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SCENARIOS TO

2040

The Future Direction

OF THE

EUROPEAN UNION

An interdisciplinary assessment of strategic options for the coming decades

The Future Direction of the European Union

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The Future Direction of the European Union

Abstract: This volume examines the future direction of the European Union at a critical juncture in its history, addressing how the Union will navigate geopolitical realignment, internal fragmentation, and technological disruption. Beginning with a diagnostic assessment of the EU's current political, economic, and social landscape - including the legacies of the pandemic, the energy shock, and the war in Ukraine - the publication proceeds through a series of thematic analyses spanning economic integration and monetary policy, institutional reform and democratic legitimacy, strategic autonomy in security and foreign affairs, digital transformation and technological sovereignty, the European Green Deal and energy transition, migration and demographic challenges, external relations in a multipolar world, enlargement and the question of Ukraine, and the resilience of the rule of law and fundamental rights. Each chapter applies a forward-looking analytical lens, evaluating both ongoing policy trajectories and emerging reform proposals. The volume concludes by synthesizing these analyses into a set of plausible scenarios for the EU in 2040 - ranging from deepened federal integration to managed differentiation, stagnation, or fragmentation - and identifies the critical decision points and policy recommendations that will determine which pathway the Union ultimately follows. The work is intended for scholars, policymakers, and advanced students of European studies seeking a comprehensive, multidisciplinary assessment of the Union's strategic options in the coming decades.

1. Introduction: The EU at a Crossroads

1.1 From Coal and Steel to a Union of Twenty-Seven: A Concise History of Integration

The European Union did not emerge from a single founding act but from a long, often contested, process of incremental integration that began in the aftermath of the Second World War. The 1951 Treaty of Paris, which established the European Coal and Steel Community, set a precedent: by pooling sovereignty over strategically vital industries, the six founding states - Belgium, France, Germany, Italy, Luxembourg, and the Netherlands - sought to render war between them "not merely unthinkable, but materially impossible." The 1957 Treaty of Rome extended this logic to a broader common market, and the subsequent decades saw successive enlargements (1973, 1986, 1995, 2004, 2007, 2013) that transformed a Western European project into a continent-spanning polity of twenty-seven member states.

Each major treaty - Maastricht (1992), Amsterdam (1997), Nice (2001), Lisbon (2007) - deepened integration along specific axes: the creation of the euro and the Economic and Monetary Union, the establishment of a common foreign and security policy, the codification of fundamental rights, and the reconfiguration of institutional competences. The single market, completed in 1993, became the Union's most tangible achievement, enabling the free movement of goods, services, capital, and persons across internal borders. Yet integration has never been linear. The eurozone's birth in 1999, the 2008 financial crisis, the 2015 migration crisis, the Brexit referendum of 2016, and the pandemic of 2020 each tested the architecture and revealed structural asymmetries that the treaties had not fully resolved.

What distinguishes the present moment from any previous crisis is the simultaneity and interdependence of the challenges confronting the Union. No single shock can be addressed in isolation; the energy shock triggered by the war in Ukraine, the fiscal divergences exposed by the pandemic, the strategic reorientation demanded by great-power competition, and the disruptive potential of artificial intelligence and digital platforms all impinge on one another. The Union stands, in the words of the Commission's 2022 Strategic Compass, at a "decisive moment" in which the choices made over the next decade will determine whether the project of European integration deepens, stalls, or fragments.

1.2 The Pivotal Juncture: Three Axes of Pressure

The crossroads identified in this volume can be understood along three interlocking axes of pressure, each of which is examined in depth in subsequent chapters.

Geopolitical shifts. The war in Ukraine, the reassertion of great-power competition between the United States and China, and the erosion of multilateral institutions have fundamentally altered the strategic environment in which the EU operates. The Union, long a "normative power" and trade-oriented actor, is now compelled to articulate a coherent security and defence posture, to manage its dependencies on external energy and technology suppliers, and to project influence in a multipolar world. Chapter 5, *Strategic Autonomy: Security, Defense, and Foreign Policy*, and Chapter 9, *External Relations: The EU in a Multipolar World*, address these imperatives in detail.

Internal fragmentation. The Union's internal cohesion is under strain from multiple directions. Fiscal disparities among member states, the incomplete banking union, and the absence of a full fiscal transfer mechanism leave the eurozone vulnerable to asymmetric shocks, as analysed in Chapter 3, *Economic Integration, Monetary Policy, and the Single Market*. Democratic backsliding in several member states, the rise of populist and Eurosceptic movements, and persistent public dissatisfaction with the pace and direction of integration challenge the Union's legitimacy, themes explored in Chapter 4, *Political Integration, Governance Reform, and Democratic Legitimacy*, and Chapter 11, *Rule of Law, Fundamental Rights, and the Resilience of European Democracy*. Demographic aging and the unresolved architecture of migration and asylum further test social cohesion, as examined in Chapter 8, *Migration, Demographics, and Social Cohesion*.

Technological disruption. The rapid advancement of artificial intelligence, the consolidation of digital platforms, and the race for technological sovereignty present both an opportunity and a risk. The EU's regulatory approach - exemplified by the AI Act and the Digital Markets Act - seeks to shape global standards while protecting fundamental rights, yet the Union must also ensure that its industrial base remains competitive against the United States and China. Chapter 6, *Digital Transformation, Artificial Intelligence, and Technological Sovereignty*, and Chapter 7, *Energy Transition, Climate Policy, and the European Green Deal*, examine how technological and environmental transitions will reshape the Union's economic and regulatory landscape.

These three axes are not independent. Geopolitical competition intensifies technological rivalry; internal fragmentation constrains the Union's capacity to respond to external threats; and technological disruption alters

the economic foundations upon which social cohesion depends. The analytical task of this volume is to trace these interdependencies and to assess the policy choices available to the Union at each decision point.

1.3 Central Questions of the Volume

Against this backdrop, the publication is organised around a set of interrelated questions:

1. **How will the EU adapt its institutional and economic architecture to a world of great-power competition and strategic interdependence?** This question spans the governance reforms discussed in Chapter 4, the security and defence capabilities assessed in Chapter 5, and the external relations strategy outlined in Chapter 9.
2. **Can the Union reconcile deeper economic and fiscal integration with the political diversity and democratic accountability of its member states?** The tension between the single market's logic of uniformity and the political economy of differentiated integration is the subject of Chapter 3 and is further explored in the enlargement context of Chapter 10, *Enlargement, the Eastern Partnership, and the Question of Ukraine*.
3. **Will the EU's regulatory and normative model - its "Brussels effect" - remain a source of global influence, or will it be eroded by the competing models of the United States and China?** This question is addressed in Chapter 6, Chapter 7, and Chapter 9.
4. **What is the relationship between the Union's climate and energy ambitions and its industrial competitiveness, and how will the just transition be managed across regions and generations?** Chapter 7 provides the primary analysis, with implications for social policy in Chapter 8.
5. **Under what conditions will the Union's democratic foundations be reinforced, and under what conditions will they be further eroded?** Chapter 11, together with Chapter 4, addresses this question, while Chapter 2, *Current State of the Union: Political, Economic, and Social Landscape*, establishes the empirical baseline.
6. **What are the plausible trajectories for the EU by 2040, and what critical decisions in the intervening years will determine which pathway is realised?** Chapter 12, *Conclusion: Scenarios and Pathways for the EU in 2040*, synthesises the preceding analyses into a set of scenarios - deepened integration, managed differentiation, stagnation, and fragmentation - and identifies the policy levers that can steer the Union toward the most desirable outcomes.

1.4 Structure and Analytical Lenses

The volume proceeds from diagnosis to projection. Chapter 2 provides a comprehensive assessment of the Union's current state - its institutional performance, fiscal position, public opinion trends, and the legacy of the pandemic, energy shock, and war in Ukraine - establishing the baseline from which all future-directional analysis proceeds. Chapters 3 through 11 then examine specific policy domains, each applying a combination of institutional analysis, comparative political economy, and scenario-based reasoning. Chapter 10, *Enlargement, the Eastern Partnership, and the Question of Ukraine*, is included as a distinct chapter because the prospective integration of Ukraine, Moldova, and Georgia, alongside the stalled accession processes of the Western Balkans and Turkey, represents a structural variable that will shape the Union's institutional design, budgetary capacity, and political identity for decades.

The analytical approach throughout is deliberately plural. No single theoretical framework - federalism, intergovernmentalism, constructivism, or liberal institutionalism - can capture the full complexity of the EU's future. Instead, each chapter draws on the methodological tools most suited to its subject: quantitative fiscal modelling in the economic chapters, institutional and legal analysis in the governance and rule-of-law chapters, strategic and security studies in the defence and foreign policy chapters, and sociological and demographic analysis in the social cohesion chapters. The aim is not to prescribe a single "correct" path for the Union but to map the space of possibilities, to identify the constraints and enablers that shape each option, and to equip policymakers, scholars, and citizens with the analytical tools to navigate the decisions ahead.

The publication is written for a readership that spans academic research, policy formulation, and informed public discourse. It assumes familiarity with the basic architecture of the EU but does not presuppose specialist knowledge in any single policy domain. Where technical detail is necessary, it is provided in the relevant chapter; the present introduction serves to orient the reader and to articulate the intellectual framework within which the subsequent analyses are situated.

The choices made in the coming decade - on fiscal governance, on defence, on digital regulation, on climate policy, on migration, on enlargement, and on the very nature of the Union's democratic compact - will determine whether the European project enters its next chapter as a more cohesive, more capable, and more legitimate polity, or whether it retreats into a looser confederation of national states bound by habit rather than conviction. The pages that follow are an attempt to illuminate that choice.

2. Current State of the Union: Political, Economic, and Social Landscape

2.1 Institutional Performance and Governance Architecture

The European Union's institutional architecture, as codified in the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) following the 2009 Lisbon reforms, remains the operative framework for Union governance. Yet the past five years have subjected this architecture to a stress test of unprecedented intensity. The simultaneous convergence of the pandemic, the energy shock, and the war in Ukraine - what Section 1, *Introduction: The EU at a Crossroads*, identifies as a defining feature of the present juncture - has revealed both the adaptive capacity and the structural limitations of the existing institutional design.

The European Commission, under the von der Leyen presidency (2019-2024) and its successor, has demonstrated an expanded executive role, particularly in the design and coordination of crisis responses. The NextGenerationEU recovery instrument (€750 billion in grants and loans, 2021-2026) represented a qualitative shift: for the first time, the Union issued joint debt on the capital markets, effectively creating a shared fiscal capacity without a formal treaty amendment. The European Council's decision to back this instrument by qualified majority voting, rather than unanimity, signalled a pragmatic recalibration of intergovernmental decision-making. Nevertheless, the instrument's design - tied to national reform and recovery plans, subject to Commission oversight, and contingent on rule-of-law conditionality - preserved the intergovernmental character of fiscal solidarity while embedding a technocratic supervisory layer.

The European Parliament's legislative and budgetary powers have been reinforced in practice, if not always in formal treaty text. The Parliament's role in approving the Multiannual Financial Framework (MFF) 2021-2027 and the recovery instrument gave it a de facto veto over the Union's largest fiscal commitments. Yet the persistent perception of a "democratic deficit" - a theme developed in Section 4, *Political Integration, Governance Reform, and Democratic Legitimacy* - remains a structural constraint on the Union's capacity to project coherent authority. The absence of a directly elected executive with a clear mandate, the complexity of the legislative process (the ordinary legislative procedure involving both Parliament and Council), and the limited scope of EU competences in areas such as taxation, social policy, and foreign affairs continue to generate a legitimacy gap between the Union's expanding policy ambitions and the channels through which citizens can hold it accountable.

The Council of the European Union, as the intergovernmental pillar, has experienced both consolidation and strain. The 2022-2023 energy crisis required rapid, coordinated action on gas procurement, price caps, and solidarity mechanisms, which the Council delivered through a series of emergency regulations. However, the unanimity requirement in foreign and security policy (CFSP) and in certain tax and social matters has repeatedly produced lowest-common-denominator outcomes. The 2022 failure to reach a unified position on the initial response to the war in Ukraine - delayed by the need to accommodate Hungary's and Slovakia's more cautious stances - illustrated how a single member state's political calculus can constrain collective action. The 2023-2024 disputes over the rule-of-law conditionality mechanism (Article 7 TEU) and the suspension of funds to Poland and Hungary further exposed the tension between the Union's normative commitments and the political reality of member-state sovereignty.

The Court of Justice of the European Union (CJEU) has maintained its role as the guardian of the legal order, issuing landmark rulings on the primacy of EU law, the scope of the rule-of-law conditionality, and the boundaries of national competence. Yet the political pushback from certain member states - most notably the constitutional-court challenges in Poland and the ongoing tensions in Hungary - has tested the enforcement architecture. As Section 11, *Rule of Law, Fundamental Rights, and the Resilience of European Democracy*, examines in detail, the CJEU's rulings, while legally binding, lack a direct enforcement mechanism that does not depend on the political will of the Council. This structural weakness is a critical variable in the Union's future trajectory.

The European Central Bank (ECB), operating within the eurozone, has played an increasingly central role in crisis management. The Pandemic Emergency Purchase Programme (PEPP, 2020-2022) and the subsequent TPI (Transmission Protection Instrument, 2022) expanded the ECB's mandate in practice, raising questions about the boundary between monetary and fiscal policy. The ECB's 2022-2023 rate-hiking cycle, conducted in a context of divergent national inflation rates and fiscal positions, highlighted the structural asymmetries within the monetary union - a theme explored further in Section 3, *Economic Integration, Monetary Policy, and the Single Market*.

2.2 Fiscal Disparities and Economic Asymmetries

The economic landscape of the 27 member states in 2024-2025 is characterised by pronounced and, in several dimensions, widening disparities. These asymmetries are not merely statistical; they constitute the primary structural constraint on the Union's capacity for collective action and the principal source of political tension among member states.

GDP per capita and convergence. The gap between the wealthiest and poorest member states remains substantial. In 2023, Luxembourg's GDP per capita (PPP) exceeded €130,000, while Bulgaria's stood below €25,000 - a ratio of more than five to one. The convergence that characterised the 2004-2007 enlargement wave has largely stalled. The 2020-2022 pandemic and the 2022-2023 energy shock disproportionately affected smaller, less diversified economies in Central and Eastern Europe, while the fiscal capacity to absorb these shocks varied dramatically. The NextGenerationEU instrument, while providing a significant fiscal equalisation effect, is temporary and does not address the underlying structural divergences in productivity, human capital, and institutional quality.

Fiscal positions and debt sustainability. The dispersion in public debt-to-GDP ratios across the eurozone is a defining feature of the current fiscal landscape. In 2023, Greece's public debt exceeded 170% of GDP, Italy's surpassed 140%, and France's approached 110%, while Germany's stood near 60% and the Netherlands below 50%. The pandemic-era fiscal expansion (2020-2022) widened these gaps further, as southern and peripheral states ran larger deficits to support their economies. The European Commission's 2023-2024 fiscal surveillance cycle, conducted under the revised Stability and Growth Pact (SGP) framework, has attempted to balance the need for fiscal consolidation with the imperative of continued investment in the green and digital transitions. The political tension between "fiscal hawks" (notably Germany, the Netherlands, Austria, and Finland) and "fiscal doves" (France, Italy, Spain, and the southern periphery) remains unresolved and is a central fault line in Council decision-making.

The incomplete banking union. The Single Resolution Mechanism (SRM) and the Single Supervisory Mechanism (SSM) have reduced the probability of bank failures triggering sovereign debt crises, but the absence of a common deposit insurance scheme (the European Deposit Insurance Scheme, or EDIS) means that the fiscal backstop for the banking union remains national. This incomplete architecture perpetuates the bank-sovereign nexus and constrains the integration of capital markets. As Section 3, *Economic Integration, Monetary Policy, and the Single Market*, analyses, the completion of the banking union is a prerequisite for a credible fiscal union and for the eurozone to function as a coherent economic entity.

The energy shock and its asymmetric impact. The 2022-2023 energy crisis, triggered by the war in Ukraine and the subsequent disruption of Russian gas and oil supplies, exposed the structural vulnerability of EU economies to external energy dependence. The impact was highly asymmetric: Germany, with its heavy industrial base and prior reliance on Russian pipeline gas, experienced a sharp contraction in industrial output and a surge in energy-intensive manufacturing costs. Conversely, France, with its nuclear fleet, and the Netherlands, with its North Sea gas production, were less directly affected. The EU's emergency response - joint procurement, price caps, solidarity mechanisms, and the REPowerEU plan - provided a framework for collective action but did not eliminate the underlying structural disparities in energy infrastructure, industrial composition, and fiscal capacity to absorb price shocks. The long-term implications for industrial competitiveness and the location of energy-intensive production within the Union are examined in Section 7, *Energy Transition, Climate Policy, and the European Green Deal*.

The single market under strain. The single market, the Union's foundational economic achievement, faces multiple pressures. The fragmentation of supply chains during the pandemic, the energy shock's impact on industrial competitiveness, and the rising cost of compliance with the EU's regulatory framework (the "Brussels effect") have generated political resistance in several member states. The 2023-2024 debate over the "omnibus" simplification of EU regulations, the Digital Services Act, and the Carbon Border Adjustment Mechanism (CBAM) reflects a growing tension between the Union's regulatory ambition and the economic capacity of its less competitive member states to comply. The risk of a "race to the bottom" in regulatory enforcement, or conversely, of a "race to the top" that excludes less competitive economies, is a live political question.

2.3 Public Opinion, Legitimacy, and the Democratic Compact

The relationship between EU citizens and the Union's institutions has undergone a significant transformation over the past decade. The "EU fatigue" that characterised the post-2008 period has not disappeared but has been complicated by new dynamics: the pandemic's demonstration of the value of collective action, the energy crisis's exposure of national vulnerability, and the war in Ukraine's reassertion of the Union's geopolitical relevance.

Trust and support: a polarised picture. Eurobarometer data from 2023-2024 reveals a deeply polarised public opinion landscape. In the Benelux countries, the Nordics, and the Baltic states, support for the EU and its institutions remains robust, with trust in the European Parliament and the Commission consistently above 50%. In contrast, in France, Italy, Hungary, Poland, and Greece, trust in EU institutions hovers between 25% and 40%, and the share of citizens who consider their country's EU membership "a bad thing" has risen to 20-30% in several of these states. The 2024 European Parliament elections, in which the combined vote share of pro-EU parties (EPP, S&D, Renew, Greens) remained above 50% but the anti-EU and populist blocs (Identity and Democracy, European Conservatives and Reformists, Patriots for Europe) captured a combined 30-35%, confirmed both the resilience and the fragility of the pro-European consensus.

The rise of the "sovereigntist" centre. A notable development in the 2022-2024 period has been the shift of several centre-right and centre-left parties toward a "sovereigntist" or "critical European" position. The French Rassemblement National, the Italian Brothers of Italy, the German AfD, and the Dutch PVV have all gained electoral ground, but the more consequential shift has been within the mainstream: the French Renaissance party's internal tensions over EU fiscal integration, the German CDU/CSU's emphasis on "debt brake" discipline, and the Italian government's resistance to further fiscal transfers all reflect a growing scepticism toward deeper integration among parties that remain formally pro-European. This "sovereigntist centre" complicates the traditional left-right axis of EU politics and introduces a new dimension to the debate over the Union's future direction.

The democratic compact under pressure. The EU's legitimacy rests on an implicit "democratic compact": citizens accept the transfer of certain sovereign competences to the Union in exchange for the benefits of the single market, the euro, and collective security. This compact is under pressure from multiple directions. The perception that the Union's benefits are unevenly distributed - wealthy, highly educated, urban citizens gain more from the single market and EU funds than rural, less educated, or older citizens - fuels a sense of exclusion. The 2022-2023 energy crisis, in which the costs of the transition were borne disproportionately by households and small businesses while the benefits of the green transition were perceived as long-term and diffuse, further eroded the perceived fairness of the Union's policy choices. The demographic and social dimensions of this challenge are explored in Section 8, *Migration, Demographics, and Social Cohesion*.

Disinformation and the information environment. The EU's information environment has been significantly degraded by state-sponsored disinformation campaigns (notably from Russia, but also from other actors), the proliferation of algorithmic amplification on social media platforms, and the fragmentation of the media landscape. The 2024 European Parliament elections were the first major EU-level electoral contest to be significantly affected by AI-generated disinformation and coordinated inauthentic behaviour. The EU's response - the Digital Services Act, the AI Act, and the proposed Media Freedom Act - addresses the regulatory dimensions of this challenge, but the political and cultural dimensions of the information crisis remain largely unaddressed. The implications for democratic resilience are examined in Section 11, *Rule of Law, Fundamental Rights, and the Resilience of European Democracy*.

2.4 The Cumulative Impact of Recent Crises

The period from 2020 to 2025 has been defined by the convergence of three major crises - the pandemic, the energy shock, and the war in Ukraine - whose cumulative impact on the Union's political, economic, and social fabric exceeds the sum of their individual effects. As Section 1, *Introduction: The EU at a Crossroads*, emphasises, the simultaneity of these shocks is the defining characteristic of the present juncture, and no single crisis can be addressed in isolation.

The pandemic (2020-2022). The pandemic's immediate economic impact was severe but, in the EU context, was mitigated by the unprecedented fiscal response (the SURE instrument, the PEPP, and the national fiscal packages). The more lasting impact was on the Union's institutional architecture: the creation of NextGenerationEU, the expansion of the MFF, and the establishment of a joint borrowing capacity represented a de facto fiscal integration that would have been inconceivable a decade earlier. However, the pandemic also exposed the fragility of the EU's health governance (the absence of a common health agency with binding authority, the uneven vaccination rollout in 2021, and the dependence on pharmaceutical supply chains concentrated outside the Union). The social impact - rising inequality, the erosion of labour-market participation among women and young people, and the mental-health crisis - created a legacy of social tension that persists into the 2024-2025 period.

The energy shock (2022-2023). The war in Ukraine and the subsequent disruption of Russian energy supplies triggered the most severe energy crisis in the EU's history. The 2022 spike in gas and electricity prices (gas prices in the Netherlands TTF hub rose from approximately €25/MWh in early 2022 to over €300/MWh in August 2022) had cascading effects on industrial competitiveness, household budgets, and inflation. The

EU's response - REPowerEU, the joint procurement mechanism, the gas price cap (ultimately not implemented in its original form), and the solidarity mechanisms - demonstrated the Union's capacity for rapid collective action but also revealed the limits of its structural preparedness. The energy shock accelerated the transition to renewables and reduced dependence on Russian fossil fuels, but it also increased the fiscal burden on member states and deepened the divergence between energy-exporting and energy-importing economies. The long-term implications for the EU's industrial base and the Green Deal are the subject of Section 7, *Energy Transition, Climate Policy, and the European Green Deal.*

The war in Ukraine (2022-present). The Russian invasion of Ukraine in February 2022 marked a fundamental shift in the EU's security environment. For the first time since the end of the Cold War, a major military conflict occurred on the Union's immediate periphery. The EU's response - unprecedented sanctions against Russia, the provision of military and financial support to Ukraine (the European Peace Facility, the macro-financial assistance, and the prospective accession process), and the acceleration of the strategic autonomy agenda - represented a significant evolution in the Union's geopolitical posture. However, the EU's capacity to act as a coherent security actor remains constrained by the unanimity requirement in CFSP, the continued dependence on NATO (and, by extension, the United States) for collective defence, and the wide variation in national defence capabilities and political will. The implications for the Union's strategic autonomy are the central subject of Section 5, *Strategic Autonomy: Security, Defense, and Foreign Policy.*

The compounding effect. The critical analytical point is that these three crises did not operate in sequence but in parallel, and their effects are mutually reinforcing. The energy shock increased inflation, which constrained the fiscal space for pandemic recovery. The war in Ukraine disrupted energy supplies, exacerbating the energy shock. The pandemic's fiscal expansion increased public debt, reducing the capacity to absorb the energy shock. The war in Ukraine also accelerated the geopolitical realignment that is reshaping the EU's external relations (Section 9, *External Relations: The EU in a Multipolar World*) and its enlargement agenda (Section 10, *Enlargement, the Eastern Partnership, and the Question of Ukraine*). The cumulative effect is a Union that is more institutionally capable than it was in 2019 but also more fiscally constrained, more geopolitically exposed, and more internally divided than at any point since the eurozone crisis of 2010-2012.

2.5 Synthesis: The Baseline for Future-Directional Analysis

The diagnostic assessment presented in this section establishes the empirical and political baseline from which the subsequent chapters of this volume proceed. Several key observations emerge:

First, the EU's institutional architecture is functional but strained. The Lisbon architecture, supplemented by the crisis-era innovations (NextGenerationEU, the TPI, the revised SGP), has proven capable of managing acute crises. However, it is not designed for the sustained, multi-dimensional pressure that the Union now faces. The absence of a common fiscal capacity, a completed banking union, a coherent security and defence policy, and a fully integrated digital and energy market means that the Union must repeatedly improvise at the intergovernmental level, with all the political costs and decision-making delays that this entails.

Second, the fiscal and economic asymmetries among member states are the Union's most persistent structural challenge. The gap between the core (Germany, the Netherlands, Austria, the Benelux) and the periphery (southern Europe, the new member states) is not merely a matter of GDP per capita; it reflects deeper differences in institutional quality, human capital, industrial structure, and political culture. These asymmetries constrain the depth of economic and monetary integration (Section 3), the feasibility of a common fiscal policy, and the political sustainability of the eurozone.

Third, the democratic compact is under pressure but not broken. The 2024 European Parliament elections confirmed that a pro-European majority still exists, but it is narrower, more conditional, and more ideologically fragmented than in previous decades. The rise of the "sovereigntist centre" and the persistence of anti-EU sentiment in several member states mean that the political space for deeper integration is constrained. The Union's future direction will be shaped not only by the capacity of its institutions but by the political will of its member states and, ultimately, its citizens.

Fourth, the cumulative impact of the 2020-2025 crises has accelerated both the Union's integration and its fragmentation. The pandemic and the war in Ukraine created new institutional tools and new political imperatives for collective action. But they also deepened fiscal divergences, exposed security vulnerabilities, and intensified the political tensions that underlie the Union's internal cohesion. The net effect is a Union that is more capable in some dimensions (fiscal coordination, energy solidarity, geopolitical posture) but more fragile in others (fiscal sustainability, democratic legitimacy, social cohesion).

Fifth, the baseline is not static. The decisions taken in the 2024-2025 period - on the post-2027 MFF, the completion of the banking union, the strategic autonomy agenda, the digital and climate transitions, the

enlargement process, and the rule-of-law framework - will determine whether the Union's trajectory over the next decade is one of deepening integration, managed differentiation, stagnation, or fragmentation. The scenario analysis in Section 12, *Conclusion: Scenarios and Pathways for the EU in 2040*, builds directly on the baseline established in this section.

The chapters that follow examine specific policy domains - economic integration, political reform, strategic autonomy, digital transformation, energy and climate, migration and demographics, external relations, enlargement, and the rule of law - each of which is a critical variable in the Union's future trajectory. The analytical approach is deliberately plural, deploying the methodological tools best suited to each domain while maintaining a common scenario-based orientation. The central question that unites all subsequent chapters is the one posed in Section 1: will the choices made over the next decade determine whether the European project enters its next chapter as a more cohesive and capable polity, or will it retreat into a looser confederation bound by habit rather than conviction?

3. Economic Integration, Monetary Policy, and the Single Market

3.1 The Single Market: Evolution, Structural Asymmetries, and the Compliance Burden

The single market, completed in 1993 and subsequently deepened through the services directive, the digital single market strategy, and the capital markets union agenda, remains the EU's most consequential economic achievement. It accounts for approximately 40% of global GDP and provides a regulatory and commercial space of 450 million consumers. Yet, as established in Section 2, *Current State of the Union: Political, Economic, and Social Landscape*, the single market today operates under conditions of pronounced structural asymmetry that were not anticipated at its design.

The GDP-per-capita gap between the wealthiest and poorest member states exceeds a factor of five, and the 2022-2023 energy shock widened divergences in industrial competitiveness and fiscal capacity. Less competitive economies face mounting regulatory-compliance costs as the single market's rulebook expands to encompass digital governance (see Section 6, *Digital Transformation, Artificial Intelligence, and Technological Sovereignty*), climate regulation (see Section 7, *Energy Transition, Climate Policy, and the European Green Deal*), and product safety standards. The result is a paradox: the very regulatory depth that generates the "Brussels effect" - the EU's outsized influence on global standards - imposes disproportionate adjustment costs on peripheral and less industrialised member states, eroding the perceived equity of the integration bargain.

Three structural challenges define the single market's current trajectory. First, **market fragmentation persists in services and digital sectors**, where national licensing regimes, data-localisation requirements, and divergent enforcement practices create de facto barriers that undermine the four freedoms. Second, **the capital markets union remains largely aspirational**; cross-border equity and bond investment within the eurozone remains a fraction of the level observed in the United States, limiting the depth of risk-sharing and the efficiency of capital allocation. Third, **the single market's external dimension is under strain** as the United States and China deploy industrial policy instruments - subsidies, export controls, and state-backed champions - that the EU's competition-law framework was not designed to counter (see Section 9, *External Relations: The EU in a Multipolar World*).

3.2 The Eurozone and Monetary Policy: Mandate, Constraints, and the Question of Symmetry

The eurozone, comprising 20 member states as of 2025, represents the most advanced form of monetary integration in the post-war era. The European Central Bank (ECB), operating under a primary mandate of price stability and a secondary mandate of supporting the general economic policies of the Union, has demonstrated considerable adaptability since the 2010-2012 sovereign-debt crisis. The introduction of the Outright Monetary Transactions programme (2015), the Pandemic Emergency Purchase Programme (2020), and the Transmission Protection Instrument (TPI, 2022) expanded the ECB's operational toolkit in ways that would have been difficult to contemplate in 1998.

However, the monetary architecture remains asymmetric in a manner that constrains its stabilising function. The ECB's balance sheet is not shared across member states; national central banks bear the residual risk of their respective sovereigns' holdings. The TPI, while a critical backstop, operates at the discretion of the Governing Council and is explicitly conditioned on compliance with the Stability and Growth Pact (SGP), thereby embedding a fiscal conditionality that limits its countercyclical reach. Moreover, the absence of a common fiscal capacity means that monetary policy cannot be fully complemented by coordinated fiscal response - a structural gap that becomes acute during asymmetric shocks, as the 2022 energy crisis demonstrated.

The debate over the ECB's mandate is likely to intensify. Proposals to formally incorporate climate objectives, digital-currency considerations, and a more explicit employment or growth dimension into the primary mandate are gaining traction in academic and policy circles. Yet any such redefinition would require treaty-level amendment or, at minimum, a politically robust reinterpretation by the Governing Council, and would face resistance from member states that view the current mandate as a credibility anchor. The introduction of the digital euro, expected to enter a pilot phase in the late 2020s, adds a further dimension: it raises questions about monetary sovereignty, privacy, and the competitive positioning of the euro as a reserve and settlement currency in a world of central bank digital currencies.

3.3 Fiscal Union: Debates, Proposals, and Political Feasibility

The question of fiscal union is the most politically charged in the EU's economic architecture. The 2020 NextGenerationEU (NGEU) instrument - €750 billion in grants and loans, financed by a single borrowing on

the capital markets - represented a de facto step toward fiscal integration, yet it was explicitly framed as a temporary, crisis-driven exception. The political consensus that made NGEU possible has not translated into a durable institutional commitment to a common fiscal capacity.

The post-2027 Multiannual Financial Framework (MFF) negotiations will be the critical test. Three broad models are under discussion:

1. **A permanent European fiscal capacity** with its own revenue base (e.g., a carbon border tax revenue, a financial transaction tax, or a digital services levy) and a standing stabilisation fund, capable of absorbing asymmetric shocks without intergovernmental negotiation.
2. **A reinforced SGP with automatic stabilisers**, in which the existing Stability and Growth Pact is reformed to permit greater fiscal flexibility in downturns while maintaining medium-term sustainability, supplemented by a modest common fund for structural investment.
3. **Managed differentiation**, in which a subset of member states (initially the eurozone) deepens fiscal coordination through a "fiscal compact plus" arrangement, while non-euro members retain greater autonomy.

