

SPECIAL REPORT

No. 230 | MAY 8, 2020

The U.S.–European Economic Partnership Recovery Plan

James Jay Carafano, PhD, Luke Coffey, Nile Gardiner, PhD,
Ambassador Terry Miller, Klon Kitchen, Ted R. Bromund, PhD, and Daniel Kochis

The U.S.–European Economic Partnership Recovery Plan

James Jay Carafano, PhD, Luke Coffey, Nile Gardiner, PhD, Ambassador Terry Miller, Klon Kitchen, Ted R. Bromund, PhD, and Daniel Kochis

SPECIAL REPORT

No. 230 | MAY 8, 2020

KATHRYN AND SHELBY CULLOM DAVIS INSTITUTE FOR NATIONAL SECURITY AND FOREIGN POLICY

About the Authors

James Jay Carafano, PhD, is Vice President of, and E. W. Richardson Fellow in, the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.

Luke Coffey is Director of the Douglas and Sarah Allison Center for Foreign Policy, of the Davis Institute.

Nile Gardiner, PhD, is Director of, and Bernard and Barbara Lomas Fellow in, the Margaret Thatcher Center for Freedom, of the Davis Institute.

Ambassador Terry Miller is Director of, and Mark A. Kolokotronis Fellow in, the Center for International Trade and Economics, of the Davis Institute.

Klon Kitchen is Senior Research Fellow for Technology, National Security, and Science Policy in Allison Center.

Ted R. Bromund, PhD, is Senior Research Fellow in Anglo-American Relations in the Thatcher Center.

Daniel Kochis is Senior Policy Analyst in European Affairs in the Thatcher Center.

This paper, in its entirety, can be found at <http://report.heritage.org/sr230>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The U.S.–European Economic Partnership Recovery Plan

James Jay Carafano, PhD, Luke Coffey, Nile Gardiner, PhD, Ambassador Terry Miller, Klon Kitchen, Ted R. Bromund, PhD, and Daniel Kochis

Europe is being devastated by the coronavirus pandemic, and the economic situation in the United States is not much better. The U.S. and Europe need each other more than ever in order to pull each other out of the post-COVID-19 economic crisis. This Special Report has identified seven areas of potential transatlantic community cooperation between the U.S. and Europe: (1) economic freedom, (2) a U.S.–EU Free Trade Agreement, (3) a U.S.–U.K. Free Trade Agreement, (4) the Three Seas Initiative, (5) the Visa Waiver Program, (6) Europe’s energy security, and (7) Europe’s approach to China 5G technology. Cooperation on these seven areas offers a realistic and meaningful approach for Americans and Europeans to help each other.

Europe has been devastated by the ongoing coronavirus pandemic. At the time of this writing, more than 1.6 million cases of COVID-19 have been reported across the continent. Countries from Italy and Spain in Europe’s south to Denmark and Sweden in Europe’s north have been hit hard. The British prime minister was admitted into the intensive care unit after testing positive for the virus and subsequently released from hospital. Cases are starting to increase in the Balkans and Eastern Europe where medical infrastructure is not as advanced as in Western Europe. Iceland has one of the highest caseloads in the world on a per capita basis. Even Greenland, with its small and remote population, had 11 cases.

The International Monetary Fund (IMF) has warned that the world faces its worst recession since the Great Depression of the 1930s. The pandemic’s economic impact on Europe will be severe. The IMF’s Spring 2020 economic forecast predicts the eurozone’s economy shrinking by 7.5 percent.¹ Emerging markets and developing economies in Europe could see their economies shrink by 5.2 percent.² Countries in Southern Europe were already suffering from high levels of unemployment dating back to the eurozone crisis ongoing in some form or another since 2009. The United

Kingdom's Office for Budget Responsibility said that the British economy could shrink by a third during the ongoing lockdown. After enjoying historic low levels of unemployment, the U.K. could see its rate rise to 10 percent.³

The economic situation on this side of the Atlantic is not much better. Put plainly, the U.S. and Europe need each other more than ever in order to pull each other out of the post-COVID-19 economic crisis. This *Special Report* has identified seven areas of potential transatlantic community cooperation between the U.S. and Europe: (1) promoting and adhering to the principles of economic freedom, (2) agreeing a U.S.-EU Free Trade Agreement, (3) advancing a U.S.-U.K. Free Trade Agreement, (4) keeping the momentum going for the Three Seas Initiative (3SI), (5) expanding the Visa Waiver Program (VWP), (6) supporting measures that improve Europe's energy security, and (7) shifting Europe's approach to China and fifth-generation (5G) technology.

While these measures taken individually will only have a limited impact on the economic health of the transatlantic community, taken together they offer a realistic and meaningful approach for Americans and Europeans to help each other.

Europe Matters

A secure, stable, and prosperous Europe benefits the United States. Some of America's oldest and closest allies are in Europe. The U.S. shares with this region a strong commitment to democracy, free markets, human rights, and the rule of law. Many of these ideas, the foundations on which America was built, were brought over by the millions of immigrants from Europe in the 17th century, 18th century, and 19th century. During the course of the 20th century, millions of Americans fought for a free and secure Europe.

