



# **HOLDING A MIRROR UP TO EUROPE:**

## **PROSPECTS FOR PROGRESS AFTER THE EUROPEAN ELECTIONS**

**SECOND UPDATED EDITION**



# HOLDING A MIRROR UP TO EUROPE: PROSPECTS FOR PROGRESS AFTER THE EUROPEAN ELECTIONS<sup>1</sup>

**AVANZA**

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<sup>1</sup> This is an updated edition of the AVANZA report “EUROPE IN FRONT OF THE MIRROR: ITS ROLE IN THE WORLD”

© de esta edición, septiembre 2024



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Edición  
Editorial Pablo Iglesias

Impresión  
Nemac comunicación, servicios editoriales

ISBN: 978-84-123909-7-1  
Depósito legal: M-12548-2024

Imágenes de portada:

Guerra y Paz (2022)  
Acrílico sobre lienzo  
97x130 cm

Fran Mlguel Lara (Madrid, 1972)

Fran Miguel Lara uses the digital drawing technique to tell entire stories in a single image and also creates works on canvas without abandoning the modernity that characterizes him.

The power of communication and imagination that exists in Lara's works is what connects him directly with the spectators, who, when looking at any of his works, enter the artist's imagination to develop their own and become protagonists of the interpretation –individual or collective– of each of the works.

The works of Fran Miguel Lara can be classified in the concrete art movement, a trend of abstract art. The lines and colors are concrete by themselves. Form predominates over color and uses flat colors. He also falls within abstract figurativism, because when he represents images they are depersonalized.

These works reproduced in this report belong to the private collection of Margarita Asuar, curator of Lara's individual exhibition titled "Imagina...", where the artist recalled the universal song for peace and hope, always so necessary, with modern digital drawings and blank canvases, black with great power of expression and silence to leave space for the thoughts of those who see his works.

Black and white are the contrast of peace and war, of abundance and poverty. It is the dichotomy with which to make us reflect.

Margarita Asuar

"A line drawn at random on a blank piece of paper will always be better than any perfectly planned line of fire."

Fran Miguel Lara

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## PRESENTATION

After the European elections in June 2024, “a Europe that has just celebrated the 80th anniversary of D-Day on the beaches of Normandy –the beginning of its liberation from war, nationalism and fascism– is today once again confronted with fascism, nationalism and war.” This clear and forceful sentence by Timothy Garton Ash <sup>1</sup> succinctly expresses the challenge that European construction confronts today.

Although the results of the elections are clear and the pro-European forces remain the majority in the new European Parliament, probably one of the most notable results of the last elections is the advance of the populist and illiberal extreme right that wants less immigration, a halt to the policies of de-carbonization, denies priority to the territorial integrity of Ukraine and wants to dismantle the Union from within, weakening integration and returning powers to the States.

If progress is to be made in confronting what the populist forces propose it will be useful to reflect on the major challenges that Europe currently faces. The more clarity one has regarding a situation, the more quickly one can come up with solutions.

Furthermore, it is necessary to reconsider these challenges with ambition and vision. On many occasions reflections on Europe's future are too introspective, dominated by issues that have arisen from the European construction of its own internal development processes. But today Europe faces a global scenario in profound and accelerated change in which the global South is growing in assertiveness and the global North in diversity, and where tensions regarding the world order and its leadership are increasing. In this new situation the question of whether Europe is really in a position to compete in influence and global alliances with the US and China is truly pertinent. And, looking both inward and outward, it is this criterion we have employed in our examination of the Union's prospects for progress in the new political period 2024-2029.

We have done so with a methodology that we hope can be useful, isolating the dimensions that describe in the most synthetic and comprehensive way the state of the Union and its main internal and external challenges regarding progress.

We have thus defined six dimensions: First, its own economic and social cohesion, a basic condition to increase its strategic capacity and have sufficient potential for global leadership. Second, we analyze a binomial that has become present on a global scale in recent years: how to increase Europe's economic security and, at the same time, maintain an open international market with fair rules of the game for all countries. Third, we consider that, although Europe is at the forefront of combating climate change within its borders, there are still important steps to take to lead this challenge on a global scale. Fourth, we ask whether Europe can become an engine of innovation and technology in the field of artificial intelligence (AI) at a global level. Fifth, in a Europe surrounded by conflict, we address its defence and security. And lastly, we examine Europe's ability to forge alliances with new strategic partners.

In this report we have outlined an analysis framework that, due to time constraints, is not based on new empirical data as would have been our wish since the methodology that we will use in AVANZA will always be based on evidence and data; rather, we have relied on the coordinated and consolidated vision of an interdisciplinary group of experts, the first team formed by AVANZA, on the great challenges that await Europe as it aspires to become a major player on the global stage.

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<sup>1</sup> <https://elpais.com/opinion/2024-06-14/despertad-tras-este-dia-e-europa-vuelve-a-estar-en-peligro.html>



Our aim is not to define policies, much less outline a programme, but to place Europe in perspective with respect to its internal needs and its global challenges, highlighting possible solutions, without descending into problems more closely linked to union governance or detailed policies. Our mandate at AVANZA is to apply a longer-term view of reality and the prospects for progress.

This Report is the result of the collective and intensive effort of a team of multidisciplinary experts, academics and researchers. They are the following: the economists Jonás Fernández and Mónica Melle; academics and experts in international trade Inmaculada Rodríguez-Piñero, Ignacio García Bercero; the academics and professionals experts in digitalization and artificial intelligence Senén Barro, Antonio Bahamonde, Jesús Nieto, Alberto Gago and Juan Gandullo; the experts in green and energy transition in Europe Daniel Gayo with the support of Laura Lasheras; the academics and experts in Defense and Security Ana Botella, Pau Mari-Klose and Domenec Ruiz Devesa; and academics and development experts José Antonio Sanahuja, Alberto Virella, Hana Jalloul and myself. I would also like to thank Arancha González Laya and Alicia García Herrero for their contribution in the fields of economic security and international trade. Allow me here to mention our colleague Adolfo Calatrava, who worked tirelessly on the defence and security aspects of this report and who died suddenly on the day of the European elections, June 9. We would like this report to be a tribute to his memory, a way of expressing our gratitude and in loving memory of the enormous gap that he has left us with.

To all my colleagues, my most sincere gratitude for the effort and work carried out in a very short time, the enthusiasm –even the passion– demonstrated in the countless video-conference sessions we have had, for the generosity both in presenting ideas and in the search for consensus, and above all for the deep conviction that everyone has shown regarding the importance of European social democracy. We think that it is from Europe where the progress of world democracy can best be defended together with social justice, the defence of human rights and a new era of multilateralism. Europe can –and should– demonstrate the strength of social democracy as a global alternative to the new reactionary authoritarianisms that want to take us back to a dark past.

Finally our thanks to CAF, Development Bank of Latin America and the Caribbean, which has sponsored an important part of our effort in examining perspectives in the field of regional alliances, and in particular the strategic alliance between Europe and Latin America and the Caribbean.

Manu Escudero  
Madrid, June 20, 2024



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## EXECUTIVE SUMMARY

At the beginning of this report we have asked ourselves two questions: what are the main challenges in European construction today, and whether Europe can really be positioned as a relevant player on the global scene in a realistic rather than a voluntary manner.

Europe will be able to progress in its construction and be a global player if it undertakes some tasks that it has not yet addressed, tasks that are detailed in this Report. Thus, Europe can increase its strategic investment capacity in the midst of a time of transition with a common fiscal policy and by unifying its banking system and capital market. Europe will be able to consolidate a regulated but open global market, forging a great alliance with emerging countries from the Global South and at the same time launching a new approach to economic security. Europe can continue to lead the fight against climate change not only domestically but internationally by mobilizing private resources via the catalytic action of public funds. Europe can provide a new model of Artificial Intelligence –a Trustworthy Artificial Intelligence– if it perfects its innovation ecosystem. Europe will be able to play a decisive role in determining peace on all its borders if it establishes its own defence and security system, complementary to NATO. Europe can begin a new era of strategic partnerships between equals with the large emerging economies, with Latin America and with Africa, breaking with the paternalistic and extra-activist tradition of the past.

But we must insist it will only be able to undertake these remaining tasks if it maintains its course in the face of the post-democratic authoritarianism that is beginning to appear in various European countries. If the latter makes headway, if the European conservative right accentuates its ideological accommodation to far-right populism, then our analysis is also conclusive: Europe will not be able to progress in its aim to be one of the main actors on the global stage. It will not be able to undertake tasks that ensure the growth of strategic investments to complete the transition against climate

change because populism does not pursue closer European economic integration, and this denial hinders the transition to a de-carbonized economy. Europe will not be able to be a champion of multilateralism either, because populism does not want open markets, but protected ones; Europe will not be able to create the ecosystem it needs to advance our Artificial Intelligence model, because populism does not want more integrated European markets, but rather more national markets; Europe will not be able to integrate supra-nationally in matters of defence and security, because populism does not want to move to a new phase of the European Union, but rather to go backwards. And in terms of strategic alliances, Europe will not look to a convergence between the North and the Global South, because what populism seeks is a return to the old nations, closed in on themselves, with walls against the outside world.

We will review in more detail the perspectives these reforms will open up.

### ECONOMIC POLICY

Europe does not currently have the macroeconomic instruments to compete on equal terms with the US and China. Without them, we are like a wrestling opponent with one hand tied behind their back. However, to the extent that Europe minimally resolves these disadvantages, it will be able to present to the world a model of society and economy with undoubted advantages over the United States and China because it has a powerful social model, with transfer systems and quality public services that ensure well-being for all but also economic and social solidity and stability.

A common fiscal policy is the only way to match the US and China's budget arsenal to finance crucial investments in European public goods (green and digital transitions, and common security and defence). The embryo of fiscal union lies in direct subsidies from the Recovery and Resilience Fund and from the Next Generation Funds being transferred to the Member States. We must



continue building the fiscal union, giving continuity to that embryo and launching a Euro-zone Treasury that will help to finance the additional efforts that must be made.

European taxation: it is crucial for the second element of fiscal union that the EU has a sufficient volume of directly received revenues. The EU should pivot its tax strategy towards harmonizing corporate tax on the large corporations that benefit most from the single market. It would be necessary for at least one percentage point of the minimum corporate rate to directly feed the joint debt amortization strategy of the Next Generation EU. The Union must provide itself with a budget equivalent to 3% of GDP, multiplying the current allocation by three via the generation of its own resources and a harmonization of corporate tax.

Thirdly, it is urgent that Europe mobilize all available private savings to be invested in the European productive fabric instead of being exported to the United States or China. The solutions exist: they involve the unification of the banking and financial systems.

It is also vital to strengthen the single market, putting an end to competition between States—and the inflation of aid from distinct Member States—in order to create a genuine industrial policy that is managed in an integrated way.

Finally, the emerging European economic governance cannot focus solely on macroeconomic and fiscal stabilization without taking into account the social dimension. For this dimension to be on a par with the economic, monetary and fiscal union the EU's social objectives must be mandatory and social indicators must be incorporated into the European Semester process. Maintaining the European social model on the basis of minimum standards throughout the Union, with a solid welfare state and with the objectives of reducing poverty and inequality, constitutes the main strength of the European project compared to the rest of the geographical areas of the world. Only in this way will Europe be able to compete against China and the US based on its own values, converting the continent into a benchmark for economic and social development in the 21st century.

## INTERNATIONAL TRADE

In this area, the comparison between Europe, the US and China is favourable to Europe. Europe has the most open economy, and therefore the one that can best take the lead in maintaining an open, rules-based market. International trade represents more than 50% of the Union's GDP, a much higher proportion than that of the United States (27%) or China (40%). The European Union is the first trading partner for 54 countries compared to 48 for China and 24 for the United States.

Precisely for this reason, the EU is objectively the greatest defender of multilateralism, of maintaining a regulated open market which the countries of the Global South benefit from - open trade being one of the most fruitful paths of industrialisation, productive diversification and sustainable growth. Europe can lead the rollout of a new generation of bilateral trade and investment treaties which will shape the potential strategic alliance that Europe can forge with the countries of the Global South given that they all believe in open rule-based markets and want to ensure that there are no losers in such treaties. In this field, it is also important to take into account the BRICS, maintaining a cooperative relationship within the framework of the political autonomy that we want for Europe.

The European Union must be able to make more strategic use of these agreements to establish authentic regional alliances.

There is a solid basis to form a trade alliance between the European Union and Indo-Pacific countries that establishes a specific framework for resilience and the sustainability of value chains, as well as cooperation on climate change, the digital economy and the reform of the WTO.

But looking beyond the Indo Pacific, it is essential that the European Union establishes strong regional alliances with both Latin America and Africa and effectively supports greater regional integration and an improvement in the insertion of these countries in global value chains that would reduce the risks associated with a concentration



of industrial production in a limited number of countries. The strengthening of regional alliances is both an insurance policy against the difficulties of advancing multilateral reforms, and a guarantee that the Union has sufficient support to promote such reforms.

The European Union must maintain the transatlantic relationship and cooperate with the United States in the development of their respective economic security strategies. But the Union can no longer simply align itself with decisions taken by the United States. All European economic security decision must be based on its own risk analysis and be in accordance with the Union's international obligations.

The European Union should be ready to provide leadership in the WTO reform process. In particular, it should strive to complete the reform of the dispute resolution system as well as advance the negotiation of open plurilateral agreements as the best mechanism to modernize the rules that apply to international trade.

The European Union is in the process of developing an economic security strategy. This entails strengthening the internal market in combination with a more effective industrial policy, as well as implementing and completing the regulatory arsenal and including some new economic elements, such as fiscal union and the integration of the European capital market, which will allow the EU to protect its interests against threats to its economic security. But it is equally essential that the Union strengthens its external strategy to promote the reform of the multilateral system and strengthens its partnerships with the widest possible group of countries –including countries that are reluctant to position themselves in a dynamic of blocs– through strategic agreements linked to the Global Gateway. This is necessary in order to ensure the diversification of supply chains and the availability of critical raw materials (lithium, copper, rare earths, green hydrogen, etc.) and provide mutual benefits for the industrialization and productive diversification of those countries as well as for European supply. The European Union is not only the region of the world that

carries the embryo of social democracy as a solution for countries faced with new threats of populist involution, but also, due to its own structure, carries the nucleus for the defence of open markets and multilateralism.

The European Union has recently adopted a series of measures that demonstrate its willingness to respond to Chinese subsidies that represent unfair competition against European industry without respecting international trade rules.

In contrast to the approach followed by the United States, the measures introduced by the European Union are not in contradiction with WTO rules. Of particular importance is the investigation into Chinese subsidies for electric cars, which will presumably conclude with definitive trade defence measures before the end of the year. It is important that such measures respond effectively to distortions of competition affecting a vital sector of the European economy, while they must be proportionate and not unnecessarily delay the climate transition or interfere with Chinese investment in Europe. China has responded by announcing the launch of investigations that could affect European exports in the agricultural sector. If China adopts restrictive measures against European exports, the European Union should adopt support measures that facilitate access to alternative markets.

In any case, dialogue, fair competition and compliance with the rules-based International Order should be the path of EU-China relations, because the world needs more cooperation and more multilateralism.

## **EUROPE AND THE GREEN AND ENERGY TRANSITION**

Europe is today at the global forefront of climate change. Given that all countries will have to reconvert their economic base, Europe is ahead of the other two powers: China and the USA. Suffice it to say that in this area, between 1990 and 2021 the Union has reduced its polluting emissions by 29.7% and at the same time its GDP has grown by 61%.

However, the effort to achieve climate neutrality goals in 2050 must continue by



means of the deployment of the European Green Deal. To accompany it, new tools have been created to provide financial and technical support to the companies, workers and regions most affected by the green transition. Outstanding among them are the Just Transition Fund (19.2 billion euros) and the Social Climate Fund (86 billion euros), which will allow for the provision of financial aid to households, micro-enterprises, transporters, and the regions most affected by the expansion of the European Emissions Trading Scheme (EU-ETS) to new sectors (land transport and buildings), as well as finance investments for the de-carbonisation of transport, the energetic improvement of buildings and the alleviation of energy poverty.

But although Europe is at the forefront in the fight against climate change, it nevertheless has other challenges to overcome.

The first challenge is to advance the European sustainable and interconnected energy system. Following the illegal Russian invasion of Ukraine in February 2022, the energy transition has become a geo-strategic imperative in Europe's energy system. Greater integration of the European energy market is urgently needed. The unprecedented severity of the energy crisis, exacerbated by the design of the electricity market, brought the integration of the EU energy market to the brink of breakdown. Despite a rapid and effective response to the significant increase in energy prices, European energy costs remain higher than those of our main competitors and our energy dependence creates vulnerability to price shocks.

The second challenge is to set up a new financing system for the investment that is needed in the Global South to stop climate change and develop their economies. Official Development Assistance is insufficient to meet the needs presented by the fight against climate change and the defence of biodiversity, especially when new mechanisms are needed from new public funds to catalyze and mobilize private investment towards the Global South. With this new perspective of resource

mobilization, Europe and its Global Gateway can be pioneers regarding cooperation with the Global South in terms of development and the fight against climate change.

## EUROPE AND ARTIFICIAL INTELLIGENCE

We start from the conviction that, in an era in which technological progress is multifaceted and exponential, the critical element that will determine the progress of other digital technologies is Artificial Intelligence and its infrastructures (cloud computing and quantum computing) and it is on these core elements that we have focused our analysis.

In this report we defend the position that Europe has its own model regarding Artificial Intelligence that is condensed into the concept of Trustworthy AI. This model is based on the following critical aspects:

- Avoid increasing inequalities
- Reduce cognitive dependence on machines
- Protect democracy
- Establish a regulation that guarantees the development of Trustworthy AI
- Anticipate measures to combat technological unemployment and the precariousness of employment
- Guarantee sustainability in the face of the natural resource requirements of AI.

But this model will not be effective or accepted in the world unless Europe sets up an ecosystem with a high innovative potential in Artificial Intelligence that incorporates elements that we already possess, such as talent and data. Regarding the latter, it is essential to build an open data system that can be accessible to researchers and developers but governed by strict privacy and security policies. The EU as a whole can be a world power in data associated with sectors of special interest and social and economic value. The health and well-being sector are paradigmatic, as are public administrations, the financial sector, energy, transportation...

However, there are other crucial elements of the ecosystem that must be generated, such as effective public/private partnerships,



effective venture capital that promotes the innovation of European entrepreneurship, and above all –perhaps the most important aspect that many in Europe for the moment they do not recognise as fundamental– the existence of European technological giant companies, exporting new ways of developing and applying Trustworthy AI to the rest of the world.

## EUROPE AND ITS DEFENCE AND SECURITY

Currently, we must confront the need for a third phase of European integration within a context of profound geopolitical transformation which includes high-intensity conflicts. It can be said that the first phase of European integration was the market, the second the economic and monetary union: the euro. At this present stage it is up to us, for internal and external reasons, to face the need for a greater integration of security and defence policy with ambition and vision. Without this, Europe will have no deterrence capability, and without it, it will be impossible to position itself as the third power in the world on a par with the United States and China.

Russia's actions represent the main challenge to the security and defence of Europe. In addition to Russia, there is another less explicit but enormously threatening challenge to European security that has arisen from our own frontier regions. Hotbeds of tension and conflict have emerged from the Arctic to West Africa. In these neighbouring regions we find a wide range of sources of destabilization: territorial disputes, fight for natural resources, ethnic rivalries, terrorist and armed guerrilla activity, effects of climate change, demographic pressure, lack of economic and job prospects, drug trafficking, arms trafficking, human trafficking, flows of migrants and refugees who risk their lives during long dangerous journeys, etc.

The EU cannot remain indifferent to an environment in which these disturbances have multiplied. Neither can the EU depend entirely on the protective umbrella of the US, questionable in its certainty (especially if there is a Donald Trump victory in November) and in its sufficiency since Washington has

shifted its interest towards the Pacific and does not feel the threat of Russia to the same degree as the Europeans. For all these reasons, achieving the appropriate level of deterrent power is an exercise in strategic responsibility.

In the face of these threats, the defence pillar must be intensified and reinforced to constitute a European defensive system, with major institutional changes at different levels of the European institutions, starting with the Council (Council of the European Union of Defence Ministers), the European Commission (Defence Commissioner) and the European Parliament (Defence Commission), as well as changes to decision-making processes that would avoid deadlock in the area of the CFSP (Common Foreign and Security Policy) and the CSDP (Common Security and Defence Policy).

Likewise, military operations and the defence industry within the territory of the European Union need to achieve greater efficiency and inter-operability, and there is ample room for improvements in their coordination which will not prejudice its strategic association with NATO. An issue that has been identified as one of the main shortcomings of the EU's common defence policy is the lack of a Permanent European Headquarters at a strategic-military level. Similarly, the development of the Rapid Deployment Capability foreseen in the Strategic Compass by ARVP Borrell can serve to establish the embryo of a European Army, under Community command and financed by the Community budget.

Let us start with the proposal of the 28th Army: this force should be unique, permanent and financed from the common budget and, therefore, under Community command and should progressively reach the objective of 60,000 troops set out at the Helsinki European Council in 1999. It would coexist with the national armies of the Member States that would also be part of the Euro Defensive System, requiring methodological standardization and inter-operability and acting as a complementary force with NATO.

A key question is how to ensure adequate funding of the EU's capabilities to enable it



to achieve the required level for deterrence. This increase in defence spending must be made at two levels: by individual States and by increasing the funds established at the Community level. In recent years we have seen an increase in defence spending by Member States but it is still insufficient to reach the objective of 2% of GDP, agreed as a necessary milestone. At the Community level it is necessary to support the European defence industry as well as the use of its own financial resources.

Finally, it is essential to explain to the European and Spanish public opinion the need to carry out these changes to guarantee the security and well-being of the citizens of the European Union in an international order with increasing risks and uncertainties.

#### **THE NEW REGIONAL ALLIANCES OF THE UNION**

In the current circumstances where new trends of fragmentation and multi-polarity have appeared and been accentuated, a heavy-weight global actor must establish a strategy to gain influence, allies and partners, including in multilateral frameworks.

In the Global South, many countries defend non-exclusive relationships and this creates the geostrategic basis for a multi-lateral alliance because a space is opened up for a common meeting ground and strategic choices between the EU and most of the countries of the global South.

The central values that Europe professes are very clear and are based on social democracy, that is to say: freedom, equality and solidarity, which also incorporate respect for human rights and multilateralism. The success of a new alliance strategy requires new attitudes and ways of proceeding that are summarized in the two steps that we propose here:

- a. Faced with the European colonialist past –with the extractivist past of the investments made not so many years ago, with the attitude that the only valid policies and standards are those that come from the most developed countries,

and with the double standards that we continue to employ in Europe– the first rule of a new approach to alliances is for Europe to create a feeling of trust with its potential allies. Trust is the mandatory gateway to an effective new alliance policy. Trust can only be built through dialogue, mutual respect and genuinely treating the other party as equals.

- b. The second step is that approaches to alliances with other countries and regions do not necessarily have to be made on the basis of European values. These may not be shared or, more frequently, there are differences regarding the sequences of priority and time. Alliances must be explored based on the common interests that may exist between the parties, the important element being co-creation on the agreements, projects, initiatives and policies.

The method proposed for a new alliance strategy based on trust, partnership and shared interests may well be the determining element of the degree of influence that Europe can achieve in the new geopolitical scenario it faces.

For the first time in the history of the transatlantic relationship, the US may be bowing out of its role as a predictable partner. The positions it adopts no longer constitute a policy with the guarantee of stability conferred by the support of their two parliamentary blocs, but rather depend on which individual occupies the White House. Although the transatlantic alliance remains an important element of an alliance strategy, Europe should no longer rely on others to replace what we Europeans should do for ourselves, nor should it continue to consider the transatlantic bond as the support and epicentre of European alliances.

Europe, if it wants to merit a seat at the table as one of the great global players, should seek to increase its global influence by forging new alliances in which, together with new partners, it can build a fundamental engine of progress for the world in two or three decades. We propose a strategic alliance with Latin America, Africa and the Mediterranean basin, and we will outline the



elements of such a strategic pact.

In this manner and moving forward in a relationship between equals based on common interests and mutual benefit, the perspective of a new region would be drawn up for the long-term horizon: the “Three Shores Region”, establishing the alliance of Europe and the Mediterranean basin with Africa and Latin America.

It will not be achieved overnight, its construction will take decades, but the scenario that is proposed and which could be configured as a new global dynamic pole in the second half of the 21st century, makes perfect sense. The aim would be to construct a world in which multilateralism, human rights, peace, democracy, a humanistic digital transition and a green transition that stops climate change are consolidated as the new world regime.



**FIRST DIMENSION:  
STRONG INSIDE,  
STRONGER OUTSIDE**



## INTRODUCTION (A summary)

Europe does not currently have the macro-economic instruments to compete on equal terms with the US and China. Without them, we are like a wrestler with one hand tied behind their back. However, to the extent that Europe minimally resolves these disadvantages, it will be able to present to the world a model of society and economy with undoubted advantages because it has a powerful social model, with transfer systems and quality public services that ensure well-being for all but also solidity and economic and social stability.

### THE SITUATION, THE SOLUTIONS

- ▶ A certain decline: The EU has barely advanced 2.5% since before the pandemic, half that of the US. We are also losing ground with respect to China: at the beginning of the century our per capita income was almost 11 times higher, and for this year the differential will have decreased to 2.2 times.
- ▶ Decline and investments: Europe's relative decline is closely paralleled by weak investment performance. Investment needs to rise to at least half a billion euros annually, including the funds required to carry out the green transition, positioning ourselves competitively with respect to Artificial Intelligence and increasing the budget to strengthen European defence capabilities. Europe must find resources equivalent to 3% of the community GDP.

### HOW TO SOLVE THE PROBLEM?

- ▶ A common fiscal policy is the only way to match the budget arsenal of the US and China and to finance crucial investments. The seed of fiscal union lies in transferring the direct subsidies from the Recovery and Resilience Fund and from the Next Generation Funds to the Member States. We must continue building the fiscal union, nourishing that seed, launching a Euro-zone Treasury

that would help to finance the additional efforts that we Europeans must make.

- ▶ A false exit: However, to resolve the financial “bottleneck” in a manner that should lead to an increase in investment we can see how this could result in a false exit via an increase in “state aid” on a national scale, especially in those countries with greater fiscal margin. The total state aid approved in 2022 exceeds 671 billion euros, i.e. 4.3% of the EU's GDP, and Germany receives more than half of the aid. Compared to the coherence of the powerful incentives of the US Inflation Reduction Act or China's industrial policy, it is an ineffective, uncoordinated and harmful strategy because it does not solve the investment problem, but it does seriously erode the greatest advantage of the EU: its single market.
- ▶ European taxation: the second crucial element for fiscal union is that the Union should have a sufficient volume of directly received revenue. The EU should pivot its tax strategy towards harmonizing corporate tax on large corporations, which also benefit the most from the single market. It would be necessary for at least one percentage point of the minimum corporate rate to go directly to feed the joint debt amortization strategy of the Next Generation EU
- ▶ European savings should be channelled towards Europe: Thirdly, the public impulse will not be enough. Therefore, complementary ways must be found to leverage the private savings generated by Europeans. European savings do not find their way to investment projects in our own continent: European net capital export rose to 672 billion euros in the last three years<sup>1</sup>.
- ▶ The fragmentation of the European market is Europe's greatest enemy:

<sup>1</sup> The Letta Report estimates this amount at 300 billion annually. <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>



The European roadmap involves the reactivation of investment. Fragmentation in the energy or telecommunications markets, for example, reduces the exploitation of the efficiency gains provided by the single market and thereby reduces private investment opportunities in the Union. The first step involves the Europeanization of the savings markets, something that we will only achieve with banking and capital market union.

- ▶ Banking Union is possible: to move towards banking union it will be necessary to approve the European Deposit Guarantee Scheme, to guarantee the deposits of Europeans, regardless of the local jurisdiction. Another necessary action will be the homogenization of national insolvency regimes. Cross-border operations should also be facilitated: it is surprising that the banking sector is one of the most fragmented, operating almost exclusively within each separate country.
- ▶ The union of capital markets: We must move urgently to eliminate the barriers to capital mobility in Europe; not through a reduction in supervisory regulations but rather by betting on their Europeanization, facilitating the consolidation of the market while putting in place sufficient controls at the Community level. On the other hand, we must also Europeanize the definition of European markets in securitisation, insurance, investment funds, alternative funds, pensions and any other savings instrument.
- ▶ Strengthening our monetary sovereignty: Finally, the issuance of digital euros by the ECB would reinforce our monetary sovereignty which, together with the circulation of a Community debt, would represent an exponential increase in our ability to influence the world.

## **THE EUROPEAN ADVANTAGE OVER THE US AND CHINA: EU SOCIAL COHESION.**

- ▶ If it is true that the existence of a social Europe will be worthless if we do not equip ourselves with instruments that guarantee at least a minimally-balanced macroeconomic performance with the USA and China, it is also true that with respect to this topic Europe has a lot to teach the world in terms of cohesion as a society, well-being for all citizens and institutional stability.
- ▶ As has already been mentioned, the cultural, social, economic and political structure of the EU, regardless of what government is in power, is more typical of a social democracy than of a liberal democracy, precisely because of the social component of the State and its health, education and social protection institutions. But the threat of deterioration in the living conditions of the middle and working class families, stemming from the financial crisis of 2008, has been exacerbated by the inflation crisis that we have suffered while recovering from the pandemic.
- ▶ That is why it is necessary to consolidate this distinctive aspect of the European economy and society: the European social project must underpin the construction of the EU: establishing protective labour regulations at the European level; an inter-professional minimum wage for all the countries of the Union calculated according to the cost of living in each country; a European unemployment protection system; minimum pensions that allow seniors to lead a dignified life; a minimum insertion income per family introduced gradually until 2030 so that by that year there will be no European family living in poverty, and a Social Minimum (Social Floor) in terms of social spending dedicated to public budgets, which should be around 20%.
- ▶ We cannot finish this examination without referring to the other key element of growth: the demographic



challenge. The main demographic problem facing the EU is the rapid aging of its population. Demographic change reconfigures the European economy and society. Firstly, it increases spending on social policies, mainly pensions, health and dependency, which causes additional pressure on public budgets. Secondly, as the working-age population decreases, labour shortages may occur with effects on investments and productivity. Intelligently-developed migration policies can not only alleviate the demographic problem, but can be vital to maintaining the competitiveness of the EU economy.

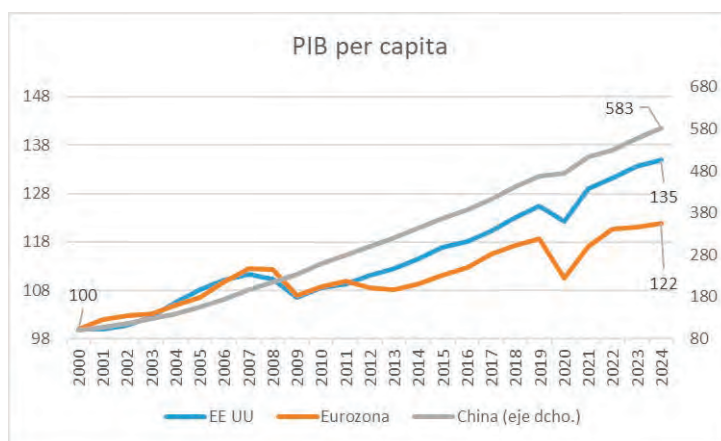


## DECLINE COMPARED TO THE OTHER GREAT POWERS?

Our central thesis is that Europe does not have the macroeconomic instruments to compete on equal terms with the US and China in the field of fiscal policy, nor in the field of market integration, and not even in the field of monetary policy. Without necessary reforms in these areas we will continue to lose ground, we will continue to be like a wrestler with one hand tied behind their back. But alternatively, to the extent that we undertake these reforms, Europe can present a model of society and economy to the world which has undoubted advantages over that of the US and China. We must, therefore, act decisively to place Europe on an equal footing with its two competitors in terms of macroeconomic performance. And as we do so, we must consolidate European advantages, because, simply put, in Europe we enjoy a more humane and more satisfactory society for all those who live and work in it.

