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Europe, the sleeping giant, must wake up

The EU needs courage and confidence to integrate further

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So fixated on whatever the U.S. president does or says, Europe is underselling itself. Yet the EU is the world's second-largest economic area; in terms of population, too, the continent is in fact a major power (see fig. 1). What is also clear, however, is that Europe is performing well below its economic potential. Since 2020, real GDP growth in the EU has averaged just 1.3% – little more than half the annual rate in the U.S. And because Europe is dependent on fossil-fuel imports, the economic fallout from the war with Iran is currently hitting the continent harder than the largely energy-autonomous United States.

The EU's long to-do list

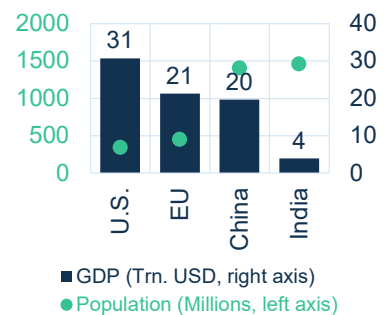
What can Brussels – what can the community of EU member states – do about this? No government, however capable, will be able to change Europe's lack of natural resources. It could, of course, intensify efforts to reduce its dependence on oil and gas. But that is a topic for another day.

Europe likes to extol its "single market". The term, though, is a gross exaggeration. Every company knows there is a world of difference between offering products or services from Stuttgart to customers in Munich or Hamburg, and doing so across borders – even within the EU. A bewildering array of national rules throws sand into the gears of what is meant to be an integrated market. Staring, paralyzed, at Donald Trump in Washington and Xi Jinping in Beijing will not help. Instead, the EU must strengthen its own market.

That requires every single society and government in the Union to be willing to scrap national rules and start thinking on a European scale. How difficult that can be is currently on display in

Europe must stop shrinking itself

Fig. 1: GDP and Population, 2025



Source: IMF, LBBW Research

Germany, where every imaginable lever is being pulled to prevent [a cross-border banking merger](#) and preserve a national institution. There is no progress without give-and-take, without compromise. Every country may have to give up some cherished local rules it has hitherto grown used to protecting.

But a more dynamic economy should be worth paying that price. The International Monetary Fund once attempted to translate the myriad non-tariff barriers to trade within the EU into tariff equivalents. For tradable goods, its economists arrived at [more than 40%](#); for services, the estimated rates even reached triple digits. Even if those numbers are [likely on the high side](#), this brake on integration and growth is entirely unnecessary.

To complete the single market in earnest, two things are needed above all: trust and leadership.

- Trust: **Mutual trust** within the EU is lower today than it once was. One reason is that populists with an anti-European agenda have taken root in parts of Central Europe, and increasingly in Western Europe as well. Viktor Orbán may be gone in Budapest, but Robert Fico in Bratislava still rails against Brussels, and in Bucharest the pro-European government has just fallen to a vote of no confidence.
- Leadership: Europe has also seen better days in terms of **political leadership**. The unpopularity of incumbent governments has weakened the Paris–Berlin axis. What is missing is a strong duo – a partnership of the sort once embodied by Kohl and Mitterrand, or even by Merkel and Sarkozy.

All aboard the omnibus

EU regulation sometimes goes over the top. Now, however, Brussels is planning a broad deregulation push – via ten so-called “omnibus” laws, one of which has already been adopted. The regulatory burden (in plain language: red tape) on businesses is to be cut dramatically. According to estimates by the EU’s statistical office, these costs amounted to [EUR 150bn](#), or about 1% of GDP. Dialing down can only be a good thing.

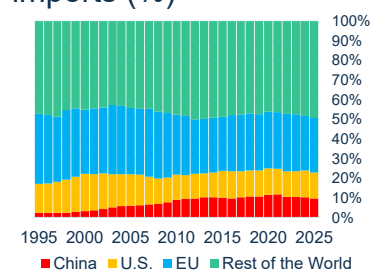
One serious flaw in many member states is the habit of shifting responsibility onto Brussels. When national governments blame the EU for everything that goes wrong, people eventually start to believe them. The most extreme case so far is the United Kingdom’s departure from the Union. A [majority of Britons](#) now consider Brexit a mistake.

Trump is a wake-up call for Europe. The EU now needs to wake up. The U.S. is important, but it accounts for only a small part of global trade (see fig. 2). And there are alternatives. Most countries still prefer rules-based open borders. It is therefore great news that the EU is finally getting serious about free-trade agreements: Mercosur, India, Australia – more are in the pipeline. That is the way forward. Together with the right partners, Europe can once again assume a leading role in a free global economy.

Complete the single market now

Europe lacks trust and leadership

Fig. 2: Share of global imports (%)



Source: [UNCTAD](#), LBBW Research

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