The political feasibility of each model is constrained by the dynamics identified in Section 2: the "sovereigntist centre" within mainstream parties, the 30-35% electoral share of anti-EU and populist blocs, and the deep fiscal asymmetries (public debt-to-GDP ratios ranging from above 170% in Greece to below 50% in the Netherlands) that make net contributors wary of open-ended mutualisation. The German and Dutch fiscal traditions, the French preference for a "European budget" with its own resources, and the Southern European demand for greater risk-sharing create a triangular negotiation space in which compromise is possible but fragile.

A critical design question is the **conditionality architecture**: any common fiscal capacity will require rules governing the use of funds, and the experience of the 2010-2012 austerity programmes has made conditionality a politically toxic term in several member states. The rule-of-law conditionality attached to the 2021 MFF (see Section 11, *Rule of Law, Fundamental Rights, and the Resilience of European Democracy*) demonstrated both the feasibility and the political cost of linking funds to governance standards.

3.4 Banking Union: Completion and the Bank-Sovereign Nexus

The banking union, initiated in 2014 with the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), remains incomplete. The absence of a **common deposit insurance scheme (EDIS)** perpetuates the bank-sovereign nexus: depositors in peripheral member states continue to perceive their savings as exposed to national sovereign risk, reinforcing capital flight and the fragmentation of the eurozone's financial architecture. As noted in Section 2, this incomplete integration is one of the Union's most persistent structural constraints.

The political impasse over EDIS centres on the sequencing of risk convergence. Northern member states insist that significant progress on the SGP, the completion of the single market for financial services, and the reduction of non-performing loan stocks must precede mutualisation of deposit insurance. Southern and Eastern member states argue that the absence of common deposit insurance *itself* perpetuates the divergence, creating a circularity that can only be broken by a political decision to accept a degree of residual risk.

A compromise architecture under discussion would involve a **phased mutualisation** of the European Deposit Insurance Scheme (EDIS), with a "convergence fund" in the initial phase that provides liquidity support to national deposit insurance schemes during stress, transitioning to full mutualisation over a 10-15-year horizon contingent on measurable convergence indicators. The European Banking Authority (EBA) and the European Commission have both published technical assessments supporting such a phased approach, but the political decision remains outstanding.

The completion of banking union is also a prerequisite for the **capital markets union** and for the eurozone's capacity to function as a coherent monetary area. Without a common deposit insurance, the ECB's monetary policy transmission remains uneven, and the TPI's conditionality is perceived as an implicit fiscal transfer mechanism, undermining its legitimacy.

3.5 Industrial Policy and Competitiveness: The United States and China Challenge

The EU's traditional reliance on competition law, open trade, and regulatory standards as the primary instruments of industrial strategy is being tested by the simultaneous deployment of aggressive industrial policy by the United States (the Inflation Reduction Act, the CHIPS and Science Act) and China (state-directed investment

in semiconductors, batteries, electric vehicles, and AI). The EU's 2021 "Competitiveness Compass" and the 2023 "Industrial Accelerator Act" (proposed) represent a partial pivot toward a more active industrial policy, but the scale and speed of the US and Chinese interventions raise fundamental questions about the adequacy of the EU's response.

Three dimensions of the competitiveness challenge are particularly acute:

- **Strategic supply chains and critical raw materials.** The EU's dependence on imported rare earths, semiconductors, and pharmaceutical active ingredients was exposed by the pandemic and the 2022 energy shock. The Critical Raw Materials Act (2023) and the Chips Act for Europe (2023) represent the first systematic attempts to reduce external dependencies, but the investment required to build domestic capacity in these sectors is substantial and the payback period long.
- **The climate-competitiveness trade-off.** The European Green Deal (see Section 7) imposes significant transition costs on carbon-intensive industries (steel, cement, chemicals, automotive). The Carbon Border Adjustment Mechanism (CBAM), while designed to prevent carbon leakage, also raises the cost of imports and may face trade disputes. The "just transition" dimension - ensuring that workers and regions in affected industries are not left behind - intersects directly with the social cohesion concerns examined in Section 8, *Migration, Demographics, and Social Cohesion*.
- **Digital and technological sovereignty.** The race in AI, quantum computing, and advanced manufacturing (see Section 6) requires sustained public and private investment at a scale that the EU's fragmented research and innovation landscape struggles to match. The European Chips Act, the AI Act, and the proposed "Digital Decade" targets represent a regulatory and investment framework, but the EU's ability to attract and retain top-tier talent in a global competition with the US and China remains uncertain.

The political challenge is to articulate an industrial policy that is sufficiently ambitious to counter US and Chinese state capitalism while remaining compatible with the single market's foundational principles of free competition and the prohibition of state aid. The "market definition" of the EU - 450 million consumers, a single regulatory space - offers a structural advantage in terms of scale, but it does not automatically translate into the concentrated, mission-oriented investment that the US and Chinese models deploy.

3.6 Toward an Integrated Economic Governance Architecture: Proposals and Pathways

The preceding subsections reveal a common structural problem: the EU's economic governance is a patchwork of crisis-driven innovations layered onto a 1992 Maastricht architecture that was designed for a different geopolitical and economic environment. The SGP, the ECB's mandate, the banking union, the single market rulebook, and the competition-law framework were each designed for a world in which the principal economic competitors were Japan and, later, the emerging Asian economies, and in which the principal risk was inflationary divergence within a monetary union. The current environment - simultaneous great-power competition, technological disruption, climate transition, and internal fiscal divergence - demands a more coherent and forward-looking economic governance architecture.

Several proposals are converging in the policy debate:

1. **A "European Economic Government" or enhanced economic governance framework** that would coordinate fiscal, monetary, industrial, and trade policy under a single strategic vision, with the European Commission playing a more active role in setting medium-term economic objectives and the European Council providing political direction. This would require a significant expansion of the Commission's economic-policy mandate and, potentially, a treaty amendment to clarify the relationship between the SGP, the ECB's mandate, and the MFF.

2. **A common eurozone budget with own resources**, as discussed in Section 3.3, providing the fiscal backbone for a genuine economic and monetary union. The scale of this budget would need to be sufficient to absorb a significant asymmetric shock (estimated at 1-2% of eurozone GDP) without requiring ad hoc intergovernmental negotiation.

3. **Completion of the banking union and the capital markets union**, as discussed in Section 3.4, to ensure that monetary policy transmits uniformly and that capital flows efficiently across the eurozone.

4. **A strategic industrial policy framework** with dedicated funding (potentially drawing on NGEU-type borrowing, the MFF, and a new "European Industrial Fund") to address the competitiveness challenges identified in Section 3.5, coordinated with the climate and digital transitions.

5. **A more integrated trade and external economic policy** that aligns the single market's internal rules with the EU's external economic strategy, including the use of trade instruments (CBAM, anti-subsidy investigations, investment screening) as tools of industrial and strategic policy (see Section 9).

The political feasibility of these proposals is constrained by the same dynamics identified throughout this volume: the tension between economic integration and political diversity, the "sovereigntist centre" within mainstream parties, and the need to maintain the democratic legitimacy of the integration process (see Section 4, *Political Integration, Governance Reform, and Democratic Legitimacy*). The scenario analysis in Section 12, *Conclusion: Scenarios and Pathways for the EU in 2040*, will assess how the choices made on these economic governance questions interact with the geopolitical, technological, and social trajectories to determine whether the EU's economic architecture evolves toward a more integrated and resilient model or remains a collection of partial, crisis-driven arrangements.

The critical decision points in the next five years - the post-2027 MFF, the EDIS negotiation, the implementation of the Industrial Accelerator Act, the design of the digital euro, and the first full cycle of CBAM operations - will determine whether the economic governance architecture is reformed in a coherent, forward-looking manner or continues to evolve through incremental, crisis-driven adjustments. The stakes are not merely economic: the capacity of the single market and the eurozone to deliver shared prosperity is a precondition for the political cohesion and democratic legitimacy that the Union requires to navigate the broader challenges outlined in Section 1, *Introduction: The EU at a Crossroads*.

4. Political Integration, Governance Reform, and Democratic Legitimacy

4.1 The Institutional Architecture: Current State and Structural Tensions

The European Union's political architecture, as codified in the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) following the 2009 Lisbon reforms, was designed for a Union of 27 member states operating in a post-Cold War environment of relative geopolitical stability. As established in *1. Introduction: The EU at a Crossroads*, the present juncture is defined by the simultaneity of crises - energy shock, fiscal divergences, great-power competition, and technological disruption - that no single institutional mechanism was calibrated to absorb. The Lisbon framework, supplemented by crisis-era innovations such as NextGenerationEU, the Transmission Protection Instrument, and the revised Stability and Growth Pact, proved capable of managing acute shocks but was not designed for the sustained, multi-dimensional pressure the Union now faces, as diagnosed in *2. Current State of the Union: Political, Economic, and Social Landscape*.

The core structural tension in EU governance is one of **asymmetric competence**: the Union has acquired significant policy competences - monetary policy, trade, competition, digital regulation, climate policy, and, more recently, elements of fiscal coordination and security - without a commensurate political architecture. The European Council, composed of heads of state or government, has become the de facto supreme political authority, yet it operates without a directly elected executive, without a common political programme, and without a unified public. The Council of the European Union, while the formal co-legislator, remains an intergovernmental body in which national ministers defend sovereign positions. The European Commission, the only institution with a supranational mandate, exercises executive power but derives its political legitimacy indirectly, through Council appointment and parliamentary confirmation.

This tripartite structure - European Council, Council, Commission - produces a governance system that is simultaneously more integrated than a confederation and less integrated than a federation. The result is what scholars have termed a "post-national polity without a demos": institutions that make binding decisions affecting 450 million citizens, yet whose democratic accountability operates through a complex, multi-layered chain of national and European intermediaries. The CJEU's rulings, while legally binding, lack an enforcement mechanism independent of Council political will, further complicating the relationship between legal authority and political legitimacy.

The question for the next decade is not whether the current architecture will be replaced wholesale - no member state has the political will or the legal mechanism to do so - but how it will be **incrementally reformed, extended, or allowed to calcify** under the pressure of the challenges identified across this volume.

4.2 Parliamentary Powers and the European Parliament's Evolving Role

The European Parliament (EP) has undergone the most significant transformation of any EU institution since 1979, evolving from a consultative assembly to a full co-legislator with the Council under the Lisbon Treaty. Today, the EP shares legislative power in the vast majority of policy areas, controls the Union budget jointly with the Council, and holds the Commission to account through the power of censure. The 2024 European Parliament elections, as noted in *2. Current State of the Union: Political, Economic, and Social Landscape*, confirmed a pro-European majority above 50%, though a narrower and more conditional one, with anti-EU and populist blocs capturing 30-35% of the vote.

Despite these formal powers, the EP's political influence remains constrained by several structural factors:

First, the absence of a European executive. Unlike national parliaments, the EP does not elect a government. The President of the Commission is nominated by the European Council and confirmed by the EP, but the College of Commissioners is appointed by member-state governments. The EP can reject the College collectively, but it cannot form or dissolve a government. This means the EP's legislative power is exercised in a system where the executive's political base is national, not European.

Second, the limited scope of parliamentary initiative. The Commission holds the exclusive right of legislative initiative in most policy areas. The EP can request the Commission to propose legislation and can amend or reject proposals, but it cannot originate bills in the way a national parliament can. The 2022 interinstitutional agreement on the "right of initiative" for the EP in specific areas (such as the European Citizens' Initiative follow-up) represents a marginal expansion but does not alter the fundamental asymmetry.

Third, the fragmentation of the parliamentary political space. The 2024 elections produced a more polarised EP, with the rise of the European Conservatives and Reformists, the Identity and Democracy group, and

the far-right European Patriots group complicating the traditional centre-left/centre-right axis. The "sovereigntist centre" within mainstream parties - identified in *2. Current State of the Union: Political, Economic, and Social Landscape* as a key constraint on the political space for deeper integration - operates within the EP as well, limiting the coalition available for treaty-level reform.

Proposed and ongoing reforms to the EP's role include:

- **Strengthening the EP's role in the appointment of the Commission President.** The " Spitzenkandidat" (lead candidate) system, informally adopted in 2014 and partially applied in 2019, has not been codified in treaty law. A formalised mechanism linking the EP's electoral result to the Commission presidency would enhance the EP's democratic legitimacy but would require a treaty amendment and unanimous Council approval - both politically difficult.
- **Expanding the EP's budgetary powers.** The EP already co-decides the EU budget, but the Multi-annual Financial Framework (MFF) is set by the Council. Granting the EP a stronger role in the MFF, particularly in the context of the post-2027 MFF negotiations discussed in *3. Economic Integration, Monetary Policy, and the Single Market*, would shift the fiscal-political balance.
- **Enhancing the EP's oversight of the European Central Bank and the European System of Central Banks.** As the ECB's mandate and toolkit evolve (digital euro, potential mandate redefinition for climate and growth), the case for enhanced parliamentary scrutiny of monetary policy grows. The EP currently holds the ECB President to account through a semi-annual hearing, but this is a political, not a legal, obligation.
- **Codifying the EP's role in foreign and security policy.** The EP's powers in the Common Foreign and Security Policy (CFSP) remain limited to being informed and consulted. Given the EU's push toward strategic autonomy, as explored in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*, the case for greater parliamentary involvement in defence and security decisions is strengthening.

The trajectory of the EP's powers will be a key indicator of whether the Union is moving toward a more parliamentary, and therefore more democratically accountable, model of governance or remaining locked in an intergovernmental equilibrium.

4.3 Council Decision-Making: From Unanimity to Qualified Majority

The Council of the European Union is the institution most directly implicated in the EU's democratic deficit. As the body in which national ministers negotiate and vote on legislation, the Council is where the tension between supranational integration and national sovereignty is most acutely felt. The shift from unanimity to qualified majority voting (QMV) has been the central axis of Council reform since the 1986 Single European Act, but the process has been slow, incremental, and repeatedly blocked by individual member states.

The current state of QMV. Following the Lisbon Treaty, QMV applies to the vast majority of the single market acquis, trade policy, and most internal market legislation. However, unanimity is retained in areas that member states consider core to sovereignty: taxation, social security, foreign and security policy, and the MFF. The "blocking minority" threshold (55% of member states representing 65% of the population) means that a small coalition of states can still block legislation, and the "constructive abstention" mechanism allows a state to abstain without blocking a decision.

The political dynamics of unanimity. The persistence of unanimity in sensitive areas has produced a pattern of **lowest-common-denominator decision-making** and, in some cases, legislative paralysis. The 2022-2023 energy crisis illustrated this: the Council's initial unanimity requirement on the gas price cap and the solidarity contribution mechanism delayed a coherent response by weeks. The subsequent shift to QMV for certain energy solidarity measures was a crisis-driven exception, not a structural reform.

Proposed and ongoing reforms to Council decision-making include:

- **Extending QMV to taxation and social security.** The Commission's 2023 proposal to introduce a minimum corporate tax rate (the Pillar Two directive) required a complex legal basis to circumvent the unanimity requirement on taxation. A broader shift to QMV in tax policy would require a treaty amendment. The political resistance is substantial, particularly from states with significant tax-competitive models.
- **Reforming the CFSP voting rules.** The TEU provides for QMV in the CFSP, but the "blocking minority" can be overridden only if a group of member states representing at least 75% of the population requests it. In practice, the CFSP operates on a de facto unanimity basis. The EU's push toward strategic autonomy, as analysed in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*, creates a strong functional argument for more flexible voting rules in defence and security, but the political sensitivity of ceding unanimity in these areas remains extreme.

- **The "enhanced cooperation" mechanism as a substitute for QMV reform.** Rather than extending QMV, some member states prefer to use the enhanced cooperation (EC) mechanism, which allows a subset of at least nine member states to proceed with integration in a given area while others opt out. This mechanism has been used in family law, intellectual property, and, more recently, in the context of the eurozone's fiscal governance. Its expansion would represent a form of **managed differentiation** in governance, with implications for the Union's coherence and the democratic legitimacy of a "two-speed" Europe.
- **Transparency and public accountability of Council proceedings.** Council meetings are closed to the public, and the minutes are published with a delay. The 2023 interinstitutional agreement on transparency improved access to some documents, but the fundamental opacity of intergovernmental negotiation remains. Greater transparency - live broadcasting of Council sessions, real-time publication of positions, and public voting records - would reduce the information asymmetry that fuels perceptions of a "closed shop" in Brussels.

The trajectory of Council reform will be a critical variable in the scenario analysis of *12. Conclusion: Scenarios and Pathways for the EU in 2040*. A Council that remains locked in unanimity on core policy areas will constrain the Union's capacity to respond to the geopolitical, economic, and technological challenges identified in *1. Introduction: The EU at a Crossroads* and *3. Economic Integration, Monetary Policy, and the Single Market*.

4.4 The Commission: Executive Capacity and Political Accountability

The European Commission occupies a unique position in the EU's institutional architecture: it is the only body with a supranational mandate, the exclusive right of legislative initiative in most policy areas, the guardian of the treaties, and the manager of the Union budget. Yet its political legitimacy is the most contested of the three main institutions.

The Commission's structural position. The Commission is appointed by the European Council (on the basis of national consultations) and confirmed by the EP. The President of the Commission is nominated by the European Council and elected by the EP. The College of Commissioners is appointed by member-state governments, subject to EP approval. This dual source of legitimacy - national governments and the European Parliament - creates a persistent tension: the Commission is accountable to both, but its political base is ultimately national.

The Commission's expanding role. The crisis years of 2020-2025 have significantly expanded the Commission's de facto executive role. The design and management of NextGenerationEU, the coordination of the energy response to the war in Ukraine, the development of the AI Act and the digital single market strategy (as examined in *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*), and the implementation of the European Green Deal (as assessed in *7. Energy Transition, Climate Policy, and the European Green Deal*) have all required a level of executive coordination that the Commission was not originally designed to provide. The Commission has become, in effect, a **supranational executive** managing a portfolio of policies that would, in a national system, be distributed across multiple ministries and a cabinet.

The accountability gap. The Commission's political accountability is diffuse. The EP can censure the Commission, but this power has never been exercised. The European Court of Justice can annul Commission acts that exceed their legal basis, but this is a legal, not a political, check. The European Council, which appoints the Commission, can in theory replace the President, but this has never occurred. The result is an executive that wields significant power but faces no regular electoral accountability to a European electorate.

Proposed and ongoing reforms to the Commission's role include:

- **A more politically structured Commission.** The 2024-2029 Commission, under President Ursula von der Leyen, has introduced a more explicit political programme and a greater emphasis on "missions" (climate, cancer, digital, demographic change, clean industry). The question is whether this represents a genuine shift toward a more politically accountable executive or a rhetorical rebranding of the existing technocratic model.
- **The "European Government" debate.** The idea of a European government, elected by a European electorate and accountable to the EP, has been discussed since the 1950s. It would require a fundamental treaty reform, the creation of a European executive distinct from the Commission, and a redefinition of the relationship between the Commission and the Council. No member state has the political will to pursue this, and the "sovereigntist centre" within mainstream parties, identified in *2. Current State of the Union: Political, Economic, and Social Landscape*, is firmly opposed.

- **Strengthening the Commission's enforcement powers.** The Commission's role as "guardian of the treaties" is undermined by the absence of an independent enforcement mechanism. The rule-of-law framework, as examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*, has introduced conditionality mechanisms (Article 7 TEU, the new rule-of-law conditionality regulation), but their effectiveness depends on Council political will. Strengthening the Commission's enforcement powers - particularly in the areas of competition, state aid, and rule-of-law compliance - would enhance the Union's capacity to ensure that its rules are applied uniformly.
- **The Commission and the post-2027 MFF.** The design of the post-2027 MFF, as discussed in *3. Economic Integration, Monetary Policy, and the Single Market*, will be a critical test of the Commission's capacity to propose and implement a coherent fiscal architecture. The three models under discussion - a permanent European fiscal capacity, a reinforced SGP with automatic stabilisers, or managed differentiation - each carry different implications for the Commission's role as fiscal coordinator.

4.5 The Democratic Deficit: Diagnosis and Dimensions

The "democratic deficit" is the most persistent and politically charged critique of the EU's governance architecture. The term, coined in the 1970s, has been used to describe a range of distinct but interrelated problems: the absence of a European public sphere, the opacity of intergovernmental decision-making, the distance between citizens and EU institutions, the lack of a European electoral system, and the perception that EU decisions are made by unelected technocrats in Brussels.

The empirical picture. As established in *2. Current State of the Union: Political, Economic, and Social Landscape*, trust in EU institutions is deeply polarised. It exceeds 50% in the Benelux, Nordics, and Baltics but hovers between 25% and 40% in France, Italy, Hungary, Poland, and Greece. The 2024 European Parliament elections confirmed a pro-European majority but a narrower, more conditional one. The "sovereigntist centre" within mainstream parties is constraining the political space for deeper integration, while anti-EU and populist blocs capture 30-35% of the vote. State-sponsored disinformation and AI-generated inauthentic content are degrading the information environment on which democratic legitimacy depends.

The dimensions of the deficit. The democratic deficit is not a single problem but a constellation of interrelated issues:

1. **The input deficit.** Citizens do not vote for a European government. The EP is the only directly elected EU institution, but its powers are limited, and the European electoral system (proportional representation within national constituencies, with a single transnational list of 13 seats) does not produce a European political competition. The absence of transnational European parties with a genuine pan-European electoral base means that EP elections are, in practice, second-order national elections.

2. **The output deficit.** The EU's capacity to deliver tangible benefits to citizens is uneven. The single market, the euro, and the regulatory "Brussels effect" (as discussed in *3. Economic Integration, Monetary Policy, and the Single Market* and *9. External Relations: The EU in a Multipolar World*) produce benefits that are diffuse, long-term, and difficult to attribute to specific EU decisions. In contrast, the costs of EU regulation - compliance burdens, fiscal conditionality, migration policy - are immediate, visible, and politically salient. This asymmetry between diffuse benefits and concentrated costs undermines the perceived legitimacy of EU governance.

3. **The transparency deficit.** The opacity of Council proceedings, the complexity of the legislative process (the "trilogue" between the EP, the Council, and the Commission), and the role of national governments in shaping EU policy before it reaches the European level create a perception that decisions are made behind closed doors. The 2023 interinstitutional agreement on transparency improved access to some documents, but the fundamental opacity of intergovernmental negotiation remains.

4. **The participation deficit.** The European Citizens' Initiative (ECI), introduced in 2012, has been used 11 times, and none of the resulting Commission proposals has led to a legislative outcome that the initiators consider satisfactory. The ECI is a consultative mechanism, not a legislative one, and its impact on the policy agenda is limited. The absence of a meaningful mechanism for direct citizen participation in EU decision-making is a persistent source of frustration.

5. **The information deficit.** The complexity of EU governance, the multilingual nature of the legislative process, and the dominance of national media in shaping public opinion create an information environment in which citizens are poorly informed about the scope and impact of EU decisions. The degradation of this information environment by state-sponsored disinformation and AI-generated content, as noted in *2. Current State of the Union: Political, Economic, and Social Landscape*, further undermines the conditions for informed democratic participation.

The democratic deficit is not a static condition. It is a dynamic relationship between the EU's institutional architecture, the policy challenges it faces, and the expectations of its citizens. The crisis years of 2020-2025 have, paradoxically, both deepened and mitigated the deficit. The EU's response to the pandemic (NGEU, the vaccine procurement, the energy solidarity mechanism) demonstrated a capacity for collective action that enhanced the perceived legitimacy of EU institutions in some member states. At the same time, the fiscal conditionality attached to NGEU, the unresolved migration architecture (as examined in *8. Migration, Demographics, and Social Cohesion*), and the rule-of-law disputes (as examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*) have reinforced the perception that EU governance is imposed from above, not negotiated from below.

4.6 Scenarios for Political Integration: Federalism, Differentiation, and Beyond

The future of EU political integration is not a single trajectory but a set of plausible pathways, each with different implications for the Union's governance architecture, its democratic legitimacy, and its capacity to address the challenges identified in this volume. The four scenarios outlined in *12. Conclusion: Scenarios and Pathways for the EU in 2040* - deepened integration, managed differentiation, stagnation, and fragmentation - each carry distinct implications for the political and institutional architecture of the Union.

Scenario A: Deepened Federal Integration. In this scenario, the EU moves toward a more federal model of governance. The key institutional changes would include:

- A **European government** elected by a European electorate, with a clear mandate and a defined relationship to the EP.
- The **extension of QMV** to taxation, social security, and foreign and security policy, eliminating the remaining unanimity requirements.
- A **common fiscal capacity** with own resources, as discussed in *3. Economic Integration, Monetary Policy, and the Single Market*, providing the financial basis for a European executive.
- A **completed banking union** with a common deposit insurance scheme (EDIS), removing the bank-sovereign nexus and creating a more integrated economic and political space.
- A **European public sphere** supported by transnational media, a European electoral system with a meaningful transnational list, and the development of transnational European parties.

The political preconditions for this scenario are substantial. It would require a treaty amendment, unanimous Council approval, and a shift in the political culture of at least a critical mass of member states. The "sovereigntist centre" within mainstream parties and the 30-35% populist electoral share identified in *2. Current State of the Union: Political, Economic, and Social Landscape* make this scenario unlikely in the near term, but the geopolitical pressures identified in *1. Introduction: The EU at a Crossroads* and *5. Strategic Autonomy: Security, Defense, and Foreign Policy* could create the functional imperative for such a shift.

Scenario B: Managed Differentiation. In this scenario, the EU does not move toward a uniform federal model but instead institutionalises a **multi-speed Europe** in which different subsets of member states integrate to different degrees in different policy areas. The key institutional features would include:

- The **expansion of enhanced cooperation** in areas such as fiscal policy, defence, and digital regulation, allowing a subset of member states to proceed with deeper integration while others opt out.
- A **reinforced SGP** with automatic stabilisers for the eurozone, as discussed in *3. Economic Integration, Monetary Policy, and the Single Market*, creating a more integrated fiscal governance architecture for the euro area without extending it to all 27 member states.
- A **two-tier Council** in which the eurozone states make decisions on fiscal and monetary matters, while the full Council retains competence in areas of common interest.
- A **differentiated approach to enlargement**, as examined in *10. Enlargement, the Eastern Partnership, and the Question of Ukraine*, in which new member states join the single market but not the eurozone or the Schengen area, and in which the institutional architecture is adapted to accommodate a larger and more diverse Union.

The political preconditions for this scenario are less demanding than for full federalism, but it raises significant questions about the **coherence and legitimacy** of a Union in which different groups of citizens are subject to different rules, different levels of integration, and different degrees of mutual obligation. The risk is that managed differentiation becomes a mechanism for **institutional fragmentation**, in which the EU's common identity and shared purpose are eroded by the proliferation of sub-groups and opt-outs.

Scenario C: Stagnation. In this scenario, the EU's institutional architecture remains largely unchanged. The Lisbon framework continues to operate, supplemented by crisis-driven innovations, but no fundamental reform is undertaken. The key features would include:

- The **persistence of unanimity** in sensitive policy areas, with the Council continuing to operate on a de facto intergovernmental basis.
- The **EP's powers remaining largely unchanged**, with the Spitzenkandidat system remaining informal and the Commission's political accountability remaining diffuse.
- The **democratic deficit persisting** at current levels, with trust in EU institutions remaining polarised and the "sovereigntist centre" continuing to constrain the political space for reform.
- The **absence of a coherent security and defence policy**, as discussed in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*, leaving the EU dependent on NATO and the United States for collective defence.

The political preconditions for this scenario are the most likely in the short term, given the absence of a political majority in any member state for fundamental institutional reform. However, stagnation is not a stable equilibrium. The cumulative pressure of the challenges identified in *1. Introduction: The EU at a Crossroads* - geopolitical competition, fiscal divergences, technological disruption, and internal fragmentation - will eventually create a functional imperative for institutional change that the current architecture cannot absorb.

Scenario D: Fragmentation. In this scenario, the EU's institutional architecture is not reformed but **eroded**. The key features would include:

- The **withdrawal of one or more member states** from the eurozone or, in an extreme case, from the EU itself.
- The **collapse of the single market** in key sectors, as regulatory divergence and protectionist measures undermine the four freedoms.
- The **disintegration of the eurozone's monetary architecture**, as the ECB's toolkit is exhausted and the absence of a common fiscal capacity leads to a sovereign debt crisis.
- The **erosion of the rule of law** in multiple member states, as examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*, undermining the legal foundation of the Union.

The political preconditions for this scenario are the most extreme, but the risk is not negligible. The internal fragmentation identified in *2. Current State of the Union: Political, Economic, and Social Landscape* - fiscal disparities, democratic backsliding, populist movements, and unresolved migration architecture - creates the conditions for a downward spiral in which the EU's capacity to address its challenges is progressively undermined by the very fragmentation it is meant to manage.

4.7 Citizen Engagement and the Future of European Democracy

The future of EU political integration is ultimately a question of **citizen engagement**. The Union's democratic legitimacy depends not only on the formal design of its institutions but on the degree to which its citizens feel that they are participants in, rather than subjects of, the European project. The challenges to citizen engagement are multiple and interrelated:

The European public sphere. The absence of a genuine European public sphere is one of the most fundamental obstacles to the development of a European democratic culture. The 2024 European Parliament elections, while confirming a pro-European majority, were dominated by national issues and national party competition. The development of transnational media, the expansion of the European electoral system, and the growth of transnational European parties are all necessary but insufficient conditions for the emergence of a European public sphere. The degradation of the information environment by state-sponsored disinformation and AI-generated content, as noted in *2. Current State of the Union: Political, Economic, and Social Landscape*, further complicates the conditions for informed democratic participation.

The European Citizens' Initiative and direct participation. The ECI, while a step in the right direction, is a consultative mechanism, not a legislative one. Its impact on the policy agenda is limited, and its procedural requirements (one million signatures from at least seven member states) are a significant barrier to participation. A more meaningful mechanism for direct citizen participation - such as a European referendum on specific policy questions, or a European citizens' assembly with advisory powers - would enhance the EU's democratic legitimacy but would require a treaty amendment and a significant shift in the political culture of member states.

The role of civil society and sub-national actors. The EU's governance architecture is not limited to the three main institutions. The European Economic and Social Committee, the Committee of the Regions, and a wide range of civil society organisations play a role in the EU's policy-making process. However, their influence is limited, and their representativeness is contested. The role of sub-national actors - regions, cities, and local governments - in the EU's governance architecture is growing, particularly in the context of the European Green Deal (as assessed in *7. Energy Transition, Climate Policy, and the European Green Deal*) and the digital transition (as examined in *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*), but their formal role in EU decision-making remains limited.

The generational dimension. The EU's demographic challenges, as examined in *8. Migration, Demographics, and Social Cohesion*, have a direct bearing on the future of European democracy. The aging of the population in many member states, the challenges of migration and integration, and the intergenerational equity implications of the EU's fiscal and climate policies all shape the political engagement of younger generations. The 2024 European Parliament elections saw a higher turnout among younger voters than in previous elections, but the political preferences of younger Europeans are not uniformly pro-European. The EU's capacity to address the concerns of younger generations - climate, digital rights, housing, and social mobility - will be a critical factor in the future of European democratic engagement.

The digital dimension of democratic participation. The digital transformation of public life, as examined in *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*, creates both opportunities and risks for citizen engagement in EU governance. Digital platforms can enhance transparency, facilitate public consultation, and lower the barriers to participation. At the same time, the concentration of digital power in a small number of private platforms, the risks of algorithmic manipulation, and the threat of AI-generated disinformation undermine the conditions for informed democratic participation. The EU's digital regulation - particularly the AI Act, the Digital Services Act, and the Digital Markets Act - will shape the information environment in which European democracy operates, and its design will have significant implications for the future of citizen engagement.

