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Make Democracy Great Again

How the EU Can Lead a New Free World Order

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Executive Summary

The global order is undergoing a profound structural transformation. The post-Cold War system, built on US primacy, economic globalisation, and institutional governance, is fragmenting under the combined pressures of geopolitical rivalry, technological disruption, and economic nationalism. The result is not a simple shift toward multipolarity, but a more unstable environment defined by competing blocs, contested norms, and the re-emergence of hard power as the ultimate arbiter of international relations.

The strategic behaviour of the United States is becoming harder to define in clean doctrinal terms. Washington still shows strong hemispheric instincts, but its conduct across theatres such as Iran and Venezuela has also introduced a high degree of unpredictability, making it difficult to argue that the US has definitively settled on a coherent hemispheric doctrine. More broadly, the problem is no longer only retrenchment, but credibility. Allies, markets and adversaries increasingly face a United States whose signalling is volatile, whose coercive tools are used more transactionally, and whose political language is often at odds with the values Washington once claimed to defend.

Recent crises have sharpened that perception. The Iran war exposed the limits of coercive power even against a heavily sanctioned opponent, while the spread of drones, cheap strike systems and hybrid attacks has reinforced how poorly some expensive legacy capabilities map onto low-cost conflict. At the same time, relations with longstanding partners have become more strained. Britain has openly sought closer strategic alignment with Europe after repeated clashes with Washington over Iran, while Canada is explicitly taking steps to reduce its economic dependence on the United States. Simultaneously, revisionist powers are exploiting this transition. Russia has reasserted itself through sustained military mobilisation, while China continues to expand its economic and technological influence with long-term strategic intent. Meanwhile, regional conflicts such as the Iran crisis are exposing critical vulnerabilities in global energy supply chains, particularly chokepoints like the Strait of Hormuz.

At the same time, there are early signs of a democratic counter-reaction inside Europe. In Italy, voters rejected Meloni's flagship judicial reform in a high-turnout referendum that re-energised the opposition and turned constitutional balance into a national political issue. In Hungary, Viktor Orban's defeat ended a 16-year rule, with younger voters playing a decisive role in the opposition surge. It is too early to call this a full democratic rebirth, but these developments suggest that European questions, institutional safeguards and the defence of liberal democracy are moving back to the centre of domestic politics.

In this environment, the European Union occupies a paradoxical position. It remains one of the world’s largest economic blocs, yet lacks the unified military, technological, and political instruments required to translate this economic strength into geopolitical power. Defence spending is rising rapidly, reaching an estimated €381 billion in 2025, equivalent to approximately 2.1% of GDP, but fragmentation and inefficiency continue to limit its effectiveness.

At the same time, technological disruption is reshaping warfare itself. Artificial intelligence, autonomous systems, and cyber capabilities are lowering the barriers to entry for military power,

while increasing the speed and unpredictability of conflict. This transformation presents both risks and opportunities for Europe, which has the industrial and regulatory capacity to lead in this domain, but has yet to fully mobilise it.

The central question is whether the EU can evolve from a primarily economic union into a strategic actor capable of shaping the emerging global order. This will require not only increased defence spending, but deeper integration, stronger industrial policy, and a more pragmatic approach to alliances and trade. The window for action is narrow. If Europe fails to adapt, it risks becoming a passive arena for great power competition rather than an active participant. If it succeeds, it has the potential to lead a renewed rules-based order, grounded in democratic values but backed by credible power.

A wider strategic map is also coming into view. In the Western Hemisphere, pressure points are no longer confined to Panama or Mexico, but increasingly include Colombia, Cuba, Canada and Greenland, where questions of trade, resources, migration, intelligence access and Arctic control intersect. For Europe, this means that geopolitical relevance will depend not only on economic scale, but on whether it can act as a sovereign middle power in its own right: capable of responding to tariffs and trade diversion, shaping digital standards and infrastructure, and using agreements such as Mercosur – the South American trade bloc – to anchor influence in an increasingly competitive Atlantic system.

The Erosion of the Liberal Order

The post-1991 liberal international order is no longer eroding gradually; it is fragmenting under sustained geopolitical pressure. The defining feature of this shift is not simply the rise of new powers, but the weakening of the institutional and normative frameworks that once constrained them. Rules, institutions, and symbols that underpinned the global system are increasingly contested or ignored.

The war in Ukraine remains the most visible rupture. More than four years into the conflict, it has evolved from a territorial dispute into a structural confrontation between revisionist and status quo powers. Similarly, the conflict in Gaza has exposed the limits of international humanitarian law enforcement, as major powers selectively interpret or disregard legal frameworks. At the institutional level, the authority of international bodies has weakened. The International Criminal Court and International Court of Justice, once seen as pillars of global governance, are increasingly politicised.

In Europe, two examples have been especially resonant. Washington's visa ban on former EU commissioner Thierry Breton and other European figures was widely read as an attempt to intimidate Europe over digital regulation, while US sanctions on the ICC have shown how legal and technological dependence can be exploited at once. The suspension of ICC prosecutor Karim Khan's Microsoft account after the sanctions shock further reinforced European concerns that privately owned digital infrastructure can become an instrument of geopolitical coercion.

Reports of technology companies restricting access to services or accounts linked to sanctioned entities or institutions highlight a broader trend: private infrastructure is becoming an extension of geopolitical power. Cloud services, payment systems, and communication platforms are now tools that can be selectively weaponised. This dynamic reflects a deeper structural shift.

The symbolic damage extends beyond institutions. Images of aggressive ICE operations and the student-led protests that followed have travelled globally, contributing to a broader erosion of US soft power among younger audiences in particular. In that sense, the weakening of the liberal order is not only legal or institutional; it is also moral and visual.

