

Charting a New “Digital Atlantic”

Heather A. Conley and James A. Lewis

Europe missed the first tech boom. It is in the United States’ interest that it does not miss the second. Some Europeans are skeptical about this (and there are indeed Americans who argue for more nationalist economic policies), but a strong Europe is a better partner in defending democracy and a better customer for U.S. companies. This is a straightforward strategic calculation: for Europe to achieve its technological goals, it needs to partner with the United States. For the United States to achieve its national security goals within a strategic competitive framework with Russia and China, it needs to partner with Europe. Taking divergent paths would be a strategic blunder for both the United States and Europe.

Is There a Digital Europe?

The European Union has made several attempts to enhance its digital capabilities. The European Commission announced an “Innovation Union” to strengthen its global competitiveness and accompanied this by laying out a robust research and development (R&D) agenda. A new group of commissioners, seated in 2019, was given portfolio titles such as “A Europe Fit for the Digital Age” (led by Commissioner Margrethe Vestager). European leaders recognized the importance of innovation and digital competitiveness and sought to use EU funding and strategy to help accelerate it.

The Innovation Union follows an earlier effort called Horizon 2020. Horizon 2020 invested close to €80 billion (or \$97 billion) over seven years and boosted pan-European research, but much of its impact has been in scientific networks rather than commercial innovation. The pandemic and subsequent abrupt shutdown of the global economy shifted European political forces to allow greater fiscal stimulus and investment in the form of a €750 billion Recovery and Resilience Fund (RRF)—20 percent of which EU member states must dedicate to the digital transition. A successor to Horizon 2020, Horizon Europe, allocates €95 billion to R&D (€5 billion from the RRF), including digital and industry competitiveness.

The European Union also announced an updated Industrial Strategy, which emphasizes “open strategic autonomy” to simultaneously increase protectionist policies for European industries to reduce competition from China and the United States and remain “open” to new industrial alliances and small- to medium-

sized enterprise growth. European calls for “strategic autonomy” are in recognition of a growing dependence on others for technology and a desire to reverse this.

There are tensions between achieving a digital Europe and enhancing transatlantic cooperation. Data and the seamless transfer of data between the European Union and the United States is the lifeblood of a future transatlantic digital economy. Repeated transatlantic efforts to bridge policy differences over data privacy have repeatedly failed and require a new and more permanent solution. Similarly, the European Union’s General Data Protection Regulation (GDPR), which provides for the free movement and protection of personal data within the European Union and is enshrined in the European Union’s free trade agreements, can easily become a protectionist tool that can harm Europe’s future digital competitiveness and the growth of the transatlantic economy. To overcome these obstacles, the United States should support a unified European Union and ultimately a transatlantic digital market which will support a larger European technology sector and provide economic benefit on both sides of the Atlantic.

Building a Transatlantic Digital Future

It is in the United States’ interest that Europe succeeds in technology and does not miss another two decades of digital development. The risk is that Europe will fall further behind the United States and China. For example, of the ten largest technology firms globally, seven are American and one is Chinese. This position is unsustainable if Europe wishes to retain economic relevance. The risk of tech irrelevance could incline Europe to increase trade protections and further attempt to entrench itself as a global regulator of other countries’ technology.

It would be an immense miscalculation for the European Union and United States to take divergent technological paths—which they have begun to do—because it harms both, as Europe loses new sources of growth, and the United States sees a key ally’s technology base deteriorate. Transatlantic cooperation on technology, however, cannot be focused on creating anti-China coalitions. The goal must be to expand growth and gain the economic benefits of digital technologies. Innovation and tech governance will shape economic growth.

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Some Digital Hard Truths

Because the transatlantic relationship is so important, it demands frank assessments. The hard truth is that Europe does not fully trust the United States. The scope of this distrust varies, but the source of distrust stems from more than an anti-EU former U.S. president. For some European leaders, the United States and China represent competitive challengers without distinction. Four years of the Trump administration certainly solidified these views for some; they are not new and have appeared in the past. While the Biden administration seeks to rebuild closer ties with its transatlantic partners, some of its economic and trade policies—such as an emphasis on “Buy American” and the continued imposition of steel, aluminum, and

digital services tax-related tariffs—may work against efforts to reverse this distrust and instead deepen obstacles to greater cooperation.

Another hard truth is that Europe fears that it is becoming globally irrelevant. For a variety of reasons, some EU countries never fully recovered from the global financial crisis before having to face the economic shocks from the Covid-19 pandemic. China's economy has leapt past Europe, while the United States has rebounded strongly from the pandemic. Europe's difficult response to the pandemic reinforces the concern that Europe is falling globally further behind economically. Fear of the future—rather than optimism—shapes policymaking in Brussels and in capitals. It reinforces distrust of the economic innovation and dynamism of the United States. The European Union's most powerful tool to combat this fear is its global regulatory ambitions.

