious impact of the pandemic on the economies of the region, the growth rate of 3SI nations will likely continue to outpace that of the rest of Europe.

While funds sent from Brussels have helped to develop infrastructure in the region, this infrastructure development has focused primarily on connecting Central and Eastern Europe with Western European nations, rather than on pursuing interconnections within the region.[6] At the October 2020 3SI Summit in Tallinn, Estonian President Kersti Kaljulaid, who hosted the meeting, reiterated that the initiative does not compete with the EU.[7] Rather, as a recent IMF report noted, the 3SI helps fill a glaring gap: "The Three Seas Initiative specifically aims to augment the existing resources from these EU initiatives by mobilizing more private capital to improve regional infrastructure, energy security, and connectivity between its members."[8]

The Three Seas Investment Fund

The Three Seas Investment Fund is a market-driven investment vehicle created in June 2019 by the Gospodarstwa Krajowego Bank in Poland and the Romanian Export-Import Bank. The fund operates under Luxembourg law on a commercial basis,[9] and has an independent investment committee.[10] The fund invests in projects in 3SI member states that fall into one of three pillars: (1) digital infrastructure, (2) energy, or (3) transport. Investment decisions are made "based on the project's convergence criterion with the Fund's strategy, estimates of the expected rate of return and costs and benefits."[11]

In 2018, the 3SI agreed to 48 priority projects. On December 11, 2020, the investment fund announced its first investment, acquiring Cargounit, the largest private locomotive-leasing company in Central and Eastern Europe.[12] Later that month, the investment fund announced its second investment, in Greenergy Data Centers OÜ (Greenergy), which plans to build a series of data centers in the region.[13]

In February 2020, former U.S. Secretary of State Mike Pompeo announced that the U.S. would invest up to $1 billion[14] in the fund to finance energy projects via the U.S. International Development Finance Corporation.[15] The U.S. pledge is to match 30 percent of 3SI combined contributions up to $1 billion.[16] The U.S. announced a $300 million initial investment in the fund at the recent October 3SI Summit.[17] Contributions to the fund currently stand at 1.25 billion euros ($1.45 billion), with contributions from nine 3SI member states along with the U.S. contribution. The U.K.-based international firm Amber Infrastructure Group has also contributed 10 million euros (about $12.2 million) to the Three Seas Initiative Investment Fund.

Financing the fund could be a more difficult decision for some nations in light of the financial pain brought on by the COVID-19 pandemic. The U.S., however, should remind allies that the investments in the initiative will continue to pay economic and geopolitical dividends long after the pandemic has passed.

The U.S. should also encourage allies, such as France, Germany, and the U.K., to pledge similar matching contributions. The economic and political impact of this support would help to power the 3SI's continued forward

TABLE 1

Three Seas Investment Fund Contributions

Group/Country	Amount	
Amber Infrastructure Group (U.K.)	€10 million[a]	
Bulgaria	€20 million[b]	
Croatia	€20 million[c]	
Estonia	€20 million[d]	
Hungary	€20 million[e]	
Latvia	€20 million[f]	
Lithuania	€20 million[g]	
Poland	€750 million[h]	
Romania	€100 million[i]	
Slovenia	€23 million[j]	
United States	€247 million	($300 million)[k]
Total Contributions	**€1.25 billion**	**($1.45 billion)**

SOURCES:

a Nikola Đorđević, "Three Seas Initiative Investment Fund Gets US Boost," *Emerging Europe*, https://emerging-europe.com/news/three-seas-initiative-investment-fund-gets-us-boost/ (accessed January 28, 2021).

b Three Seas Initiative, "Bulgarian Development Bank Commits to the Three Seas Initiative Investment Fund," https://3seas.eu/media/news/bulgarian-development-bank-commits-to-the-three-seas-initiative-investment-fund (accessed January 28, 2021).

c "Croatia Remains Committed to Three Seas Initiative," *CroatiaWeek*, https://www.croatiaweek.com/croatia-remains-committed-to-three-seas-initiative/ (accessed January 28, 2021).

d Three Seas Initiative, "Estonia Joined the Three Seas Initiative Investment Fund," https://3seas.eu/media/news/estonia-joined-the-three-seas-initiative-investment-fund (accessed January 28, 2021).

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f Three Seas Initiative, "Latvia to Join Three Seas Initiative Investment Fund," https://3seas.eu/media/news/latvia-to-join-three-seas-initiative-investment-fund (accessed January 28, 2021).

g Craig Turp-Balazs, "Is US about to Finance a Motorway Linking the Baltic and Black Seas?" *LRT English*, October 20, 2020, https://www.lrt.lt/en/news-in-english/19/1257559/is-us-about-to-finance-a-motorway-linking-the-baltic-and-black-seas (accessed January 28, 2021).

