

December 2020

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## What the new geopolitics means for Europe

By Charles Grant



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Donald Trump's four years in power, COVID-19 and China's seemingly inexorable rise have all shaken the geopolitical kaleidoscope – in ways that challenge the West and the liberal values it espouses. But can Joe Biden's election and new efforts to integrate Europe revitalise the liberal, democratic model? This essay examines 12 geopolitical trends that will affect Europe.

1. The damage caused to America's standing by Trump's erratic behaviour and his mismanagement of the pandemic will persist for many years. Nevertheless Biden will improve the US's image by not being Trump and by taking allies and international institutions seriously.
2. Every global crisis appears to strengthen China's self-confidence. But its increasingly assertive foreign policy will produce a hostile reaction: democracies will club together in organisations that exclude China.
3. The worse the geostrategic rivalry between China and the US, the harder it will be for Europe to navigate between them. It will remain strategically aligned with the US, but be reluctant to forego close economic ties to China.
4. Russia and Turkey will continue to slide away from the West. Without Trump's sympathy for Vladimir Putin and Recep Tayyip Erdoğan, their countries' relations with the US are set to worsen. Neither of those leaders is seeking to rebuild bridges to the US or the EU.
5. Trump's defeat has not killed Trumpism, in either the US or Europe. Right-wing populists will draw strength from a resurgence of global migration, concerns that measures to tackle climate change will make people poorer and the worsening inequalities bequeathed by the pandemic.
6. Britain will take several years to recover from Brexit and a worse-than-average COVID-19 experience. It will be in permanent negotiation with the EU to improve the quality of their initially thin relationship. Yet if the country can overcome its Brexit culture wars, it has the potential to develop a successful global brand.
7. In many respects, globalisation will not go into reverse. Some governments, keen to ensure security of supply for key products and commodities, will emphasise the need to 'on-shore' supply chains. But many companies, wishing to keep down costs and access cutting-edge technology, will continue to invest overseas and manage international supply chains.

8. COVID-19 has increased the wealth and power of Big Tech. Both European and American regulators will take steps to constrain tech giants from abusing their monopolistic positions – but since the firms concerned are mostly American, the European moves will provoke transatlantic tensions.

9. The EU is likely to integrate further in the area of economic governance, where the creation of the recovery fund marks a step change. But efforts to harmonise the way the member-states handle asylum-seekers and irregular migrants are proving divisive. And the chances of more integrated foreign policies look bleak, at least in the near future.

10. The rift between the majority of member-states and some of the Central Europeans will persist. Many West European governments and the European Commission are increasingly frustrated by the lack of respect for the rule of law in Poland, Hungary and sometimes other countries. The recent row over the Polish-Hungarian veto of the EU budget reflects deeper cultural divides, for example over attitudes to immigration and modern liberal values.

11. France and Germany will dominate the EU even more than usual, but for the next few years, with Germany distracted by Angela Merkel's departure, France is likely to be pre-eminent. Italy and Spain will be held back by their economic problems and Poland by its rows with other member-states. The Netherlands is becoming a more influential country.

12. European leaders will talk a lot about 'strategic autonomy', the idea that the EU should be able to do and say what it wants, without being constrained by other powers – not only in defence but also in areas like technology and energy. President Emmanuel Macron may succeed in persuading his fellow EU leaders to take the concept seriously, so long as he can convince Central Europeans and Germans that it is not designed to loosen the transatlantic bond.

In order to make their liberal, democratic model more appealing, both the US and the EU should start by sorting out their internal problems. The US needs to overcome its culture wars and return to being a predictable and principled country. The EU needs to bring together its east and its west, without betraying its values. It must come up with a better system for handling immigrants – and a more effective neighbourhood policy. It should not be beyond the wit of Biden and European leaders to make the Western model more appealing than Chinese authoritarianism.

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A few weeks after the 9/11 terrorist attacks, Tony Blair gave one of the most powerful speeches of his career to the Labour Party's annual conference. "The kaleidoscope has been shaken, the pieces are in flux, soon they will settle again," he said. "Before they do, let us reorder this world around us." That shake of the kaleidoscope led to wars in Afghanistan and Iraq, with profound geopolitical consequences. The kaleidoscope was further shaken by the financial crisis of 2008-10. Now the global order is once again being stirred, as a consequence of four years of President Donald Trump and the COVID-19 pandemic.

This double whammy – like the earlier shake-ups – is strengthening an increasingly self-confident China but creating profound problems for the US and Europe. The liberal democratic values they espouse, and their role in international institutions, are being challenged. Can

the arrival of Joe Biden as US president, and renewed momentum for European integration, restore the self-confidence of the Western democracies? This essay looks at 12 geopolitical trends that will matter for Europe.

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## 1) The US's reputation will take time to recover from the damage inflicted by Trump, but Biden will breathe new life into multilateralism.

Trump had his friends overseas – such as fellow strongmen Jair Bolsonaro, Narendra Modi and Benjamin Netanyahu. And he had a soft spot for dictatorial leaders like Vladimir Putin, Viktor Orbán, Mohammed

bin Salman, Recep Tayyip Erdoğan and Kim Jong-un. Overall, however, Trump's four years as president have greatly weakened America's standing in the world. Most of its democratic allies found his antics – the incessant

tweets and lies, the unpredictability and narcissism, the disdain for allies and international organisations, the America-first rhetoric and the policies that sometimes veered towards racism – contemptible. America’s image has suffered further from Republican leaders giving Trump their unalloyed support – and continuing to do so, even after he had clearly lost the election – and from a majority of Republican voters believing that Biden cheated his way to victory. The US can no longer claim to be a shining beacon for democracy.

