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DRIVERS OF ECONOMIC RISK AND SCENARIOS FOR THE EU

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REBUILDING GOVERNANCE AND RESILIENCE OUT OF THE PANDEMIC

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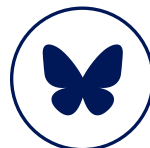
Culminating more than a decade of crisis in Europe, the Covid-19 pandemic has opened an important window of opportunity for institutional and policy change, not only at the "reactive" level of emergency responses, but also to tackle more broadly the many socio-political challenges caused or exacerbated by Covid-19. Building on this premise, the Horizon Europe project REGROUP (*Rebuilding governance and resilience out of the pandemic*) aims to: 1) provide the European Union with a body of actionable advice on how to rebuild post-pandemic governance and public policies in an effective and democratic way; anchored to 2) a map of the socio-political dynamics and consequences of Covid-19; and 3) an empirically-informed normative evaluation of the pandemic.



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Executive summary

Faced with unprecedented economic, technological and geopolitical challenges, the European Union (EU) must strengthen its resilience and influence to remain competitive in a rapidly changing world. This focus paper analyses the main economic risks that could affect the EU between now and 2035. The EU faces a combination of internal and external risks, including low productivity, an ageing population and technological backwardness, which are holding back its competitiveness. Its energy dependence, increasing geopolitical tensions and fragmented globalisation compound these vulnerabilities, affecting its economic security, consumer confidence and business value chains. These factors, exacerbated by climate and digital challenges, threaten economic growth and long-term stability. To summarise these risks, this focus paper identifies five drivers: (1) geopolitical instabilities, (2) globalisation dynamics, (3) environmental pressures and climate change, (4) social risks and human insecurities, and (5) technological and digital transformations.

To meet these challenges, the EU must:

- Prioritise the integration of the single market: harmonise regulations in key sectors (energy, communications, financial markets, state aids) to boost investment and competitiveness.
- Invest massively in innovation: mobilise public and private funds to close the technology gap, particularly in artificial intelligence, green technologies and cyber security.
- Diversify and secure its supply chains: strengthen partnerships with countries in the Global South and invest in Europe's refining and production capacity. Group purchases of raw materials, such as gas, can improve resilience.
- Strengthen the energy transition by accelerating the development of local renewable energy sources and protecting critical infrastructures against digital and physical threats.
- Support developing countries: via the Global Gateway, promote sustainable and inclusive infrastructures while supporting partner countries in their ecological and technological transition.
- Strengthen global governance: promote fair and sustainable trade rules in multilateral institutions and propose a Global Forum on Trade, Development and the Environment.

Keywords: European Union; European governance; European integration; resilience; global risks; competitiveness

Introduction[1]

An economic risk is defined as a factor that can adversely affect an economy, an economic aggregate (growth, prices, investment, consumption, foreign trade) or a sector of the economy by creating an economic crisis (such as a recession, inflation or deflation, unemployment, or bankruptcies). Economic analysis, particularly the work of Paul Krugman (2008), has taught us that if economic crises keep recurring, they are almost systematically the result of recurrent factors and risks (speculation, large-scale risk-taking, herd behaviour, a lack of regulation and risks connected to moral hazards, the absence or failure of international coordination) that lead to the same mechanisms (panics, liquidity traps and a chain of payment defaults, supply and/or demand shocks, economic and/or financial crises).