The liberal order was built on the assumption that globalisation would align economic incentives with political stability. Instead, globalisation has created interdependencies that can be exploited. Sanctions, export controls, and financial restrictions have become central instruments of statecraft. The United States, historically the guarantor of this order, is increasingly contributing to its transformation (Figure 1). Policies that restrict access to markets, technologies, or even physical presence for foreign officials reflect a more transactional and security-driven approach.

Figure 1: The World's Democratic Depression

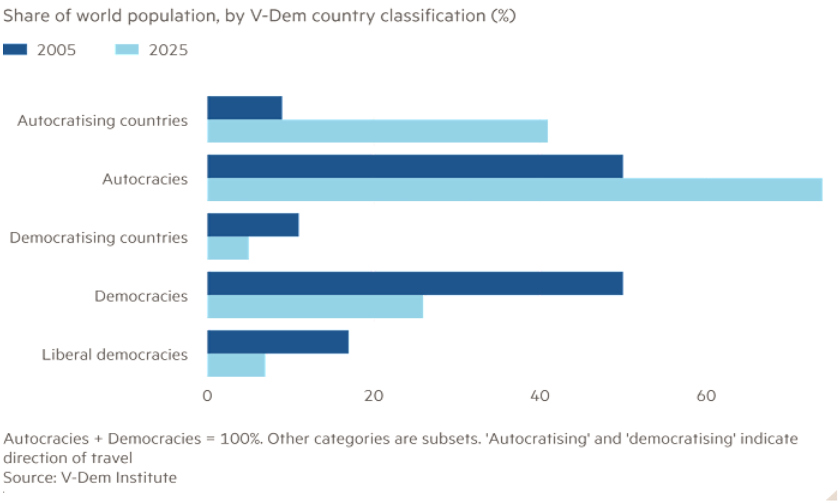


Figure 1 shows that several large-population states have moved into worse categories or are now counted as autocratizing. V-Dem says the record 41% of the world population in autocratizing countries is driven in part by countries such as India and Pakistan, and it also identifies Indonesia, the Philippines, Cambodia, Hong Kong, Argentina, Mexico, the USA, the UK, Greece, Italy, Slovakia, and Slovenia among current autocratizers across different regions.

The single biggest category change highlighted by V-Dem is the United States, which it says "loses its long-term status as a liberal democracy" in 2025. That matters a lot in a population-weighted chart because the US is both populous and was previously in the highest democratic category.

On the democratic side, V-Dem says only a mere 5% of the world's population now lives in democratizing countries, and Brazil alone accounts for more than half of that total. It also lists Botswana, Guatemala, and Mauritius as new democratizers in 2025.

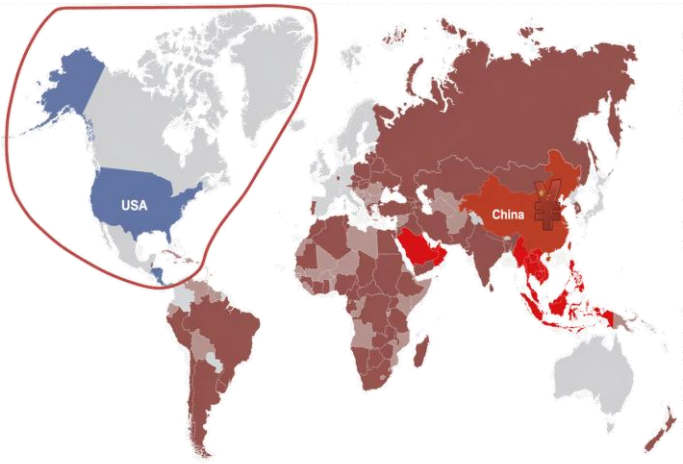
The chart moves sharply toward autocracy mainly because very populous countries have either become more autocratic or are now autocratizing, while the pool of countries improving democratically is much smaller and less population-heavy.

The cumulative effect is a system where power, rather than rules, is becoming the primary organising principle. Smaller states face a more uncertain environment, while larger powers operate with greater latitude.[30] For Europe, this presents a strategic dilemma. The EU has been one of the strongest proponents of the rules-based order, yet it now operates in a context where adherence to those rules is no longer guaranteed. The erosion of the liberal order does not imply its complete disappearance. Rather, it is being replaced by a more fragmented and contested system, where norms coexist with power politics. The challenge for the EU is to determine whether it can preserve and adapt these norms, or whether it will be forced to operate within a system defined by others.

The Return of Power Politics and Spheres of Influence

The re-emergence of spheres of influence marks one of the most significant shifts in global geopolitics. For decades, the dominant paradigm emphasised integration, interdependence, and multilateral governance. Today, the trajectory is reversing. Major powers are increasingly seeking to consolidate control over their immediate regions, reducing exposure to external influence and competition. (Figure 2)

Figure 2: This Is What the US Defensible Territory May Look Like



Source: Author's representations

In the United States, this shift is particularly evident. Strategic discourse has increasingly focused on securing the Western Hemisphere, reflecting a modern interpretation of the Monroe Doctrine. The Arctic has emerged as a key frontier in this context. Interest in Greenland, alongside growing attention to Canada's northern territories, reflects the strategic importance of new shipping routes, resource access, and military positioning.

In Latin America, the dynamics are equally complex. The region has historically been within the US sphere of influence, but increasing Chinese investment and economic engagement are challenging this position.

The next phase of hemispheric competition is likely to run through a handful of strategically symbolic states rather than the whole region at once. Colombia matters because it is a large Pacific-Atlantic hinge state, traditionally close to Washington but now also deepening ties with Beijing, including through its 2025 decision to join the Belt and Road Initiative. That makes it a test case for whether Latin American governments can hedge between the United States and China rather than choose outright. Cuba, by contrast, matters less for market size than for geography, intelligence, and political signalling. Its proximity to the US mainland, combined with evidence of expanding Chinese intelligence interest on the island, means that any renewed great-power contest in the Caribbean will carry outsized symbolic and security significance.

