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Insight
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GLOBAL MACRO RESEARCH — WHAT A TRIPOLAR WORLD MEANS FOR EUROPE

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EXECUTIVE SUMMARY

The world stands at the precipice of a new tripolar paradigm, marked by shifting geopolitical alliances and emerging power centres. This evolution is principally driven by the increasing assertiveness of China, the increasingly ambivalent attitude of the US to its role as global hegemon, and the resurgence of Russia as a formidable player on the international stage. For the EU, this tripolar dynamic necessitates a profound reassessment of its security and defence policies.

As Europe navigates this complex landscape, it must grapple with the implications of a less predictable US security guarantee and the pressing need to bolster its own defence capabilities. At the same time, the post-Cold War system of globalisation is receding as the US scepticism about the benefits of free trade is challenging the EU's economic model.

This paper outlines the implications of the emerging order for Europe and the challenges it faces as it navigates a less certain geopolitical environment.

CONTINENTAL SHIFT: EUROPE'S DEFENCE RESET

The most salient development of the potential geopolitical realignment is Europe's attitude to its own security. Europe has undergone a momentous shift in its approach to security, precipitated by the growing realisation that the US security guarantee is no longer as steadfast as once assumed. The pressing challenge now lies in developing Europe's defence capabilities to effectively deter Russia – a formidable task that is projected to span a decade. This timeline is not solely dictated by financial constraints but also by the intricate process of developing shared intelligence and satellite capabilities.

While the EU has ostensibly resolved to gradually distance itself from the US over the next decade, European political leaders cannot overtly convey such a stance. Consequently, the EU's strategy is to retain US involvement in European defence while concurrently bolstering its own deterrent capabilities against Russia. In spirit at least, there is significant public resolve for the prospect of a security decoupling from the US; however, the depth to which each EU country will commit expenditure to defence will undoubtedly vary.

That said, Germany's newfound commitment to defence expenditure marks a historic shift from the post-Cold War era. The new German Chancellor Friedrich Merz has already made bold moves to facilitate the reprioritisation of security in Germany's political economy, such as abandoning the constitutional debt brake for arms expenditure. This action alone signals the Merz government will adopt a much more dynamic approach compared to his predecessor, Olaf Scholz. In aggregate, plans for investment of up €1 trillion in both defence and infrastructure signal both resolve of German policymakers and the capability gaps that currently exist in Europe's collective defence capabilities.

Domestic political dynamics are also a motivating factor behind Merz's policy shift. For example, the Alternative für Deutschland party currently outpaces Merz's Christlich Demokratische Union Deutschlands (CDU) in polling data, compelling Merz to take decisive actions that eluded his predecessors to transform Germany while he retains a mandate and head off an electoral threat from the far right. In addition, Germany faces economic headwinds due to smaller trade flows to China, particularly in machine tools and chemicals, compounded by a 25% tariff on its car industry. A domestic stimulus is deemed essential to address these challenges.

Among the major European economies, Germany's fiscal position perhaps means it stands alone in having the ability to fund the expenditure necessary to revitalise its defence sector and replenish its military. Its debt-to-GDP ratio stands at a manageable 60%, providing ample room for increased spending. By comparison, France and the UK's respective fiscal positions are much less favourable, with debt-to-GDP ratios currently sitting around 100%.





UNITED IN PURPOSE, DIVIDED IN PRACTICE

Overall, the broad roadmap and destination for the EU seems clear; increased intra-EU defence cooperation and expenditure to credibly deter Russia. However, internal tensions remain on the optimal means of achieving these aims. For example, a pivotal debate centres on whether the defence pact should be Euro-centric. France insists that funds should remain within Europe, benefiting local defence industries, while others, including Germany, Italy and Poland argue for the inclusion of British and American equipment.

In addition, the relationship between Germany and France, the EU's most important countries, remains complex and, at times, fraught. Paris and Berlin's relationship often resembles a marriage wherein mutual irritations coexist, despite the necessity of cooperation. Both sides often regard each other as intransigent and unreasonable. Often, if you approach politicians or civil servants from either government as an independent counsellor, both parties express how unreasonable they find their counterparts.

The Franco-German irritations with each other are not the only squabbles. Mediterranean countries remain wary of committing vast expenditure to defence, given the political sensitivity around protecting welfare states, placing them at odds with Poland and the Baltic states calls for more defence spending.

However, the imperative to strengthen Europe's defence has facilitated a rapprochement between the UK and the majority of the EU. May's UK-EU summit, which aiming to establish a pan-European defence pact, signalled a thawing of the relationship and could allow Britain to benefit from European defence spending. However, France's continuing demands for EU trawlers to access British water for fishing rights as a condition, once again reflecting the absurdities of Europe's internecine squabbles while it attempts to form a stronger unit committed to liberal democracy.

For EU countries outside NATO – such as Austria, Ireland, and Malta – neutrality is increasingly untenable considering both Sweden and Finland are now members of NATO. The remaining neutral countries are something of a diminishing breed, given the bloc of neutral EU member states is now quite small. In my view, it is likely the neutral member states will not obstruct the other member states from deeper cooperation on defence, while not wholly participating in the new initiatives.