Meanwhile America’s handling of the COVID-19 pandemic has been as bad as that of any developed country: about 13 million cases and 300,000 dead. All over the Western world, failure to contain COVID-19 has led to poor economic performance, and the US is no exception. Having grown respectably during Trump’s first three years, the US economy is on course to shrink by nearly 4 per cent in 2020 – though the economies of the UK and France are due to perform more than twice as badly.

The arrival of the more predictable Biden, who respects allies and takes multilateral institutions seriously, will improve the US’s image, at least in the more democratic parts of the world. But given that the Republicans are likely to remain both Trumpian and in control of the

Senate, Biden’s ability to push through new legislation may be constrained.

Most of Biden’s priorities will lie at home – with fighting COVID-19, reviving the economy and trying to heal social divisions – where he will be in constant conflict and/or negotiation with Republican leaders. But Biden will have a relatively free hand in foreign policy, except where his policies require money or treaties in order to succeed. As one analyst puts it, “his presidency may be the [US foreign policy] establishment’s last best chance to demonstrate that liberal internationalism is a superior strategy to populist nationalism”.<sup>1</sup> Biden will care much more than Trump about human rights and working with friendly nations. He will take international institutions very seriously, including the World Health Organisation (which the US will rejoin), the World Trade Organisation (which he will try to reform), NATO (which he will support unequivocally) and the EU (with which he will seek a constructive relationship).

With Biden, the US will return to the Paris climate agreement and play a big role in the COP-26 climate conference. But the Senate is likely to try and prevent him from taking many of the practical steps required to tackle climate change, such as pushing ahead with the Democrats’ proposed Green New Deal.

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## 2) Every global crisis appears to strengthen China’s self-confidence. But its increasingly assertive foreign policy will produce a hostile reaction.

Despite its embarrassing cover-up of the early phases of the pandemic in Wuhan, overall China has performed relatively well during the coronavirus crisis. In the early months it won plaudits in countries such as Italy for supplying medical equipment. China seems to have suppressed the virus, achieving, on official figures, a strikingly low death rate (fewer than 5,000 dead out of a 1.4 billion population). That medical success helps to explain China’s impressive economic performance – with growth of about 2 per cent expected in 2020 and 8 per cent in 2021. In November 2020, Chinese exports were 21 per cent higher than the same period a year earlier, leading to a record monthly trade surplus of \$75 billion.

*“China’s many admirers can argue that its authoritarian system of government delivers better outcomes than Western democracy.”*

As happened during the financial crisis, China’s many admirers, notably in developing countries, can argue that its authoritarian system of government delivers better outcomes than Western democracy. China’s leaders, and

as far as one can tell, many of its citizens, are convinced of that point.

This success appears to have reinforced Xi Jinping’s self-confidence and his emphasis on the importance of one-party rule, the need to combat Western ideology and the necessity of his own personal leadership. China’s strong performance makes it hard for cadres to oppose the centralisation of power in Xi’s own hands. In the coming years both a build-up of debt and an ageing population are likely to moderate China’s rate of economic growth. Nevertheless China will remain politically stable for the foreseeable future, and – in relative terms – economically successful.

In the 21<sup>st</sup> century China has learned to play the multilateral game. Its citizens hold key jobs in numerous international bodies, such as the World Bank and the International Monetary Fund. Four of the UN’s 15 specialised agencies are run by Chinese nationals: the Food and Agriculture Organisation, the International Telecommunication Union, the United Nations Industrial Development Organisation and the International Civil Aviation Organisation. This is the result of patient

<sup>1</sup>: Thomas Wright, ‘The fraught politics facing Biden’s foreign policy’, *The Atlantic*, November 22<sup>nd</sup> 2020.

diplomacy and the calling in of favours from countries that have received Chinese largesse, for example, in the Belt and Road Initiative.

In its efforts to show that it is a good global citizen, Beijing will probably sign up to ambitious long-term carbon-reduction targets. But it may talk the talk on climate change without walking the walk, at least in the short to medium term: it is likely to push ahead with its plans for the mass building of coal-fired power stations, including in other countries. China's influence in international institutions is likely to continue growing. But its behaviour as a member of bodies such as the UN Human Rights Council (where its term came to an end in 2019) has undermined their credibility in the eyes of many democracies.

*“Chinese leaders appear not to worry that public opinion in Western democracies is swinging towards negative views of their country.”*

Some Western countries will put a lot of effort into building up alternative formats that do not include China, such as the G7, the Comprehensive and Progressive agreement for Trans-Pacific Partnership (a trade pact of 11 mostly-democratic Pacific nations that the US and the UK may join) or the D10, a putative democratic club that British ministers like to talk about (the G7 plus South Korea, India and Australia). There is talk of establishing new bodies to set standards for the internet, data flows and artificial intelligence, with only democracies being invited to join. Biden has said that he wants to convene a ‘summit of democracies’. But there are inevitably limits to how far one can go with such organisations. Who decides which countries qualify? Democracies often have widely diverging interests and in any case issues such as climate, trade and pandemics cannot be handled without China around the table.

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### 3) The economic and strategic rivalry between the US and China will dominate geopolitics – and pose problems for the EU.

