

Thinking European first and its implications

Faced with heightened geopolitical uncertainty, the European Union should base its actions on an overarching principle of ‘thinking European first’

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The second Trump administration’s challenge to the post-Second World War transatlantic relationship risks geopolitical and economic fragmentation and threatens to undermine the European Union’s system of values and its economic and social organisation¹. The EU must reform and protect itself, particularly in the context of decades of underinvestment in defence.

In devising and implementing a strategy, the EU can learn from another major crisis: the COVID-19 pandemic. Lockdown measures enacted in response to the pandemic triggered a devastating economic and social crisis. In response, starting in March 2020, the European Central Bank reinforced its non-conventional monetary policies, the European Commission suspended the EU’s fiscal rules and a first emergency support package was agreed, involving the Commission, the European Investment Bank and the European Stability Mechanism. The EU then created the NextGenerationEU (NGEU) economic recovery programme, financed with European bonds. These measures calmed the markets and supported households and businesses, triggering an economic rebound beginning in 2021.

Four broad lessons can be learned from this²:

1. In crises, it is necessary to cross red lines, eg on joint borrowing. The EU responded to the pandemic through centralised spending and common borrowing. Faced with the risks posed by the Trump administration, the EU should make new progress on political and institutional unification.

2. European leaders need long-term vision and genuine commitment to integration to overcome domestic resistance. During the pandemic, European leaders overcame their differences when NGEU was adopted, agreeing to common borrowing. After the pandemic, most EU countries no longer saw NGEU as a long-term major shift. Consequently, political ownership faded rapidly, with low engagement with NGEU and criticism of spending. Spending plans were designed to address domestic bottlenecks and, as such, did not feature a European dimension.
3. The strategy should be coherent. Five years ago, the EU policy response was consistent with the green and digital agenda. Today, the urgency of responding to defence and security threats must be reconciled with reform of the EU growth model and the establishment of new alliances to make the European economy less vulnerable.
4. Progress cannot be based solely on EU transfers to member states. NGEU as a driver for change has had a less-than-expected impact, partly because of the prevalence of national projects over genuine transnational projects. Now, the focus should be on the supply of European public goods (EPGs) in the economic and security domains.

Implications of 'thinking European first'

Against the backdrop of adverse geopolitical and geo-economic developments, the EU leadership should act on an overarching principle of 'thinking European first'. This does not mean mimicking Trump's inward-looking 'America first' approach. It means making clear that, when designing and implementing policies and reforms, the collective interest overrides national interests.

This approach builds on the idea that thinking European is also a way to effectively pursue the long-term domestic and external goals of EU countries – that *"nationalism is contrary to the national interest [and] member states' national sovereignty is ineffective unless it is redefined in terms of European sovereignty"* (Almunia et al, 2023).

Despite a grim economic outlook and growing security threats, policies in these areas and their funding are primarily decided at national level, largely ignoring their broader European impact. Thinking European first means taking collective decisions about

central aspects of Europe's economic model and defensive capabilities, in order to maximise the benefits for the EU as a whole. National leaders alone cannot achieve this goal.

Leaders of EU institutions should take a key role in debates about the EU's security and economic future, in a context in which some have become household names³. They should act as agenda-setters by presenting bold proposals for decisions that maximise the collective interest. In the current circumstances, gradualism could be an outcome but cannot be a strategy. Faced with the US administration's major directional change, individual EU countries might be tempted to pursue their own short-term interests over a long-term collaborative solution. But any national gain would prove short-lived and everyone would lose. Sticking together benefits all.

Thinking European first has a number of implications. First, 'integration by stealth', or pushing for integration largely outside the public eye, must end. EU institutions and national governments need to explain to EU citizens the dramatic challenges underway and the ambitious decisions that need to be made. Leaders, both national and European, should take full political ownership. Issues such as a fully-fledged common European defence policy must be decided on. Uncoordinated national defence policies lead to a lack of standardisation, duplication and gaps in activities and omissions in the range of equipment, resulting in inefficient spending. Resources should be made available for large-scale joint procurement. This will also be needed to incentivise the defence industry to step up research, development and investment (Anev Janse and Beetsma, 2024).

A second implication of thinking European first is that the focus should be on a limited number of priorities to be enacted jointly. The EU should consider bringing forward the next Multiannual Financial Framework, the EU's seven-year budget cycle, to 2026. Size, composition, conditionality and financing will need to be addressed without taboos.

The EU budget stands at roughly 1 percent of EU GDP. Doubling it would dramatically expand the opportunities for further EU integration. A strong case can be made for ramping up spending on EPGs (Anev Janse *et al*, 2025). Collective defence and security policy are the most urgent needs. Other EPGs should support innovation, growth and clean industrial policy for the EU economy.