A stable, secure, and economically viable Europe is in America's economic interest. For more than 70 years, the North Atlantic Treaty Organization (NATO) and the U.S. military presence in Europe have contributed to European stability, which has economically benefited both Europeans and Americans. The economies of Europe, along with that of the United States, account for approximately half of the global economy. The U.S. and Europe are each other's principal trading partners. The U.S. and Europe are each other's top source of foreign direct investment. All of this brings untold benefits to the U.S. economy and, by extension, the American worker.

Through thick and thin, the transatlantic community has stuck together in times of crisis. Be it the Berlin airlift, the duration of the Cold War, or the aftermath of 9/11, the transatlantic community is stronger when it sticks together. The global pandemic facing both continents is no exception.

1. Promoting Economic Freedom

Over the past 30 years, the countries of Europe have turned away, dramatically so, from the collectivist philosophies of socialism and communism and embraced a variety of free-market policies that have led to widespread, and widely shared, prosperity throughout the region.

The economic fundamentals underpinning that prosperity remain strong. The average gross domestic product (GDP) per capita of Europe exceeds that of any other region, and inflation is generally under control. Countries that are members of the European Union enjoy the advantages of a continent-wide free trade area and are under pressure to exercise at least a modicum of fiscal discipline. Throughout the continent, there is a strong cultural aversion to corruption, and Europeans in general enjoy high standards of freedom and human rights.

All of this is reflected in the *Index of Economic Freedom*, whose 26th edition was released by The Heritage Foundation in March 2020. Over half of the world's 37 "free," or "mostly free," countries, as determined by the *Index*, are in Europe. The extensive and long-established free-market institutions in a number of European countries allow the region to score far above the world average in most measures of economic freedom. Europe is at least 10 points ahead (on the *Index*'s zero-to-100-point scale) of global averages in important characteristics, such as judicial effectiveness, trade freedom, and financial freedom, and almost 20 points higher in fiscal health. The region's average scores on property rights, government integrity, and investment freedom in 2020 exceed world averages by more than 15 points.

The region boasts two of the world's six truly "free" economies (Switzerland and Ireland) and only two (Greece and Ukraine) with economies that are rated "mostly unfree." Remarkably, the scores of 39 of the 45 countries graded in the European region in the *2020 Index* improved from 2019 to 2020. That is a trend that needs to be re-established and reinforced if economic recovery is to take hold. As has been long demonstrated in the *Index*, countries with greater economic freedom have higher incomes, better health care, cleaner environments, and much greater resistance to poverty. Countries with improving economic freedom also tend to grow faster.

In recent years, Europe has struggled with a variety of policy barriers to vigorous economic expansion, such as overly protective and costly labor regulations, high tax burdens, various market-distorting subsidies, and continuing problems in public finance caused by years of public-sector expansion. The continent has long been plagued by high unemployment rates and heavy levels of public debt. All of these negatives have been exacerbated by the coronavirus crisis.

Even before the crisis, many of the large economies in Europe that were built on a quasi-market welfare state model were looking for ways to improve their competitiveness. In the aftermath of government-imposed health lockdowns, the imperative for innovation and growth has never been greater. Small fast-growing countries, such as Switzerland and Ireland, and emerging Eastern European countries like Estonia and Georgia, provide great examples of the benefits of economic freedom in promoting sustainable, broad-based growth.

While some have commented on what they term the growing authoritarianism in some European countries, political developments are beyond the scope of this *Special Report*. What is clear, however, is the need to avoid any permanent turn toward economic authoritarianism in economic recovery efforts. This means that measures restricting or regulating economic activity that have been imposed during the health crisis must be relaxed as soon as possible. By contrast, those regulations or trade restrictions that have been relaxed during the crisis in order to speed the distribution of needed supplies, should be eliminated permanently. In order to do so, the transatlantic community must:

- **Remove extraordinary assistance or stimulus programs as quickly as possible.** While they may be essential during a lockdown, they have significant and negative distortionary incentives for individual and firm behavior.
- **Restore trade and investment flows.** This can be done by immediately removing any barriers put in place during the crisis and taking additional steps to reduce pre-existing tariffs and other barriers. Lowering barriers increases the size of potential markets and provides maximum opportunity for innovation and entrepreneurship.
- **Eliminate any crisis-related subsidies to businesses.** These subsidies engage the government in a process of picking economic winners and losers and are prone to corruption. If economic systems evolve to some sort of new normal following the crisis, subsidies will interfere with firms' adjustments to new market realities.
- **Restore fiscal discipline and avoid tax increases.** A healthy fiscal balance is an important element in effective governance, and governments with large deficits and debt loads have less ability to respond effectively in a crisis. While restoring government spending to

pre-crisis levels is an immediate goal, governments should go further and look for opportunities to reduce legacy spending and subsidy programs that interfere with the normal evolution of production processes in response to market forces. Such cuts can provide fiscal space for the continuation of any tax cuts or tax holidays enacted during the crisis, enabling greater private-sector investment or re-investment to speed the recovery process.

2. Getting U.S.–EU Trade Right

In 2016, United States–European Union negotiations for the Transatlantic Trade and Investment Partnership (TTIP) collapsed. TTIP would have been the world’s largest bilateral trade initiative. It would not, however, have been a free trade agreement. Instead, TTIP was an ambitious effort to manage trade. It also attracted widespread opposition in Europe, and, to a lesser extent, in the United States. As a result, apart from becoming a source of animosity, TTIP negotiations achieved nothing.