China will welcome the greater predictability of Biden but may regret the departure of a president who did so much to damage Western cohesion. Trump adopted a much tougher approach to China than his predecessors, particularly on trade. Biden will keep much of that, since there is almost a national consensus in the US in favour of confronting Chinese power. He will drop Trump's crude language and put a bit less emphasis on trade wars and tariffs, but he will be more critical of China on human rights. Biden is likely to continue Trump's efforts to curtail China's acquisition of advanced technologies, particularly those with relevance to defence or security.

2: Chaguan column, 'The downside of bullying', *The Economist*, December 5<sup>th</sup> 2020.

Over the past few years China has become increasingly strident in its dealings with countries such as Japan, Vietnam, Australia, Canada and India, and much tougher in its approach to Hong Kong and Taiwan. Its relative success in tackling COVID-19 is likely to enhance its assertiveness. China appears unworried that it has poor relations with many neighbours, the exceptions including Russia (though there are plenty of mutual suspicions in that relationship) and Pakistan. China's stridency will continue to worry its neighbours and ensure that the 'Quad', a grouping of the US, Japan, India and Australia that already organises joint naval exercises, evolves into a more overtly anti-China bloc.

It is not only at the level of high politics that China's domineering behaviour is provoking an adverse reaction. Chinese leaders appear not to worry that public opinion in Western democracies is swinging towards negative views of their country. The arrest of democracy activists in Hong Kong, the mistreatment of the Uyghurs (a Muslim minority) and the repeated bullying of smaller countries that displease China (such as the imprisonment of two innocent Canadians because their country detained the daughter of Huawei's founder when the US charged her with fraud) have not helped China's reputation.

In the long run this will matter: voters' views may constrain governments when they decide whether to buy a sensitive Chinese technology, block an acquisition by a Chinese firm or approve a research project with a Chinese university. Similarly, the large multinationals that invest in China cannot ignore public opinion. As *The Economist* put it, "Western defensiveness will not stop China from rising, but it could alter China's trajectory, perhaps steering it towards dominance of only part of the world: a techno-authoritarian sphere in tension with a more liberal bloc."<sup>2</sup>

As Thomas Wright points out, one reason why Biden might take a relatively hard line is that "competition with China is the only way to persuade a Trumpian Republican Party of the benefits of international co-operation – whether through alliances... international institutions... or international law". That competition could also spur Republicans to accept domestic reforms that improve America's competitiveness.<sup>3</sup>

There will be periods of détente and periods of escalating tension, but the Chinese and US economies will slowly decouple, at least in the area of tech. Trump's decision to

3: Thomas Wright, 'The fraught politics facing Biden's foreign policy', *The Atlantic*, November 22<sup>nd</sup> 2020.

ban the supply of high-value microprocessors to China has incentivised its leadership to accelerate plans to develop a more self-sufficient economy. China has now adopted a policy of 'dual circulation', meaning that for many key technologies and industries it seeks freedom from foreign supply chains.

The worse the tension between the two superpowers, the harder it will be for Europe to navigate between them: though it will remain strategically aligned with the US, it will be reluctant to forego close economic ties to China. Biden, unlike Trump, will be willing to work with Europe on shared concerns about China, whether on human rights, the theft of intellectual property or the unfair use of state subsidies. But although both the US and the EU have hardened their line on China in recent years, they will sometimes find it difficult to concert their

efforts, since the US will nearly always be several notches tougher, and it will move more quickly. This is because the EU member-states disagree on how to handle China (with some opposing a hard line), and because the US and Europe have very different perspectives. The US is more strategic, seeing the rise of China as a threat per se, while the Europeans worry about China's conduct (whether on human rights or the ways the state helps businesses) more than its strength. Apart from France and the UK, few European countries have any defence interests in the Asia-Pacific region, or would be willing to join the US in naval operations that challenge China's claims in the South China Sea. Europe is more dependent on trade with China than is the US, and will always want to talk to it about global challenges such as climate and health, however unacceptable its behaviour.<sup>4</sup>

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#### 4) Russia and Turkey will continue to slide away from the West.

Russia will matter to its neighbours and to those Middle Eastern countries where it chooses to be active. It will sometimes use its seat on the UN Security Council to be disruptive. Its cyber-attacks will cause damage. And its disinformation campaigns will do their best to unsettle Western countries, for example by promoting anti-vaccine movements. But in most respects Russia will remain a declining power, with an ageing, shrinking population. Despite the best efforts of Emmanuel Macron and others, Vladimir Putin has chosen not to take the steps required to bring about a *rapprochement* with the West, such as making serious efforts to resolve the frozen conflict in south-east Ukraine.

*“With omnipresent gangsterism causing economic harm, living standards will erode slowly as Russia drifts into the Sinosphere.”*

Biden will relaunch nuclear arms control talks with Russia, but also put a greater emphasis than Trump on human rights, further diminishing Russia's chances of a new partnership with the West. That will leave Russia with little choice but to line up with China geopolitically. But Putin will also continue to work closely with Turkey's Erdoğan: although they support different sides in the Libyan and Syrian conflicts, they need each other against the West, and respect each other for being autocratic strongmen.

Russia will maintain the stable economic model that it has endured for the past 20 years: resource extraction financing consumption. Its leaders show no signs of

wanting to break the dependency on hydrocarbon exports, or the kleptocratic system that such an economy feeds. But with climate change policies eroding the value of its oil and gas reserves, and omnipresent gangsterism causing economic harm, living standards will erode slowly as Russia drifts into the Sinosphere.