While these two truths are sobering, contentious, and difficult, there are transatlantic strengths that counterbalance them. The United States and the European Union share values that emphasize the rule of law, the protection of fundamental rights, and the centrality of democratic governance. These values form the core of Western societies. The United States is not equivalent to China, nor would Europe benefit from any form of equidistance between China and the United States. There is strong U.S. interest in seeing a Europe that is economically and technologically competitive. Europe has an exceptional research and engineering base, an emerging start-up culture, and has seen encouraging progress in quantum computing, all of which offer it opportunities for twenty-first century economic growth—if it can get governance and the transatlantic partnership right.

Choosing between Technological Sovereignty or Transatlantic Partnership

Continued European concerns over important transatlantic divergences with regards to privacy, concerns over transborder data flows, and ongoing allegations of U.S. surveillance drive the search for EU autonomy and the lack of trust. As one French official noted, Europe does not want to be captured by China, but is also does not want to be captured by the United States either. Europe's desire for technological sovereignty reflects reasonable concerns over the power of large and powerful U.S. technology companies and competition. It also reflects a desire to reignite the European tech sector in the face of competition.

The European pursuit of autonomy is also based on an assumption that the European tech sector will grow best in splendid isolation. In contrast, while the United States is reducing tech linkages to China, it has dynamic commercial and scientific connections with research and innovation communities in other countries, including in Europe. Connections, rather than autonomy, reinforce innovation. Innovation requires open networks, unlike the twentieth century industrial base, which was closely tied to physical infrastructure such as steel mills or coal mines. Europe's pursuit of digital autonomy is unlikely to end well because technology is transnational, connecting Europe, Asia, and America in a web of commercial and research ties. Europe is more likely to achieve its technological and economic goals if it works in partnership with the United States.

Transforming Obstacles into Opportunities

Obstacles to transatlantic cooperation present an opportunity to build a stronger and more durable relationship. 2021 could be a year of great opportunity as Europe and the United States move in the direction of common understanding on technology governance (although significant differences on some issues remain) and industrial policy.

Governance is not a trade issue. Mechanisms and rules exist for trade (no matter how frayed). This is not true for governance, and tech governance issues will define the future of transatlantic relations. There are already areas of convergence. On the U.S. side, there is a growing acceptance of the benefits of government support for technology; this could fall under the rubric of industrial policy. The Biden administration’s “foreign policy for the middle class” is an effort to rebuild popular support for international economic policies. The pandemic and China’s rise has led the United States to reconsider industrial policies. Europe has long used industrial policy as a tool. At the same time, the European Union has a growing understanding of the importance of innovation (and perhaps, of entrepreneurship) in ensuring economic growth. There is an opportunity to balance European and American preferences that would make economies on both sides of the Atlantic stronger.

Europe is the global leader in technology governance, most notably in data protection. The GDPR has become a global privacy standard embedded in the European Union’s free trade agreements. In the United States, it is likely that 2021 will be the year the country finally reconsiders its patchwork of privacy protections and reviews the power of its tech giants (something that some of these firms are even beginning to welcome), two of the major obstacles to transatlantic partnership.

Seizing this opportunity requires fundamental decisions by both European and U.S. leaders: if the European Union’s primary goal is to become “the global leader for digital regulation” based on the Digital Markets Act (DMA) and the Digital Services Act (DSA), then it is choosing to strengthen its regulatory efforts rather than its economic growth and competitiveness (rhetorical flourishes in support of innovation notwithstanding) and putting its tech sector at risk. A decision to accelerate on the regulatory path would not only complicate the transatlantic digital partnership, it would also put European growth at risk, and eventually make Europe more dependent on either China or the United States. Seizing a new transatlantic opportunity also requires fundamental decisions by U.S. leaders. In some instances, the United States must be prepared to follow Europe’s lead in technology governance, such as in developing policies and rules for online content and ethical guidelines for “emerging technologies” like artificial intelligence (AI). The question is how best to work with Europe to develop new rules and understandings, and perhaps institutions, for technology governance.