The idea of liberalizing trade between the U.S. and the EU should be a transatlantic priority. The Trump Administration is already committed to negotiating a trade agreement with the EU. The U.S. and the EU should be leading the way for free trade and should aim to abolish tariffs and non-tariff barriers that diminish the freedom to trade. An agreement that genuinely promotes free trade between the U.S. and the EU would benefit not just the economies of the two parties, but of the world. In the wake of the COVID-19 pandemic and its associated economic shocks, the U.S. and the EU must learn from the failed TTIP negotiations and strive for a principled agreement that increases market-based competition. It should be negotiated rapidly, and not fall into the trap of pursuing overly broad objectives that fail, thereby giving rise to further animosity.

The TTIP negotiations have two lessons for future U.S.–EU trade negotiations. First, a correct decision on the scale of the negotiations needs to be made at the start. TTIP began as an effort to reach a comprehensive agreement, but it eventually became apparent that it was not possible to reach such an agreement. Second, negotiations should be concluded as rapidly as possible, while upholding U.S. principles. The longer the TTIP negotiations dragged on, the stronger the opposition to any agreement became, in part because the U.S. wrongly accepted regulatory harmonization. In short, the U.S. should prefer a principled agreement that can be negotiated rapidly to a comprehensive agreement like TTIP that will take so much time to finish it might never be concluded at all. If that means that the best viable agreement

is one that merely eliminates tariffs and quotas in U.S.–EU trade, then that is the agreement the U.S. should seek to negotiate.

The ultimate goal of any U.S.–EU trade agreement should be to increase the amount of market-based competition in the transatlantic market. A trade agreement that does not increase competition is not worthy of the description “free trade.” If the U.S. and the EU can agree on this, there is a basis for a robust U.S.–EU trade agreement that will boost a U.S.–European economic recovery in the wake of the most devastating global pandemic in more than a hundred years. In order to get the best trade deal possible, the transatlantic community must:

- **Refuse to fight protectionism with protectionism.** It is clear that the U.S. has significant causes for complaint about EU protectionism, just as the EU does about U.S. protectionism. The wrong way for the U.S. to fight the EU’s protectionism is to engage in more protectionism of its own. The right way to fight EU protectionism is to negotiate agreements with the EU that uphold U.S. interests, and then to use agreed-upon dispute mechanisms to enforce those agreements.
- **Avoid regulatory harmonization.** Between advanced economies, such as the U.S. and the EU, the most significant restrictions on trade are not tariffs and quotas, but differing regulations and other non-tariff barriers to trade. The U.S. must resolutely oppose any agreement with the EU that is based on the principle of harmonizing these regulations. Any negotiations on regulations between the U.S. and the EU must be based on the principle of mutual recognition, which leaves each party free to regulate as it sees fit, provided that its regulations seek to achieve similar purposes.
- **Promote market-based competition.** The ultimate goal of any U.S.–EU trade agreement should be to increase the amount of competition in the transatlantic market. The U.S. should promote competition in the marketplace of public policy, just as it should in the market for goods and services.

3. Advancing a U.S.–U.K. Free Trade Agreement

One of the most important freedoms the U.K. lost when it entered the European Union’s predecessor in 1973 was the ability to control its own trade policy. By exiting the EU, the U.K. recovered this freedom. The importance

of this event for the U.K. and the world cannot be underestimated. The U.K. has the world's fifth-largest economy. It is a once-in-a-lifetime event for a democratic, free-market economy of this scale to enter the world's trading system as an independent actor. The U.S. has the opportunity to use this event not just to negotiate a free trade area with the U.K., but to set a new course for free trade agreements between democratic nations.

It is vital that, in its forthcoming negotiations on a trade agreement with the EU, the U.K. retain the ability to diverge from the EU's rules. If it does not, the U.K.'s freedom to negotiate its own trade agreements will be illusory, as the U.K. will, for practical purposes, be locked into the EU's trade zone. The ultimate goal of any trade agreement should be to increase the amount of market-based competition in the markets it covers, not to reduce competition by harmonizing rules.

Undoubtedly, Britain's most important partner is the United States. Both Britain and the U.S. have wisely signaled their enthusiasm for an ambitious free trade deal to be completed in 2020. In the ongoing COVID-19 crisis, it is all the more urgent that the U.S. and Britain act rapidly to negotiate a free trade agreement, both to help their own economies recover from the effects of the crisis, and to give a lead to the worldwide cause of free trade.

A wide-ranging U.S.–U.K. free trade area would offer an alternative to the EU's restrictionist rules, which have done so much damage to the EU's economic growth, and which the EU seeks to spread around the world. In negotiating a free trade area with the U.K., U.S. policymakers should remember the basis of post-1945 U.S. trade policy: The purpose of free trade is to promote growth and thereby to contribute to the stability of democratic politics. U.S. policymakers should work as closely with the U.K. as possible and recognize that the British and American experiments in self-government are now linked in freedom once again. A free trade area between the U.S. and the U.K. would be a vital contribution to grounding that freedom in policies that would help restore prosperity.