Globalisation has accelerated the spread of these risks and the contagion of crises at the world level, making developing countries more vulnerable to these economic risks as they become integrated into international trade flows. The EU, for its part, has always been highly integrated into the global economy through its commercial, financial and energy dependencies and interdependencies. The 2008 crisis is a perfect illustration of this since the 'almost insignificant' collapse of Lehman Brothers, the fourth-largest US investment bank, led to a major debt crisis in Europe, threatening the very viability of the eurozone.[2] The EU proved to be far less resilient to this major financial crisis than other regions of the world. It did not exceed its 2008 GDP (i.e. before the crisis) until 2018, whereas the United States, where the crisis began, managed to do so as early as 2010.[3]

The COVID-19 pandemic and the war in Ukraine have shown that the risks that can impact economies are now much wider than just economic ones. After the double shock to supply and demand caused by the COVID-19 lockdowns, the Ukraine war has turned out to be the first war of globalisation, leading to accelerating inflation around the world, the risk of agricultural product shortages and the destabilisation of supply chains already impacted a few months earlier by the pandemic and threatened for several years by the strategic confrontation between China and the United States. Here again, Europe has proved far more fragile than the rest of the world, notably the United States, in the face of these shocks from health and strategic risks. In 2023, Germany was the

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2. As a reminder, at the time of its collapse in 2008, Lehman Brothers had assets of $639 billion and was only the fourth-largest US investment bank behind Goldman Sachs, Morgan Stanley and Merrill Lynch and far behind the largest European banks. BNP Paribas and Deutsche Bank, for example, had more than $2 trillion at that time.

3. 'World Economic Outlook Databases', International Monetary Fund, last modified October 22, 2024. https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending.

only country in the world in recession, while the United States posted GDP growth of 2.5% (probably higher than China's real economic growth).

We, therefore, need to take into account a wide range of factors which may have different consequences for macroeconomic aggregates. Examining global governance and resilience in the face of these risks involves considering both these factors and their consequences. This focus paper thus begins by analysing the economic risks facing the EU and then draws up a typology of risks according to their nature. Resilience can result from managing both the risk and its consequences. By cross-referencing these elements with the four prospective governance scenarios developed by Victor Burguete (2024) in the first foresight paper of the REGROUP project, we then attempt to define the European economy modalities of resilience, the anticipation of global crises and the EU's influence on strengthening global governance.

Europe today faces a wide range of economic risks

In its latest report on the European economy, the International Monetary Fund highlights that, while economic recovery is underway in Europe, it remains below potential due to persistent uncertainties.[4] One of the primary causes of this sluggishness is the war in Ukraine, which continues to undermine the confidence of economic agents. Internal factors—such as political crises in major European countries like France and Germany—combined with international uncertainties, including ongoing conflicts and the impact of Donald Trump's re-election, are further exacerbating economic instability. These factors weigh heavily on household and business expectations, dampening both consumption and investment.

The IMF report identifies several key challenges facing the European economy:

- **Persistent sectoral inflation**, which remains high and is still largely driven by external factors—particularly energy prices, given Europe's dependence on imported oil and natural gas.
- **A concerning level of public debt** in several countries, notably Italy and France, raising questions about debt sustainability and the broader stability of the eurozone.

4. 'Regional Economic Outlook for Europe: A Recovery Short of Europe's Full Potential', International Monetary Fund, October 24, 2024. https://www.imf.org/en/Publications/REO/EU/Issues/2024/10/24/regional-economic-outlook-Europe-october-2024#:~:text=A%20Recovery%20Short%20of%20Europe's%20Full%20Potential,-Listen%20with&text=In%20the%20longer%20term%2C%20perennially,to%20navigate%20an%20uncertain%20environment.

- **Increasing global competition and more attractive economic policies outside the EU**, which have slowed investment and, in some cases, led to capital outflows—illustrated by the impact of the Inflation Reduction Act (IRA) in the United States.
- **A fragmenting geopolitical environment,** with the war in Ukraine, ongoing instability in the Middle East, and escalating tensions between China and the United States due to Donald Trump's return to power.

Investment remains weak and insufficient to sustain economic recovery and to finance major challenges ahead, notably increasing the EU's technological innovation capacity. The Draghi report (2024) warns that the EU faces an existential challenge as its economy stagnates. EU GDP per capita is growing more slowly than that of the United States, primarily due to a widening productivity gap. This gap is exacerbated by Europe's lag in digital technologies and the energy transition—two critical drivers of future economic growth. Without corrective action, this situation is set to deteriorate further, particularly given demographic constraints linked to an ageing population.