Trump's sympathy for Erdoğan prevented a serious bust-up between the US and Turkey over human rights, the conflict in Syria and the purchase of Russian S-400 missiles. Biden will be more willing to put pressure on Turkey, though he will also try to keep it as an ally. The EU has a greater need than the US to co-operate with Turkey, since the country is hosting more than 3 million refugees, who could easily be nudged towards Europe.

Nevertheless EU leaders are increasingly fed up with Erdoğan's undemocratic behaviour at home and his aggressive foreign policy, particularly his confrontational attitude in the Eastern Mediterranean vis-à-vis Greece and Cyprus. Turkey's massive economic problems give Erdoğan every incentive to bolster his popularity through foreign adventures (such as the recent intervention in Nagorno-Karabakh). Despite slight hints of a more moderate line in late November 2020, when Erdoğan fired his finance minister – and son-in-law – Berat Albayrak, he is likely to remain broadly antagonistic towards the West. That is a trend that Putin may well encourage, for example by offering further sales of advanced arms. The EU is likely to unify around a tougher line on Turkey. If the Turkish opposition were to win power – which the dire state of the Turkish economy may facilitate – the EU and the US would move quickly to rebuild bridges.

4: Sophia Besch, Ian Bond and Leonard Schuette, 'Europe, the US and China: A love-hate triangle?', CER policy brief, September 2020.

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## 5) Trump's defeat has not killed Trumpism.

The Republican Party shows few signs of throwing off its infatuation with Trumpism. The right's majority in the Supreme Court and (probably) the Senate may prevent the party from thinking that it has experienced defeat and therefore needs to change. The inevitable mis-steps by the Biden administration will energise Trumpians, while 'RINOs' – the moderate right-wingers branded as Republicans In Name Only – will hesitate over returning to a party that has abandoned their values.

Right-wing populism will continue to rear its ugly head every now and then, in one country or another. In much of Europe its threat appeared to diminish in 2020, partly because COVID-19 reduced immigration. But when the pandemic eases, migration will re-emerge as an issue across the globe. Populists will also exploit hostility to lockdown measures, outbreaks of jihadist terrorism, and concerns that policies designed to tackle climate change will make poor people poorer and require lifestyles to change. Furthermore, populists will benefit from the

efforts of Russia and other countries to spread fake news through social media.

Nor should one forget that the economic drivers of populism will remain potent: workers who perceive that globalisation has cost them their jobs or driven down their wages, or who experience worsening public services (as a result of austerity), are more likely to vote for the likes of Nigel Farage, Marine Le Pen or Matteo Salvini. COVID-19 has created new inequalities of wealth and health. In November, Public Health England reported that rates of infection and mortality from COVID-19 had been highest among the poorest sections of English society. The following month the International Labour Organisation reported that in many European countries, those on the lowest incomes had suffered the greatest income reduction. At some point governments will withdraw their COVID-19-linked financial support and many firms will go bust, creating new groups of losers – who may become easy prey for populists.

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## 6) The UK will face several very difficult years.

Britain is heading for a period of low growth, compared to its peers, because of Brexit and the damage inflicted by a much worse-than-average experience of the coronavirus. In Europe, only Spain, Italy and Belgium have suffered higher death rates from COVID-19. Of the world's major economies, only Spain, Peru and Argentina are forecast to shrink by as much or more than the UK's 11 per cent in 2020. No developed country has a higher fiscal deficit than the UK's 18 per cent in 2020.

*“Those Brexiteers who hope for the UK to evolve into a deregulated ‘Singapore-on-Thames’ will be disappointed.”*

Economic problems, Brexit and the widely-held view that the government has handled COVID-19 incompetently will all put strains on the unity of the kingdom. The likely triumph of the nationalists in next May's elections in Scotland will make its independence a central issue in British politics. Meanwhile the sensitivities and technical complexities of managing a new frontier for goods traded between Great Britain and Northern Ireland may well create political ructions in Belfast, Dublin and London.

When the UK does finally strike a trade deal with the EU, it will be thin and economically injurious. Later, the British will search for ways of building a closer and more fruitful economic partnership. Like the Swiss, they will be engaged in permanent negotiations with the EU, decade after decade. Those Brexiteers who hope for the UK to evolve into a deregulated 'Singapore-on-Thames', with

a very different economic model from that of Europe, will be disappointed: there will be little political support, including within the Conservative Party, for such a future.

On foreign policy, defence and policing, too, the EU and the UK will start off with minimal links. But in time – encouraged by Biden – they will build bespoke structures for co-operation. The UK will often line up with the EU on questions of foreign policy, as part of a wider Europe. But sometimes it will follow the US. And it will seek partnerships with other medium-sized democracies, such as Australia, South Africa, Canada, Chile, Japan and South Korea. Turkey and Mexico could join that list, if they undergo political change.

The risk for Britain is that its Brexit culture wars persist, dragging the country back to being inward-looking – and making it unattractive to much of the rest of the world. So long as the Conservatives manage to moderate their nativist-nationalist tendencies, Britain can be an outward-facing country, whichever of the main parties is in power. Then the British brand can emphasise the importance of attracting the best talent from around the world, to nurture the country's scientific research base and universities. Britain can also focus on supporting the UN and other international bodies, leading global efforts to tackle climate change, pandemics and under-development, championing democracy and human rights, and promoting free trade and international law (though that last point is predicated on the UK avoiding further attempts to breach treaties, as it did with those parts of the Internal Market Bill that sought to over-ride the Withdrawal Agreement).