A U.S.–U.K. free trade area should:

- **Eliminate tariffs and quotas on visible trade.** The most obvious restrictions on trade between the U.S. and the U.K. are the tariffs and quotas that each nation imposes on imports from the other. These forms of protectionism impose costs on consumers in both nations, and consumers would directly benefit from their elimination. Tariffs on trade between the U.S. and the U.K. are generally low, but there is no justification for not eliminating these restrictions completely.

- **Promote visa liberalization.** Because the barriers to free trade are not limited to those on goods and services, the U.S. has a history of negotiating agreements that make it easier for foreign businesspeople and investors to take up residence in the U.S. and thereby promote U.S. exports to their home countries or foreign investment in the U.S. The U.S. and the U.K. should complement their liberalization of trade with a reciprocal liberalization of nonimmigrant visas to strengthen their educational and business connections.
- **Develop new approaches to trade in emerging areas.** In the coming years, trade in emerging areas, such as digital trade, will become increasingly important to the U.S. and the U.K. The COVID-19 pandemic, with the impetus it has given to online work, will only accelerate this trend. The U.S. and the U.K. should fully incorporate the digital trade in services into their free trade agreement, using this opportunity to set the precedent that online trade should be treated no less favorably than visible trade.
- **Develop systems of mutual recognition of standards in high-value areas.** Differing regulations and other non-tariff barriers pose significant obstacles to trade between the U.S. and the U.K. The EU seeks to address this problem by harmonizing regulations, which increases regulatory burdens and reduces the ability of nations to regulate effectively. Especially in high-value areas, such as pharmaceuticals, the U.S. and the U.K. should instead work toward the mutual recognition of each other's standards.

4. Focus on the Three Seas Initiative

Estonia's 3SI Summit, originally planned for June 2020, has been postponed to October due to the global pandemic. The 3SI offers an excellent opportunity for the U.S. and its European partners to boost investment for critical infrastructure in Central and Eastern Europe in the post-COVID-19 era.

Launched in 2016 to facilitate the development of energy and infrastructure ties among 12 nations in Eastern, Central, and Southern Europe, the 3SI aims to strengthen trade, infrastructure, energy, and political cooperation among countries bordering the Adriatic Sea, the Baltic Sea, and the Black Sea.

The territory located between the Baltic, Black, and Adriatic Seas is strategically important. The 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 22 percent of its population, but only for 10 percent of its GDP.

As a vestige of the Cold War, most infrastructure in the region runs east to west, stymieing greater regional interconnectedness. 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 backbone of Europe.

Of course, there is always the issue of funding. To encourage private-sector interest and investment, Poland, Romania, and Estonia have committed some €620 million (\$683 million) to the Three Seas Investment Fund, which was created last year. Hungary is also expected to commit to invest in the fund. While there is an expectation that other Three Seas countries will invest, there is also a hope that public investors, such as the European Bank for Reconstruction and Development or private investors in Asia and the Middle East, will take an interest, too. The plan is for private-sector managers to run the fund on purely commercial terms, driven by two principal goals: investment in regional infrastructure projects and returning a profit.

The Trump Administration has been a strong backer of the 3SI. In 2017, President Donald Trump became the first U.S. President to attend a 3SI meeting. As noted by President Trump at the time, “The Three Seas Initiative will not only empower your people to prosper, but it will ensure that your nations remain sovereign, secure, and free from foreign coercion.”⁴ At the recent Munich Security Conference, Secretary of State Mike Pompeo announced an American commitment of \$1 billion in matching funds to the Three Seas Investment Fund.⁵

There is a precedent for such an investment. This would mirror the successful enterprise funds that the United States created in Central and Eastern Europe in the 1990s to stimulate private business in the region’s newly emerging market economies. The early enterprise funds reflected U.S. confidence in Central Europe and were hugely successful. Washington invested some \$1.1 billion into those funds, which were managed by commercial managers who operated without political interference, making purely market-based investment decisions.

When the funds were closed a decade or so later, they had not only leveraged another \$6 billion to \$8 billion in private-sector capital into enterprise investments, they returned \$1.7 billion to the U.S. Treasury—a healthy profit.

The nations involved in 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.

China is a new entrant into the region, launching the 16+1 Initiative seeking to build inroads with 16 countries (including every western Balkan nation except Kosovo) in Eastern and Central Europe in 2012. In the past seven years, 16+1 has lost some steam and has not yet achieved the impact that China had hoped. For instance, Chinese investment in Eastern Europe, the Czech Republic, Austria, Bulgaria, Hungary, Poland, Romania, and Slovakia remains relatively small, only accounting for 1.5 percent of Chinese investments in the EU in 2018.⁶ In the post-COVID-19 era, there will be more skepticism than ever before of China. The 3SI provides a positive alternative to this Chinese initiative.

The upcoming year will likely prove a pivotal moment for 3SI—either with tangible outcomes starting to magnify, or with the initiative fading away as a missed opportunity due to a lack of political will. The 3SI will allow the U.S. to build strengthened transatlantic business, energy, and geopolitical ties to the region, while also counterbalancing Chinese and Russian efforts to forge regional inroads. The U.S. should work with Estonia, which is hosting the 2020 summit, to ensure that an important inflection point for 3SI is not missed.