The Letta report (2024) argues that completing the integration of the single market in three key sectors—energy, communications, and financial markets—is essential to reversing this decline. Strengthening these sectors would not only bolster the European economy but also enhance its strategic autonomy and defence capabilities.

In sum, the economic risks facing Europe can be categorised into medium-term (5 years) and long-term (more than 10 years) challenges. The following table outlines some of these risks.

Table 1: Illustration of the economic risks that could affect the EU's economy

	Medium Term Risks[5]	**Long Term Risks**[6]
Growth and productivity	**Low competitiveness** and industrial decline driven by high energy prices. **Lack of investment** in future technologies and critical infrastructure.	**Fragmentation of globalisation** and economic decoupling leading to disruptions in the supply chain. An **ageing population** and a shrinking workforce straining labour markets and economic growth. Persistent weaknesses in investment, particularly in infrastructure and innovation.

5. Medium-term risks are generally linked to cyclical events or structural developments that have already begun to produce visible effects but could be corrected, mitigated, or amplified by economic and political decisions in the coming years.
6. Long-term risks are closely related to the structural dynamics of economic transformation, often driven by deep-seated trends that are difficult to reverse without large-scale reforms.

	Medium Term Risks[5]	Long Term Risks[6]
Price levels	**Inflation** driven by multiple uncertainties. **Intensified geopolitical tension** resulting from competition for resources and trade.	**Deflationary pressures** caused by an ageing population and sluggish consumer demand.
Energy transition	**Temporary shortages of energy and raw materials essential for the green transition**, contributing to energy price inflation.	**Growing threats to energy infrastructure**, including cyberattacks and sabotage.
Public finance	**Debt sustainability risks**, compounded by rising climate-related expenditures and growing public deficits. **Insufficient public investment in technological innovation and infrastructures**, limiting its multiplier effect on private-sector investment.	**An ageing population driving ever-increasing public expenditure**, particularly in pensions and healthcare.
Euro	High market volatility fuelled by international uncertainties (globalisation and geopolitics). **A more expansionary US monetary policy**, leading to an overvaluation of the euro, weighting on European competitiveness and exports.	**Structural euro depreciation**, driven by prolonged economic stagnation, recurring public debt crises, and weakened investor confidence. **The increasing extraterritorial reach of the US dollar**, combined with the gradual internationalisation of the yuan in emerging markets, undermining the euro's global development and limiting its use beyond the EU's borders.
Foreign trade	**Rising trade tensions and protectionism**, disrupting global supply chains and market access. **A sharp increase in Chinese imports**, intensifying competitive pressure on European industries. **Gradual erosion of the EU's trade surplus**, driven by its inability to maintain strong trade relations with key partners.	**Fragmentation of globalisation and a structural slowdown in global trade increase**, weakening Europe's export-driven growth. **Declining EU trade and shrinking global market share**, reducing Europe's global economic influence.
Security of supply	**Intensifying competition for raw materials**, fuelling inflation and sector-specific shortages. **Challenges in reindustrialisation**, hindered by economic and technological stagnation, rising trade barriers, and frequent supply chain disruptions caused by geopolitical tensions and climate-related shocks.	**Global trade fragmentation and geopolitical instability**, limiting Europe's access to essential natural resources. **Growing dependence on a limited number of suppliers**, making Europe highly vulnerable to even minor supply chain disruptions.

Source: Jacques Delors Institute (2025).

Economic risks in a more complex world: What are the drivers?

In an increasingly globalised world, the factors influencing economic dynamics have become significantly more diverse. These factors can be **sectoral, national, regional, or global**, with repercussions at all four levels.