The European economy has shown signs of resilience in the face of the succession of calamities that have been unleashed in recent years, starting with the pandemic and later the war in Ukraine and the energy crisis. The recession that was predicted as a consequence of the cycle of interest rate increases generated by the ECB in response to inflation has also been avoided. The most recent indicators even point to a timid recovery, led by economies like Spain that have more muscle.

From a global perspective, however, the feeling that emerges is of a risk of falling behind the other great powers. These are the facts: the EU has barely advanced 2.5% since before the pandemic –half that of the US– expanding the growth gap that had opened up after the financial crisis. So far this century we have regressed 37% compared to the United States in terms of income per inhabitant. The decline began with austerity policies but, after a brief pause, in the most recent period it has worsened (see graph). We are also losing ground with respect to China: at the beginning of the century our per capita income was almost 11 times higher than that of the Asian giant but by this year the differential based on OECD forecasts will have decreased to 2.2 times.



Europe has a powerful social model, with transfer systems and quality public services in key areas such as education, health and social protection, all resulting in less pronounced inequalities than in other places. No other major geopolitical actor has such a developed welfare state and this is an important asset in terms of people's quality of life and the proper functioning of the economy. But the loss of dynamism of the economy could threaten the financial sustainability of these great social achievements.

The relative decline of Europe, with an economy based on exports, has a close parallel with two very important phenomena: de-globalization and the weak performance of investment. Since 2019, the effort put into training the European productive fabric and housing construction



has barely grown by 2.4% in total, compared to 6.7% in the United States. And this gap is in addition to the one that had already been generated in the previous decade, during which time European investment grew half that of the US. The lag with respect to China is even more pronounced. The sluggishness of investment drags down demand while weighing heavily on productivity and the ability to adapt to the great challenges of our times: namely the duo of digital and green transition.

This situation can be corrected since Europe has an abundant pool of savings that could be deployed to reinforce investment. However, excess savings are exported to other countries, serving to bolster companies established outside the EU. According to direct foreign investment data, net capital export rose to 672 billion euros in the last three years, which is equivalent to more than 80% of all Next Generation funds. A good part of this flight of savings was directed towards the US, undoubtedly due to the magnet effect of the succulent subsidies offered by the Inflation Reduction Act and the Chips and Science Act.

In short, for Europe to be in a position to maintain its living standards and reverse the proliferating phenomena of disaffection and populism, it is crucial that the economy recovers a path of growth and that the path is sustainable. The European roadmap involves the reactivation of investment, mobilizing excess savings in order to promote energy and climate transition, incorporating new technologies and improving competitiveness. This chapter explores ways to achieve this.

## **THE MOBILIZATION OF PUBLIC RESOURCES: STEPS TOWARDS FISCAL UNION**

Investment needs to increase to at least half a billion euros annually, including funds required to carry out the green transition and position ourselves competitively with respect to Artificial Intelligence. We should add to this the increase in resources necessary to strengthen European defence capabilities. Taking into account the commitments already budgeted for, it is estimated that Europe must find resources equivalent to 3% of the Community GDP<sup>2</sup> and this sum should be financed by the Union's own resources.

Without a doubt, the private sector should play an essential role in the mobilization of available savings (see section on capital union), but the contribution of the public sector as a catalyst is essential. By definition the market cannot incorporate “externalities” into its decisions regarding climate change or defence that are regarded as continental public goods. Nor is it in a position to provide responses to the industrial policy activism of the other great powers.

The problem is that the monetary union lacks a common fiscal policy. At present, given the small volume of the Union's spending and investment capacity, the bulk of budgetary policies are managed by the Member States. In principle, only national budgets have sufficient weight to face global challenges, but the fiscal rules which regulate countries and direct their functioning are designed exclusively to contribute to debt sustainability, without any assessment of their impact on the activity of the economy in the Union as a whole.

Thus, the EU budget does not have the resources to manage the economic cycle, nor is it designed to do so. It also falls short of the budgetary arsenal of the US and China to finance crucial investments to address technological and environmental challenges. Although the community budget contributes to financing some European public goods, for example, in the field of innovation and infrastructure and is also designed to reduce regional inequalities through the cohesion policy, there has not been sufficient political consensus to date to reinforce

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2 The amount of the NGEU amounts to 750 billion euros in 2018 prices, which must be committed between 2021 and 2023, which represents 1.8% of the EU's annual GDP in each of those three years. And the EU budget for 2024 of 189,385 million euros represents 1.3% of the community GDP.



its role in overcoming crises nor in providing transformative investments.

This reality has been fuelled by ideological arguments linked to German ordo-liberalism, which diametrically rejects the anti-cyclical capacity of fiscal policy: i.e. the role of public budgets in conditioning economic activity. These positions are also a result of insufficient mutual trust between States, because the mission of giving anti-cyclical responsibility to the Union budget requires the issuance of Community debt.

However, the impact of the COVID-19 pandemic and the challenge it posed in the economic sphere gave rise to a sufficient majority in Community institutions to break old taboos and channel a community debt issue to help finance short-term costs and also to cooperate in the subsequent re-launch. To this end, the EU created the SURE program as re-insurance of national unemployment insurance with the issuance of 100,000 million euros, plus the issuance of up to 750,000 million additional euros through the Next Generation EU, the bulk of which has been channelled through the Recovery and Resilience Fund.

So taking into account all of these instruments, the seed of fiscal union lies in the section of the Recovery and Resilience Fund transferred to the States as direct subsidies. We propose that the fiscal union continues to be nurtured, and that the seed be allowed to flourish. It makes sense, therefore, that the current unit that issued and manages the debt generated by the Next Generation EU, launches a genuine Euro-zone Treasury, helping to finance the additional efforts that we Europeans must make to overcome the challenges that we face.

## **FROM FISCAL REGULATION TO FISCAL UNION**

The current architecture of fiscal regulation, even in its renewed version, is not sufficient to address the global challenges facing Europe.

Firstly, many States, gripped by the pressure of the markets and high interest rates, have hardly any room for manoeuvre. The current high levels of debt in Member States, following the impact of COVID and Putin's war in Ukraine, offer little budgetary space for extraordinary investments such as those that have become necessary to meet present challenges.

Secondly, the current design of the community tax rules is not helpful. Even in their revised version to soften the effects of the adjustments, these rules do not allow the investments that Europe needs to be dealt with at the State level. According to fiscal regulations, two out of every three Community countries do not comply with the deficit or debt rules established in the regulations, thus reducing their response capacity which is monitored fundamentally by the "markets" and conditioned by current debt levels.

In this environment, and under pressure to resolve the financial and regulatory "bottleneck" that would result in an increase in investment, we are experiencing an increase in "State aid", especially in those countries with greater fiscal margin. But this is aid that not only will not resolve the investment deficit but may also be contributing to an extraordinary weakening of the single market.

According to the European Commission, the total State aid approved in 2022 exceeded 671 billion euros –4.3% of the EU's GDP– compared to less than 1% before the pandemic. Germany receives more than half of the aid, with Spain being one of the countries that has appealed the least to the Temporary Framework for State Aid in relation to its size. In addition to harming the Single Market, State aid does not entail gains in competitiveness for the EU as a whole: this instrument fosters competition between European countries in addition to being characterized by the lack of an overall strategy. Compared to the coherence of the powerful incentives of the US Inflation Reduction Act or to China's industrial policy, it is an ineffective, uncoordinated and harmful strategy.



For all these reasons, the only alternative to resolve the low investment problem in Europe is by a strengthening of integration that focuses on the pooling of resources so that Europe can continue to have a specific weight compared to the other great powers and thus preserve its social model in the face of environmental and technological challenges.

A nascent fiscal union would help solve the current problems derived from reduced levels of public investment, the challenges of climate change and the digital transition, and the collective effort demanded in the field of security and defence. It is true that a review of the fiscal rules would smooth the path toward fiscal consolidation compared to the austericidal strategy that we suffered from after the financial crisis of just over a decade ago. But neither such rules nor the market's appetite for national public debt, at already high levels after the pandemic and the start of the war over Ukraine, will facilitate the necessary national public investment. Furthermore, one might question whether such missions should be financed exclusively at the national level, given not only that they represent European public goods but that their financing in national hands would require a permanent and structural reduction of the control of State aid, fragmenting the European single market which is a real and necessary asset of strategic autonomy. In short, the financing of such strategic objectives for the Union cannot and should not fall on national budgets.

For European fiscal policy to play a central role instead of merely monitoring national deficits, it is crucial, first of all, that the Union has a sufficient volume of directly received revenues, or "own resources". Indeed, although the Next Generation EU debt was designed as a temporary and ad hoc instrument in the face of the existential shock stemming from the pandemic, the Union needs a permanent fiscal instrument that, together with national budgets, acts to promote European public investment as well as strategies to advance the banking and capital union to mobilize private investment.

For all these reasons, "own resources" are the key to fiscal union; its introduction would enable future emissions to both tackle the public investment gap and provide the Community budget with an anti-cyclical element that it does not currently possess.

This issue is pressing: the tranche of transfers from the Next Generation EU must be amortized collectively through the implementation of a basket of community taxes. The inter-institutional agreement signed by the Commission, the Council of the EU and the Parliament on "own resources" delimits the avenues of complementary financing that the European Union would need to repay such debt whose repayment would not depend on additional contributions from the Member States, thus breaking with the traditional prominence that such resources represent in the Union budget (currently around 90%) with the remainder being provided fundamentally by income from the customs union.

Such inter-institutional agreement were aimed at resources partially generated by the sale of emission rights, the CO2 border adjustment, the tax on plastics and a future digital tax. However, the agreement within the OECD framework for the establishment of a minimum tax on business profits and the distribution of tax bases between the different jurisdictions removed the convenience of the digital tax from the debate and has, at least for the moment, deprived it of its main source of financing for the repayment of community debt.

For this reason, Europe should pivot its tax strategy towards the harmonization of corporate tax on large corporations, which are the ones that benefit the most from the single market: a European public good whose protection and development is in the hands of the Community institutions.

It would be necessary, therefore, for at least one percentage point of the minimum corporate rate to directly feed the joint debt amortization strategy of the Next Generation EU. That would be the most efficient and rational option to deal with the liabilities already issued, completing



the leap represented by the issuance of joint debt and whose amortization path is key to achieving fiscal union.

Secondly, in addition to its own resources, the Union must have a permanent capacity to issue debt. On the one hand, there is no political power in the world without a currency that is a reference for payments and a reserve value on a global scale. The euro is advancing along this path, but without a centralized debt issue it will never be able to make the institutional leap that the Union needs in geopolitical terms, and without debt issued by the Union we will not achieve this leap.

Currently, the euro-zone does not have a risk-free asset, a characteristic that currently depends on the credit quality of each debt issuer, of each State. The fiscal union outlined in this report would allow for the issuance of a truly European risk-free asset supported by the credit quality of the Commission itself.

The European risk-free asset would in turn permit a better transmission of monetary policy, now subject to the arbitration of being channelled exclusively through national debts (which in turn depend on the weight of each country in the capital of the ECB). In addition to simplifying the management of monetary policy, it would also help consolidate a cyclical position of the euro-zone consistent in fiscal terms with the economic situation, solving a pressing problem in Europe.

All these reforms are linked to discussions on the Union budget, its democratic imprint, and the harmonization of national taxes. In this sense, once the current framework ends, the instrument that should give permanent continuity to the NextGenerationEU should be integrated into the regular multi-annual financial framework from 2027. This adjustment would facilitate the channelling of new resources through community programmes, giving more coherence to supplementary financing efforts.

Thirdly, the fiscal union outlined in this report raises a question about the future of the European Stability Mechanism (ESM) as an institution designed to offer liquidity in the event of fiscal or balance of payments crises<sup>3</sup>. If steps were taken towards a true monetary union, this institution would have to lose some of its influence in the European public treasury, already funded for the issuance of NextGenerationEU debt, thus complementing the architecture of macro-economic policy<sup>4</sup>.

## FINANCIAL MARKETS AT THE SERVICE OF THE ECONOMY: THE BANKING UNION AND THE CAPITAL MARKET UNION

Fiscal union in the euro-zone, together with the permanent establishment of an instrument similar to the NextGenerationEU, should make it possible to redouble investment efforts made throughout the Union to address the important challenges we face. Public impulse will not be sufficient, additional ways must be studied to leverage the private savings generated by Europeans.

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3 Strictly speaking, no monetary union in the world or in history has had an instrument similar to the ESM, whose nature is identified with unions with fixed or quasi-fixed exchange rates, in the style of the IMF established by Bretton Woods. If several States agree on establishing a quasi-fixed or fixed rate, the creation of a multilateral institution, fed by contributions from the countries, is necessary, willing to offer liquidity in the event of fiscal or balance of payments crises that could disrupt the exchange rate. This is the justification for setting up the IMF or the ESM in the last fiscal crisis, when the Union was unable to design a joint fiscal response.

4 With an ordinary budget strengthened with the structural design of an instrument similar to *NextGenerationEU*, together with deposit insurance and some type of shared insurance or re-insurance based on its own basket of own resources, the liquidity lines to the States, under macro-conditionality, will become totally unnecessary.



The Union has been registering a current account surplus in the balance of payments for decades. European savings cannot find investment projects on our continent, consequently the Union loses enormous amounts of savings year after year. Addressing this issue requires the implementation of a plethora of measures, including microeconomic reforms in strategic markets, but it also requires a macroeconomic vision that accelerates the consolidation of the single market. Fragmentation in the energy and telecommunications markets, for example, reduces the exploitation of the efficiency gains provided by the single market and thereby reduces private investment opportunities in the Union. But, even worse, the fragmentation of the financial, banking and capital markets, divides the European savings pool into its national components. Consequently, the first step to address the consolidation of different sector markets involves the Europeanization of the savings markets, which in turn increases the profitability of investment in European territory, something that we will only achieve with the union of banking and capital markets.

## **BANKING UNION**

The outbreak of the 2008 financial crisis manifested a weakening of interbank loans between financial entities in the euro-zone and in the re-nationalization of bank portfolios. At the same time, the cost of financing the interbank market and the cost of credit hedging (CDS) began to depend increasingly on the solvency of the country in which each bank was operating rather than on a common perception of the solvency of the euro-zone.

This financial fragmentation especially affects the economies of Southern Europe –Spain, Portugal, Italy and Greece– whose financial entities have greater difficulties in obtaining financing from other entities located in different European countries, and where the business fabric, characterized by SMEs, has an almost total dependence on bank financing due to the lack of other sources of funds.

The banking union, whose progress occurred precisely as a result of the 2008 crisis, was a political decision to transfer sovereignty and formal national powers in the field of supervision and resolution of banking crises, which undoubtedly constitutes a fundamental pillar of the European integration. There is currently a harmonized regulatory framework that is applied homogeneously in the euro-zone and which has improved the transparency, resilience and efficiency of banks.<sup>5</sup>

To complete this banking union and eliminate the financial fragmentation that still exists and which can result in a country's economic difficulties infecting its bank sector, it is necessary to approve the European Deposit Guarantee Scheme. This scheme guarantees the deposits of Europeans independently of the jurisdiction in which they are located. In this sense, the agreement recently reached in the European Parliament is an important step in the right direction, although still awaiting the reaction of the Governments. There will be no banking union until a common deposit insurance that equals the security of any bank savings is finally agreed. Furthermore, this insurance, together with the maintenance of unemployment re-insurance (SURE) and a new NextGenerationEU, offers the necessary elements to provide the union with centralized anti-cyclical instruments.

Another element that would contribute to the introduction of a single European banking market would be the homogenization of national insolvency regimes. Cross-border operations should also be facilitated: it is surprising that the banking sector is one of the most fragmented sectors,

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<sup>5</sup> Likewise, the Single Supervisory Mechanism (SSM) as the European supervisory banking authority –made up of the ECB and national authorities– ensures financial stability. For its part, the Single Resolution Mechanism (SRB, Single Resolution Board) provides a framework and common fund –which is nourished by the endowments of European banks– to resolve possible banking crises, thus mitigating the negative impact on the economy.



operating almost exclusively within each country. This fact reduces competition, increases financial costs for individuals and reduces the circulation of savings for investment.

## **CAPITAL MARKET UNION**

The problem of financial fragmentation and the financing of credit to companies must also be addressed with the advancement of another major pending European project: the Capital Markets Union. Tax reform would be an effective and progressive way to achieve this, leading to the harmonization of taxation on capital.

To achieve this, the project to achieve a capital market union is essential. However, this strategy has been on the community agenda for some time and so far little progress has been made. There has been some push to improve the regulatory framework for European stock exchanges, bureaucracy has been reduced to facilitate the listing of medium-sized companies, and household participation in capital markets has been encouraged. But some of these measures have limited ambition and others address issues that have no direct correlation with the consolidation of capital markets. Thus, a decisive push is needed that should focus on removing national barriers but without leading to a reduction in control and monitoring measures. In this field, there should be an urgency attached to the elimination of barriers to the mobility of capital in Europe but, we insist, not through a reduction in supervisory regulations but by betting on its Europeanization, facilitating the consolidation of the market while establishing sufficient controls at Community level.

On the one hand, transfers of powers and sovereignty are required. To safeguard the stability of the EU financial system, the European Securities and Markets Authority (ESMA) must increase its powers and funding to improve investor protection and the stability of a single capital market. Likewise, the European Insurance and Occupational Pensions Authority (EIOPA) must increase its supervisory powers over the EU insurance sector, similar to that which has been built within the banking union. The logic of coordination between national agencies in these areas is not sufficient, and supervisory power needs to be centralized to standardize control practices, building a European framework for these economic activities hand in hand with a standardization of their supervision through a common agency.

On the other hand, we must also Europeanize via regulations and not just directives –to the extent that the latter continue to offer national discretion– the definition of European markets in securitization, insurance, investment funds, alternative funds, pensions and any other savings instrument. Savers cannot limit their sphere of action to exclusively national financial products, and even though the markets for financing local companies can remain national, the financing markets for global companies must have a fully European nature.

These reforms would be crucial in order for Europe to achieve rates of non-bank financing in the real economy in similar proportions to those available in the United States, advancing a full and safe mobilization of private savings into European investment projects.

## **STRENGTHENING OUR MONETARY SOVEREIGNTY – THE DIGITAL EURO**

The issuance of digital euros by the ECB would reinforce our monetary sovereignty which, together with the circulation of a community debt, would represent an exponential increase in our ability to influence the world. And in this sense, the ECB has been working on a pilot project for this purpose that already has a legislative proposal from the Commission on the table of the co-legislators, Parliament and Council of the EU, which should be agreed during the next legislature.



Certainly, the issuance of public digital euros also presents challenges to the current banking system. In principle, citizens could have a wallet and a savings account directly in public digital euros, issued by the ECB, unlike the current private digital euros provided by commercial banks. The money that we have in our checking accounts and that we consult through the websites of our banking entities are also entries of digital euros, but in that case, issued by the banking entities. The European Central Bank only issues physical banknotes and coins.

In this way, a public offer of digital euros through the ECB would represent an element of competition with the current digital solutions offered by private banks, substantially reducing the attractiveness of current savings methods, especially deposits.

Thus, with a smaller basket of bank deposits, the capacity for money creation by banking entities would be greatly diminished and this would have additional effects on the supply of credit and its price.

This initiative poses challenges for private banks, since it could significantly reduce their financing channel, deposits, and their ability to create money, that is, offer credit. However, the problems identified by the banking industry are also predictable for any private digital asset if it achieves broad support from savers and consumers in the future.

In this way, a public digital euro issued prior to any possible circumvention of currencies issued by central banks is the only guarantee to sustain and strengthen monetary sovereignty. And within the framework of the euro, such a path is mandatory if the objective is to make the European Union a geopolitical actor in the world.

## EU SOCIAL COHESION

Indicators for improving the quality of life of European citizens must be prioritized in decision-making if we do not want citizen disaffection with the European project to increase and the far-right, populist parties to prosper.

The European social project must underpin the construction of the EU, establishing protective labour regulation at the European level that reinforces social dialogue and collective bargaining to guarantee decent jobs and balanced labour relations. In a similar fashion, the EU should advance social cohesion by coordinating social policies at the European level to avoid social dumping (within the EU some countries gain competitiveness with respect to others by artificially lowering wages or reducing social protection). To achieve greater wage convergence and reduce precariousness, it is essential to establish an inter-professional minimum wage for all the countries of the Union, calculated according to the cost of living in each country.

At the same time, a European unemployment protection system must be implemented: minimum pensions that allow seniors to lead a dignified life; a minimum insertion income per family, introduced gradually up until 2030, so that by that year there will be no European family living in poverty; a Social Minimum (Social Floor) in terms of social spending dedicated to public budgets, which should be around 20%.

The youth unemployment rate is unacceptable and it is necessary to strengthen the European Social Fund for the development of active employment policies.

The SURE program created during the pandemic as a Temporary Support Instrument to Mitigate Unemployment Risks in an Emergency must be established as a permanent solidarity mechanism to protect employment across the EU.



## DEMOGRAPHIC CHALLENGE

The European Commission, in its 2024 Aging Report, predicts that the EU population will begin to decline in the coming years and that the number of older people will increase, especially in relation to the working age population. The main demographic problem facing the EU is the rapid aging of its population: more than a fifth of EU inhabitants are now 65 years or older due to increased life expectancy. Simultaneously, the birth rate in the EU is decreasing alarmingly with 3.8 million babies born in 2022 representing a decrease compared to the 4.7 million births registered in 2008. The decline in the under 20 year old population contributes to the overall aging figures and to the increase in the average age of people residing in the Union, which in 2022 was 44.4 years –almost six years higher than the figures from 20 years ago.

Demographic change reconfigures the European economy and society. Firstly, it increases spending on social policies –mainly pensions, health and dependency– increasing pressure on public budgets. Secondly, as the working-age population decreases labour shortages may occur with effects on investments and productivity. Thirdly, this demographic change also affects the social, territorial and inter-generational cohesion of our democratic societies, which could aggravate existing socio-economic gaps.

China, after a decade marked by a strong rate of development and technological modernization that turned the country into the second world power, is beginning to worry about the serious demographic problem that is looming on their own horizon: the population is aging rapidly and the number of births decreases year after year. For its part, the US projects that its population will begin to decline in the second half of the century - that is, that it will reach almost 370 million in 2080, and then reduce to 366 million in 2100. Due to the declining fertility that has continued for decades and will likely continue into the future, high immigration has proven vital to the North American economy and society.

The demographic crisis represents a threat to all developed societies. However, the way it is dealt with can turn the solution into an opportunity. Intelligently developed migration policies can not only alleviate the demographic problem, but can be vital to maintaining the competitiveness of the EU economy. Immigration also influences the projection of the composition of the population since higher levels of immigration would result in the projection of a younger and more racially and ethnically diverse population. In an ever-changing world, population dynamics are critical to shaping policy and planning resources.



**SECOND DIMENSION:  
SECURE ECONOMY,  
OPEN TRADE**



## INTRODUCTION (A SUMMARY)

- ▶ The global trading system is in a period of transition, full of tensions and contradictions. How this transition is managed will affect both the economic interests of the European Union and its role in the world. Although the proportion of international trade in the GDP of the European Union has stagnated since 2008 at around 60%, this is a much higher level of commercial integration than that of the first phase of globalization (the period before the great wars).
- ▶ In the field of international trade and the balance to be maintained with national economic security, the comparison between Europe, the US and China is favourable to Europe. This is not wishful thinking: Europe is simply the most open economy and protectionism would harm it more than it would the other two powers. Precisely for this reason, the EU is objectively the greatest defender of multilateralism, of maintaining an open rules-based market in such a way that the countries of the Global South benefit from it, and including the deployment of a new generation of bilateral trade and investment treaties.
- ▶ International trade represents more than 50% of the Union's GDP, a much higher proportion than that of the United States (27%) or China (40%), so the new economic and geopolitical context poses greater challenges for the European Union which has always been based on a rules-based trading system. Therefore, for the Union, to be in favour of open trade is not an ideological option but rather a necessity dictated by a productive structure that depends on imports of raw materials, parts and components (2/3 of European imports) at good prices as well as open markets for their exports of goods and services. The European Union still represents 16% of global merchandise trade and is the first trading partner for 54 countries compared to 48 for China and 24 for the United States.
- ▶ The International Monetary Fund has estimated that a fragmentation of the world economy into blocks would lead to a loss in global GDP of between 5 and 12%. Because of its higher level of trade integration, the costs for the EU would be twice as high as the costs for the United States. Although empirical evidence does not show that we are in a situation of de-globalization, it is true that trade between like-minded countries has a higher growth rate than between countries whose geopolitical positioning is more distant. According to the IMF, since the war in Ukraine, the growth rate of trade between non-aligned countries has dropped from 4% to 0% while between geopolitically related countries the percentage is 1.5%. And as the interwar experience demonstrates, the combination of geopolitical tensions with trade conflicts can have a feedback effect that endangers world peace. We are, therefore, facing a new phase of globalization that requires finding the necessary balance between economic openness and national security.
- ▶ The European Union is in the process of developing an economic security strategy. At the level of autonomous policies, it is about strengthening the internal market combined with a more effective industrial policy. In addition, it addresses the implementation and completion of the regulatory arsenal, including some new economic elements that we have already mentioned, such as fiscal union and the integration of the European capital markets, which allow it to protect its interests against threats to its economic security. But it is equally essential that the Union strengthens its external strategy to promote the reform of the multilateral system and strengthen its partnerships with the widest possible group of countries, including countries that are reluctant to position themselves in a bloc dynamic. The European Union is not simply the only the region of the world that bears



the seeds of social democracy within its own Member States as a solution to new threats of populist involution, but also, due to its particular structure, bears the seeds for the defence of open markets and multilateralism.

- ▶ This new phase of globalisation requires a profound transformation in order for the world to prosper in the future and extend its benefits to all layers of the population as well as to countries whose integration into global or regional value chains is still very limited. To achieve this it is essential to have effective multilateral governance, capable of correcting excesses and reducing inequalities.
- ▶ But the European Union should go beyond multilateralism and strengthen its regional alliances. The European Union currently has the largest number of trade and investment agreements in the world, but it must be able to make more strategic use of these agreements to establish genuine regional alliances.
- ▶ The European Union has, for example, comprehensive new generation agreements with Korea, Japan, Singapore, Vietnam and New Zealand and is negotiating similar agreements with Australia, Indonesia, the Philippines, Malaysia and India. There is, therefore, a good basis to establish a trade alliance between the European Union and countries of the Indo-Pacific that contains a specific framework for the resilience and sustainability of value chains, as well as cooperation on climate change, the digital economy and the reform of the WTO.
- ▶ But besides the Indo-Pacific, it is essential at the European Union establishes strong regional alliances with both Latin America and Africa and effectively supports greater regional integration and an improved insertion of these countries into global value chains; this would reduce the risks associated with a concentration of industrial production in a limited number of

countries. The strengthening of regional alliances is both an insurance policy against the difficulties of advancing multilateral reforms and a guarantee that the Union has sufficient support to promote said reforms.

- ▶ The European Union must maintain the transatlantic relationship and cooperate with the United States in the development of their respective economic security strategies. But the Union can no longer simply limit itself to fall into alignment with decisions taken by the United States. Any European economic security decision must be based on its own risk analysis and be in accordance with the Union's international obligations. Nor can we ignore the risk that a hypothetical Trump Administration abandons the Paris agreement and adopts protectionist measures that seriously harm European interests. In these circumstances, the Union should be in a position to lead a broad alliance in support of the multilateral system, the effective implementation of the Paris agreement and an open, rules-based trading system.
- ▶ The European Union must also develop a coherent strategy in relation to China. At the multilateral level, it is necessary to instigate a discussion in the International Monetary Fund on the global impact of macroeconomic imbalances that are linked to China's economic policy and aimed at promoting industrial investment and exports in the face of the weakness of China's domestic demand due to the low income level of the population. The European Union must, at the same time, ensure that cooperation with China on climate change and WTO reform and in other possible areas of common interest is maintained and even strengthened. But along with a multilateral approach, it is essential to combine this with a strategic bilateral dialogue of all European Institutions with China to promote greater reciprocity in trade relations. Dialogue that, to guarantee fair competition, must be linked to the full, effective and



timely use of all European autonomous instruments and the study of their reform –when necessary– to improve their effectiveness. The European Union must demonstrate its willingness to robustly defend the interests of its industry against both China and the US.

► The EU has to strengthen its trade policy and coordinate it effectively with a new industrial policy that supports those technologies where we have a potential comparative advantage, without distorting the internal market, and with a more effective cooperation policy that truly helps create the conditions to make our partners grow and for them to recognise us as a credible ally, reinforcing the cooperation dimension of regulatory policies and taking into account the mistrust that the regulatory power of the European Union sometimes causes.

► To face the challenges of the new stage of globalisation, European action must operate at four levels:

- Reform of the rules-based multilateral trading system. In this area, the Union must be willing to lead the modernisation process of the WTO, so that this institution is well able to limit the risks of the fragmentation of the trading system into blocs and to promote cooperation in the provision of public goods, such as to ensure that trade policy contributes to the fight against climate change.
- Strengthening partnerships, giving priority to relations with Africa and Latin America. As far as Latin America is concerned, a priority is the conclusion of the negotiations with Mercosur. In relation to Africa, the objective should be to open talks to co-determine a roadmap that will allow progress in the direction of a trade and investment agreement between the African Union and the European Union, as well as strengthening relations with the countries of the Mediterranean basin.

- Fully integrate into its trade policy the fight against climate change and the promotion of the extension of trade benefits to the most disadvantaged sectors of the population and countries.
- Unity of action in defence of their interests. This should imply the development of a European industrial policy coherent with trade policy and partnerships with third countries; a willingness to effectively apply the different instruments available to the Union to protect its economic interests and a greater European dimension for economic security instruments, such as investment and export control.



## REFORM OF THE MULTILATERAL RULES-BASED TRADE SYSTEM

The second globalisation was a consequence of technological advances and the creation of institutions that favour commercial expansion. The GATT/WTO system combined negotiations for the progressive liberalisation of trade with the development of a set of rules that gave greater predictability to trade exchanges, and that favoured the development of other public policies. The main innovation of the WTO was the establishment of a binding system for resolving trade disputes. The fundamental question currently being asked is whether the institutions that were created at the end of the Cold War remain relevant in the new geopolitical context where the actions of other great trading powers are increasingly influenced by national considerations of economic security.

The European Union has a clear interest in limiting the risks of excessive fragmentation into blocs and achieving a modernisation of the World Trade Organization, taking into account that the maintenance of a rules-based multilateral system and the principle of non-discrimination are a global public asset that, moreover, is firmly established in Europe.

Even China and the United States have an objective interest in preventing conflict dynamics from encroaching on the entire sphere of their trade relations. After all, the vast majority of trade and investment between both countries does not pose economic security risks and hence the mutual interest in maintaining a sphere of cooperation within the framework of the WTO.

Developing countries, many of them supporters of non-exclusive relations and, consequently, defenders in principle of multilateralism, are the first to insist on the importance of respecting agreed rules and avoiding a fragmented trading system that involves bloc alignments and power dynamics.

The European Union, for its part, must lead and promote a dialogue with the United States and China in favour of a WTO reform agenda and defend a positive response to the interests of developing countries on issues such as agriculture and the promotion of industrial development in Africa.

The relevance of the WTO does not depend so much on negotiations to further expand trade openness as on a development of rules and cooperation practices to contribute to global public goods, characterised by the fact that their protection benefits the entire international community. The future of the organisation involves increasing its capacity to integrate sustainability considerations within the framework of WTO rules to address issues such as the interaction between trade and climate transition, the need to reform agricultural subsidy policies so that they can contribute to both food security and environmental sustainability, and to ensure a faster response of the trade system to potential new pandemics. It is also concerned with promoting closer integration into the global trade system of those developing countries that have not benefited from the second phase of globalisation. And this explains the importance of the agreement on Investment Facilitation and Development which has been signed by two thirds of the members of the WTO. In fact, the WTO's ability to develop new rules depends largely on the incorporation of open plurilateral agreements, as long as the benefits of such agreements are also extended to countries that do not participate.