4.8 The Interplay of Political and Economic Integration

The political integration of the EU cannot be analysed in isolation from its economic integration. As established in *3. Economic Integration, Monetary Policy, and the Single Market*, economic integration is a precondition for broader political cohesion. The capacity of the single market and the eurozone to deliver shared prosperity is not merely an economic question but a prerequisite for the democratic legitimacy and political cohesion the Union requires to address the geopolitical, technological, and social challenges identified in this volume.

The fiscal asymmetries identified in *2. Current State of the Union: Political, Economic, and Social Landscape* - the GDP-per-capita gap exceeding five to one, the range of public debt-to-GDP ratios from above 170% to below 50%, and the incomplete banking union - create a structural constraint on political integration. A Union in which the fiscal capacity of its member states diverges by a factor of five cannot easily develop a common fiscal policy, a common social policy, or a common political identity. The post-2027 MFF, the completion of the banking union, and the design of a common eurozone budget are not merely economic questions; they are the **political preconditions** for the deeper integration discussed in this section.

Conversely, the political architecture of the EU constrains the depth of economic integration that is possible. The absence of a common fiscal capacity, the persistence of unanimity in tax policy, and the incomplete banking union are all the product of political decisions - or, more accurately, the product of the absence of political decisions. The "sovereigntist centre" within mainstream parties, the 30-35% populist electoral share, and the absence of a European public sphere all constrain the political space for the economic integration that the Union's economic challenges require.

The interplay between political and economic integration is a **vicious or virtuous cycle**, depending on the direction of the political decisions taken in the next five years. If the post-2027 MFF, the EDIS decision, and the Industrial Accelerator Act (as discussed in *3. Economic Integration, Monetary Policy, and the Single Market*) are resolved in a way that enhances the Union's economic cohesion, the political space for deeper integration will expand. If they are resolved in a way that entrenches fiscal and economic divergence, the political space for deeper integration will contract, and the democratic deficit will deepen.

4.9 Critical Decision Points and the Path to 2040

The future of EU political integration will be determined by a series of critical decision points in the next five to ten years. These decision points are not isolated events but interconnected nodes in a complex system of political, economic, and institutional choices. The key decision points include:

1. **The post-2027 MFF and the design of a permanent European fiscal capacity.** This decision, as discussed in *3. Economic Integration, Monetary Policy, and the Single Market*, will determine whether the Union moves toward a common fiscal architecture or remains locked in a patchwork of national budgets and crisis-driven exceptions.
2. **The completion of the banking union and the introduction of EDIS.** This decision will determine whether the bank-sovereign nexus is broken and the eurozone's monetary architecture is completed, or whether the structural asymmetries identified in *2. Current State of the Union: Political, Economic, and Social Landscape* are perpetuated.
3. **The reform of Council voting rules.** The extension of QMV to taxation, social security, and foreign and security policy, or the expansion of enhanced cooperation, will determine whether the Council can function as a supranational legislature or remains an intergovernmental body.
4. **The development of a European public sphere and the reform of the European electoral system.** The expansion of the transnational list, the development of transnational European parties, and the creation of a European media space will determine whether the EP can function as a genuine European parliament or remains a collection of national delegations.
5. **The rule-of-law framework and the enforcement of EU values.** The effectiveness of the rule-of-law conditionality mechanism, as examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*, will determine whether the Union's legal and political architecture is applied uniformly or is subject to political discretion.
6. **The EU's response to the geopolitical and technological challenges** identified in *1. Introduction: The EU at a Crossroads*, *5. Strategic Autonomy: Security, Defense, and Foreign Policy*, and *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty.* The capacity of the EU to act as a coherent geopolitical actor will depend on the depth of its political integration, and the depth of its political integration will depend on the capacity of its institutions to respond to these challenges.

The choices made at these decision points will determine whether the European project enters its next chapter as a more cohesive and capable polity or retreats into a looser confederation bound by habit rather than conviction, as framed in *1. Introduction: The EU at a Crossroads.* The political integration of the EU is not a technical question to be resolved by institutional designers; it is a **political question** to be resolved by the citizens, parties, and governments of the member states. The institutional architecture can be reformed, but the political will for reform must be generated in the public sphere, in the national parliaments, and in the European Parliament. The future of the EU's political integration is, in the final analysis, a question of what its citizens are willing to share, and what they are willing to keep for themselves.

5. Strategic Autonomy: Security, Defense, and Foreign Policy

5.1 The Strategic Context: Great-Power Competition and the End of Strategic Reliance

The war in Ukraine, the intensifying US-China rivalry, and the broader erosion of multilateralism have collectively terminated the post-Cold War assumption that European security could be outsourced to a single guarantor. As identified in *1. Introduction: The EU at a Crossroads*, the Union now confronts geopolitical shifts, internal fragmentation, and technological disruption simultaneously, and no single shock can be addressed in isolation. The security dimension of this simultaneity is acute: the 2022 Russian invasion of Ukraine demonstrated that the EU's 450-million-citizen bloc, with a combined GDP exceeding that of the United States, possessed no standing military capability commensurate with its economic weight. The Union's defence spending, at roughly 1.5-2% of GDP across member states (with significant variation from below 1% in several Western and Southern states to above 2% in the Baltics and Poland), remained structurally below the NATO 2% benchmark for most of the 2010s and only began converging after February 2022.

The strategic environment the EU now navigates is defined by three interlocking dynamics. First, the return of great-power competition - primarily between the United States and China, with Russia as a revisionist actor - has re-militarised European security calculations. Second, the United States' own strategic reorientation toward the Indo-Pacific, articulated in successive National Security Strategies, has introduced an element of unpredictability into the transatlantic security architecture that European planners can no longer treat as a fixed constant. Third, the proliferation of non-state and hybrid threats - cyber operations, disinformation campaigns, economic coercion, and the weaponisation of interdependencies - has expanded the security domain well beyond the traditional military sphere into the economic, digital, and informational realms examined in *3. Economic Integration, Monetary Policy, and the Single Market* and *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*.

The concept of "strategic autonomy," as articulated in the 2017 European Commission communication and the 2022 Strategic Compass, does not denote isolationism or the construction of a parallel military architecture to NATO. Rather, it designates the capacity of the EU to define, plan, and execute its own security and foreign policy objectives with a degree of operational independence, while maintaining the transatlantic alliance as the foundational pillar of European defence. The tension inherent in this formulation - autonomy within alliance, capability without redundancy - constitutes the central analytical problem of this section.

5.2 The European Defence Fund and Industrial Policy for Security

The European Defence Fund (EDF), established in 2019 with a 2021-2027 budget of €7.95 billion, represents the most concrete institutional instrument through which the EU seeks to build a common defence industrial base. The Fund operates through two pillars: a collaborative research pillar (approximately 60% of the budget) financing joint R&D projects across member states, and a capability development pillar (approximately 40%) co-financing the industrialisation and procurement of jointly developed systems. The EDF is explicitly designed to reduce duplication, increase interoperability, and create a European defence industrial ecosystem capable of competing with the US and Chinese defence sectors.

The EDF's design reflects a deliberate departure from the EU's traditional competition-law-based approach to industrial policy. As noted in *3. Economic Integration, Monetary Policy, and the Single Market*, the EU's regulatory model has historically relied on market discipline and competition enforcement rather than state-directed investment. The defence sector, however, presents a case where the market fails to generate the scale, concentration, and long-term investment horizons that strategic capability requires. The EDF thus functions as a targeted industrial policy instrument, channeling public funds toward specific capability gaps identified in the 2022 Strategic Compass: air and missile defence, naval capabilities, cyber and space, and the enabling technologies (AI, quantum, hypersonics) that underpin next-generation warfare.

Several structural challenges constrain the EDF's effectiveness. First, the Fund's budget, while significant in absolute terms, represents a small fraction of total European defence expenditure (approximately €260 billion annually across member states) and cannot, by itself, restructure an industrial base that has been shaped by decades of national procurement preferences, bilateral offset arrangements, and the gravitational pull of the US defence market. Second, the EDF's governance - managed by the European Defence Agency (EDA) in close coordination with the Commission - operates within a framework where member states retain full sovereignty over their defence budgets, procurement decisions, and export controls. The Fund can incentivise but cannot compel joint procurement. Third, the EDF's 2021-2027 programming period was designed before the full implications of the Ukraine war were understood, and its 2028-2034 successor (under negotiation as part of

the post-2027 Multiannual Financial Framework) will need to be substantially scaled up and reoriented toward rapid capability delivery rather than long-cycle research.

The EDF must also be understood in conjunction with the broader industrial policy challenges identified in *3. Economic Integration, Monetary Policy, and the Single Market*. The EU's strategic supply-chain dependencies in critical raw materials, semiconductors, and advanced manufacturing are not merely economic vulnerabilities but security vulnerabilities. A European defence industrial base that depends on imported rare-earth elements, US-origin avionics, or Chinese-manufactured components is not strategically autonomous. The convergence of defence industrial policy with the EU's broader industrial strategy - encompassing the Critical Raw Materials Act, the Chips Act, and the proposed Industrial Accelerator Act - will be a defining feature of the 2025-2035 period.

5.3 Joint Procurement, Capability Development, and the PESCO Framework

The Permanent Structured Cooperation (PESCO), launched in 2017 and now encompassing 25 of the 27 member states (all except Denmark and Malta), provides the operational framework for joint capability development and procurement. PESCO projects - numbering over 100 as of 2024 - range from the European Air Transport Command (EATC) and the European Mobile Force to joint investments in air and missile defence, naval replenishment, and cyber capabilities. PESCO's added value lies in its ability to create binding commitments among participating states, establish a common planning cycle, and generate a critical mass of demand that justifies industrial investment.

However, PESCO's effectiveness is constrained by the same structural features that limit the EU's broader policy capacity. The framework operates on a voluntary, opt-in basis, which means that the most strategically significant capabilities (nuclear deterrence, strategic air mobility, long-range strike) remain outside its scope. The "PESCO plus" model, in which a subset of member states pursue deeper integration while others participate in a more limited fashion, mirrors the "managed differentiation" scenario outlined in *4. Political Integration, Governance Reform, and Democratic Legitimacy* and raises the question of whether a two-speed defence architecture will fragment the Union's strategic posture or, conversely, create a core of committed states capable of acting decisively while maintaining the broader framework for all.

The 2022 Strategic Compass, adopted by the European Council in March 2022, set out a five-year roadmap for EU defence capabilities, identifying 35 specific actions across five domains: deterrence and defence, crisis management, partnership, resilience, and global security. The Compass explicitly called for the EU to develop the capacity to deploy a 30,000-strong rapid reaction force within 30 days, to establish a European air and missile defence system, and to build a joint naval capability for the Mediterranean and Black Sea. Progress on these objectives has been uneven. The European Air Transport Command, operational since 2022, represents a tangible achievement in joint logistics. The European Mobile Force, a 5,000-troop rapid reaction capability, remains in the planning phase. Air and missile defence, while accelerated by the Ukraine war, continues to be pursued primarily through bilateral and trilateral arrangements (notably the Eurodrone programme, the FCAS/MFCA fighter jet collaboration, and the SAMPSON T programme) rather than through a unified EU procurement process.

The question of joint procurement is inextricable from the question of industrial concentration. The European defence industry, while home to major primes (Airbus Defence and Space, Leonardo, Thales, Rheinmetall, BAE Systems, Saab, Kongsberg), remains fragmented across national markets, with significant duplication in platforms (multiple national fighter jet programmes, overlapping naval frigate designs, competing armoured vehicle lines). The EDF and PESCO are the instruments through which this fragmentation is to be addressed, but the political will to subordinate national industrial champions to a common procurement logic has been consistently weaker than the rhetorical commitment to "European strategic autonomy." The 2024-2025 period, marked by the post-2027 MFF negotiations and the first full cycle of EDF capability development, will be a critical test of whether the Union can move from the rhetoric of joint procurement to the practice of binding, multi-year, multi-state industrial commitments.

5.4 The EU-NATO Relationship: Complementarity, Tension, and the Question of Redundancy

The relationship between the EU and NATO is the most consequential and most politically sensitive dimension of European strategic autonomy. NATO remains the foundational security architecture for 24 of the 27 EU member states (all except France, Ireland, and Cyprus, with France participating in NATO's political structures while maintaining its own nuclear deterrent and a degree of military independence). The 2022 NATO Washington Summit, convened in the immediate aftermath of the Russian invasion of Ukraine, reaffirmed the transatlantic alliance's centrality and committed members to the 2% of GDP defence spending target. The EU's 2022

Strategic Compass, in turn, explicitly stated that the EU's security and defence policy is "complementary to and does not duplicate" NATO.

This principle of complementarity, however, is easier to articulate than to operationalise. Several structural tensions persist. First, the EU's CSDP (Common Security and Defence Policy) missions and operations - currently numbering over 20, ranging from the military training mission in the Central African Republic to the naval operation in the Gulf of Guinea - operate in a legal and political framework distinct from NATO's. The "Berlin Plus" arrangements, which allow the EU to use NATO assets and planning capabilities for CSDP operations, remain underutilised and are subject to the veto of any NATO member (in practice, the United States). Second, the EU's growing investment in autonomous capabilities (air and missile defence, strategic air mobility, naval power) risks creating a parallel architecture that, while not intended to replace NATO, may generate institutional friction, duplicate spending, and complicate the command-and-control relationships that underpin allied interoperability.

The question of the United States' long-term commitment to European security is the single most important variable in the EU-NATO relationship. The 2024 US presidential election and the subsequent policy orientation of the new administration introduced a degree of uncertainty that European defence planners had not fully priced in since the 2016-2017 period. The possibility of a reduced US forward presence in Europe, a more transactional approach to alliance obligations, or a strategic reorientation toward the Indo-Pacific has accelerated European discussions of "strategic autonomy" from a long-term aspiration to an urgent operational requirement. The 2024 European Council conclusions and the subsequent "ReArm Europe" communication (March 2025) explicitly framed the need for increased European defence investment in terms of reducing dependence on external providers, including the United States.

The nuclear dimension complicates the autonomy calculus. France's nuclear deterrent, while formally a national asset, has been informally understood as providing a degree of extended deterrence to European partners. The absence of a European nuclear umbrella (a concept explicitly rejected by France but discussed in academic and policy circles) means that the EU's strategic autonomy is, in the most extreme scenarios, incomplete. The 2024-2025 period has seen renewed discussion of the "nuclear sharing" arrangements within NATO and the potential role of the EU in coordinating civil protection and consequence management in a nuclear scenario, but no fundamental shift in the nuclear architecture is foreseeable before 2035.

The practical path forward, as articulated in the 2024 EU-NATO Joint Declaration and the 2025 "ReArm Europe" framework, is one of deepened complementarity: the EU focuses on crisis management, resilience, and the development of autonomous capabilities in domains where NATO is not the primary actor (cyber, space, economic security, hybrid threats), while NATO retains primacy in collective defence and high-intensity warfare. The challenge is to build this division of labour without creating institutional redundancy, without undermining the political cohesion of the alliance, and without allowing the EU's autonomous capabilities to become a source of friction rather than a complement to allied strength.

5.5 Foreign Policy Coherence: The High Representative, CSDP, and the EU as Geopolitical Actor

The EU's foreign policy architecture, centred on the High Representative for Foreign Affairs and Security Policy (HR/VP) and the European External Action Service (EEAS), has evolved significantly since the Lisbon Treaty of 2009. The HR/VP, who simultaneously serves as a Vice-President of the Commission, is tasked with coordinating the Union's external action across trade, development, enlargement, and security. The EEAS, with approximately 1,000 diplomats and 140 delegations worldwide, provides the diplomatic infrastructure. The CSDP, as the military and civilian arm of EU foreign policy, provides the coercive and stabilisation capacity.

The 2022-2025 period has tested this architecture to its limits. The EU's response to the Russian invasion of Ukraine - comprising the most extensive sanctions regime in the Union's history (12 packages as of 2025), the provision of over €100 billion in military, financial, and humanitarian assistance, and the hosting of over 4 million Ukrainian refugees - demonstrated a degree of policy coherence and speed that would have been difficult to imagine in 2019. The EU's role in the reconstruction of Ukraine, its support for the country's EU accession candidacy (granted in June 2022, as discussed in *10. Enlargement, the Eastern Partnership, and the Question of Ukraine*), and its coordination with G7 and NATO partners on sanctions enforcement represented a significant step toward the Union acting as a coherent geopolitical actor.

However, the coherence of EU foreign policy remains structurally constrained. The unanimity requirement in the Common Foreign and Security Policy (CFSP), as noted in *4. Political Integration, Governance Reform, and Democratic Legitimacy*, produces lowest-common-denominator outcomes and allows any single member state to block a collective position. The 2022-2025 period saw several instances where national interests diverged from the collective EU position: Hungary's continued energy and trade relationships with Russia, the varying

degrees of military support to Ukraine among member states, and the differing approaches to China (from the "systemic rival" framing of the 2023 Strategy to the more engagement-oriented positions of several Central and Eastern European states). The 2024 European Parliament elections, which confirmed a pro-European majority but a narrower, more conditional one, further constrained the political space for a more assertive and unified foreign policy.

The EU's foreign policy also faces the challenge of credibility. The Union's regulatory and economic power - its "Brussels effect," as discussed in *3. Economic Integration, Monetary Policy, and the Single Market* - gives it significant leverage in trade and standards-setting. However, the absence of a credible military deterrent (independent of NATO) limits the EU's capacity to enforce its positions in security-sensitive domains. The EU's foreign policy is, in this sense, "asymmetric": powerful in economic and regulatory domains, weaker in security and coercive domains. The development of autonomous defence capabilities (Section 5.2-5.4) is thus not merely a military question but a prerequisite for the EU's foreign policy to carry the weight of its economic and normative ambitions.

The EU's relationships with the United States, China, Russia, and the Global South, analysed in detail in *9. External Relations: The EU in a Multipolar World*, are the operational context in which the Union's strategic autonomy is tested. The capacity to act as a coherent geopolitical actor is not an abstract institutional question but is determined by the Union's ability to project consistent positions, deliver on commitments, and maintain the trust of partners and adversaries alike in a rapidly shifting multipolar environment.

5.6 Structural Constraints: Unanimity, Fiscal Asymmetry, and the Sovereignty Question

The EU's capacity to achieve strategic autonomy is constrained by the same structural features that limit its effectiveness in other policy domains. Three constraints are particularly acute in the security and defence domain.

Unanimity and the intergovernmental character of CFSP. As established in *4. Political Integration, Governance Reform, and Democratic Legitimacy*, the persistence of unanimity in foreign and security policy produces legislative paralysis and lowest-common-denominator outcomes. The 2024-2025 period has seen renewed calls for a shift to qualified majority voting in CFSP, but the political resistance - particularly from smaller member states who view unanimity as a guarantee of their influence in a domain where they have no military weight - remains formidable. The enhanced cooperation mechanism offers a partial substitute, allowing a subset of member states to pursue deeper integration in specific defence domains, but it risks creating a "two-speed" security architecture that fragments the Union's strategic posture and complicates the EU-NATO relationship.

Fiscal asymmetry and the absence of a common defence budget. The GDP-per-capita gap exceeding five to one, and the public debt-to-GDP ratios ranging from above 170% to below 50% (as documented in *2. Current State of the Union: Political, Economic, and Social Landscape*), mean that the capacity to invest in defence is not evenly distributed. The "ReArm Europe" communication of March 2025, which called for a significant increase in European defence spending and the mobilisation of private investment, is predicated on the assumption that member states can and will increase their defence budgets. However, the fiscal constraints identified in *3. Economic Integration, Monetary Policy, and the Single Market* - the incomplete banking union, the absence of a common fiscal capacity, and the political constraints on open-ended mutualisation - limit the EU's ability to pool defence spending in a manner analogous to the NGEU fiscal response to the pandemic. The EDF, while a step in this direction, is a co-financing instrument, not a common budget. The question of whether the post-2027 MFF will include a dedicated European defence budget line, and whether the European Stability Mechanism or a successor instrument could be adapted to finance defence investment, remains politically unresolved.

The sovereignty question and the "sovereigntist centre." The 30-35% populist and anti-EU electoral share identified in *2. Current State of the Union: Political, Economic, and Social Landscape*, and the "sovereigntist centre" within mainstream parties identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy*, create a political constraint on the depth of defence integration that the Union can pursue. Defence is, in most European political traditions, the most sacrosanct domain of national sovereignty. The political space for ceding procurement decisions, command structures, or strategic planning to a supranational authority is narrower than in economic or regulatory domains. The 2024-2025 period has seen a partial relaxation of this constraint - the Ukraine war has generated a degree of consensus on the need for increased defence spending and greater European cooperation that was absent in 2019 - but the structural political resistance to deeper defence integration remains.

5.7 Scenarios and Decision Points: The Path to Strategic Autonomy by 2035

The trajectory of the EU's strategic autonomy over the next decade will be determined by a set of critical decision points, consistent with the scenario-based orientation of the volume and the four pathways identified in *12. Conclusion: Scenarios and Pathways for the EU in 2040*.

Under the deepened integration scenario, the EU would establish a common defence budget within the post-2027 MFF, complete the EDF's capability development cycle with binding multi-state procurement commitments, shift to QMV in CFSP, and develop a European strategic command structure that operates in close coordination with NATO. The EU would field a 30,000-strong rapid reaction force, a joint air and missile defence system, and a naval capability sufficient for independent crisis management. The EU-NATO relationship would be formalised through a revised institutional framework that clarifies the division of labour and eliminates the risk of redundancy.

Under the managed differentiation scenario, a core group of 8-12 member states (likely including France, Germany, Poland, the Netherlands, and the Nordics) would pursue deeper defence integration through enhanced cooperation, while the broader EU framework would maintain a lower level of common capability. The EDF and PESCO would continue to operate, but the most ambitious capability projects (strategic air mobility, joint naval force, air and missile defence) would be pursued by the core group. The EU-NATO relationship would be maintained, but the EU's autonomous capability would be sufficient for crisis management and lower-intensity operations, with NATO retaining primacy in high-intensity collective defence.

Under the stagnation scenario, the EU would continue to operate within the existing institutional framework, with the EDF and PESCO functioning as incremental instruments that produce modest improvements in interoperability but no fundamental shift in the Union's strategic posture. The post-2027 MFF would include a modest increase in the EDF budget but no common defence budget. The EU-NATO relationship would persist in its current form, with the EU providing a degree of crisis management capacity and NATO providing the collective defence umbrella. The Union's foreign policy would remain constrained by unanimity and national divergences, and its capacity to act as a coherent geopolitical actor would remain limited.

Under the fragmentation scenario, the EU's security and defence architecture would be undermined by the internal fragmentation identified in *2. Current State of the Union: Political, Economic, and Social Landscape* and *4. Political Integration, Governance Reform, and Democratic Legitimacy*. The EDF and PESCO would lose their political momentum, joint procurement would revert to bilateral and trilateral arrangements, and the EU's foreign policy would be reduced to the lowest common denominator of 27 national positions. The EU-NATO relationship would be strained by the EU's diminished capacity to contribute to allied operations, and the Union's role as a geopolitical actor would be marginalised in favour of individual member states acting unilaterally or through bilateral alliances.

Critical decision points in the 2025-2035 period include: the design of the post-2027 MFF and the inclusion (or exclusion) of a dedicated European defence budget; the outcome of the first full EDF capability development cycle and the political decision on whether to scale up joint procurement; the evolution of the EU-NATO institutional relationship in light of the US strategic reorientation; the political decision on QMV in CFSP or the expansion of enhanced cooperation in defence; the development of a European air and missile defence system and the political commitment to a joint naval capability; and the EU's institutional response to the Ukraine reconstruction and the prospective integration of Ukraine, Moldova, and Georgia (as discussed in *10. Enlargement, the Eastern Partnership, and the Question of Ukraine*), which will test the Union's capacity to extend its security architecture to new members.

The overarching assessment is that the EU's strategic autonomy is neither a fixed attribute nor a binary choice between full independence and full reliance on NATO. It is a spectrum of capabilities, institutional arrangements, and political commitments that will be shaped by the decisions taken in the next five to ten years. The Union's economic weight, regulatory power, and normative influence give it a degree of geopolitical leverage that no individual member state possesses. But the translation of this leverage into a coherent security and foreign policy posture - capable of deterring aggression, managing crises, and projecting stability in a multipolar world - requires the resolution of the structural constraints identified in this section and in the preceding chapters. The choices made on defence, fiscal governance, and institutional reform are not separable; they are, as argued in *3. Economic Integration, Monetary Policy, and the Single Market* and *4. Political Integration, Governance Reform, and Democratic Legitimacy*, mutually reinforcing dimensions of the same question: whether the European project will enter its next chapter as a more cohesive and capable polity or retreat into a looser confederation bound by habit rather than conviction.

6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty

6.1 The Digital Single Market: Architecture, Achievements, and Persistent Gaps

The Digital Single Market (DSM) Strategy, adopted in 2015, established the EU's foundational framework for creating a seamless digital economy across the 27 member states. Its three pillars - ensuring better access to digital goods and services, creating favourable conditions for digital networks and services to flourish, and maximising the growth potential of the digital economy - have guided a decade of legislative activity. Yet by the mid-2020s, the DSM remains an aspiration more fully realised in its legal architecture than in its operational reality.

The most visible achievements include the e-commerce package (2016), which eliminated unjustified geo-blocking and established rules on cross-border delivery; the Copyright in the Digital Single Market Directive (2019), which modernised copyright for the platform economy; and the sweeping Digital Services Act (DSA, 2022) and Digital Markets Act (DMA, 2022), which together constitute the most comprehensive regulatory framework for online platforms in the world. The DSA's tiered obligations for very large online platforms (VLOPs) and very large online search engines (VLOSEs), combined with the DMA's designation of "gatekeeper" platforms and the imposition of conduct and structural obligations, represent a decisive departure from the US "safe harbour" model and signal the EU's intent to govern the digital economy on its own terms.

Nevertheless, significant structural gaps persist. Cross-border digital services remain fragmented by national tax regimes, consumer protection enforcement, and data localisation practices in certain member states. The digital divide within the Union - between the digitally advanced Benelux, Nordic, and Baltic states and the less connected economies of the southern and eastern periphery - mirrors the broader fiscal and economic asymmetries identified in Section 3, *Economic Integration, Monetary Policy, and the Single Market*. The GDP-per-capita gap exceeding five to one translates directly into disparities in digital infrastructure investment, broadband penetration, and digital skills. The 2022-2023 energy shock, which constrained fiscal capacity asymmetrically, further limited the ability of less competitive economies to invest in digital modernisation, deepening the internal digital divide at precisely the moment when the Union's external competitiveness demands a unified digital front.

The DSM's regulatory-compliance costs also impose a disproportionate burden on small and medium enterprises (SMEs) in less competitive economies. The expanding digital rulebook - spanning the DSA, DMA, AI Act, Data Act, Data Governance Act, NIS2 Directive, and the Cyber Resilience Act - creates a compliance landscape that, while strengthening the Union's regulatory posture externally, risks entrenching internal fragmentation if not accompanied by targeted support for digital adoption in lagging regions. The European Commission's Digital Europe Programme and the Digital Innovation Centres network attempt to address this, but their budgets remain modest relative to the scale of the challenge.

6.2 The AI Act and the European Approach to Artificial Intelligence

The EU Artificial Intelligence Act (Regulation 2024/1689), adopted in March 2024 and entering into force in August 2024, represents the world's first comprehensive, horizontal legal framework governing the development, deployment, and use of artificial intelligence systems. Its risk-based architecture - categorising AI systems as unacceptable risk (prohibited), high-risk, limited risk (transparency obligations), or minimal risk - establishes a regulatory logic that is fundamentally distinct from both the US sectoral, innovation-first approach and the Chinese state-directed, capability-maximisation model.

The Act's most consequential provisions target high-risk AI systems in eight domains: biometrics, critical infrastructure, education, employment, essential services, law enforcement, migration, and justice. These systems are subject to conformity assessments, risk management obligations, data governance requirements, human oversight mandates, and post-market monitoring. General-purpose AI (GPAI) models, including large language models, are subject to transparency and copyright obligations, with additional requirements for models posing "systemic risk." The Act establishes the European Artificial Intelligence Office within the Commission and a network of national market surveillance authorities, creating a new layer of supranational regulatory infrastructure.

The AI Act's implementation timeline - phased over 2025-2027, with the full regime operational by August 2026 - presents both an opportunity and a risk. The opportunity lies in the Act's potential to create a "trust premium" for European AI: a certified, rights-compliant AI ecosystem that commands premium pricing in regulated sectors (healthcare, finance, public administration) and serves as a template for other jurisdictions. The risk lies in the possibility that the regulatory burden, particularly for SMEs and startups, could accelerate the outmigration of AI talent and capital to the United States and China, where the regulatory environment is less prescriptive.

The Act's provisions for a "regulatory sandbox" and a "sandboxes for high-risk AI" in each member state are designed to mitigate this, but their effectiveness will depend on national implementation and the availability of public funding.

The AI Act must be understood in the context of the broader technological sovereignty challenge outlined in Section 3. The EU's 450-million-consumer market offers a scale advantage, but it does not automatically generate the concentrated, mission-oriented investment in AI research, compute infrastructure, and talent that the United States (through the CHIPS Act, the Inflation Reduction Act, and private-sector concentration in Silicon Valley) and China (through state-directed investment in semiconductors, AI labs, and the "New Generation AI" national plan) are deploying. The European Chips Act (2023), with its €43 billion in public and private investment commitments, addresses the semiconductor substrate upon which AI compute depends, but the EU's AI ecosystem remains structurally dependent on US cloud infrastructure (AWS, Azure, Google Cloud) and, to a lesser extent, Chinese hardware. The Act's regulatory architecture is thus a necessary but insufficient condition for technological sovereignty; it must be complemented by industrial policy, research investment, and strategic procurement.

The AI Act also intersects directly with the democratic and information challenges identified in Section 2, *Current State of the Union: Political, Economic, and Social Landscape*, and Section 11, *Rule of Law, Fundamental Rights, and the Resilience of European Democracy*. The Act's prohibitions on certain biometric categorisation techniques, social scoring, and manipulative AI techniques, combined with the DSA's transparency obligations for recommender systems, constitute a regulatory response to the degradation of the information environment by AI-generated inauthentic content and state-sponsored disinformation. However, the enforcement capacity of the AI Office and national authorities will be tested by the pace of technological change, the opacity of proprietary models, and the jurisdictional challenges of extraterritorial application.

6.3 Data Governance: From GDPR to the European Data Ecosystem

The General Data Protection Regulation (GDPR, 2018) established the EU as the global reference point for data protection. Its extraterritorial reach, its fundamental-rights-based logic, and its enforcement architecture (independent data protection authorities, the right to lodge complaints, the right to judicial remedy) have made it the de facto global standard: over 100 jurisdictions have adopted GDPR-inspired legislation, and multinational corporations have restructured their global data architectures around EU requirements. The GDPR's "Brussels effect" - the phenomenon whereby the EU's regulatory weight, derived from the size and openness of its single market, causes its standards to be adopted globally - has been most fully realised in the data protection domain.

The GDPR, however, was designed for a pre-cloud, pre-AI data landscape. The subsequent legislative architecture - the Data Governance Act (DGA, 2022), the Data Act (2023), and the proposed Data Administration Act - extends the EU's data governance framework to address the specific challenges of the industrial and AI data economy. The DGA establishes a framework for data sharing, creates data sharing service providers and data exchange platforms, and introduces the concept of "data altruism" for the public interest. The Data Act governs the access to and use of data generated by connected products and IoT devices, establishes rules for cloud service portability, and creates obligations for public authorities to make data available. Together, these instruments aim to create a "European data space" in which data can flow freely within the Union under conditions of trust, security, and mutual recognition.

The European Data Spaces initiative, coordinated by the European Data Innovation Board, envisions sector-specific data spaces (health, mobility, energy, agriculture, manufacturing, finance) in which data is shared under common governance rules, technical standards, and trust frameworks. The energy data space, in particular, intersects with the climate and energy policy challenges examined in Section 7, *Energy Transition, Climate Policy, and the European Green Deal*, as the optimisation of renewable energy grids, the management of carbon border adjustment mechanisms (CBAM), and the tracking of supply-chain emissions all depend on the availability and interoperability of granular data.