For the EU, economic risks can be categorised as:

- **Endogenous risks** stemming from structural weaknesses within European integration or specific economic challenges faced by individual countries or regions.
- **Exogenous risks** arising from external shocks beyond the EU's control, whether geopolitical, financial, or environmental, and independent of political decisions within the Union or any of its member states.

Figure 1: The five drivers of economic risk

Source: Jacques Delors Institute (2025).

Geopolitical instabilities

Geopolitical risks encompass situations or events arising from political, economic, or social dynamics between states or regions. These risks can disrupt international stability and security (e.g., inter-state rivalries, wars) as well as the economic, social, or strategic interests of both public and private actors. They are often triggered by political

decisions, shifts in governance, or internal tensions (e.g., social movements, uprisings, regime changes), with regional or global repercussions.

In today's globalised world, local crises—such as political instability in a single country—can have far-reaching consequences, including market disruptions, energy shortages, and inflation. Moreover, geopolitical tensions frequently lead to retaliatory measures such as embargoes, sanctions, or cyber threats, amplifying their economic impact. Armed conflicts can also destroy critical infrastructure, disrupt supply chains, and trigger large-scale migration flows, further exacerbating economic and social instability.

Dynamics of globalisation

The risks associated with globalisation stem from two opposing trends: the deepening of global economic integration over the past 30 years and a recent shift towards protectionism and economic fragmentation.

The first trend—marked by the expansion of global value chains—has increased interdependence among economies. The COVID-19 pandemic exemplified the vulnerabilities of this system, as lockdowns caused severe supply chain disruptions, leading to shortages (e.g., masks, automotive components) and fuelling inflation. Globalisation also accelerates the spread of crises: the 2008 financial crisis, which originated in the United States, rapidly escalated into a global economic downturn, severely impacting international trade.

More recently, growing concerns over economic dependencies—alongside escalating US-China tensions—have prompted a shift towards re-globalisation with circumvention and intermediation along supply chains. Various policies and trade barriers have slowed global trade growth, reshaped value chains, and contributed to a growing technological decoupling of the US and China. While aimed at reducing vulnerabilities, these shifts have also increased production costs, exacerbated inflation, heightened financial market volatility, and curtailed foreign investment, limiting growth prospects in many countries.

Social risks and human insecurities

The concept of human security, as defined by UN Secretary-General Boutros Boutros-Ghali in 1992, is a crucial pillar of global stability and economic resilience. The 1994 UNDP Human Development Report defines human security as 'protection against chronic threats such as famine, disease, and repression, and against sudden disruptions to daily life affecting homes, workplaces, and communities'.

In addition to these threats, inequality, lack of education, and limited healthcare access further exacerbate economic and social vulnerabilities. Human insecurity manifests in various forms, such as food crises and social unrest, which can trigger political instability, forced migration, and even armed conflict. These factors amplify the economic impact of pandemics, natural disasters, and geopolitical tensions, creating compounding risks.

Furthermore, investor confidence is highly sensitive to instability. Capital tends to flee regions plagued by insecurity, reinforcing a vicious cycle of underdevelopment, economic stagnation, and instability—all of which intensify economic risks. One particularly pressing concern is population ageing in the world's largest economies. A declining workforce, coupled with rising healthcare and pension costs, is straining public finances and threatening long-term economic growth.