Without a doubt, the most complex issue is the relationship between trade and industrial policies. The current WTO rules on subsidies are not effective enough, especially in response to the impact of massive non-transparent subsidies. The ideal solution would be a modernisation of the WTO rules, which would imply a real willingness on the part of China and the United States to negotiate on an issue that is at the heart of the geo-economic competition between the two blocs.

The European Union should reflect on its best options to address the proliferation of industrial



subsidies until new rules promoting better conditions of competition are negotiated and agreed at the WTO. If it were not possible to negotiate rules in the WTO, an open agreement negotiated in the OECD on the basis of the principle of “Competitive Neutrality” could be considered. This principle recognises the right to establish state companies, but ensures that these companies do not receive favoured treatment and are subject to competition rules.

In any case, the European Union should be ready to exercise leadership in the WTO reform process. In particular, it should strive to complete the reform of the dispute resolution system, as well as advance the negotiation of open plurilateral agreements as the best mechanism to modernise the rules that apply to international trade.

## **A SUSTAINABLE TRADE POLICY IN FAVOR OF THE CLIMATE TRANSITION**

Geopolitical tensions should not compromise international cooperation to ensure the transition to a de-carbonised economy, which will not be possible without major changes in international trade. Consequently, the trade policy of the European Union must give priority to combating climate change by developing its action both at a multilateral level as well as in bilateral or regional agreements. It should also adopt autonomous legislation that specifies certain environmental requirements demanded of the products that have access to the single market. The debate on trade and sustainability requires clarification of what is the legitimate scope of the European Union’s regulatory power. It is absolutely legitimate to demand that imported products meet requirements linked to health protection, consumer protection and global environmental requirements. It is also legitimate to prohibit imports of certain products for ethical reasons, such as those obtained with forced labour. But this cannot, nor should it, imply that local environmental requirements can simply be applied to imports. It is necessary to open an honest debate on the implications that certain regulations have on competitiveness, as well as the convenience of using other instruments, such as subsidies, to offset certain cost increases for European producers. In this instance it is important to have an open discussion with the agricultural sector, which can also be reflected in the reform of the common agricultural policy and its relationship with sustainability objectives.

Furthermore, Europe needs to strengthen the role of international cooperation related to the climate transition because Europe alone cannot achieve its climate goals without cooperating with other countries, in particular emerging economies. This dialogue is also essential in view of the criticism made by many developing countries of autonomous European legislation concerning climate change, such as the carbon border adjustment mechanism (CBAM) and deforestation.

At an international level Europe must lead a sustainable trade policy in favour of climate transition that should include:

1. Strengthening the role of the WTO on Trade and Climate Change, as already noted, including the launch of negotiations for an open plurilateral agreement that promotes the de-carbonisation of sectors exposed to international trade, facilitates investment in renewable energy, and provides measures to support developing countries.
2. Integrating cooperation on climate matters into bilateral agreements to facilitate the implementation of new European regulations, as well as investment support in renewable energies and other goods that contribute to the diversification of green value chains. Beyond the sometimes sterile debate on sanctions, the trade and sustainable development sections should provide concrete, binding, and evaluable measures to support climate transition;
3. European legislation that includes cooperation mechanisms with third countries that must apply demanding environmental requirements derived from the new European legislation



as well as limit excessive administrative costs.<sup>6</sup>

## A MORE INCLUSIVE TRADE POLICY AND DEFENDER OF HUMAN RIGHTS

Trade policy must be one more tool in support of sustainable development, and to be effective it must inevitably be linked to objectives that are mandatory and fully executable in social, labour, environmental and human rights matters, giving an appropriate degree of responsibility to both governments and companies.

It is the responsibility of everyone: the public and private sector, men and women, to ensure that international trade equitably benefits the world's population, putting the general social interest ahead of any other objective.

It is essential to establish mandatory traceability systems which allow companies of all sizes and throughout the entire production chain and at the end process to provide the consumer with sufficient information to be able to assume their part of responsibility. But the first responsibility must fall on governments –as guarantors of the well-being of their population– and large multinationals due to the obvious impact of their activity. Each government and company, depending on their power and the place they occupy in the international value chain, must assume a clear and sanctionable degree of responsibility if we want trade to serve as a progressive force in the sphere of human rights and sustainability.

We need coherence between trade, human rights, labour and climate regimes to ensure that the EU's trade objectives reflect the sustainability objectives of the Green Deal and the EU's development agenda. This also requires a coherent policy from the European Union regarding the link between trade policy and the protection of human rights in order to avoid any perception of double standards in which favourable treatment is given to geopolitically close or more influential countries.

Therefore, the EU must increase its capacity to influence in order to:

- ▶ promote the debate on trade and inclusivity within the framework of the WTO;
- ▶ ensure more effective global trade regulation that is more consistent with sustainable development goals;
- ▶ guarantee the incorporation of the gender perspective in trade policy;
- ▶ include in all new trade agreements, as well as in the up-dating of current ones, effective regulations on Corporate Social Responsibility and Human Rights, including binding and enforceable commitments that take into account the socio-economic reality of the country in question. The agreements should also facilitate cooperation in the implementation of European regulations on due diligence, especially to limit possible negative impacts on trade with developing countries.
- ▶ promote both at the European level and in the Member States transparency and dialogue on all aspects of trade policy, including dialogue with those sectors that consider that their interests may be negatively impacted by trade agreements.

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6 The European Union should express its willingness to adjust recent legislation such as CBAM or legislation on deforestation without compromising its environmental objectives, which is key to strengthening our cooperation with Latin American and African countries that have expressed concern about the impact on their trade from the new European legislation.



## STRENGTHEN THE EU-LATIN AMERICA PARTNER SHIP THE NECESSARY AGREEMENT WITH MERCOSUR

The EU and Latin America together represents 14% of the world's population, 21% of global GDP and a third of the members of the United Nations. Therefore, we must use this enormous capacity of influence to cooperate more and assume greater responsibilities in defence of a multilateral system of global governance based on rules, respect, dialogue, peace and the promotion of sustainable development.

The pandemic and the war in Ukraine have served to emphasise the inter-dependencies between our two continents and the need for close cooperation in the search for joint responses and common solutions. There is no doubt that Europe must face up to the loss of market share in Latin America to the benefit of China, which has become the region's second largest trading partner. Also, Latin America should reduce its excessive dependence on the United States –its main trading partner– and China; as well as diversify its exports to improve its long-term growth prospects and increase its weight in the world economy. For all these reasons and, as we emphasise in the sector on new regional alliances in this report, the EU and Latin America need to strengthen our relationship.

In recent decades, the EU and Latin America and the Caribbean have achieved an unprecedented level of integration through the association and trade agreements signed with 27 of the 33 LAC countries; in fact with all except Bolivia and Venezuela. Currently, the renewal and modernisation of the agreement with Mexico is being negotiated and the new Advanced Framework Agreement with Chile has been approved. These up-dated agreements are the best example of how market access and sustainable development should be integrated into a free trade agreement since they include an ambitious section on sustainable development that includes environmental sustainability and clauses on respect and the defence of human rights, the ratification and progressive implementation of the fundamental conventions of the ILO, promotion of dignified work and CSR.

But negotiations on the agreement with Mercosur, which includes Argentina, Brazil, Paraguay and Uruguay, are still pending. Mercosur constitutes one of our largest export markets for agricultural products, with the EU being the main investor in the region.

Mercosur, with a population of 260 million people, is the fifth largest economy and the fourth largest trading bloc in the world and the main trading partner of the Union in LATAM, so the signing of the agreement would mean consolidating closer relationships with the region within the framework of a strategic partnership.

The agreement with Mercosur has a deep geopolitical significance because it allows both regions to face the growing confrontation between the US and China, and avoid falling into a position of strategic subordination. However, debate over the agreement has focused on beef imports and the deforestation of the Amazon –crucial without a doubt– but issues which have become a pretext to camouflage agricultural protectionism.

Some data could help focus the debate:

The EU imports around 200,000 tonnes of beef each year from Mercosur countries, which mainly serves the high-quality market segment, dominated by European production and is experiencing an increase in consumer demand. Under the agreement, the EU will allow the entry of 99,000 tonnes of beef with a tariff of 7.5%, representing 1.2% of total European beef consumption.

The great challenge is to show that the agreement with the EU is worthwhile and that the demands and guarantees that Brazil meets its sustainability commitments, the fight against climate change and deforestation, are reflected in a legally-binding document that accompanies



the agreement. In this matter it is essential that at both European and national levels there is a debate based on concrete data that make it possible to respond to the concerns of the agricultural sector, including the perspective of accompanying measures linked to the reform of the CAP.

The EU-Mercosur Agreement would send a clear message to the world of its commitment to multilateralism, integration and regulated international trade in the face of unilateralism, isolationism and nationalist protectionism. Furthermore, with the conclusion of the Agreement, an EU-Latin America regional partnership would be reinforced that could include a dialogue on fundamental issues for both parties such as the digital and climate transition and the necessary cooperation in the reform of the WTO.

## A STRATEGIC ALLIANCE WITH AFRICA

A strategic alliance with Africa should be based on the common interest of promoting regional integration, development and industrialisation in Africa, particularly in sectors such as health, agrifood, renewable energy and other goods in the green value chain, as well as in matters of the digital economy. Investment in Africa must be the main priority of the Global Gateway that will have to have sufficient resources and a genuine capacity to mobilise private investment. The strategic alliance should be developed with flexible modalities that encourage cooperation and dialogue both at the level of the African Union, bilaterally and in sub-regional groups.

At the level of the African Union, support for the Pan-African Free Trade Agreement (PAFTA) must be strengthened. The development and full implementation of PAFTA is essential for the countries of our neighbouring continent to develop their industrial capacity, diversify their economies and become more attractive to foreign investment. This dialogue on trade and investment matters should be based on the priorities established by the African Union, although it would be important to maintain a high level of ambition, and include consensus on a roadmap that allows progress along the path of negotiating a Trade and Investment Partnership between the African Union and the EU in the shortest possible time. Dialogue on WTO reform should also be intensified in view of the preparation of the next Ministerial meeting to be held in Cameroon. Better cooperation between the two regions could be one of the keys to a Ministerial meeting that can significantly advance the reform process and respond to the priorities of African countries.

Greater dialogue with the African Union should be accompanied by a deepening of relationships with the main economies of the continent and, in particular, with those that have greater potential to attract European investment in industrial sectors and to develop the agrifood industry and the digital economy. The European Union has recently concluded new generation agreements with Kenya and Angola, and a great majority of African countries are part of the WTO Agreement on Investment Facilitation and Development. The European Union does not, however, have a trade or investment agreement with Nigeria, and the relationship with South Africa is often contentious despite an existing free trade agreement. Some thought is needed about how to deepen our relationship with both countries based on mutual interests in promoting investment in critical sectors for the green economy.

A new partnership with Africa must reserve a special role for the countries of North Africa and a revitalisation of the Mediterranean Union. The countries of the southern Mediterranean basin have enormous potential to attract European investment in industrial sectors and promote triangular trade with countries in Sub-Saharan Africa. Despite this, our commercial relationship has not experienced significant progress since the Association Agreements were concluded. It is essential that the European Union approaches its dialogue with the countries of North Africa with a spirit of openness that allows priorities to be identified on the basis of common interests.

Besides relations with the Maghreb and the Mashrek, some thought must also be given to what



role European trade policy can play in supporting a just and lasting peace in the Middle East on the basis of coexistence between Israel and the Palestinian State. Such reflection may seem utopian at this current terrible time. But it is worth remembering that the European Community emerged from even greater destruction and hatred. Along with aid to the reconstruction of Palestine, the European Union could advocate internationally for the elimination of tariff barriers or quotas on Palestinian exports and provide ideas for a new system of trade relations between Israel, Palestine and other countries of the region. In the context of Israel's acceptance of the two-state solution, the European Union could also offer the prospect of greater economic cooperation in areas of mutual interest. On the other hand, if, in contrary to international law, Israel persists in actions against the Palestinian civilian population the European Union should invoke the "Human Rights" clause of the Association Agreement and suspend trade preferences.

## **AN OPEN STRATEGIC AUTONOMY THAT GUIDES OUR REPOSITIONING IN THE WORLD**

International openness is one of the fundamental pillars of the economic and social progress of the European Union although it has also had some negative consequences for Europe. For years the absence of a European industrial policy has been a serious mistake for which we are still paying.

Covid-19, Putin's war, and the increase in geopolitical tensions have revealed our excessive dependence on third countries in sectors as crucial as health, energy, and digital technologies in an international context marked by increasing competition for critical raw materials.

The United States and China are implementing industrial and fiscal policies that include protectionist elements and negatively affect the EU's competitiveness. Our reaction as the European Union should not be to blow up bridges and turn inwards. But equally we must not be naïve. The European institutions have to defend our interests and guarantee equal conditions for European companies in the contest with competitors.

Europe's response must be based on developing an Open Strategic Autonomy that informs our repositioning in the world. For this to materialise it will be necessary to strengthen the competitiveness of our economies, reinforce our industries, invest in the digital and ecological transition and be more autonomous in maintaining our capabilities and our influence in the world by facing the technological challenge, finding our place alongside China and the US. All this is discussed in the following chapter. For Europe to reinforce its position in the world and strengthen its competitiveness it must strengthen its internal market and address the necessary reforms, in particular, completing the Single Capitals Market and reviewing the State Aid Policy, as has already been pointed out in the previous chapter of this Report.

Europe has to develop and implement an ambitious industrial policy that raises the barriers that obstruct the development of the most relevant sectors of the economy, is capable of guaranteeing optimal conditions of competitiveness for our companies and access to financing similar to those enjoyed by other regions of the world, and supports the required energy and digital transition. It needs to create new semi-conductor production capabilities. It is essential that such industrial policy avoids distortions of the internal market and focuses on supporting sectors and technologies where the European Union has a potential competitive advantage. This requires establishing conditions for European financing of industrial policies in addition to governance that allows priorities to be identified based on economic rationality.

The EU lacks many basic raw materials to carry out the green transition, which is why it depends on supplies from third countries which not always reliable partners being highly concentrated in the extraction and transformation phase. But the EU cannot repeat the mistakes of the past by moving away from dependence on Russian gas and oil to a dependency on minerals and



rare earths. These dependencies expose the EU to significant supply risks from countries that take advantage of their dominant position as suppliers. Substitution of materials and increasing the efficiency and circularity of materials can mitigate, to some extent, the expected increase in demand; but these measures are not expected to reverse the trend.

A disruption in the supply of raw materials would jeopardise the functioning of the single market and damage the EU's competitiveness.

The EU needs to create safe and resilient supply chains of critical raw materials, developing strategic projects that must be able to access sufficient and appropriate financing and benefit from simplified administrative procedures in permitting procedures. But without huge investments in research and innovation, Europe will be unable to undertake the deployment of cutting-edge technologies in the field of strategic raw materials and key industries for climate transition. The important thing is to define priorities based on an analysis of the potential competitiveness of investments in Europe, taking into account that in certain sectors the most realistic objective is the diversification of external suppliers to avoid excessive dependencies.

It is essential to recognise that Europe will always depend on imports of critical raw materials and that developing countries have a legitimate interest in developing value addition, as well as industrialisation, in green economy sectors. The Union must, therefore, put sufficient resources into supporting investment projects aimed at the extraction and transformation of raw materials, as well as the development of renewable energies, with particular emphasis on the African continent and Latin America.

The European institutions have to defend our interests and guarantee equal conditions for European companies in their dealings with competitors.

The EU has developed a wide range of trade defence instruments:

- ▶ Implementing Regulations;
- ▶ Foreign Direct Investment Control Regulations;
- ▶ Regulation for the control of exports of sensitive dual-use products and technologies;
- ▶ Foreign Subsidies Regulation,
- ▶ International Public Procurement Regulations
- ▶ Regulation against coercion.

The key issue now is to evaluate the effectiveness of each and every one of them, both in terms of the time required for their implementation and in terms of their effectiveness in ending any competitive distortion. We need more agile and effective procedures for the imposition of measures that improve the protection of European industry against unfair competition. The EU must provide the necessary resources to strengthen the implementation and effectiveness of these instruments, as well as strong and mandatory due diligence norms on business sustainability and an effective ban on goods produced with forced labour or which cause deforestation. At the same time it is essential that the European Union strengthens its cooperation with those developing countries, especially in Africa, whose trade may be negatively impacted by new due diligence requirements.

Finally, it is important to highlight that the European Union does not have an adequate legal framework regarding economic security instruments. Investment and export controls are essentially the responsibility of the Member States and in a tense geopolitical context it would be advisable to strengthen their European dimension. At the same time, it is necessary to develop the deterrent capacity to confront threats to European sovereignty wherever they come from.



# **THIRD DIMENSION: IS EUROPE A REFERENCE IN THE STRUGGLE FOR CLIMATE CHANGE?**



## INTRODUCTION (A SUMMARY)

- ▶ Europe is today at the global forefront of the de-carbonisation of its economic base: since all countries will have to reconvert their economic base, it can be said that in this area Europe is ahead. However, there are other challenges to overcome: the first is to advance the sustainable and interconnected European energy system. The second is to set up a new financing system for the investments needed in the Global South to de-carbonise their economies, and where Europe and its Global Gateway could be pioneers in the field of the necessary new mechanisms.
- ▶ The “European Green Deal” was formulated as the first priority of the European Commission for the legislative period 2019-2024, thus making it the key element of the Union’s policies.
- ▶ The European Green Deal is a strategy and a package of community initiatives that aims to achieve climate neutrality by 2050, and increase its energy sovereignty while seeking to minimise the negative impact on those regions and actors most affected by this transition.
- ▶ To attain this, the European Commission has adopted a very ambitious set of measures and objectives of a multidimensional and complementary nature in matters of climate, energy, transport and taxation. Part of these measures are included in the “Fit for 55” legislative package, which establishes an intermediate objective of reducing CO2 emissions by at least 55% by 2030 compared to 1990 levels.
- ▶ The emissions trading scheme (European Emissions Trading Scheme – EU ETS) seeks to reduce industrial emissions by forcing companies to acquire sufficient emission rights to cover all their CO2 emissions, thereby internalising companies’ negative externality generated by greenhouse gas (GHG) and providing greater incentives to invest in clean technologies. The EU-ETS is the largest carbon market in the world.
- ▶ The “Fit for 55” package includes substantial modifications to align the EU emissions rights system with the emissions reduction objectives of the European Green Deal, among which the introduction of the Carbon Border Adjustment Mechanism (CBAM) is prominent.
- ▶ Transport is a key sector in the European Green Deal, responsible for 25% of the EU’s total GHG emissions and with cars as the main pollutant. From 2027, road transport will be part of the EU-ETS, and new objectives have been established to reduce CO2 emissions for passenger cars and vans with a view to placing road transport on the path to achieving zero low-emission mobility in 2050.
- ▶ To monitor the impact and cost of the measures and initiatives of the European Green Deal, new tools have been created to provide financial and technical support to the companies, workers and regions most affected by the green transition. Among them, the Just Transition Fund (19.2 billion euros) and the Social Climate Fund (86 billion euros) are prominent. They will provide financial aid to the households, micro-enterprises, transporters, and regions most affected by the enlargement of the EU-ETS to new sectors (land transport and buildings), finance investments for the de-carbonisation of transport, the energy improvement of buildings and help with combating energy poverty.
- ▶ The EU’s experience is a global benchmark in the fight against climate change: between 1990 and 2021 the Union has reduced its polluting emissions by 29.7% and its GDP has grown at the same time by 61%.

## ENERGY TRANSITION AND INTEGRATION

- ▶ Following the illegal Russian invasion of Ukraine in February 2022, the energy transition has become a geostrategic imperative in Europe’s energy system. Greater integration of the European energy market is urgently needed given that the unprecedented severity of the



energy crisis, exacerbated by the design of the electricity market, brought the integration of the EU energy market to the brink of breakdown.

- ▶ Despite a rapid and effective response to the significant increase in energy prices, European energy costs remain higher than those of our main competitors, and our energy dependence creates vulnerability to price shocks.
- ▶ The need for the greater integration of the energy market and, in particular, the European electricity market, has become clear if it is to offer a more secure, affordable and sustainable energy system at the service of a modern and competitive European industrial base at the same time as it generates greater resilience and security of supply and accelerates the deployment of renewable energies.
- ▶ The basis of a Single Electricity Market is interconnectivity, the elimination of barriers and the promotion of energy infrastructure. Community legislation obliges network operators to ensure that at least 70% of their interconnection capacity is available for electricity trade with neighbouring countries by the end of 2025.
- ▶ Some of the main challenges of the Union in the medium term include the following:
  - A. Incorporate the creation of a single electricity market as one of the political priorities of the next EU Strategic Agenda;
  - B. Significantly strengthen the financing of electrical interconnections and the promotion of renewable energies through pooled community financing;
  - C. Strengthen the policy of trade agreements and foreign energy policy with like-minded partner countries to guarantee the diversified supply of energy and critical raw materials that can increase the energy and economic security of the EU.

## **THE GLOBAL FIGHT AGAINST CLIMATE CHANGE AND FOR SUSTAINABLE DEVELOPMENT: NEW FRONTIERS FOR COOPERATION**

- ▶ If climate change is a “global public evil”, which affects each and every country universally, it will not end unless the fight against climate change extends to all countries, all latitudes, to the entire North and the entire Global South.
- ▶ If Europe is the clearest and most advanced example in the world of the fight against climate change, this fight must go beyond borders and become a front-line of progress for Europe along with its partners in the rest of the world.
- ▶ On this “external front” there are two new fundamental elements that constitute new frontiers on which to develop the new approach between equal strategic partners from the Global South that we defend in the Sixth Dimension of this report, and which presents a new type of relationship with our strategic partners based on common interests and mutual benefit:
  - A. The first is an inclusive trade policy that must go hand in hand with cooperation programmes. When designing new trade and investment agreements, mature investment projects are needed that can be integrated into the growth and development strategies of the countries in question.
  - B. Investment mobilisation. The second aspect is even more important. According to the IEA<sup>7</sup> closing the energy access gap in sub-Saharan African countries is estimated to require an annual investment of \$28 billion through to 2030. On the other hand, the continent’s infrastructure suffers from a lack of financing. The African Development Bank estimates the continent’s needs at 170 billion

<sup>7</sup> <https://www.imf.org/external/pubs/ft/fandd/spa/2021/09/pdf/fighting-climate-change-in-Africa-ireri.pdf>



dollars annually until 2025. This means that the financing needs in a single continent, Africa, and in just two investment sectors –electricity and infrastructure– are equivalent to all official development aid that is generated annually in the world. The conclusion is evident: it will not be possible to cover the financing and investment gap that is needed in the Global South unless new mechanisms besides Official Development Assistance are used.

This introduces us to a new territory: the mobilisation of private resources; of private investments in the Global South based on the catalytic and mobilising effect that new public funds may have if made available for development and climate by Europe. And this also implies that the future budget of the European Union must significantly reinforce financing linked to the climate transition in developing countries.



## GREEN AND ENERGY TRANSITIONS IN THE EU

Climate change is an existential threat that constitutes a global “public evil”. It causes universal damage (affects all countries), is transversal (extends to different population groups and socio-economic sectors) and intergenerational (affecting intergenerational equity). The fight against climate change is highlighted both in the Sustainable Development Goals (SDGs) –directly, with SDG 7 “Achieve affordable and non-polluting energy” and SDG 13 “Climate action”– of the 2030 Agenda of the United Nations (September 2015). Additionally, they are in compliance with the legally binding Paris Treaty on climate change adopted at COP 21 (December 2015) that pursues the goal of limiting global warming to 1.5 degrees Celsius above pre-industrial levels.

To face this challenge, the EU seeks to promote climate transition, the renewable energy industry, energy efficiency and the reduction of polluting emissions.

Thus, after the European Parliament’s declaration of a climate emergency (in November 2019), the Commission presented the “European Green Deal” as one of its political priorities for the legislative period 2019-2024<sup>8</sup> –indeed, as the number one of its six priorities– thus making it the key element of the Union’s green policy. The European Green Deal is a strategy and a package of community initiatives with the aim of achieving climate neutrality by 2050 and increasing its energy sovereignty, while seeking to minimise the negative impact on those regions and actors most affected by this transition.

To achieve this, the European Commission has adopted a very ambitious set of multidimensional and complementary measures and objectives in terms of climate, energy, transport and taxation. Part of these measures are included in the “Fit for 55” legislative package, which established an intermediate objective of reducing CO<sub>2</sub> emissions by at least 55% by 2030 compared to 1990 levels. This objective became legally binding thanks to the European Climate Legislation<sup>9</sup>, which in turn includes the objective of achieving climate neutrality by 2050.

In February 2024, the Commission presented its assessment of the state of play and recommended the reduction of net greenhouse gas emissions in the EU by 90% compared to 1990 levels as a climate goal for 2040. The European Parliament and the Member States will debate this objective, and the next European Commission following the elections in June 2024 will use this base to present its legislative proposals.

### THE EUROPEAN GREEN DEAL

Among the unique measures to promote the green transition, the following stand out:

- A. The emissions trading scheme (European Emissions Trading Scheme – EU ETS) that seeks to reduce industrial emissions by forcing companies to acquire sufficient emission rights to cover all their CO<sub>2</sub> emissions, thereby making companies responsible for the negative externality generated by this greenhouse gas (GHG) and to provide them with more incentives to invest in clean technologies. The EU-ETS is the largest carbon market in the world and covers more than 40% of the EU’s total GHG emissions (proceeding mainly from electro-intensive sectors whose emissions are relatively easy to measure).
- B. The “Fit for 55” package includes substantial modifications to align the EU emissions rights system with the emissions reduction objectives of the European Green Deal, including the

<sup>8</sup> The Commission defined six political priorities for the 2019-24 legislative period: (i) The European Green Deal; (ii) A Europe prepared for the digital age; (iii) An economy that works for the people; (iv) A stronger Europe in the world; (v) the Promotion of the European lifestyle; and (vi) A new impetus for European democracy.

<sup>9</sup> Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework to achieve climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (“European climate legislation”).



introduction of the Carbon Border Adjustment Mechanism (CBAM) that seeks to reduce the import of CO<sub>2</sub> emissions into the EU by highly polluting goods via a tax on the own resources of the EU Budget. At the same time, the scope of emissions trading (EU ETS) is extended to maritime transport and a new ETS has been created for emissions associated with buildings and land transport.

- C. Transport is a key sector in the European Green Deal as it is responsible for 25% of the EU's total GHG emissions, and cars are the main pollutants (61% of total road transport emissions of the Union). Thus, from 2027, road transport will be part of the EU-ETS, and new objectives have been established to reduce CO<sub>2</sub> emissions for passenger cars and vans<sup>10</sup> with a view to situating road transport on the path to achieving zero mobility emission in 2050. For the aviation sector –which was part of the EU-ETS although traditionally benefited from free allocations of emission rights– new measures have been adopted to expand its coverage beyond intra-European flights; moreover, the minimum required percentage use of sustainable aviation fuels has been increased. Finally, the maritime transport sector, in addition to becoming part of the EU-ETS from 2024, will also have to increase its use of alternative fuels.
- D. Forests as natural carbon sinks are an indispensable factor in the fight against climate change<sup>11</sup>. For this reason, the EU has approved (in March 2023) regulations to regulate land use and the forestry sector with the aim of increasing EU carbon sinks by 15% by 2030.
- E. In a complementary manner, other key areas of intervention of the European Green Deal are: the “EU Biodiversity Strategy”, the “Farm to Fork Strategy”, the “Action Plan for the Circular Economy to 2030”, and the “Green Deal Industrial Plan” to accelerate the transition towards climate neutrality of European industry. It also highlights community legislation (currently under negotiation in the European Parliament and the EU Council) to achieve a zero-emissions industry in strategic clean technologies (Net Zero Industry Act).

To accompany the impact and cost of these measures and initiatives of the European Green Deal, new tools have been created to provide financial and technical support to the companies, workers and regions most affected by the green transition. Among them, the Just Transition Fund (created in June 2021, with 19.2 billion euros) and the Social Climate Fund (to be established between 2026 and 2032, with 86 billion euros from the sale of emission rights) stand out. These funds will make it possible to provide financial aid to households, micro-enterprises, transporters, and the regions most affected by the extension of the EU-ETS to new sectors (land transport and buildings), and to finance investments for the de-carbonisation of transport and the energetic improvement of buildings; they will also help to combat energy poverty.

## ENERGY TRANSITION AND INTEGRATION

A fundamental element to reduce GHG emissions is the promotion of renewable energies and energy efficiency in the EU, together with the diversification of supply sources, all of which are objectives of the Commission's REPowerEU plan (from May 2022).

To this end, it has been agreed that the Commission makes joint purchases of gas (excluding Russian gas) to reinforce security of supply at a lower price. Also the renewable energy ambition for the EU has been increased with the approval (March 2023) of higher binding objectives for 2030, rising from 32% to 42.5%, and with the objective of reaching 45% of renewable energies

10 In 2030, the average emissions of new passenger cars will have to be reduced by 55% and those of new vans by 50%, compared to 2021 levels. In 2035 all new passenger cars and vans registered in Europe will be zero emission.

11 EU forests absorb the equivalent of 7% of the Union's total GHG emissions each year.



in the EU (which would double its current weight).

The NextGenerationEU funds<sup>12</sup> are having a significant impact in promoting the energy and digital transitions of the Member States, financing their national Recovery, Transformation and Resilience Plans (Spain's was approved in July 2021) which must allocate at least 37% to climate objectives and 20% to digital objectives, although its validity ends at the end of 2026. The bulk of its financing is channelled through the Recovery and Resilience Mechanism (MRR), endowed with 723,000 million euros. Italy and Spain are the greatest beneficiaries. Given the success of this experience, a "Next Generation2" of pooled debt with an increase in the issuance of EU green bonds can contribute, to a large extent, to financing the necessary investments in European public goods –in energy, climate and defence– beyond 2026, as we have already indicated when discussing our proposal for taxation.

Following the illegal Russian invasion of Ukraine in February 2022, the energy transition has become a geostrategic imperative in Europe's energy system. The recent report on the Single Market "Much more than a market", prepared by former Italian Prime Minister Enrico Letta and presented at the European Council on April 17-18, 2024, urges greater integration of the European energy market and confirms that the unprecedented severity of the energy crisis, exacerbated by the design of the electricity market, brought the integration of the EU energy market to the brink of breakdown.

Despite a rapid and effective response to the significant increase in energy prices, European energy costs remain higher than those of our main competitors, and our energy dependence creates vulnerability to price shocks.

In this context, the success of the "Iberian Exception" (proposed by Spain and Portugal) stands out as an extraordinary effective instrument to contain the rise in the price of electricity in the Iberian Peninsula - basically by setting a cap on the price of electricity by establishing a maximum price for gas. This was justified because the Peninsula forms a peripheral and encapsulated electrical system with scant electrical connection with the rest of the Union (only in a limited way with France) that reduces the diversity of bidders (from other Member States) which would result in an offer of more competitive prices.

The recent energy crisis has also exacerbated the divergence between Member States in electricity prices, creating problems for several industries in different European regions. The need for greater integration of the energy market and, in particular, the European electricity market has become clear. It needs to offer a more secure, affordable and sustainable energy system at the service of a modern and competitive European industrial base, while at the same time generate greater resilience and security of supply and accelerate the deployment of renewable energies. It is worth highlighting the approval of the reform of the electricity market (one of the main successes of the last Spanish Presidency of the Council of the EU) to protect consumers (with the right to have several contracts) and promote the deployment of renewable energies in the Union.

The basis of a Single Electricity Market is interconnectivity, eliminating barriers and promoting energy infrastructure. Community legislation obliges network operators to ensure that at least 70% of their interconnection capacity is available for electricity trading with neighbouring countries by the end of 2025: a target that several Member States are not on track to achieve. To achieve an electrical interconnection that reaches all the territories of the Union it will be necessary to redouble investment in energy infrastructure with community public financing and a growing role of the EIB (European Investment Bank).