A persistent tension runs through the EU's data governance architecture: the tension between the free flow of data (a prerequisite for the digital single market and for AI training) and the protection of fundamental rights, data sovereignty, and strategic autonomy. The EU's approach - free flow within the Union, conditional transfers to third countries (via adequacy decisions or standard contractual clauses), and the prohibition on certain categories of data transfers - reflects a normative commitment that is distinct from both the US "free flow" model and the Chinese "data localisation" model. The 2020 invalidation of the Privacy Shield and the subsequent adoption of the EU-US Data Privacy Framework (2023), with its sunset clause and ongoing legal challenges, illustrate the fragility of this balance in a geopolitical environment of increasing great-power competition.

The question of data sovereignty - whether the EU can build a sovereign cloud and data infrastructure indepen-

dent of US hyperscalers - remains the most acute unresolved issue. The GAIA-X initiative, launched in 2020, aimed to create a European sovereign cloud ecosystem but has struggled to attract the scale of investment and the critical mass of users necessary to challenge the dominance of AWS, Azure, and Google Cloud. The European Chips Act and the proposed "Sovereign Cloud" provisions within the Data Act represent a more state-directed approach, but the EU's cloud market remains structurally dependent on US infrastructure. This dependency is not merely an economic issue; it is a security and strategic autonomy concern that intersects with the defence and foreign policy challenges examined in Section 5, *Strategic Autonomy: Security, Defense, and Foreign Policy.*

6.4 Technological Sovereignty: Chips, Cloud, and Critical Digital Infrastructure

The concept of "technological sovereignty" has moved from the margins of EU policy discourse to its centre in the 2020s. The 2022-2023 energy shock, the war in Ukraine, the US-China technological decoupling, and the pandemic's exposure of supply-chain vulnerabilities collectively demonstrated that the EU's digital and technological infrastructure is not self-sustaining. The Union's digital economy is built on a foundation of imported semiconductors, US cloud infrastructure, and, in certain domains, Chinese hardware and software. This structural dependency is incompatible with the strategic autonomy objectives articulated in the 2022 Strategic Compass and the broader geopolitical reorientation of the Union.

The European Chips Act (Regulation 2023/1781), with its €43 billion in public and private investment commitments, is the centrepiece of the EU's semiconductor sovereignty strategy. It targets the EU's share of global semiconductor production (currently around 6-7%, down from 30% in 1990) and aims to reach 20% by 2030. The Act combines demand-side measures (subsidies for new fabs, incentives for advanced packaging) with supply-side measures (research funding, skills development, critical raw materials supply chains). However, the Act's effectiveness is constrained by the EU's fragmented industrial base, the absence of a single European semiconductor champion comparable to TSMC or Samsung, and the competitive pressure from the US CHIPS Act and Chinese state investment. The Act's "Chips for Europe" initiative and the European Semiconductor Technology Institute (ESTI) are designed to address the research and skills gap, but the timeline for meaningful production capacity is 2027-2030, a period in which the EU's strategic vulnerability will persist.

Beyond semiconductors, technological sovereignty encompasses a broader set of critical digital infrastructures: 5G and 6G networks, quantum computing, satellite communications (Galileo, IRIS²), cybersecurity infrastructure, and the digital public infrastructure (DPI) stack. The EU's 5G deployment has been hampered by the "clean network" debate (the exclusion of Huawei and ZTE from 5G infrastructure in several member states) and by the absence of a unified European 5G/6G industrial strategy. The IRIS² (Infrastructure for Resilience, Interconnectivity and Security by Satellite) programme, with a budget of approximately €5 billion, aims to create a sovereign European satellite constellation for secure communications, but its operational timeline extends into the late 2030s.

The digital public infrastructure agenda - encompassing the European Health Data Space, the European Digital Identity Wallet (EUDI), the European Payment Initiative (EPI), and the digital euro - represents a distinct strand of technological sovereignty focused on the public-sector digital stack. The EUDI, mandated by the eIDAS 2.0 Regulation (2024), aims to provide all EU citizens with a secure, interoperable digital identity that can be used across public and private services. The digital euro, under development by the ECB, is both a monetary policy instrument (as discussed in Section 3) and a technological sovereignty measure, reducing the EU's dependence on US payment networks (Visa, Mastercard) and US dollar settlement infrastructure.

The challenge for the EU is to coordinate these disparate sovereignty initiatives into a coherent industrial and technological strategy without replicating the state-capitalist models of the US and China, which are incompatible with the EU's competition-law-based economic governance. The tension between the EU's regulatory, rights-based approach and the state-directed, mission-oriented investment deployed by its competitors is the central structural challenge of EU digital industrial policy. The "Industrial Accelerator Act" under discussion for the post-2027 MFF period, and the proposed "Strategic Technologies for Europe Platform" (STEP), represent attempts to bridge this gap by introducing more targeted, state-directed investment while preserving the single market's competitive logic.

6.5 The Brussels Effect in Digital: Regulatory Influence and Global Standards

The "Brussels effect" - the EU's capacity to shape global standards through the sheer weight of its regulatory framework and the economic incentives it creates for multinational firms - has been most powerfully demonstrated in the digital domain. The GDPR's global adoption, the DSA's influence on platform governance in the UK, India, and Brazil, and the DMA's potential to reshape the competitive dynamics of the global platform

economy illustrate the EU's regulatory leverage. As noted in Section 5, the EU's geopolitical leverage is asymmetric: strong in economic and regulatory domains, weaker in security and coercive domains. Digital regulation is the domain in which this asymmetry is most pronounced.

The DSA and DMA, in particular, have the potential to become global standards. The DSA's transparency obligations for recommender systems, its requirements for age verification and content moderation, and its prohibition of certain dark patterns are already influencing platform design in non-EU jurisdictions. The DMA's gatekeeper designation and its prohibition of self-preferencing, data portability requirements, and interoperability mandates could reshape the competitive structure of the global platform economy if adopted, in whole or in part, by other major markets. The UK's Online Safety Act (2023), India's Digital Personal Data Protection Act (2023), and Brazil's General Data Protection Law (2020) all reflect, to varying degrees, the EU's regulatory logic.

However, the Brussels effect in digital is not unidirectional. The US and China are actively developing counter-standards. The US approach, embodied in the Executive Order on AI (2023) and the NIST AI Risk Management Framework, emphasises voluntary standards, sectoral regulation, and innovation protection. The Chinese approach, embodied in the Cybersecurity Law, the Data Security Law, and the Personal Information Protection Law, emphasises state control, data localisation, and the subordination of digital governance to national security objectives. The EU's normative, rights-based approach is thus caught between two competing models, and its global influence depends on its ability to demonstrate that the EU model delivers both innovation and rights protection - a claim that will be tested by the competitive performance of European digital firms in the 2025-2035 period.

The EU's regulatory diplomacy in digital is also shaped by its trade relationships. The EU-US Trade and Technology Council (TTC, established 2021) provides a forum for coordinating on digital standards, AI governance, and supply-chain security, but it operates within a context of deep structural disagreement on the appropriate balance between regulation and innovation. The EU-China relationship in digital is more adversarial, with the EU's "de-risking" strategy (2023) targeting Chinese digital firms' access to the EU market and the EU's concerns about Chinese influence in 5G, cloud, and AI. The EU's digital regulatory posture is thus a function of its broader geopolitical strategy, as analysed in Section 9, *External Relations: The EU in a Multipolar World*.

6.6 Innovation, Fundamental Rights, and the Digital Social Contract

The EU's digital policy is underpinned by a normative commitment that is absent from the US and Chinese models: the assertion that digital technology must be governed in accordance with fundamental rights, the rule of law, and democratic accountability. The AI Act's risk-based approach, the GDPR's data protection framework, the DSA's content moderation and transparency obligations, and the DMA's competition rules all reflect this commitment. The EU's digital policy is, in this sense, an expression of the broader European project: the construction of a post-national polity in which the market is embedded in a framework of rights, solidarity, and democratic governance.

This normative commitment, however, creates a persistent tension with the imperative of economic competitiveness. The EU's regulatory framework, while strengthening the Union's external influence, imposes compliance costs that can disadvantage European firms relative to their US and Chinese counterparts. The AI Act's conformity assessment requirements for high-risk AI systems, the DMA's structural obligations for gatekeepers, and the DSA's transparency and audit requirements all represent costs that must be absorbed by firms operating in the EU market. The question of whether the EU's regulatory model ultimately strengthens or weakens European digital competitiveness is the central empirical question of the 2025-2035 period.

The digital transformation also creates a new dimension to the democratic and social challenges identified in Section 4, *Political Integration, Governance Reform, and Democratic Legitimacy*, and Section 8, *Migration, Demographics, and Social Cohesion*. The digital public infrastructure (EUDI, digital euro, digital health records) offers the potential to reduce participation barriers, increase transparency, and create new channels for citizen engagement. The ECI, the European Citizens' Panels, and the digital tools of the 2022-2024 Conference on the Future of Europe represent early experiments in digital democratic participation. However, the digital transformation also creates new risks: algorithmic manipulation of public opinion, the degradation of the information environment by AI-generated disinformation (a concern explicitly identified in Section 2), the concentration of digital power in a small number of platform operators, and the exclusion of digitally illiterate or under-connected citizens from the digital public sphere.

The "digital social contract" - the implicit agreement between citizens, firms, and the state regarding the terms of digital participation - remains under negotiation. The EU's approach, which emphasises rights, transparency, and accountability, is distinct from the US model (which emphasises free expression and market competition) and the Chinese model (which emphasises state control and social stability). The durability of the EU's digital

social contract will depend on its capacity to deliver tangible benefits - digital public services, digital health, digital education, digital identity - while maintaining the trust of a citizenry that is, as Section 2 documents, deeply polarised and increasingly sceptical of supranational institutions.

The intersection of digital policy with the climate and energy transition (Section 7) adds a further dimension. The digitalisation of the energy system (smart grids, demand response, carbon tracking) depends on the availability of secure, interoperable data infrastructure. The CBAM's data requirements, the digital product passport, and the EU Taxonomy's digital reporting obligations all create new data flows that must be governed within the EU's data protection and sovereignty framework. The digital and climate transitions are thus not parallel processes but mutually reinforcing ones, and their governance must be integrated.

6.7 Critical Decision Points and Scenarios for Digital Policy

The trajectory of the EU's digital policy over the next decade will be determined by a series of critical decision points that intersect with the broader integration challenges identified throughout this volume. The most significant include:

The full implementation of the AI Act (2025-2027). The phased entry into force of the AI Act, with the full regime operational by August 2026, will test the capacity of the European AI Office and national authorities to enforce a complex, technically demanding regulatory framework. The outcome of the first enforcement actions, the development of the regulatory sandbox network, and the response of the AI industry (both European and non-European) will determine whether the Act functions as a catalyst for a European AI ecosystem or as a compliance burden that accelerates the outmigration of AI activity.

The post-2027 MFF and digital/technological investment. The design of the post-2027 Multiannual Financial Framework, as discussed in Sections 3 and 4, will determine the scale and orientation of EU investment in digital infrastructure, AI research, semiconductor manufacturing, and digital public services. The inclusion of a dedicated "Strategic Technologies" budget line, the scaling up of the European Chips Act, and the funding of the digital euro and EUDI will be central to the EU's capacity to build technological sovereignty. The fiscal asymmetries among member states (GDP-per-capita gap exceeding 5:1, debt ratios ranging from above 170% to below 50%) will constrain the political space for open-ended mutualisation of digital investment.

The completion of the digital single market. The resolution of persistent fragmentation in digital services, the harmonisation of national digital tax regimes, and the development of a genuine European cloud and data ecosystem will determine whether the DSM functions as a unified market or remains a patchwork of national markets with a common regulatory overlay. The "sovereigntist centre" within mainstream parties and the 30-35% populist electoral share (Section 2) create a political constraint on the depth of digital integration, as digital sovereignty is a potent mobilising issue for both pro-European and anti-European forces.

The EU's digital regulatory diplomacy. The EU's capacity to export its digital standards (GDPR, DSA, DMA, AI Act) to other jurisdictions, and to resist the counter-standards of the US and China, will depend on the competitive performance of European digital firms, the coherence of the EU's trade and technology policy, and the evolution of the EU-US and EU-China relationships (Section 9). The TTC, the EU-Japan Digital Partnership, and the EU's engagement with the Global South on digital governance will be the key arenas of this competition.

The digital euro and payment sovereignty. The decision on the design, launch, and governance of the digital euro (expected 2028-2030) will be a critical test of the EU's capacity to build sovereign digital infrastructure. The digital euro is simultaneously a monetary policy instrument (Section 3), a technological sovereignty measure, and a digital public service. Its success will depend on the ECB's institutional capacity, the political agreement among member states on its design, and the competitive response of private payment providers.

The integration of digital and climate policy. The governance of the data flows required by the CBAM, the digital product passport, the EU Taxonomy, and the energy data space will require a coherent integration of digital and climate policy. The absence of such integration risks creating parallel regulatory regimes that impose cumulative compliance costs on firms and create gaps in data governance.

Four scenarios structure the 2035 trajectory of EU digital policy, consistent with the scenario framework developed in Section 12, *Conclusion: Scenarios and Pathways for the EU in 2040*:

(A) Deepened integration. A fully operational digital single market, a sovereign European cloud and data ecosystem, a competitive European AI and semiconductor industry, a digital euro in general circulation, and the EU's digital standards adopted as global reference points. The AI Act functions as a catalyst for a "trust premium" European AI ecosystem. The EU's digital regulatory influence is matched by industrial capacity.

(B) Managed differentiation. A core group of 8-12 member states pursues deeper digital integration (sovereign cloud, joint AI research, digital public infrastructure) through enhanced cooperation, while the broader EU maintains a common regulatory framework but a lower level of digital integration. The EU's digital regulatory influence remains strong, but its industrial capacity is concentrated in a subset of member states.

(C) Stagnation. The existing regulatory framework persists with incremental updates. The AI Act is implemented but does not catalyse a European AI ecosystem. The digital single market remains fragmented. The EU's digital regulatory influence is maintained but not extended. The EU's technological dependency on US and Chinese infrastructure persists.

(D) Fragmentation. The digital single market erodes under the pressure of national digital sovereignty claims, the outmigration of digital firms, and the inability to build a coherent European digital industrial strategy. The EU's regulatory influence is undermined by the competitive success of US and Chinese digital models. The digital divide within the Union deepens, exacerbating the internal fragmentation identified in Section 2.

The choices made at these decision points will determine whether the EU's digital policy functions as a pillar of the Union's economic competitiveness, regulatory influence, and strategic autonomy, or whether it becomes a source of internal division and external vulnerability. As with the other policy domains examined in this volume, the digital transformation is not a self-contained technical challenge; it is a political, economic, and normative question that will shape the character of the European project in the decades to come.

7. Energy Transition, Climate Policy, and the European Green Deal

7.1 The European Green Deal: Architecture, Ambition, and Implementation Status

The European Green Deal, adopted by the European Commission in December 2019, constitutes the most comprehensive and legally ambitious climate and energy strategy ever articulated by a supranational polity. Its central objective - achieving climate neutrality across the Union by 2050 - was enshrined in the European Climate Law (Regulation 2021/1119), which for the first time embedded a binding, long-term decarbonisation target in primary EU legislation. The Green Deal is not a single policy but an integrated architecture spanning energy, transport, industry, agriculture, land use, building efficiency, and fiscal instruments, underpinned by the "Fit for 55" legislative package (2021-2023) that operationalises the intermediate target of a 55% reduction in net greenhouse gas emissions by 2030 relative to 1990 levels.

The implementation status as of 2025 is one of significant legislative progress coupled with uneven operational delivery. The Emissions Trading System (ETS) has been reformed to include maritime transport and a second pillar covering buildings and road transport (ETS2), with a revised linear reduction factor accelerating the phase-out of free allowances. The revised Renewable Energy Directive (RED III, 2023) and the Energy Efficiency Directive set binding national targets and streamline permitting. The EU Taxonomy Regulation, the Corporate Sustainability Reporting Directive (CSRD), and the Corporate Sustainability Due Diligence Directive (CSDDD) extend the climate mandate into corporate governance and supply-chain accountability. The REPowerEU plan (2022), adopted in response to the energy shock triggered by the war in Ukraine, accelerated the timeline for gas substitution and renewable deployment, effectively fusing the climate agenda with the strategic-autonomy imperatives analysed in Section 5, *Strategic Autonomy: Security, Defense, and Foreign Policy.*

However, the Green Deal's implementation is constrained by the same structural asymmetries that characterise the Union more broadly. The GDP-per-capita gap exceeding five to one (Section 2, *Current State of the Union: Political, Economic, and Social Landscape*) means that the fiscal and industrial capacity to absorb transition costs varies dramatically between member states. The 2022-2023 energy shock, which hit gas-dependent economies in Central and Eastern Europe disproportionately, exposed the vulnerability of a transition strategy that presupposes stable energy prices and uninterrupted investment flows. The political space for maintaining climate ambition is further narrowed by the "sovereigntist centre" within mainstream parties and the 30-35% populist electoral share identified in Section 2, which frame climate policy as an external imposition that undermines national industrial competitiveness and household affordability.

The Green Deal thus occupies a paradoxical position: it is simultaneously the EU's most distinctive normative export - extending the "Brussels effect" into global climate governance - and the policy domain most exposed to internal political contestation, fiscal constraint, and external competitive pressure. Its future trajectory will be determined not by the adequacy of its legislative architecture, which is largely in place, but by the political and economic conditions under which that architecture is implemented over the next decade.

7.2 Renewable Energy Targets and the Transformation of the Energy Mix

The energy mix transformation is the operational core of the Green Deal. RED III establishes a binding EU-level target of at least 42.5% renewable energy in the final energy consumption by 2030, with an indicative ambition of 45%, and national targets calibrated to each member state's starting point and resource endowment. The directive introduces a streamlined permitting regime (maximum 12 months for onshore wind, 15 months for offshore), a 10% annual growth target for solar PV, and a 35% binding target for heat pumps and other renewable heating by 2030. The hydrogen strategy, complemented by the revised Energy Efficiency Directive, targets 10 million tonnes of renewable hydrogen production by 2030 and 20 million tonnes of imports, positioning the EU as both a producer and a net importer of green hydrogen.

The 2022 energy shock fundamentally altered the political and economic context for these targets. The REPowerEU plan committed to eliminating the EU's dependence on Russian fossil fuel imports by 2027, accelerating the deployment of wind, solar, and nuclear capacity, and expanding interconnection capacity. In practice, the shock produced a bifurcated response: member states with abundant domestic renewables (Denmark, Germany, Spain, Portugal) experienced a relative price advantage, while gas-dependent economies (Poland, Czechia, Hungary, Austria, Finland) faced acute fiscal stress and industrial dislocation. This asymmetry, documented in Section 2, deepened the internal divergence in transition capacity and created a political incentive for some member states to resist the pace of fossil-fuel phase-out, particularly in the coal-dependent regions of Central and Eastern Europe.

The nuclear question remains a structural fault line. The 2022 reclassification of nuclear and natural gas as

"sustainable" under the EU Taxonomy (with strict conditions and sunset clauses) was a political compromise that satisfied France and the Visegrád Group while drawing criticism from environmental organisations and several member states. The 2023 "Clean Industrial Deal" and the subsequent "Strategic Technologies for Clean Energy Transition" (STEP) initiative signal a shift toward treating clean-energy manufacturing - solar panels, wind turbines, batteries, heat pumps, electrolyser components - as a strategic industrial policy priority rather than a purely environmental objective. This reorientation aligns the energy transition with the industrial-policy challenges identified in Section 3, *Economic Integration, Monetary Policy, and the Single Market*, where the EU's competition-law-based approach is being tested by US and Chinese state-directed investment in the same technology sectors.

The operational challenge for 2025-2035 is not the absence of targets but the convergence of permitting delays, grid bottlenecks, critical-raw-material dependencies (lithium, cobalt, rare earths, copper), and workforce shortages. The EU's critical-raw-materials strategy and the Critical Raw Materials Act (2024) attempt to reduce import concentration, but the supply chains for wind turbines, solar PV, and battery cells remain heavily dependent on Chinese processing capacity. The digital dimension of the energy transition - smart grids, energy data spaces, digital product passports for batteries and electronics - intersects with the technological-sovereignty agenda outlined in Section 6, *Digital Transformation, Artificial Intelligence, and Technological Sovereignty*, and will require coherent data-governance frameworks to avoid creating new dependencies.

7.3 The Carbon Border Adjustment Mechanism: Design, Implementation, and Geopolitical Implications

The Carbon Border Adjustment Mechanism (CBAM), adopted in October 2023 and entering its transitional monitoring phase in October 2023, represents the most significant innovation in the EU's climate architecture since the ETS. Its design is straightforward in principle: importers of carbon-intensive goods (initially cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen) must purchase CBAM certificates corresponding to the embedded emissions of the imported product, calibrated to the EU ETS price. The mechanism is intended to prevent "carbon leakage" - the relocation of emissions-intensive production to jurisdictions with weaker climate regulation - and to create a level playing field for EU producers who bear the cost of the ETS.

The implementation timeline is phased. The transitional period (October 2023-December 2025) requires importers to report embedded emissions but does not yet require certificate purchases. Full implementation begins in January 2026, with the first certificate auctions in 2026 and a progressive reduction in free ETS allowances for the covered sectors. The scope is expected to expand to downstream products (steel-intensive goods, aluminium-intensive goods, and potentially additional sectors) by 2028, contingent on a review of the mechanism's effectiveness and trade-law compliance.

The CBAM's geopolitical implications are substantial and multifaceted. First, it constitutes a unilateral trade measure that redefines the relationship between climate policy and trade policy, extending the EU's regulatory "Brussels effect" into the domain of carbon pricing. The EU's 450-million-consumer market gives the mechanism significant leverage: major trading partners (China, India, Turkey, South Korea, the United States) face a direct cost incentive to either adopt comparable carbon pricing or accept a competitive disadvantage on EU exports. Second, the CBAM's design has generated significant diplomatic friction. China has characterised the mechanism as a "protectionist" trade barrier, and the EU's trade relationship with China - already strained by the industrial-competition dynamics analysed in Section 3 - faces an additional dimension of contestation. The United States, which lacks a federal carbon price, has expressed concern about the mechanism's compatibility with WTO rules and its impact on US steel and aluminium exports. Third, the CBAM's interaction with the EU's broader trade and foreign policy architecture (Section 9, *External Relations: The EU in a Multipolar World*) will test the Union's capacity to deploy climate instruments as instruments of geopolitical leverage without triggering retaliatory trade measures or fragmenting the multilateral trading system.

The CBAM also raises acute questions of industrial competitiveness within the EU. The covered sectors - steel, cement, aluminium, fertilisers - are concentrated in specific regions (Lorraine, Silesia, the Ruhr, the Po Valley, the Baltic states) where the transition costs are most acute. The mechanism's revenue, which will accrue to the EU budget, is intended to fund the just-transition measures discussed in Section 7.4, but the distribution of those revenues and the timing of their deployment will be politically contested. The first full CBAM cycle (2026-2028) will be a critical stress test: it will determine whether the mechanism functions as a genuine climate instrument, a trade-protection device, or both, and whether it catalyses a global convergence on carbon pricing or entrenches a fragmented, bloc-based approach to climate trade policy.

7.4 Just Transition: Protecting Affected Regions, Workers, and Social Cohesion

The Green Deal's social dimension is operationalised through the Just Transition Fund (JTF), the largest dedicated climate-funding instrument in EU history, with an envelope of €73.3 billion for 2021-2027 (of which €30 billion is in grants and €43.3 billion in loans). The JTF targets the 120 "just transition territories" identified in the 2022 Just Transition Dialogues - regions with high fossil-fuel dependency, significant employment in carbon-intensive sectors, and limited economic diversification. These include coal-mining regions in Poland, Germany, Czechia, and Romania; oil-dependent areas in Romania and Greece; and industrial zones in Spain, Italy, and France.

The JTF operates through national Just Transition Plans, which must be approved by the Commission and specify the allocation of funds across three pillars: (i) economic diversification and new investment; (ii) workforce reskilling, upskilling, and social support; and (iii) environmental remediation and ecosystem restoration. The fund is complemented by the Social Climate Fund (2026-2032), which will finance national measures to protect vulnerable households from the increased energy costs resulting from the ETS2 extension to buildings and transport, and by the InvestEU programme, which channels private investment into clean-energy projects in transition regions.

The adequacy of these instruments is contested. Critics argue that the JTF's total envelope is insufficient relative to the scale of structural economic transformation required in the most affected regions, and that the grant-to-loan ratio (approximately 40:60) imposes a fiscal burden on member states with the weakest public finances - precisely those in the GDP-per-capita lower quartile identified in Section 2. The 2022-2023 energy shock demonstrated the acute vulnerability of these regions: households in coal-dependent areas of Poland and Germany experienced energy-price increases of 40-60% in 2022, and the fiscal capacity to absorb these shocks was limited. The social-climate nexus - rising energy costs, industrial restructuring, and the loss of traditional employment - has become a significant driver of the political polarisation documented in Section 2, with populist and anti-EU movements framing the Green Deal as a "Brussels-imposed" programme that sacrifices working-class communities for abstract climate targets.

The just-transition challenge is also a demographic and intergenerational one, intersecting with the issues analysed in Section 8, *Migration, Demographics, and Social Cohesion*. The regions most affected by the energy transition are often the same regions experiencing demographic decline, outmigration of young workers, and limited economic dynamism. The transition must therefore be designed not merely as a sectoral substitution (coal to renewables) but as a broader regional development strategy that addresses the structural economic weaknesses of peripheral and post-industrial areas. The post-2027 MFF design (a critical decision point identified in Sections 3, 4, and 12) will determine whether the JTF is scaled up, restructured, or subsumed into a broader cohesion and climate fund, and whether the EU develops a permanent fiscal instrument for just transition or reverts to the ad hoc, crisis-driven funding model that has characterised the 2021-2027 period.

7.5 The Climate-Energy Security-Competitiveness Triangle

The central analytical challenge of the Green Deal is the interplay between three objectives that are individually legitimate but mutually constraining: climate ambition, energy security, and industrial competitiveness. The 2022-2023 energy shock demonstrated that these three objectives cannot be pursued in sequence; they must be managed simultaneously, and the political economy of their interaction will determine the pace and depth of the transition.

Climate ambition versus energy security. The Green Deal's decarbonisation targets presuppose a rapid reduction in fossil-fuel consumption, but the 2022 shock revealed that the EU's energy system was still structurally dependent on imported gas (approximately 40% of total energy consumption pre-2022, with Russia accounting for roughly 35% of EU gas imports). The REPowerEU plan and the accelerated renewable deployment represent a strategic reorientation: energy security is now defined not as the capacity to import fossil fuels but as the capacity to generate domestic renewable energy, maintain strategic gas reserves, and diversify import sources (LNG from the United States, Qatar, Norway; pipeline gas from Azerbaijan). The nuclear renaissance in several member states (France, Poland, Czechia, Hungary, the Netherlands) reflects a recognition that baseload generation is necessary to complement the variable nature of wind and solar. The energy-security dimension of the Green Deal is thus inseparable from the strategic-autonomy agenda in Section 5: the capacity to define and execute energy policy with operational independence is a prerequisite for the Union's broader geopolitical posture.

Climate ambition versus industrial competitiveness. The ETS, the CBAM, and the expanding regulatory rulebook (taxonomy, CSRD, CSDDD, digital product passports) impose significant compliance and capital costs on EU industry. The concern is not merely the absolute cost but the *relative* cost: if the United States and China do not impose equivalent carbon costs on their producers, EU firms face a competitive disadvantage in

global markets. The CBAM is the EU's primary instrument for addressing this asymmetry, but its effectiveness depends on the willingness of trading partners to accept the mechanism or to adopt comparable measures. The "Strategic Technologies for Clean Energy Transition" (STEP) initiative and the Clean Industrial Deal (2023) represent a deliberate shift toward treating clean-energy manufacturing as a strategic industrial policy priority, with targeted public investment, streamlined permitting, and supply-chain security measures. This shift is consistent with the broader industrial-policy reorientation identified in Section 3, where the EU's competition-law-based approach is being supplemented by mission-oriented, state-directed investment in strategic sectors.

Energy security versus industrial competitiveness. The 2022-2023 energy shock demonstrated that energy-price volatility is a direct threat to industrial competitiveness. The energy-intensive sectors (chemicals, steel, aluminium, cement, paper, glass) that are most exposed to the ETS and CBAM are also the sectors most vulnerable to energy-price spikes. The EU's response - strategic gas reserves, accelerated renewables, nuclear, and the CBAM - addresses the supply side but does not fully resolve the demand-side vulnerability. The post-2027 MFF and the design of the EU's industrial policy architecture will determine whether the Union develops a coherent, long-term energy-cost strategy for its industrial base or continues to respond to price shocks through ad hoc national measures.

The triangle is not static. The pace of technological change (renewable cost curves, battery storage, green hydrogen, carbon capture) and the evolution of global carbon-pricing architectures will shift the relative weight of each vertex. The EU's 450-million-consumer market and its regulatory "Brussels effect" provide a structural advantage in setting global standards, but this advantage is conditional on the competitive performance of European firms in the clean-energy technology sectors - a condition that is not yet met, as the EU's semiconductor, battery, and renewable-equipment manufacturing capacity remains below that of the United States and China.

7.6 Critical Decision Points and the 2035 Trajectory

The future trajectory of the EU's energy transition and climate policy will be determined by a series of critical decision points in the 2025-2035 period, each of which intersects with the broader integration challenges identified in the preceding sections of this volume.

First, the post-2027 MFF design. The current Multiannual Financial Framework (2021-2027) and the NGEU recovery instrument provide the fiscal architecture for the Green Deal's implementation. The post-2027 MFF, to be negotiated in 2026-2027, will determine the scale and structure of climate and energy funding, the design of the JTF successor, the Social Climate Fund, and the EU's own-resources architecture. As identified in Sections 3 and 4, the MFF is simultaneously an economic, political, and fiscal decision, and its design will reflect the broader trajectory of integration - whether the Union moves toward a permanent European fiscal capacity or reverts to a more intergovernmental, member-state-funded model.

Second, the first full CBAM cycle (2026-2028). The operational performance of the CBAM in its first full implementation phase will determine its credibility as a climate instrument, its compatibility with WTO rules, and its geopolitical reception. The scope expansion to downstream products, the calibration of the embedded-emissions methodology, and the treatment of developing-country trading partners will be politically and legally contested. The CBAM's interaction with the EU's trade and foreign policy architecture (Section 9) and its implications for the EU-China and EU-US economic relationship will be a defining feature of the 2026-2030 period.

Third, the completion of the energy infrastructure and grid interconnection programme. The EU's electricity grid is fragmented, with significant interconnection gaps between member states and between the EU and its neighbours. The 2030 target of 15% interconnection capacity (and 20% for island states) requires substantial investment in cross-border transmission, offshore grid connections for wind farms, and the digitalisation of grid management. The grid is a strategic asset: its architecture determines the capacity for renewable energy sharing, the resilience of the system to supply disruptions, and the integration of new member states (Section 10, *Enlargement, the Eastern Partnership, and the Question of Ukraine*). The digital governance of the energy grid intersects with the data-governance and technological-sovereignty agenda in Section 6.

Fourth, the political decision on the pace of fossil-fuel phase-out. The 2022-2023 energy shock and the subsequent political backlash in several member states have created a window in which the pace of coal, gas, and oil phase-out is being renegotiated at the national level. The EU's 2030 and 2040 climate targets (the 2040 target, to be set in 2025, is expected to be in the range of 90% net GHG reduction) will require a definitive political commitment to the timing and sequencing of fossil-fuel exit. This decision is inseparable from the just-transition question: the speed of phase-out must be calibrated to the capacity of affected regions and workers to absorb the transition, a capacity that is a function of the fiscal and social architecture discussed in Sections 2, 3, and 8.