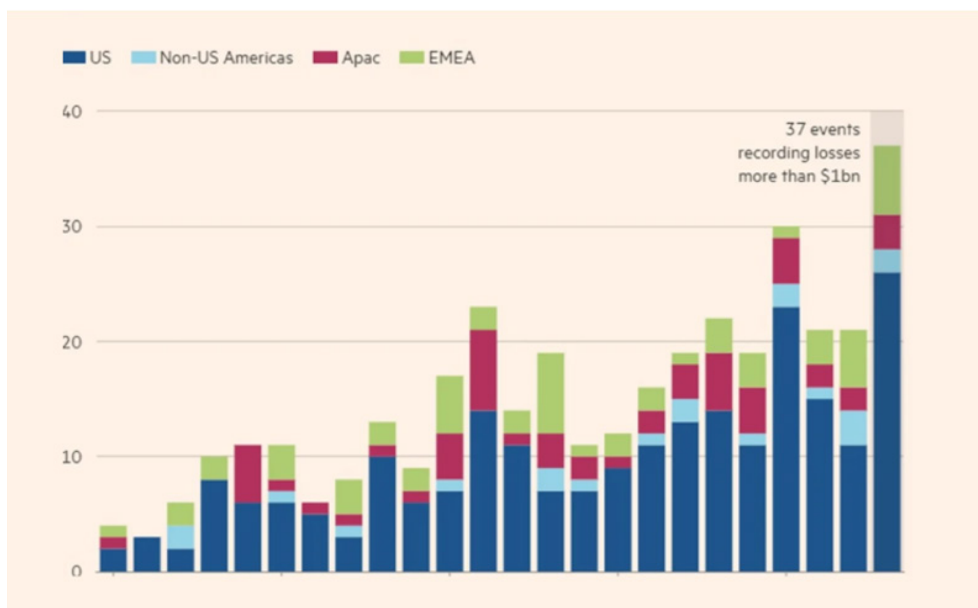
Environmental pressures and climate change

The economic impact of climate change is becoming increasingly evident, particularly in the insurance sector. The growing frequency and severity of climate-related disasters have led to soaring costs. In France, for instance, Caisse des Dépôts estimated that climate-related insurance claims surpassed €6.5 billion in 2023, with projections indicating a 50% increase in costs by 2050.

Climate risks not only affect private sector investment—contributing to market volatility, capital flight, and financial instability—but also place significant pressure on public finances. Rising expenditures on disaster recovery and climate adaptation strain national budgets, exacerbating public debt and diverting resources away from critical sectors such as infrastructure, education, and healthcare.

As climate-related costs escalate, the risk of economic destabilisation grows, particularly for vulnerable economies. Addressing these risks requires substantial investment in resilient infrastructure, green technologies, and climate adaptation strategies to mitigate long-term financial and economic consequences.

Figure 2: Costs of natural disasters between 2000 and 2023[7]



Climate hazards cause episodic yet severe damage, with significant economic repercussions for infrastructure, agriculture, and affected populations. However, the impact of global warming is far more structural, leading to a gradual decline in productivity across multiple sectors. In agriculture, land productivity is deteriorating due to biodiversity loss, ecosystem degradation, water scarcity, extreme heat, and climate-induced disasters. These challenges threaten food production, driving up prices and increasing the risk of food insecurity and famine. In labour markets, extreme heat reduces productivity, particularly in already hot regions. It also burdens healthcare systems and contributes to lower economic growth and seasonal labour shortages in key industries.

Climate change is reshaping economic dynamics through the policies adopted to mitigate it. These transformations create both opportunities and tensions:

- Global competition for leadership in decarbonised industries, such as electric vehicles, is intensifying.
- Access to critical raw materials—essential for green technologies—is becoming a strategic economic and geopolitical issue.
- Financial markets are adjusting, as investors anticipate that some assets (e.g., fossil fuels) will lose value ('stranded assets') while others may fuel speculative bubbles.
- Regulatory measures designed to accelerate adaptation—such as carbon border adjustment mechanisms (CBAM)—can also create economic imbalances and trade distortions.

7. Ian Smith, Attracta Mooney, Aime Williams, 'The uninsurable world: what climate change is costing homeowners', Financial Times, February 13, 2024.

Beyond climate change, human development is placing unsustainable pressure on global ecosystems. In 1972, the Meadows Report (*Limits to Growth*) warned of the planet's finite resources. By 2023, five of the nine planetary boundaries had been exceeded. From an economic perspective, these environmental breaches are intensifying resource scarcity, leading to:

- Supply chain disruptions due to depleted raw materials.
- Increased inflation driven by the rising costs of essential goods.
- Productivity declines as resource constraints limit industrial and agricultural output.