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12 *Next Generation EU* encompasses recovery funds to overcome the economic and social effects of COVID-19, with a provision of 750 billion euros (52% in grants and 48% in loans) to financially support Member States in their investments, and is valid until the end of 2026.



## EUROPE A GLOBAL REFERENCE AGAINST CLIMATE CHANGE

The data corroborate that it is possible to design a path of economic growth that is compatible with the sustained reduction of CO<sub>2</sub> emissions. The EU's experience is a global benchmark in the fight against climate change: between 1990 and 2021 the Union has reduced its polluting emissions by 29.7% and its GDP has grown at the same time by 61%<sup>13</sup>. However, it should be noted that the latest forecasts from the Member States indicate that the net reduction in emissions would only be 41% in 2030 (compared to the set objective of 55%). On the other hand, the application of the “Iberian Exception” has permitted a reduction in electricity prices for consumers and companies of around 25% compared to those that would have been obtained without this extraordinary and temporary mechanism.

Faced with current challenges, growing competition from the US and China and increasing international geopolitical tensions, the Union is debating how to strengthen the Single Market and increase its competitiveness and this is reflected in the conclusions of the European Council of April 17 and 18, 2024. Within this framework, the EU must consolidate and advance its green and energy transitions in the coming years, move towards a single electricity market, and continue promoting renewable energies. To this end, some of the Union's main challenges in the medium term are:

- A. Incorporate the creation of a single electricity market as one of the political priorities of the next EU Strategic Agenda for the legislative period 2024-29;
- B. Significantly strengthen the financing of electrical interconnections and the promotion of renewable energies through joint community financing –and its consolidation in the next Multi-annual Financial Framework 2028-2034– and with the development of new financial instruments that facilitate taking advantage of capital markets in the Union;
- C. Strengthen the policy of trade agreements and foreign energy policy with like-minded partner countries to guarantee the diversified supply of energy and critical raw materials that can increase the energy and economic security of the EU.

Currently, there is a historic need and opportunity for the EU to advance and consolidate its green and energy transitions in the context of strengthening the Single Market and increasing the Union's competitiveness. All that remains is for there to be the political will between the EU and the 27 Member States to achieve it. This is where the current EU debate lies, and the result of the June elections to the European Parliament could be decisive.

## BEING IN THE VANGUARD ALSO MEANS BEING INVOLVED IN THE GREEN AND ENERGY TRANSITION ON A GLOBAL SCALE: THE NEW FRONTIER OF COOPERATION WITH STRATEGIC PARTNERS IN THE GLOBAL SOUTH

If climate change is a global public evil that affects each and every country on the planet, we will not end it unless the fight against climate change extends to all latitudes, to the furthest reaches of the North and of the South.

If Europe is the clearest and most advanced example in the world of the fight against climate change, this fight must extend beyond borders and become a front-line for progress for Europe with its partners in the rest of the world.

On this “external front” there are two new fundamental elements that constitute new territories

<sup>13</sup> European Commission, DG Climate Action; European Environment Agency (2023): “Annual European Union greenhouse gas inventory 1990–2021 and inventory report 2023”. April 15, 2023.



in which to develop with our strategic partners from the Global South the new approach based on equality, common interests and mutual benefit that we defend in this report. It is an approach in which development cooperation and the construction of a de-carbonised economic base are two aspects that must advance in parallel: they reinforce each other, they feed off each other, and must be treated as two sides of the same reality.

In this field of European external action for development and climate, there are two highly relevant aspects that require a new European policy.

- A. The first is an inclusive trade policy that must go hand in hand with cooperation programmes based on a true partnership with developing countries that helps them develop their industrial capacity, experience growth and build their positions along the value chain. When designing new trade and investment agreements, mature investment projects are needed that can be integrated into the growth and development strategies of the countries in question and that have more effective financial resources available. It is also necessary to integrate investment financing, trade policy instruments and regulatory dialogues in order to present our partners with an attractive offer that has a real impact in attracting European investment, especially with regard to “green” value chains. In short, new generation trade agreements must become authentic co-produced plans in which the countries of the Global South decide for themselves the broad strokes for the development of their industrial capacity, their place in global value chains and productive diversification; and Europe, acting as an equal partner also obtains reciprocal benefits.

A more inclusive trade policy must be based, therefore, on a genuine dialogue between the parties. It should also be open to companies, unions and the different actors of civil society in the context of new bilateral trade and investment treaties. Only in this way will it be possible to maintain the necessary political support for trade openness in this new stage of globalisation.

- B. The second aspect is even more important. To advance the dual strategy of development cooperation and the fight against climate change, enormous flows of financing to the Global South are needed. According to the IEA<sup>14</sup>, closing the energy access gap in sub-Saharan African countries is estimated to require an annual investment of \$28 billion through to 2030. The continent’s infrastructure suffers from a lack of financing. The African Development Bank puts the needs at \$170 billion annually until 2025, with an estimated shortfall of \$108 billion annually<sup>15</sup>. The contribution of the funds would be largely as follows: 37% from African governments, 26% from China, and 22% from ICA members<sup>16</sup>.

14 <https://www.imf.org/external/pubs/ft/fandd/spa/2021/09/pdf/fighting-climate-change-in-Africa-ireri.pdf>

15 <https://www.esafrica.es/economia/africa-y-sus-infraestructuras-un-breve-analisis/#:~:text=Las%20infraestructuras%20del%20continente%20adolecen,millones%20de%20d%C3%B3lares%20al%20a%C3%B1o.>

16 The Infrastructure Consortium for Africa is a tripartite relationship between bilateral donors, multilateral organizations and African institutions

- All G8 countries are members of the ICA (Germany, Canada, United States, France, Italy, Japan, United Kingdom and Russia),
- Two members of the G20: the Kingdom of Spain (recently incorporated) and the Republic of South Africa (first African member country).
- African countries and institutions: the Republic of South Africa, the African Union Commission (AUC), the African Union Development Agency (AUDA-NEPAD), the United Nations Economic Commission for Africa (ECA) and the Communities Regional Economic Commissions participate as observers in ICA meetings.
- Multilateral development banks: African Development Bank (AfDB), AfreximBank, European Investment Bank (EIB), International Finance Corporation (IFC), Islamic Development Bank (IsDB), African Finance Corporation (AFC) ) and the World Bank.
- Regional and bilateral development financing institutions: the French Development Agency (AFD), the West African Development Bank (BOAD) and the Development Bank of Southern Africa (DBSA).

Other donors who make significant financial contributions to infrastructure in Africa can become members of the ICA.



To get an idea of the magnitude, it is sufficient to say that official Development Aid on a global scale has just crossed the border of 200 billion euros annually. That is to say, the financing needs in a single continent, Africa, and in just two investment sectors: electricity and infrastructure, is equivalent to all the official development aid produced annually in the world. The conclusion is evident: it will not be possible to cover the financing and investment gap needed in the Global South unless new mechanisms in addition to Official Development Assistance are used.

This brings us to a new territory: that of the mobilization of private resources, of private investments in the Global South based on the catalytic and mobilising effect that new public funds may have on development and climate change if their availability is facilitated by Europe.

To express this more clearly: according to the estimates of the new statistical instrument that records the total resources made available for sustainable development (the Total Official Support for Sustainable Development, or TOSSD)<sup>17</sup> its total amounted to 400 thousand million dollars annually, thus doubling the amount of Official Development Assistance. Those extra 200 billion, well used, can exponentially drive additional amounts of private financing, of private investment flows, to the Global South. But there is very little information to advance this novel perspective, either with regard to the exchange of best practices, nor regarding the entire necessary ecosystem that guarantees that these investments will have a positive impact from the point of view of development and the climate. Everything is still to be built.

From this perspective, Europe could and should be a pioneer: public funds such as the Global Gateway should be made available for this. And of course, private investment mobilised from public funds should be directed to projects which are co-created between Europe and its partners in the Global South, far removed from the extractive projects of the past.

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<sup>17</sup> A statistics registered by the OECD a few months ago.



**FOURTH DIMENSION:  
EUROPE ON THE PODIUM OF  
ARTIFICIAL INTELLIGENCE?**



## INTRODUCTION (A SUMMARY)

- ▶ We start from the conviction that in an era in which technological progress is multifaceted and exponential the critical element that will determine the progress of other digital technologies is Artificial Intelligence and its infrastructures (cloud computing and quantum computing), and it is on these nuclear elements that we focus our analysis.
- ▶ The United States and China lead scientific-technological development in artificial intelligence. We will discuss patents, innovation, business development, public and private investments, business models, products, services, applications and the market, all of which are related.
- ▶ For the EU to bridge this gap a multidimensional strategy is essential. Furthermore, measures must be executed in parallel, not sequentially, and carried out with huge ambition and vision as soon as possible and in a manner that can be sustained over time.
- ▶ In this report we argue that Europe has its own model regarding Artificial Intelligence, which is condensed into the concept of Trustworthy AI. But this model will not be very effective or accepted unless Europe sets up an ecosystem with highly innovative potential in Artificial Intelligence that has elements that we already possess in Europe, such as talent and data. But it will also need other elements that still need to be generated, such as effective public/private partnerships, a reality of venture capital that effectively promotes innovation and entrepreneurship and, above all, some European technological giant: the most important element that Europe up until now has undervalued.

### **AI FOR EVERYONE, AND NOT AT ANY PRICE: WHAT EUROPE CAN OFFER THE WORLD: TRUSTWORTHY AI**

- ▶ Europe, faithful to the social and cultural fabric associated with social democracy, is not only the first region in the world

to broadly regulate AI, but it has done so respecting the fundamental rights of people and the European constitutional values and principles: something that we are sure will become the only possible trustworthy way for the development and use of AI. Europe must hold firm to this. No one else will do it with the sufficient intensity and weight to have any chance of involving the rest of the world.

- ▶ The following are probably the critical aspects of such a model:
  - Avoidance of increasing inequalities
  - Reduction of cognitive dependence on machines
  - Protection of democracy
  - Establishment of a regulation that guarantees the development of Trustworthy AI
  - Anticipation of measures against technological unemployment and the precariousness of employment
  - Guarantees for the sustainability of the natural resource requirements of AI.

### **COMPETING ON THE BASICS: A EUROPEAN ECOSYSTEM WITH HIGH INNOVATIVE POTENTIAL IN AI**

- ▶ But to compete on a global scale we not only need our own model, which we are convinced will be necessary worldwide in the future, but we also need to have the minimally essential elements to compete with the US and China; and that involves the creation of a European ecosystem with highly innovative potential in AI. Such an ecosystem must have at least the following elements:
  - A European Fund to Promote the AI Ecosystem, which should amount to at least 100,000 million euros (Saudi Arabia on its own has recently announced the creation of a fund of 40,000 million dollars for a similar purpose) intended to finance specific ends: basic and applied research in AI; the transfer of research results that enjoy sufficient



investment and support from intellectual and relational capital; fiscal and financial support for start-ups and SMEs for innovation in and with AI; the deployment of data infrastructures, high-performance and cloud computing and quantum technologies, and a common European cyber-security policy;

- Talent retention: Europe, due to its public university system, has a good starting position from the point of view of talent generation. The policies that must be deployed and that are consistent with the drive to finance the AI ecosystem relate to the need for this talent staying and operating in Europe;
- Recovery of public weight in AI research, and on this basis constant public/private dialogue and partnership;
- Solution to the barriers caused by a fragmented market and a restrictive regulatory framework, insufficient risk capital especially for business scaling; weak knowledge transfer, and cumbersome bureaucracy that reduces the agility of marketing and entrepreneurship;
- Infrastructure: Europe needs to build its infrastructure for AI at three levels: in the long-term in quantum computing, and in the shorter-term in cloud computing and storage services; and finally in the development of the intermediate level of computing, or “fog computing”;
- Data: There are many reasons for the EU to develop a common data policy for AI and to develop a federated data infrastructure that enables the secure storage, access and analysis of large volumes of data essential for the formation and operation of AI models. Europe already has various opportunities that must be taken advantage of:

1. A legal framework that, although it may be seen as restrictive, gives legal security; this is a value that is increasingly appreciated by companies that carry out data-intensive operations;
2. The EU as a whole can be a world power in data associated with sectors of special interest and social and

economic value, with the guarantee of respect for intellectual property, privacy, security and the fundamental rights of people. The health and well-being sector are paradigmatic, but so are public administrations, the financial sector, energy, transportation...

3. It is essential to build an open data system that can be accessible to researchers and developers, managed, however, under strict privacy and security policies.

## **WE NEED TO GROW IN AI**

- ▶ Among the leading global companies for the development and use of generative AI there are none from the EU.
- ▶ However, large companies are an essential element of an advanced ecosystem both in AI and in different digital technologies. This is true in a double sense: on the one hand, in the digital economy success depends on the size of the market, the number of users: the more users, the more added value the company produces for all of them. In other words, the problems of market domination are not resolved in the case of digital or AI companies by reducing them in size (as previously occurred with the Bell companies in the US), because their success is directly related to their great, and increasing, size.
- ▶ Furthermore, large technology companies are also an essential element of the ecosystem for other very important reasons. On one hand, because they are related in the most significant way to the vanguard role that the State must play when it comes to catalyzing and advancing the entire ecosystem. On the other hand, because they broaden the vision of which new AI developments can be successful in the markets in the future; and that vision, without a doubt, filters across from large companies to large venture capital investment funds, allowing great ideas (like Uber) to be developed and to receive literally hundreds of millions of dollars in



funding years before reaching their break-even point. As can be seen, the presence of large technology companies is not only an essential factor for the existence of a fruitful public/private policy dialogue but also for the establishment of prolonged periods of maturation for the start-up network. This ensures that there is enough space for innovation to flourish and for venture capital markets to act with long-term vision without expecting profitability from innovative entrepreneurship from one day to the next.

- It is evident that for any technological giant to exist in Europe there must be a policy that allows it, encourages it, and enables it. This may be in contradiction with the rigidity of the European competition rules but it is probably the most important pending issue in order for Europe to generate the AI ecosystem that would allow us to compete on a global scale.

The United States and China lead scientific-technological development in artificial intelligence: this includes patents, innovation, business development, public and private investments, business models, products, services, applications and the market, all of which are related.

For the EU to bridge this gap, a multidimensional strategy is essential. Furthermore, there must be measures that are hugely ambitious and carried out as soon as possible and in a sustained manner which are introduced in parallel, not sequentially.

This document seeks to contribute to a collective reflection within the EU that allows us to reach a clearer diagnosis of the situation as a prior and essential step to adopt the appropriate measures that seek to consolidate our position on the AI podium.

As we will argue later in this chapter, the EU must regain the pulse of public research and the leadership of what will be the future of AI, and not only by the force of law, but by investment in R+ D+I, and ensure that its results successfully filter down to companies

and society as a whole. It must be applied to the training of talent and also to the creation of the conditions that will allow talent to be retained or even attracted to come to Europe. It must create fertile ecosystems in high-impact innovation and make not only possible but reasonably probable the growth of companies capable of addressing the entire domestic market and even the global one. For all this, of course, capital is needed, but not only economic, but also intellectual and political capital.



## WHERE DO WE START FROM?

The reports that analyze the situation of AI in the world follow one after another and are a reflection of the interest of countries and organizations in this field. Some of the most interesting and complete are the “AI Watch”<sup>18</sup>, prepared by the EU, and the “AI Index Report”<sup>19</sup> from Stanford University.

In all of them the leadership of the US and China is evident. They are leaders both in research and in the economic impact of their results and, in general, in the development of services, products and applications, including patents, public and private investments, creation and scaling of companies...

Research is the basis for a constant development of AI. The leading global companies in AI are leaders in investment for R&D&I in this sector. The United States continues to lead the way in pioneering AI research and the development of large-scale AI models (linguistic and multimodal models, in particular). The large-scale language models market is estimated at around \$6.5 billion in 2024, with growth of 500% by 2030, reaching \$36.1 billion by that year. The present and future forecasts point to shared leadership between North America and the Asia-Pacific region. As a button shows: of the 18 leading companies in this sector, 11 are American, 4 Chinese (one in Hong Kong), and one in three other countries: South Korea, Israel and Russia.

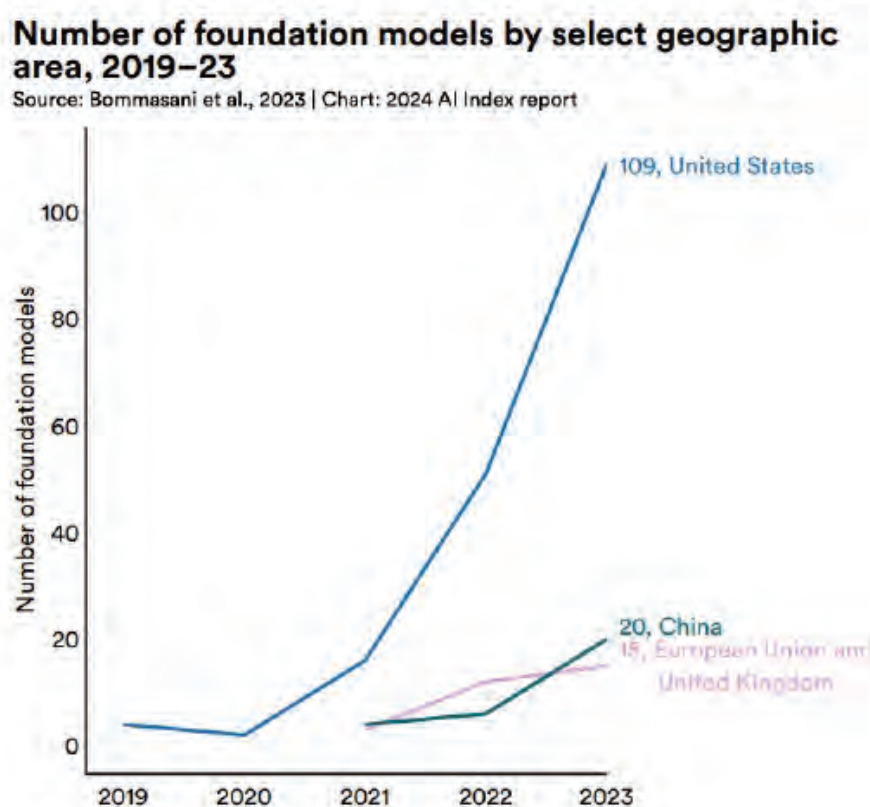


FIGURE 1: FOUNDATIONAL GENERATIVE AI MODELS DEVELOPED IN THE PERIOD 2019-2023 (SOURCE: AI INDEX REPORT 2024)

<sup>18</sup> AI Watch offers an analysis of multiple indicators related to the development of AI around five dimensions: global vision of the AI landscape, industry, research and development, technology and social aspects.

<sup>19</sup> Large Language Model Market. Global Forecast to 2030. MARKETANDMARKETS, 2024



China, for its part, has demonstrated its growing capacity in R&D, and leads the total number of publications on AI in journals, conferences and repositories. In the case of AI patents, China's leadership is overwhelming, propelled by the deliberate strategy of its government.

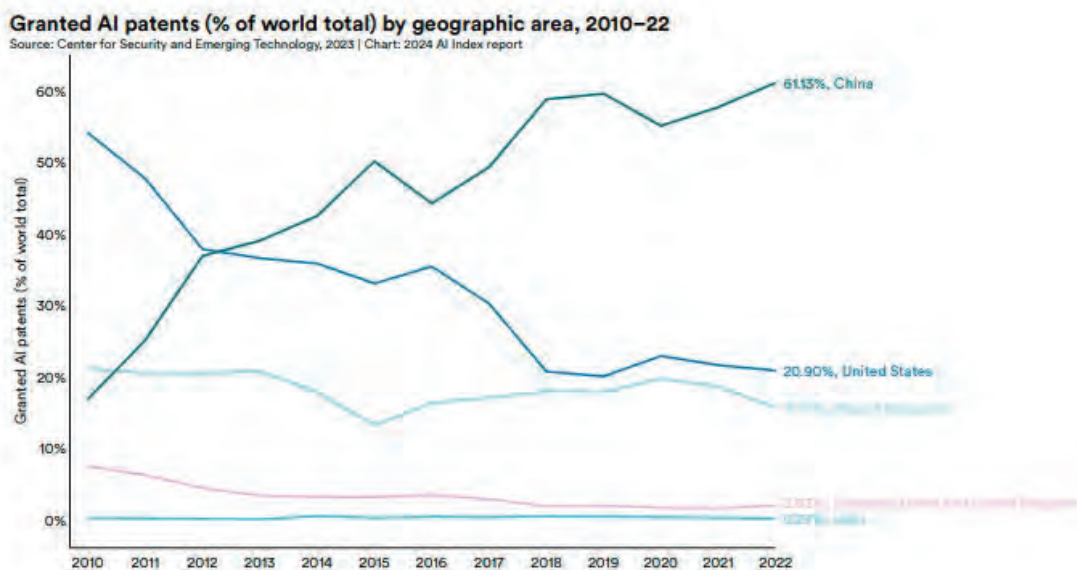


FIGURE 2: PERCENTAGE OF AI PATENTS GRANTED IN THE PERIOD 2010-2022 (SOURCE: AI INDEX REPORT 2024)

The United States and China also lead private investment in AI companies. The US does so overwhelmingly, with an investment of almost \$250 billion in 4,643 companies, compared to \$95 billion in 1,337 companies in China. This data relates to the period 2013 and 2022. The United Kingdom, Israel and Canada follow at a distance, although they undoubtedly occupy creditable places. We must look down the list to 7th and 8th positions to find EU countries, specifically France and Germany, with an approximate investment of 7,000 million dollars for the same period<sup>20</sup>.

If we look at data from 2023, the US leadership is repeated, with private investment in AI of \$67.2 billion, almost nine times that of China<sup>21</sup>.

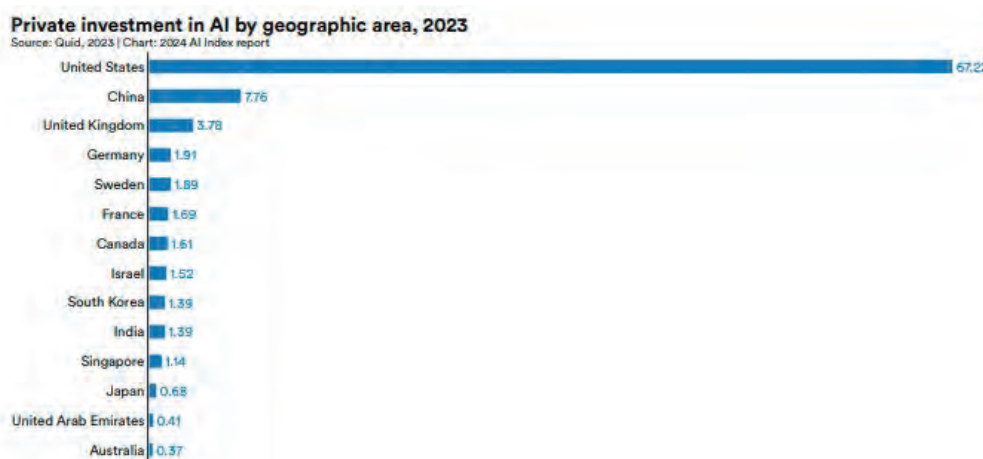


FIGURE 3: PRIVATE INVESTMENT IN AI IN 2023 (SOURCE: AI INDEX REPORT 2024)

20 <https://www.visualcapitalist.com/sp/global-ai-investment/>

21 AI Index Report 2024 (<https://aiindex.stanford.edu/report/>)



European countries, particularly those in the EU, lag far behind. It is not that there are no companies to invest in, but that much less is invested in them, and this is an especially critical problem for the scaling of technology-based companies.

The US and China are also leaders in innovation, although employing different models. Innovation in the United States is driven by a combination of leading academic institutions, a dynamic ecosystem of new technology-based companies and a set of technological giants –Google, Meta, IBM, Apple, Microsoft or Amazon–, global leaders who carry out important investments in the AI sector. This has allowed the country to develop cutting-edge AI technologies in autonomous vehicles, healthcare and process automation, to name but a few strategic sectors<sup>22</sup>.

The Chinese approach to AI innovation is slightly different, but equally successful. It is characterized by strong state support and a commitment to the goal that was introduced years ago of becoming the world leader in AI by 2030. Their focus is on the application of AI to surveillance, facial recognition and social governance, along with commercial applications in sectors such as e-commerce, mobile payments and autonomous vehicles. China's strategy involves significant public financing, the availability of large amounts of data and the use of its enormous population as its own major market. The country has shown notable advances in areas of AI such as computer vision and speech recognition, driven by companies such as Alibaba, Tencent and Baidu: technology giants largely comparable to the American ones.

## NOT AT ANY PRICE: WHAT SHOULD THE GOAL BE?

The development and application of AI in recent years is unmatched in its speed and impact by any other technology. European values such as social democracy force us to realise that achieving harmonious economic and social development requires a commitment and a balance between taking advantage of economic benefits and safeguarding social well-being. Europe is not only the first region in the world to broadly regulate AI, but it has done so while respecting the fundamental rights of people and European constitutional values and principles: something that we are convinced will become the only possible way forward for the development and trustworthy use of AI. Europe must be resolute in its commitment. No one else will do it, or they will not do it with the requisite intensity and weight to have any chance of involving the rest of the world in it.

On this topic and from a European perspective we consider it critical to defend the following aspects:

### 1. AVOID AN INCREASE IN INEQUALITIES

AI has the potential to significantly increase productivity and innovation, and this translates into economic growth. However, the benefits of these advances run the risk of being distributed unequally, amplifying income and wealth disparities between different socio-economic groups. To avoid this, policies must be developed that guarantee equitable access to AI technologies<sup>23</sup>. Education and training programmes must be adapted to equip workers with relevant skills in an AI-driven economy thereby reducing the digital divide and avoiding the marginalization of less privileged sectors of the population.

22 <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/securing-europes-competitiveness-addressing-its-technology-gap>

<https://www.mckinsey.com/mgi/our-research/accelerating-europe-competitiveness-for-a-new-era>

23 <https://www.technologyreview.com/2022/04/19/1049378/ai-inequality-problem/>



## 2. REDUCE COGNITIVE DEPENDENCE ON MACHINES

The efficiency and convenience of using AI-based tools, particularly generative AI, can lead to extreme dependence on smart technologies, progressively diminishing human cognitive abilities, including those that still make us unique compared to machines, such as reading comprehension, writing, critical thinking and even creativity. We cannot afford this, and there is no better way to avoid it than education and social awareness. We need to rethink the educational model and system to confront this new world of people and machines, focusing education more on what makes us authentic and more valuable than machines, and on learning to live in a world where machines will be extraordinarily useful, but not to the point of being an alternative to people, nor making us absolutely dependent on them.

## 3. PROTECT DEMOCRACIES

The proliferation of AI technologies on information dissemination and social media platforms has raised concerns about their potential to influence public opinion, spread false information and undermine democratic processes<sup>24</sup>. The World Economic Forum (WEF) in its Global Risks Report 2024<sup>25</sup> identifies disinformation and misinformation as the main global risk in the short term (two years), and the first of the technological risks in the medium term (one decade), second only to environmental-related risks. Thus, the WEF highlights the fact that the manipulation of information has become a serious danger that can disrupt the democratic process and undermine public trust. Furthermore, they warn that the speed with which disinformation can spread in the digital age represents a significant challenge to global stability. The report also highlights how artificial intelligence (AI) could be used by malicious actors to generate and spread disinformation on a large scale, further intensifying the associated risks.

To safeguard democracies we need transparent algorithms, improved technological tools to combat the growing toxicity in the digital world and regulatory frameworks that allow us to act efficiently and diligently against practices that threaten our democracies, as well as establishing a broad social alliance to preserve the integrity of information. Additionally, we need initiatives to improve digital literacy that can help citizens critically evaluate and question the information they encounter in the digital world.

## 4. ESTABLISH A REGULATION THAT GUARANTEES THE DEVELOPMENT OF TRUSTWORTHY AI

AI regulation poses a unique challenge: the need to foster innovation while ensuring that AI systems are safe, transparent and fair. A reliable AI regulatory framework must prioritize ethical guidelines and values and respect for human rights that are inherent to the EU. These regulations should encourage the development of AI that is explainable, secure, and privacy-preserving, thereby maintaining public trust and support for AI technologies.

The European AI Regulation is the first European response to the challenge of responsible innovation in AI. This regulation establishes a risk and technologically neutral approach, so that according to the impact assessment of the European Commission that accompanied the proposed Regulation the regulatory impact that is transmitted to the market is located in 10% or 15% of all AI systems in the European market.

The Regulation establishes a series of domains where it is considered that AI applications can significantly affect the safety, health or basic rights of citizens (either because it affects

24 <https://ash.harvard.edu/ten-ways-ai-will-change-democracy>  
<https://www.harvardmagazine.com/2023/10/democracy-elections-ai>

25 <https://www.wfd.org/what-we-do/resources/how-ai-might-impact-democracy>  
<https://www.weforum.org/press/2024/01/global-risks-report-2024-press-release/#:~:text=URL%3A%20https%3A%2F%2Fwww.weforum.org%2Fpress%2F2024%2F01%2Fglobal>



AI systems in sectors where harmonized regulation already exists in the EU, such as medical devices, the aviation industry or the machinery industry, or because it affects certain areas where they can have a greater impact on the fundamental rights of citizens, such as the justice sector, biometrics, access to essential public or private services, or critical infrastructure). For the rest of the AI systems, transparency obligations are established to cover the publication of deep fakes, the use of chatbots and the use of general-purpose AI models and systems.

## **5. ANTICIPATE MEASURES AGAINST TECHNOLOGICAL UNEMPLOYMENT AND THE PRECARIOUSNESS OF EMPLOYMENT**

As AI and automation become integrated into different sectors of activity, we may see a loss of employment, even a net one, and deterioration in the working and salary conditions of some workers. Intelligent technologies can have a very unequal impact on different professional profiles, especially affecting middle and medium-high positions, and can apply whether we are considering either a type of work or the performance of it. For example, it is easier to automate drafting a contract in the legal field than to automate cleaning a lawyer's office. The real effect that this will have on the generation and destruction of jobs and the salary and working conditions associated with them remains to be seen, but this uncertainty should not hold up the process, quite the contrary. In this sense, it is essential to anticipate how to mitigate the impact of technological unemployment. This includes training workers for the new reality and creating employment that meets needs and opportunities in sectors and occupations with a lower degree of automation. In addition, it will be necessary to create and explore social policies, such as a universal basic income, which would provide a safety net and support to those who are negatively affected by the automation of employment.

## **6. ENSURE THE SUSTAINABILITY OF AI**

The rapid deployment of AI and its energy and water needs<sup>26</sup> has had a strong impact, particularly where large data and supercomputing centres are installed. The expected evolution in this sphere is even more worrying. For example, the United States, which serves 40% of the global market for large data centres, will have an energy consumption of about 35 gigawatts (GW) in 2030 compared to 17 GW in 2022 according to estimates collected in an analysis from McKinsey<sup>27</sup>.

The increase in the capacity of storage, computing and communication resources that support AI need to be carried out in a sustainable and environmentally-friendly way.

## **PARADIGM SHIFT: PROMOTE AN ECOSYSTEM WITH HIGH INNOVATIVE POTENTIAL IN AI**

The EU needs to invest decisively and meaningfully in AI. Failure to commit sufficient funds now will result in a much higher cost in the future. We have the example of the semiconductor industry that Europe and also the US, although to a lesser extent, gave up on. Now both are committing huge amounts of money trying to recover what they let slip away. The US government plans to allocate about \$30 billion in subsidies to attract AI chip makers and the EU plans to spend \$43 billion on its chip programme.

<sup>26</sup> Although as for water, it is true that huge quantities are used, but once cooled it can be reused for other uses.