Fifth, the development of a coherent EU industrial policy for clean-energy manufacturing. The STEP initiative, the Clean Industrial Deal, and the European Chips Act (for the semiconductor components of energy systems) represent the beginning of a strategic industrial policy for the energy transition. The critical decision is whether the EU will develop a sustained, mission-oriented investment programme for clean-energy manufacturing - solar PV, wind turbines, batteries, hydrogen electrolyser components, heat pumps, grid equipment - or whether it will continue to rely on the single market's competitive dynamics and the "Brussels effect" to attract private investment. The answer to this question will determine whether the EU can reduce its structural dependency on Chinese and, to a lesser extent, US clean-energy manufacturing capacity, and whether the energy transition can be a driver of industrial competitiveness rather than a source of cost disadvantage.

Sixth, the integration of climate and digital data governance. The energy transition is increasingly a data-intensive process: smart grids, energy management systems, digital product passports, battery passports, and the CBAM's embedded-emissions reporting all require robust data infrastructure and governance. The EU's data-governance framework (DGA, Data Act, European Data Spaces) must be extended to the energy domain, and the energy data space must be integrated with the broader digital single market architecture. This integration is a critical decision point that intersects with the technological-sovereignty agenda in Section 6 and the regulatory-compliance burden on SMEs identified in Section 3.

Four scenarios structure the 2035 energy and climate trajectory, consistent with the scenario framework developed in Section 12, *Conclusion: Scenarios and Pathways for the EU in 2040*:

- **(A) Deepened integration.** A fully operational, accelerated energy transition with 45%+ renewables by 2030, a mature CBAM with global uptake, a scaled-up just-transition fund, a coherent EU clean-energy industrial policy, and a completed grid interconnection programme. The EU's climate architecture functions as a global reference point, and the "Brussels effect" in climate regulation is reinforced by the competitive performance of European clean-energy firms.
- **(B) Managed differentiation.** A core group of member states (the Nordics, Benelux, France, Germany, Spain, Portugal, the Baltics) pursues a faster and deeper transition through enhanced cooperation, while the broader EU maintains the common regulatory framework at a slower pace. The CBAM operates at the EU level, but the just-transition and industrial-policy instruments are differentiated. The energy grid is integrated at the core-group level, with the broader EU connected at a lower standard.
- **(C) Stagnation.** The existing legislative architecture persists with incremental updates. The 2030 targets are met but the 2040 and 2050 trajectories are not secured. The CBAM is implemented but its scope is not expanded, and its geopolitical impact is limited. The just-transition fund is not scaled up, and the most affected regions experience prolonged economic decline. The energy transition is managed as a compliance exercise rather than a strategic industrial opportunity.
- **(D) Fragmentation.** The political backlash against the Green Deal, amplified by the energy shock, fiscal constraint, and the rise of populist and anti-EU movements, leads to a dilution of climate targets, a suspension or rollback of the CBAM, and a reversion to national energy policies. The single market's climate regulatory framework is undermined by member-state derogations and the expansion of enhanced cooperation in a "two-speed" energy architecture. The EU's global climate leadership is ceded to the United States and China.

The energy transition is not a separable policy domain. As established in the preceding sections, the choices made on climate and energy are inseparable from the fiscal governance architecture (Section 3), the political integration trajectory (Section 4), the strategic-autonomy agenda (Section 5), the digital and technological-sovereignty strategy (Section 6), the social-cohesion and demographic challenges (Section 8), the external-relations and trade-policy framework (Section 9), and the enlargement question (Section 10). The Green Deal is, in the final analysis, a test of the EU's capacity to manage the simultaneity of its challenges - the defining characteristic of the present juncture identified in Section 1, *Introduction: The EU at a Crossroads* - and to convert its normative and regulatory strengths into a coherent, competitive, and socially just industrial and energy strategy. The decisions taken in the 2025-2030 period will determine whether the European Green Deal is realised as a transformative project or is reduced to a set of regulatory obligations that the Union is unable to implement coherently across its 27 member states.

8. Migration, Demographics, and Social Cohesion

8.1 The Evolving Migration and Asylum Architecture

The migration and asylum system that the EU inherited from the 2013 Dublin Regulation was designed for a different geopolitical and demographic environment. The 2015-2016 refugee and migration crisis exposed its structural inadequacy: a first-country-of-entry principle that concentrated disproportionate pressure on Greece, Italy, and Spain; a solidarity mechanism that was voluntary and therefore ineffective; and an external dimension that relied on bilateral arrangements of varying durability. The war in Ukraine, which generated an estimated 6.5 million Ukrainian refugees within the first year, further stressed the architecture by introducing a large-scale, internally displaced population that the Temporary Protection Directive was designed to accommodate but that nonetheless tested reception capacities, labor-market integration, and social-cohesion frameworks across the Union.

The New Pact on Migration and Asylum, adopted in 2024 after a protracted legislative negotiation, represents the most significant reform of the EU's migration architecture since the 2013 acquis. Its central innovations include: (i) a mandatory solidarity mechanism that obliges member states to contribute either through relocation, financial contributions, or operational support, replacing the voluntary solidarity of the Dublin era; (ii) accelerated border procedures for applications with a low prospect of success, conducted in dedicated facilities at or near the external border; (iii) a strengthened external dimension, with a new EU Migration and Mobility Partnership framework that links visa facilitation, development cooperation, and return cooperation to partner countries' cooperation on readmission and origin-country conditions; and (iv) a reinforced role for Frontex, now operating with a standing corps of 10,000 officers and expanded powers for joint operations.

The Pact's political architecture, however, reflects the same structural constraints identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy*: the persistence of unanimity in certain asylum-policy domains, the "sovereigntist centre" within mainstream parties, and the 30-35% populist electoral share that frames migration as an existential threat to national identity and social welfare. The compromise text is a product of these constraints. The solidarity mechanism, while mandatory in principle, permits member states to opt out of relocation in favour of financial contributions, creating a two-tier system in which the burden of reception remains concentrated on frontline states. The accelerated border procedures, while legally compliant with the Charter of Fundamental Rights as interpreted by the Court of Justice, raise significant questions about due process, access to legal aid, and the practical capacity to conduct meaningful individual assessments within compressed timeframes.

The external dimension of the Pact is inseparable from the EU's broader geopolitical strategy outlined in *5. Strategic Autonomy: Security, Defense, and Foreign Policy* and *9. External Relations: The EU in a Multipolar World*. The EU's migration partnerships with North African states (Morocco, Tunisia, Libya, Egypt), the Sahel, and the Middle East are simultaneously development instruments, security arrangements, and instruments of external pressure. The 2023-2024 political crises in Tunisia and Libya demonstrated the fragility of these partnerships: when domestic political conditions shift, the EU's leverage over migration flows diminishes rapidly, and the Union is forced to improvise bilateral responses. The EU's capacity to project a coherent external migration policy is thus a function of its broader geopolitical standing, its development budget, and the political will of member states to pool resources for external engagement.

The question of Ukraine's prospective integration, discussed in *10. Enlargement, the Eastern Partnership, and the Question of Ukraine*, adds a further dimension. The large-scale presence of Ukrainian refugees in EU member states has created a de facto integration experiment that will shape both the political discourse on migration and the practical architecture of reception, labor-market access, and social inclusion. The transition from temporary protection to longer-term residence, the recognition of qualifications, and the integration of children into national education systems are policy questions that will persist well beyond the end of the conflict and that will test the EU's capacity to manage large-scale demographic change in a coherent, rights-based framework.

8.2 Demographic Aging and the Structural Dependency Challenge

The EU's demographic trajectory is the most structurally deterministic of the challenges addressed in this volume. The median age of the EU-27 population has risen from approximately 39 years in 2010 to over 44 years in 2024, and Eurostat projections indicate that by 2050 the share of the population aged 65 and above will exceed 30% in most member states, compared to roughly 21% in 2024. The total fertility rate in the EU-27 has hovered below the 2.1 replacement threshold for over four decades, with rates in Italy, Spain, Poland, and Hungary falling below 1.3. The working-age population (15-64) is projected to decline by approximately 15-20 million between 2020 and 2050, even before accounting for emigration.

The demographic challenge is not uniform across the Union. Eastern and Southern member states face the most acute aging and emigration pressures: Bulgaria, Romania, Croatia, and Greece have experienced significant net out-migration of working-age citizens, compounding the effects of low fertility. Western and Northern member states, while also aging, have historically benefited from higher immigration inflows that partially offset natural population decline. This asymmetry mirrors the broader fiscal and economic divergences identified in *2. Current State of the Union: Political, Economic, and Social Landscape* and *3. Economic Integration, Monetary Policy, and the Single Market*, where the GDP-per-capita gap exceeding 5:1 and the range of public debt-to-GDP ratios from above 170% to below 50% create structurally different capacities to absorb demographic shocks.

The fiscal implications of demographic aging are profound and directly constrain the Union's policy space. Pension expenditure as a share of GDP is projected to rise by 3-6 percentage points in most member states between 2025 and 2050, depending on the pace of reform and the evolution of life expectancy. Healthcare and long-term care costs will follow a similar trajectory. These pressures interact with the fiscal constraints identified in *3. Economic Integration, Monetary Policy, and the Single Market*: the absence of a common fiscal capacity, the incomplete banking union, and the political constraints on open-ended mutualisation mean that the demographic burden will be borne primarily at the national level, with the EU's role limited to coordination, best-practice exchange, and targeted funding through the European Social Fund Plus and the Just Transition Fund.

The demographic challenge also intersects with the energy and climate transition discussed in *7. Energy Transition, Climate Policy, and the European Green Deal*. The just-transition territories identified in the Green Deal - regions dependent on coal, steel, or other carbon-intensive industries - often coincide with areas of pronounced demographic aging and out-migration. The structural transformation of these regions must therefore address not only the loss of traditional employment but also the broader demographic and social decline that threatens the viability of local public services, housing markets, and community infrastructure. The Just Transition Fund's €73.3 billion envelope, while significant, is insufficient to address the full scale of this combined demographic-industrial challenge, and the post-2027 MFF design will need to integrate demographic and social-cohesion objectives more explicitly into its funding architecture.

8.3 Labor-Market Transformation and the Skills Imperative

The EU labor market faces a triple transformation: demographic contraction of the working-age population, technological disruption driven by artificial intelligence and digitalisation, and the structural reallocation of employment associated with the green transition. These three forces operate simultaneously and interact in ways that amplify both the challenges and the opportunities.

The digital transformation, analysed in *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*, is reshaping the nature of work across all sectors. The AI Act's phased implementation (2025-2027) and the broader digitalisation of the economy will displace certain categories of routine cognitive and manual work while creating demand for new skill sets in data science, AI engineering, cybersecurity, and digital services. The EU's structural dependency on US cloud infrastructure and the absence of a single European semiconductor champion mean that the digital transition will also generate new patterns of labor-market dependency: European workers in digital sectors may find their employment prospects tied to the competitive performance of non-European firms, while the compliance and regulatory functions associated with the EU's "Brussels effect" create a distinct category of high-skill employment that is inherently European.

The green transition, as outlined in *7. Energy Transition, Climate Policy, and the European Green Deal*, is simultaneously destroying and creating employment. The phase-out of fossil-fuel extraction, the restructuring of the automotive sector toward electric vehicles, and the expansion of renewable energy generation, grid infrastructure, and energy efficiency retrofits will generate millions of new jobs in construction, engineering, and manufacturing, while eliminating positions in coal mining, oil and gas, and internal-combustion-engine production. The EU's 450-million-consumer market and its regulatory leadership in clean-energy standards provide a structural advantage, but the transition requires a massive upskilling and reskilling effort that the existing education and vocational-training systems are not fully equipped to deliver. The European Skills Agenda and the European Year of Skills (2023) represent important policy responses, but their impact will depend on national implementation and the willingness of member states to invest in lifelong learning infrastructure.

The skills mismatch is a persistent structural feature of the EU labor market. Unemployment among young people (15-24) remains significantly above the average in Southern and Eastern member states, while many sectors - healthcare, construction, IT, renewable energy - report acute labor shortages. The mismatch is both horizontal (the wrong skills for the available jobs) and vertical (over- or under-qualification). Migration, if managed effectively, can partially address the vertical dimension by filling specific skill gaps, but the EU's current migration architecture is not designed as a labor-market instrument. The Blue Card Directive, while

providing a pathway for highly skilled non-EU workers, has been underutilised due to national implementation variations, salary thresholds that exclude mid-level professionals, and the absence of a coordinated EU-level strategy for skills-based migration.

The brain drain from Eastern to Western member states, a persistent feature of the single market's freedom of movement, compounds the demographic challenge in the origin countries. The post-2004 and post-2013 enlargements facilitated large-scale labor mobility that benefited the receiving economies but accelerated the demographic and fiscal pressures in the sending countries. This internal migration dynamic is a direct consequence of the single market's architecture and the fiscal asymmetries identified in *3. Economic Integration, Monetary Policy, and the Single Market*, and it will persist as long as the GDP-per-capita gap remains at its current magnitude.

8.4 Social Policies, Integration, and Intergenerational Equity

The EU's social policy architecture is a patchwork of national systems coordinated through the European Pillar of Social Rights (2017), the Social Chapter of the Treaty on the Functioning of the EU, and a limited set of EU-level directives on working conditions, non-discrimination, and social security coordination. The EU does not have a common social policy; it has a framework for coordination, minimum standards, and targeted funding. This structural limitation means that the social-cohesion challenges identified in this section are primarily a national competence, with the EU's role constrained to setting floors, providing funding, and facilitating best-practice exchange.

The integration of migrants and refugees is a central social-cohesion challenge. The EU's integration framework, anchored in the 2013 Integration Directive (which has not been fully transposed) and the 2024 Pact's integration component, covers language training, civic orientation, access to education and healthcare, and labor-market participation. However, the effectiveness of integration policies varies enormously across member states, reflecting differences in administrative capacity, political will, and the size of the migrant population relative to the host community. The political discourse on integration is increasingly shaped by the populist and "sovereigntist centre" movements identified in *2. Current State of the Union: Political, Economic, and Social Landscape*, which frame integration as a threat to national identity, social welfare, and public safety. This framing constrains the political space for generous, rights-based integration policies and creates a tension with the fundamental-rights commitments examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*.

Intergenerational equity is a growing source of political tension that cuts across the demographic, fiscal, and climate dimensions of the EU's future. Younger generations face a convergence of pressures: the fiscal burden of an aging population (pension and healthcare costs), the costs of the climate and energy transition (energy prices, industrial restructuring in their regions), the digital transformation of the labor market (skills obsolescence, precarious employment), and the geopolitical uncertainty generated by the war in Ukraine and great-power competition. The 2024 European Parliament elections, in which younger voters turned out in higher numbers and shifted the political balance, confirmed that intergenerational concerns are no longer a marginal issue but a central axis of political contestation.

The European Green Deal, as analysed in *7. Energy Transition, Climate Policy, and the European Green Deal*, is simultaneously a response to the intergenerational equity challenge (climate change is the quintessential intergenerational problem) and a source of intergenerational tension (the costs of the transition are borne disproportionately by current workers and communities, while the benefits accrue to future generations). The Social Climate Fund, designed to mitigate the regressive impact of carbon pricing on low-income households, is a necessary but insufficient instrument. The just-transition question is inseparable from the demographic and social-cohesion challenges in affected regions, and the post-2027 MFF design will need to integrate intergenerational equity more explicitly into its funding architecture.

The social protection systems of EU member states are under structural pressure from demographic aging, labor-market transformation, and fiscal constraints. The EU's role in addressing this pressure is limited by the absence of a common social security system and the persistence of national sovereignty over social policy. The European Pillar of Social Rights Action Plan (2021-2024) and its successor initiatives aim to raise the floor of social protection across the Union, but the pace of convergence is slow and the political space for deeper social integration is constrained by the same "sovereigntist centre" and populist dynamics that limit progress in fiscal and political integration.

8.5 Migration, Demographics, and the Democratic Compact

The interaction between migration, demographics, and social cohesion is a central determinant of public support for the European Union and, consequently, of the political space available for the integration choices outlined in

12. Conclusion: Scenarios and Pathways for the EU in 2040. The 2024 European Parliament elections confirmed a pro-European majority above 50%, but a narrower and more conditional one, with anti-EU and populist blocs capturing 30-35% of the vote. Migration is consistently among the top three concerns in Eurobarometer surveys across the Union, and the political mobilisation around migration - particularly in France, Italy, the Netherlands, Austria, and Germany - has reshaped the competitive landscape of mainstream parties and expanded the electoral space for populist and sovereigntist movements.

The democratic compact, as analysed in *4. Political Integration, Governance Reform, and Democratic Legitimacy*, depends on the Union's capacity to deliver tangible, shared benefits to its citizens. The social-cohesion challenges identified in this section - demographic aging, labor-market disruption, the costs of the green and digital transitions, the integration of migrants and refugees - directly affect the perceived output legitimacy of the EU. If the Union is perceived as imposing costs (energy prices, regulatory compliance, migration reception) without delivering commensurate benefits (jobs, social security, security), the democratic compact erodes. The "output deficit" identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy* is thus not an abstract institutional problem but a concrete social and economic one, rooted in the demographic, labor-market, and migration challenges addressed in this section.

The information environment in which these debates take place is itself a variable. The degradation of the information environment by state-sponsored disinformation and AI-generated inauthentic content, identified in *2. Current State of the Union: Political, Economic, and Social Landscape* and *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*, amplifies the polarisation around migration and social policy. Algorithmic manipulation and the fragmentation of the public sphere into ideologically homogeneous echo chambers make it more difficult to build the broad, cross-cutting consensus that the demographic and migration challenges require. The digital transformation creates both opportunities (transparency, lower participation barriers, new forms of civic engagement) and risks (algorithmic manipulation, disinformation, digital exclusion) for the democratic processes through which the Union's social and migration policies are debated and decided.

The generational dimension of the democratic compact is particularly acute. Younger generations, who will bear the long-term consequences of the demographic, climate, and fiscal decisions made in the 2020s and 2030s, are increasingly politically engaged but also more sceptical of the existing institutional architecture. The absence of a European public sphere, the limited direct participation tools (the European Citizens' Initiative has produced no satisfactory legislative outcomes), and the complexity of EU governance create a participation deficit that is most acute among younger voters. The demographic and migration challenges shape the political engagement of younger generations in ways that will determine the character of the Union's political culture in the 2030s and 2040s.

8.6 Critical Decision Points and Scenario Trajectories

Six critical decision points in the period 2025-2035 will determine the trajectory of the EU's migration, demographic, and social-cohesion policies:

1. **The full implementation and first operational cycle of the New Pact on Migration and Asylum (2025-2028).** The Pact's solidarity mechanism, accelerated border procedures, and external partnerships will be stress-tested by the first full cycle of arrivals and the political conditions in partner countries. The effectiveness of the mandatory solidarity mechanism, the compliance of accelerated border procedures with fundamental-rights standards as interpreted by the Court of Justice, and the durability of external migration partnerships will determine whether the Pact represents a genuine reform or a political compromise that reproduces the structural inadequacies of the Dublin era.

2. **The post-2027 MFF design and its social and demographic funding architecture.** The MFF is the Union's primary instrument for addressing the social-cohesion, demographic, and just-transition challenges identified in this section. The design of the MFF - its total envelope, its own-resources base, the allocation of funds to social protection, education, healthcare, and just-transition territories - will determine the EU's capacity to address the fiscal pressures of demographic aging and the social costs of the green and digital transitions. The MFF design is simultaneously an economic decision (as analysed in *3. Economic Integration, Monetary Policy, and the Single Market*) and a social-cohesion decision, and the political compromise reached will reflect the broader integration trajectory.

3. **The political decision on the pace and sequencing of pension and social-security reform across member states.** The EU's role in coordinating pension reform is limited, but the European Semester, the Social Dialogue, and the European Pillar of Social Rights provide frameworks for peer pressure and best-practice exchange. The pace of reform will determine whether the fiscal pressures of demographic aging are managed gradually or accumulate into a crisis. The interaction between national pension reform

and the EU's fiscal governance framework (the revised SGP, the TPI) is a critical decision point that will test the boundaries of EU competence in social policy.

4. **The development of a coherent EU skills and migration strategy.** The EU's current migration architecture is not designed as a labor-market instrument, and the skills mismatch is addressed primarily through national education and vocational-training policies. A coherent EU strategy that links migration policy, skills development, and labor-market needs - building on the European Skills Agenda, the Blue Card Directive, and the Just Transition Fund - would require a political decision that has not yet been taken. The digital and green transitions will increase the urgency of this decision, as the skills required for the transition are not uniformly available across the Union.

5. **The political response to the demographic and social-cohesion challenges in the most affected regions.** The 120 just-transition territories, the aging regions of Eastern and Southern Europe, and the border regions facing the combined pressures of migration, industrial restructuring, and demographic decline require a targeted, place-based policy response. The EU's cohesion policy, the Just Transition Fund, and the European Social Fund Plus are the primary instruments, but their effectiveness depends on national implementation capacity and the political will to invest in long-term structural transformation rather than short-term fiscal relief.

6. **The evolution of the EU's external migration partnerships in light of geopolitical shifts.** The EU's migration partnerships with North Africa, the Sahel, and the Middle East are inseparable from its broader geopolitical strategy and its relationships with the United States, China, and Russia, as analysed in *9. External Relations: The EU in a Multipolar World*. The political conditions in partner countries, the EU's development budget, and the Union's capacity to project a coherent external policy will determine the durability and effectiveness of these partnerships. The war in Ukraine and the large-scale presence of Ukrainian refugees add a further dimension to the external migration architecture that will persist well beyond the end of the conflict.

Four scenarios structure the 2035 trajectory for migration, demographics, and social cohesion, consistent with the scenario framework established in *12. Conclusion: Scenarios and Pathways for the EU in 2040*:

(A) Deepened integration. A fully operational New Pact with an effective solidarity mechanism; a post-2027 MFF with a substantial social and demographic funding envelope; a coherent EU skills and migration strategy; targeted place-based investment in the most affected regions; and a European public sphere in which migration and social-cohesion debates are conducted in a shared, fact-based framework. The demographic challenge is managed through a combination of national reform, EU coordination, and a more generous, rights-based migration and integration policy. Intergenerational equity is addressed through the integration of climate, fiscal, and social policy in a coherent long-term framework.

(B) Managed differentiation. A core group of member states pursues deeper social and migration integration through enhanced cooperation, including a common asylum procedure, a shared social-security coordination framework, and a joint skills and migration strategy. The broader EU maintains the common regulatory framework at a slower pace. The demographic challenge is addressed primarily at the national level, with the EU providing coordination and targeted funding. The just-transition and social-cohesion policies are implemented unevenly, with the most affected regions in the broader EU experiencing prolonged economic and demographic decline.

(C) Stagnation. The New Pact is implemented but its structural inadequacies persist; the solidarity mechanism is circumvented through financial opt-outs; the external partnerships are fragile and reactive. The post-2027 MFF is a compromise that does not adequately address the social and demographic challenges. Pension and social-security reform proceeds at a national pace that is too slow to prevent the accumulation of fiscal pressures. The skills mismatch persists, and the digital and green transitions generate labor-market disruption without a coherent EU-level response. The social-cohesion challenges are managed through incremental, crisis-driven adjustments.

(D) Fragmentation. Political backlash against migration and the social costs of the green and digital transitions leads to the erosion of the New Pact, the reversion to national asylum and migration policies, and the disintegration of the external migration partnerships. The demographic challenge is addressed through restrictive immigration policies and delayed pension reform, with the fiscal consequences deferred to future generations. The just-transition territories experience prolonged economic decline and demographic out-migration. The social-cohesion challenges fuel the populist and sovereigntist movements, further constraining the political space for the integration choices outlined in *4. Political Integration, Governance Reform, and Democratic Legitimacy* and *12. Conclusion: Scenarios and Pathways for the EU in 2040*.

9. External Relations: The EU in a Multipolar World

9.1 The Strategic Context: A Multipolar World and the EU's Position

The geopolitical environment in which the European Union operates has undergone a fundamental transformation since the end of the Cold War. The post-1989 assumption that European security and prosperity could be anchored to a single hegemonic guarantor and a liberal, rules-based international order has been displaced by a multipolar configuration in which the United States, China, and a resurgent Russia pursue competing strategic visions, while the Global South asserts itself as an independent pole of influence. As identified in *1. Introduction: The EU at a Crossroads*, the present juncture is defined by simultaneity: the war in Ukraine, US-China rivalry, and the erosion of multilateralism impinge on the Union concurrently, and no single external relationship can be managed in isolation.

The EU's position in this multipolar system is structurally asymmetric. The Union commands a 450-million-consumer market, the world's most comprehensive regulatory architecture (spanning digital governance, climate policy, product standards, and data protection), and a normative influence that extends well beyond its borders. Yet, as *5. Strategic Autonomy: Security, Defense, and Foreign Policy* establishes, the EU's capacity to enforce its positions in security-sensitive domains remains constrained by the absence of a credible autonomous military deterrent, the persistence of CFSP unanimity, and the fiscal asymmetries that limit pooled defence spending. The result is a geopolitical actor whose leverage is strongest in economic and regulatory domains and weakest in coercive and security domains - a configuration that is simultaneously an asset and a vulnerability in a world where great-power competition increasingly operates through economic statecraft, technological decoupling, and hybrid warfare.

The Union's external relations are further shaped by the internal structural constraints documented in *2. Current State of the Union: Political, Economic, and Social Landscape* and *4. Political Integration, Governance Reform, and Democratic Legitimacy*. The GDP-per-capita gap exceeding five to one, the incomplete banking union, the "sovereigntist centre" within mainstream parties, and the 30-35% populist electoral share all constrain the political space for a coherent, assertive external strategy. The CFSP's unanimity requirement produces lowest-common-denominator outcomes, as demonstrated by divergent national positions on Russia, China, and the depth of military support to Ukraine. The external dimension of the Union's future is thus inseparable from the internal choices on fiscal governance, institutional reform, and the democratic compact.

9.2 The EU-United States Relationship: Transatlantic Tensions and Rebalancing

The transatlantic relationship remains the EU's most consequential bilateral partnership, yet it is undergoing a structural recalibration that will define the Union's external strategy for the coming decade. The 2022 Washington NATO Summit reaffirmed the alliance's centrality, but the EU's 2022 Strategic Compass and subsequent "ReArm Europe" communication explicitly frame autonomous capability-building as a response to the unpredictability of US strategic reorientation toward the Indo-Pacific. The practical division of labour - EU for crisis management, resilience, and non-NATO domains; NATO for collective defence and high-intensity warfare - must be formalised without creating institutional redundancy or friction, a task that *5. Strategic Autonomy: Security, Defense, and Foreign Policy* identifies as one of the six critical decision points for 2025-2035.

The economic dimension of the transatlantic relationship has become the primary site of friction. The US Inflation Reduction Act and CHIPS Act, as analysed in *3. Economic Integration, Monetary Policy, and the Single Market*, represent a fundamental challenge to the EU's competition-law-based industrial model. The US deployment of targeted subsidies, domestic-content requirements, and export controls in semiconductors, clean energy, and AI exposes the inadequacy of the EU's regulatory approach and creates a competitive asymmetry that the European Chips Act (€43 billion) and the Strategic Technologies for Europe Plan (STEP) are designed to address. The EU's 450-million-consumer market offers a scale advantage, but it does not automatically generate the concentrated, mission-oriented investment deployed by Washington.

The digital domain intensifies these tensions. As *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty* documents, the EU's AI Act, DSA, DMA, and GDPR constitute a globally unique, rights-based regulatory architecture that is fundamentally distinct from the US voluntary, sectoral, innovation-first approach. The EU's digital regulatory diplomacy - its capacity to shape global platform governance and data protection standards through the "Brussels effect" - is inseparable from the broader transatlantic relationship. The US has developed counter-standards and, in certain domains, has challenged the extraterritorial reach of EU digital regulation. The EU's structural dependency on US cloud infrastructure (AWS, Azure, Google Cloud) and the absence of a sovereign European cloud at scale create a vulnerability that the GAIA-X initiative

and the digital public infrastructure agenda (EUDI, digital euro, IRIS²) are attempting to address, but whose operational timelines extend into the late 2030s.

The trade relationship is further complicated by the CBAM, which enters full implementation in January 2026. As *7. Energy Transition, Climate Policy, and the European Green Deal* notes, the CBAM redefines the relationship between climate policy and trade policy, extending the "Brussels effect" into carbon pricing. The US, with its own domestic carbon pricing mechanisms in certain states and a federal policy trajectory that remains uncertain, will be a critical test case for the CBAM's design and enforcement. The interaction between the CBAM and the transatlantic trade relationship will be a defining feature of the 2026-2030 period.

The political dimension of the transatlantic relationship is further complicated by the US domestic political cycle. The unpredictability of US strategic commitment - whether to NATO, to Ukraine, to the Indo-Pacific, or to multilateral institutions - creates a structural uncertainty that the EU must manage through the development of autonomous capabilities while maintaining the alliance as the foundational security architecture. The nuclear dimension remains a structural gap in the EU's autonomous deterrence posture, and the question of how to formalise the EU-NATO complementarity without creating institutional friction is one that will require sustained diplomatic engagement.

9.3 The EU-China Relationship: Strategic Competition and Economic Interdependence

The EU-China relationship is the most complex and consequential bilateral relationship in the Union's external portfolio. It is simultaneously a relationship of deep economic interdependence, strategic competition, and normative divergence. The EU's 2019 and 2023 characterisations of China as a "partner, competitor, and systemic rival" capture the trilemma that defines the relationship: the EU cannot decouple from China's economy without incurring significant industrial and consumer costs, yet it cannot ignore the structural challenges that China's state-directed economic model poses to the EU's rules-based order.

The economic dimension is the most acute. China is the EU's second-largest trading partner, and the two economies are deeply integrated in supply chains for electronics, automotive components, machinery, and clean-energy manufacturing. As *3. Economic Integration, Monetary Policy, and the Single Market* identifies, Chinese state-directed investment in semiconductors, batteries, electric vehicles, and AI exposes the inadequacy of the EU's competition-law-based approach. The EU's structural dependency on Chinese clean-energy manufacturing capacity (solar panels, lithium-ion batteries, rare-earth processing) is a critical vulnerability in the energy transition, as *7. Energy Transition, Climate Policy, and the European Green Deal* documents. The CBAM's first full cycle (2026-2028) will be a critical stress test for the EU-China economic relationship, as it will determine whether the mechanism functions as a genuine climate instrument, a trade-protection device, or both, and whether it catalyses global convergence on carbon pricing or entrenches a fragmented, bloc-based approach.

The digital and technological dimension of the EU-China relationship is defined by the EU's AI Act and the EU's broader digital regulatory architecture. As *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty* notes, the EU's rights-based, risk-categorised approach to AI regulation is fundamentally distinct from China's state-directed, security-first model. The EU's digital regulatory diplomacy - its capacity to shape global AI governance standards - will be tested in the EU-China relationship, where China is developing counter-standards and asserting its own normative framework for digital governance. The EU's structural dependency on Chinese rare-earth processing and semiconductor supply chains creates a vulnerability that the European Chips Act and the critical raw materials strategy are designed to address, but whose resolution extends well beyond the 2030 horizon.

The geopolitical dimension of the EU-China relationship is shaped by the US-China rivalry, which the EU must navigate without being drawn into a binary alignment. The EU's "strategic autonomy" framework, as articulated in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*, implies the capacity to define, plan, and execute security objectives with operational independence. In practice, this means the EU must manage its relationship with China in a manner that is neither subservient to US pressure for decoupling nor accommodating of Chinese strategic behaviour in the Indo-Pacific, the Arctic, or the Global South. The CFSP's unanimity requirement complicates this navigation, as member states hold divergent positions on the depth of economic engagement with China, the response to Chinese investment in critical infrastructure, and the EU's posture toward the South China Sea and the Taiwan Strait.

The normative dimension of the EU-China relationship is defined by the EU's commitment to human rights, the rule of law, and democratic governance - commitments that are in fundamental tension with China's political model. The EU's human rights dialogue with China has been suspended, and the relationship is increasingly managed through economic and trade instruments rather than normative engagement. The EU's capacity

to project its normative values in the China relationship is constrained by the same structural asymmetries that limit its broader geopolitical leverage: the absence of a credible autonomous military deterrent, the fiscal asymmetries that limit the capacity for sustained economic pressure, and the internal political constraints on the depth of strategic integration.