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From Transatlantic Trade Rules to Transatlantic Technology Governance

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The authors believe a “grand bargain” is possible, centered on balancing the United States’ entrepreneurial energies and European governance strengths. Future collaboration is framed by four EU regulations: the DSA, the DMA, foreign investment screening rules, and the recently published Ethics Guidelines for Trustworthy AI. The DSA would strengthen content moderation on social media platforms and oblige platforms with more than 45 million users in the European Union (Spotify is the only European company to qualify) to disclose to governments how their algorithms work, how decisions to remove content are made, and how advertisers target users. The DMA introduces rules intended to reduce anti-competitive behavior for digital platforms that act as online “gatekeepers.” The European Commission would have the right to fine gatekeepers up to 10 percent of their total worldwide annual profit if they did not observe the proposed rules. Striking a grand bargain that includes the DSA and DMA will be challenging because they impose significant extraterritorial obligations on major U.S. tech companies.

The benefits of the DSA and DMA are that companies must currently deal with 27 different national rules. The proposed legislation will create a single regulatory framework. There are some in the United States who view these extraterritorial obligations as punitive and aimed at U.S. tech companies. While the objectives of the DMA and DSA are to increase transparency, improve the removal of objectionable content, bolster competition, and create a single EU digital market, the implementation of these rules could easily create more friction with the United States. Both sides will need to show flexibility.

Powerful voices in Europe believe they are subject to surveillance by U.S. intelligence agencies. The United States has not done an effective job publicly in dispelling these fears and could explore a new, long-term dialogue to achieve so-called “no-spy” agreements (see the CSIS commentary, [“Should the United States Enter a ‘No-Spy’ Agreement with Germany and Other EU Partners?”](#)). The most urgent need is to create a more robust and durable version of Privacy Shield, a data protection framework that was recently annulled by the Court of Justice of the European Union. There is a shared transatlantic interest in protecting individual privacy and ensuring continuity of commercial data transfers while the United States and the European Union work on a broader understanding of privacy and surveillance and the United States develops national privacy rules.

The authors recommend sequencing issues, beginning with the areas where transatlantic agreement faces fewer obstacles. On AI ethics, political forces on each side of the Atlantic are moving in the direction of stronger partnership. On foreign investment screening, there is much opportunity for working together to facilitate transatlantic dialogue and intelligence sharing. Another area for cooperation is a common approach to technology transfer. Both the United States and EU nations are members of the Wassenaar Arrangement, the principal regime for dual-use export controls, which could be modernized to better control emerging technologies. A third area of technology governance is the integrity of the standards processes—maintaining politically neutral standards processes based on the best technology, not government influence, an area where the European Union and the United States share interests.

Recent transatlantic progress on the issue of global corporate and (perhaps) digital services taxation (DST) could be an early and encouraging sign that transatlantic digital accord is possible. Previously, taxation was a major obstacle to the creation of a transatlantic digital economy, but a significant shift by the United States, coupled with multilateral work within the Organization for Economic Cooperation and Development (OECD), could create a common global approach to taxation of the digital economy, demonstrating that pragmatic solutions can be identified. Agreement on a minimal tax requirement for large multinational enterprises is driven in part by the Biden administration’s interest in not creating disparities in national tax rates. It also could satisfy a long-standing European grievance over U.S. companies earning revenue from services in EU markets while headquartering in countries that have

very low corporate tax rates. Divergent European tax rates, however, may remain a formidable challenge despite efforts by the European Commission to punish firms that take advantage of the European Union's corporate tax differences. Changing the policies of those low-tax EU members (like Ireland) must ultimately be resolved within and by the European Union.

Another key issue will be to determine how to strengthen Europe's ability to commercialize at scale new technologies and digital services. With some technologies, there are already strong transatlantic interconnections at both the research and commercial levels, such as in artificial intelligence. Several large European tech companies already have a strong U.S. presence. 5G is a leading example of a symbiotic transatlantic tech relationship where the United States depends on European suppliers, which in turn depend on U.S. chip makers. This in effect creates a "trusted trader" or allied-centric supply chain.

Toward a Digital Atlantic

The technological revolution has strained the transatlantic commercial relationship and its twentieth century trade mechanisms. Unsurprisingly, as national competencies shift, a country's first instinct is toward policies and protectionism, and in the twenty-first century, this often means exerting more control over tech companies.

However, there is some impetus to change and there are several areas of policy convergence. Still, the United States must do a better job of persuading the European Union and its member states of the benefits of stronger technology cooperation as they begin to focus on the development of common approaches to privacy, competitiveness, and innovation with the European Union. Despite real disagreements over how to manage the economic, privacy, and social consequences of technological change in Europe and the United States, the ability to find solutions based on shared principles should not be underestimated. Democratic governance, rule of law, and respect for human rights provide the foundation for a digital transatlantic relationship that promotes economic growth on both sides of the Atlantic. Both the United States and Europe are stronger if they stand together. The mantra should be cooperation among states, and competition among companies. ■

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