Without urgent structural adjustments, these mounting pressures will further destabilise economies, exacerbating long-term financial and social risks.

Technological and digital transformations

Beyond the economic stagnation currently weighing on the European Union's growth, digital technologies introduce a range of risks that threaten both economic stability and societal resilience.

- Social networks have become prime platforms for foreign interference and manipulation, posing a direct threat to democratic processes. At the same time, they serve as powerful vectors of disinformation, which can destabilise businesses and mislead consumers, undermining market confidence.
- Cyberthreats have intensified in recent years, with attacks increasingly targeting critical infrastructure and key economic players, posing significant risks to financial stability, energy networks, and public services.
- The rise of cryptocurrencies presents additional vulnerabilities. While they offer financial innovation, they also fuel highly volatile speculative bubbles, increasing financial market instability. Furthermore, their use in illicit transactions, including money laundering and criminal financing, raises concerns over regulatory oversight and security.

As digital transformation accelerates, mitigating these risks is essential to safeguarding both the economic and geopolitical stability of the European Union.

How do we deal with economic risks under different global governance scenarios?

Figure 3: Four plausible ten-year scenarios regarding the EU's role in global governance reform

Source: Burguete (2024)

The disruptive impact that Donald Trump's re-election is expected to have on bilateral relations and the global economy has increased geopolitical and climate change risks and suggests a highly unpredictable reshuffling of globalisation.

We already consider that, among the four scenarios shown above, the green globalisation (B) scenario seems unlikely by the time frame considered in this paper. It would be the most beneficial to the EU, allowing it to capitalise on its pioneering engagement in the fight against climate change and the decarbonisation of its economy. However, the US's exit from the Paris Agreement, its focus on fossil fuel extraction and the erosion of state aid for green technologies will now burden the EU with the responsibility for promoting international emission targets, the comparative disadvantage of the cost of decarbonisation, and third countries' attempts to oppose EU green regulations affecting their access to the single market.

Trump's ambition to rebalance globalisation and his skill in handling the uncertainty caused by tariff threats compel Europeans to prepare for the three remaining scenarios. They are not mutually exclusive and may even present the EU with coinciding challenges of excessive dependence, economic slowdown and loss of influence. However, it could also expose the EU to different trade-offs in terms of decarbonisation, competitiveness, sovereignty, and security.

In a scenario of a South-South integration dominated by China (A), the EU faces the risk of being isolated, with notably less access to critical raw materials. Giving priority to decarbonisation could be achieved at the expense of eroding the EU's economic security with more reliance on Chinese technologies or critical components. Preserving the EU's competitiveness would require a strong engagement with emerging economies.

In the scenario of a world fragmented by protectionism, economic coercion and an escalation of retaliatory measures ranging from trade to currency adjustments (C), a great deal of instability could force third countries to align with one of the blocs, the US or China. This scenario would affect the global economy. Additionally, the EU's dependence on NATO security guarantees and foreign supplies of energy and digital technologies would make it even more difficult to navigate between the US and China. The EU's decarbonisation, competitiveness and economic security would be at risk.

By default, the EU could seek to favour a scenario of complex prosperity or competitive coexistence (D) while also preparing for the risk of a US-China rivalry that does not rule out a bilateral agreement at the expense of the EU's interests. This scenario could affect the EU's competitiveness with the gap in economic growth widened by the US and China's mastery of artificial intelligence.

Recommendations to ensure the EU's resilience and encourage the strengthening of global governance

A distinction can be made between actions aimed at preventing a scenario, particularly one that poses the maximum economic risk to the EU (C), and those that would allow the EU to mitigate certain critical risks (D) or adapt to any of these scenarios.

The first priority should be to increase the EU's competitiveness as a precondition for sustainable decarbonisation that does not jeopardise the EU's economic security by increasing dependence on Chinese green technologies or US digital technologies.

