WITHOUT AN INTERNAL ZEITENWENDE, GEOPOLITICAL EUROPE WILL BE DEAD ON ARRIVAL

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EDITORIAL

The European Union (EU) stands at a defining moment in its geopolitical and internal evolution. As the global landscape shifts, the EU is getting serious about building its own defence. The new spirit behind this drive should inspire work on the internal front too, because the Union's geopolitical weight depends on its inner strength.

The Letta, Draghi, and Niinistö reports lay bare the fundamental challenges and call for a change in thinking. All three reports advocate prioritising sustainability, resilience, and strategic autonomy.[1] Beyond defence, the EU needs a cohesive approach to strategic industries such as semiconductors, raw materials, and digital infrastructure. The European Chips Act, Critical Raw Materials Act, and Net Zero Industry Act lay the groundwork, but a more aggressive industrial policy is required to ensure European leadership in these critical sectors. Energy prices in Europe are higher than in the United States (US) and China, and our energy dependency is 91.7% for oil, 83.4% for gas, and 37.5% for solid fossil fuels. The annual bill amounts to some 640 billion euros, and it is growing. Europe's reliance on energy imports is a glaring vulnerability: energy security is a core component of competitiveness. Strategic investments in renewables, nuclear power, and energy storage can mitigate these risks while aligning with Green Deal objectives.

Traditionally, EU economic policies have focused on market liberalisation and Gross Domestic Product (GDP) expansion. Europe must embrace a new economic philosophy – one that balances market efficiency with strategic governance. Erik Jones, in the TEPSA recommendations to the then-upcoming Polish Presidency, put it thus: "Competitiveness rests on innovation. Innovation starts with investment. Investment requires incentives. Incentives need planning, and the rules for all the sectors of the economy are not the same."

But all three reports also highlight the need to overcome the fragmentation of the Single Market, particularly in services. As is the case for the defence industry, the telecommunications sector still consists of twenty-seven national markets; an average EU operator services five million subscribers, compared to 107 million in the US and 467 million in China. The bottom line is that with this fragmented approach, we are effectively imposing a sort of 'internal tariff' on ourselves via domestic rules and VAT rates. Mobilising European savings, estimated at 33 trillion euros, for the benefit of investments in the EU is a top priority; the EU must address its fragmented financial landscape. With 18 clearing and 21 settlement markets compared to just two in the US, financial inefficiencies cost European businesses billions annually. Strengthening the European Securities and Markets Authority (ESMA) and moving toward a more integrated financial system is essential to making European capital markets globally competitive.

At the same time, there is a growing recognition of the need to avoid over-regulation. The slogan of simplification has been around for a long time, but it has often been just that: a slogan, rather than a guiding principle of action. This must change. As the saying goes, the road to hell is paved with good intentions. Of course, we need to regulate the markets and create a legal framework, but it should be done to allow for initiative and risk-taking, not to stifle them. We are losing the battle of competitiveness as explained by Draghi, but every attempt at

[1] Dipesh Chakrabarty, Professor at the University of Chicago, sees Europe as a potential world leader, capable of building a "civilised capitalism."

simplification seems to end up with more requirements, be it at the EU or the national level. Too often, Brussels rules are added to national rules (instead of replacing them) and vice versa ('gold-plating'). The Commission's Competitiveness Compass is a step in the right direction. Three key regulatory frameworks are in the crosshairs for reform: the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D), and the EU Taxonomy for Sustainable Activities.

Trade remains a pivotal policy for the EU. I will start with an interesting figure provided by Isabelle Matos Y Lago from BNP Paribas in a recent *Financial Times* opinion piece (*"Five ways Europe can boost growth fast"*). It would just take a 2.4% increase in intra-EU trade to compensate for a 20% fall in exports to the US. In this context, beefing up economic relations with key trading partners makes eminent sense. I just read a fascinating article by Anto Spisak on the recent economic agreement between the EU and Switzerland. The latter provides a new model for partial integration into the EU Single Market for outside partners. This could be highly interesting for future relations with the United Kingdom (UK), provided the latter at last recognises that dynamic alignment is a win-win for both sides. It may even be something our Canadian friends could look at.

More generally, the EU has strong global bargaining power as a trade superpower. It should use it. Trade agreements are vital not just for economic growth but for geopolitical influence. Multiplying such agreements will help the EU navigate a multilateral trade system that may need to function without the US, at least temporarily. The recent EU-Japan Strategic Partnership Agreement (SPA), which entered into force on 1 January, offers a blueprint for future cooperation. It strengthens political and economic ties between two of the world's most developed economies, promoting free trade, security cooperation, and alignment on multilateral governance. This agreement is a reminder that strategic partnerships can enhance economic security and bolster Europe's role in shaping global rules and standards. One of the most pressing steps the EU can take is to ratify the Mercosur agreement. It is ironic that the country which opposes this move most strongly is also the country that invented the notion of European strategic autonomy: France. If ever there is one major way of achieving the latter, it is the agreement with Mercosur.

Over the last few years, the EU has adopted a whole string of autonomous measures that allow it to combat unfair practices by other players. This is vitally important, starting with the necessary retaliation against Trump's tariffs. But it will only work if Member States accept that Brussels decides on these measures (trade is an exclusive EU competence). In an opinion piece in *Le Figaro* published on 19 March, Bertille Bayart points to the strange reaction of the French government to the Commission's proposal for retaliatory measures, distancing itself from them because they targeted alcohols, among other products. They fear that this would incite Trump to put up taxes on European wine exports. That is short-sighted because it will divide the EU, which is precisely what Trump wants to do.

I would conclude with a reference to a theme that is often neglected when talking about the future of Europe: its progressive demographic decline. In a hard-hitting book soon to be published[2], Giles Merritt talks

[2] The Book will be called "Timebomb." It should be read in conjunction with an earlier book by Giles Merritt on migration: "People Power: Why we need more migrants," IB Tauris, 2021.

about a ticking timebomb that would have devastating effects on the future of Europe. His objective is to shake the Europeans out of their complacency and ask the tough questions. He applies Gramsci's pessimism of the intellect, describing ten detonators of the "silent killer." Luckily, he also believes in the optimism of the will, offering ten ways to defuse the bomb. His recipes include improving services (care for the elderly, healthcare, and childcare), adopting active measures to support the neediest jobseekers and offering more housing opportunities, as well as reforming the macroeconomic environment (tackling the wealth gap, reviewing taxation and pensions, and pushing for more legal migration. The EU does not have a direct competence in these areas, but it can and must help by ensuring far more intra-EU cooperation on all these matters.

If Europe wants to manage the challenges posed by the emerging multipolar world, it must engineer its own internal "Zeitenwende," in terms of resilience, competitiveness, simpler regulation, trade, and societal reforms.

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