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i Andrei Chirileasa, "Three Seas Initiative Investment Fund to Gather EUR 1 Bln by End of Year," *Romania-Insider.com*, October 23, 2020, https://www.romania-insider.com/three-seas-initiative-fund-contributions (accessed January 28, 2021). Note: While Romania's budget allocated €100 million for the Three Seas Investment Fund, the amount on the final contribution remains opaque.

j "Three Seas' Investment Fund to Narrow Infrastructure Gap," *STA*, November 6, 2020, https://english.sta.si/2828514/three-seas-investment-fund-to-narrow-infrastructure-gap (accessed January 28, 2021).

k Three Seas Initiative, "$300 Million for the Three Seas Fund by DFC," https://3seas.eu/media/news/usd300-million-for-the-three-seas-fund-by-dfc (accessed January 28, 2021). Note: The U.S. has committed to a potential investment of $1 billion (€824 million) in matching contributions.

momentum. In particular, as the new Administration reaches out to Germany, the 3SI should factor as a top agenda item. Germany has extensive economic ties to the 3SI nations. According to the Observatory of Economic Complexity, in 2018 Germany was the largest export and import partner for Austria, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovenia, and Slovakia. Germany is the second-largest export partner for Croatia after Italy, and its largest import partner. Germany is also a significant trade partner for all Baltic States.

Strategic Implications of the Three Seas Initiative

The 3SI allows the U.S. to strengthen transatlantic business, energy, and geopolitical ties to Central and Eastern Europe, while counterbalancing Chinese and Russian efforts to make regional inroads. The three pillars of the 3SI projects address the areas where the region is most vulnerable to China (digital and transportation) and Russia (energy).

China launched the 16+1 Initiative (now 17+1) in 2012 as an effort to build inroads to countries in Eastern and Central Europe. Every 3SI member with the exception of Austria is also a member of the 17+1.[18] In the past nine years, 17+1 has lost steam and thus far failed to achieve the impact for which China had hoped. For instance, Chinese investment in Eastern Europe remains relatively small. In 2019, Eastern European nations accounted for only 6.6 percent of all Chinese investments in Europe.[19]

However, China remains ambitious, looking to make long-term investments in the region, especially in critical sectors, to garner economic, diplomatic, and political influence. The U.S. must remain keenly aware of China's ambitions and of the importance of American investment. If nations in Central and Eastern Europe cannot get American, British, or German investments, they will turn to China.

The nations involved in the 3SI are largely dependent on Russian energy, and the threat from Russia, especially in the realm of cyberattacks, influence operations, and propaganda, is real. The 3SI will help these nations to resist Russian pressure, while also developing greater interconnections between the nations themselves, and providing an opportunity to build strengthened transatlantic business, energy, and geopolitical ties with the United States. Furthermore, projects completed under the auspices of the 3SI may have the additional benefit of supporting enhanced military mobility for North Atlantic Treaty Organization troops and U.S. troops.[20]

The 3SI Advances U.S. National Interests

The Trump Administration's support for the 3SI was invaluable to helping the nascent initiative launch. The new Biden Administration should not be hasty in discarding the valuable momentum that the 3SI has accrued. The 3SI serves U.S. national interests, and President Joe Biden and Congress should seek continuity with an initiative that strengthens the transatlantic alliance, pushes back against near-peer competitors, and which has enjoyed bipartisan support in Congress. Therefore, the Biden Administration and Congress should:

- **Keep the U.S. pledge of $1 billion for the Three Seas Investment Fund.** The U.S. pledge to match contributions to the Three Seas Investment Fund up to $1 billion is a positive, concrete example of U.S. support for the 3SI that should be kept and potentially increased.

- **Encourage continued contributions to the Three Seas Investment Fund.** To date, nine of 12 3SI members have contributed to the fund. The U.S. should encourage every member to contribute, while also encouraging wealthy non-members, such as France, Germany, and the U.K., to make similar matching contributions to the U.S.

- **Consider opportunities to fund 3SI projects that advance America's interests.** The U.S. should consider using the Better Utilization of Investments Leading to Development (BUILD) Act of 2018 to allow American funding for 3SI projects that advance U.S. economic, security, and geopolitical interests.

- **Promote the idea of non-EU states joining the 3SI.** Currently, the 3SI only includes EU member states. This serves as an artificial constraint to regional cooperation, since so many countries, for instance much of the Western Balkans, are not EU members. Chinese investments have often focused on those nations that are not fully ensconced in the transatlantic community. Broadening the scope of the 3SI will help to steel vulnerable nations against undue influence from China.

Conclusion

The Three Seas Initiative helps the U.S. to build strengthened transatlantic business, energy, and geopolitical ties to Central and Eastern Europe, while also counterbalancing Chinese and Russian efforts to forge inroads to the region. Bipartisan U.S. support for the 3SI, which encompasses a strategic, long-term outlook and brings along Western European nations as strategic partners, is smart policy that will pay dividends for decades to come.

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Endnotes

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