The northern hemisphere is becoming just as important. Greenland has moved from the margins of strategy to the centre of Arctic competition because of rare earths, shipping routes, undersea infrastructure and military positioning. Canada is no longer only a close ally in this context; it is also part of a wider contest over sovereignty, industrial resilience and Arctic access. The more Washington frames the north in openly sphere-of-influence terms, the more it risks unsettling allied cohesion even as it tries to consolidate continental control.

The concept of spheres of influence is not limited to the United States. China's Belt and Road Initiative can be interpreted as an effort to establish economic and strategic influence across Asia, Africa, and parts of Europe. Similarly, Russia's actions in Eastern Europe reflect a desire to maintain a buffer zone against NATO expansion.

The critical question is whether this model reduces or increases the risk of conflict. On one hand, clearly defined spheres could limit direct confrontation between major powers by delineating areas of control. On the other hand, they create friction at the boundaries, where competing interests intersect.

For the European Union, the return of spheres of influence presents both a challenge and an opportunity. The challenge lies in avoiding marginalisation within a system dominated by larger powers. The opportunity lies in positioning itself as a distinct pole, capable of shaping its own sphere based on economic strength, regulatory influence, and, increasingly, military capability. However, this requires a fundamental shift in mindset. The EU has traditionally operated as a normative power, relying on rules and institutions. In a world defined by spheres of influence, it must also become a strategic power, capable of defending its interests and projecting influence beyond its borders.

Russia: War as a Strategy

Russia's sustained military engagement in Ukraine has fundamentally reshaped its role in the global system. Rather than a temporary escalation, the conflict has evolved into a long-term strategic posture, underpinned by economic mobilisation and political consolidation. The war is no longer an anomaly; it is a central component of Russia's geopolitical strategy.

One of the most striking aspects of this transformation is the scale of Russia's military spending. Defence expenditure has risen to approximately 7% of GDP, a level not seen since the Soviet era. While sanctions have constrained access to certain technologies and markets, they have not fundamentally undermined Russia's ability to sustain the war effort. Instead, Russia has adapted. Trade flows have been redirected, particularly toward China, India, and other non-Western partners. Energy exports, although subject to price caps and restrictions, continue to generate significant revenue. The use of alternative payment systems and currencies has reduced reliance on Western financial infrastructure, mitigating the impact of sanctions.

From a military perspective, the conflict has become a laboratory for modern warfare. The extensive use of drones, electronic warfare, and cyber capabilities has highlighted the evolving nature of conflict. At the same time, traditional elements such as artillery and manpower remain critical, underscoring the hybrid nature of contemporary warfare.

Politically, the war has reinforced Russia's position as a central actor in global geopolitics. While relations with Western countries have deteriorated, Russia has strengthened ties with other regions. In Africa, the Middle East, and parts of Asia, it is positioning itself as an alternative partner, particularly in security and energy. The broader implication is that Russia is no longer operating within the framework of the liberal order. It is actively contributing to the emergence of a parallel system, where power and strategic alignment take precedence over rules and institutions.

For Europe, the implications are profound. The assumption that economic interdependence would constrain Russia's behaviour has been fundamentally challenged. The EU must now contend with a neighbour that is willing and able to sustain prolonged conflict, while simultaneously adapting to external pressures. This requires a reassessment of both defence and economic strategy. Deterrence, resilience, and strategic autonomy are no longer abstract concepts; they are immediate priorities. The EU's response to Russia will be a critical test of its ability to operate as a geopolitical actor.

China: Strategic Patience and Expansion

China's approach to global power is markedly different from Russia's. Where Russia relies on direct confrontation, China emphasises long-term strategic positioning. Its objective is not to disrupt the existing system abruptly, but to reshape it gradually in ways that align with its interests.

Economically, China remains a dominant force. Despite slowing growth, it continues to leverage its position as a manufacturing hub and a central node in global supply chains. Industrial policy, supported by significant state investment, is driving advancements in key sectors such as semiconductors, electric vehicles, and artificial intelligence.

The concept of military-civil fusion is central to China's strategy. The Belt and Road Initiative remains a key instrument of influence. From a military perspective, the Indo-Pacific remains the primary focus. The potential for conflict over Taiwan is the most significant flashpoint. While a direct confrontation would carry substantial risks, China's growing capabilities are shifting the balance of power in the region.

For the European Union, China presents a multifaceted challenge. It is simultaneously a major trading partner, a competitor, and a systemic rival. The influx of Chinese products into European markets, particularly in sectors such as electric vehicles, is creating economic pressure. At the same time, dependencies on Chinese supply chains, particularly for critical materials, remain significant.

The EU's response will need to balance economic interests with strategic considerations. This includes diversifying supply chains, strengthening industrial policy, and developing a coherent approach to technological competition. Failure to do so risks increasing dependence on a system that is not aligned with European values or interests.

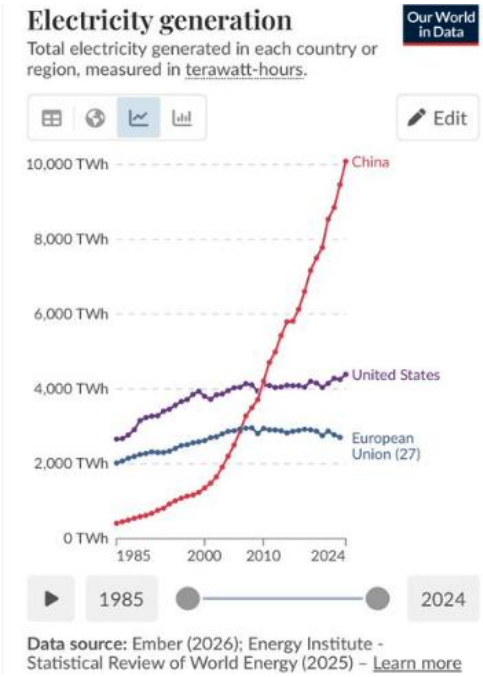
China's likely reaction to a revived Monroe-style doctrine will probably be asymmetric rather than directly military. Beijing has the economic means to compete in the Western Hemisphere through trade, infrastructure finance, industrial penetration, digital networks and elite-level political engagement. (Figure 3).