History shows that a stable Eastern Europe means a stable Europe as a whole. This is why the 3SI is so important to the U.S. As the U.S. engages with the 3SI, it should:

- **Commit immediately to sending a senior U.S. delegation led by a Cabinet Secretary to the 3SI Summit in October.** Postponing the 3SI Summit to October was necessary but comes with the risk of the project losing momentum. An October summit is also tricky for the U.S. election cycle. However, if the U.S. government commits now to sending a senior-level delegation to the summit, other countries will follow suit.
- **Keep the U.S. pledge made at the 2020 Munich Security Conference regarding matching U.S. funds.** The U.S. commitment of \$1 billion in matching funds for the Three Seas Investment Fund shows that the U.S. is serious about stability and security in Europe. It is also an example of much-needed leadership in the transatlantic community. The Administration should continue thinking strategically and keep this commitment in the post-COVID-19 era as long as the 3SI continues to advance U.S. economic, security, and geo-political interests.

- **Not write off Chinese influence in the region due to COVID-19.** Even though trust in China is sinking to low levels, Beijing will remain 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 the importance of American investment. If nations in Central and Eastern Europe cannot get American, or British, or German investment, they will increasingly turn to China.
- **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, such as Ukraine, Georgia, Turkey, and much of the Western Balkans, are not EU members. China investments have often focused on those nations that are not fully ensconced within the transatlantic community. Broadening the scope of the 3SI will help to steel vulnerable nations against undue influence from China.
- **Take a sophisticated approach to U.S. engagement with the 3SI.** U.S. policymakers should refrain from seeing the 3SI as a monolithic grouping. While the countries of the 3SI share many of the same goals, the U.S. should not forget that these are 12 individual sovereign nation-states. The U.S. should bear this in mind as it develops its policies toward the region.

5. The Visa Waiver Program

The VWP is an important vehicle for advancing security and strengthening ties with allies, and as such U.S. policymakers should consider ways of extending it to worthy allies. The VWP allows citizens of 39 nations to travel to the United States for up to 90 days visa-free.⁷ In exchange, U.S. citizens receive similar visa-free travel to VWP nations. Citizens from VWP nations must complete an application through the Electronic System for Travel Authorization (ESTA), similar in concept to an e-visa. ESTA travel authorization is similar to the vetting process for a visa, but does not include an interview at a U.S. consulate, making it significantly less time-consuming.⁸

The VWP smooths business travel and tourism between foreign countries and the U.S. and further strengthens the transatlantic bond. More important, the VWP pays security dividends, as countries in the program

TABLE 1

Adjusted Refusal Rates for Non-VWP European NATO Allies

Country	Refusal rate
Albania	41.5%
Bulgaria	9.8%
Croatia	4.0%
Montenegro	39.1%
North Macedonia	36.2%
Romania	9.1%
Turkey	19.2%

NOTES: Figures are for FY 2019, and for B visas only.

SOURCE: U.S. Department of State, “Nonimmigrant Visa Statistics,” <https://travel.state.gov/content/travel/en/legal/visa-law0/visa-statistics/nonimmigrant-visa-statistics.html> (accessed April 22, 2020).

SR230  heritage.org

share information on serious criminals, terrorists, and lost and stolen passports with the U.S. Furthermore, “The VWP also helps to ensure that passport-control practices are secure. It requires that countries in the program issue secure, machine-readable biometric e-passports (physical passports with a microchip) to its citizens.”⁹

The VWP is an important tool to improve security on both sides of the Atlantic, which has the added benefit of strengthening U.S. bonds with crucial allies. On November 11, 2019, as Poland joined the VWP, then-Acting Secretary of Homeland Security Kevin McAleenan stated, “The inclusion of Poland into the Visa Waiver Program is a testament to the special relationship that exists between our two countries, and the ongoing friendship and close cooperation on our joint security priorities.”¹⁰

Many NATO member states already take part in the VWP, and the addition of Poland to the program is an important step in strengthening transatlantic relations. However, some allies in Eastern Europe who would like to join have been unable to due to visa-refusal rates—the number of applicants to whom the U.S. denies a visa—above 3 percent.

With the VWP providing such a great benefit to the U.S., policymakers should look for ways to judiciously expand the program. One avenue for exploration is to change less-helpful admissions criteria, like the visa-refusal rate, in favor of the visa-overstay rate, which is a better indicator of general overstay risk.

TABLE 2

Overstay Rates for non-VWP European NATO Allies, FY 2018

Country	B1/B2 Total Overstay Rate	Nonimmigrant Student and Exchange Visitors Total Overstay Rate	Total Overstay Rate for All Other In-Scope Classes of Admission
Albania	4.0%	7.5%	11.8%
Bulgaria	1.0%	3.9%	2.6%
Croatia	0.5%	2.6%	3.3%
Montenegro	6.9%	6.8%	3.0%
North Macedonia	1.8%	9.7%	7.9%
Romania	1.1%	4.4%	4.1%
Turkey	1.9%	4.4%	2.4%

SOURCE: U.S. Department of Homeland Security, "Fiscal Year 2018 Entry/Exit Overstay Report," https://www.dhs.gov/sites/default/files/publications/cbp_-_fiscal_year_2018_entry_exit_overstay_report.pdf (accessed April 22, 2020).