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## 7) In many respects, globalisation will not go into reverse.

Although world trade will probably decline by nearly 10 per cent in 2020, it is expected to rebound in 2021. Neither the partial decoupling of the US and China, nor the new Chinese emphasis on self-sufficiency, will shorten most international supply chains. US investments that would have gone to China are more likely to go to Vietnam or India than to create new jobs in America. In fact in many industries, such as cars, supply chains tend to be regional rather than global – electronics being an exception. Many companies wishing to keep down labour costs and to access cutting-edge technology will continue to invest overseas and manage international supply chains. The forced on-shoring of supply chains would raise prices for consumers.

In a few sectors, however, there is pressure to shorten supply chains. The pandemic made many governments keen to reduce dependence on foreign supplies of drugs and medical equipment. More common than the on-shoring of supply chains will be their diversification. The European Commission, for example, is concerned about Europe's dependence on China for the supply of key rare earths.

European politicians, particularly in France, are increasingly prone to talk about 'strategic autonomy' in areas such as data and technology. Some of them hope that 'data localisation' – ensuring that firms operating in Europe store data there, compliant with EU data privacy rules – will foster the emergence of European tech giants (others, and not only in the UK, fear that over-zealous rules on data privacy will hamper innovation).

The EU will increase its efforts to protect its companies from 'unfair' foreign takeovers (for example, by Chinese firms benefiting from large amounts of state aid), and tweak its merger rules to encourage the emergence of European champions. The UK's absence will help the EU to become somewhat more 'French' or protectionist. But there will be pushback from free-traders such as the Nordic and Baltic countries, and sometimes from Germany, whose manufacturing sector – though increasingly fearful of Chinese predators – depends on an open global trading system.

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## 8) The wealth and power of the tech giants, which COVID-19 has augmented, will be constrained.

The pandemic has made many of us more dependent on a small number of enormous digital companies, which have profited hugely. Since COVID-19 appeared, the market capitalisation of the five biggest companies has risen from about 10 per cent of the total value of the US stock market – the historical average – to about 20 per cent.<sup>5</sup>

*“Politicians throughout the developed world will find ways of regulating Big Tech more tightly, and making it pay more tax.”*

Politicians throughout the developed world, with the EU in the lead, will find ways of regulating Big Tech more tightly, and making it pay more tax. In November a report from the European Court of Auditors berated the European Commission for being too slow to move against Big Tech's anti-competitive practices. But the Commission is slowly learning how to flex its muscles. Its new Digital Markets Act will, among other things, seek to prevent dominant 'gatekeeper' companies from exploiting their position, for example by promoting their own services on their own platforms at the expense of competitors. It will also force companies to share data with smaller rivals.

And by laying down a list of things that companies should and should not do, the Digital Markets Act will allow the Commission to move more speedily against an offender, before it starts to harm consumers or competition.

Separately, the Commission's decision in November 2020 to open a new case against Amazon, for allegedly breaching EU competition rules, is indicative of the trend of European thinking. So is the British government's announcement in the same month that a new Digital Markets Unit, within the Competition and Markets Authority, will have the power to block or reverse decisions taken by tech giants, and to fine them, with a view to ensuring that smaller companies are not squashed.

Another important new EU law, the Digital Services Act, will set out how large platforms should be responsible for removing harmful content – such as fake news, incitements to criminal behaviour or offers of counterfeit goods – and will prove costly to them. Companies that breach the EU's two new laws face the prospect of massive fines, or even potentially of break-up.

The US appears to be following the EU in trying to limit the monopoly powers of these giants. The Justice Department and state prosecutors are investigating

<sup>5</sup>: Presentation by Thomas Philippon to the CER Ditchley economics conference, November 18<sup>th</sup> 2020.



Google for alleged anti-trust violations, and considering forcing it to sell its Chrome browser. The Federal Trade Commission and 46 states are preparing anti-trust suits against Facebook, with a view to making it unwind its acquisitions of WhatsApp and Instagram.

Nevertheless Europe's efforts to pursue tech giants are likely to create transatlantic tensions, since most of the companies concerned are American. The Commission's attempt to get these firms to pay more tax is a case in point: in September 2020 it said that unless the OECD agreed on an international framework for a digital services tax, it would propose an EU-wide regime. In November France said that it would press ahead with its

own digital tax without waiting for the OECD to come up with a plan – prompting the US to threaten to apply punitive tariffs to French exports.

It is not just Europeans and Americans who worry about the power of tech giants. Over the past decade China has blocked its people from using Google, Facebook, Twitter and Instagram. Then in November 2020 Chinese regulators stepped in to halt a \$37 billion initial public offering from Ant Group, an online micropayments firm controlled by Alibaba. The precise reasons are unclear, but the Communist Party seems to have become worried about the wealth and independence of Alibaba and its colourful boss, Jack Ma.<sup>6</sup>

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## 9) The EU will integrate further, at least where economic governance is concerned, but its efforts to create a common system for handling migration and to unify foreign policies will prove more problematic.