<sup>27</sup> <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/investing-in-the-rising-data-center-economy>



## EUROPEAN IMPULSE FUND:

The EU demonstrated with COVID-19 that it can react decisively to an urgent need, committing a large amount of resources. Now it should confront the creation of an ecosystem with high innovative potential in AI with the same ambition and courage with which it faced the pandemic. To achieve this, it is essential to create a European Fund to Promote the AI Ecosystem, which should be allocated at least 100 billion euros (Saudi Arabia has recently announced the creation of a fund of 40 billion dollars for a similar purpose), and serve at least three types of purposes:

- ▶ Financing specific ends, such as: basic and applied research in AI, particularly research centres accredited for this purpose and projects with very high scientific-technological potential; the transfer of research results that have sufficient investment and support in intellectual and relational capital to reach high TRLs, and ideally, to the market; fiscal and financial support for start-ups and SMEs for innovation in, and with, AI; the deployment of data infrastructures, high-performance and cloud computing and quantum technologies; and a common European cyber-security policy.
- ▶ European AI venture capital fund dedicated above all to the development of AI-based companies in any sector, not just purely technological. In a similar fashion to the European Investment Bank's Venture Capital Initiative, this fund should offer capital and specialized advice to help start-ups develop globally. It will be necessary to calculate the appropriate size of this fund, but considering that in the US investments of dozens and even hundreds of millions of dollars are common in start-ups with high innovative potential, it should not be less than 10 billion euros.
- ▶ Provide funds to Member States to develop actions in their territories based on their specific needs and opportunities, but aligned with the objectives of the EU common plan.

## TALENT: TRAINING, WORKING CONDITIONS AND DEVELOPMENT PROJECTS

The strategies to train, attract and retain talent related to AI are relatively clear, since they are basically the same as in any other branch of knowledge<sup>28</sup>. Therefore, it is not about having fancy ideas or doing what no one has done, but about doing precisely what others have done or are doing successfully and then trying to adapt and improve on it.

EU countries have many elements in their favour, such as the quality of their training and the quality of life and their democracies, but they are failing, to a greater or lesser extent, in the retention sphere. For a country or a region that wants to employ talent in any field it is not enough merely to train it, but it must also retain it and attract it from outside. Talent, like money, looks for the best opportunities, so if these are in other places, we will be training many professionals for other countries to reap the benefits. Furthermore, it is not just about taking care of higher education in AI, but about doing it from a very early age. In this area, and once again, it is the US and China that are at the forefront in the application of AI literacy plans in early educational stages<sup>29</sup>.

Europe also faces a double challenge in its labour market: on the one hand, the aging of the population, which leads to a reduction in the workforce; and, on the other hand, the increasing automation of work, whose economic, labour and social management will not be easy. Added to this is the deficit of STEM graduates, which is much lower than that of our main competitors, the US and China.

The training of talent in the EU requires the implementation of more specialised programmes in AI, both at undergraduate and postgraduate levels, and others courses aimed at the continuous

28 <https://www.bcg.com/publications/2023/how-to-attract-develop-retain-ai-talent>

29 Casal-Otero, L., Catala, A., Fernández-Morante, C. et al. AI literacy in K-12: a systematic literature review. IJ STEM Ed 10, 29 (2023). <https://doi.org/10.1186/s40594-023-00418-7>



training and requalification of professionals. Furthermore, it is equally important to reform curricula for the inclusion of AI in the curriculum of all specialties of higher and professional education and to start doing so as soon as possible at the earlier educational stages.

The presence of women in AI and technology is very low. Only 22% of AI professionals worldwide are women and as authors of scientific publications in this field women represent only 13.83%. Furthermore, start-ups founded by women received only 2% of venture capital in 2019<sup>30</sup>. This under-representation manifests a huge limitation to the development of AI and, in particular, its industry. Europe must correct it. Firstly, because we champion these values; but also because significantly increasing the presence of women in ICT in general, and in AI in particular, is one of the most important assets we have to correct our secondary role in AI compared to China and the US. All initiatives in this sense will be too few, from scholarships and specific aid for study and research for women, incentives for their incorporation into the market and entrepreneurship, as well as awards and other forms of public recognition that afford them greater visibility. However, in the long term, the most important issue in this regard will continue to be the heightened awareness and education of society as a whole.

In any case, anything we do in terms of training will never be enough if we are not able to retain our indigenous talent and also to attract talent from outside. And for this there are three essential conditions:

1. Salaries must be competitive with those of other leading AI countries.
2. There must be attractive, high-impact projects that encourage researchers, professionals and entrepreneurs to work on them and stay with us.
3. We must provide sufficient means to carry them out.

## **R+D+I WITHOUT PARADOXES**

The EU must increase its research capacity, encouraging the development of research centres specialized in AI that are highly competitive and with a genuine capacity to transfer results to the productive fabric. Furthermore, it is important that the EU leads the necessary recovery of public weight in AI research. Leaving it merely up to companies to determine the future development of AI would be the same as leaving the management of the climate crisis solely in the hands of the industry. In short, governments must set the limits on the development of AI, but also guide the path of research and the uses its results are put to. With the right investment this should not be too difficult. Europe is already part of a large number of reference research centres in AI and has a recognized status in research and the training of researchers in this field.

The European Union has been funding research and innovation for years through funding programmes such as FP7, Horizon 2020 and Horizon Europe. From 2007 (with the FP7) to 2027 (with Horizon Europe), around 230,000 million euros will have been invested in research and innovation of all kinds, and it is informally estimated that half of the budget has gone to investment in technological areas and the application of ICT to different productive and research sectors. But this R&D funding has not been transferred to the market as it should have been, and the problems are more structural than cyclical. First, there is a specific market for access to public financing that innovating companies and SMEs do not have access to due to the complexity and bureaucracy that such funding entails. Structures like the EIC or the EIB can help provide access to European financing to other types of market players. Second, there is also a certain disconnection between what research is funded by the EU and what is really marketable, since in many cases long research processes are required before the result becomes profitable (for example, with basic research in quantum technologies or batteries).

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30 <https://www.weforum.org/agenda/2022/08/why-we-must-act-now-to-close-the-gender-gap-in-ai/>



There are also high regulatory barriers and a certain fragmentation. At the European level an attempt is being made to resolve these problems with new regulatory developments, mainly through the Regulations, in order to fortify the internal market. Finally, and most importantly, there is a clear risk aversion in the EU, both at the individual level and at the business and investment level, which makes it difficult to adopt new technologies, such as the creation of innovative business model projects.

In short, as in other fields, AI is no stranger to the well-known “European paradox” associated with the difficulties in translating research competitiveness into corresponding economic and technological benefits. The efforts made so far to radically change this landscape have not yielded the expected successes. Europe continues to suffer the results of insufficient incentive systems, lack of effective collaboration between public research and industry, and funding systems and innovation support policies that are not fully aligned with the needs of the market. It is not the objective of this document to propose concrete actions, but all we can say is that continuing to do the same will not achieve any different results from those we have had to date.

Nevertheless, it would not be fair to say that no progress has been made in this regard. The European Union and several of its Member States have implemented policies and programmes aimed at facilitating technology transfer and the commercialisation of research, such as the Horizon 2020 programme and its successor, Horizon Europe, currently in force; but they are neither sufficient nor fast enough to turn the tables. It is necessary to introduce accelerators in the research system and in the transfer of its results for innovation, or we will always be too late to benefit from the market opportunities.

Transferring results from A to B certainly requires the will, ability and success of A, but also, and above all, the interest and pro-activity of B. There is a lot to do here as well. A complex and isolated market is the worst scenario for an industry that must recognise needs and opportunities. We have already discussed the barriers derived from a fragmented market and the existence of a restrictive regulatory framework, but there are many more conditions that hinder the EU in this area: amongst others, insufficient risk capital - especially for the development of companies, weak knowledge transfer and cumbersome bureaucracy that reduces the agility of marketing and entrepreneurship.

The ways of innovating in Europe, the United States and China present significant differences due to several structural, cultural and political factors. These differences impact how technologies are developed, companies are managed, and innovation is applied in each region. The EU imposes strict regulations to protect consumers and personal data, for example. The US approach is more liberal regarding technology regulation, giving greater freedom to innovation, especially in technology sectors. But it is not only its regulatory permissiveness; we are talking about a country that generally values risk and rapid innovation positively. In China, it is the government that plays a very active role in directing innovation with state policies that support specific sectors such as 5G technology and artificial intelligence itself, contributing significant public funds to these sectors as well as important infrastructure and benefits for companies that align with government objectives, all of which facilitates rapid development and the adoption of technologies.

In addition to advances in the basics and algorithms, the other pillars of the spectacular development of AI are the enormous computing capacity and the growing availability of data, not to mention the investment effort. We have already talked about this, but not yet about infrastructure and data, which are also vitally important.

## **INFRASTRUCTURE**

All countries and regions in the world that are, or intend to be, at the forefront of AI are making large investments in basic infrastructure for artificial intelligence (AI), especially in the areas of



high performance computing (HPC), data centres, cloud computing and broadband Internet. According to IDC, by 2025 one-fifth of all global computing infra-structure will be used to run AI<sup>31</sup>.

The EU was funding infrastructure investment between 2014-2020 through the Connecting Europe Facility when a special allocation of €1,042 million was dedicated to supporting digital connectivity across the European Union, promoting the implementation of key digital infrastructure, such as high-speed broadband networks, secure and inter-operable online services and innovative digital applications. This experience led to the creation of the Digital Europe Programme to ensure funding for the deployment of all types of digital technologies, including digital skills, across the European Union. This programme has a budget for 2021-2027 of 7.5 billion euros, making it one of the most important EU programmes in technology implementation<sup>32</sup>.

The EU also wants to develop a world-class supercomputing ecosystem in Europe through specific initiatives, such as EuroHPC (European High Performance Computing Joint Undertaking<sup>33</sup>) that has an investment in the period 2021-2027 of approximately 7 billion euros, and which integrates quantum computing<sup>34</sup>. There is little doubt that quantum technologies will represent an advances in communications and computing, in this case as very powerful calculation resources complementing digital ones. There is also no doubt that AI will be one of the fields in which it will have the most impact, which means that it will end up being present in all sectors of knowledge and productive activity. But this will take some time, and without at all neglecting investments and R&D in quantum technologies, we must focus above all on those technologies that are already a market reality.

In this sense, having computing and storage services in the cloud is critical in general, and for the development of AI in particular. The current major providers are Amazon Web Services (AWS), Microsoft Azure, IBM Cloud, and Google Cloud Platform (GCP), all of these in the US, and Alibaba Cloud, in China. The services provided by these giants are increasingly relevant for companies' competitiveness and growth. Europe is not present in this select set of suppliers and this is a clear disadvantage that also generates a very evident technological dependency. At the same time, the United States is the world leader in HPC, with a firm commitment to exascale supercomputers, something that is considered critical not only for the country's competitiveness, but also for national security.

On the other hand, the EU must develop the intermediate level of computing, known as fog computing. This intermediate level between edge computing, which processes data at or near its generation source (mobile devices and IoT, for example) and cloud computing, associated with large data centres, permits better data aggregation and the analysis and distribution of content close to end users. Fog computing enables faster response times, greater bandwidth utilization, reduced costs, greater data security and privacy, and increased reliability. All of these are advantages in line with the objectives defended and regulated by the EU, and perfectly compatible with more efficient and competitive uses and applications.

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31 <https://blogs.idc.com/2022/01/14/the-industrialization-of-high-performance-computing/>

32 The actions of this financing framework include; the creation of AI testing and experimentation centres; data spaces in different sectors through not only federation sharing technologies but also sovereign cloud services; investment in cyber-security, including EU cyber-security mirror centres; the creation of Digital Innovation Centres; and the digitalization of the public sector to respond to the implementation of the EU public services inter-operability framework, as well as the citizen's data portfolio and their European digital identity.

33 [https://eurohpc-ju.europa.eu/index\\_en](https://eurohpc-ju.europa.eu/index_en)

34 A tender has recently been announced for the installation of LUMI-Q, a new EuroHPC quantum computer that will be located in the Czech Republic and will be integrated into the EuroHPC KAROLINA supercomputer.



## DATA

There are many reasons for the EU to develop a common data policy for AI. It would facilitate commitment to data privacy and protection, increasing transparency and public trust in services and application, and would also allow for a gain in competitiveness, supporting data-driven innovation. Furthermore, a common data policy would minimize legal fragmentation, making it easier for companies to operate across the EU, which is essential for increasing market size. For example, the European Data Strategy, which aims to turn the EU into a model of a data-based society but with strong regulation that protects rights and values that we consider inalienable<sup>35</sup>, is expected to generate significant economic benefits in just five years. In fact, the Data Law alone is expected to generate €270 billion of additional GDP between now and 2028.

The EU should develop a federated data infrastructure that enables the secure storage, access and analysis of large volumes of data that is essential for the training and operation of AI models. This would include the creation of GDPR-compliant data centres and the promotion of a network of data contribution and use between Member States. Data is the essential raw material for building artificial intelligence tools, along with human talent. Without access to data in sufficient quantity and quality, any attempt to advance in this field is worthless. Europe has a long way to go here too, but it also has some opportunities that must be taken advantage of: 1) A legal framework that, although it may be seen as restrictive, adds legal certainty, and this is a value that is increasingly appreciated by companies that perform data-intensive operations; 2) The EU as a whole can be a world power in data associated with sectors of special interest and social and economic value, with the guarantee of respect for intellectual property, privacy, security and the fundamental rights of people. The health and well-being sector are paradigmatic, but so are public administrations, the financial sector, energy, transport... It is essential that initiatives such as the European Health Data Space (EHDS) be successful, and others in equally strategic areas; 3) Create and maintain a massive, public and private open data initiative that provides high-quality datasets that are accessible to researchers and developers in Europe and managed under strict privacy and security policies.

## WE NEED TO GROW

It is difficult to be innovative with AI unless there is a basis of research. But it is also true that research is not a sufficient condition for innovation to emerge. It is companies that innovate, and in Europe there are not many that have the size and resources necessary to do so in a field as complex and dynamic as AI<sup>36</sup>. This is undoubtedly the main shortcoming of the EU since innovation is not only related to the direct business volume of these companies, but also to their driving effect on the entire economy: research, innovation and the generation of talent. Companies that innovate create virtuous ecosystems, either physical or virtual.

The EU presents a series of limitations inherent to its nature that, although based on characteristics that we can consider positive in some circumstances, pose additional challenges and difficulties in the AI market. This is the case with regard to the diversity of the EU, be it cultural, linguistic<sup>37</sup> or political. This strength generally hinders the economic development and

35 <https://www.eib.org/en/press/all/2023-203-digitalisation-in-the-european-union-progress-challenges-and-future-opportunities>

36 Senén Barro, "Un tablero en que sólo juegan dos", Vanguardia dossier, ISSN 1579-3370, No. 77, 2020 (Issue dedicated to: Who will rule artificial intelligence?), pp. 16-19.

37 If we know how to manage it well language diversity, particularly in Spain, can be a positive element in the development of a competitive industry in linguistic technologies (TL). Spain has one of the most spoken languages in the world and in more countries. Therefore, it has a potential "market" of the first magnitude. Furthermore, having several languages, although minority ones, Spain is forced to work on multilingualism and this can give us competitive advantages so that the Spanish



competitiveness of certain sectors, such as AI.

The EU economic space remains fragmented, making it difficult for European companies to achieve the scale that benefits many markets with a winner-takes-all dynamic, or at least takes the major part of it. In contrast, the United States benefits from a large, unified market and China also has a huge domestic market in addition to extraordinary government support for the AI sector, creating an environment conducive for their companies to grow rapidly.

By contrast, the 27 member states of the European Union have their own legal systems and regulations that make the uniform operation of companies across internal borders more complicated. This diversity, whilst having many advantages, can be an obstacle for companies looking to expand rapidly in a single market. Furthermore, Europe's linguistic and cultural diversity can make it difficult to market and adapt products and services to multiple markets within the same region. Given this scenario we must take advantage of the development of linguistic technologies, which is why making the Union especially competent in R&D and the application of these technologies is particularly important.

In any case, there are things that we cannot change in the EU and things that we are not willing to change even though they may apparently reduce our competitiveness. In the European Union, the promotion of a trustworthy AI is seen as an ethical and strategic imperative, although it may appear that this means losing competitiveness compared to the United States and China where AI regulation is more lax and the scale of the market allows for more accelerated technological development.

But the EU is the undisputed leader in establishing legal and ethical frameworks for AI, such as the General Data Protection Regulation (GDPR) and the recently approved European AI Regulation. It is also very active, through its Member States, in standardization bodies and processes, which is very relevant to ensure inter-operability and to manage AI risks related to security and fundamental rights.

We are not condemned to a lack of innovation because of our regulations and the protection of human rights and values that have been achieved with no small effort. Therefore, unless the hackneyed phrase that "The US innovates, China emulates and Europe regulates" becomes a self-fulfilling prophecy, it does not have to be that way<sup>38</sup>. For example, a trustworthy AI should open the doors to AI applications in particularly sensitive sectors, such as health and public administration where trust and data security are crucial. In fact this very year (2024) the European Commission launched a strategic framework for investment in trustworthy AI "for the Union to capitalize on its assets, in particular its supercomputing infrastructure, and foster an innovative European AI ecosystem in which emerging companies and innovators can collaborate closely with industrial users, attract investment and have access to the key ingredients of AI: data, computing, algorithms and talent."<sup>39</sup> That said, it is true that the law must serve more positively to clarify what is possible and desirable, rather than to fence it off. The EU must take note, once the European AI Regulation has been approved, since, as they say, "the devil is in the detail."

## **AI-POWERED COMPANIES: SIZE MATTERS**

By 2022, 69% of EU companies had implemented advanced digital technologies, such as

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industry in TL can reach a much larger market. In the case of the EU this is much more evident, of course. In fact, it is surely no coincidence that DeepL SE, a world-leading translation company, is German.

38 "The global race to regulate AI" Funcas Intelligence

39 Communication on boosting startups and innovation in trustworthy artificial intelligence (<https://digital-strategy.ec.europa.eu/en/library/communication-boosting-startups-and-innovation-trustworthy-artificial-intelligence>)



advanced robotics, big data analytics and artificial intelligence, significantly reducing the gap with the US, which in that year attained a figure of 71 %.<sup>40</sup> But the evidence is that the US and China are clearly ahead in AI-based entrepreneurship and business activity.

A Data Information Centre report asked in 2019: “Who is winning the artificial intelligence race: China, the EU or the United States?”<sup>41</sup> The report compared the three of them in terms of their relative position in the AI economy by examining six categories of metrics: talent, research, development, AI adoption, data and hardware. It concluded that the United States led the group, then China with the EU last - and quite far behind at that. This was before the generative AI boom. Since then the AI economy has grown and so has the gap between the EU and the other two countries. In fact, among the companies leading the development and use of generative AI globally, there are none from the EU, as shown in the following figure:

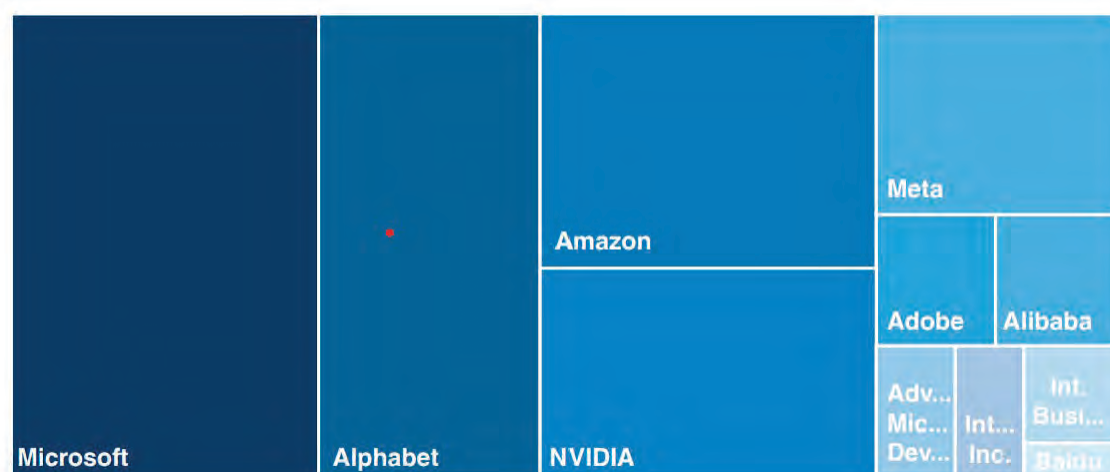


FIGURE 4. MARKET SHARE OF THE MAIN COMPANIES USING GENERATIVE AI IN THE WORLD (SOURCE: POLICY-PAPER-IA-GENERATIVA.PDF (REALINSTITUTOELCANO.ORG))

For the EU to compete it needs to foster a favourable environment for start-ups including easing regulatory restrictions, offering financial incentives and encouraging collaboration between new and already established companies. But above all, it needs to develop start-ups and take them to an international and even global scale. Here size is indeed crucial.

However, large technology companies are an essential element of an advanced ecosystem both in AI and in different digital technologies.

This is true in a dual sense: on the one hand, in the digital economy, success depends on the size of the market, the number of users - the more users, the more added value the company produces for all of them. In other words, the problems of market domination are not resolved in the case of digital and AI companies by reducing them in size (as was previously done with the Bell companies in the US) because their success is directly related to their great, and increasing, size.

Large technology companies are also an essential element of the ecosystem that must be created for other very important reasons. On the one hand, they are the companies that can be related most significantly to the vanguard role that the State must play when it comes to catalyzing and advancing the entire ecosystem. On the other hand, they add to the vision of

40 <https://www.eib.org/en/press/all/2023-203-digitalisation-in-the-european-union-progress-challenges-and-future-opportunities?lang=es>

41 [Who Is Winning the AI Race: China, the EU or the United States? – Center for Data Innovation](#)



which new AI developments can be successful in the future, and that vision, without a doubt, transfer across from large companies to large venture capital investment funds, allowing great ideas (e.g. Uber) to receive literally hundreds of millions of dollars in funding before even reaching their own break-even point. As can be seen, the existence of large technology companies is an essential element not only for the existence of a fruitful public/private policy dialogue, but also for the establishment of prolonged periods of maturation for the start-up network, providing it with enough space for innovation to flourish and for venture capital markets to act with long-term vision and not demand profitability from innovative entrepreneurship from one day to the next.

But this is not happening yet. There is a lack of investment and traction to grow companies, even the most promising ones. This lack slows down innovation, reduces global competitiveness, productivity and employment, weakening the EU economy. Furthermore, it represents a more than worrying technological dependency.

It is evident that for any technological giant to exist in Europe there must be a policy that encourages it, allows it and makes it possible, and such a policy may be in contradiction with the rigidity of European competition rules. This is probably the most important pending issue for Europe to address if it wants to generate the AI ecosystem that allows us to compete on a global scale.

We have already mentioned the need to mobilize much more risk capital and also to manage to deactivate the classic European risk aversion regarding investment. In any case, it would be interesting to implement a tax incentive programme to attract private investments in AI start-ups and a unified certification system for AI companies that not only guarantees regulatory compliance but compliance in general with trustworthy AI standards, and which also allows certified start-ups to operate throughout the Union without the need to obtain additional permits in each country. This would reduce bureaucracy and facilitate rapid expansion across Member State markets.

On the other hand, growing the European economy around AI requires creating greater demand among companies, public administrations and the general public. In particular, it is essential to encourage companies to adopt AI technologies for innovation purposes and not for the mere replacement of workers; this would also guarantee the demand for qualified labour.<sup>42</sup>

Europe can make its AI regulation profitable by positioning itself at the epicentre of Trustworthy AI. By setting high standards on data privacy, transparency and accountability, Europe can attract companies and researchers committed to these values. In addition, it can encourage innovation in quality AI services and products and support the creation of a new and significant sector of companies that offer professional services and advice for the development of AI-based solutions that meet all legal requirements and other ethical criteria.

This would not be unprecedented. Let's look at the example of financial technologies whose regulation has stimulated the creation of new companies and a relevant market. Regulatory changes aimed at increasing competition and consumer protection, such as the Payment Services Directive (PSD2) in the EU, have led to the emergence of open banking. This has enabled financial technology start-ups to offer innovative services, ranging from payment solutions to financial management applications. Similarly, the GDPR has fuelled the growth of privacy technology with companies developing solutions to help other companies comply with data protection laws.

In short, although it is often said that he who makes the law cheats, in our case we think that

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42 Barro, Senén; Davenport, Thomas H., "People and Machines: Partners in Innovation", MIT Sloan Management Review; Cambridge Tomo 60, N.º 4, (Summer 2019): 22-28.



“he who makes the law can create a new market” because regulations significantly influence the dynamics of the market and the paths of innovation. Legislation defines what is permitted and what is not, and this not only protects stakeholders but can also drive innovation and new business models and markets.

Therefore, the EU must strive to enhance its commitment to Trustworthy AI:

- ▶ Supporting economic and business activity regarding the deployment of the EU AI Law.
- ▶ Leading the development of international AI standards and norms (AI made in EU) as a global reference and also as a strategy for its economic valorisation.
- ▶ Establishing international alliances and collaborating with other countries that have the same commitment as the EU to the trustworthy development of AI. It would be advisable to include in trade agreements –as well as in new regional partnerships– rules on digital trade with provisions that strengthen cooperation in the regulation of the digital economy and covering such areas as privacy, competition policy and AI regulation.

In conclusion, the EU faces a formidable challenge in bridging the AI gap with the US and China. Addressing this challenge requires a holistic approach infused with the necessary ambition and covering at least the following topics: advancing research and innovation; increasing investment and improving infrastructure; supporting companies and entrepreneurs; home market growth spurred by greater public engagement and trust around AI; special attention to talent and with the massive incorporation of women; and balanced regulatory frameworks that are committed to Trustworthy AI and sustainability and that do not penalize innovation –quite the contrary– since another objective must be to monetize the EU’s commitment to Trustworthy AI.

This document is not intended to cloud or obscure the EU’s vision of AI. On the contrary, it seeks to highlight the opportunities that would arise if we are able to reinforce the strengths we already have. For example, the EU has good digital infrastructure, good universities and public research centres, a well-educated society that shares democratic values and respect for human rights. The values of social democracies are not only fundamental for well-being and equity within Europe, but are also crucial for a sustainable and peaceful global future. Ignoring these principles could lead to a more fractured and volatile world, with problems that transcend national borders and affect humanity as a whole. Technologies, and especially intelligent ones, due to their exceptional impact on our lives, can exacerbate their negative aspects if their development and use is only guided by what is possible and not by what is desirable.



**FIFTH DIMENSION:  
EUROPEAN DEFENCE,  
GLOBAL SECURITY**



## INTRODUCTION (A SUMMARY)

- ▶ Europe, after the terrible lessons learnt from war culminating in the two world wars, is a continent that wants to live in peace. That is why the European Union was created –to consolidate our peace–, a gigantic work that is still on-going.
- ▶ Since the middle of the last century we have become accustomed to prosperity and peace at a low cost without feeling a desperate need to protect ourselves from factors that could disrupt it. But in a short time everything has changed.
- ▶ Currently, if we want to be a global player along side the USA or China, we are faced with the need for a third phase of European integration within a context of profound geo-political transformation that includes high-intensity conflicts. It can be said that the first phase of European integration was the market; the second was the economic and monetary union - the euro. In the present stage it is up to us to address security and defence policy with an ambitious vision, together with greater internal cohesion over new fiscal policy instruments, financial integration and European taxes, as we have already examined in the first chapter of this report. Without this, Europe will have no deterrent capability and it would be impossible to position itself as the third world power alongside the United States and China.
- ▶ Russia's actions represent the main challenge to security and defence in Europe. Even before the invasion of Ukraine, Moscow had been demonstrating disruptive and challenging attitudes towards the European security system for almost two decades and promoting a revisionist project. Among the tools being used nowadays are cyber-attacks, destabilization and disinformation campaigns.
- ▶ In addition to Russia there is another, less explicit, but enormously threatening challenge to European security that emanates from the European border regions themselves which currently constitute some of the most turbulent areas. From the Arctic to West Africa, hotbeds of tension and conflict have emerged; to which we must add the war in Ukraine, the main focus of current destabilization.
- ▶ In these regions on the EU borders we find a wide range of sources of destabilization: territorial disputes, fight for natural resources, ethnic rivalries, terrorist and armed guerrilla activity, effects of climate change, demographic pressure, lack of economic and job prospects, arms trafficking, human trafficking, flows of migrants and refugees who risk their lives during long dangerous journeys, etc. A good part of these regions have become especially hot zones in recent years where political tensions have been exacerbated, multidimensional crises have been unleashed, state structures have collapsed and armed conflicts have broken out. The EU cannot isolate itself from an environment in which these disruptions have multiplied.
- ▶ At the same time, we have witnessed changes in the transatlantic relationship, the foundation of European defence since the end of World War II. This relationship has been subjected to the vagaries of US domestic politics, especially in the last decade; consequently the EU and its Member States cannot trust everything to NATO. Similarly, there has been a general reorientation of the United States (USA) towards the Pacific to the detriment of Europe and the Western Hemisphere, and a fixation on China as the main adversary.
- ▶ The gap could become especially visible after an eventual victory of Donald Trump in the next US elections in November of this year 2024. A Republican administration –absorbed in a national agenda and predisposed to enter into a conflict of interest with



Europe in the commercial sphere, ready to withhold its cooperation in the face of global challenges (such as the fight against climate change) and to exhibit geostrategic positions incompatible with the values and principles defended by the EU (such as unconditional support for the radical positions of the Netanyahu government)— could undermine the foundations of the trust between allies and accelerate the trend towards US retrenchment. Europe may see its exposure to external risks significantly increased and this would, in turn, exert an influence on internal security.

- ▶ For social democracy, security and defence are public goods and basic social rights, essential for maintaining the security and well-being of European citizens, as well as its equitable development. They are, therefore, essential elements for guaranteeing our freedoms, our rights and the protection of our values.
- ▶ To achieve this integration, the EU must meet a series of norms in three different dimensions: strategic, institutional and resource capabilities.
- ▶ From a strategic point of view, the EU must strengthen its deterrent capability as a vehicle to stop Russia's revisionist and expansionist policies, to gain security spaces in the face of the conflicts that surround Europe, and to establish a new security architecture for the European Union, in which we must not give up on Russia finding its place. To achieve this, the defence pillar must be intensified and reinforced to constitute a European defensive system. Currently, the US protective umbrella is questionable both in its certainty (especially if there is a victory for Donald Trump in November) and in its sufficiency, since Washington has shifted its interest towards the Pacific and does not feel the threat of Russia in the same way as Europeans do. For all these reasons, achieving the

appropriate level of deterrent power is an exercise in strategic responsibility.

- ▶ The development of the common pillar in security and defence requires major institutional changes. A primary measure consists in establishing a specific Security and Defence formation in the Council of the European Union (not dependent on Foreign Affairs). This formation must be introduced into the College of Commissioners in the European Commission (already the provision of a future Defence Commissioner has been announced by Von der Leyen) and in the European Parliament with the creation of a parliamentary Committee on Security and Defence. To date, there is only one Defence subcommittee under the Foreign Affairs Commission (unlike national parliaments).
- ▶ Changes must also be made to decision-making processes to avoid blockages and the paralysis of the EU by a single Member State. The Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP) would generally benefit from more agile, efficient and democratic decision-making, particularly in the Council. Any progress in the use of constructive abstention, supermajorities, qualified majority in decision-making in matters specific to the CFSP-CSDP would reinforce the EU as a supranational political subject and strengthen its projection abroad.
- ▶ The development of the Rapid Deployment Capability foreseen in the Strategic Compass by ARVP Borrell, can serve to establish the embryo of a European Army under community command and financed by the Community budget, within the framework of the Defensive System that also includes the National Armed Forces. This development would constitute a first move in promoting a common pillar of defence policy and would help overcome the problems of the European arms industry. This 28th



Army would be complemented by the national armies of the Member States which would form part of a common structure for command, planning and coordination.