SR230  heritage.org

Another potential criterion could be extending the VWP to NATO allies that meet the benchmarks of spending 2 percent of GDP on defense, and 20 percent of defense spending on new equipment. In 2019, Bulgaria and Romania met both benchmarks; Bulgaria spent 3.25 percent on defense, and of that, 59 percent went to equipment, the second-highest percentage for overall spending and highest for equipment spending in the Alliance, while Romania spent 2.04 percent and 25.7 percent, respectively.¹¹

The VWP advances U.S. diplomatic, economic, and security interests. It is unfortunate that some important U.S. allies remain outside the program. Therefore, the U.S. should consider alternative admissions criteria for worthy partners, such as:

- **Adding an alternative eligibility requirement for low visa-overstay rates.** Congress should allow the Secretary of Homeland Security to raise the 3 percent refusal rate to 10 percent if a country has a low visa-overstay rate.
- **Including allies that meet NATO defense-spending benchmarks.** Similarly, Congress should evaluate alternative eligibility, such as NATO member defense spending.

6. Europe's Energy Security

The transatlantic community benefits whenever Europe reduces its dependence on Russian oil and gas. This is particularly important at a time when the transatlantic community is trying to plan how to return to sound economic footing in the post-COVID-19 era.

Europe depends on Russian natural gas for 40 percent of its needs. In total, almost 200 billion cubic meters of natural gas is now imported from Russia annually due to declining European production and rising demand.¹² Russia has a track record of using energy as a tool of aggression, and each barrel of oil and cubic meter of gas that Europe can buy elsewhere makes NATO more secure.

The Caspian Sea lies at the heart of an important, if often-overlooked region. Located on the very periphery of the transatlantic region, the Caspian's great energy resources could play a significant role in helping Europe to loosen its dependence on Russia for oil and gas.

It is strategically important for Europe to access as much oil and gas from the region that bypasses Russia as possible. Europe already imports oil and gas from the Caspian, primarily from Azerbaijan, but it desperately needs oil and gas from Central Asia, too. To this end, the U.S. and Europe need to support oil-transportation and gas-transportation initiatives that connect the eastern shore of the Caspian with the western shore of the Caspian, while bypassing both Russia and Iran.

In addition to the existing network of oil and gas pipelines connecting Azerbaijan on the Caspian Sea to Southern Europe while bypassing Russia, in June 2018 construction finished on the Trans-Anatolian Natural Gas Pipeline, further linking Azerbaijan to Turkey. This pipeline will then link with the Trans Adriatic Pipeline, which will run from the Turkish-Greek border to Italy via Albania and the Adriatic Sea, when it is completed in 2020.¹³

These new gas pipelines, in addition to the existing South Caucasus Pipeline, are known as the Southern Gas Corridor. Once fully operational, the Southern Gas Corridor will be a network of pipelines running 2,100 miles across seven countries, supplying 60 billion cubic meters of natural gas to Europe.¹⁴ There is also talk of finally building a Trans-Caspian Pipeline to bring natural gas from Central Asia to Europe bypassing Russia.

In early 2019, Turkmenistan unexpectedly stopped transporting oil to Azerbaijan¹⁵ for further transport in the global market via the Baku-Tbilisi-Kara (BTC) pipeline, deciding instead to send its oil to the Russian port of Makhachkala—and then on to Russia's Black Sea port of Novorossiysk to

access the global market. Ashgabat's motives are unclear, but it is reasonable to assume that this change was a result of pressure from Moscow.

Kazakhstan has been transporting its oil to Europe via Novorossiysk through the Caspian Pipeline Consortium (CPC) pipeline. However, since Kazakhstan's Kashagan field is increasing production, it is likely that the CPC alone will not be able to handle this extra volume.¹⁶ Since the BTC pipeline currently has spare capacity, and because it bypasses Russia, using the BTC pipeline in addition to the CPC makes sense for Kazakhstan and should be encouraged by the U.S.

A pipeline is the only economically viable way to move natural gas across the Caspian Sea. This means that right now there is no profitable way to get Central Asia's gas to Europe without going through Russia or Iran. This is why the transatlantic community should back the idea of creating a Trans-Caspian Pipeline to deliver natural gas from the eastern shore of the Caspian to the western shore. While a fully fledged pipeline should be the long-term goal, in the short term, the transatlantic community should encourage Azerbaijan and Turkmenistan to construct an interconnector between two existing gas fields in the Caspian. This would serve as a proof of concept while being far cheaper than a full pipeline from coast to coast.

On the other end of the spectrum is the Nord Stream II pipeline project that would connect Germany directly with Russia. This project is neither economically necessary, nor is it geopolitically prudent. Rather, it is a political project let by German financial interests and Russian geopolitical machinations to greatly increase European dependence on Russian gas, magnify Russia's ability to use its European energy dominance as a political trump card, and specifically undermine U.S. allies in Eastern and Central Europe.

In order to increase European energy security, the transatlantic partners should:

- **Offer more political support to non-Russian energy projects.**

Every drop of oil and gas that Europe does not import from Russia makes the Alliance more secure. During the reflection period, and at every other opportunity (such as summit and ministerial declarations) the Alliance should offer political support for the construction of the Trans-Caspian Gas Pipeline and the Southern Gas Corridor. As Europe seeks alternatives to Russian gas, the Southern Gas Corridor and completion of a Trans-Caspian Pipeline will play important roles.