1. Prioritise the integration of the single market and maintaining social cohesion.

The need to address the risks associated with an increasingly unpredictable global environment puts the EU at a crossroads between integration and disintegration. A lack of unity among the 27 member states in dealing with Trump's offensive measures could expose Europeans to doubts about the existential purpose and benefits of the EU and risk fragmentation. Inflation caused by protectionist or coercive measures would benefit extreme parties and undermine the cohesion of the EU. Working to ensure social

and political cohesion is, therefore, a priority. Enrico Letta's report (2024) on the single market argues that it must be completed in order to maintain social cohesion and relaunch the European economy. Draghi's report (2024) and the European Commission's Competitiveness Compass (2025) also recommend prioritising the integration of the single market. Indeed, the IMF's analysis suggests that reducing barriers to intra-EU trade to a level comparable to that between US states could raise productivity by almost seven percentage points in the long run. Measures such as the creation of a European company code and a simplified legal system for small and medium-sized enterprises (28th state) should be adopted quickly; a genuine savings and investment market should be created to keep European savings in Europe and ensure better private financing of the necessary investments; innovation should be promoted by introducing a fifth freedom for research and innovation to encourage cooperation and knowledge transfer between Member States; and interconnections in the energy, transport and communications sectors should be strengthened. With regard to cohesion and the reduction of inequalities, Letta's proposal to guarantee the 'freedom to remain' by investing in high-quality services of general interest, especially in regions lagging behind in their development, and to support cross-border education and the democratisation of mobility through initiatives such as Erasmus for All, should be considered.

2. Ensure the EU's technological innovation.

The Commission aims to equip the EU with a strong industrial policy, coordinated with an offensive trade policy based on new bilateral negotiations. The EU's relative lag in innovation in digital technologies compared to the US and China and its limited investment capacity require it to be selective in its R&D efforts. Strategic indispensability could be a guiding principle for positioning the EU in global value chains to limit the risk of economic coercion. Europeans must focus on selecting the technological sector in which investment should be strategically prioritised and adopt a sectoral approach involving the ad hoc coordination of offensive and defensive instruments to support innovation capacity, combining foreign subsidy regulation, licensing rights, access to public procurement, tariffs, and local content requirements respecting WTO rules.

These efforts to create an EU innovation ecosystem, along with the increased investment capacity mentioned above, should not preclude maintaining an offensive trade negotiation agenda. The benefits of a more integrated single market should not undermine the benefits of greater diversification of export destinations and supply partners, which remain an economic security concern.

3. Avoid fragmentation of international trade, which would have a massive economic cost for Europe and the rest of the world.

Fragmentation will depend on the US's tariff decoupling strategy. It may target technology sectors or countries—including historical allies—with which the US has a trade deficit or which are being asked to align with US regulations and geopolitical objectives (more specifically, China). It will also depend on worldwide retaliatory actions. In particular, China's economic slowdown and isolation could make it more aggressive through coercive measures or even a takeover of Taiwan.

To avoid an escalation of retaliation and a protectionist backlash, the EU could mobilise countries targeted by Trump's tariffs to agree on reciprocal exemptions from retaliatory tariff increases and limit the negative side effects of other measures.

Moreover, the EU cannot simply take initiatives that comply with WTO rules, lest China strengthen its leadership over the countries of the global South by presenting itself as the sole guarantor of a rule-based order that protects the least-developed countries. The EU should support the establishment of a multilateral framework for subsidies that provides greater flexibility for climate change mitigation to limit its negative impacts. Finally, a plurilateral system of rules agreed upon by WTO members without the United States should be considered.

4. Halt the erosion of Europe's influence with the countries of the South.

Whatever the prevailing scenario, the EU must prevent the concentration of the critical minerals value chain in the hands of China, benefit from the demands of a growing middle class in the South and maintain its influence in reforming multilateral governance as the United States withdraws. Since the first trade war provoked by Trump in 2018, China has multiplied its trade agreements (with 17 new partners, including the 14 Asia-Pacific countries in the RCEP agreement) and investments (particularly in Latin America, especially Brazil).