In Latin America and the Caribbean, China's footprint is already too extensive to be rolled back quickly by pressure alone, and in some markets, it has become an indispensable commercial partner. By contrast, China does not yet possess the military capacity to challenge the United States symmetrically inside the hemisphere in the way it can contest US power in the western Pacific. Its competitive advantage remains commercial leverage, logistics, technology and long-horizon statecraft, not expeditionary military dominance near US shores. That suggests that a harder US hemispheric doctrine could intensify economic and political rivalry with China without necessarily producing a clean strategic exclusion of Beijing.

Energy and Supply Chain Dependencies

Energy and supply chains have emerged as the central battlegrounds of geopolitical competition. Europe's experience since 2022 is instructive. The rapid reduction of Russian gas imports exposed the structural vulnerabilities of the EU's energy system. While diversification efforts have been successful in reducing dependence on Russia, they have replaced one dependency with others. Liquefied natural gas imports, particularly from the United States and Qatar, now play a critical role, while oil supply remains heavily exposed to Middle Eastern dynamics.

Figure 3: China Generates 40% More Electricity Than the US and the EU Combined



The Strait of Hormuz remains the most significant chokepoint in this system, with roughly one-fifth of global oil supply passing through it. Beyond energy, supply chain dependencies extend to critical materials and technologies. Europe remains highly dependent on external sources for rare earth elements, semiconductors, and battery components. China dominates many of these supply chains, creating a structural asymmetry that limits Europe's strategic autonomy.

The COVID-19 pandemic and subsequent geopolitical tensions have accelerated efforts to address these vulnerabilities. Concepts such as reshoring, nearshoring, and friend-shoring are increasingly central to policy discussions. Energy transition plays a central role in this strategy. Renewable energy sources offer the potential to reduce dependence on external suppliers, while also addressing climate objectives. However, they introduce new dependencies, particularly on critical minerals and technologies.

The US intervention in Venezuela should also be read through this lens. In narrow terms, it was presented as regime change and strategic reset. In broader terms, it signalled that the Western Hemisphere remains central to Washington's security imagination and that energy, migration, organised crime and great-power competition are now being bundled together in a more openly coercive regional doctrine. Yet the international reaction also underscored the risks: even governments far from Caracas framed the operation as a troubling precedent for sovereignty and international law.

Ultimately, energy and supply chains are no longer purely economic issues. They are strategic assets that require coordinated policy, investment, and international cooperation. The EU's ability to manage these dependencies will be a key determinant of its role in the emerging global order.

The Iran Conflict and Energy Chokepoints

The escalation of tensions involving Iran has brought renewed attention to one of the most critical vulnerabilities in the global economy: energy chokepoints. At the centre of this is the Strait of Hormuz, through which approximately 20% of global oil supply passes. Any disruption to this corridor has immediate and far-reaching consequences for global markets.

Recent developments have underscored the strategic importance of this region. The implications for energy markets are significant. Even limited disruptions can lead to sharp increases in oil prices, with cascading effects on inflation, growth, and financial stability.

For Europe, which remains heavily dependent on imported energy, these dynamics are particularly acute. While efforts to diversify away from Russian gas have accelerated, reliance on Middle Eastern oil remains substantial. Energy security is therefore becoming inseparable from geopolitical strategy. The protection of supply routes, the diversification of sources, and the development of alternative

energy systems are all critical components of a broader strategic framework. This is not merely an economic issue; it is a matter of national and regional security.

The Iran conflict also highlights the interplay between military and economic considerations. Control over energy infrastructure and transport routes provides leverage that can be used to achieve strategic objectives. Conversely, the vulnerability of these systems creates opportunities for disruption.

For the European Union, addressing these challenges requires a comprehensive approach. This includes strengthening maritime security, investing in energy infrastructure, and accelerating not only renewable deployment but also nuclear capacity where politically and technically viable. Recent Commission thinking has become more explicit on this point: avoiding premature nuclear closures is increasingly framed as part of Europe's energy-security response to geopolitical shocks, not merely as a question of climate policy. It also requires coordination with partners, both within and outside the region, to ensure the stability of critical supply chains. The broader lesson is that energy and geopolitics are increasingly intertwined. The ability to secure and manage energy resources will be a key determinant of power in the emerging global order.

The EU's Defence Transformation

The war in Ukraine has catalysed a significant shift in European defence policy. After decades of underinvestment, defence spending is increasing across the continent. The scale of the increase is notable. European defence spending reached approximately €381 billion in 2025, reflecting a broad commitment to strengthening military capabilities.

Several countries have announced plans to exceed the NATO benchmark of 2% of GDP, with some discussions extending toward 3% or higher. Despite this progress, structural issues persist. Fragmentation remains a major obstacle. Europe operates multiple types of tanks, aircraft, and naval systems, leading to inefficiencies in procurement, maintenance, and interoperability. Efforts to address these issues are underway. Joint procurement initiatives, increased funding for research and development, and greater coordination between member states are all part of the emerging strategy.

The European Defence Fund and other programmes are designed to support these efforts, but their scale remains limited relative to the challenge. The relationship with NATO is also evolving. While the EU is increasing its defence capabilities, NATO remains the primary framework for collective defence.

For the EU, defence transformation is both a necessity and an opportunity. It is necessary to address immediate security threats, but also provides an opportunity to strengthen strategic autonomy. A more capable and integrated defence system would enhance Europe's position in the global order. However, achieving this will require sustained commitment. Defence transformation is not a short-term project; it is a long-term process that will shape Europe's strategic trajectory for decades.