Despite these internal squabbles, the EU has a long history of making progress despite the odds. Journalists and commentators have, at various points of near crises, witnessed debates and positions between EU member states that appear intractable and progress seemingly impossible. Yet, despite overlapping rivalries and internal divisions, the EU's political institutions and member states launched the euro, the single market and enlarged its borders with the accession of much of eastern Europe and the Balkans. The lesson, then, is Europe seems to keep progressing and finds ways to muddle along.



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US TARIFFS, CHINA AND EUROPE'S DILEMMA

As well as geostrategic decoupling, the willingness of the Trump administration to erect trade barriers and decouple economically from the EU due to perceived unfairness poses another intricate dilemma.

For one thing, the EU's negotiating style contrasts sharply with the unpredictable approach of President Trump, creating a cultural clash between the EU negotiators and their Washington counterparts. This dynamic leads to unsatisfactory conclusions for Europe, with tariffs likely to remain at a minimum of 10%.

Secondly, it appears to me the reasons espoused by the Trump administration for imposing tariffs are contradictory. Are they to raise revenues and replace income tax? Or are the tariffs temporary gambits to force Europe and the China to negotiate a more advantageous deal for US producers? Ultimately, the answer probably lies somewhere between these extremes, but the gulf between the negotiating parties in temperament and outlook leaves the EU's negotiators with an unenviable task.

Compounding the difficulty of negotiations, the EU cannot engage in a public confrontation with the US, which could precipitate the imposition of additional levies. By contrast, China prepared for the fight, believing the US had miscalculated.

For example, while Chinese factories may shut down due to US tariffs, the symbiotic nature of the trading relationship means the US faces empty shelves and higher prices if US-China trade flows completely evaporate. This simple fact provides ample explanation for the recent US climbdown, and 90-day pause on the application of the most excessive 'Liberation Day' tariffs. In addition, China's authoritarian political system regime, bolstered by nationalistic rhetoric, means its leadership believes it can manage public discontent more effectively than democracies. In fact, Xi Jinping has repeatedly directed China's population to "eat the bitterness" resulting from any confrontation with the US, a favoured phrase of Mao's from the Cultural Revolution.

Put simply, then, compared with China, the EU simply lacks the leverage China possesses to force a US rethink.



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CHANGING US ATTITUDES TOWARDS EUROPE AND TRUMPISM

The protectionist trade policies trained on Europe perhaps reflect shifting attitudes towards Europe amongst some sections of the Republican Party. Rather than viewing the EU as democratic partner, a perceptible hostility and contempt currently emanates from Washington toward Brussels, motivated by a sense, it seems to me, that the values of the EU reflect those of the current Republican leadership's domestic political rivals.

For example, to MAGA Republicans, the EU's belief in multilateralism, the supremacy of international law and the necessity of fighting climate change means it resembles a foreign branch of the Democratic Party, which the Trump administration wishes to blunt as a rival, explaining the administration's attempts to limit the independence of universities, media, judiciary, and election systems. It seems, then, present US antipathy toward the EU reflects, and is at least partially motivated by, internal divisions.

The unknown quantity in Trumpism is President Trump himself. He is both the MAGA movement's greatest asset and biggest liability. In my view, the administration's actions seem to indicate a lack of long-term strategy, and policy could change on a whim. However, President Trump is a very effective communicator, and his followers will cut him slack.

That said, the one potential brake on Trump's excess is the markets. Already, worries about the bond market led the administration to pivot from the most stringent Liberation Day measures. The US fiscal position is a potential pressure point, as are shortages and higher prices. If MAGA followers' pension funds fall drastically or medical supplies halt because of the administration's policies, it may be enough to motivate a break with the president.

The result would be a damaged global economy, a damaged US president and still-high security tensions in Europe. This ongoing transatlantic tension and the unpredictability of President Trump presents significant challenges to the established order, underscoring the need for Europe to develop its own strategic capabilities and maintain its commitment to liberal democratic values.



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CONCLUSION

The Trump administration's approach to tariffs and international relations has undeniably set the stage for a tumultuous future. The EU's struggle to navigate these choppy waters highlights the urgent need for a robust and independent strategy. As the US oscillates between protectionism and unpredictability, the EU must rise to the occasion, shedding its reliance on transatlantic support.

Germany's increased defence spending is a promising indicator of the EU's shift towards self-reliance. However, this is only the beginning of what must be a comprehensive overhaul of EU defence capabilities. The geopolitical landscape, dominated by the US, China, and Russia, necessitates that Europe adapts swiftly and decisively.

Economically, the EU's relationship with the US is marred by uncertainty and the Trump administration's unpredictable policy decisions. The EU, with its characteristic methodical approach, finds itself at odds with the changeable nature of US trade tactics. Europe's lesser leverage compared to China further complicates its position, making a US rethink on trade policies a challenging endeavour.

Internal divisions within the EU pose additional hurdles, but Europe has demonstrated its capacity to overcome significant challenges before. Despite debates over defence spending and NATO's role, history suggests that progress, though difficult, is attainable.

Looking to the future, the EU must continue to bolster its strategic capabilities and uphold its commitment to liberal democratic values amidst external pressures and internal disagreements. The evolving global order demands innovation and resilience from Europe, ensuring its security and economic stability in a tripolar world.



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