The Commission has already committed to increasing the number of agreements on key commodities, as recommended in the CRMA law of April 2024, to avoid export monopolies and other discriminatory measures in the procedures for granting mining concessions. Funding for the Global Gateway initiative will also be redirected towards securing key commodities and refining partnerships. However, R&D efforts and the EU's high ESG standards when developing mining and refining capacity domestically or with partners in the South still leave the door open for China and the US to take over more quickly. To make these investments more attractive, increase economies of scale, and use the weight of the internal market in negotiations with southern countries, the EU should set up group purchases of minerals, as has been done for natural gas. While Chi-

na intends to export its technologies to the countries of the South, the EU must develop an alternative strategy of joint development that would eventually enable the southern countries to acquire control of these technologies.

5. Counter criticism of green regulatory protectionism by promoting dialogue on trade, environmental and development issues.

In the event of brutal power rivalry (scenario C) leading to aggressive measures from Washington to exempt US companies from EU green regulations, the 27 member states would need to remain united to support a firm pushback from the Commission, with buffers planned to offset potential economic costs.

Scenarios A and D would also require the EU to counter criticism of green regulatory protectionism by adopting a balanced and concerted approach to its trade, environmental, and development objectives, a strategy that is open, pragmatic, and inclusive. In this way, it will be able to demonstrate that its environmental measures are not aimed at restricting trade but at building a more sustainable and fairer global economy. To achieve this, it must continue to align its trade policy with its climate objectives through the trade agreements it concludes, but it must also strengthen the development dimension through partnerships and technical and financial assistance to help developing countries achieve the necessary environmental standards, thereby reducing the risk of measures being perceived as protectionist. From this perspective, the Global Gateway can be an appropriate instrument. It can focus on promoting sustainable and inclusive infrastructure, encouraging the development of sustainable supply chains, or providing technical and financial support to countries in the South to adapt to climate change. It could also work towards coordination between the EU and the Global South by creating a global forum within the WTO involving the Committees on Trade and Environment (CTE) and Trade and Development (CTD).[8]

6. Diversify and secure supply chains, reducing energy dependence.

Each scenario calls for reducing the EU's energy dependence, which has shifted from Russian gas to US LNG. Europeans need to move towards greater integration of the European energy market, following the example of Jacques Delors' project for a European Energy Community in the early 2010s. This ambitious project aimed to ensure Europeans' energy security, promote a sustainable energy transition and strengthen European integration in this strategic area. Among other things, it aimed to reduce Europe's energy dependence on external suppliers by diversifying sources and improving infrastruc-

8. Pascal Lamy et al. 'The Case for a Global Triangle Forum at the WTO', TESS Forum, September 12, 2023. https://tessforum.org/latest/the-case-for-a-global-triangle-forum-at-the-wto.

ture (such as natural gas pipelines and interconnected electricity grids), accelerate the development of renewable energies (solar, wind, and biomass), promote energy efficiency in all sectors of the economy, establish common governance to pool resources, harmonise national energy policies and protect the most vulnerable countries in the event of a supply crisis. It also provided for the creation of a financial framework to modernise energy infrastructure (smart grids and cross-border interconnections) and promote innovation in low-carbon technologies.

Beyond energy alone, this project can also inspire steps to improve the security of supply chains, and it also aligns with the second recommendation to 'halt the erosion of Europe's influence in the countries of the South' and complements the momentum that should result from the creation of the post of European Commissioner for International Partnerships.

While many of the technicalities of these initiatives remain challenging, the main risk for Europeans is addressing the European Council's lack of cohesion in equipping the EU with economic statecraft capabilities that go beyond the market economy rules on which the EU was built.

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