The first wave of the pandemic hit the EU asymmetrically, causing more casualties, longer lockdowns and greater economic damage in Southern Europe.<sup>7</sup> The situation in much of the south was worsened by dependence on the badly-affected tourism sector. This asymmetry exacerbated tensions that had never abated since the euro crisis emerged in 2010: southerners felt that they had had to swallow excessively painful medicine, while northerners refused to accept that a healthy eurozone requires more balanced growth, risk-sharing among its members and *in extremis* transfers to poorer countries. The migration crisis of 2015-16 had further inflamed north-south tensions since it affected Italy and Greece particularly badly.

*“The recovery fund is playing an important political role in diminishing north-south tensions within the EU.”*

Ever since becoming French president in 2017, Emmanuel Macron had tried to persuade Germany to agree to some sort of joint fiscal spending by the eurozone. Finally, in the summer of 2020, with some help from Commission President Ursula von der Leyen, Chancellor Angela Merkel agreed to a one-off €750 billion recovery fund for the entire EU. The money will be raised through issuing common EU bonds, backed by the EU budget, and spent on grants (€390 billion) and loans (€360 billion) to boost investment, mainly in poorer member-states in the south and east of the EU. The fund is playing an important political role in diminishing north-south tensions. If well managed, the recovery fund also promises to play a

significant economic role in helping the most ravaged member-states; and similar structures may be used again in future EU or eurozone crises.

A healthy eurozone needs further reforms, but some progress is being made, for example on the banking union. At the end of November 2020, EU ministers agreed to change the European Stability Mechanism (a fund that has been used for sovereign bail-outs) so that it can back up the Single Resolution Fund (which helps to restructure banks in trouble). Other reforms, such as the gradual introduction of an EU-wide system of bank deposit insurance, are also on the cards.

Elsewhere, future European integration looks more difficult. There is a strong case for the EU to construct a common system for the handling and processing of asylum-seekers and irregular migrants, rather than having them pile up in camps on the EU's southern borders, and the member-states treating them in different ways.<sup>8</sup> Indeed, without a viable framework for internal solidarity, countries on the EU's borders will find ways of repelling migrants – whether it is Greece pushing back boats or Italy striking deals with Libyan militias. A lack of progress will endanger both the Schengen area of passport-free travel, and the single market principle of free movement.

For more than five years the EU has been trying to revamp its so-called Dublin regime for dealing with asylum-seekers, and to decide upon a fair system for distributing refugees. But the talks are blocked, because of the refusal of some of the Central Europeans to accept quotas of refugees or to contribute financially, and the insistence of

6: Marietje Schaake, 'China's move on Ant makes the fight on Big Tech global', *Financial Times*, December 1<sup>st</sup> 2020.

7: Christian Odendahl and John Springford, 'Three ways COVID-19 will cause economic divergence in Europe', CER policy brief, May 2020.

8: Camino Mortera-Martinez and Luigi Scazzieri, 'The Commission's 'new migration pact': Handle with care', CER insight, October 26<sup>th</sup> 2020.

others, like Germany, that some sharing of responsibilities is essential. The Commission is currently suggesting that countries which object to taking refugees should be allowed instead to 'sponsor' returns – by organising return flights or persuading countries of origin to take back unsuccessful asylum-seekers.

*“If the Central Europeans refuse to join a common system for handling refugees they may find themselves excluded from Schengen.”*

However, both the member-states where the migrants arrive and those where they tend to end up (including Germany) are increasingly fed up with the Central Europeans' reluctance to share responsibility. If the latter keep spurning participation in a common system they may find themselves excluded from the Schengen area of borderless travel; the pandemic has already led to checks re-emerging on national borders within that area.<sup>9</sup> The case for the EU adopting common rules on the handling of migration is strong, and there is likely to be some progress in the coming years – but whether the 27 can stay together on this issue is an open question.

The prospects for significantly more effective EU foreign policies do not look good either. In too many parts of

the world, such as China, the Middle East and Russia, the member-states start from very different positions (though in the last of those cases, the 27 have been sufficiently united to maintain sanctions). And the bigger member-states are reluctant to see the EU institutions play a leading role.

Ursula von der Leyen has led calls for the introduction of majority voting on sanctions laws and statements on human rights (as did her predecessor as Commission president, Jean-Claude Juncker).<sup>10</sup> There is a clear logic to such a reform, so that, for example, Cyprus cannot repeat its veto of sanctions against Belarus, or Hungary its veto of criticism of China's human rights record. But a single member-state can block the introduction of majority voting on foreign policy, and there is a high probability that at least one national capital will wish to do so.

The best prospects for common foreign policies probably lie in the EU's neighbourhood: the Western Balkans, the lands that lie between Russia and Poland, the Levant, the Maghreb and the Sahel – where meddling by the likes of China, Russia and Turkey, the persistent problem of migratory flows and the risk of terrorism make effective EU action urgent. Furthermore, Biden will encourage the Europeans to take on greater responsibility for their own neighbourhood, so that the US can focus more on other parts of the world.

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## 10) The rift between most member-states and some of the Central Europeans will not heal any time soon.

In recent years, many member-states and the EU institutions have become increasingly concerned about the Polish and Hungarian governments' abuse of democratic principles – in areas such as independence of the judiciary and media freedom. Poland's de facto leader, Jaroslaw Kaczyński, and Hungary's prime minister, Viktor Orbán, have worked together to prevent the EU from applying the treaties' 'Article 7' procedure against their countries. This procedure could in theory lead to the imposition of penalties on a country "in serious and persistent breach...[of] EU values". But sanctions would require unanimity in the Council of Ministers (except for the accused country), which means that nothing has happened.