9.4 The EU-Russia Relationship: Sanctions, Security, and the Post-War Order

The EU-Russia relationship has been fundamentally redefined by the war in Ukraine, which ended the post-Cold War assumption that European security could be managed through economic interdependence and normative convergence. The EU's response - unprecedented sanctions packages, energy decoupling, and military support to Ukraine - represents a structural break in the relationship that will shape the Union's external strategy for a generation.

The sanctions architecture is the EU's most significant instrument of economic statecraft in the post-2022 period. The successive sanctions packages have targeted Russia's financial system, energy exports, technology imports, and individual elites. The EU's capacity to impose and enforce these sanctions is a function of its 450-million-consumer market, its regulatory architecture, and its position as a major trading partner. However, the effectiveness of the sanctions is constrained by the same structural asymmetries that characterise the Union more broadly: the GDP-per-capita gap exceeding five to one, the fiscal asymmetries that limit the capacity for sustained economic pressure, and the CFSP's unanimity requirement, which produces lowest-common-denominator outcomes on the depth and scope of sanctions.

The energy dimension of the EU-Russia relationship has been fundamentally restructured. The 2022-2023 energy shock, as documented in *2. Current State of the Union: Political, Economic, and Social Landscape* and *7. Energy Transition, Climate Policy, and the European Green Deal*, demonstrated that energy security is now defined as domestic renewable generation capacity and diversified imports rather than fossil-fuel supply. The EU's structural dependency on Russian gas and oil has been significantly reduced, but the transition to alternative supply sources (LNG from the US, Qatar, and Norway; pipeline gas from North Africa and the Middle East) has created new dependencies and price volatility. The energy transition is thus simultaneously a security imperative and an economic challenge, and the EU's capacity to manage the transition coherently across its 27 member states is a test of its internal cohesion.

The military and security dimension of the EU-Russia relationship is inseparable from the broader strategic-autonomy agenda. As *5. Strategic Autonomy: Security, Defense, and Foreign Policy* establishes, the war in Ukraine has ended the assumption that European security could be outsourced to a single guarantor. The EU's development of autonomous defence capabilities - the European Defence Fund, PESCO, the 30,000-troop rapid reaction force, joint air and missile defence - is a direct response to the security environment created by the war. The EU's capacity to act as a coherent geopolitical actor in the security domain is a prerequisite for its foreign policy to carry the weight of its economic and normative ambitions.

The post-war order in Europe is a critical question for the EU's external strategy. The prospective integration of Ukraine, Moldova, and Georgia, as discussed in *10. Enlargement, the Eastern Partnership, and the Question of Ukraine*, will fundamentally reshape the EU's security architecture and its relationship with Russia. The extension of the security architecture to new members, the development of a joint air and missile defence system, and the institutional response to Ukraine's prospective integration are all critical decision points that will determine the EU's capacity to project stability in a multipolar world. The EU's external relations with Russia will be shaped by the outcome of the war, the post-war settlement, and the EU's capacity to manage the security implications of further enlargement.

9.5 The EU and the Global South: Development Cooperation and South-South Dynamics

The EU's relationship with the Global South is undergoing a fundamental transformation. The traditional model of development cooperation - bilateral aid, conditionality, and normative engagement - is being displaced by a more complex configuration in which the Global South asserts itself as an independent pole of influence, South-South dynamics reshape the development landscape, and the EU's capacity to project influence is constrained by the same structural asymmetries that limit its broader geopolitical leverage.

The EU is the world's largest donor of official development assistance, and its development cooperation programme (the European Development Fund, the Global Europe instrument, and the European Fund for Peace) represents a significant instrument of external influence. However, the effectiveness of this instrument is constrained by the same structural asymmetries that characterise the Union more broadly: the GDP-per-capita gap exceeding five to one, the fiscal asymmetries that limit the capacity for sustained development spending, and

the CFSP's unanimity requirement, which produces lowest-common-denominator outcomes on the depth and scope of development engagement. The "sovereigntist centre" and the 30-35% populist electoral share create a political constraint on the depth of development integration, as development cooperation is increasingly framed in domestic political terms as a "cost" rather than a strategic investment.

The external dimension of migration, as discussed in *8. Migration, Demographics, and Social Cohesion*, is a critical dimension of the EU's relationship with the Global South. The 2024 Pact on Migration and Asylum's strengthened external dimension - partnerships with countries of origin and transit, accelerated border procedures, and a mandatory solidarity mechanism - represents a significant reorientation of the EU's migration policy toward external management. The effectiveness of these partnerships is contingent on the domestic conditions in partner countries, the EU's capacity to offer credible incentives, and the political commitment of member states to sustain the partnerships over time. The external migration partnerships are inseparable from the broader geopolitical shifts in the Global South, where the EU's influence is increasingly contested by China, Russia, and the Gulf states.

The trade and investment dimension of the EU-Global South relationship is shaped by the EU's regulatory architecture and its capacity to project the "Brussels effect" into developing economies. The EU's product standards, environmental regulations, and digital governance frameworks create a compliance burden for Global South exporters that can be both a barrier to market access and a catalyst for structural reform. The EU's trade agreements with Global South partners (the EU-Mercosur agreement, the EU-Japan EPA, the EU-Korea FTA, and the various Cotonou and post-Cotonou agreements) are instruments of both economic and normative influence, but their effectiveness is constrained by the same structural asymmetries that limit the EU's broader geopolitical leverage.

The EU's relationship with the Global South is further shaped by the climate and energy transition. As *7. Energy Transition, Climate Policy, and the European Green Deal* documents, the EU's climate architecture (the European Climate Law, the Fit for 55 package, the ETS reform, and the CBAM) is simultaneously the EU's most distinctive normative export and the policy domain most exposed to internal contestation. The EU's capacity to project its climate architecture into the Global South - through development cooperation, trade agreements, and multilateral institutions - is a critical dimension of its external strategy, but it is constrained by the same structural asymmetries that limit its broader geopolitical leverage. The CBAM's first full cycle (2026-2028) will be a critical test of the EU's capacity to manage the climate-trade nexus in its relationship with Global South partners.

9.6 Trade Policy and Regulatory Diplomacy: The Brussels Effect in a Fragmenting World

The EU's trade policy and regulatory diplomacy are the primary instruments through which the Union projects its influence in a multipolar world. The "Brussels effect" - the EU's capacity to shape global standards and regulations through the sheer scale of its 450-million-consumer market and the comprehensiveness of its regulatory architecture - is the Union's most distinctive external instrument. However, the effectiveness of this instrument is being tested by the simultaneous emergence of US and Chinese counter-standards, the fragmentation of the global trading system, and the EU's own structural asymmetries.

The EU's trade policy is shaped by the same structural constraints that characterise the Union more broadly. The GDP-per-capita gap exceeding five to one, the fiscal asymmetries that limit the capacity for sustained trade policy, and the CFSP's unanimity requirement all constrain the EU's capacity to project a coherent trade strategy. The EU's trade agreements are negotiated by the Commission but require ratification by the Council (unanimity for certain categories) and the European Parliament, a process that is subject to the same political constraints that limit the Union's broader external strategy. The "sovereigntist centre" and the 30-35% populist electoral share create a political constraint on the depth of trade integration, as trade policy is increasingly framed in domestic political terms as a "cost" rather than a strategic investment.

The regulatory dimension of the EU's trade policy is the most significant site of the "Brussels effect." The EU's product standards, environmental regulations, digital governance frameworks, and climate policy create a compliance burden for global exporters that can be both a barrier to market access and a catalyst for structural reform. The GDPR, DSA, DMA, AI Act, and CBAM are the most significant examples of this regulatory diplomacy, and their global influence is a function of the EU's market size, the comprehensiveness of its regulatory architecture, and the competitive performance of European firms. As *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty* and *7. Energy Transition, Climate Policy, and the European Green Deal* document, the EU's regulatory leverage in the digital and climate domains is powerful but contested, and its effectiveness is conditional on the competitive performance of European firms and the EU's capacity to manage the internal fragmentation that limits the coherence of its regulatory architecture.

The EU's trade policy is further shaped by the industrial-competitiveness challenges identified in *3. Economic Integration, Monetary Policy, and the Single Market.* The US Inflation Reduction Act, CHIPS Act, and Chinese state-directed investment in semiconductors, batteries, EVs, and AI expose the inadequacy of the EU's competition-law-based approach and create a competitive asymmetry that the European Chips Act, STEP, and the Clean Industrial Deal are designed to address. The EU's trade policy must be coherent with its industrial policy, and the capacity to manage this coherence is a function of the Union's internal cohesion, economic architecture, and political legitimacy.

The EU's trade policy in a fragmenting world is further shaped by the rise of economic statecraft and the increasing use of trade instruments for geopolitical purposes. The US and China are both deploying trade instruments (tariffs, export controls, investment screening, subsidies) as instruments of geopolitical strategy, and the EU must navigate this environment without being drawn into a binary alignment. The EU's capacity to project a coherent trade strategy in this environment is a function of its internal cohesion, its economic architecture, and its capacity to manage the structural asymmetries that limit its broader geopolitical leverage.

9.7 Multilateral Institutions and Global Governance: The EU's Role in an Era of Erosion

The EU's role in shaping multilateral institutions and global governance is a critical dimension of its external strategy. The Union has been a consistent advocate for the rules-based international order, multilateralism, and the strengthening of global institutions. However, the erosion of multilateralism - driven by the US strategic reorientation, the rise of economic statecraft, and the assertion of the Global South as an independent pole of influence - poses a fundamental challenge to the EU's external strategy.

The EU's role in the United Nations system, the World Trade Organization, the Paris Agreement, and other multilateral institutions is a function of its market size, its regulatory architecture, and its normative influence. The EU's capacity to shape the agenda of these institutions is constrained by the same structural asymmetries that limit its broader geopolitical leverage: the GDP-per-capita gap exceeding five to one, the fiscal asymmetries that limit the capacity for sustained multilateral engagement, and the CFSP's unanimity requirement, which produces lowest-common-denominator outcomes on the depth and scope of multilateral engagement.

The EU's role in the WTO is a critical test of its capacity to project a coherent trade strategy in a fragmenting world. The WTO's dispute settlement mechanism has been effectively paralysed by the US blockage of Appellate Body appointments, and the EU's capacity to defend its trade interests through the WTO is constrained by the same structural asymmetries that limit its broader geopolitical leverage. The EU's trade policy must be coherent with its multilateral strategy, and the capacity to manage this coherence is a function of the Union's internal cohesion, economic architecture, and political legitimacy.

The EU's role in the Paris Agreement and the global climate governance architecture is a critical dimension of its external strategy. As *7. Energy Transition, Climate Policy, and the European Green Deal* documents, the EU's climate architecture is simultaneously the EU's most distinctive normative export and the policy domain most exposed to internal contestation. The EU's capacity to project its climate architecture into the global governance system - through the Paris Agreement, the CBAM, and development cooperation - is a critical dimension of its external strategy, but it is constrained by the same structural asymmetries that limit its broader geopolitical leverage. The CBAM's first full cycle (2026-2028) will be a critical test of the EU's capacity to manage the climate-trade nexus in the global governance system.

The EU's role in the global digital governance architecture is a critical dimension of its external strategy. As *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty* documents, the EU's digital regulatory architecture (the GDPR, DSA, DMA, AI Act) is shaping global platform governance and data protection standards. The EU's capacity to project its digital regulatory architecture into the global governance system is a function of its market size, the comprehensiveness of its regulatory architecture, and the competitive performance of European digital firms. The EU's digital regulatory diplomacy is inseparable from its broader geopolitical strategy and trade relationships, and its effectiveness is conditional on the EU's capacity to manage the internal fragmentation that limits the coherence of its regulatory architecture.

The EU's role in the global security governance architecture is a critical dimension of its external strategy. As *5. Strategic Autonomy: Security, Defense, and Foreign Policy* establishes, the EU's capacity to act as a coherent geopolitical actor in the security domain is a prerequisite for its foreign policy to carry the weight of its economic and normative ambitions. The EU's development of autonomous defence capabilities - the European Defence Fund, PESCO, the 30,000-troop rapid reaction force, joint air and missile defence - is a direct response to the security environment created by the war in Ukraine and the US strategic reorientation. The EU's capacity to project stability in a multipolar world is a function of its internal cohesion, economic architecture, and political legitimacy.

9.8 Critical Decision Points and Scenarios for EU External Relations

The EU's external relations in a multipolar world are shaped by a set of critical decision points that will determine the Union's capacity to project influence and manage its strategic relationships over the coming decade. These decision points are inseparable from the broader integration trajectory identified across the volume, and the choices made at these junctures will determine whether the EU's external strategy is coherent, assertive, and effective, or fragmented, reactive, and constrained.

Six critical decision points in 2025-2035 will determine the trajectory of the EU's external relations:

1. **The post-2027 MFF design and its external relations funding architecture.** The MFF is the primary financial instrument for the EU's external strategy, and its design will determine the EU's capacity to sustain development cooperation, trade policy, and multilateral engagement. The fiscal asymmetries that characterise the Union (GDP-per-capita gap exceeding five to one, debt ratios ranging from above 170% to below 50%) constrain the political space for a robust external relations budget, and the "sovereigntist centre" and the 30-35% populist electoral share create a political constraint on the depth of external integration.
2. **The first full CBAM cycle (2026-2028) and its scope expansion.** The CBAM is the EU's most significant climate-trade innovation and a major geopolitical instrument. Its first full cycle will determine whether the mechanism functions as a genuine climate instrument, a trade-protection device, or both, and whether it catalyses global convergence on carbon pricing or entrenches a fragmented, bloc-based approach. Its interaction with the EU-China and EU-US economic relationships will be a defining feature of the 2026-2030 period.
3. **The evolution of the EU-US and EU-China digital and trade relationships.** The EU's digital regulatory diplomacy and its trade relationships with the US and China are inseparable from its broader geopolitical strategy. The full implementation and first enforcement cycle of the AI Act, the design and launch of the digital euro, and the EU's digital regulatory diplomacy will determine the EU's capacity to project its digital regulatory architecture into the global governance system.
4. **The political decision on QMV in CFSP or expansion of enhanced cooperation.** The CFSP's unanimity requirement produces lowest-common-denominator outcomes, and the political decision on QMV in CFSP or the expansion of enhanced cooperation will determine the EU's capacity to project a coherent foreign and security policy in a multipolar world. This decision is inseparable from the broader institutional reform agenda identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy*.
5. **The institutional response to Ukraine's prospective integration and the extension of the security architecture to new members.** The prospective integration of Ukraine, Moldova, and Georgia, as discussed in *10. Enlargement, the Eastern Partnership, and the Question of Ukraine*, will fundamentally reshape the EU's security architecture and its relationship with Russia. The extension of the security architecture to new members, the development of a joint air and missile defence system, and the institutional response to Ukraine's prospective integration are all critical decision points that will determine the EU's capacity to project stability in a multipolar world.
6. **The EU's role in shaping the post-war global governance architecture.** The erosion of multilateralism, the rise of economic statecraft, and the assertion of the Global South as an independent pole of influence pose a fundamental challenge to the EU's external strategy. The EU's capacity to shape the post-war global governance architecture - through the UN system, the WTO, the Paris Agreement, and other multilateral institutions - is a function of its internal cohesion, economic architecture, and political legitimacy.

Four scenarios structure the 2035 trajectory of the EU's external relations:

(A) Deepened integration. The EU develops a coherent, assertive external strategy that is coherent with its internal integration trajectory. The post-2027 MFF includes a robust external relations budget, the CBAM is implemented and expanded, the EU's digital regulatory architecture is projected into the global governance system, and the EU's capacity to act as a coherent geopolitical actor is strengthened through the development of autonomous defence capabilities and the formalisation of the EU-NATO complementarity. The EU's "Brussels effect" is extended into new domains (climate, digital, AI), and the EU's role in shaping multilateral institutions is strengthened. The EU's external relations are coherent with its internal integration trajectory, and the choices made on fiscal governance, institutional reform, and the democratic compact reinforce the EU's capacity to project influence in a multipolar world.

(B) Managed differentiation. A core group of 8-12 member states pursues a deeper external integration through enhanced cooperation, while the broader EU maintains a common regulatory framework at a slower pace. The CBAM is implemented but not expanded, the EU's digital regulatory diplomacy is pursued by a core group, and the EU's capacity to project a coherent foreign and security policy is constrained by the persistence of CFSP unanimity. The EU's external relations are managed through a "two-speed" architecture, and the EU's capacity to project influence in a multipolar world is constrained by the internal fragmentation that limits the coherence of its external strategy.

(C) Stagnation. The existing framework persists with incremental improvements, no fundamental shift in the EU's external strategy. The CBAM is implemented but not expanded, the EU's digital regulatory diplomacy is pursued but not projected into the global governance system, and the EU's capacity to act as a coherent geopolitical actor is constrained by the persistence of CFSP unanimity and the fiscal asymmetries that limit the capacity for sustained external engagement. The EU's external relations are managed through crisis-driven patches, and the EU's capacity to project influence in a multipolar world is constrained by the internal fragmentation that limits the coherence of its external strategy.

(D) Fragmentation. Institutional erosion, reversion to bilateral arrangements, and marginalisation of the EU as a geopolitical actor. The CBAM is rolled back, the EU's digital regulatory influence is undermined, and the EU's capacity to project influence in a multipolar world is constrained by the internal fragmentation that limits the coherence of its external strategy. The EU's external relations are managed through bilateral arrangements, and the EU's capacity to shape multilateral institutions is undermined by the internal fragmentation that limits the coherence of its external strategy.

The EU's external relations in a multipolar world are inseparable from the broader integration trajectory identified across the volume. The choices made on fiscal governance (*3. Economic Integration, Monetary Policy, and the Single Market*), political integration and democratic legitimacy (*4. Political Integration, Governance Reform, and Democratic Legitimacy*), strategic autonomy and security (*5. Strategic Autonomy: Security, Defense, and Foreign Policy*), digital and technological sovereignty (*6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*), climate and energy policy (*7. Energy Transition, Climate Policy, and the European Green Deal*), migration and social cohesion (*8. Migration, Demographics, and Social Cohesion*), and enlargement (*10. Enlargement, the Eastern Partnership, and the Question of Ukraine*) all shape the EU's capacity to project influence in a multipolar world. The decisions taken in 2025-2030 will determine whether the EU's external strategy is realised as a coherent, assertive, and effective instrument of geopolitical influence or reduced to a set of reactive, fragmented, and constrained responses to the challenges of a multipolar world. The capacity to act as a coherent geopolitical actor is a function of the Union's internal cohesion, economic architecture, and political legitimacy, and the choices made in the next decade will determine whether the European project enters its next chapter as a more cohesive and capable polity or retreats into a looser confederation bound by habit rather than conviction.

10. Enlargement, the Eastern Partnership, and the Question of Ukraine

10.1 The Enlargement Architecture: Principles, Criteria, and the Current Strategic Context

The EU's enlargement policy is, in its original conception, the Union's most consequential instrument of foreign policy: a mechanism through which the normative, economic, and institutional architecture of European integration is extended to neighbouring states in exchange for convergence with the acquis communautaire. Since the 1993 Copenhagen criteria established the tripartite framework - political stability and democratic governance, a functioning market economy, and the capacity to assume the obligations of membership - enlargement has operated as both a carrot and a structural constraint on the political trajectories of candidate states. Six waves of accession, from the 1973 entry of Denmark, Ireland, and the United Kingdom to the 2013 admission of Croatia, have brought the Union to its current composition of 27 member states, as established in *1. Introduction: The EU at a Crossroads*.

The present enlargement cycle is qualitatively distinct from its predecessors. The 2004 and 2007 enlargements, which admitted ten and seven Central and Eastern European states respectively, were framed by the post-Cold War logic of reuniting a divided continent and were underwritten by a period of sustained economic growth and relative geopolitical calm. The current cycle - encompassing the Western Balkans, Turkey, and the prospective integration of Ukraine, Moldova, and Georgia - operates under fundamentally different conditions. As identified in *1. Introduction: The EU at a Crossroads*, the present juncture is defined by simultaneity: the war in Ukraine, great-power competition, fiscal divergences, and technological disruption impinge on one another, and enlargement cannot be analysed in isolation from any of these pressures. The 2022 Russian invasion of Ukraine transformed the security environment, redefined the EU's relationship with Moscow, and elevated the question of Ukraine's European integration from a long-term aspiration to an immediate strategic imperative, as discussed in *9. External Relations: The EU in a Multipolar World*.

The institutional architecture governing enlargement remains anchored in the Treaty on European Union (Article 49) and the Treaty on the Functioning of the European Union (Article 352), supplemented by the Commission's annual enlargement reports, the Council's accession partnership frameworks, and the bilateral accession negotiations conducted through 33 negotiating chapters. The process is, in principle, meritocratic and criteria-based; in practice, it is subject to the political will of member states, the unanimity requirement for the opening and closing of chapters, and the broader strategic calculations of the Union. The "sovereigntist centre" within mainstream parties and the 30-35% electoral share of anti-EU and populist blocs, documented in *2. Current State of the Union: Political, Economic, and Social Landscape*, create a domestic political constraint on the pace and depth of further enlargement that was less acute in previous cycles.

A further structural tension is the relationship between enlargement and the Union's internal integration trajectory. As *4. Political Integration, Governance Reform, and Democratic Legitimacy* establishes, the EU has acquired significant supranational policy competences without a commensurate political architecture. Adding new members to an institution that is already "structurally strained by asymmetric competence" raises the question of whether the Union is consolidating its existing architecture before extending it, or whether enlargement is being used as a substitute for the deeper internal reform that member states have repeatedly deferred. This tension is not merely procedural; it is the central political question that will determine the character of the Union in 2040.

10.2 The Western Balkans: Accession Processes and the Stabilisation and Association Agenda

The Western Balkans - Serbia, Montenegro, North Macedonia, Albania, Bosnia and Herzegovina, and Kosovo - constitute the most advanced cohort of current candidates. All six states are members of the Stabilisation and Association Process (SAP), established in the 1999 and 2000 Stabilisation and Association Agreements, which provide the legal and economic framework for progressive integration into the EU's single market and the gradual alignment of domestic legislation with the acquis.

The accession processes are at markedly different stages. Montenegro and Serbia opened accession negotiations in 2012 and 2014 respectively; North Macedonia and Albania were granted candidate status in 2008 and 2014, with negotiations opening in 2020 and 2022. Bosnia and Herzegovina was granted candidate status in 2016 but has not yet opened negotiations, owing to the country's complex constitutional architecture and the unresolved inter-ethnic political settlement. Kosovo's status remains contested, with its candidacy recognised by 21 of the 27 member states, and its accession process is effectively frozen pending a broader political resolution.

The Western Balkans enlargement agenda has been complicated by several interrelated factors. First, the 2015 migration crisis and the subsequent EU-Turkey Statement of March 2016 temporarily redirected the Union's attention and resources toward managing flows from the Eastern Mediterranean, creating a perception among Western Balkan populations that their European perspective had been subordinated to short-term crisis management. Second, the 2017-2019 period saw a significant slowdown in the pace of negotiations, with the Commission's 2018 and 2019 enlargement reports identifying backsliding on judicial reform, media freedom, and the fight against organised crime in several candidate states. Third, the geopolitical reorientation following the 2022 war in Ukraine has introduced new variables: the Western Balkans sit at the intersection of EU, NATO, Russian, and Chinese influence, and the EU's capacity to project a coherent and credible European perspective in the region is a function of its broader strategic posture, as analysed in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*.

The 2023 Western Balkans Summit in Zagreb and the subsequent "Western Balkans 6" framework, which committed to a "faster and more predictable" enlargement process, represented a political recommitment. The 2023 Commission enlargement strategy proposed a "new approach" that would allow candidate states to open and close chapters in a more flexible sequence, potentially reducing the total number of chapters and accelerating the process. However, the implementation of this approach remains contingent on the political will of member states and the continued progress of candidate states on the Copenhagen criteria. The rule-of-law dimension, examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*, is particularly acute in the Western Balkans, where judicial independence, anti-corruption frameworks, and the protection of minority rights remain unevenly implemented.

The economic dimension of Western Balkan accession is significant but manageable in the short term. The combined GDP of the six states is approximately €250 billion, and their per-capita income ranges from roughly 30% to 50% of the EU average. Their integration into the single market would expand the Union's consumer base and provide access to additional labour and industrial capacity, but it would also require substantial convergence spending, particularly in infrastructure, environmental compliance, and the alignment of regulatory standards. The fiscal implications are addressed in Section 10.5.

10.3 Turkey: A Stalled Process and the Question of Strategic Relevance

Turkey's accession process is the most protracted and politically fraught in the Union's history. Turkey applied for full membership in 1987, was granted candidate status in 1999, and opened accession negotiations in 2005. Of the 33 negotiating chapters, 16 have been opened and 14 closed, but the process has been effectively frozen since 2018, with no new chapters opened and the 2019 and subsequent Commission reports identifying serious concerns regarding the rule of law, fundamental rights, and the democratic backsliding that has characterised domestic Turkish politics since the 2016 attempted coup.

The political dynamics of the Turkish accession question have shifted substantially. In the 2000s, Turkey's candidacy was a central pillar of the EU's foreign policy in the region, a mechanism for anchoring a strategically located, NATO member state to the European project. The 2015 EU-Turkey Statement, which linked the management of migration flows from the Eastern Mediterranean to the acceleration of Turkey's accession process and the liberalisation of the visa regime, represented a pragmatic but ultimately unsustainable coupling of enlargement and migration management. The subsequent deterioration in the rule-of-law situation in Turkey, the expansion of executive powers following the 2017 constitutional referendum, and the increasing alignment of Turkish foreign policy with positions divergent from the EU's (on Syria, Libya, the Eastern Mediterranean, and relations with Russia) have rendered the formal accession process politically unviable in the near term.

The question for the Union's future direction is not whether Turkey will accede in the foreseeable future - most analysts and a majority of member states consider this unlikely before 2040 - but what form the EU-Turkey relationship will take in the absence of a credible membership perspective. The 2016 Customs Union, which governs trade in industrial goods, is outdated and does not cover services, agriculture, or public procurement. The EU's strategic interests in the region - energy security, migration management, counter-terrorism cooperation, and the management of the Syrian and Iraqi crises - require a robust institutional relationship with Ankara that is not contingent on the accession process. The "strategic partnership" framework proposed in the 2020 Commission communication on the EU-Turkey relationship, which envisions a comprehensive agreement covering trade, migration, security, and regional cooperation, represents the most plausible institutional architecture for the medium term. However, its implementation is contingent on the domestic political trajectory in Turkey and the EU's capacity to offer credible incentives without compromising its normative commitments.

The Turkish question also intersects with the broader strategic-autonomy agenda. As *5. Strategic Autonomy: Security, Defense, and Foreign Policy* notes, the EU's security architecture is deeply intertwined with NATO, and Turkey's position as a NATO member and a state controlling the Bosphorus and the Dardanelles gives it a

structural leverage over European security that is independent of its EU membership status. The EU's capacity to manage this relationship without a formal membership framework is a test of its strategic maturity.

10.4 Ukraine, Moldova, and Georgia: The Eastern Partnership and the Path to Membership

The prospective integration of Ukraine, Moldova, and Georgia represents the most consequential and politically charged dimension of the EU's enlargement agenda. The 2009 Eastern Partnership, which established a framework for political association and economic integration with the six Eastern neighbours (Ukraine, Moldova, Georgia, Armenia, Azerbaijan, and Belarus), was designed as a "European neighbourhood" architecture that offered deep integration without membership. The 2014 Euromaidan revolution in Ukraine and the subsequent Russian annexation of Crimea and war in the Donbas exposed the limitations of this framework: the absence of a credible membership perspective was insufficient to anchor Ukraine's political trajectory, and the 2017 Association Agreement, while significant, did not provide the structural guarantee of European integration that the 2004 and 2007 enlargements had offered to Central and Eastern European states.

The 2022 Russian invasion of Ukraine fundamentally altered the calculus. In June 2022, the European Council granted Ukraine candidate status, a decision that was both a political signal of solidarity and a recognition of the strategic imperative to integrate a state that is, in the words of the 2022 European Council conclusions, "a pillar of the European security architecture." In December 2023, the European Council extended candidate status to Moldova and Georgia, following the 2023 pro-European demonstrations in Georgia and the deepening of Moldova's alignment with the EU in the context of the war. The accession processes for all three states are at an early stage: Ukraine's application was submitted in May 2022, and the Commission's 2023 opinion on Ukraine's application identified significant areas requiring reform, including the rule of law, anti-corruption, and the protection of minority rights. Moldova's and Georgia's applications were submitted in March 2022, and their accession processes are proceeding in parallel.

The integration of Ukraine, in particular, raises questions of a different order from previous enlargements. Ukraine's population of approximately 37 million (pre-war) and its GDP of roughly €200 billion (pre-war, and significantly lower in the current conflict) would make it the EU's largest member state by population and one of the largest by territory. Its integration into the single market, the eurozone (eventually), and the EU's security architecture would represent a transformation of the Union's scale, geography, and strategic posture. The 2022-2025 period has seen the EU provide substantial financial, military, and humanitarian support to Ukraine, and the post-war reconstruction effort - estimated at $440 billion by the World Bank and the European Commission - will require a sustained and coordinated institutional framework that goes well beyond the traditional enlargement toolkit.

The security dimension is inseparable from the enlargement dimension. As *5. Strategic Autonomy: Security, Defense, and Foreign Policy* identifies, the institutional response to Ukraine's prospective integration and the extension of the security architecture to new members is one of the six critical decision points in 2025-2035. The question of whether and when Ukraine would join NATO, and how the EU's security architecture (PESCO, the Strategic Compass, the European Defence Fund) would be extended to a new member, is a question that cannot be resolved in isolation from the broader EU-NATO relationship and the transatlantic security framework. The EU's capacity to offer a credible security guarantee to Ukraine - whether through NATO membership, a bilateral security arrangement, or an EU-level mechanism - will be a defining test of the Union's strategic autonomy.

Moldova and Georgia present different but related challenges. Moldova, with a population of approximately 2.5 million and a GDP of roughly €12 billion, is a small state whose European integration is closely tied to the resolution of the Transnistria conflict and the management of its energy dependency on Russian gas. Georgia's accession process is complicated by the 2023 political crisis, in which the Georgian Dream government's legislative changes on "foreign agents" and the role of the judiciary raised serious concerns about democratic backsliding, and the 2024 parliamentary elections were widely regarded as neither free nor fair. The EU's response to Georgia's political trajectory will be a test of the credibility of its enlargement criteria: whether the Union is willing to slow or condition the accession process in response to democratic backsliding, or whether the strategic imperative of countering Russian influence in the South Caucasus will override the normative commitments that underpin the enlargement architecture.

The Eastern Partnership as a whole is being restructured in light of the war. The 2022 and 2023 European Council decisions effectively created a "two-track" architecture: a fast-track membership perspective for Ukraine, Moldova, and Georgia, and a continued neighbourhood framework for Armenia and Azerbaijan (with Belarus effectively excluded following the 2020 coup and the 2022 political crisis). The EU's capacity to manage this differentiated architecture without creating a perception of a "two-speed" Europe - already a concern in the context of enhanced cooperation, as discussed in *4. Political Integration, Governance Reform, and Democratic*

Legitimacy - is a significant political challenge.

10.5 Institutional, Economic, and Political Implications of Further Enlargement

The prospective addition of up to nine new member states (the six Western Balkan states, Ukraine, Moldova, and Georgia) would transform the EU from a 27-member Union into a 36-member polity, with a combined population of approximately 550 million and a combined GDP of roughly €25 trillion. The implications of this transformation are profound and multidimensional, and they intersect with virtually every policy domain examined in this volume.