Military Spending and the New Arms Cycle

Global defence spending has entered a new expansionary phase, reflecting the intensification of geopolitical competition. In 2025, total military expenditure reached approximately $2.63 trillion, marking a significant increase from previous years.

In Europe, defence spending has risen sharply in response to the war in Ukraine, with the aforementioned total expenditure of €381 billion in 2025 being equivalent to around 2.1% of GDP. While this represents substantial progress, it remains uneven across member states.

The challenge for the EU is not only the level of spending, but its efficiency. Fragmentation remains a major issue, with multiple national systems and procurement processes leading to duplication and inefficiency. The industrial dimension is equally important. In Europe, venture capital investment in defence and security technologies reached approximately €2.6 billion in 2025, reflecting growing interest in this sector. However, this remains significantly lower than investment levels in the United States.

The broader implication is the emergence of a new arms cycle, characterised by both quantitative and qualitative changes. Countries are not only spending more, but also investing in different types of capabilities. This has implications for both deterrence and escalation, as new technologies can alter the balance of power in unpredictable ways. For the European Union, the key challenge is to ensure that increased spending translates into effective capability. This requires not only financial resources, but also institutional reform and strategic coordination. Without these, the EU risks remaining a collection of national defence systems rather than a cohesive strategic actor.

Artificial Intelligence and Automated Warfare

The integration of artificial intelligence into military systems is transforming the nature of warfare. What was once a domain dominated by human decision-making is increasingly characterised by automation, speed, and data-driven operations. This shift is not theoretical; it is already visible in conflicts such as Ukraine, where AI-enabled systems are being deployed in real time.

One of the most significant developments is the proliferation of autonomous and semi-autonomous drones. The use of drone swarms, in particular, represents a new paradigm, where large numbers of relatively low-cost units can overwhelm traditional defence systems. AI is also enhancing other aspects of military operations. Intelligence analysis, logistics, and cyber warfare are all being transformed by machine learning and data analytics.

However, these developments also introduce new risks. The speed of AI-driven systems can reduce the time available for human decision-making, increasing the potential for escalation. The use of autonomous weapons raises ethical and legal questions, particularly regarding accountability and compliance with international law. From a strategic perspective, AI lowers the barriers to entry for military capability.

For the European Union, AI represents both a challenge and an opportunity. Europe has strong capabilities in research, regulation, and industrial development, but it lags behind the United States and China in terms of large-scale deployment. The EU's approach to AI will need to balance innovation with regulation.

While ethical considerations are important, excessive constraints could limit the development of critical capabilities. A more pragmatic approach, focused on strategic autonomy and competitiveness, will be necessary. The broader implication is that warfare is entering a new phase, where technology plays a central role. The ability to develop and deploy AI-driven systems will be a key determinant of power in the coming decades.

EU Governance and Strategic Capacity

The European Union's ability to act as a geopolitical power is fundamentally constrained by its governance structure. Designed for consensus and stability, the EU's institutional framework is not optimised for rapid decision-making in a crisis-driven environment.

Decision-making in key areas such as foreign policy and defence often requires unanimity among member states. Recent crises have highlighted both the strengths and weaknesses of this system. The coordinated response to Russia's invasion of Ukraine demonstrated the EU's capacity for collective action.

In contrast, longer-term strategic initiatives have progressed more slowly. Defence integration, for example, remains fragmented. Budgetary constraints further complicate the situation. The EU's central budget remains relatively small compared to national budgets, limiting its ability to fund large-scale initiatives.

Institutional reform is therefore a critical issue. Proposals to expand qualified majority voting in foreign policy and defence have gained traction, but remain politically sensitive. At the same time, there is a growing recognition that Europe may need a multi-level system of governance: a Union that can function across the full economic and financial spectrum, combined with more specific, purpose-built coalitions for areas such as defence, deterrence and foreign policy where interests, threat perceptions and spending appetites differ more sharply. For the EU, governance is not merely a technical issue. It is a strategic determinant of its ability to act. Without reforms that enhance decision-making capacity, the EU risks being outpaced by more agile actors in the global system.

This is especially relevant in defence. It is increasingly unrealistic to assume that all member states will converge at the same speed or with the same level of ambition. Countries such as France, Poland or the Nordics may be willing to move faster on hard-security questions than others, while states such as Italy may remain more cautious about sustained increases in defence spending. A workable European model may therefore depend less on uniformity than on variable geometry: dense economic and financial integration at Union level, paired with operational coalitions that can act credibly in security domains without requiring every state to participate equally in every mission.

Canadian Prime Minister Mark Carney's intervention at Davos is relevant here because it captures the strategic logic increasingly confronting Europe. In January 2026, Carney argued that middle powers must stop waiting for the old order to return and instead build issue-based coalitions capable of acting in a world shaped once again by hard power. In practical terms, this reinforces a central point for the EU: military capability, strategic resilience, and the ability to defend sovereignty are now preconditions for political agency. A bloc that cannot secure its borders, defend critical infrastructure, or absorb coercive pressure will struggle to claim a meaningful seat at the table, regardless of economic size or regulatory sophistication. The EU can still play an active role in the new world order, but only if it moves beyond being a market and becomes a security and power actor as well.

Alliances and the Networked Order

The traditional model of fixed alliances is giving way to a more fluid and networked system. For the European Union, this again presents both challenges and opportunities. The transatlantic alliance remains central, but it is no longer sufficient on its own. The EU must develop a broader network of partnerships that reflects its economic and strategic interests.

India is a key example. As a rapidly growing economy with increasing geopolitical influence, India represents a potential partner in areas such as trade, technology, and security. Similarly, relationships with countries in the Indo-Pacific, such as Japan and Australia, are becoming increasingly important. The Gulf states also represent significant opportunities. As major energy producers and investors, they play a critical role in global markets.

