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Analysis of today
Assessment of tomorrow

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Will Europe act fast enough to counter Trump's challenge to the post-war order?

According to European optimists, Donald Trump's wielding of a wrecking ball to the post-Second World War global order has roused Europe out of complacency, and the continent will now embark on a political and economic overhaul to meet the challenge.

But is the European Union really acting with the urgency that many analysts recommend? A closer look at economic developments reveals glacial progress so far.

Europe has been shocked out of "complacent, lethargic behaviour" by Trump's sparking of trade and security tensions, claims Stefan Hoops, chief executive of Deutsche Bank's asset manager DWS.

"Europe has always been about ability versus willingness to really compete," he told the Financial Times. "We have plenty of savings, we have great innovation, and we have fiscal space. There are lots of things we could do, we just never did them."

So far, only 16 of the EU's 27 members have applied for an exemption to budget rules to raise defence spending as part of the €800 billion ReArm Europe plan, including Germany, Poland, the Baltic states, Denmark and Finland.

Under the so-called Stability and Growth Pact, EU members must keep their budget deficit within 3 per cent of GDP and public debt below 60 per cent of GDP. But a "national escape clause" now gives EU countries permission to raise military spending by an additional 1.5% of GDP over the next four years.

Europe hopes to raise defence expenditure by €650 billion over the next four years, while ReArm also includes up to €150 billion in Commission loans to finance joint defence projects.

But countries such as France, Belgium and Italy are struggling to bring their deficits down, and it will be hard for them to meet defence spending targets.

European military deterrence

Financial markets have not shown much concern about these indebted countries so far but volatility remains possible and this could curb defence spending further down the road, says an analysis by ING bank.

In terms of economic growth, ING does not expect increased defence spending to spark any "economic miracles".

It points out that given Europe's low defence production capacity, higher spending will translate to higher imports until domestic capacity is ramped up over the next several years. ING expects gains of only 0.1% and 0.2% of GDP for the eurozone as a whole for 2026 and 2027.

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Defence experts have estimated it will take up to a decade for Europe to be able to produce the military assistance that Ukraine needs now that the US is no longer a reliable partner of Kyiv.

Furthermore, aside from in countries such as Poland, few European politicians are talking about the trade-offs in welfare expenditure needed to raise defence spending. Nor are they actively preparing their citizens for possible warfare given the threat from Putin's Russia, suggesting that complacency has hardly been vanquished across the EU.

Donald Tusk, Polish prime minister, has called for one month of military training for any citizen who wants it, and the programme is expected to train 100,000 volunteers a year by 2027.

Tusk is also trying to form a coalition of those countries willing to create a European military deterrence that is not reliant on the US. They are likely to include Germany, France, Britain, Italy, and the Nordic and Baltic nations, the New York Times reported.

Democratic 7

There is no shortage of other ideas for how and what Europe should do as it carves out a new role without US security guarantees, which had allowed the continent to pursue economic wealth since the Second World War.

Europe is a strong candidate to lead efforts to preserve an international economic system based on values, principles and rules, given its 18% of global GDP by market value versus 26% for the US, says Chatham House.

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But the think tank urges much more, including the articulation of a vision of a new economic order that takes into account the discontent of developing countries.

Such a goal was recently outlined by Anders Fogh Rasmussen, a former prime minister of Denmark and former secretary general of NATO. He has proposed a Democratic 7, or D7 - the EU, UK, Canada, Australia, New Zealand, Japan and South Korea - which together represent roughly 25% of global GDP and account for about 35% of global trade volume. The club would be open to other countries willing to support rules-based trade.

"The cornerstone of a D7 economic alliance would be the economic equivalent of NATO's foundational principle, Article 5, which holds that an attack on one is an attack on all," he wrote in The Guardian on 11 May. "When economic powers threaten critical supply chains, engage in economic blackmail, or use access to their markets as leverage, they're counting on isolating vulnerable countries."

European hard power

For such a vision to become reality, Europe will have to embrace "hard power" as urged by Marc De Vos of the think tank Itinera Institute. "That means developing what is needed to project European power, tying third countries to a Pax Europeana built upon a big market with integrated technological and security capacities, eventually flanked by a refashioned Nato," he wrote.

But the obstacles to such visionary thinking are numerous. Look at the bickering over whether the UK can take part in post-Brexit efforts to strengthen the EU defence industry.

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The EU also needs to ditch what The Economist called "luxury" policies if it is to increase its force in the global economy, such as cutting red tape and opening to other countries in the pursuit of much-needed trade deals.

Europe needs to act, not just talk, because Trump's reshaping of the post-war order shows no sign of let-up.