- **Encourage regional countries whenever possible to use pipelines and infrastructure that bypass Russia to get oil and gas to global markets.** The BTC pipeline, and the soon-to-be operational Southern Gas Corridor, both have capacity that needs to be filled. Instead of using Russian pipelines to get oil and gas to global markets, the U.S. should strongly encourage Turkmenistan and Kazakhstan to seek non-Russian oil and gas transport options. In addition to not relying on Russia to transport fuel, using the BTC pipeline and the Southern Gas Corridor offers more opportunities to integrate regional energy transportation.
- **Raise awareness of the dangers of Nord Stream II.** The U.S. should express opposition, and link the pipeline to NATO collective defense, which it would greatly undermine. A U.S. focus on stopping Nord Stream II may give other member states concerned about the project political cover to express their own concerns and opposition.

7. Securing 5G Technology and Future Prosperity

The efficacy of these proposals will be blunted, if not negated, if Europe does not secure what will functionally be the central nervous system of the new economy—fifth-generation (5G) wireless technology. It simply will not work to have the transatlantic partnership striving to re-assert its economic prosperity and reinforce national security only to have those efforts undercut by the predatory government in China.

China's intentions are clear: Unless it is prevented from doing so, Beijing will use the deployment of equipment, software, and services from Chinese state-controlled companies to compromise European telecommunications networks—networks that carry significant volumes of domestic military and NATO data. Furthermore, the Chinese government will use its influence over the international standards for these technologies as a primary tactic in this plan.

To that end, the Chinese government is implementing a concerted strategy of civil–military fusion through the sale and deployment of 5G telecommunications systems that enables Chinese companies with state support to siphon, store, and exploit data transmitted on these systems, and leverages these same companies as extensions of the government's intelligence and national security apparatus.

This threat demands a response. The transatlantic partners must not allow Chinese state-controlled companies to gain any significant position within their 5G networks. China has:

- Expedited the two-decades-old effort to meld its private and defense communities, with Chinese president Xi Jinping explaining in early 2018 that “[i]mplementing the strategy of military–civilian integration is a prerequisite for building integrated national strategies and strategic capabilities and for realizing the Party’s goal of building a strong military in the new era.”¹⁷
- Used Chinese telecommunications companies, such as Huawei, as the prototype of this civilian–military fusion, where the company is not only heavily subsidized by the Chinese government, but it is also broadly accused of espionage by national security leaders in the United States, Australia, Japan, and New Zealand.¹⁸
- Employed aggressive national security laws. All Chinese companies are legally required to “support, assist, and cooperate with national intelligence efforts,”¹⁹ and government intelligence agencies are legally allowed to forcibly gain access to any server or data stored within the nation’s borders. This means that, regardless of a company’s active complicity in spying, the only safe assumption is that any information collected by Chinese companies and held on Chinese servers will be exploited by the Chinese government.²⁰

To address this challenge, the transatlantic partners should take the following three actions:

- **Establish a transatlantic 5G consortium.** The United States should work with its European partners to create a consortium of governments and industries aimed at rapidly developing alternatives to China’s 5G offerings. Among other things, this group should develop strategies for mutually supporting core 5G technologies within the transatlantic alliance, securing existing and future telecommunications networks against hostile foreign governments, and diversifying supply-chain dependence on China.
- **Block untrusted companies.** Transatlantic partners should mutually support one another in blocking any companies that have a history

of producing hardware or software with known vulnerabilities or supporting hostile governments. This would be especially helpful in mitigating the challenge of Chinese investment in, and purchase of, U.S. and European start-ups that might embrace poor security practices in return for rapid access to capital.

- **Build a coalition to confront China’s “military–civilian integration.”** More broadly, the transatlantic partners should create dedicated mechanisms within NATO and other cooperative organizations to investigate, understand, confront, and constrain the Chinese Communist Party’s use of Chinese companies as extensions of Beijing’s intelligence enterprise. Additionally, these mechanisms should inform partner efforts to build alternative technology offerings, supply chains, and common security strategies.

Conclusion

The impact of COVID-19 on the world has been far-reaching and hugely damaging to every major economy. The global pandemic has been the most widespread and hard-hitting in more than a century. It must not, however, weaken or undermine the transatlantic alliance, which is at the very heart of the free world. The United States and its European allies must remain steadfast in their determination to ensure that the transatlantic partnership that has existed for 75 years grows even stronger in the aftermath of this crisis.

The U.S.–European economic recovery plan described in this *Special Report* will ensure that Washington and European capitals work effectively together to lay the foundations for renewed economic growth, job creation, and enhanced transatlantic security in the aftermath of the biggest global crisis since World War II. This recovery must be based on the principles of economic freedom and free trade, combined with a determination and commitment to strengthening the NATO Alliance and Three Seas Initiative, and standing up to those—including Russia and China—who threaten the West.

The enemies of the free world will seek to use the COVID-19 pandemic to divide the United States from its allies, sow division and disinformation, and exert greater influence. They must not be allowed to do so. This is a key moment for the transatlantic community to stand strong and steadfast, and to look forward to a new era of cooperation.