The concept of pragmatic alliances is therefore central to the EU's strategy. Rather than relying solely on traditional alliances, the EU must engage in flexible, issue-based partnerships. This requires a more pragmatic approach to diplomacy, balancing values with interests.

At the same time, the EU must define its own strategic identity. Partnerships should enhance, rather than replace, Europe's autonomy. This requires a clear understanding of priorities and capabilities. The broader implication is the emergence of a networked global order, where power is distributed across multiple actors and relationships. In this system, influence is determined not only by capabilities, but also by the ability to build and maintain effective partnerships. For the EU, success will depend on its ability to navigate this complexity. This requires both strategic clarity and diplomatic agility.

Economic Attractiveness as Strategic Power

Economic strength remains the foundation of geopolitical power. However, in the current environment, it is no longer sufficient on its own. The ability to translate economic strength into strategic influence is becoming increasingly important.

The European Union remains one of the world's largest economic blocs, but it faces significant challenges. Productivity growth has slowed, innovation gaps persist, and demographic trends are unfavourable.

The Draghi and Letta reports have highlighted the need for structural reforms. These include deepening the single market, particularly in services and capital markets, increasing investment in innovation, and reducing regulatory fragmentation. Capital markets are a particular area of concern. The fragmentation of financial systems across member states limits the availability of funding for innovation and growth.

Industrial policy is another key area. The EU has taken steps to support strategic sectors, such as semiconductors and green technologies. For the EU, economic reform is therefore not merely a domestic issue. It is a central component of its global strategy. A stronger, more dynamic economy would enhance Europe's ability to shape the emerging global order.

Europe's external economic policy is now part of this geopolitical equation. In response to Trump-era tariffs, the Commission has not remained passive: it prepared countermeasures, consulted on further retaliation, and readied WTO litigation while also trying to preserve negotiating space. At the same time, Brussels has begun monitoring possible trade diversion into the EU internal market through a dedicated import-surveillance task force, reflecting concern that Chinese goods shut out of the US market may be redirected towards Europe at scale. This issue is not theoretical. ECB and Commission analysis indicates that Chinese exports to the euro area increased in 2025 even as exports to the United States fell sharply under higher tariffs, raising the risk of price pressure and industrial displacement in already stressed European sectors.

Mercosur should therefore be understood not only as a trade agreement but as a strategic instrument. Following the Council's approval in January 2026 and the signature of the agreements in Asuncion, the

EU now has an opportunity to lock in economic and political ties with South America on rules that are more favourable to Europe than ad hoc bilateral drift would be. The case for moving ahead is strong: Mercosur widens the EU's access to food, energy, minerals and industrial markets while reducing the risk that South America tilts further towards either Chinese capital or pure transactional nationalism. But the agreement will only be politically sustainable if Brussels also enforces robust safeguards for exposed agricultural sectors and frames the deal as part of a broader security-of-supply and geopolitical strategy, rather than as a narrow free-trade exercise.

The EU's digital agenda is equally central to strategic power. Europe's digital policy is no longer only about regulation; it increasingly concerns technological sovereignty, cyber resilience, compute capacity, standards-setting and the ability to shape global digital governance. The Digital Decade programme, the International Digital Strategy, the 2025-2027 Digital Europe work programme, AI Factories, and the forthcoming Quantum Act all point in the same direction: the EU is trying to convert its regulatory weight into productive and infrastructural capability. Whether it succeeds will depend on scale and speed. If Europe remains primarily a rule-maker while others own the chips, clouds, frontier models and critical platforms, its influence will erode. If it can combine regulation with capital, compute, industrial deployment and trusted digital partnerships, the digital agenda could become one of the Union's clearest routes to geopolitical relevance.

A related opportunity lies in finance itself. As confidence in US assets becomes less automatic, Europe has a window to deepen the euro's international role. That would require more than rhetoric: it would require a genuinely larger pool of euro-denominated safe assets, potentially through expanded joint issuance or new multi-country European bond structures. The strategic aim should be clear: to work toward becoming a global reserve-currency powerhouse as the United States loses some of the unquestioned trust that long underpinned dollar dominance.

Policy Roadmap: 6 Pillars for Making the EU a Global Power

The European Union stands at a critical historical juncture. The international order that shaped Europe's post-Cold War prosperity is fragmenting under the pressure of geopolitical rivalry, technological competition, economic nationalism, and military conflict. In this environment, the EU can no longer rely on the assumption that markets, rules, and interdependence alone will provide security and influence. It must instead develop the institutional capacity, political coherence, and strategic instruments required to act as a genuine global power.

This is not a call for Europe to imitate the hard-power traditions of other major states, nor to abandon its normative foundations in favour of crude realpolitik. Rather, it is a recognition that values without power are increasingly vulnerable in a world defined by coercion, disruption, and bloc formation. If the EU wishes to preserve its model of open societies, regulated markets, democratic governance, and multilateral cooperation, it must equip itself to defend those principles materially as well as rhetorically. The challenge is therefore not whether Europe should become more geopolitical, but whether it can do so in a way that remains consistent with its institutional character and political identity.

1. Defence Integration

The first pillar of such a strategy must be defence integration, but this should not be confused with the idea that the EU itself will become a unitary military alliance. The sharp increase in national defence

budgets across Europe is an important starting point, but spending alone will not generate strategic capability. The Union's central weakness is not simply underinvestment, but fragmentation. Member states continue to procure overlapping systems, support nationally siloed industrial bases, and maintain force structures that are only partially interoperable. The result is duplication, inefficiency, and a chronic inability to convert expenditure into usable collective power. A more credible European defence posture therefore requires deeper coordination in procurement, standardisation of equipment, integration of command and logistics systems, and a more deliberate effort to build a continent-wide defence industrial base.