- ▶ If we start from the proposal of the 28th Army, which would arise from the Rapid Deployment Capability, this force should be unique, permanent and financed by the Community budget and, therefore, under community command. It would coexist with the national armies of the Member States, which would also be part of the European Defensive System. This means that this System would be composed of two levels: (1) a Rapid Deployment Capability as a European Army, which should progressively reach the objective of 60,000 troops set at the Helsinki European Council in 1999; and (2) according to need, be complemented by the national Armed Forces via mobilisation and integration into a permanent planning and coordination structure directed by the same General Staff. This would require a methodological standardization and inter-operability as a complementary and inter-operable force in relation to NATO.
- ▶ An issue that has been identified as one of the main shortcomings of the EU's Common Defence Policy is the lack of a Permanent European Headquarters at a strategic-military level that can move from political decision to operations and from there to the generation of forces. This headquarters should be developed by the Military Planning and Conduct Capacity (MPCC) of the EMUE General Staff.
- ▶ Adequate financing of capabilities must be guaranteed to provide the EU with tools that enable deterrence. This implies an increase in spending that must be focused on achieving greater performance of resources. Such an increase in defence spending would need to be introduced at two levels: by the States themselves and by increasing the funds established at

the Community level. In recent years we have seen an increase in defence spending by Member States but it is still insufficient to reach the objective of 2% of GDP which is considered to be a necessary target. At the community level, greater aid to the defence industry is necessary as well as the use of the EU's own resources.

- ▶ It is essential to increase coordination and cooperation in the military spending of the Member States in order to achieve greater efficiency. Much progress has been made in the implementation of joint capabilities, but more must be done to overcome the fragmentation of the European defence market, the lack of inter-operability and the poor use of the potential of economies of scale.
- ▶ The European Union must rethink its level of ambition to guarantee the security of citizens and improve its ability to act autonomously –neither dependent nor conditioned– against external threats by employing specifically European capabilities. One of the issues that the war in Ukraine has highlighted is the real possibility of having to act militarily on European territory in the face of external aggression, and this capacity cannot be improvised.
- ▶ It is necessary to explain to public opinion, from progressive and social democratic positions, that the changes to develop a Community pillar of security and defence are essential to guarantee the security and well-being of the citizens of the European Union in an international order replete with greater risks and uncertainties. Currently, the war in Ukraine and recently the systematic punishment of Gaza by the Israeli forces led by Netanyahu with total disregard for international humanitarian law –together with the danger of escalating conflict in the Middle East region– emphasise the speed of the changes and the risks they pose. Social democrats are committed to defending peace, but in a world at war, defending peace also implies costs and requires



strategies and investment. Security and defence are public policies that must be compatible with social policies and are essential from a perspective of social justice. We must remember that without security no society progresses.

- ▶ In Spain, a thorough-going pedagogic exercise is necessary to explain the overall benefits to citizens of an increase in security and defence resources. Within Europe, Spain is one of the countries where public opinion considers these resources least necessary. In parallel, it is also necessary to increase its percentage of defence spending, which is one of the lowest in both the EU and NATO.



## THREATS AND CHALLENGES TO EUROPEAN SECURITY AND DEFENSE

In the words of ARVP Josep Borrell: “Europe is in danger”, “the war in Ukraine has meant an existential crisis for the EU”. A context of growing geopolitical competition in which control and access to raw materials, technology, etc. has become uncertain has forced Brussels to turn its attention to security and defence policies. Security is a broader concept than defence, having evolved with the global transformations of recent decades from a consideration centred on States and the military apparatus to a multi-dimensional concept in the political, social, economic and environmental spheres, and includes, for example, guarantees concerning access to food, medicine, energy, certain critical industrial components, freedom of navigation and security of maritime routes, etc.

In turn, defence includes a range of initiatives to protect the territories and security of the population. Defence policies allocate resources: material and human, to intervene against external attacks on our sovereignty, territorial integrity and/or attacks that try to damage our economic and social stability. But they are also aimed at erecting intimidating devices to dissuade those who harbour the intention of carrying out these attacks.

Consequently, security and defence are configured as first-level public policies aimed at providing an essential public good. Security and defence are essential elements for guaranteeing the exercise of our freedoms and rights. From a social democratic point of view, the basic reason for security and defence is to guarantee access to public goods, both in Europe and globally, as the war in Ukraine demonstrates.

The European model of freedom, prosperity and solidarity is based on peace on the continent and the possibility of developing alliances and relations of cooperation and commercial exchange with other states and regions of the world. In a world increasingly agitated by geopolitical tensions the foundations of this model are being undermined. Europe is no longer an oasis of peace, impervious to what is happening around it. It is participating in a war, supporting a contender with weapons and resources (to which it has granted the status of a candidate country for accession), constantly defending itself against hybrid threats from adversary powers, and has been deploying a significant volume of troops on its eastern border throughout its history as part of the defensive framework of the Atlantic Alliance.

Security policies, and especially defence policies, have been linked to the EU Member States. It is the sovereignty of these States that enables them to develop their defence policies. Thus, the achievement of a common Community pillar of security and defence will be a fundamental stage in the European integration process, which is essential for our strategic sovereignty.

Currently, the main challenge to security and defence in Europe is the Russian government of Vladimir Putin. This can be seen in the statements of European leaders and in the public opinion data. In a 2023 survey carried out in 10 countries by the European Council of Foreign Relations the majority of respondents described the Russian Federation as a rival or adversary with whom we find ourselves in conflict. Only 14% saw Russia as an ally or partner.<sup>43</sup>

Negative perceptions are especially widespread in the Nordic and Baltic countries (including Poland); although in all countries the consideration of Russia as a rival or adversary has increased substantially since 2021. The Nordic and Baltic countries are exposed to a direct threat from Russia, due both to the thousands of kilometres of geographical borders they share,

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43 Krastev, Ivan and Leonard, Mark “Fragile Unity: Why Europeans are coming together on Ukraine (and what might drive them apart).” European Council on Foreign Relations, Policy Brief, March 2023. Available here: [https://ecfr.eu/wp-content/uploads/2023/03/Fragile-unity-Why-Europeans-are-coming-together-on-Ukraine-and-what-might-drive-them-apart\\_v2.pdf](https://ecfr.eu/wp-content/uploads/2023/03/Fragile-unity-Why-Europeans-are-coming-together-on-Ukraine-and-what-might-drive-them-apart_v2.pdf)



and also to recent history in the Soviet era regarding the violation of rights and the imposition of submission. However, a more diffuse fear predominates throughout the continent of the effects of Russian revisionist and expansionist ambitions together with destabilization activities that represent a threat to the European project and to the internal and external security of the countries.

Russia has been demonstrating a disruptive and challenging attitude towards the European security system for almost two decades, even before the invasion of Ukraine. Examples of this attitude is the promotion of revisionist projects in republics of the former Soviet Union (Ukraine, Georgia and Moldova), the instigation of insurgent movements and the occupation of the sovereign territories of the new States. In parallel, it has carried out destabilization actions beyond this area: stoking internal disputes in the Western Balkans (Bosnia, Montenegro); developing disruptive geo-political activity in the Middle East (in support of the Syrian regime of Bashar al Assad), in the Caucasus (Nagorno Karabakh), North Africa (Libya) and the Sahel (Niger, Mali, Burkina Faso). To this we must add the interference in the internal politics of different European countries: disinformation and propaganda campaigns, provocations and hybrid war operations in the Baltic countries; cyber attacks on strategic infrastructures; terrorist actions against dissident refugees in European countries and the financing of far-right parties and pro-Russian parliamentarians in different countries, as well as in the European Parliament.

In addition to Russia, there is another, less explicit but enormously threatening, challenge to European security that originates in the European border regions, some of today's most turbulent areas. From the Arctic to West Africa, hotbeds of tension and conflict have emerged<sup>44</sup>, to which we must add the war in Ukraine, the main focus of current destabilization.

In these bordering regions we therefore find a wide range of sources of destabilization: territorial

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44 In the Arctic, the United States, Russia and China have been deploying their own geo-political and geo-economic agendas in a context of increasing cooperation difficulties since 2014. Tensions have increased between Finland and Russia around the Baltic Sea after the invasion of Ukraine, the closure of the border and the entry of Finland into NATO. Russia also has an open front with the three Baltic republics, marked by historical grievances, the problems derived from the settlement of significant contingents of Russian-speaking populations (many without citizenship in the Baltic countries), and the constant hybrid aggressions promoted from Moscow. The same relations of hostility and mistrust exist with Poland, aggravated after the implementation of Afghan and Iraqi migration on the border between Belarus and Poland in 2021. Tensions are also very strong in Moldova, where Russia finances and encourages a pro-Russian opposition against the pro-European government of Moldovan President Maia Sandú, and maintains troops in the region of Transnistria in support of local authorities that consider themselves independent since 1990. In the Caucasus, Russian troops have acted as supposed guarantors of peace between Armenia and Azerbaijan after the confrontation of both nations in a war over the Nagorno Karabakh region that has resulted after three decades in the displacement of hundreds of thousands of people from their homes (from one ethnic group and another). Its neutrality has been questioned at various times. In Georgia, Russian troops remain in Abkhazia and South Ossetia, regions that declared independence in 1992 and 1991 respectively. Russian troops defend satellite governments of the Russian Federation on sovereign Georgian territory. Further south, in the Middle East, Moscow has supported the Bashar al-Assad regime in Syria, which remains in power after a bloody civil war against opposition groups and the Islamic State. This war has caused the displacement of millions of people to Europe and neighboring countries (especially Turkey and Lebanon). Türkiye and Greece maintain important territorial disputes over the sovereignty of territorial waters in the Aegean Sea. Ankara continues to support the government of the Turkish Republic of Northern Cyprus and the consequent division of the island. Lebanon remains mired in a multidimensional crisis: political, financial and social. Hezbollah, a political and military movement controlled by Iran, occupies a prominent place in internal politics and serves as an armed wing against Israel around the border demarcation line (blue line). Israel, led by an ultranationalist leader surrounded by accusations of corruption, has been promoting an aggressive policy of settling settlers in the West Bank for years. The brutal attack by Hamas in October 2023 on Israeli territory, which caused the massacre of more than a thousand Israeli citizens and the kidnapping of hundreds more, has unleashed a disproportionate military reaction, causing thousands of deaths from war attacks and an unprecedented humanitarian crisis in the area. The tensions and reciprocal attacks with Iran are drawing a horizon of open war between both countries with unforeseeable consequences throughout the region. In North Africa, on the southern shore of the Mediterranean, power remains in the hands of autocrats who limit the political participation of their citizens. In Libya state power has collapsed. The territory is divided into different factions that have managed to reach a situation of momentary truce, but are not able to get the country out of its situation of chaos through an



disputes, fight for natural resources, ethnic rivalries, terrorist and armed guerrilla activity, effects of climate change, demographic pressure, lack of economic and employment prospects, arms trafficking, human trafficking, flows of migrants and refugees who risk their lives during long dangerous journeys, etc. A good part of these regions have become especially hot zones in recent years, where political tensions have been exacerbated, multidimensional crises have been unleashed, state structures have collapsed and armed conflicts have broken out. The EU cannot isolate itself from an environment in which these disruptions have multiplied.

The main trans-national threats originate in these regions, which traverse across border lines and blur the concept of external and internal security. In different territories along the European border disturbing elements arise as a consequence of the weakening of state institutions: illicit trafficking in weapons, merchandise, drugs and human beings. A good part of these flows are destined for Europe via criminal networks. In this context, radical Islamic groups also emerge that, in addition to representing an internal threat in different States of the Middle East and the Sahel, project their terrorist activity into Europe.

Other threats to security are hybrid disruptive actions, carried out by state agents or sponsored by states, mainly Russia. These threats are intended to pressurise governments, obtain concessions or produce some damaging or destabilizing effect on the EU or its Member States through some form of “hybrid attack”: attacks on critical infrastructures, actions against the cyber-security of the States and their organizations, disinformation and propaganda, corruption of political and social agents, support for insurgent and separatist movements, the exploitation of migrations, etc. The use of these new destabilization methods has increased significantly, seriously compromising our security.

Among the hybrid threats, one of the main ones and one of the most complicated to confront is the spread of fake news and disinformation due to its diffuse nature and also because it is instigated both from outside and from within the countries that suffer from it, violating basic rights. These types of actions, which induce confusion and detachment, have contributed to eroding trust in institutions and their representatives. Its use has intensified in electoral periods, the pandemic, the territorial crisis in Catalonia and recently the wars in Ukraine and Gaza. The effectiveness of these campaigns increases in the new digital ecosystem of social networks and messaging where flows of disinformation expand rapidly and the reach of fake news is greater than that of genuine news. The outbreak of wars in Ukraine and Gaza has led to a very significant growth in anti-Western and anti-European narratives, often linked to disinformation campaigns.

It is also worth highlighting cyber threats within hybrid threats, with increasingly technically sophisticated attackers and growing interconnectivity, which thus expands their possible range of incidence. The greater digitalization of public administration and economic and social organizations opens the door to significant threats. Cyber attacks can have serious consequences, especially when they affect critical infrastructure and supply chains. In the field of espionage, digitalization also offers hostile intelligence services the opportunity to access critical information very efficiently.

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agreement. Different external powers are fighting for influence over these factors and control over oil and gas resources. Tunisia, which had reached the highest levels of democracy in Africa, has entered an accelerated path of democratic regression and economic collapse, which reinforces migratory flows towards Europe. Algeria and Morocco have open historical disputes, which have been on the verge of leading to confrontation on different occasions. In recent years, important disagreements have arisen between these countries with France and Spain respectively, which have been redirected with difficulties. In the Sahel countries, there have been various coups d'état that have overthrown governments that collaborated with Europe in the fight against Islamic terrorism and the control of irregular sub-Saharan migration. The influence of Europe in the area, and particularly France, has declined considerably. European forces deployed in Mali are leaving the country. On the other hand, the collaboration of the Russian Federation with these countries on security issues and the fight against insurgency has been strengthened, materialized for example in the deployment of mercenaries from the Wagner group in the Central African Republic or Mali.



Finally, we must not forget the threats that exist to economic security, to sustained access to resources, as has been evident in the past when Moscow has used energy resources as a tool of power in foreign policy. Also the free movement of goods and attacks on critical infrastructure have also come under threat. Economic security is a public good that should be protected against threats and attacks that seek to destabilize the normal functioning of our economy by generating conditions of uncertainty and social unrest.

## THE THIRD STAGE OF EUROPEAN INTEGRATION: THE COMMON PILLAR OF SECURITY AND DEFENSE

European integration has been built in stages since World War II, beginning in 1951 with the European Coal and Steel Community (ECSC) and in 1957 with the European Economic Community (1957). A common market was set up with a limited number of public policies. The second stage started in 1992 when the European Union was created launching the Economic and Monetary Union and the subsequent creation of the euro. Now we are in a third stage, which should lead to the integration of the common foreign policy and security and defence policies, together with greater internal cohesion with new fiscal policy instruments, financial integration and European taxes, as we have already examined in the first chapter of this report.

Currently, the European Union is based on a distribution of work between the Community institutions and the Member States, expressed through the powers that we find in the Treaties. The Community institutions exclusively deal with the Single Market and the euro: competition norms, customs union, monetary policy and trade policy. The EU and Member States share responsibilities for social policy, economic cohesion, agriculture, transport, the European area of freedom, security and justice, etc. In this distribution of powers, industry, education, civil protection, tourism and culture remain the responsibility of the Member States.

The Common Foreign and Security Policy (CFSP), on which the Common Security and Defence Policy (CSDP) depends, has a specific treatment: the Commission and the European Parliament have only limited powers which pertain to the European Council, the Council of the European Union and to the High Representative of the Union for Foreign Affairs and Security Policy. That is to say, current integration is the result of cooperation and consensus reached between Member States, despite existing institutions. Thus the Member States maintain exclusive powers over foreign and defence policy.

In the field of defence there is a division of roles between NATO and the EU in relation to mutual defence, the geographical areas of action, and the links between security and defence. Relationships are structured through mechanisms that facilitate compliance with the legitimate defence pact and cooperation in different areas such as hybrid threats, cyber-security and the defence and research industry. Basically, the EU focuses on security issues while NATO deals with the collective defence of its members, bearing in mind that twenty-three of the twenty-seven EU countries are NATO allies (all except Malta, Cyprus, Austria and Ireland).<sup>45</sup>

The development of an integrated European pillar of security and defence – rather than the sum of individual States that now exists - would convert the European Union into a unique actor on the international scene, both by the amount of defence spending of the EU countries and by the number of troops in their armed forces. It could become a third actor in a league of countries in which at the moment only the US and China operate. This development is about ensuring that the EU has the capabilities and the sufficient strategic leadership to be a global

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45 Since 2016, three joint declarations on EU-NATO cooperation have been signed, specifying the strategic areas in which cooperation between the two institutions must be strengthened. These statements were in 2016, 2018 and 2023. In 2016 they mainly focused on cyber-security, hybrid threats, operational cooperation and capacity reinforcement; In 2018, the fight against



actor with real deterrent power.

The defence integration project is not new. In 1952 the countries that had signed the ECSC proposed the creation of the European Defence Community (CED). It proposed the launch of a pan-European army with national components but with a common budget and weapons as well as a centralized acquisitions and command structure. The CED entailed the creation of the European Political Community (EPC) that could exercise political control of the European Army; but neither of them was established because the former was not ratified by the French Assembly in 1954.

The failure of the CED lent prominence to the Western European Union (WEU) and NATO as defence organizations in Europe. The first could be considered the germ of the European pillar of defence since it was incorporated into the EU in 2010; and the second is the basic international organization on defence issues in Europe and the maximum expression of the transatlantic link.

Progress in the integration of security and defence policies is linked to the international context: it is international events and the influence that these have on European countries and the EU that determine progress in the integration of security and defence policies; especially those that pose a threat to the security of European partners.

In 1992 the Petersberg missions were established; in 1993, with the Treaty of Maastricht the Common Foreign and Security Policy (CFSP) was created that will include under its umbrella the European Security and Defence Policy (ESDP); in 2003, the first European Security Strategy –Solana Document– was approved; in 2004, the European Defence Agency (AED) was created and the Battlegroups were established as an autonomous military force made up of troops from either a single country or from several: in 2009, with the Treaty of Lisbon, new developments were introduced: (1) The Common Security and Defence Policy was created within the CFSP; (2) Article 42.7 was included in the Treaty of the European Union as a mutual defence clause against external threats; (3) made it possible to launch Permanent Structured Cooperation (PESCO), permitting closer cooperation for the comprehensive development of capabilities and opening up the opportunity for it to become the essential instrument for developing an autonomous defence policy. All of these were important institutional advances, but they left the issue of defence in the hands of the Member States.

International events, such as the annexation of Crimea by Russia (2014), the Brexit referendum (2016), and the arrival of President Trump at the White House (2017) with his policy of weakening transatlantic ties, led to the need for the EU to implement a geo-political vision and an autonomous capacity for action. This strategy was initiated with the Global Strategy for Foreign and Security Policy (2016) from the ARVP Federica Mogherini and also, in a programmatic and structured way, with the Strategic Compass, 2022) from the ARVP Josep Borrell.

All of them consider that it is essential to move towards greater strategic autonomy in the field of defence and the defence industry. In 2017, PESCO was launched, and the Military Planning and Conduct Capacity (MPCC) was created as an integral part of the General Staff of the External Action Service (EMUE), a general directorate of the EEAS. In 2021, the European Peace Support Fund (2021) and the European Defence Fund 2021-2027 (2021) were set up. During this time the Russian invasion of Ukraine (2022), as well as other conflicts of greater or lesser intensity occurring in the European vicinity, must serve as an incentive to conclude the third phase of integration, completing the common pillar of integrated security and defence policies and constituting a European defensive system.

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terrorism and women and security were added; and in 2023 the space field, disinformation and inference by foreigners.



To achieve this integration in the field of defence, the EU must meet a series of norms in three different dimensions: strategic, institutional and resource capability.

### **STRATEGIC CHANGES: DETERRENCE**

The objective of a progressive security and defence policy must be to ensure the provision of the public goods that are essential for the well-being of the population and, furthermore, under conditions of equality. In today's Europe we are witnessing a war caused by the Russian invasion of Ukraine in which the US, NATO and European countries are affected and involved at different levels. The parties most interested in reversing the situation and finding a way to peace are the European countries. The objective is to restore a situation of security and peace (currently under the conditions of the Zelinski Peace Plan) in which Russia, as a geographical neighbour of the EU, finds its place (as it had in past stages in the OSCE, in the NATO-Russia Council and in the G8).

This objective does not mean agreeing to Moscow's expansionist demands or abandoning Ukraine in its struggle, and with it, European resistance to Putin's imperialist authoritarianism. It is about building a European security and defence system that, counting on the support of Russia's neighbours, can provide the EU with the deterrent capacity to put a stop to Russia's expansionist ambitions in physical and influence terms. The goal is that, once the Russian Federation abandons its authoritarian and imperialist policy, it can be reintegrated into a new architecture of European security and cooperation.

Therefore, our strategic objective must be to intensify and strengthen the European pillar of defence to achieve a truly European deterrent capability. According to all analysts, Russia's war of aggression in Ukraine is the result of Moscow's miscalculation: on the one hand, it underestimated the defensive capacity of the Ukrainians (or overestimated its own offensive capacity) and, on the other, it considered that the West was weakened –a condition manifested by the erroneous, as well as hasty, withdrawal from Afghanistan– and believed that it would not get involved. Now the objective involves reinforcing the deterrent path initiated by the EU (military reinforcement for Ukraine, sanctions against Russia) and making Russia and any other actor desist from possible future aggressive actions. A defence conceived by the EU itself is the greatest message of deterrence to tyrants like Putin. Europe seeks peace, not war; but if it does not demonstrate that it is prepared to defend itself and fight for this end, it will not be able to ensure peace.

Although a direct confrontation with Russia is not imminent, it is possible in the medium term. The conditions are in place for it to occur and in a context of uncertainty of whether we can continue to count on the protective umbrella of the United States. The threat to the United States from Russia is of a lesser magnitude than Russia's threat to European countries, especially those in Eastern Europe.

As ARVP Borrell says, deterrence is an exercise in responsibility. In this way we have more strategic sovereignty than strategic autonomy. This European strategic sovereignty is open and constructive; it does not imply independence or autarky. Multilateralism is an essential value of the EU, along with peace, respect for human rights, the defence of social democracy and the principles of international law.

This strategy has a clear objective: to increase our joint defence capabilities and their political and strategic coherence; to trust that what we do together as the EU will be effective - currently it suffers from a complete lack of coordination; and to work towards making defence a real instrument of power in our foreign policy. To achieve this, we must make institutional changes and increase our resources and capabilities.

But this should not lead to an arms race or the reappearance, as in the Cold War, of a security



dilemma. In the medium and long term, Europe must promote new arms controls as well as limitation agreements and mutual trust measures for conventional forces, intermediate-range nuclear weapons, including others that allow the formation of new pan-European security architecture.

## INSTITUTIONAL CHANGES

The terrible experience of the war in Ukraine has inflicted a harsh dose of reality on Europe, but it has also opened a window of opportunity to decide on major institutional changes. If the EU aspires to become a coherent and realistic geo-political actor it must update its security and defence governance structures; it must move towards a greater integration of those security and defence policies that until now were the reserve of Member States and also subject to the rule of unanimity. It will also be necessary to give a federal dimension to the European pillar of security and defence, giving rise in this area to shared sovereignty from a political point of view, since the European defensive system requires a decision-making entity capable of acting. To achieve all this we must move simultaneously on two levels: on the one hand, in the short term, to make the most of the untapped potential of the Lisbon Treaty; and in the medium term, to reform the treaty in order to establish shared competence in this matter between the Member States and the EU (with all necessary limitations and conditions) and endow it with more agile decision-making procedures.

These institutional solutions can go hand in hand, from a material point of view and in a permanent Treaty, with the transition from the definition of the common defence policy to the common (Community?) defence (requiring the unanimity of the European Council). This would, in fact, imply the formation of a European defensive system. It would be possible to resort to the use of bridging clauses in terms of decision-making, which would make the decision-making processes more flexible, moving from unanimity to qualified majority. In this way a specific parallel clause could be introduced for common foreign and security policy issues (as established in article 31.3 of the TEU) and for closer cooperation (article 33 of the TFEU). Currently, these clauses cannot be activated for matters that apply to defence or have military implications (art. 48.7 TEU) that necessarily entail a modification of the treaties.

In relation to security and defence policies we can establish that there are four levels of action that are an essential part of European defence policies: (1) State, (2) Inter-governmental or cooperation between Member States, (3) Community or supranational - the European Commission: today without a mandate and without a budget, with extraordinary strategies and plans to create common capabilities, (4) International alliances, essentially NATO.

Member States retain their exclusive powers in defence and national security which operate inter-governmentally. There is a basic contradiction in this approach: we Europeans came together in the past to neutralize future wars but we still remain separate in the European architecture to confront them. At this level, the Member States have increased their defence spending<sup>46</sup>, highlighting the decision of the German government in May 2022 to launch a

46 In the NATO defence spending statistics, EU countries have made a considerable, although uneven, effort from 2014 to 2023. The weight of the United Kingdom is notable as the second country after the US with the highest spending on defence, and its departure from the EU has made the Union lose weight in NATO as a whole, going from 26.4% (2014) to 22.6% (2023). Spain has increased its spending by 55.4% in this period, above the NATO average which has been a 38.3% increase in that period. Even so, given the importance of defence spending in countries such as the US, the United Kingdom, Germany, France, Poland, Italy and Canada, Spain currently accounts for 1.5% of the total defence spending of the NATO countries (the figure was 1.34% in 2014). A separate issue from the defence spending statistics as a percentage of GDP is the reference indicator of the spending capacity and, by extension, the effort of the countries in NATO. In this case, in 2014 only two EU countries in NATO exceeded 2% of defence spending as a percentage of GDP (United Kingdom and Greece), while in 2023 there will be nine countries that exceed 2% (Poland, Greece, Estonia, Lithuania, Finland, Latvia, Hungary, Slovakia and Denmark). More information at: [https://www.nato.int/cps/en/natohq/topics\\_49198.htm](https://www.nato.int/cps/en/natohq/topics_49198.htm) [Accessed: April 22, 2024]



special fund of 100 billion euros to modernize its armed forces and purchase weapons.

The inter-governmental sphere is where the greatest political weight of the EU's security and defence policies is currently concentrated. Within the EU Council, defence issues are dealt with by the Foreign Affairs Council; it would therefore become necessary to establish a specific Defence and Security Council (not dependent on Foreign Affairs). This should be similarly reflected in the College of Commissioners in the Commission and in the European Parliament, where defence issues are dealt with in a subcommittee (SEDE) dependent on the Foreign Affairs Committee (unlike the national parliaments).<sup>47</sup>

The integration of defence policies at the inter-governmental level has meant progress with respect to the initiatives developed before the present war and also with those launched after it, such as the Instrument to promote common procurement in the defence industry (2023) or the regulation to support ammunition production (2023). These initiatives permit the construction of intra-community alliances and consortia for the production of weapons that can be used by all national armies. However, if it is not accompanied by the creation of the European defensive system the mere joint production of weapons represents insufficient integration to confront the serious threats that loom over the European Union in the new geopolitical environment and with the reorientation of North American priorities.

We must opt for greater integration and that will involve the development of new supranational mechanisms. Before the war in Ukraine there were already some proposals and these have been strengthened since 2022. European Commission President Ursula von der Leyen said in her State of the Union address on September 15, 2021: "Fortunately, in recent years we have begun to develop a European defence ecosystem, although what we really miss is a European Defence Union." In November 2021, ARVP Borrell presented the first draft of the Strategic Compass, approved unanimously in March 2022. Materializing these advances in the form of true deterrent and operational deployment capabilities requires new steps, unrelated to the present war in Ukraine.

For all this to happen, institutional changes are necessary in decision-making processes at the Community level –advances in the use of constructive abstention, supermajorities, qualified majorities– to reinforce the role of the EU as a great power and third actor. These changes would not only involve security and defence policies but also fiscal and financial policies in order to obtain the necessary resources to develop the European defence pillar, including, for example, Eurobonds –following the example of the Recovery Plan–, and the new resources necessary to amortize them, and also the mobilization of the European Investment Bank.

The Strategic Compass represents an ambitious plan to strengthen the EU's security and defence policies. It proposes the creation of an EU Rapid Deployment Capability under European command of up to 5,000 military personnel for different types of crises. This has been an essential commitment of ARVP Borrell, and would provide an authentic and effective European rapid deployment capability to overcome the shortcomings and deficiencies that the Battlegroups represented; and its military deployment operation would be similar to that of an army. This initiative could become the 28th Army –a proposal from the German Social Democrats– i.e. the nucleus of a European Army.

Other important elements of the Strategic Compass include the increase in intelligence capabilities, the development of a cyber defence policy, the development of instruments to confront disinformation and hybrid threats, encouragement for collaborating in projects and an increase in defence spending both by States Members and at the Community level. The Strategic Compass represents a starting point where the geopolitical risks and security threats

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<sup>47</sup> These ideas were already proposed in the last decade; for example, see Centre for European Policy Studies, "More Union in European Defence. Report of a CEPS Task Force" 2015.



currently affecting Europe have been clearly laid out. Moving forward from this point we propose the development of different measures, already mentioned, that will strengthen the EU's defence policies.

One of the recurring issues in the European debate is the possible development of a European Army: a suggestion that was already part of the origin European policies in the 1950s and has re-surfaced today due to the evident need for greater European strategic autonomy. Its development raises two questions: (1) the composition: is it a completely new army – the 28th Army – or is it composed of forces from the armies of the Member States? (2) Its control: will it corresponds solely to Community control or to inter-governmental management?

The answer to these questions is complex. We must take into account the two structural difficulties in launching an army: firstly, defence is one of the most sensitive competencies in relation to the sovereignty of the States: the weight of state sovereignties and their link with their own defence continues to be very strong even when it is less effective and efficient; and, secondly, the existence of NATO and the political leadership governing US defence policy that until a decade ago made such a EU project redundant.

These structural difficulties can be overcome with political will and decision if the need is understood for the EU to have its own intervention force to respond to specific threats - not shared with NATO partners such as the United States and Canada. If we start from the proposal of the 28th Army, which would originate from the Rapid Deployment Capability, this force should be unique, permanent and financed by the common budget and, therefore, under Community command. It would co-exist with the national armies of the Member States, which would also be part of the European Defensive System. This means that this system would be composed of two levels: (1) the Rapid Deployment Capability as a European Army, which should progressively reach the objective of 60,000 troops set at the Helsinki European Council in 1999 with the possibility of Europeanizing the Euro-corps through Permanent Structured Cooperation; and (2) complemented when necessary by national armed forces capable of being mobilised and integrated into a permanent planning and coordination structure directed by the same General Staff. This would require methodological standardization, interoperability, etc., also in relation to NATO. At this second level, the Member States would maintain their sovereignty to decide on their participation in a mission or operation but without the ability to veto others or block decisions related to the first level.

This embryonic European army would pave the way to an improvement in common capabilities, the development of an integrated and less fragmented European defence industry, and would help in overcoming inter-operability issues. If the EU is to provide adequate deterrent capabilities, an exceptional political drive is required based on a well-calibrated perception of the enormous shared risks we face, as well as a clear awareness that the sense of danger we currently experience is an opportunity for citizens to become aware of a need and give widespread support to these important measures.

In parallel, it will be necessary to develop the Military Planning and Execution Capacity (MPCC) and turn it into a truly permanent European planning headquarters, enabling it to respond effectively to the specific threats of the EU mentioned above.

In addition to the Community level, we must not overlook the level of international alliances –fundamentally NATO– which constitute the essential pillar of the collective defence of the majority of EU Member States. With the incorporation of Sweden and Finland, all EU countries except Austria, Cyprus, Ireland and Malta are in the Atlantic organisation. In addition, other European countries such as the United Kingdom, Norway, North Macedonia and Montenegro belong to it.

NATO has been a provider of resources for the EU since the Berlin Agreement Plus (2003)



which allowed the EU to use NATO assets and capabilities in crisis management operations.