EU spending should focus on goods from which the benefits for EU countries are clear and that offer economies of scale. Fears of a higher tax burden are unwarranted. As the

EU replaces some national spending, spends better and exploits returns-to-scale, the national tax burden can be reduced. To make sure that EPG programmes are politically viable and efficiency-enhancing, participation in transnational projects executed at national level should be conditional on adherence to the EU fiscal rules (Beetsma and Buti, 2024)⁴.

A third implication of thinking European first would be a focus on enhancing private-sector competitiveness. The Competitiveness Compass, a framework for future innovation, decarbonisation and security initiatives proposed in January 2025⁵, is a promising start, but a truly transformative agenda must go further. Breaking down barriers and reducing administrative burdens would yield substantial benefits. Reducing cross-border trade frictions within the EU could lead to welfare gains worth 7 percent of GDP (Baba *et al*, 2023).

The so-called 28th regime (Letta, 2024), or a single pan-European legal framework for companies, including corporate, insolvency, labour and taxation law, would enhance competition and innovation. Meanwhile, the EU's green strategy should be maintained. Giving in to pressure to weaken it would be a big mistake. It is an area in which EU leadership needs to be consolidated and cooperation opportunities need to be pursued with China and other international partners in the supply of global commons.

A fourth implication of thinking Europe first is that the EU's domestic and external strategies should be reconciled.

On the domestic front, the EU should make its growth model less dependent on exports – without endangering the single market. This implies reorienting its growth model away from external demand. Financing the huge additional investment to boost EU competitiveness (Draghi, 2024) cannot take place via a loosening of the state aid framework, which will fragment the single market: the Competitiveness Coordination Tool proposed in the Competitiveness Compass cannot replace jointly financed investments.

Stepping up the supply of European bonds (issued by the European Commission, European Investment Bank and European Stability Mechanism) would bring a number of benefits: cheaper AAA financing for most European countries, further capital market integration, strengthening the euro as a global currency and allowing companies to price off a European curve versus a national one. A greater supply will allow European debt to become a global safe-asset benchmark and compete with the dollar as the

reserve currency. All this would reduce the vulnerability of the EU economy and its financial system.

Development of the market for European safe assets needs to be combined with completion of the Savings and Investment Union (which aims to build on progress on capital markets union and banking union) to finance to the most competitive and innovative companies, and to complement investments in EPGs. Europe has huge untapped potential of €33 trillion in savings, one of the largest volumes in the world (Gramegna, 2025), growing by €1.3 trillion each year⁶, with a large portion invested outside the EU and held in bank accounts. To entice savers to put their money to work in Europe requires slashing the costs of investing in markets where risk-return trade-off is more favourable than keeping it in savings accounts.

On the external front, the EU must be better than the 'divide and conquer' approach of the Trump administration and should now become the sole champion of multilateralism and global trade: working together is more GDP-positive than trade wars. The signature of the Mercosur agreement and increased cooperation with Mexico, Switzerland and the UK are good examples. The EU needs in particular to develop a stronger trade relationship with India – the most populous country in the world, with a huge youth population. Europe should aim to become the global open trade leader.

A final implication of thinking European means developing 'coalitions of the willing', potentially including non-EU members, starting with common defence. As support for Ukraine and sanctions against Russia have shown, the pace of EU integration is often dictated by the most reluctant. European decisions were held up by the veto of one member state, Hungary. The EU cannot afford to waste time and energy on watered-down compromises just to keep everyone happy. To prevent reluctant governments from undermining joint efforts from within, they should be excluded from the beginning. Working more closely with non-EU countries, starting with the UK, is essential^[7]. Supply of 'club goods', goods that can only be consumed by those who pay (eg a high-speed train), could be envisaged also in other areas.

Stepping up to the challenge

Strong EU institutional leadership was evident in the past under Jacques Delors when the euro was launched and Ursula von der Leyen when NGEU was adopted, Commission leadership is now needed again to form a common defence policy supported by adequate resources, but it is also dependent on support from national

leaders. A renewed impetus in security, following the pause in US military and intelligence support for Ukraine, is evident in President Macron's increased engagement with Ukraine and the UK, and in the commitment from the likely next German government to ease fiscal rules to allow increased investment in defence.

The task for President von der Leyen will be to bring coherence and effective implementation to an evolution that, at least at the outset, is likely to be outside the classic EU institutional dynamics. A changed geopolitical situation calls for strong decisions and bold steps toward deeper integration.

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