So the governments most concerned about the rule of law, and the Commission, have come up with a new approach to the problem. The EU recently adopted (by majority vote) a law that ties the money available in the new seven-year budget cycle and the recovery fund to

compliance with rule-of-law conditionality. This upset the Polish and Hungarian governments, which hit back by vetoing the budget and the fund. The Commission and some governments considered reconstituting the fund without Poland and Hungary. But in mid-December that pair lifted their vetoes, when EU leaders offered them various reassurances, including a promise that the Commission would not start to implement the conditionality procedure until the European Court of Justice had ruled on a challenge to it.

These arguments reflect deeper, cultural divisions on the continent. Orbán and Kaczyński, along with others like Prime Minister Janez Janša in Slovenia, have been overtly pro-Trump. In most Central European countries, including the Czech Republic and Slovakia, there is strong opposition to the idea of accepting refugees from the Middle East or North Africa. The societies of Central Europe have no tradition of multiculturalism – and they tend to be more opposed to the immigration

<sup>9</sup>: Camino Mortera-Martinez, 'Will the coronavirus pandemic deliver a coup de grâce to Schengen?', CER insight, September 30<sup>th</sup> 2020.

<sup>10</sup>: Leonard Schuette, 'Should the EU make foreign policy decisions by majority voting?', CER policy brief, May 2019.

of those who are ethnically and religiously different than societies in Western Europe. Similarly, they are more hostile to gay rights and liberal social values. Climate change is yet another source of division, with the

Central Europeans – many of whom burn a lot of coal – reluctant to sign ambitious targets for curbing carbon emissions, for fear of bearing too much of the economic and social cost. .

## 11) France and Germany will continue to lead Europe, with France having the edge over the next few years.

In recent years the Franco-German partnership has been troubled, partly because of French frustration with Germany's reluctance to take radical steps on eurozone governance.<sup>11</sup> Macron wanted to make big changes to the way the EU worked, but Merkel was more or less satisfied with the status quo. Then in the summer of 2020 Macron and Merkel came together to forge an agreement on the recovery fund. And now, despite inevitable tensions on several issues, they often work well together.

*“France may well be the more influential of the pair, because Germany will be distracted by Merkel's imminent departure.”*

Brexit means that France and Germany will remain unchallenged as the dominant duo of the EU. Italy and Spain cannot easily stand in their way, because COVID-19 has weakened their economies (and in Italy's case chronic political instability undermines its influence). Poland's government cannot lead Europe because it is at odds with other EU countries on so many issues – and its recent blockage of the recovery fund made it very unpopular in many capitals.

The Netherlands' Mark Rutte has emerged as one of the more influential leaders, because of longevity – he has been prime minister since 2010 and is likely to win next March's general election; because the Dutch economy is relatively large and successful; because Brexit has created a space for the Netherlands to fill, as the champion of economic liberalism; and because Rutte has led or helped to organise groupings of small and medium-sized North European countries – the 'frugal five' that oppose a larger EU budget, and the 'Hanseatic league' that includes the Nordic, Baltic and Irish governments and opposes both deeper eurozone integration and EU rules on taxation.

The EU institutions lack sufficient standing to lead the Union – though von der Leyen has shown that she can be influential when working with Paris and Berlin, as on the recovery fund. So if anyone is going to set the agenda it is likely to be France and Germany. However, their leadership, though necessary, is not always sufficient to bring about change, as the Polish-Hungarian veto of the recovery fund (though now lifted) illustrates.

Some Italians, Poles and Dutch find France and Germany's pre-eminent position unpalatable, as do a number of smaller countries, but they have to accept it. Spain seems more relaxed: Prime Minister Pedro Sánchez – like his predecessor of 30 years ago, Felipe González – sees himself as a junior member of the Franco-German tandem.

For the next few years France may well be the more influential of the pair. Germany will be distracted by Merkel's imminent departure. The Christian Democratic Union is choosing a new leader, and then together with the Christian Social Union will choose a Chancellor candidate. The distraction will continue with the general election in September 2021, and then quite possibly with several months of tortuous coalition negotiations.

Merkel has built up immense stature in the European Council, because of her long experience, common sense, patience and skill at crafting compromises. Her replacement will be unable to play such a pivotal role, at least for several years. For example, Merkel has often acted as a bridge between the Central Europeans and the rest of the EU (when a member, the UK was sometimes able to play that role). Thus she was the obvious person to lead efforts to resolve the stand-off between the Polish-Hungarian duo and the rest of the EU over the budget and the recovery fund – and not only because Germany held the EU presidency.

Meanwhile Macron has become the EU's most dynamic and energetic leader. He would be even more influential if he could find the patience to consult partners before pursuing new initiatives – for example, in the summer of 2019 neither Warsaw nor Berlin was consulted on his scheme to reach out to Putin. But the fact that he is an inexhaustible fountain of ideas – even if many of them fall on stony ground – and that he pursues them with vigour and determination, gives him considerable heft within the EU. It is likely (though not certain) that he will win five more years in the presidency in May 2022. He will use France's EU presidency in the first half of 2022 as a platform for promoting French ideas.

As already noted, the EU's trade policy is increasingly French-driven, with more people in Germany coming round to the idea that Europe needs 'champions' to stand up to Chinese and American competition. Post-

<sup>11</sup>: See CER's Annual Report 2020, 'Can France and Germany steer Europe to success?', essay by Charles Grant.