This should include common financing mechanisms for critical capabilities, support for cross-border industrial consolidation, and stronger institutional links between EU-level instruments and NATO planning. The objective is not to replace NATO, but increasingly to Europeanise it: to build a far stronger European pillar inside the Alliance and, where necessary, enable coalitions of capable European states to act when unanimity across the Union is unattainable. That is more plausible than expecting every EU member to surrender defence sovereignty in full, and it is more consistent with the variable-geometry logic that is likely to define Europe's strategic future.

2. Energy Resilience

A second priority is energy resilience. Europe’s experience since 2022 demonstrated that energy dependence is not merely an economic issue, but a strategic vulnerability. Reliance on external suppliers for gas, oil, critical minerals, and key components in clean energy value chains leaves the Union exposed not only to price shocks and inflation, but also to geopolitical leverage. Energy policy must therefore be reframed as a core component of economic security. This means continuing to diversify supply sources, expanding LNG and interconnector infrastructure where necessary, and improving storage and grid resilience.

But it also means accelerating the transition toward a more domestically anchored and technologically sovereign energy system. Renewables, nuclear where politically viable, storage capacity, smart grids, and demand management all have a role to play in reducing structural dependence and insulating Europe from external coercion. The strategic logic is broader than climate policy alone. A more self-reliant energy architecture would strengthen industrial competitiveness, reduce macroeconomic vulnerability, and give the EU greater room for manoeuvre in future geopolitical crises, particularly in scenarios involving renewed disruption in the Middle East, maritime chokepoints, or commodity weaponisation.

3. Technological Leadership

Third, the EU must treat technological capability as a central determinant of geopolitical relevance. In the emerging international order, leadership in artificial intelligence, semiconductors, quantum technologies, cyber capability, and digital infrastructure will shape not only economic growth, but also military effectiveness, regulatory influence, and long-term sovereignty. Europe has important research capacity, world-class universities, and strengths in selected industrial niches, but it remains behind both the United States and China in the scale, speed, and integration of its technological strategy.

The policy challenge is therefore not simply to fund innovation, but to build the broader ecosystem in which innovation can be commercialised, scaled, protected, and embedded into productive capacity.

This requires larger and more coordinated public and private investment, deeper capital markets, improved incentives for scale-ups, and a more realistic approach to strategic industrial policy.

It also requires the protection of critical technologies from predatory acquisition and excessive external dependency. Europe's regulatory influence has often been described as a source of power, but regulation alone is not sufficient if the underlying technologies, platforms, chips, and cloud infrastructure are designed, owned, and controlled elsewhere. A truly geopolitical Europe must aim not only to regulate digital modernity, but also to help produce it.

The same logic applies to the digital sphere. Europe's digital agenda must be elevated from an internal market project to a pillar of statecraft, linking AI, semiconductors, cloud, cyber security, digital identity, quantum and standards diplomacy into a single strategy for sovereignty and external influence.

4. Trade and Industrial Policies

Fourth, trade and industrial policy must be more closely aligned with strategic objectives. For much of the post-Cold War period, the EU approached trade primarily through the lens of efficiency, market access, and rules-based openness. That framework is no longer adequate in a world where major powers increasingly use tariffs, subsidies, export controls, investment screening, and industrial policy to secure advantage.

This also means treating the response to US tariffs and Chinese trade diversion as an enduring strategic challenge rather than a passing commercial dispute. The EU will need a standing capacity to deploy countermeasures, anti-coercion tools, WTO litigation, safeguard instruments and import-surveillance mechanisms more quickly and more politically coherently than in the past.

Likewise, the Mercosur agreement should be viewed through this lens. Ratifying and implementing it with credible safeguards would strengthen Europe's position in South America, diversify supply, and provide the Union with a firmer Atlantic economic platform at a moment when geopolitical competition in the hemisphere is intensifying.

Europe cannot afford to remain attached to an outdated model of strategic passivity while its competitors act more aggressively to protect key sectors and shape global supply chains. A more coherent European response would not imply protectionism in the traditional sense, but rather a selective and disciplined form of strategic economic statecraft. This includes supporting critical industries, securing access to raw materials, screening foreign investment in sensitive sectors, responding more forcefully to unfair competition, and ensuring that trade policy reinforces wider geopolitical aims.

The underlying aim should be to preserve openness where possible, but reduce exposure where dependencies become politically or economically dangerous. In practical terms, this means linking industrial policy more explicitly to resilience, security, and technological upgrading, rather than treating it as a narrow competition issue or a temporary deviation from orthodoxy.

5. Reform of EU Governance

Fifth, governance reform will be essential if the EU is to act with sufficient speed and coherence. Many of the Union's current institutional arrangements were designed for a less adversarial era, one in which time horizons were longer and the external environment more permissive. In the present setting, however, decision-making bottlenecks can become strategic liabilities.

Unanimity requirements in key areas, particularly foreign policy and taxation, give individual member states disproportionate veto power and make it more difficult for the Union to respond quickly to crises or sustain a consistent external posture.[20] Reforming these procedures will be politically sensitive, but some movement toward expanded qualified majority voting and stronger central coordination may be unavoidable if the EU is serious about geopolitical effectiveness.

At the same time, governance reform should not be understood solely as a question of formal voting rules. It also concerns the broader institutional capacity of the Union to identify priorities, mobilise resources, and sustain long-term execution. Europe often excels at agenda-setting and legal design, but struggles with implementation when political costs rise or national interests diverge. Closing that gap will require stronger institutions, clearer chains of responsibility, and a more strategic political culture at both the national and Union levels.

Governance reform should also extend to financial statecraft. If Europe wants to absorb part of the demand now looking for alternatives to the United States, it will need deeper capital markets, a more unified sovereign and quasi-sovereign asset base, and a clearer political willingness to use common issuance when strategic circumstances require it. A larger European safe-asset market would not only lower financing costs for some member states; it would also strengthen the euro's reserve role and give the Union a more powerful lever in global financial governance.