Institutional implications. The most immediate institutional challenge is the management of decision-making in a larger Union. The persistence of unanimity in foreign and security policy, taxation, and social security, as identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy*, would be further exacerbated by the addition of nine new members, each with distinct national interests, security concerns, and economic priorities. The question of whether to extend qualified majority voting to additional policy areas, or to develop a more sophisticated architecture of enhanced cooperation, becomes more acute as the Union grows. The European Parliament, which would see its membership expand from 720 to approximately 800 or more seats, would face the challenge of maintaining effective deliberation and political cohesion in a larger and more diverse chamber. The Commission's capacity to manage the accession negotiations, monitor the implementation of the acquis, and deliver on the policy commitments to new members would require a significant expansion of its administrative and technical capacity.

The rule-of-law dimension is central. As *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy* examines, the EU's enforcement mechanisms for the rule of law are still in their early stages of development. The 2022 rule-of-law conditionality mechanism, which links the disbursement of EU funds to the respect of the rule of law, provides a tool for managing the transition period, but its effectiveness depends on the political will of member states to apply it consistently. The accession of states with significant gaps in judicial independence, anti-corruption frameworks, and the protection of fundamental rights would test the Union's capacity to enforce its normative standards without creating a permanent "second-class" membership.

Economic implications. The fiscal and economic implications of further enlargement are substantial. The GDP-per-capita gap between the wealthiest and poorest member states already exceeds five to one, as documented in *2. Current State of the Union: Political, Economic, and Social Landscape*. The addition of Ukraine, Moldova, Georgia, and the Western Balkan states would extend this gap to a ratio of approximately 10:1 or more. The convergence spending required to bring new members up to the level of the acquis in areas such as environmental compliance, infrastructure, digital connectivity, and the single-market regulatory framework would be significant. The post-2027 Multiannual Financial Framework, identified as a critical decision point in *3. Economic Integration, Monetary Policy, and the Single Market*, would need to accommodate a substantially larger convergence budget, potentially at the expense of the Union's other priorities (defence, digital sovereignty, climate transition, and research).

The single-market implications are equally significant. The expansion of the 450-million-consumer market to approximately 550 million would enhance the EU's scale advantage in global trade and regulatory competition, as discussed in *9. External Relations: The EU in a Multipolar World*. However, the integration of economies with significantly lower productivity, different industrial structures, and less developed service sectors would require a managed transition to avoid the disruption of existing supply chains and the erosion of the competitive position of established member states. The digital single market, the energy transition, and the climate policy architecture, as examined in *6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty* and *7. Energy Transition, Climate Policy, and the European Green Deal*, would need to be extended to new members, with the associated compliance costs and investment requirements.

The eurozone question is a long-term but structurally important one. The eventual accession of new members to the euro would require the completion of the banking union, including the common deposit insurance scheme (EDIS), which is currently blocked by the circularity of risk convergence and mutualisation, as identified in *3. Economic Integration, Monetary Policy, and the Single Market*. The addition of new members to the eurozone would alter the fiscal and monetary architecture of the currency area, with implications for the ECB's mandate, the design of the digital euro, and the fiscal governance framework.

Political implications. The political implications of further enlargement are the most contested. The "sovereigntist centre" and the 30-35% populist electoral share, as documented in *2. Current State of the Union: Political, Economic, and Social Landscape*, create a domestic political constraint on the pace and depth of enlargement that is more acute than in previous cycles. The perception that enlargement is a zero-sum game - that the benefits of EU membership are a fixed pool to be shared among a larger number of members - is a significant driver of public opposition, particularly in the more prosperous member states. The capacity of the

Union to deliver tangible, visible benefits to its existing members - through the single market, the euro, the security guarantee, and the regulatory "Brussels effect" - is a prerequisite for maintaining the political support for further enlargement.

The security implications are inseparable from the political ones. The integration of Ukraine, in particular, would extend the EU's security architecture to a state that is in a state of active conflict with a nuclear-armed neighbour. The EU's capacity to provide a credible security guarantee to a new member, and to manage the implications of this guarantee for the broader European security architecture, is a question that intersects with the strategic-autonomy agenda in *5. Strategic Autonomy: Security, Defense, and Foreign Policy* and the transatlantic relationship in *9. External Relations: The EU in a Multipolar World*. The extension of the EU's security commitments to a new member on its eastern flank would be a structural transformation of the Union's security posture, with implications for the EU-NATO division of labour, the European Defence Fund, and the development of autonomous defence capabilities.

The demographic and social implications are also significant. As *8. Migration, Demographics, and Social Cohesion* identifies, the EU faces a structural demographic contraction, with the working-age population projected to shrink by 15-20 million by 2050. The addition of new members with younger demographic profiles (Ukraine, Moldova, and the Western Balkans all have younger populations than the EU average) would partially mitigate this trend, but the integration of new populations into the EU's social and labour-market architecture would require a coherent skills-and-migration strategy and targeted place-based investment in the most affected regions.

10.6 Scenarios and Critical Decision Points

The trajectory of the EU's enlargement policy over the next decade will be shaped by the interaction of the internal integration trajectory, the geopolitical environment, and the domestic political dynamics of both the Union and the candidate states. Four scenarios, consistent with the analytical framework established in *1. Introduction: The EU at a Crossroads* and developed in subsequent sections, structure the 2035-2040 outlook.

Scenario A: Deepened integration. In this scenario, the EU completes the internal reforms identified in *3. Economic Integration, Monetary Policy, and the Single Market* and *4. Political Integration, Governance Reform, and Democratic Legitimacy* - the post-2027 MFF, banking union completion, Council voting rule reform, and the development of a European public sphere - before or in parallel with the accession of new members. The Western Balkan states accede in the late 2020s or early 2030s, following a credible and accelerated accession process. Ukraine's accession is initiated in the 2030s, following a sustained post-war reconstruction and a significant convergence on the acquis, with a managed transition period of 10-15 years. Moldova and Georgia follow in the 2030s, contingent on the resolution of the Transnistria conflict and the restoration of democratic governance in Georgia, respectively. The EU's security architecture is extended to new members, and the Union's strategic-autonomy agenda is advanced in parallel with enlargement. The "Brussels effect" is extended to new members, and the EU's regulatory architecture is applied across the enlarged Union. The fiscal architecture is reformed to accommodate the convergence spending required, and the single market is expanded to include the economies of the new members.

Scenario B: Managed differentiation. In this scenario, the EU pursues a "two-speed" enlargement architecture. A core group of member states, likely including the Western Balkan states and possibly Moldova, accede on a faster timeline, while Ukraine's accession is deferred to a later date pending the resolution of the security situation and the completion of a more extensive convergence process. Georgia's accession is contingent on the restoration of democratic governance. The EU's internal architecture is reformed through enhanced cooperation, with a core group of states pursuing deeper integration in specific policy areas (defence, digital, climate) while the broader Union maintains a common framework at a slower pace. The fiscal architecture is reformed to accommodate the convergence spending, but the pace of convergence is slower than in Scenario A, and the GDP-per-capita gap is not significantly reduced.

Scenario C: Stagnation. In this scenario, the accession processes proceed at a slow and uneven pace, with the Western Balkan states making incremental progress but no new members acceding before 2035. Ukraine's accession is deferred indefinitely, pending the resolution of the war and a sustained post-war reconstruction. Moldova and Georgia's accession processes are slowed by domestic political challenges. The EU's internal architecture is not reformed, and the institutional, fiscal, and political constraints identified in *2. Current State of the Union: Political, Economic, and Social Landscape* and *4. Political Integration, Governance Reform, and Democratic Legitimacy* persist. The enlargement policy is reduced to a set of bilateral agreements and association frameworks, and the Union's normative leverage in the region is eroded by the competing influence of Russia, China, and the Gulf states, as discussed in *9. External Relations: The EU in a Multipolar World*.

Scenario D: Fragmentation. In this scenario, the political backlash against enlargement, driven by the

"sovereigntist centre" and the populist movements, leads to a fundamental reorientation of the EU's enlargement policy. The accession processes are frozen or reversed, and the Union's normative commitments are diluted. The security architecture is not extended to new members, and the EU's capacity to act as a coherent geopolitical actor is further eroded. The Western Balkans and the Eastern Partnership states are left without a credible European perspective, and the region becomes a more acute site of great-power competition. The EU's internal cohesion is further strained by the perception that the Union is unable to deliver on its enlargement commitments, and the democratic compact is further eroded.

Critical decision points (2025-2035). Six decision points will determine the trajectory of the EU's enlargement policy:

1. **The post-2027 MFF design and its enlargement and convergence funding architecture.** The allocation of convergence spending to new and prospective members, and the relationship between this spending and the Union's other priorities (defence, digital sovereignty, climate transition), will be a defining fiscal and political decision, as identified in *3. Economic Integration, Monetary Policy, and the Single Market* and *7. Energy Transition, Climate Policy, and the European Green Deal*.
2. **The political decision on the pace and sequencing of Western Balkan accession.** The implementation of the 2023 "new approach" to enlargement, the opening and closing of chapters, and the political decision on the timeline for the accession of the first Western Balkan state(s) will be a test of the Union's credibility and its capacity to manage the domestic political constraints on enlargement.
3. **The institutional response to Ukraine's prospective integration.** The design of the post-war reconstruction framework, the extension of the EU's security architecture to Ukraine, and the political decision on the timeline and conditions for Ukraine's accession will be the most consequential enlargement decision of the 2025-2035 period, with implications for the broader European security architecture and the EU-NATO relationship, as discussed in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*.
4. **The political decision on the rule-of-law conditionality and its application to candidate and new member states.** The effectiveness of the 2022 rule-of-law conditionality mechanism, and the political will to apply it consistently, will determine whether the Union's normative commitments are credible or are reduced to aspirational language, as examined in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*.
5. **The evolution of the EU's relationship with Turkey.** The design and implementation of a comprehensive strategic partnership framework, and the political decision on the future of the formal accession process, will be a test of the Union's capacity to manage a strategically important relationship without a membership perspective.
6. **The development of a coherent EU-level enlargement strategy that integrates the institutional, economic, security, and normative dimensions.** The absence of a single, coherent strategy that addresses the full range of implications of further enlargement - fiscal, institutional, security, economic, and political - risks the enlargement policy being managed as a series of bilateral and ad hoc decisions, without the strategic coherence that the Union's broader geopolitical position requires, as discussed in *9. External Relations: The EU in a Multipolar World*.

The choices made at these junctures will determine whether the EU's enlargement policy is realised as a coherent, credible, and strategically coherent instrument of European integration and geopolitical influence, or is reduced to a set of reactive, fragmented responses to the challenges of a multipolar world. As established across the volume, the enlargement question is inseparable from the broader integration trajectory: the capacity of the Union to extend its architecture to new members is a function of its internal cohesion, its economic architecture, its political legitimacy, and its strategic posture. The decisions taken in 2025-2030 will determine whether the European project enters its next chapter as a more cohesive and capable polity, extended to encompass the full range of its European neighbours, or retreats into a looser confederation bound by habit rather than conviction.

11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy

11.1 The Legal Architecture of the Rule of Law in the European Union

The rule of law is not merely a policy preference within the European Union; it is a constitutive principle. Article 2 of the Treaty on European Union (TEU) enshrines the rule of law as a value "common to the Union and its Member States," and Article 19(1) TEU obliges the Court of Justice of the European Union (CJEU) to ensure that "in the definition and exercise of its powers, the Union and the Member States observe and provide for the observation of law." The Charter of Fundamental Rights of the European Union, given binding legal force by the Treaty of Lisbon in 2009, extends this commitment to a comprehensive catalogue of civil, political, economic, social, and cultural rights. Together, these instruments constitute a normative architecture that is, in the words of the Court, "the foundation of the Union's legal order" and a precondition for the mutual trust on which the single market, the area of freedom, security and justice, and the eurozone depend.

Yet the architecture is, as established in *Political Integration, Governance Reform, and Democratic Legitimacy* (Section 4), structurally strained. The CJEU's rulings, while legally binding, lack an enforcement mechanism independent of Council political will. The European Commission, as guardian of the Treaties, initiates infringement proceedings, but the political decision to refer a member state to the Court - and, critically, to enforce a subsequent judgment - remains subject to intergovernmental negotiation. This structural gap between legal obligation and political enforcement is the central institutional weakness of the EU's rule-of-law framework, and it is the gap that has been most acutely exposed by the challenges described below.

The 2022 Rule of Law Conditionality Regulation (Regulation (EU, Euratom) 2020/2092) represented a significant, if contested, innovation. By linking the disbursement of EU funds to a member state's compliance with rule-of-law principles, the Regulation created a financial lever that bypasses the unanimity requirement of Article 7 TEU. The 2023 Rule of Law Report, the first annual assessment of rule-of-law developments across all 27 member states, institutionalised a monitoring function that had previously been ad hoc. These instruments, while not a substitute for the full Article 7 procedure, represent a deliberate attempt to close the enforcement gap without requiring a treaty amendment.

11.2 Democratic Backsliding: Patterns, Drivers, and the Populist Challenge

The most acute challenge to the EU's rule-of-law architecture has come from within. The judicial and institutional reforms undertaken in Hungary since 2010 and in Poland from 2015 onward - restructuring of the judiciary, politicisation of prosecutorial and constitutional-court appointments, erosion of media pluralism, and the subordination of independent oversight bodies to executive control - constitute the most sustained and systematic challenge to the Union's foundational values since the 2004 and 2007 enlargements. The Commission's repeated infringement proceedings, the CJEU's preliminary rulings on the independence of national courts, and the Council's 2018 decision to find a "clear risk of a serious breach" of the rule of law in Poland (the first-ever invocation of the Article 7(1) procedure) have demonstrated both the legal tools available and their political limits.

The drivers of democratic backsliding are multiple and mutually reinforcing. First, the fiscal and economic asymmetries documented in *Economic Integration, Monetary Policy, and the Single Market* (Section 3) - the GDP-per-capita gap exceeding five to one, the asymmetric impact of the 2022-2023 energy shock, and the incomplete banking union - create conditions in which a subset of member states perceive the Union's rulebook as an instrument of external constraint rather than shared governance. Second, the "sovereigntist centre" within mainstream parties, identified in *Political Integration, Governance Reform, and Democratic Legitimacy* (Section 4), narrows the political space for defending the rule-of-law framework against domestic political pressure. Third, the 30-35% electoral share captured by anti-EU and populist blocs in the 2024 European Parliament elections, as noted in *Current State of the Union: Political, Economic, and Social Landscape* (Section 2), means that the political cost of defending the rule-of-law framework is now borne by a narrower pro-European majority.

The pattern is not confined to the two most prominent cases. The 2023-2024 political crisis in Georgia, which tested the credibility of the EU's enlargement criteria (Section 10, *Enlargement, the Eastern Partnership, and the Question of Ukraine*), and the recurring tensions in Romania, Slovakia, and Italy over judicial independence and media freedom, indicate that the rule-of-law challenge is a structural feature of the Union's political diversity rather than an anomaly limited to two member states. The risk is not a single, dramatic rupture but a slow, incremental erosion of the normative baseline - a "death by a thousand cuts" that is more difficult to detect, more difficult to reverse, and more difficult to address through the binary legal instruments (infringement, Article 7) currently available.

The populist movements that have driven or amplified backsliding operate through a specific rhetorical and institutional logic. They frame the rule-of-law framework as an instrument of "Brussels overreach" that constrains national sovereignty, they delegitimise independent institutions (courts, media, civil society) as unaccountable elites, and they exploit the output deficit of the Union - the diffuse benefits versus concentrated costs identified in Section 4 - to argue that the Union's normative commitments are a luxury that less competitive economies cannot afford. The social-climate nexus, the migration question, and the digital transition (Sections 6, 7, and 8) all provide additional fuel for this rhetoric, as the costs of transition are concentrated in specific regions and social groups while the benefits remain diffuse and long-term.

11.3 Fundamental Rights: The Charter, the Court, and Implementation Gaps

The protection of fundamental rights in the EU operates through a multi-layered architecture: the Charter of Fundamental Rights, the European Convention on Human Rights (ECHR) as applied through the European Court of Human Rights (ECtHR), the CJEU's case law, the European Union Agency for Fundamental Rights (FRA) in Vienna, and the national constitutional and legal orders of the 27 member states. The Charter's binding force, the CJEU's jurisdiction over the interpretation and application of EU law, and the FRA's monitoring and reporting function constitute a robust normative framework.

However, the gap between the Charter's text and its effective implementation remains significant, particularly in three domains. First, the right to an effective remedy and to an independent tribunal (Charter Articles 47 and 19) is the most frequently litigated right in the context of rule-of-law challenges, and the CJEU's preliminary rulings on the independence of national courts - while legally binding - depend on national implementation that is, in the most acute cases, deliberately obstructed. Second, the rights of migrants, asylum seekers, and refugees (Charter Articles 18, 19, 4, 13) are under acute pressure from the operational demands of the 2024 Pact on Migration and Asylum (Section 8, *Migration, Demographics, and Social Cohesion*), the compressed due-process timeframes, and the externalisation of border management to third countries. The FRA's repeated warnings about conditions in detention, the risk of refoulement, and the adequacy of legal assistance in accelerated procedures highlight a structural tension between the Union's security and migration management imperatives and its fundamental-rights commitments. Third, the digital transformation (Section 6, *Digital Transformation, Artificial Intelligence, and Technological Sovereignty*) raises novel fundamental-rights questions - data protection, algorithmic accountability, the right to information, the protection of minors online - that the existing legal framework is only beginning to address. The AI Act's risk-based architecture and the GDPR's data-protection regime are necessary but, as Section 6 notes, insufficient conditions for a fully rights-compliant digital ecosystem.

The EU's normative commitment to fundamental rights is, as Section 6 observes, both its distinctive strength and its structural tension with economic competitiveness. The regulatory framework imposes compliance costs that can disadvantage European firms, while simultaneously creating the conditions for a rights-compliant digital and economic ecosystem that commands premium value in regulated sectors. This tension will intensify as the digital, climate, and industrial transitions proceed, and it will be a recurring site of political contestation in the 2025-2035 period.

11.4 Enforcement Mechanisms: Article 7, Conditionality, and the Limits of Legalism

The EU's enforcement toolkit for rule-of-law violations has evolved significantly since 2018, but it remains structurally constrained. The Article 7 TEU procedure, while the most powerful legal instrument available, requires a qualified majority in the Council to find a "clear risk" and a near-unanimous vote (all member states other than the one concerned) to determine a "serious and persistent breach" and suspend voting rights. The 2018 finding of a clear risk in Poland, followed by the failure to proceed to the second stage, demonstrated the political limits of the mechanism. The unanimity requirement in the second stage means that a single member state can block the most severe sanction, and the political cost of invoking Article 7 against a fellow member state is high in a Union where the "sovereigntist centre" and populist blocs (Section 4) constrain the coalition available for collective action.

The 2022 Rule of Law Conditionality Regulation addressed this gap by creating a financial enforcement mechanism that operates through a qualified majority in the Council and does not require the unanimity of Article 7. The Regulation has been invoked against Hungary and Poland, with the Council adopting implementing decisions that suspend or reduce the disbursement of EU funds. While the financial lever is a significant innovation, its effectiveness is contingent on the scale of funds at stake relative to the member state's budget, the political will to sustain the measure over time, and the absence of a credible threat of non-compliance by the member state. The Regulation does not address the underlying institutional reforms; it creates a financial incentive for compliance but does not, by itself, restore judicial independence or media pluralism.

The CJEU's role as the ultimate arbiter of EU law is essential but limited. The Court can declare national measures incompatible with EU law, but it cannot compel their implementation. The Commission's infringement proceedings are a necessary but slow process, and the political decision to initiate them is subject to the Commission's institutional priorities and the broader intergovernmental context. The absence of a European public prosecutor with a mandate to initiate rule-of-law proceedings, the absence of a European ombudsman with enforcement powers, and the absence of a dedicated rule-of-law court or chamber within the CJEU all reflect the fact that the Union's rule-of-law architecture was designed for a different political environment - one in which the assumption of shared commitment to the foundational values was not under sustained challenge.

The critical question for the 2025-2035 period is whether the existing toolkit is sufficient or whether a structural reform is required. Options under discussion include: a dedicated rule-of-law court or chamber within the CJEU; a European public prosecutor with a rule-of-law mandate; a reform of the Article 7 procedure to lower the threshold for the second stage; the expansion of the conditionality mechanism to cover a broader range of EU funds; and the development of a European rule-of-law agency with monitoring, reporting, and early-warning functions. Each option faces significant political constraints, and the "sovereigntist centre" and the 30-35% populist electoral share (Section 2) mean that any reform that is perceived as expanding supranational control over national institutions will face substantial domestic opposition.

11.5 Disinformation, the Information Environment, and Democratic Resilience

The information environment on which democratic legitimacy depends is under sustained and intensifying pressure. As noted in *Current State of the Union: Political, Economic, and Social Landscape* (Section 2), state-sponsored disinformation and AI-generated inauthentic content are degrading the information environment. The digital transformation (Section 6) creates both opportunities - transparency, lower participation barriers, new forms of civic engagement - and risks: algorithmic manipulation, the amplification of polarising content, the erosion of shared factual baselines, and the targeting of specific demographic and geographic groups with tailored disinformation.

The EU's response has been primarily regulatory. The Digital Services Act (DSA) imposes transparency and accountability obligations on very large online platforms, including the mitigation of systemic risks to democratic processes. The AI Act's prohibition on certain manipulative techniques and its obligations for general-purpose AI models address, at the margin, the risk of AI-generated disinformation. The EU's disinformation label and the European Disinformation Database represent monitoring and transparency tools. However, as Section 6 notes, the EU's digital regulatory framework is legally advanced but operationally fragmented, and the compliance burden falls disproportionately on platforms and, indirectly, on the information ecosystem.

The deeper challenge is not regulatory but structural. The absence of a European public sphere, identified in Section 4 as a core dimension of the democratic deficit, means that disinformation operates in a fragmented media landscape where national languages, national media markets, and national political cultures limit the capacity for a shared, cross-border democratic debate. The demographic and generational challenges (Section 8) compound this: younger generations, who are the primary users of digital platforms, are also the most exposed to algorithmic manipulation and the least likely to engage with traditional institutional channels of political participation. The social-climate nexus, the migration question, and the digital transition all provide fertile ground for disinformation that exploits genuine anxieties about economic security, cultural identity, and intergenerational fairness.

The resilience of European democracy in the 2025-2035 period will depend not only on the legal and institutional framework for the rule of law but on the quality of the information environment, the strength of civil society, the capacity of independent media, and the degree to which citizens perceive the Union as delivering shared benefits. The output deficit of the Union - the gap between the diffuse, long-term benefits of integration and the concentrated, immediate costs of transition - is the primary vulnerability that disinformation and populist movements exploit. Addressing this deficit is, as established across the volume, a function of the economic architecture (Section 3), the political reform agenda (Section 4), the climate and energy transition (Section 7), and the social policy framework (Section 8). The rule-of-law framework is a necessary but insufficient condition for democratic resilience; it must be embedded in a broader political and social compact that delivers tangible, shared benefits to citizens.

11.6 The Rule of Law as a Condition for Enlargement and Internal Cohesion

The rule of law is not only an internal governance challenge; it is a central criterion for the Union's external expansion and a precondition for the internal cohesion that the Union requires to address its broader challenges. The Copenhagen criteria, which govern the accession of candidate states, include the rule of law as a fundamental requirement. As noted in *Enlargement, the Eastern Partnership, and the Question of Ukraine* (Section 10), the

2023-2024 political crisis in Georgia tested the credibility of the EU's enlargement criteria, and the consistent application of rule-of-law conditionality to candidate and new member states is identified as a critical decision point for the 2025-2035 period.

The prospective integration of Ukraine, Moldova, and Georgia, and the accession of Western Balkan states, will require a sustained and credible rule-of-law framework that is applied consistently to both existing and new members. The risk of a "two-tier" rule-of-law standard - where the conditionality is applied rigorously to candidate states but leniently to existing members that are in breach - would undermine the Union's normative credibility and the political legitimacy of the enlargement process. The post-war reconstruction of Ukraine (estimated at $440 billion) will require a legal and institutional framework that ensures the rule of law, judicial independence, and the protection of fundamental rights as conditions for the disbursement of reconstruction funds. The extension of the EU's security architecture (PESCO, the Strategic Compass, the EDF) to a new member on its eastern flank, as discussed in *Strategic Autonomy: Security, Defense, and Foreign Policy* (Section 5), is inseparable from the rule-of-law dimension: a member state that does not meet the Union's rule-of-law standards cannot be integrated into a security architecture that depends on mutual trust and the rule of law.

Internally, the rule of law is a precondition for the economic and political integration discussed in Sections 3 and 4. The single market, the eurozone, and the area of freedom, security and justice all depend on mutual trust, which in turn depends on the assumption that all member states comply with the Union's foundational values. The fiscal asymmetries (GDP-per-capita gap exceeding 5:1, debt ratios ranging from above 170% to below 50%) create a structural constraint on political integration, but the rule-of-law dimension adds a normative constraint: the capacity to deepen fiscal and economic integration is conditional on the assumption that all member states will comply with the Union's legal and institutional framework. The post-2027 MFF design, the completion of banking union (including EDIS), and the development of a common fiscal capacity are all, in the final analysis, rule-of-law questions as much as economic ones.

11.7 Scenarios and Critical Decision Points for the 2025-2040 Period

The future of the EU's rule-of-law framework, the protection of fundamental rights, and the resilience of European democracy will be shaped by the interaction of the structural constraints identified in this section and the broader integration trajectory outlined in *Conclusion: Scenarios and Pathways for the EU in 2040* (Section 12). Four scenarios structure the 2035-2040 outlook:

(A) Deepened integration. The rule-of-law framework is reformed and strengthened: a dedicated rule-of-law chamber within the CJEU, a European public prosecutor with a rule-of-law mandate, a reform of the Article 7 procedure, and the expansion of the conditionality mechanism. The Charter of Fundamental Rights is given a more prominent role in the Union's external relations and enlargement policy. A European public sphere is developed, supported by digital infrastructure and cross-border media cooperation, that reduces the vulnerability of the information environment to disinformation and algorithmic manipulation. The rule-of-law conditionality is applied consistently to existing and new member states, and the enlargement process is advanced on the basis of a credible, uniformly applied Copenhagen criteria framework. The Union's normative commitment to the rule of law and fundamental rights is realised as a coherent, enforceable, and politically sustainable architecture.

(B) Managed differentiation. A core group of member states pursues a deeper rule-of-law and fundamental-rights framework through enhanced cooperation, while the broader EU maintains the common legal framework at a slower pace. The conditionality mechanism is applied selectively, and the Article 7 procedure remains politically infeasible. The rule-of-law dimension of enlargement is applied with varying degrees of stringency, and the "two-speed" architecture extends to the normative domain. The information environment is addressed through a combination of national and EU-level measures, but the absence of a European public sphere limits the effectiveness of cross-border coordination.

(C) Stagnation. The existing framework persists with incremental updates. The conditionality mechanism is invoked but not sustained; the Article 7 procedure remains a political dead letter; the CJEU's rulings are implemented unevenly. The rule-of-law challenge is managed through ad hoc political negotiations rather than a coherent legal and institutional framework. The information environment continues to degrade, and the populist movements that exploit the output deficit and the information deficit maintain their 30-35% electoral share. The rule-of-law dimension of enlargement is applied inconsistently, and the Union's normative credibility is eroded.

(D) Fragmentation. The rule-of-law framework is eroded by sustained political pressure from the "sovereigntist centre" and populist movements. The conditionality mechanism is weakened or bypassed; the CJEU's jurisdiction is challenged or circumvented; the Charter of Fundamental Rights is reduced to a declarative instrument without effective enforcement. The information environment is further degraded by state-sponsored

disinformation, AI-generated inauthentic content, and the fragmentation of the media landscape. The rule-of-law dimension of enlargement is abandoned or applied selectively, and the Union's normative leverage is undermined. The democratic compact is further strained, and the Union's capacity to act as a coherent geopolitical actor (Section 5, Section 9) is further constrained.

Six critical decision points in 2025-2035 will determine the pathway:

1. **The political decision on the reform of the Article 7 procedure and the development of a dedicated rule-of-law enforcement mechanism.** This is the most consequential institutional decision of the period. The "sovereigntist centre" and the 30-35% populist electoral share (Section 2) mean that any reform that is perceived as expanding supranational control over national institutions will face substantial domestic opposition. The decision will be shaped by the broader political context: the post-2027 MFF design, the enlargement agenda, and the geopolitical environment.
2. **The consistent application of the rule-of-law conditionality to existing and new member states.** The credibility of the conditionality mechanism depends on its consistent application. The political decision to invoke, sustain, or lift the conditionality in specific cases will be a recurring test of the Union's commitment to its foundational values. The application of the conditionality to the prospective members (Ukraine, Moldova, Georgia, Western Balkan states) and to existing members in breach will be a defining feature of the 2025-2035 period.
3. **The development of a European public sphere and the regulatory response to disinformation and AI-generated inauthentic content.** The DSA, the AI Act, and the EU's disinformation monitoring tools are necessary but insufficient. The development of a European public sphere - supported by digital infrastructure, cross-border media cooperation, and civic education - is a long-term project that requires sustained political commitment and investment. The interaction between the digital regulatory framework (Section 6) and the democratic legitimacy framework (Section 4) will be a defining feature of the period.
4. **The rule-of-law dimension of the enlargement process and the institutional response to Ukraine's prospective integration.** The consistent application of the Copenhagen criteria, the design of the post-war reconstruction framework for Ukraine, and the extension of the EU's security architecture to new members are all inseparable from the rule-of-law dimension. The political decision on the pace and sequencing of accession, and the credibility of the EU's enlargement criteria, will be tested by the domestic political trajectories of the candidate states and the internal political constraints of the existing member states.
5. **The protection of fundamental rights in the context of the digital, climate, and migration transitions.** The AI Act, the GDPR, the 2024 Pact on Migration and Asylum, and the European Green Deal all raise fundamental-rights questions that will require sustained legal and political attention. The FRA's monitoring function, the CJEU's case law, and the national implementation of the Charter will be the primary instruments, but the political will to enforce the Charter's provisions in the face of economic and security pressures will be the determining factor.
6. **The post-2027 MFF design and its rule-of-law and fundamental-rights funding architecture.** The MFF is the Union's primary financial instrument, and its design will determine the resources available for the rule-of-law framework, the FRA, the CJEU, the digital regulatory framework, and the social and migration policies that underpin the democratic compact. The fiscal asymmetries (Section 3) and the political constraints on the depth of fiscal integration mean that the MFF design will be a site of intense negotiation, and the rule-of-law and fundamental-rights dimensions will be in competition with the Union's other priorities (defence, digital sovereignty, climate transition, enlargement) for a limited fiscal envelope.

11.8 The Rule of Law as a Test of the Union's Capacity to Manage Simultaneity

The rule of law, the protection of fundamental rights, and the resilience of European democracy are not separable from the broader integration trajectory. As established across the volume, the choices made in each domain reinforce or undermine the others. The rule-of-law framework is a function of the Union's internal cohesion, its economic architecture (Section 3), its political legitimacy (Section 4), its strategic autonomy (Section 5), its digital and technological sovereignty (Section 6), its climate and energy policy (Section 7), its social cohesion and demographic management (Section 8), its external relations posture (Section 9), and its enlargement agenda (Section 10).

The defining characteristic of the present juncture, identified in *Introduction: The EU at a Crossroads* (Section 1), is the simultaneity of the Union's challenges. The rule-of-law challenge does not arrive in isolation; it impinges on, and is impinged by, the energy shock, the fiscal divergences, the great-power competition, the technological disruption, the demographic contraction, and the migration pressures. The capacity of the Union to defend its foundational values in the face of internal and external pressure is, in the final analysis, a test of its capacity to manage this simultaneity - to convert its normative and regulatory strengths into a coherent, credible, and strategically coherent instrument of European integration and geopolitical influence.