Brexit, France is the unchallenged leader of the EU on security policy. As explained in the next section, Macron also leads the debate on strategic autonomy. And although most of the competences for countering

terrorism, integrating immigrants and combating Islamist extremism remain national, to the extent that there is an EU approach, it is increasingly close to Macron's hard line.

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## 12) The EU will spend a lot of time discussing 'strategic autonomy' and what it means.

The EU is likely to make some progress towards developing greater capacity in security and defence, but how much is an open question.<sup>12</sup> Josep Borrell, the EU's High Representative for foreign policy, recently defined strategic autonomy as "the ability to think for oneself and to act according to one's own values and interests."<sup>13</sup> In 2016 the Council of Ministers had defined it as the "capacity to act autonomously when and where necessary and with partners wherever possible". Trump's departure has taken away a strong motivator for European leaders: four more years of him would have persuaded some of the most sceptical that Europe needed to become more self-sufficient on matters of security. But even though he is leaving, the fact that Trumpism is clearly not dead will continue to prompt many European leaders to think seriously about strategic autonomy.

Emmanuel Macron has been Europe's chief proponent of the idea – and in his thinking it means not only military power but also more broadly the on-shoring of crucial supply chains, the fostering of high-tech and digital companies within the EU and the avoidance of energy dependency on one or a few suppliers.

The difficulty for Macron and the EU officials who share his analysis is that some politicians – particularly in Central Europe and the Baltic states, but also in Germany (such as defence minister Annegret Kramp-Karrenbauer) – fear that strategic autonomy is an anti-American concept. They

worry that, if pushed too far, the idea could encourage the Americans to disengage from Europe. Macron will need to try harder to convince the Poles, in particular, that more European defence does not mean weakening NATO. Indeed, if Europeans can learn to do more for themselves militarily, they will become more useful partners for the US. An increasing number of Germans are warming to the idea of strategic autonomy. But Macron is likely to become frustrated with German politicians who talk about Europe taking more responsibility for its own security and then refuse to vote for more defence spending.

Advocates of strategic autonomy should argue that while Europe can hope that Biden and those like him will continue to run the US, there is a risk that Trumpism will return. Furthermore, there is also a danger that China will become so powerful that it will be able to bully the EU into following its wishes. What Beijing is doing today vis-à-vis Australia – blocking imports of its goods and raw materials, in an effort to persuade Australians to stop criticising the Chinese government – could presage its treatment of Europe in the future. Strategic autonomy should therefore be an essential insurance policy against such dangers, but Europeans will need some time to re-direct their policies towards that goal. European strategic autonomy will be more effective if EU governments can find ways of linking the UK to their foreign and defence policies. That is not on the cards at the end of 2020 but may become viable when, in the future, there is more mutual trust.

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## Conclusion

At the start of this essay we asked whether Biden's presidency and further European integration could restore the West's self-confidence – or, to put it another way, strengthen the rules-based international order. Some of that order's key pillars stand outside North America and Europe, such as Japan and South Korea. However, just as leadership by France and Germany is necessary but not sufficient for the EU to make progress, so effective EU-US co-operation is a *sine qua non* for a healthy West.

*“For both Americans and Europeans, sorting out their internal problems is more important than crafting the right foreign policies.”*

12: Sophia Besch and Luigi Scazzieri, 'European strategic autonomy and a new transatlantic bargain', CER policy brief, December 2020.

For both Americans and Europeans, sorting out their internal problems is probably more important than crafting the right foreign policies. The US paid a heavy price for mismanaging the wars in Afghanistan and Iraq, but it has suffered just as much or more damage from the financial crisis, four years of Trump and its abysmal response to COVID-19. If Biden can find sufficient numbers of moderate Republicans to work with on restoring the US to being a predictable, principled and successful country, the West's narrative will benefit hugely.

But Europe also has a key role to play in reviving the attractiveness of the liberal democratic model. It too needs to focus on fixing its internal problems. Concerning its economy, Europe has a poor record

13: Josep Borrell, 'European strategic complacency is not an option', *Project Syndicate*, November 13<sup>th</sup> 2020.

not so much on innovation itself but on exploiting it commercially. The EU needs to build on the success of the recovery fund to strengthen eurozone governance, too. Politically, it must find ways of bridging the gap between the eastern and western parts of the continent – without betraying its commitment to the rule of law. It will always face large numbers of immigrants from poorer countries, but unless it finds better ways of coping with them its internal rifts will worsen, and it will look incompetent to the rest of the world.

The EU and the UK need to take a more strategic approach to their future relationship: they should focus less on the minutiae of dispute settlement mechanisms, and more on the challenge of working together to defend Western values in an increasingly hostile world. As for the EU's other neighbours, the EU will need to find ways of motivating them to reform, without – in many cases – being able to hold out the prospect of membership. That could mean offering more money, market access, political contacts and participation in selected EU policies.<sup>14</sup>

If the world judges North America and Europe to be well-managed and successful continents, it will have more respect for the democratic principles they espouse. Of course, it is not only their internal performance that matters for the West's image. It would help if Americans and Europeans avoided starting unnecessary wars. They should also take the lead in tackling global challenges such as climate change, pandemics and under-development. It should not be beyond the wit of Biden and European leaders to make their liberal democratic model more appealing than China's authoritarian system.

Charles Grant

Director, CER

December 2020

<sup>14</sup>: Charles Grant, 'Europe's blurred boundaries: Rethinking enlargement and neighbourhood policy', CER report, October 2006.