In the last decade this EU-NATO cooperation has increased and the Russian invasion of Ukraine has intensified it. This current situation has served to demonstrate and make more visible not only the importance of the transatlantic link but, at the same time, to recognise the value of a stronger and more capable European defence that could contribute positively to global and transatlantic security and act as a European pillar of the Alliance, as well as being complementary and inter-operable with NATO. This reinforced European pillar of security and defence would also mean a geopolitical rebalancing of the transatlantic community –beneficial to the EU– and with a view to moving towards the old ideal of a “partnership between equals”.

If we want to advance the integration of European security and defence we must strengthen the Community level and develop a European dimension within NATO; one, for example, which would allow the organization’s resources to be mobilized without requiring authorization from the United States and from the rest of the NATO states that do not belong to the EU. In any case, a European Security Council could be established composed of the EU and other European members of the Alliance.

### THE NEED TO INCREASE CAPACITIES AND RESOURCES

An increase in defence resources and capabilities is necessary to achieve the proposed objectives: transforming the EU into a third major actor and a great global power and at the same time developing effective deterrent capabilities.

Table 1. Comparative values of the European Union, United States, China, Russia and Spain<sup>48</sup>

| Datos de 2022/2023                | Unión Europea           | Estados Unidos             | China                      | Rusia                     | España   |
|-----------------------------------|-------------------------|----------------------------|----------------------------|---------------------------|--|
| PIB (PPP) <sup>1</sup>            | 23,22 billones \$       | 25,44 billones \$          | 30,34 billones \$          | 4,03 billones \$          | 2,33 billones \$                                   |
| PIB per cápita (PPP) <sup>1</sup> | 57.285,5 \$             | 73.329,6 \$                | 21.482,6 \$                | 15.270,71 \$              | 48.685,5 \$  |
| Población <sup>1</sup>            | 448,75 M                | 333,3 M                    | 1,41 mil M                 | 144,2 M                   | 47,78 M  |
|                                   |                         |                            |                            |                           |  |
| Gasto en defensa                  | 240.000 M€ <sup>2</sup> | 855.557,73 M€ <sup>3</sup> | 276.873,62 M€ <sup>3</sup> | 102.230,4 M€ <sup>3</sup> | 22.134,99M€ <sup>3</sup><br>15.600 M€ <sup>2</sup> |
| Gasto en defensa (% PIB)          | 1,5% <sup>2</sup>       | 3,4 % <sup>3</sup>         | 1,7 % <sup>3</sup>         | 5,9 % <sup>3</sup>        | 1,5 % <sup>3</sup><br>1,2 % <sup>2</sup>           |
| Porcentaje del gasto del gobierno |                         | 9,1 % <sup>4</sup>         | 5,0 % <sup>4</sup>         | 16,1 % <sup>4</sup>       | 3,2 % <sup>4</sup>                                 |

48 In the NATO defence spending statistics, EU countries have made a considerable effort from 2014 to 2024, considerable although uneven. The weight of the United Kingdom is notable as the second country behind the US with the highest spending on defence and its departure from the EU has made the Union lose weight in NATO as a whole, going from 26.4% (2014) to 24.3% (2024). Spain has increased its spending in this period above the NATO average, but below what large countries such as the US, United Kingdom, Germany, France, Poland, Italy and Canada have done; Spain currently accounts for 1.44% of the total defence spending of NATO countries (it was 1.34% in 2014). A separate issue is the defence spending statistics as a percentage of GDP, which is the reference indicator of the already sixteen countries that exceed the 2%, leaving Spain with 1.28% in the last position of NATO countries. In the equipment expenditure indicator, only Belgium remains below the committed indicator of 20% of Defence expenditures.  
More information at: [https://www.nato.int/cps/en/natohq/topics\\_49198.htm](https://www.nato.int/cps/en/natohq/topics_49198.htm) [Accessed: June 20, 2024]

1. Datos del Banco Mundial (BM). Datos de 2022
2. Agencia Europea de Defensa (AED). Datos de 2022
3. Stockholm International Peace Research Institute (SIPRI). Datos de 2023
4. Stockholm International Peace Research Institute (SIPRI). Datos de 2022

It can be seen that in the EU there has been an endemic lack of resources and investments, an incapacity to ensure predictability and persistence in spending, and a lack of collaboration to maximize economies of scale and address the high costs of investment capabilities. As the High Representative recalled in a communication to the European Parliament in 2022: “Between 1999 and 2021, combined EU defence spending increased by 19.7%, compared to 65.7% for the United States, 292 % from Russia and 592% from China. These percentages do not even account for the considerable underestimation of defence spending by China and Russia since the purchasing power of their budgets is higher than conversion based on exchange rates would indicate. At purchasing power parity, Russia’s and China’s 2021 defence budgets are estimated to be equal to \$178 billion and \$332 billion respectively. Furthermore, the share of investment in defence spending of the United States, China and Russia is significantly higher than that of the EU Member States.”

As can be seen in Table 1, as a whole and in absolute values, the EU-27 has the second largest defence expenditure in the world, with a budget of more than €240 billion, which represents around 1.5% of the Union’s GDP. This amount is higher than that of China and Russia and higher than the combined expenditure of India, the United Kingdom, Japan and Saudi Arabia. Therefore the issue is not so much spending more, but spending better, in a more coordinated manner, and this requires cooperation and integration based on political decision.

It is important to note that defence spending is only one indicator of a country’s military power. Other factors must be taken into consideration such as the size and quality of the armed forces, military technology, the degree of updating and maintenance of equipment, and combat experience.

The investment effort in defence of all the EU countries, when managed in a disaggregated manner by each Member State, does not provide the EU as a whole with the necessary strategic support elements that the US and other countries enjoy. To act as a single military force the EU lacks, amongst other things, a sufficient level of strategic transport, secure telecommunications, intelligence elements, surveillance and reconnaissance capabilities, drones, space assets and amphibious capabilities.

Added to this is a great deal of fragmentation and inefficiency. The EU has too many different and incompatible systems. As an example, EU Member States have more than 30 different types of tanks, 20 types of fighter aircraft and 10 types of tanker aircraft.

Europe needs to take advantage of the potential of economies of scale: only 11% of defence procurement is invested in collaborative projects (compared to a current target set within the European Defence Agency (EDA) of 35%). Regarding defence R&D, only 6% is invested in collaborative projects, with the EDA objective set at 20%.

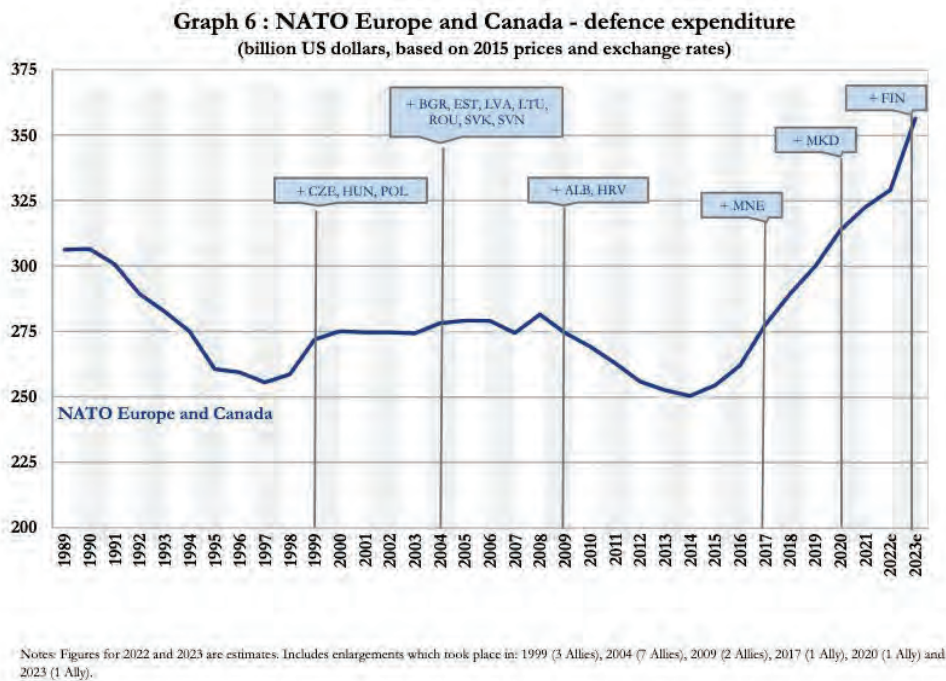
Defence budgets are increasing throughout the EU and this makes coordination and cooperation in defence a more urgent priority than ever. We must ensure that the budget increase serves to alleviate critical deficiencies, increase the inter-operability of European equipment with each State - also with NATO, and overcome fragmentation. Otherwise, the problem will be magnified.

The analysis in Graph 1 of the defence expenditures of the EU member countries of NATO in the period 1989-2023 clearly shows “the valley of budgetary death” of defence spending that was caused by the international financial crisis of 2007 and its impact in the years from 2008 to 2017. In 2014, the lowest value of defence spending occurred in the historical series in the



last twenty-five years.

Graph 1. Evolution of NATO defence spending (Europe and Canada)



Source: Defence Expenditure of NATO Countries (2014-2023)

Currently, defence spending as a percentage of GDP, which has a compliance objective of 2%/GDP, has an average value for all NATO member countries of 2.54%. Only five countries are above that average value of 2.54%: the United States and EU members Poland, Lithuania, Greece and Estonia. Of the total of twenty-three EU NATO member countries, nine have already exceeded the NATO objective of spending (investing) more than 2% GDP in defence by 2023 (information on Sweden as a new NATO member has not yet been incorporated): Poland, Greece, Estonia, Lithuania, Finland, Latvia, Hungary, Slovakia and Denmark. Meanwhile, thirteen EU countries that are NATO members continue to spend less than 2% on defence spending in relation to their GDP: France, Bulgaria, Croatia, Germany, Holland, Romania, Czech Republic, Portugal, Italy, Slovenia, Spain, Belgium and Luxembourg<sup>49</sup>.

Another area in which the lack of ambition in European cooperation has hampered our capabilities is the defence industry. The problem has been on-going for many years but the most important factor is that the European Commission has recently launched an EU Defence Industrial Strategy with compliance objectives and additional financing. It is a step forward given that here too the Member States have the last word and are talking about incentives to improve. Currently 80% of defence purchases come from outside the EU; the objective of the new strategy is that in 2030 that percentage will be reduced to 50%, or to put it in positive terms, at least 50% will be purchased in the EU. The Commission is committed to adding 1.5 billion euros until 2027, which may seem to be a lot when there are just weeks left until the end of the current Commission's mandate, but in fact is a small sum in the context of what that amount means for the total defence spending of the EU.

Measures of greater political significance are missing in the area of support for the European defence industry as is the necessary modernization and promotion of R&D. In an exercise of

49 Defence Expenditure of NATO Countries (2014-2023). Available at: [https://www.nato.int/cps/en/natohq/news\\_216897.htm](https://www.nato.int/cps/en/natohq/news_216897.htm)



coherence, if the field of European security and defence has existential importance it must provide adequate financial resources at Community level and not leave each Member State to its fate (mobilization of the EIB). Moreover, this will have to be taken into account in the reestablishment of the new fiscal rules for controlling the countries' deficits and debt.

Russia's war of aggression has meant the largest mobilization of the EU and its Member States in the field of security and defence since the Second World War. Beyond simple humanitarian solidarity, the EU has taken action and with the sole proviso of not escalating the conflict. Since the start of the war, the EU and its Member States have provided or committed more than €143 billion in support of Ukraine and its population:

- €81 billion in financial, budgetary and humanitarian aid;
- 33 billion euros in military aid;
- €17 billion in aid to refugees in the EU;
- €12.2 billion in grants, loans and guarantees provided by EU Member States

## **PUBLIC OPINION AND THE ACTIONS OF POLITICAL ELITES**

Although surveys show that there is growing concern among European citizens regarding Russia's behaviour as well as support for the EU's security and defence policies, it cannot be ignored that within the Community there are different attitudes regarding the war in Ukraine. While for the Nordics and most Western countries the conflict represents an existential threat, for other European countries, the conflict is far away and Russia is considered as less of a threat. It will be necessary to carry out a pedagogic exercise on the need to develop the pillar of European defence in an integrated way, especially in some European countries –including Spain– and, above all, to base this exercise on social democratic positions. If we want Europe to be a power that promotes the values of peace, solidarity, respect for human rights, multilateralism and equitable development, it is essential that it equips itself with the skills and capability in matters of security and defence.

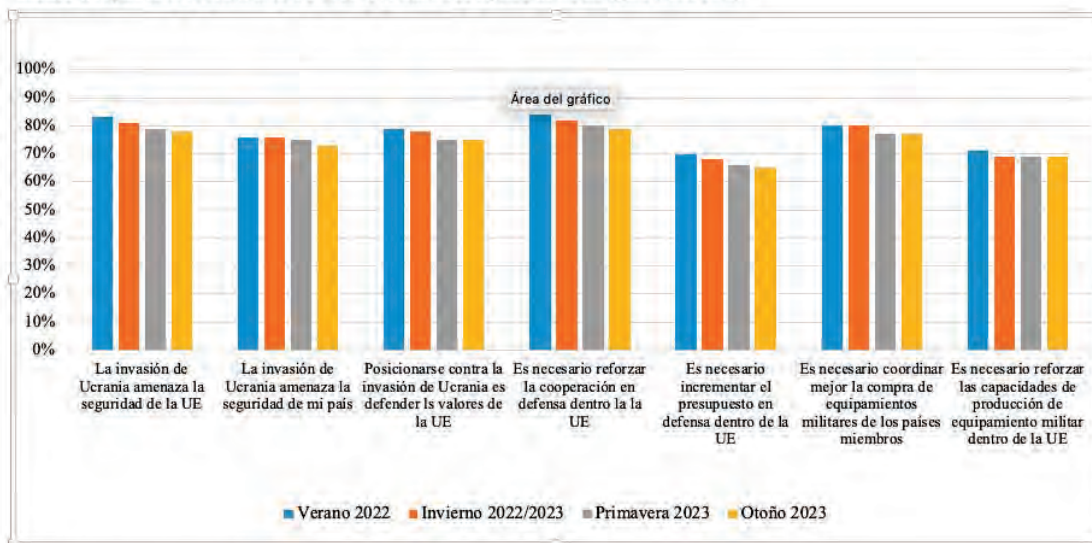
In this sense, European social democracy has a lot to contribute. If we analyze the 2019 Euro-manifesto of the Progressive Alliance of Socialists and Democrats (S&D), as well as the activity in the SEDE subcommittee of its members in this legislature of the European Parliament, the majority of the members of this Euro-group have leant towards actions that imply greater integration in security and defence policies compared to the more moderate approach of popular and liberals.

Currently we face a double challenge: resolving the war in Ukraine by restoring peace and containing Putin on fair terms so that Russia is not a problem for European security; this is a challenge and window of opportunity that we must use to our advantage. The EU has responded with unity and determination to the Russian challenge, and, with serenity and consideration, is becoming aware of its vulnerabilities in a troubled world. Governments are reacting firmly to the situation and public opinion is largely supportive of actions aimed at strengthening the EU's defence capabilities (See Graph 2).



Graph 2. Impact of the invasion of Ukraine on the defence culture of Europeans (2022/2023)

Gráfico 4. Impactos de la invasión de Ucrania en la cultura de defensa de los europeos (2022/2023)



Fuente: Elaboración propia a partir de los Eurobarómetros standard, números 97, 98, 99 y 100

If we look at the data from the special survey of the Euro-barometer for the 2024 European parliamentary elections, “EP Spring 2024 Survey: Use your vote - Countdown to the European elections”, the main area that the EU must focus on is to strengthen its position in the world regarding “defence and security”, with 18%, and if we take into account the first and second options, it would also be “defence and security” with 37%. On the other hand, these figures are very different in Spain, the country that gives the lowest value to these answers: 8% of Spanish public opinion barely considers the first option that “defence and security” is the main aspect to reinforce, and taking the first and second option together registers only a 20%.<sup>50</sup>

50 Q11 del “EP Spring 2024 Survey: Use your vote - Countdown to the European elections” del Eurobarómetro. Disponible en: <https://europa.eu/eurobarometer/surveys/detail/3272>



# **SIXTH DIMENSION: NEW STRATEGIC PARTNERS FOR EUROPE**



## INTRODUCTION (A SUMMARY)

- ▶ The changes that have occurred in the last five years demonstrate the following: the emergence of geopolitics as a rule of conduct in trade and investments and the signs of fragmentation of open trade; political multi-polarity with new coalitions between countries; the weakening of international humanitarian and human rights law; and finally the appearance of a threat of instability in the transatlantic alliance which until now had been the kingpin of the European alliances.
- ▶ In the current circumstances where new trends of fragmentation and multi-polarity have appeared and been accentuated, a global actor with weight must establish a strategy to gain influence, allies and partners, including in multilateral frameworks.
- ▶ Earlier we mentioned that in the Global South many countries defend non-exclusive relationships and that creates the geo-strategic basis for multilateral alliances and a space for common meeting and strategic choice between the EU and most of the countries of the Global South. But making advances in this field demands changes on the part of Europe. We must be aware in Europe that in the global South:
  1. The aim is to reform the international order to make it more inclusive, changing its rules.
  2. There is a growing opposition to the West and therefore to the EU due to its discourse of values and its claims of progress, and that affects the ascendancy of the EU. The contradictions and double standards that the West and the EU have demonstrated in response to COVID-19 in terms of vaccines or when their position on Gaza is compared with that on Ukraine, are real and cannot be underestimated; the West's "double standards" are criticized with respect to the values, principles and human rights it proclaims and demands of others to

the extent that Europe's credibility is greatly undermined.

3. It is considered that development aid –which they recognize as successful and useful– has not contributed to structural transformation, especially in their own economic structures.

### A NEW ALLIANCE STRATEGY FOR EUROPE: TOWARDS EQUAL PARTNERSHIPS

- ▶ But the success of a new alliance strategy requires new attitudes and ways of proceeding which are summarized in the double step that we propose here:

A. Faced with the European colonialist past, with the extractivist past of the investments made until not long ago, with the attitude that the only valid policies and standards are those that emanate from the most developed countries, and with the double standards that we continue to use in Europe in many aspects of economic and political reality depending on whether we are talking about countries in the North or South, the first rule of a new approach to alliances is for Europe to build trust (trust building) with its possible allies. Trust is the mandatory gateway to a new and effective alliance policy. Trust can only be built through dialogue, attentive listening, the elimination of double standards and by genuinely treating the other party as equal and deserving of respect.

This first step requires time and is not achieved overnight; but in order to achieve success acting with integrity and respect is even more important than time.

B. The second step is to be very clear about the values that are professed. In the case of Europe, as we saw before, our central values revolve around social democracy: i.e. freedom, equality and solidarity, adding as corollaries respect for human rights and multilateralism. However, approaches to alliances with other countries and regions do not necessarily have to be made on



the basis of these values as they may not be shared; but in many cases alliances must be explored based on the common interests that may exist between the parties. When cooperation is sought to confront common challenges and with common interests, when both parties sit at the table seeking mutual benefit, a relationship between equals is genuinely established in which the important matter is the co-creation of agreements between both parties concerning projects, initiatives and policies. This point is important: wherever we withdraw because our values are not shared by the other party the space will be occupied by others whose ideology and values have nothing to do with Europe, as is happening with Russia in West Africa.

C. The method proposed for a new alliance strategy based on trust, co-protagonism and shared interests may be the determining factor for the degree of influence that Europe can achieve in the new geopolitical scenario it faces.

- ▶ For the first time in the history of the transatlantic relationship the US may be ceasing to be a reliable partner since the positions it adopts are no longer predictable nor enjoy the guarantee of stability conferred by a state policy supported by the two parliamentary blocs in the US, but depend rather on who is occupying the White House. Although the transatlantic alliance remains an important part of the alliance strategy, Europe should no longer trust that others are going to replace what we Europeans should do for ourselves, nor should it continue to consider the transatlantic bond as the prop and epicentre of European alliances.

#### **NEW STRATEGIC PARTNERS, A NEW REGION IN THE WORLD, THE REGION OF THE THREE SHORES"**

- ▶ Europe, if it wants to merit a place at the high table as one of the major global players, should seek to increase

its global influence by forging new alliances in which, together with new partners, it can build a fundamental engine of progress for the world in two or three decades. We propose, for reasons that are explained in detail in each case, alliances with Latin America, with Africa and with the Mediterranean basin, and outline the necessary elements for a strategic pact.

- ▶ In this way, and moving forward in a relationship between equals based on common interests and mutual benefit, the perspective of a new region is being visualised: the "Region of the Three Shores" turning into reality an alliance of Europe and the Mediterranean basin with Africa and Latin America.
- ▶ Europe and Latin America have strong ties, shared identities and very similar perceptions of the world that must be strengthened in a privileged alliance.
- ▶ Africa must have as partners those who will be most directly affected, for better or worse, by its youth, its demographic explosion, and its "demographic dividend." We must share the successes because otherwise we will share the failures.
- ▶ Africa and Latin America also share deep historical roots: although they are the youngest continents on the international scene they are also committed to an approach that will benefit both continents.
- ▶ That is why we invoke the vision of a new region in the world that balances the distribution of power with regard to the Indo-Pacific region, that consolidates multi-polarity in the world today and that, in addition, becomes a motor of international prosperity in the second half of the 21st century.
- ▶ This dream of a new regional driving force on a global scale will not be achieved overnight; its construction will take decades. But the scenario



that is proposed, and which could be configured as a new global dynamic pole in the mid-21st century, makes perfect sense for the consolidation of a world in which multilateralism, human rights, peace, democracy, a humanist digital transition and a green transition that stops climate change are established as the new global regime.



## THE NEW INTERNATIONAL SCENARIO

1. Five years ago, tensions on a global scale were easily identified: growing friction between the US and China regarding technological hegemony in the digital transition; the threat of Islamic jihad in Africa, with ISIS in retreat in Syria and neighbouring countries, and the beginning of a time of extreme weather events as a sign of the acceleration of climate change; even Trump's US presidency, which had been much less radical in practice than in rhetoric. The world lived with these tensions in a context of hyper-globalization that had been beneficial for many, and with multilateralism as the dominant mode of relationships in the international community.
2. Various events have radically altered this state of affairs.
  - a. On the one hand, tensions between the US and China have increased, leading to a real confrontation around the digital transition and, in particular, regarding semi-conductors.
  - b. On the other hand, the appearance of a serious pandemic, Covid-19, which forced confinement in many countries, the paralysis of the international mobility of people, goods and services for two and a half years, and caused all countries, except for China, to suffer the effects of a scarcity of medical supplies, with something similar applying also to vaccines.

As a result, economic security and strategic autonomy experienced a new setback in which competition to obtain global supply chains of strategic products has given rise to new practices appearing on the international scene of geopolitics such as "friend-shoring", whereby the orthodox logic of economic efficiency is being complemented and sometimes over-ruled by criteria of friendship, alliance or affinity.

In this new context, the rivalry between the United States and China in international trade has worsened. In addition, via the "Inflation Reduction Act", the US has introduced a package of 365 billion dollars in subsidies to North American companies to promote the green transition. The world is now threatened by a certain regression to protectionism, eroding the open, rule-based international market that has driven the great increase of income and growth of the middle classes in emerging countries since the end of the 20th century.

- c. Thirdly, wars in Africa have intensified, and Russia's war of aggression against Ukraine in Europe has contributed to seriously polarizing the international scene. While Europe and the US have responded by supporting Ukraine in its fight against the Russian invasion, China has shown a nuanced position of not interfering frontally and of growing rapprochement, and, faced with this situation, many emerging countries have preferred to adopt a position of neutrality with respect to Russian aggression. Thus, at the geopolitical level, the world has begun to show signs of a fragmentation that had not previously been evident, and of a growing multi-polarity (not exactly a bipolarization between two blocks, but the appearance of various geo-strategic formations), with emerging countries assuming new roles.
  - d. In practically all regions of the Global South there are emerging countries that are increasing their influence, that aspire to develop their autonomy and acquire more weight in the world order. And they are achieving it. In addition to doing so individually, deploying a stronger and more visible foreign policy than ever before -often based on pragmatism- all of them have been coordinating together for decades and joining forces in the UN General Assembly under the formulas of the G77+China (for economic



and financial issues). Some are grouped in diverse, non-exclusive formats, composed only of countries from the global South, often including China (the BRICS and its New Development Bank could also be cited), or together with the superpowers or traditional great powers (G20).

The position of African countries regarding the Russian invasion of Ukraine is significant. Without a doubt, for many of them, aligning with a bloc would reduce freedom of choice; Freedom from the “courtship” of the various forces implies power. This advantageous situation of the global South is historically novel given that by taking advantage of multi-polarity they rule out a “zero-sum game”, establishing multiple and compatible agreements and alliances. Therefore, a fundamental element in this geo-political analysis is that the countries of the global South are increasingly active and influential participants in multilateral organizations and forums. They are, for the moment, defenders of multilateralism.

- e. The combination of supply shortages and scarcities of offer, to the extent that global value chains have not yet been re-established since the pandemic and also as a result of the increase in energy prices due to the cut-off of Russian fuel supplies, have resulted in inflation making an appearance just when global economic activity was in the process of recovery. Inflation has caused considerable deterioration in domestic economies and has led to the end of low or negative interest monetary policy, raising interest rates and thus making it difficult to re-finance debt and further economic growth, particularly in many developing economies.
  - f. Following the savage Hamas incursion into Palestinian territory that killed 1,200 Israeli civilians, Israel under the leadership of Netanyahu has invaded Gaza, forcibly displaced its entire population, destroying most of the urban infrastructure and buildings in Gaza including its hospitals, subjecting its population to increasing famine and killing more than 40,000 Palestinians (7,000 missing under ruins and rubble - 70% women and children) as well as hundreds of journalists and United Nations humanitarian aid workers. The international community has failed to prevent these flagrant abuses of international humanitarian law and human rights. In these last months of aggression and the punishment of the entire Palestinian people, and with the support of the United States and the half-hearted reaction of some European countries, the collapse of international humanitarian law and human rights has become commonplace.
  - g. Finally, Trump's return to the presidential race in the US is taking place despite his attempts to subvert the previous electoral results and the responsibility that Trump had in the assault on the Capitol to prevent the appointment of Biden as President. More than 70% of Republicans in the US continue to believe, against all evidence and court rulings, that the election was rigged to deprive Trump of an electoral victory. His nomination as an electoral candidate for November 2024 has been massively supported by the Republicans. And Trump has further escalated the messages of protectionism, anti-immigration, and a foreign policy in which his continued support for Ukraine is unclear, as is his position on NATO and his allies in Europe.
3. In short, the changes that have occurred in the last five years indicate: the emergence of geopolitics as a rule of conduct in trade and investments as well as signs of the fragmentation of open trade; political fragmentation and multi-polarity with new coalitions amongst countries; the weakening of international humanitarian and human rights law; and finally the appearance of a threat of instability in the transatlantic alliance, which until now had been the kingpin of the European alliances.



## A NEW PARTNERSHIP STRATEGY FOR EUROPE: TOWARDS EQUAL PARTNERSHIPS

Before considering alliances, it is worth reaffirming something that we have already referred to: the first and fundamental task that Europe has to face in order to become a decisive player on a global scale is to address its own challenges which, as is becoming clear in this report, refer to its socio-economic cohesion –the consolidation of its economic security and its green and digital transitions– all without abandoning the rules of the open international market; the creation of its own competitive ecosystem in artificial intelligence and organising an effective European defence, security and deterrent system.

Following on from the above, in the current circumstances where new trends of fragmentation and multi-polarity have appeared or have been accentuated, a heavy-weight global actor needs a strategy to gain influence, allies and partners, including in multilateral frameworks.

Earlier we pointed out that in the Global South many countries defend non-exclusive relationships, and that creates the geo-strategic basis for multilateral alliances, a space for common meeting and strategic choices between the EU and most countries of the Global South.

An important case is the BRICS and its expansion in the last year which has given the grouping more weight in terms of investment and negotiation. A new dynamic of cooperation with the BRICS should be instigated - a new understanding between Europe and this new and more assertive bloc, despite the existing differences on issues such as climate which with more dialogue, cooperation and search for consensus could be resolved.

But advancing in this scenario requires changes on the part of Europe. We must be aware in Europe that from the global South:

1. The aim is to reform the international order to make it more inclusive, changing its rules.
2. There is a growing opposition to the West, including to the EU, regarding its discourse of values and its claims of progress, and this affects the ascendancy of the EU. The contradictions and double standards that the West and the EU have manifested over the response to COVID-19 in terms of vaccines, or in attitudes to Gaza in comparison to Ukraine, are real and cannot be underestimated. The West's "double standards" are criticized in terms of the values, principles and human rights it proclaims or demands from others to the point where Europe's credibility is greatly undermined.
3. It is considered that development aid –which they recognize as successful and useful– has not contributed to structural transformation, especially to the economic structures of their own countries.
4. It is evident that the 2030 Agenda is very far from making available sufficient financial resources.
5. A fair distribution of the obligations (and costs) of countries is demanded to preserve global public goods (including those involved with climate change) and the right of their populations to access energy (even if it is not renewable) and to industrialise.

Agreement on all the above points is not the issue here, but rather is about the EU making a real commitment in favour of dialogue concerning the demands and reclamations of the global South. Of all their demands, the reform of the international financial system and its access to lower-cost financing is the most strategic. More affordable financing oriented towards development and de-carbonisation policies would boost private productive and infrastructure investments, allowing structural transformation, the creation of employment and greater social inclusion of men and women; it would also reduce migratory pressure. It is the reform that



would benefit the greatest number of countries.

But the success of a new alliance strategy requires new attitudes and ways of proceeding, which can be summarized in the two steps that we propose here:

- a. Faced with the European colonialist past, with the extractivist nature of the investments made until not long ago, with the attitude that the only valid policies and standards are those that come from the most developed countries, and with the double standards that we continue to employ in Europe to many aspects of economic and political reality depending on whether we are talking about countries in the North or South, the first rule of a new approach to alliances is to build trust (trust building) between Europe and its potential allies. Trust is the mandatory gateway to a new and effective alliance policy. Trust can only be built through dialogue, attentive listening, the elimination of double standards and by genuinely treating the other party as equals and deserving of respect.

This first step requires time and cannot be achieved overnight; but even more than time a genuine attitude is needed to achieve it.

- b. The second step is to be very clear about the values that are expressed. In the case of Europe, as we saw before, our central values revolve around social democracy, that is, freedom, equality and solidarity and the corollaries of respect for human rights and multilateralism. However, approaches to alliances with other countries and regions do not necessarily have to be made on the basis of these values as they may not be shared. In many cases alliances must be explored on the basis of the common interests that may exist between the parties. When there is cooperation to face common challenges and common interests, when both parties sit at the table seeking mutual benefit, a relationship between equals is genuinely established in which the most important issue is the co-creation of agreements between both parties regarding projects, initiatives and policies. This point is important: wherever we withdraw because our values at that moment are not shared, then the space will be occupied by others whose ideology and values have nothing to do with Europe, as is happening with Russia in West Africa.

The methodology proposed for a new alliance strategy based on trust, co-protagonism and shared interests may be the determining factor of the degree of influence that Europe can achieve in the new geopolitical scenario it faces.

We should apply this approach with the allies that we consider the priority for Europe. And we should do it with great care, bearing in mind that a genuine alliance can only be built if both parties are determined to do so and, in a dialogue between equals, provide it with mutually agreed processes and content.

## NEW STRATEGIC PARTNERS FOR EUROPE

In this new scenario, Europe must rethink its global alliances. Both Russia and China have adopted an offensive and proactive position, attempting to gain influence, allies and partners among the countries of the global South. But these emerging and developing countries are considering their alternatives.