The decisions taken in 2025-2030 will determine whether the European project enters its next chapter as a more cohesive and capable polity, grounded in a robust and enforceable rule-of-law framework, or retreats into a looser confederation in which the foundational values are a matter of political preference rather than legal obligation. The rule of law is not a luxury; it is the condition of the Union's existence. Its defence is not a single policy domain but a cross-cutting imperative that touches every dimension of the Union's future.

12. Conclusion: Scenarios and Pathways for the EU in 2040

12.1 Synthesis: The EU at the Threshold of 2040

The preceding eleven chapters of this volume have examined, in sequence and in cross-cutting fashion, the full architecture of the European Union as it stands at the close of the 2020s and the challenges that will define its trajectory through 2040. From the diagnostic baseline established in *2. Current State of the Union: Political, Economic, and Social Landscape* through the domain-specific analyses of economic governance (*3. Economic Integration, Monetary Policy, and the Single Market*), political reform (*4. Political Integration, Governance Reform, and Democratic Legitimacy*), strategic autonomy (*5. Strategic Autonomy: Security, Defense, and Foreign Policy*), digital sovereignty (*6. Digital Transformation, Artificial Intelligence, and Technological Sovereignty*), the energy transition (*7. Energy Transition, Climate Policy, and the European Green Deal*), social cohesion (*8. Migration, Demographics, and Social Cohesion*), external relations (*9. External Relations: The EU in a Multipolar World*), enlargement (*10. Enlargement, the Eastern Partnership, and the Question of Ukraine*), and the rule of law (*11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*), a consistent analytical picture has emerged.

The central finding that unites these chapters is that the EU faces a condition of **simultaneity** without historical precedent. As *1. Introduction: The EU at a Crossroads* established, the Union is not confronted by a single crisis to be resolved in sequence but by the concurrent operation of geopolitical realignment, internal fiscal and democratic fragmentation, and technological disruption. These three axes of pressure are mutually reinforcing: geopolitical competition intensifies technological rivalry; internal fragmentation constrains the capacity to respond to external threats; and the technological and energy transitions alter the economic foundations of social cohesion. No single policy domain can be reformed in isolation. The post-2027 Multiannual Financial Framework, the completion of banking union, the design of a coherent defence architecture, the implementation of the AI Act, the first full CBAM cycle, the operationalisation of the New Pact on Migration, and the institutional response to Ukraine's prospective integration are not independent workstreams but interlocking components of a single, integrated decision.

The structural constraints identified across the volume are equally consistent. The GDP-per-capita gap exceeding five to one, the absence of a common fiscal capacity, the incomplete banking union, the persistence of unanimity in foreign and security policy, the "sovereigntist centre" within mainstream parties, the 30-35% populist electoral share, the demographic contraction of the working-age population, and the degraded information environment together constitute a set of binding constraints on the depth and speed of further integration. These constraints do not preclude reform, but they define the political space within which reform must occur and the sequencing that is feasible.

It is against this backdrop that the four scenarios presented in this concluding section must be understood. They are not predictions but structured projections: plausible configurations of the EU in 2040, each defined by a specific set of institutional, economic, and political choices made (or not made) over the intervening decade. The scenarios are not mutually exclusive in all their dimensions; a given policy domain may follow one trajectory while another follows a different one. However, the volume's analysis suggests that the scenarios are strongly correlated: the choices made on fiscal governance, institutional reform, and the democratic compact will tend to pull the Union in a coherent direction across domains.

12.2 Scenario A: Deepened Integration (2040)

Institutional and political architecture. By 2040, the EU has completed a fundamental reform of its institutional architecture. The Lisbon framework has been supplemented - or partially replaced - by a treaty revision that introduces qualified majority voting in the remaining unanimity domains (taxation, social security, foreign and security policy), establishes a more robust European executive with a clearer electoral mandate, and creates a dedicated rule-of-law enforcement mechanism with powers independent of Council political will. The European Parliament operates within a reformed electoral system that fosters a genuine European public sphere, with transnational lists or a pan-European campaign framework that has begun to shift the centre of political competition from national to European level. The "sovereigntist centre" has been either absorbed into a broader pro-European consensus or marginalised by the demonstrable success of deeper integration in delivering shared prosperity.

Economic and monetary architecture. Banking union is complete, with a fully operational European Deposit Insurance Scheme (EDIS) that has broken the bank-sovereign nexus. A permanent European fiscal capacity, funded by own resources and managed through a reformed SGP with automatic stabilisers, provides the eurozone with a genuine countercyclical tool. The capital markets union has achieved a meaningful degree of integration, with cross-border equity and bond investment approaching levels comparable to the United

States. The digital euro is in circulation, complementing cash and private-sector payment instruments. The single market has been deepened in services and digital sectors, and the regulatory compliance burden has been recalibrated to reduce the disproportionate costs imposed on less competitive economies.

Strategic and security posture. The EU maintains a credible autonomous defence capability. A common defence budget line within the MFF funds joint procurement at scale. The 30,000-troop rapid reaction force is operational, and a joint air and missile defence system is deployed. The EU-NATO division of labour is formalised, with the EU responsible for crisis management, resilience, and non-NATO domains, and NATO for collective defence and high-intensity warfare. The security architecture has been extended to new members, including Ukraine, whose accession was completed in the early 2030s following a sustained reconstruction effort.

Digital, climate, and social dimensions. The Digital Single Market is fully operational, with a sovereign European cloud and data ecosystem, a competitive AI and semiconductor industry, and EU digital standards serving as global reference points. The European Green Deal has been realised as a transformative industrial strategy: the CBAM is mature and has catalysed global convergence on carbon pricing, the clean-energy manufacturing base is competitive, and the just-transition funding has been scaled up to address the structural transformation of affected regions. The New Pact on Migration and Asylum is operational, with a coherent skills-and-migration strategy that treats migration as a labour-market instrument. The demographic challenge is managed through a combination of EU-level coordination, targeted place-based investment, and a reformed intergenerational framework.

External relations and enlargement. The EU acts as a coherent geopolitical actor in a multipolar world. The "Brussels effect" is extended and reinforced by the Union's enhanced economic and security capacity. The transatlantic relationship is one of deepened complementarity with a formalised division of labour. The EU-China relationship is managed through a coherent strategy of engagement, competition, and decoupling in strategic sectors. The Western Balkan states have acceded, and the Union's normative leverage in the region is reinforced by the credible prospect of further enlargement.

Preconditions and probability. This scenario requires a sustained political commitment to deeper integration across a broad coalition of member states, a successful post-2027 MFF negotiation that delivers a permanent fiscal capacity, a political breakthrough on EDIS and banking union completion, a treaty-level reform of Council voting rules, and a demonstrable success in delivering shared prosperity that rebuilds the democratic compact. The probability of this scenario in its full form is assessed as moderate to low (approximately 15-25%), given the political constraints identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy* and the depth of the structural asymmetries documented in *2. Current State of the Union: Political, Economic, and Social Landscape*. However, elements of this scenario - particularly in the economic, digital, and climate domains - are achievable even in the absence of full political integration.

12.3 Scenario B: Managed Differentiation (2040)

Institutional and political architecture. The Lisbon framework persists as the foundational architecture, but the enhanced cooperation mechanism has been substantially expanded and institutionalised. A "two-speed" or "multi-speed" Europe is the norm: a core group of 12-18 member states pursues deeper integration in specific domains (fiscal, defence, digital, climate) through formalised enhanced cooperation, while the broader EU maintains a common regulatory and single-market framework at a lower level of integration. A two-tier Council structure, or a functional equivalent, manages the relationship between the core group and the wider Union. The democratic deficit is partially addressed through a reformed European public sphere and expanded citizen participation tools, but the fundamental structural tension between supranational competence and the absence of a European demos persists.

Economic and monetary architecture. Banking union is completed within the eurozone, with EDIS operational, but the capital markets union remains partially integrated. A reinforced SGP with automatic stabilisers provides a limited fiscal capacity for the eurozone, but a full European fiscal capacity with own resources is not achieved. The single market remains the Union's core economic achievement, but regulatory compliance costs continue to strain less competitive economies, and the digital and services sectors remain partially fragmented. The digital euro is in circulation within the eurozone.

Strategic and security posture. A core group of 8-12 states pursues deeper defence integration through enhanced cooperation, with a joint procurement framework, a rapid reaction force, and a common air and missile defence system. The broader EU maintains a lower common capability. The EU-NATO relationship is one of complementarity, but the absence of a full common defence budget limits the scale of autonomous capability-building. Ukraine's accession is deferred or proceeds through a managed transition, with the security architecture extended to the new member on a phased basis.

Digital, climate, and social dimensions. The core group pursues a faster digital and climate transition through enhanced cooperation, with a sovereign cloud ecosystem, a competitive AI industry, and an accelerated energy transition. The broader EU maintains the common regulatory framework (AI Act, CBAM, Green Deal architecture) but at a slower pace of implementation. The just-transition challenge is addressed through a combination of EU-level funding and national programmes, but the most affected regions experience a prolonged adjustment period. The migration architecture is operational but unevenly implemented, with the core group managing integration more effectively.

External relations and enlargement. The EU's external strategy is coherent at the level of the core group but less so at the level of the wider Union. The "Brussels effect" is maintained but not extended, as the competitive performance of European firms in the core group is sufficient to sustain regulatory influence. The Western Balkan states accede at different paces, with the core group extending its architecture to new members more rapidly. The EU's role in multilateral institutions is maintained but not strengthened.

Preconditions and probability. This scenario requires a political consensus on the legitimacy of multi-speed integration, a reformed enhanced cooperation framework that is perceived as inclusive rather than exclusionary, and a core group that is willing to bear the costs of deeper integration while maintaining a common framework for the wider Union. The probability of this scenario is assessed as the highest of the four (approximately 35-45%), as it represents the most politically feasible path given the constraints of the "sovereigntist centre," the 30-35% populist electoral share, and the structural asymmetries that make open-ended mutualisation politically infeasible. The risk, as identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy*, is that managed differentiation, if not carefully managed, risks institutional fragmentation and the perception of a "two-class" Europe that undermines the Union's normative coherence.

12.4 Scenario C: Stagnation (2040)

Institutional and political architecture. The Lisbon framework persists essentially unchanged, supplemented by crisis-driven patches that are never consolidated into a coherent architecture. The European Parliament's powers have expanded incrementally but remain structurally constrained. Council decision-making continues to be dominated by unanimity in the most sensitive domains, producing lowest-common-denominator outcomes. The Commission's executive role has grown in practice but not in formal mandate. The democratic deficit persists in all five dimensions identified in *4. Political Integration, Governance Reform, and Democratic Legitimacy*: input, output, transparency, participation, and information. The "sovereigntist centre" remains a dominant force within mainstream parties, and the populist blocs maintain their 30-35% electoral share, constraining the political space for reform.

Economic and monetary architecture. Banking union remains incomplete; EDIS is not implemented, and the bank-sovereign nexus persists. The SGP is reinforced incrementally but does not achieve a permanent fiscal capacity. The single market functions but is under structural strain from asymmetry, regulatory compliance costs, and external competition. The capital markets union remains largely aspirational. The digital euro is delayed or implemented in a limited form. The EU's industrial policy response to US and Chinese state capitalism is fragmented and insufficient, and the competitive gap in semiconductors, batteries, EVs, and AI widens.

Strategic and security posture. The existing framework (EDF, PESCO, Strategic Compass) persists with incremental improvements. The 30,000-troop rapid reaction force is not fully operational. Joint procurement remains voluntary and fragmented. The EU-NATO relationship is one of complementarity but without a formalised division of labour. The EU's capacity to act as a coherent geopolitical actor is constrained by the absence of autonomous defence capabilities and the persistence of CFSP unanimity.

Digital, climate, and social dimensions. The AI Act is implemented but does not catalyse a competitive European AI ecosystem; talent and capital continue to migrate to less regulated jurisdictions. The CBAM is implemented but not expanded, and its first full cycle (2026-2028) is a mixed result. The Green Deal's legislative architecture persists but implementation is uneven, and the most affected regions experience prolonged economic decline. The migration architecture is operational but underfunded and unevenly implemented. The demographic challenge is addressed through national programmes rather than EU-level coordination, and the intergenerational equity question remains unresolved.

External relations and enlargement. The EU's external strategy is reactive and fragmented. The "Brussels effect" is maintained in regulatory domains but not extended, as the competitive performance of European firms does not sustain the Union's regulatory leverage. The transatlantic relationship is one of managed divergence. The EU-China relationship is characterised by strategic competition without a coherent response. The Western Balkan accession processes proceed slowly, and no new members accede before 2035. Ukraine's integration is deferred, and the region becomes a more acute site of great-power competition.

Preconditions and probability. This scenario requires the absence of a catalytic crisis that forces fundamental reform, the persistence of the political constraints on deeper integration, and the continued operation of the Union's existing architecture through incremental, crisis-driven adjustments. The probability of this scenario is assessed as moderate (approximately 25-35%), as it represents the path of least political resistance and the most likely outcome in the absence of a deliberate, coordinated push for reform. The risk, as identified across the volume, is that stagnation is not a stable equilibrium: the accumulation of unresolved structural pressures - fiscal divergences, democratic backsliding, technological dependency, demographic contraction - increases the probability of a crisis that forces a more abrupt and less controlled transition.

12.5 Scenario D: Fragmentation (2040)

Institutional and political architecture. The Union's institutional architecture is eroded by sustained political pressure. The rule-of-law framework is weakened, with the conditionality mechanism diluted and the Article 7 procedure remaining a political dead letter. The single market is partially disintegrated, with the four freedoms constrained by national measures that are not effectively challenged. The eurozone is under acute stress, with the possibility of a member state's withdrawal or a managed exit. The European Parliament's legitimacy is undermined by a sustained decline in voter turnout and the growth of anti-EU blocs. The Union's normative credibility is damaged, and the "Brussels effect" is undermined by the competitive failure of European firms and the development of US and Chinese counter-standards.

Economic and monetary architecture. The bank-sovereign nexus is not resolved, and the absence of EDIS perpetuates the fragmentation of the eurozone's financial architecture. The SGP is either abandoned or rendered ineffective, and the fiscal divergences between member states widen. The single market is eroded by national industrial policies, regulatory divergence, and the competitive pressure from US and Chinese state capitalism. The EU's industrial base in strategic sectors (semiconductors, clean energy, AI) is significantly weaker than in the other scenarios, and the Union's 450-million-consumer market advantage is not fully exploited.

Strategic and security posture. The EU's security architecture reverts to bilateral and trilateral arrangements. PESCO and the Strategic Compass are effectively defunct, and the EDF is not scaled up. The EU's capacity to act as a coherent geopolitical actor is severely constrained, and the Union is marginalised in the post-war security architecture. The extension of the security architecture to new members is not achieved, and the eastern flank becomes a more acute site of great-power competition.

Digital, climate, and social dimensions. The Digital Single Market erodes, with national digital strategies diverging and the EU's regulatory influence undermined. The CBAM is rolled back or significantly diluted in response to political backlash. The Green Deal's targets are diluted, and the energy transition is slowed. The migration architecture is eroded by political backlash, and the integration of migrants and refugees is underfunded. The demographic challenge is deferred to future generations, and the social-climate nexus fuels the populist movements that further constrain the Union's capacity to act.

External relations and enlargement. The EU's external strategy is fragmented, with member states pursuing bilateral arrangements that undermine the Union's collective leverage. The "Brussels effect" is undermined, and the EU's role in multilateral institutions is marginalised. The Western Balkan accession processes are frozen or reversed, and the region becomes a more acute site of great-power competition. Ukraine's integration is not achieved, and the post-war security architecture is shaped by bilateral arrangements rather than a coherent EU strategy.

Preconditions and probability. This scenario requires a sustained political backlash against the Union, a failure to address the structural pressures identified across the volume, and the absence of a catalytic response to a major crisis. The probability of this scenario in its full form is assessed as low to moderate (approximately 10-20%), as the institutional and economic interdependencies of the Union make a full disintegration unlikely in the absence of a dramatic external shock. However, elements of this scenario - particularly in the domains of rule of law, migration, and external relations - are plausible even in the absence of a full fragmentation, and the risk of a "slow fragmentation" in which the Union's architecture erodes incrementally without a single dramatic rupture is a realistic concern.

12.6 Comparative Assessment: Interdependencies, Tipping Points, and Path Dependence

The four scenarios are not independent probabilities to be summed. They are strongly correlated across domains, and the choices made in one domain create path dependencies that constrain or enable the choices in others. The analysis across the volume identifies several critical interdependencies:

Economic integration as a precondition for political cohesion. As established in *3. Economic Integration, Monetary Policy, and the Single Market* and *4. Political Integration, Governance Reform, and Democratic Legitimacy*, the capacity of the single market and eurozone to deliver shared prosperity is a prerequisite for the democratic legitimacy and political cohesion the Union requires. Failure to resolve the economic architecture - particularly the completion of banking union and the design of a permanent fiscal capacity - risks entrenching the internal fragmentation that constrains the EU's capacity to act as a coherent geopolitical actor. Conversely, a successful economic integration creates the fiscal space and the political confidence necessary for deeper political and strategic integration.

Strategic autonomy as a function of internal cohesion. As established in *5. Strategic Autonomy: Security, Defense, and Foreign Policy*, the EU's capacity to act as a coherent geopolitical actor is a function of its internal cohesion, economic architecture, and political legitimacy. The development of autonomous defence capabilities is a prerequisite for the EU's foreign policy to carry the weight of its economic and normative ambitions, but the development of those capabilities is constrained by the same structural asymmetries and political constraints that limit the Union's broader integration trajectory.

The rule of law as a cross-cutting imperative. As established in *11. Rule of Law, Fundamental Rights, and the Resilience of European Democracy*, the defence of the rule of law is not a standalone policy domain but a function of the Union's economic architecture, political legitimacy, strategic autonomy, digital sovereignty, climate policy, social cohesion, external relations, and enlargement agenda. The capacity to defend the Union's foundational values is, in the final analysis, a test of its capacity to manage the simultaneity of its challenges.

The tipping points. The analysis identifies several potential tipping points at which the trajectory of the EU could shift from one scenario to another:

- **The post-2027 MFF negotiation (2025-2026).** The design of the post-2027 MFF is the single most consequential decision of the 2025-2030 period. A MFF that delivers a permanent European fiscal capacity, a dedicated defence budget line, a scaled-up just-transition fund, and a coherent enlargement/convergence funding architecture would create the fiscal foundation for deepened integration. A MFF that is a compromise of lowest-common-denominator outcomes would entrench the stagnation scenario.
- **The EDIS / banking union completion decision (2025-2030).** The political decision on the phased mutualisation model for EDIS - convergence fund transitioning to full EDIS over 10-15 years - would break the circularity of risk convergence and mutualisation that has blocked banking union completion. The absence of this decision would perpetuate the bank-sovereign nexus and constrain the eurozone's monetary and fiscal architecture.
- **The first full CBAM cycle (2026-2028).** The outcome of the CBAM's first full cycle will determine whether the mechanism functions as a genuine climate instrument, a trade-protection device, or both, and whether it catalyses global convergence on carbon pricing or entrenches a fragmented, bloc-based approach. A successful CBAM cycle would reinforce the EU's regulatory leverage and the "Brussels effect"; a failed cycle would undermine the Union's climate leadership and its external relations posture.
- **The AI Act implementation and first enforcement cycle (2025-2027).** The phased implementation of the AI Act will determine whether it catalyses a "trust premium" European AI ecosystem or accelerates the outmigration of AI talent and capital to less regulated jurisdictions. The outcome will have implications for the EU's digital sovereignty, industrial competitiveness, and the broader integration trajectory.
- **The political decision on Council voting rule reform (2025-2035).** The shift from unanimity to qualified majority voting in taxation, social security, and foreign/security policy is the most acute site of the democratic deficit. A successful reform would unlock the legislative capacity of the Union; a failure would perpetuate the lowest-common-denominator outcomes that constrain the Union's capacity to act.
- **The institutional response to Ukraine's prospective integration (2025-2035).** The design of the post-war reconstruction framework, the extension of the security architecture to a new member on the EU's eastern flank, and the management of the institutional, economic, and political implications of adding a member state of Ukraine's scale represent a structural transformation of the Union. The handling of this question will test the Union's capacity to manage the simultaneity of its challenges and will have implications for the enlargement trajectory, the security architecture, and the broader integration path.

12.7 The Decade That Will Decide: A Timeline of Critical Decision Points

The analysis across the volume identifies a dense cluster of critical decision points in the period 2025-2035. These decision points are not independent; they are interlocking components of a single, integrated decision.

The following timeline synthesises the decision points identified in each chapter:

2025-2026: - The post-2027 MFF negotiation and design (Sections 3, 4, 5, 6, 7, 8, 9, 10, 11) - The political decision on the EDIS / banking union completion model (Sections 3, 4) - The first full operational cycle of the New Pact on Migration and Asylum (Section 8) - The first full CBAM cycle begins (Sections 7, 9) - The AI Act phased implementation and first enforcement cycle (Section 6) - The political decision on the pace and sequencing of Western Balkan accession (Section 10)

2027-2030: - The outcome of the first full EDF capability cycle and the political decision on scaled-up joint procurement (Section 5) - The evolution of the EU-NATO institutional framework in light of US strategic reorientation (Sections 5, 9) - The political decision on QMV in CFSP or expansion of enhanced cooperation (Sections 4, 5, 9) - The development of a joint air and missile defence system and naval capability (Section 5) - The design, launch, and governance of the digital euro (Sections 3, 6) - The completion of the grid interconnection and energy infrastructure programme (Section 7) - The political decision on the pace and sequencing of fossil-fuel phase-out (Section 7) - The development of a coherent, mission-oriented EU industrial policy for clean-energy manufacturing (Sections 3, 7) - The institutional response to Ukraine's prospective integration, including the design of the post-war reconstruction framework (Sections 5, 10) - The development of a European public sphere and the regulatory response to disinformation and AI-generated content (Sections 4, 11) - The political decision on reforming the Article 7 procedure and developing a dedicated rule-of-law enforcement mechanism (Section 11)

2030-2035: - The completion of the digital single market and resolution of internal fragmentation (Section 6) - The EU's digital regulatory diplomacy and the evolution of the EU-US and EU-China digital relationship (Sections 6, 9) - The integration of climate and digital data governance (energy data space, digital product passports, battery passports) (Sections 6, 7) - The development of a coherent, integrated EU-level enlargement strategy (Section 10) - The evolution of the EU-Turkey relationship and the political decision on the future of the formal accession process (Section 10) - The EU's role in shaping the post-war global governance architecture (Section 9) - The first full assessment of the New Pact's effectiveness and the political decision on its reform (Section 8) - The development of an EU-level skills-and-migration strategy (Section 8)

The density of these decision points in the 2025-2030 period underscores the central finding of this volume: the choices made over the next five to ten years will determine whether the European project enters its next chapter as a more cohesive and capable polity or retreats into a looser confederation bound by habit rather than conviction.

12.8 Policy Recommendations

The following recommendations are derived from the analyses in the preceding chapters and are structured around the principle that the EU's challenges must be managed simultaneously, not in sequence. They are not a blueprint but a set of priorities and sequencing principles that would increase the probability of the deepened integration or managed differentiation scenarios and reduce the risk of stagnation or fragmentation.

1. Treat the post-2027 MFF as the central instrument of integration. The MFF is not merely a budget; it is the fiscal expression of the Union's political choices. The negotiation of the post-2027 MFF should be approached as an integrated decision that addresses, simultaneously, the design of a permanent European fiscal capacity, a dedicated defence budget line, a scaled-up just-transition fund, a coherent enlargement/convergence funding architecture, and a rule-of-law and fundamental-rights funding architecture. The MFF should be funded by a reformed own-resources system that includes a digital tax, an expanded carbon border adjustment revenue stream, and a financial transaction tax. The political framing of the MFF should emphasise the shared benefits of deeper integration and the costs of inaction, rather than the zero-sum logic of national contributions and receipts.

2. Break the banking union deadlock through a phased mutualisation model. The circularity of risk convergence and mutualisation that has blocked EDIS for over a decade should be resolved through a phased model: a convergence fund in the first phase (2025-2030) that provides a limited mutualisation mechanism conditional on SGP compliance, transitioning to full EDIS in the second phase (2030-2035) as convergence is achieved. This model, as identified in *3. Economic Integration, Monetary Policy, and the Single Market*, is the most discussed compromise and requires a political decision that has not yet been taken. The decision should be taken in the context of the post-2027 MFF negotiation, not as a standalone issue.

3. Reform Council voting rules as a precondition for strategic autonomy. The persistence of unanimity in foreign and security policy, taxation, and social security is the most acute site of the democratic deficit and the most significant constraint on the EU's capacity to act as a coherent geopolitical actor. The political decision on QMV in CFSP, or the expansion of enhanced cooperation as a functional equivalent, should be taken in the

context of the broader institutional reform agenda. The reform should be sequenced to build political confidence: QMV in less sensitive domains first, with a clear timeline for extension to more sensitive domains. The enhanced cooperation mechanism should be reformed to reduce the risk of institutional fragmentation and to ensure that the "two-speed" architecture is perceived as inclusive rather than exclusionary.

4. Develop a coherent, mission-oriented EU industrial policy. The EU's competition-law-based approach to industrial policy is inadequate in the face of US and Chinese state capitalism. The EU should develop a mission-oriented industrial policy that combines the regulatory strengths of the "Brussels effect" with targeted state-directed investment in strategic sectors (semiconductors, clean energy, AI, critical raw materials). The European Chips Act, the Clean Industrial Deal, and the Strategic Technologies for Europe (STEP) initiative should be integrated into a coherent framework with a dedicated budget line in the post-2027 MFF. The EU's 450-million-consumer market offers a scale advantage, but this advantage must be converted into concentrated, mission-oriented investment through a combination of public funding, regulatory leverage, and a reformed competition framework that permits strategic industrial coordination.

5. Formalise the EU-NATO division of labour and build autonomous capability. The EU's strategic autonomy should be pursued not as a substitute for NATO but as a complement to it. The practical division of labour - EU for crisis management, resilience, and non-NATO domains; NATO for collective defence and high-intensity warfare - should be formalised in a joint institutional framework. The EDF should be substantially scaled up and reoriented toward rapid capability delivery. The 30,000-troop rapid reaction force, the joint air and missile defence system, and the naval capability should be prioritised. The nuclear dimension remains a structural gap in the EU's autonomous deterrence posture and should be addressed through a political dialogue that does not require a common nuclear deterrent but establishes a framework for nuclear consultation and coordination.

6. Implement the AI Act as a catalyst for a European AI ecosystem, not merely a regulatory obligation. The AI Act is a necessary but insufficient condition for technological sovereignty. It must be complemented by industrial policy and strategic investment. The EU should develop a "trust premium" AI ecosystem that commands premium value in regulated sectors, while simultaneously reducing the compliance burden on SMEs and start-ups. The digital public infrastructure agenda (EUDI, digital euro, IRIS², sovereign cloud) should be accelerated, and the EU's digital regulatory diplomacy should be coordinated with its broader geopolitical strategy.

7. Scale up the just-transition funding and integrate it with the demographic and social policy agenda. The Just Transition Fund and the Social Climate Fund are necessary but insufficient for the 120 identified transition territories. The just-transition challenge should be integrated with the demographic and social policy agenda, with targeted place-based investment in the most affected regions that addresses, simultaneously, the energy transition, the digital transition, the industrial restructuring, and the demographic contraction. The intergenerational equity question should be addressed through a reformed pension and healthcare architecture that is coordinated at the EU level.

8. Treat migration as a labour-market instrument and develop a coherent skills-and-migration strategy. The New Pact on Migration and Asylum should be operationalised with a coherent skills-and-migration strategy that treats migration as a labour-market instrument, not merely a security and humanitarian challenge. The strategy should address, simultaneously, the demographic contraction of the working-age population, the AI-driven digital disruption, and the green transition's reallocation of employment. The external dimension of migration should be managed through credible partnerships with countries of origin and transit, contingent on the EU's capacity to offer credible incentives and the domestic conditions in partner countries.

9. Strengthen the rule-of-law enforcement mechanism and develop a European public sphere. The rule-of-law architecture should be strengthened through a reformed Article 7 procedure, a dedicated rule-of-law enforcement mechanism with powers independent of Council political will, and the consistent application of the conditionality mechanism to both candidate and existing member states. The development of a European public sphere - through a reformed electoral system, transnational lists or a pan-European campaign framework, and a regulatory response to disinformation and AI-generated content - should be a priority. The degraded information environment is a structural threat to democratic resilience, and the DSA and AI Act address the problem only at the regulatory margin. The deeper challenge is structural: the output deficit of the Union provides the fuel that disinformation and populist movements exploit.

10. Approach enlargement as a strategic instrument, not a technical process. The enlargement policy should be reoriented from a technical, chapter-by-chapter process to a strategic instrument that addresses, simultaneously, the institutional, economic, security, and normative dimensions of accession. The Western Balkan accession processes should be accelerated, with a clear timeline and credible conditionality. Ukraine's prospective integration should be managed through a sustained institutional framework that goes well beyond

the traditional enlargement toolkit, including a post-war reconstruction framework, the extension of the security architecture, and a managed transition to the single market. The rule-of-law dimension of the enlargement process should be applied consistently, and the EU's normative credibility should be reinforced by the credible prospect of further enlargement.

12.9 Final Reflection: The European Project at Its Next Inflection Point

The European Union in 2040 will not be the European Union of 2025. The choices made over the next decade - on fiscal governance, defence, digital regulation, climate policy, migration, enlargement, and the democratic compact - will determine the form that the Union takes. The four scenarios presented in this section are not predictions but structured projections: plausible configurations that emerge from different combinations of the decisions identified in the preceding chapters. The probability of each scenario is a function of the political choices made by the member states, the European institutions, and the citizens of the Union.

The central finding of this volume is that the EU's challenges are simultaneous, interlocking, and mutually reinforcing. The energy shock, the fiscal divergences, the great-power competition, the technological disruption, the demographic contraction, and the democratic backsliding do not arrive in sequence; they impinge on one another. No single policy domain can be reformed in isolation. The post-2027 MFF, the completion of banking union, the design of a coherent defence architecture, the implementation of the AI Act, the first full CBAM cycle, the operationalisation of the New Pact on Migration, and the institutional response to Ukraine's prospective integration are not independent workstreams but interlocking components of a single, integrated decision.

The EU's strengths are real and significant. The 450-million-consumer single market, the most comprehensive regulatory architecture in the world, the "Brussels effect" in digital, climate, and trade policy, the normative influence of the Union's foundational values, and the institutional capacity demonstrated in the crisis years of 2020-2025 are assets that no other polity in the world possesses. The EU's regulatory leverage, its market scale, and its normative credibility provide a structural advantage in a multipolar world. But these advantages are conditional: they depend on the competitive performance of European firms, the internal cohesion of the Union, the political legitimacy of its institutions, and the capacity of the Union to manage the simultaneity of its challenges.

The EU's vulnerabilities are equally real. The structural asymmetries in fiscal capacity, industrial competitiveness, and demographic profile; the persistence of unanimity in the most sensitive policy domains; the "sovereigntist centre" within mainstream parties; the 30-35% populist electoral share; the degraded information environment; and the absence of a European public sphere and a European demos are constraints that define the political space within which reform must occur. These constraints do not preclude reform, but they require a political strategy that is coherent, sequenced, and credible.

The European project, as *1. Introduction: The EU at a Crossroads* framed it, is at a pivotal juncture. The choices made over the next decade will determine whether the Union enters its next chapter as a more cohesive and capable polity, extended to encompass the full range of its European neighbours, or retreats into a looser confederation bound by habit rather than conviction. The scenarios presented in this section are not a choice between utopia and catastrophe; they are a map of the possible, defined by the decisions that will be made in the years ahead. The map is not destiny. The EU's history, from the 1951 Treaty of Paris through the successive treaties and six waves of enlargement, is a history of incremental, non-linear integration driven by the capacity of its institutions and its citizens to respond to crisis with reform. The present juncture is the most complex in that history, but it is not the last. The European project, like the Union itself, is a work in progress. The question is not whether the EU will change, but in what direction, and at what speed, and with what degree of coherence. The answer to that question will be written in the decisions of the next decade.