Endnotes

1. Paul Wise and Martin Crutsinger, "IMF: Global Economy Will Suffer Worst Year Since Depression," Associated Press, April 14, 2020, <https://apnews.com/8f170d4aae2073c692d0fa40da6abcf4> (accessed April 17, 2020).
2. Ibid.
3. U.K. Office for Budget Responsibility, "Coronavirus Reference Scenario," April 14, 2020, <https://obr.uk/coronavirus-reference-scenario/> (accessed April 17, 2020).
4. Madeline Farber, "Read Donald Trump's Remarks at the Three Seas Initiative Summit in Poland," *Time*, July 6, 2017, <https://time.com/4846780/read-donald-trump-speech-warsaw-poland-transcript/> (accessed April 14, 2020).
5. Tal Axelrod, "Pompeo Pledges \$1 Billion in US Support for European Energy Initiative," *The Hill*, February 15, 2020, <https://thehill.com/homenews/administration/483227-pompeo-pledges-1-billion-in-us-support-for-european-energy> (accessed April 16, 2020).
6. Thilo Hanemann, Mikko Huotari, and Agatha Kratz, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies," Rhodium Group and the Mercator Institute for China Studies, March 2019, <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe-2018> (accessed April 14, 2020).
7. U.S. Department of Homeland Security, "Visa Waiver Program," March 2, 2020, <https://www.cbp.gov/travel/international-visitors/visa-waiver-program> (accessed April 16, 2020).
8. David Inserra and Daniel Kochis, "The Importance of Allies and an Improved Visa Waiver Program," Heritage Foundation *Issue Brief* No. 4964, May 31, 2019, <https://www.heritage.org/sites/default/files/2019-07/IB4964.pdf>.
9. Ibid.
10. Nicholas Sakelaridis, "Poland Joins U.S. Visa Waiver Program after Decades of Campaigning," UPI, November 11, 2019, https://www.upi.com/Top_News/US/2019/11/11/Poland-joins-US-visa-waiver-program-after-decades-of-campaigning/2491573490711/ (accessed April 16, 2020).
11. News release, "Defence Expenditure of NATO Countries (2013–2019)," North Atlantic Treaty Organization, November 29, 2019, p. 3, https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2019_11/20191129_pr-2019-123-en.pdf (accessed April 17, 2020).
12. Luke Coffey and Efgan Nifti, "Why the West Needs Azerbaijan," *Foreign Policy*, May 28, 2018, <https://foreignpolicy.com/2018/05/28/why-the-west-needs-azerbaijan/> (accessed April 13, 2020).
13. Aynur Karimova, "SOCAR Fiber to Lay 800-km Cable Along TANAP," AzerNews, September 7, 2015, http://www.azernews.az/oil_and_gas/87611.html (accessed June 7, 2019).
14. Nasimi Aghayev, "The Western Flow of Caspian Natural Gas," *The Washington Times*, August 26, 2015, <http://www.washingtontimes.com/news/2015/aug/26/nasimi-aghayev-caspian-natural-gas/> (accessed June 7, 2019).
15. Olga Yagova and Gleb Gorodyankin, "Oil Exports from Ceyhan Poised to Fall Due to Turkmen Diversion," Reuters, January 25, 2019, <https://uk.reuters.com/article/uk-oil-russia-turkmenistan/oil-exports-from-ceyhan-poised-to-fall-on-turkmen-flows-diversion-sources-idUKKCNIPJ0ZX> (accessed March 16, 2020).
16. "Kazakhstan's Kashagan Oil Field Seen Reaching 500,000 b/d from 335,000 b/d Now: Eni," *Hellenic Shipping News*, February 6, 2018, <https://www.hellenicshippingnews.com/kazakhstans-kashagan-oil-field-seen-reaching-500000-b-d-from-335000-b-d-now-eni/> (accessed March 16, 2020).
17. Zhou Xin, "Xi Calls for Deepened Military-Civil Integration," Xinhua, March 12, 2013, http://www.xinhuanet.com/english/2018-03/12/c_137034168_2.htm (accessed April 8, 2018).
18. News release, "Chinese Telecommunications Device Manufacturer and Its U.S. Affiliate Indicted for Theft of Trade Secrets, Wire Fraud, and Obstruction of Justice," U.S. Department of Justice, January 28, 2019, <https://www.justice.gov/opa/pr/chinese-telecommunications-device-manufacturer-and-its-us-affiliate-indicted-theft-trade> (accessed April 7, 2019).
19. China Law Translate, "National Intelligence Law of the P.R.C.," June 27, 2017, <https://www.chinalawtranslate.com/en/%E4%B8%AD%E5%8D%8E%E4%BA%BA%E6%B0%91%E5%85%B1%E5%92%8C%E5%9B%BD%E5%9B%BD%E5%AE%B6%E6%83%85%E6%8A%A5%E6%B3%95/> (accessed April 7, 2019).
20. Catalin Cimpanu, "China's Cybersecurity Law Update Lets State Agencies 'Pen-Test' Local Companies," ZDNet, February 9, 2019, <https://www.zdnet.com/article/chinas-cybersecurity-law-update-lets-state-agencies-pen-test-local-companies/> (accessed April 7, 2019).



214 Massachusetts Ave., NE | Washington, DC 20002
(202) 546-4400 | heritage.org