The global North has also begun to manifest a plurality that until recently was not evident. Thus for countries of Anglo-Saxon tradition, with the United Kingdom seeking alliances outside the EU, the centre of gravity of globalisation is shifting from the transatlantic ties with Europe and the US to the Indo-Pacific region. This region includes, in addition to China, many of the large emerging countries, such as Pakistan, India and Indonesia, as well as the great powers of the Global North, such as the USA, Canada, Japan and Korea, Australia and New Zealand, and a significant number of countries that are making the leap to economic maturity, such as



Vietnam, Thailand or Malaysia. Obviously, the consolidation of this new region, with an absent Europe, would place Europe at the antipodes of the new global centre of gravity. In this scenario Europe must not be left behind. As we indicated earlier, there is a good basis to establish a trade alliance between the European Union and Indo-Pacific countries that establishes a privileged cooperation framework to promote the resilience and sustainability of value chains, as well as cooperation on climate change, the digital economy and the reform of the WTO. But also, in this new geopolitical situation it is absolutely essential that Europe responds to the question of what strategy of core and priority alliances it should adopt.

Another factor to be taken into account is that for the first time in the history of the transatlantic relationship, the US may be ceasing to be a reliable partner since the positions it adopts are no longer based on predictable policy that has the guarantee of stability conferred by policy supported by the two parliamentary blocs in the US but depend instead on who is occupying the White House. Furthermore, the deep division among American citizens caused by the strategies of American libertarian populism –misinformation, constant polarization and the systematic weakening of democratic institutions– could be neutralising the leadership potential of the United States, a leadership which the US held unchallenged as a “hegemon” in the 90s and at the beginning of the century.

Although the transatlantic alliance remains an important piece of the alliance strategy, Europe should no longer trust that others are going to provide what we Europeans should be doing for ourselves, nor should it continue to consider the transatlantic bond as the support and epicentre of European alliances.

Europe, if it wants to win a seat at the high table as one of the great global players, if it wants to make multilateralism prevail, if it seeks to consolidate international humanitarian law, if it wants human rights to be respected, if it proposes to keep international trade open, if it wishes for a fair world and one that advances along the path of social democracy, should seek to increase its global influence by forging new alliances in which, together with new partners, it can build a fundamental engine of progress for the world in two or three decades.

Let us examine the perspective of these new alliances.

## THE EU AND LATIN AMERICA AND THE CARIBBEAN

The re-launch of relations between the European Union (EU) and Latin America and the Caribbean (LAC) in 2023 reflected the desire to update an association that had remained stagnant. Dialogue and cooperation are once again relevant for facing shared challenges for both regions and to address the asymmetries that are still present in this relationship –concerning development, productivity, quality of employment, scope of social protection– according to the different capacities and responsibilities of each party. Regarding other partners, an alliance with Europe could potentially be beneficial because it could bestow on Latin America a central position as a hinge between East and West, and North and South.

After eight years without high-level political dialogue, a new leaders’ summit and other meetings at ministerial level and with business, academic and civil society actors were held. The EU launched innovative proposals such as the EU-LAC Digital Alliance and the Global Gateway investment initiative. There was agreement on a “roadmap” and a willingness to move forward. In LAC there was a new correlation of forces that allowed regional coordination and cooperation to be recovered.

The association between the EU and LAC has been a relationship of choice, the result of the will of two regions closely tied by history, culture and world-views but distanced by geopolitics and the economy, and in particular by the hegemonic presence of USA. In the last decades of the Cold War, both regions opted for this relationship as an alternative to the hemispheric projection of the United States. It made it possible to present a common front against dictatorships and



human rights violations, and to support the peace processes in Contadora and Esquipulas and democratic transition and consolidation throughout the region. Later European interest in promoting trade and investments was added in light of the region's recovery and its new integration processes,.

These pages provide a brief diagnosis of these relationships, and a proposal for a strategic alliance that contributes to both parties gaining a better position to confront various challenges together and to face other challenges from a position of co-responsibility and with greater autonomy and influence in global governance.

The balance of these relationships has taught lessons that remain valuable today:

- The bi-regional relationship allows the autonomy of both regions to be expanded in the face of the risk of subordination due to past and present bipolarity.
- Regional integration and social democracy are useful strategies both politically and in terms of development as foundations of multilateralism, international order and global governance;
- Cooperation is more effective when it is combined with political objectives of peace, democracy and development, and does not respond to technocratic logic;
- Trade relations and association agreements also have a geopolitical dimension as a strategy for the diversification and protection of markets and investment, either, as in the past, regarding the United States, or today in the competition with China.

However, these relations were very stagnant up until 2023. The political fractures in the region blocked CELAC and other regional organizations, preventing bi-regional dialogue with the EU for several years. The rise of China also had an impact, displacing Europe –until then the second trading partner after the United States– to third position. This link with China has increased extractivism and discouraged industrialisation and regional integration. The EU remains the main source of foreign direct investment (FDI) in LAC, but Chinese investment is growing rapidly.

Europe must also bear some responsibility for this stagnation. LAC has not been a priority for the EU's foreign action which opted for a triangulation strategy with the United States that was not possible either with the Trump administration or, to some extent, with that of Biden. The EU has had and has important differences in approach with the United States regarding Venezuela and Cuba, as well as other problems in the region; moreover, the EU has more in common with a Latin American perspective. EU cooperation also stagnated due to the unfortunate "graduation" of most Latin American countries as recipients of development aid, which only represents 4% of the EU budget for external action. As for trade negotiations, the 2019 "agreement in principle" between the EU and Mercosur soon came to a standstill due to the environmental denialism of Jair Bolsonaro's government in Brazil and the re-emergence of protectionist claims and environmental demands in the EU.

The global scenario defines shared challenges that require a more horizontal relationship, one based on different responsibilities and capacities and different levels of economic structure and well-being between both regions. A relationship without the paternalistic and condescending attitude that has characterised European self-perception, but rather one that calls for a more deliberative and open approach in order to generate trust and which supports a renewed Euro-Latin American alliance which is more inclusive and evenly balanced.

As indicated, the EU may have lost some of its credibility due to its inconsistencies on the international agenda, but we must not forget the important influence that the EU retains in the region. According to independent surveys, perceptions of the EU and its role as a global player are positive, ahead of the United States and China. Its autonomy and influence is recognised,



and it is considered a world leader in the issues that most concern the citizens of LAC: the environment and the fight against climate change, poverty and inequality, the promotion of world peace, culture and education, democracy and human rights, and health and vaccines. On the other hand, some criticisms of the EU have originated in the Global South –with which Latin America is often identified– an area that has shown little internal cohesion and whose proposals do not always reflect the all the region's priorities.

But first of all, before proposing our strategic approach based on building trust, establishing a relationship between equals and co-creating a partnership, we must examine the shared challenges between Latin America and Europe. What are these?

There are three challenges that we share:

1. Reinforcement and mutual support to achieve a greater strategic autonomy and major joint influence in a fragmented and multi-polar world.

The bi-regional alliance can jointly expand the autonomy and influence of both regions in the face of an uncertain, fragmented, disputed world with growing geo-political rivalry but in desperate need of governance, rules and certainty. This is an imperative, particularly today in the face of the risk of being trapped in the geopolitical competition between the United States and China and in the face of conflicts with systemic effects, such as the war in Ukraine or Gaza. The strategic interest shared by LAC and the EU is to avoid a scenario of tensions that require rigid alignments and obstruct their autonomy.

For both regions, responding to this challenge does not imply a defensive withdrawal, but rather the construction of an open link between reliable partners, expanding their margins of manoeuvre and strengthening global governance. For Europe, it means not assuming a North Atlantic commitment as the determining element of European policy, especially in the face of a more unpredictable United States; and for Latin America it means not assuming uncritical alignment with China. The war in Ukraine, like the war in Gaza now, does not facilitate this common agenda but there is a fundamental agreement on the basic principles and rules of international law.

2. The need to confront the erosion of democracy based on convergent ideas about social democracy, which, even though there are differences and asymmetries between both regions and also within each region, these ideas are rooted in the preferences and political culture of both.

The erosion of democracy and its questioning is a global trend clearly reflected in opinion polls. Recently, the Latino-barómetro on support for democracy, satisfaction with its functioning and trust in its institutions showed the worst data for almost thirty years. According to the Euro-barometer there are also worrying data expressed in the EU. It is a shared challenge. The rhetoric on this issue should be abandoned along with the “liberal consensus” of the post-Cold War period; now, compared to what liberal democracies were both for Europe and Latin America –if it is social– then democracy will be consolidated.

Cooperation with non-governmental actors is once again relevant for the preservation of civic space: freedom of the press, the fight against disinformation and the defence of human rights. But in both regions the roots of citizen disaffection have not so much to do with electoral democracy and its procedures, but rather with workers' rights, the fight against inequalities, the consolidation of the middle classes, unrealised expectations and exposure to economic and labour risks and citizen insecurity. These problems must not be left in the hands of the new extreme right forces. With “angry societies” and high levels of mistrust and dissatisfaction, revitalizing democracy and its legitimacy and confronting the rise of authoritarian forces means addressing the socio-economic sources of discontent.



3. Mutual support in advancing fair and human-centred ecological, climate, digital and AI transitions.

Both regions can form a strong alliance for sustainable development that reinforces their autonomy, resilience, cohesion and social inclusion through a social, ecological and digital “triple transition.” A common point within our respective traditions is that these transitions will have to be fair transitions, because if they are not they will meet with resistance and rejection which authoritarian and far-right forces can capitalize on politically.

This means reaffirming that we are facing a shared challenge. Even with different starting points, capacities and responsibilities, current transitions are processes for which there are no previous scripts. Both the Washington consensus and the European liberal order have demonstrated their limits. In national and global policies we are at a moment of experimentation and learning. For this reason, the EU-LAC alliance must be a common space for policy and regulatory dialogue and for innovation and exchange of policies for productive transformation undertaken with the cooperation that promotes innovation, joint learning and the exchange of experiences.

If we have talked until now about the common grounds that can link Latin America with Europe in a strategic alliance, it must be noted that this exercise, between genuine equals, also entails some differentiated responsibilities.

In fact, our proposal is that this dialogue between equals will be fruitful if we mutually accept a principle of co-responsibility in a strategic rapprochement between Latin America and Europe, with each party assuming some of its own tasks.

Latin America must take responsibility for its own progress in three fields that, although generic, are mandatory:

- a. The fight against informality, which covers more than 50% of the working population on the continent.
- b. A fiscal reform based on progressivity since, with only an average of 22.5% of public income collected fiscally, there is no means to build universal systems of health, education and social protection.
- c. Progress towards stronger democratic institutions so that the state becomes an instrument at the indiscriminate service of the social rights of all citizens.

Without these three ingredients it will not be possible to advance a social contract that gives rise to social democracy in Latin America.

In turn, Europe should take responsibility for:

- a. Proposing and working for new fair trade terms, finding accommodation with the demands of the European agricultural and livestock sectors without endangering trade agreements with the economies of Latin America; reviewing the margin of flexibility/graduation in the environmental and social requirements applicable to producers in both regions; and creating mechanisms that combine guarantees of European security/strategic autonomy with the need to establish inter-regional alliances.

Association agreements should not be seen as mere free trade agreements. They have a new geopolitical role as tools for autonomy and resilience, establishing relationships between trusted partners, and subject to rules. They are also tools for the triple transition, as a common space for dialogue and regulatory convergence in social, digital and environmental matters, to promote sustainable and fair production and consumption models, and not simply to reduce tariffs. EU trade and investment –and this must be an element of the renewed alliance– involve more advanced standards in labour, social,



environmental, gender equality... which are a concretion, economically, of the European social democracy model.

The EU should make some of the provisions of these agreements more flexible, leaving room for the new industrial policies present in both regions. Examples of this are the provisions on lithium in the modernization of the EU-Chile Association Agreement, functional to Chilean policy to promote value chains based on that mineral; or provisions that Brazil demands in terms of public purchases in order to promote innovation and industrialization, as occurs, in fact, in the EU.

- b. Establishing public funds as catalysts for sustainable productive private investment in Latin America for development and climate. A new alliance for development cannot be limited to official aid resources, whose margins for growth are limited. Given the huge investment needs, a broad development and climate finance agenda must be addressed. This presupposes a new architecture of cooperation that complements the norms of the OECD Development Assistance Committee (DAC) with the creation of public funds that will act as a catalyst and mobilize private investment. These funds should be subject to norms that will ensure Latin American leadership in the generation of infrastructure and industrialization.

With the Global Gateway, the EU uses public funds to promote leverage projects in LAC by mobilizing private investment and development banks. This gives the EU an unprecedented capacity to mobilize resources. Conceived as an investment promotion tool, the Global Gateway must ensure adequate governance and the true appropriation of its flagship projects within the development plans of the Latin American countries rather than being swayed by the European offer or the need for raw materials required by the green transition; thus avoiding a renewal of the traditional European vision of Latin America as an “Eldorado” open for exploitation. Investment decisions have to be co-created and led by Latin America. The Global Gateway will only make sense in the new generation of alliances that we propose if it is developed within a strategic framework of genuine partnership.

- c. Supporting and achieving the expansion of fiscal space for debt problems. Before the United Nations Development Financing Conference of 2025, which will be held in Spain, we must go beyond window-dressing and come up with advanced financing proposals: debt conversion for climate action, green bonds, and the use of special rights of gyration (SDR) for green and digital investment.

A scheme of this type constitutes an initial basis for the negotiation of a new alliance and partnership between Latin America and Europe that will allow mutual benefits to be gained on both continents:

The benefits in the case of Latin America will be: a) the consolidation of the middle classes and social inclusion, b) productive diversification and c) continental economic integration. And in the case of Europe the benefits will be equally important: a) the consolidation of an open market that integrates hundreds of millions of inhabitants, b) the alleviation of the demographic decline that Europe is experiencing and c) the consolidation of social democracies beyond the European space.

## A STRUCTURAL CHANGE IN THE RELATIONSHIP WITH AFRICA

In the construction of a new strategic alliance between Europe and Africa the question of building trust as a preliminary step is a priority since extractivist practices have continued until very recent times, Double standards (in matters as sensitive as armed conflicts or investment risk assessment) still exist, and the old tendency to believe that European standards are the right ones still survives. This should not be a source of discouragement. In fact, a variation in



attitude towards genuine positions of partnership and respectful treatment among equals can be recognised and positively valued in a relatively short time.

The establishment of a strategic partnership with Africa offers some comparative advantages since the continent has a Union governed by a Commission similar to the European Union. Africa also has continental trade agreements, and finally it has objectives agreed upon by all countries running up to 2063. All this makes the path towards an understanding between Africa and Europe a lot smoother although without descending into sub-continental, regional and local agreements, progress will be slow.

The ground for achieving mutual benefit –even formulated on a general level that must then be substantiated in multiple agreements– is defined by the need for industrialization and the productive diversification of the continent. In terms of its relations with Europe this implies a change, and it is a change that is also convenient for Europe for several reasons:

1. European predominance in African markets has disappeared or is on the way to being simply participatory, as its suppliers and clients have widely diversified.
2. The progressive construction of the continental free trade area (AfCFTA) implies, above all, the prospect of the free circulation of goods and services originating in African countries for their regional markets. This entails the protection of new local industries (provided for by the WTO), including the prohibition of certain imports (as occurs already in Nigeria and Ghana).
3. Participating in this first wave and starting to invest in industrial projects in Africa would allow us to take advantage of the markets of large African cities where the middle classes are growing and efficiencies can be achieved through the concentration of services and human resources.
4. Industrialisation drives the primary sectors (especially agriculture, which requires modernization, quality improvements and supply guarantees) and the tertiary sectors (logistics, transport, insurance and digitalization).
5. Industrialisation creates largely formal employment in its own sector and in the sectors in which it has traction. Therefore, it contributes to social inclusion through employment and increases per capita income (after reaching 5,000 USD per capita, migratory flows would be reduced).
6. Industrialisation also contributes to the empowerment of women –the majority in some industries– to whom it provides formal, paid work and the possibility of social benefits through contributions: in short, it provides an example of autonomy and exemplifies the changing role of women to daughters and the entire family unit.
7. Industrialisation promotes social stability and improved governance. Decent jobs that guarantee minimum living standards and the promotion of the (globalized) middle classes can be translated into demands for transparency, accountability and citizen participation.
8. Industrialisation increases the fiscal space to finance social public policies. It replaces imports and can reduce the trade deficit, also saving foreign currency for national economies.

Regarding European institutions, the initiatives of Team Europe (TEI) and the Global Gateway (GG) as applied to Africa, but also to other regions, is a first step. The GG announced an investment package in Africa of approximately 150 billion euros. Without doubt, the GG must be exploited and promoted but, above all, its approach must be adjusted. For Africa, the vision of the future is specified in its strategic document “Agenda 2063: the Africa we want” (2015), complemented by various and successive multi-annual plans for different sectors. For the TEI and the GG to explicitly incorporate into these plans European participation in the



industrialization of Africa would also be in accordance with the “Agenda 2063”, but so far this is not the case in any of them; although the Samoa Agreements signed by the EU and the countries of sub-Saharan Africa, the Caribbean and the Pacific (ACP), on 15.11.23, do include specific chapters dedicated to industrialization that await their practical application.

Africa is experiencing a demographic explosion that will lead to the doubling of its population to 2.6 billion inhabitants by 2050. With an average age of 19, demographic growth will lead to the existence of an overwhelmingly young population. By 2035, 375 million Africans will have entered the labour market and if we manage to create job opportunities for all of them Africa will take a great leap forward in its development. In this way, the “demographic dividend” can become the driving force of an African miracle and pave the way for the continent to become the motor of the world economy in the second half of the 21st century.

For this to occur, several objectives must be achieved:

- a. The fundamental factor is the mobilization of productive private investment, both African and European, since the starting point is manifestly insufficient (FDI to Africa is currently 3% of global FDI). All instruments at the service of this objective must be put into operation: the African Investment Platform (AfVIP) that is being launched by the OECD and the African Union Commission is a promising element. Its aim is to ensure that the impact, opportunities and risks of productive investment in Africa are better assessed and this will positively influence investment ratings on the continent. Similarly, new mechanisms to set up the channelling of productive investment for climate and development via public funds that catalyze private investments will be crucial since the investment needs in these categories amount to trillions of euros per year. Other complementary aspects such as the fight against African capital tax evasion, which currently stands at over 80 billion annually, and tax avoidance are also of great importance.
- b. All of this must be aimed at the creation of basic infrastructure (roads, electrification and renewable energy), the creation of free zones, regional integration and productive diversification, but with the immediate focus on job creation.
- c. Investments, infrastructure, industrialization and job creation must bear the seal of decarbonization and the development of digitalization and Artificial Intelligence centred on people.
- d. Issues related to social protection, health and education are crucial in the African case. To this end, official development aid that has no obvious economic returns should be considered a strategic instrument that complements the public social spending of African states in such a way that they gradually expand their fiscal space and as well as introduce a progressive tax system. Without failing to highlight the development financing agenda, we must not forget about cooperation in non-financial areas: technical assistance, institutional strengthening and regulatory capacity, cooperation in human rights, gender equality, and higher education and science and technology, which the region itself demands.

The second beneficiaries of this economic growth supported by demographic growth will be the Europeans, especially if Europe is able to mobilize investments and financing towards Africa within a favourable framework of African public policies. If what is proposed is not achieved, it could condemn both Africa and Europe to the curse of an uncontrollable situation of mass flight/expulsion of Africans to Europe in proportions that have never been seen and that would lead to unprecedented social tension on both continents.



## THE MEDITERRANEAN

The waters of the Mediterranean bathe the coasts of 21 countries and five major non-EU regional powers are located in the region: Egypt, Saudi Arabia, Israel, Iran and Turkey. The countries of the Middle East and North Africa are the main global exporting area for oil and natural gas. The geo-strategic importance of the Mediterranean basin lies mainly in the fact that it connects three continents: Africa, Asia and Europe. This has allowed it to continue being an important maritime transport route and a nerve-centre of global logistics through which tens of millions of containers loaded with all types of merchandise are moved every year.

At the same time, one of the threats concerning the Mediterranean is the latent socio-economic discontent in the region that could manifest itself in an increasingly more belligerent manner, as has already occurred to some extent in the failed Arab Spring of a decade ago. Without a diplomatic solution to the different regional conflicts, and given the survival of various groups intent on maintaining the armed struggle, the growing de-stabilization of the area would be assured. Conflicts could continue to increase in intensity –as indicated by the events of recent months– and more and more countries, including Europe, could be dragged into this drift into violence.

Due to the opportunities it represents, but also because of the threats it contains, Europe should not continue turning its back on the Mediterranean, but rather European stability should be a basic element of its alliance strategy.

Just under 200 years ago, it was the impoverished peasants of Spain, Malta, France and Italy who moved en masse to North Africa. Now, however, the journey is made in a northerly direction, in part for the same reasons but also for other new ones: extreme poverty, conflicts, the economic crisis, religious or political persecution and climate change. Countries like Spain, Italy, Greece or Turkey find the migration issue very present on their agendas and this issue requires more definitive solutions.

The International Organization for Migration (IOM) published a figure of 28,260 migrants who died or disappeared from 2014 to 2023 in the Mediterranean. It is absolutely essential for the European Union, its Member States and the countries of origin and transit to reach a joint approach based on solidarity to avoid such disasters.

The pact on Migration and Asylum, approved in April 2023, includes a review of the Reception Conditions Directive and an update of the Recognition Regulation and a regulation establishing an EU Resettlement Framework to manage the reception and relocation of asylum seekers. The intention is for countries to unify migration management including the identification of asylum seekers, the acceleration of border procedures and the resettlement of refugees. At the external level, the pact is covered by agreements with neighbouring countries –such as Tunisia, Mauritania and Egypt– in order to avoid irregular departures.

However, the effective solution to the problem of migration to Europe from Africa and from the countries of the Mediterranean basin will be determined in the long term by socio-economic development, the creation of jobs and economic opportunities and stable governments that spread from the north down to sub-Saharan Africa. In the long term, the failure of this perspective would constitute the greatest threat that Europe could face –together with climate change– and it can only be averted by helping Africa to achieve adequate economic development based on sufficient investment flows that absorb the demographic growth that the continent is experiencing. To make this long-term solution more feasible and to be put into practice more rapidly, triangular cooperation between Europe and coastal countries such as Egypt, Morocco and even Turkey will be decisive.

The European Neighbourhood Policy (ENP) focuses on the stabilization of the region in political, economic and security terms. Cooperation with the southern Mediterranean region covers ten partner countries: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine\*, Syria



and Tunisia. Its results are unsatisfactory in relation to the stated objectives:

- stabilising neighbouring countries in terms of economic development, employability and youth, as well as transport and energy connectivity, migration, mobility and security;
- promoting good governance, democracy, the rule of law and human rights;
- facilitating cooperation at the regional level.

Since 2021, the EU has designed a new agenda for the Mediterranean to convert the Mediterranean basin into an area of dialogue, exchange and cooperation; guaranteeing peace, stability and prosperity.

The agenda proposes a joining of forces in the fight against climate change and the acceleration of the dual ecological and digital transition by harnessing its potential; to renew the commitment to shared values; jointly address forced displacement and migration; strengthen unity and prepare the EU, its Member States and southern neighbourhood partners to promote peace and security in the region. It is also concerned with generating economies that promote the digital transition, resilience, inclusivity, sustainability and coordination that create opportunities for everyone, especially for women and young people.

The initiative for a strengthened Mediterranean partnership remains a strategic imperative for Spain and the European Union as the challenges that the region continues to face require a common response.

It is necessary to build a social consensus in the Mediterranean to fight climate change. The temperature in the Mediterranean is already 1.5°C above pre-industrial levels: a figure that places the region 20% above the rest of the planet. Furthermore, in a matter of twenty years 250 million people will be at risk of poverty and water stress due to droughts. Climate change is producing effects on the ecosystem that worsen those of over-fishing and pollution.

The scarcity of fresh water and rising sea levels due to global warming put millions of people at risk.

Furthermore, a decrease of between 10% and 30% in precipitation during the summer season, is making the region's climate much more extreme and causing droughts, heat waves and yet more fires.

In the sea, the increase in temperature and the acidification of waters already has a growing and continuous negative impact on ecosystems. Fires will become more frequent and widespread, leading to a loss of terrestrial ecosystems and the desertification of many areas of the Mediterranean basin.

We must also consider the high dependence on hydro-carbon exports from key countries in the region. In the medium and long term, the EU's de-carbonization objectives involve the replacement of fossil fuels imported by the region with other sources of renewable energy, which may mean a loss of export income that is critically important in the economies of those exporting countries. In this new alliance we must examine what export and development alternatives are proposed, for example, in the field of renewable energies where North Africa has great potential; but this will require large investments and a long-term inter-connection strategy.

Currently, and for some decades now, the United States has been the actor with greatest projection in the Mediterranean and it is very likely that it will continue to be so in the short term. Russia is significantly increasing its presence on the eastern slope of the Mediterranean and seeking to establish itself more firmly in the region.

The Mediterranean region is reappearing as a focus of great geo-political interest. Many actors are increasingly involved and seeking to gain greater influence. Armed conflicts in



Syria, Libya, Ukraine and Palestine are destabilising the region.

In turn, the southern neighbourhood of the Maghreb, the Sahel, can also be considered as part of the extended neighbourhood of the EU. Among the great challenges facing the Sahel are armed conflicts, deficits in governance, external interference, droughts and other problems linked to climate change. The combination of various factors means that 37 million people are already expected to suffer from famine in that region. The shortage of the most essential consumer products and the high unemployment rate among young people add to a complex and worrying scenario, both for Europe and North Africa. International aid –even that aimed at helping the countries of the region to face these challenges– is insufficient; but the necessary volume of humanitarian aid and better attention to displaced and refugee populations are within Europe's reach.

The conclusion is that Europe cannot fail to deploy a new regional integration policy in the Mediterranean, in parallel to the security policy that we have invoked in the previous bloc.

There is concern about the weakness of appropriate economic, social and environmental policies and measures in favour of sustainable development, the rational use and preservation of natural resources in the Mediterranean, especially in the context of climate change. These weaknesses are accentuated by growing warlike tensions and the ensuing expenses.

Above all, the first measure to adopt to stabilise the Mediterranean is the immediate ceasefire in Palestine, the withdrawal of the occupying force and the entry of all necessary humanitarian aid. Arms control and effective verification of the ceasefire should be entrusted to a military and civil mission of the United Nations. The EU and the Union for the Mediterranean should take charge of reconstruction and stabilization until the effective creation of a Palestinian state with secure and defined borders alongside the state of Israel.

Europe can and must play a role in pressing for a ceasefire in Gaza, making the two-state solution prosper with a universal recognition of the Palestinian State, and playing a central role in the peace, security and reconstruction process. Europe must champion respect for international humanitarian law, for human rights and for the conviction in international courts of those who have committed terrorist acts, such as Hamas; and also of those who –like the troops led by Netanyahu– have taken the lives of tens of thousands of children, women, humanitarian workers, health workers and journalists; and who have displaced millions of people and have used hunger as a weapon of war and destroyed the homes of the majority of the population in Gaza. In January this year, a BBC analysis suggested that between 144,000 and 175,000 buildings across the Gaza Strip had been damaged or destroyed, representing 50-61% of all buildings in Gaza<sup>51</sup>.

There is no alternative for defenders of human rights and peaceful coexistence between peoples to the two-state solution for Palestine and Israel. No past can justify the slow, methodical and inexorable annihilation to which Netanyahu is subjecting the women, the children and all the Palestinian civilians in Gaza. The release of the Israeli hostages by Hamas is also essential because the civilian population must stop being the constant victim of this conflict.

This issue, more than any other, will determine the future. Either a future without rules, of barbarism and regression, or a future of peace, humanity and social justice for the world in which the reform of the United Nations system is fundamental because we are no longer in the world of 1945; and it must not be forgotten that the legitimacy of its architecture was greatly damaged after the invasion of Iraq. At this crossroads, Europe, as an important actor on the international stage, can play a major role and be the great hope.

51 <https://www.bbc.com/mundo/articles/c1v14z94vxxy> The analysis, conducted by Corey Scher of the City University of New York and Jamon Van Den Hoek of Oregon State University, compares images to reveal sudden changes in the height or structure of buildings that indicate damage.



Spain's Mediterranean condition is one of the most persistent and decisive factors in understanding its international position throughout history. The Mediterranean and all that it entails must be one of Spain's main assets in European policies. For historical, economic and cultural reasons issues such as immigration affect us directly.

Between the years 622 and 750 AD the expansion of Islam, which had its origin in the Arabian Peninsula, spread to the Middle East, part of Asia Minor, Persia, North Africa and the Iberian Peninsula. For centuries, Al-Andalus on the Iberian Peninsula was one of the most important cultural centres in the area.

This has left Spain with a unique heritage of cultural and historical affinities that make the country a nerve-centre for encounter and understanding between the great Mediterranean cultures, a role that Spain must develop further in the future by taking into account the particular complexities of each country. Beyond the Mediterranean, this role of encounter and understanding already comes up against powers that are decision-makers in the Arab world, such as Saudi Arabia, the Emirates and Qatar, representing economies that are no longer based exclusively on oil and that seek their own sphere of influence; and that are also geographically close to another non-Arab country with great influence in the region: Iran.

## CONCLUSION

Moving forward in a relationship between equals, based on common interests and mutual benefit, the perspective of a new region is being raised: the "Region of the Three Shores", materializing the alliance of Europe and the Mediterranean basin with Africa and Latin America.

Europe and Latin America have strong ties, shared identities and very similar perceptions of the world; this should be strengthened by a privileged alliance.

Africa must have as partners those who will be most directly affected, for better or worse, by its youth, its demographic explosion, its "demographic dividend". We must participate in its successes otherwise we will suffer its failures.

Africa and Latin America share deep roots from the past: as the youngest continents on the international scene, they are also committed to an approach that will benefit both continents.

That is why we invoke the perspective of a new region in the world that balances the distribution of power with respect to the Indo-Pacific region, that consolidates multi-polarity in the world today and that, in addition, becomes an engine for international prosperity in the second half of the 21st century.

This dream of a new vigorous region operating on a global scale, the Region of the Three Shores, will not be achieved overnight, its construction will take decades, but the scenario that is proposed, and which could be configured as a new global dynamic pole in the second half of the 21st century, makes perfect sense for the consolidation of a world in which democracy, peace, human rights, multilateralism, a humanist digital transition and a green transition that halts climate change are brought together in a new world regime.



This report analyzes Europe's challenges to being a major player in the global arena. Our conclusion is clear and positive: Europe has the potential to play this role and exercise it in a totally different way than China or the US. We have defined six dimensions that would make Europe a major player on a global scale.

First dimension: in economic policy, Europe does not yet have the instruments to compete on equal terms with the US and China. A common fiscal policy, giving continuity to the Next Generation funds (NGEU) so that the EU can finance itself with its own funds, joint debt and European taxes is the inevitable solution

Second dimension: Europe is the most open economy compared to the US and China, and therefore the one that can best lead the maintenance of an open market based on rules and that the countries of the Global South progress from it. Europe can forge, particularly in Latin America and Africa, a new generation of strategic agreements

Third dimension: Europe is already leading the fight against climate change by decarbonizing its economic base. But it must establish a new system of financing the investments that are needed in the Global South to stop climate change and develop their economies.

Fourth dimension. Europe can provide the world with a new model of Artificial Intelligence, a Trustworthy Artificial Intelligence, but to compete globally it needs to perfect its AI ecosystem:

Fifth dimension: Europe will be able to play a decisive role in deterring peace on all its borders, with a hinterland that extends from the Arctic to the Sahel, if it sets up its own defense and security system through: institutional changes, a Permanent European Headquarters, and the European Army complementary to NATO

Sixth dimension: To create a new alliance strategy, Europe must be based on the construction of mutual trust, co-creation and shared interests as the determining elements of the degree of influence that Europe can achieve in the new geopolitical scenario, materializing the alliance of Europe and the Mediterranean basin with Africa and Latin America.

Europe will only be able to undertake these tasks if it maintains its course, built over decades, as the place in the world where liberal democracy has been combined with social justice. But if it does not stop the advance of post-democratic authoritarianism that is beginning to appear in various European countries, it will neither be able to carry out these tasks nor aspire to be one of the main actors on the global scene. And it is important that it is, because Europe can provide the rest of the world with the seeds of social democracy as an alternative to the new reactionary authoritarianisms.