6. Strategic Autonomy and Flexibility in International Alliances

Sixth, the EU must adopt a more pragmatic and flexible approach to alliances and external partnerships. Europe’s traditional preference for universal rules and broad multilateral forums remains valuable, but it is no longer sufficient in a world increasingly shaped by variable coalitions and interest-based alignment. To expand its influence, the EU will need to build a broader network of partnerships across the democratic world and beyond, grounded not in idealised assumptions of convergence, but in concrete mutual interests.

This includes deeper security and technology ties with like-minded partners such as the United Kingdom, Japan, South Korea, Canada, Australia, and selected partners in the Indo-Pacific and Global South.

It also means developing a more sophisticated approach to emerging powers that may not share all of Europe’s values, but whose cooperation is critical on supply chains, critical minerals, maritime security, migration, finance, and climate. Strategic maturity will require Europe to distinguish more clearly between areas where normative alignment is essential and areas where transactional cooperation is both possible and necessary.

Such pragmatism need not dilute Europe’s identity. On the contrary, it may be the only way to preserve its influence in a world where moral aspiration alone no longer guarantees leverage.

A more active role also requires the EU to think like a middle power coalition-builder of the sort described by Carney at Davos: not waiting for universal alignment, but constructing practical partnerships issue by issue. That approach is especially relevant in the Atlantic space, where Canada, the United Kingdom, selected Latin American partners and democratic Indo-Pacific states could form part of a looser but more resilient European network.

Underlying all of these priorities is the need for a clearer strategic narrative. The EU has often advanced through crisis, but it has rarely articulated its transformation in overt geopolitical terms. That is

becoming harder to sustain. The shift now required is not only material, but conceptual. Europe must begin to understand itself not simply as a market, a regulator, or a peace project, but as a political entity operating in a competitive world where security, technology, finance, energy, and industrial strength are increasingly intertwined.

Conclusion

The central question is no longer whether the EU should remain a civilian power in a military world, but whether it can become a strategic power without losing the features that make it distinctive.

The overarching objective, then, is to transform the EU from a primarily economic union into a strategic actor. This does not mean abandoning its core values. On the contrary, it means reinforcing them with the institutional capacity and material power needed to defend and project them. Europe's comparative advantage has always rested not only on economic scale, but on its ability to shape norms, standards, and institutions. In the emerging global order, that kind of influence will endure only if it is backed by credible capabilities. Regulatory reach without industrial depth, diplomacy without defence, and normative ambition without energy or technological resilience will prove increasingly insufficient.

The coming years will therefore be decisive. The window for action is real, but it is not indefinite. Europe still possesses extraordinary assets: a vast single market, advanced industrial capabilities, deep human capital, strong legal institutions, and significant latent geopolitical weight. Yet these advantages will not automatically translate into leadership. They must be organised, prioritised, and mobilised.

The emerging world order will be shaped not only by the distribution of power, but by the capacity to define standards, coordinate alliances, secure supply chains, and build resilient institutions. The EU has the potential to become one of the central actors in that system. But that outcome is not preordained. It will depend on whether Europe is prepared to adapt its mindset as well as its policies, and whether it is willing to match its ambitions with the tools required to realise them.

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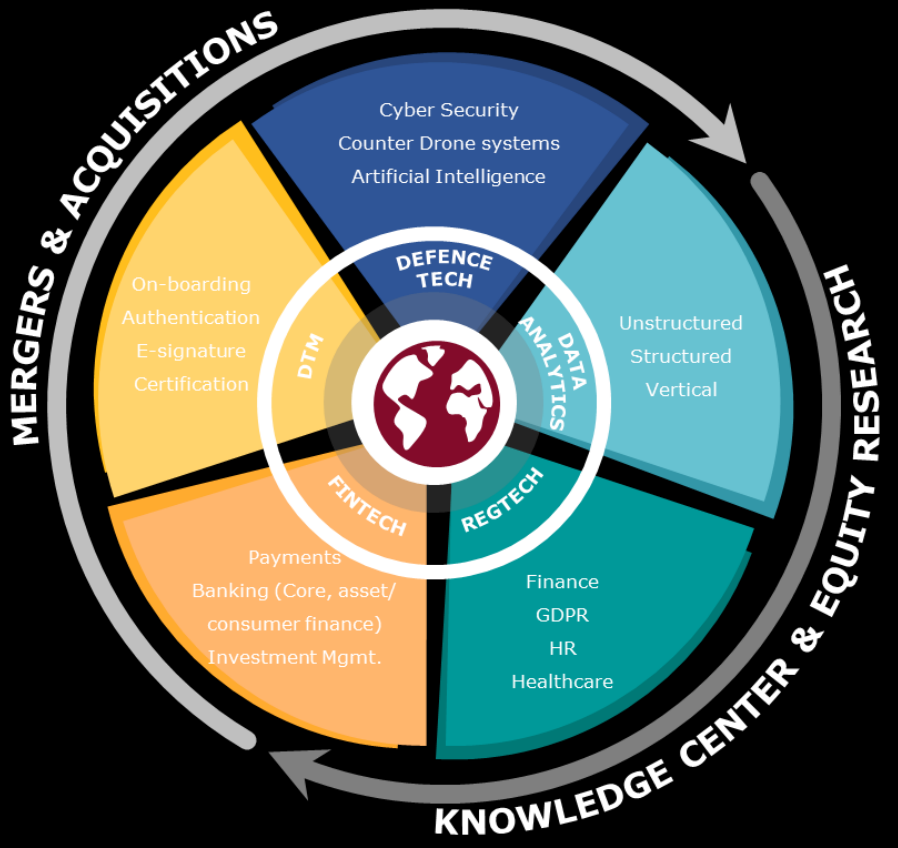

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