Geopolitical Risk Index | Case Studies | 2026

Geopolitics of the EU 28th REGIME AS A GEOECONOMIC INSTRUMENT

The presentation analyses how the EU 28th Regime (EU Inc.) functions as a geoeconomic instrument to reduce structural fragmentation, address strategic dependencies, and reposition Europe in great-power competition.

Built on Letta's *Much More Than a Market* (2024), the Commission's Competitiveness Compass (2025), and the formal proposal COM(2026) 321.

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THE EU 28TH REGIME

From internal market reform to a geopolitical instrument

WHAT IS THE 28TH REGIME?

- Proposed by the **European Commission** in **2025** via the **EU Inc. Regulation**
- An **optional EU-wide** corporate law framework: a **28th option alongside 27 national systems**

WHY NOW?

- **Slowbalisation** and **geoeconomic fragmentation**
- **US-China competition** reshapes economy
- **EU structural exposure**

GEOPOLITICAL CONCERNS

- The **multilateral order** is **fracturing**
- **Economic interdependence** is being **weaponized**
- The **EU** risks remaining a **geopolitical object**, not a subject

Enrico Letta *"In contrast to globalisation, which is primarily driven by market forces, the roots of fragmentation lay predominantly in geopolitics. A comprehensive approach to enhance the EU's resilience, support its economic competitiveness and safeguard its interests is imperative."*

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LAW AS A POWER

Why legal fragmentation is a geopolitical problem

Structural power

- Power is exercised through control of four structures: finance, production, security, knowledge.
- Legal fragmentation prevents the EU from retaining firms, capital, and technology in exactly these structures.

Weaponized interdependence

- Dependence can become coercive when many rely on infrastructures controlled by few
- Two mechanisms: chokepoint effect vs panopticon effect

Geoeconomic statecraft

- Logic of conflict through the grammar of commerce
- US & China as unified powers vs EU fragmentation

Political economy of international relations

- Markets are not politically neutral
- Rules of incorporation, jurisdiction and governance are instruments of power

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Fragmentation is a structural transfer of power

The price of this fragmentation results in a **silent tax.**

Implicit tariff:

~60% on goods

~110% on services

How the tax compounds into **geopolitical dependence**

1. **Administrative burden**
   Firms experience higher transaction & coordination costs.
2. **Europe is more expensive**
   Operating in Europe less advantageous than relocating → firms migrate.
3. **Jurisdictional loss**
   Systematic transfer of strategic assets outside European control.
4. **Strategic dependence**
   Europe produces start-ups but they are not able to scale-up.

KEY GEOPOLITICAL INSIGHT: *Fragmentation does not only limit competitiveness; it actively transfers structural power to external actors, and becomes an actual costs, a tax that Europe pays every day it remains divided.*

Sources: ECB (2025)

The sovereignty transfer | How much Europe has already lost

The exit is happening and difficult to revert

1 The Delaware Flip

- **Not a business decision, but a sovereignty flip:** Every Delaware flip relocates the entire legal structure of a firm outside Europe
- **Once incorporated abroad, always exposed:** subject to foreign export controls, sanctions, and any geopolitical leverage Washington may choose to exercise

2 Network effects and geopolitical lock-in

- Firms, investors, and legal professionals **converge on established jurisdictions** because others already have
- **Chokepoint logic:** whoever controls the central node accumulates advantage that makes progressively harder to exit

3 The Sovereign Deficit: A Compounding Loss

- **The cycle is self-reinforcing:** legal, financial, and technical switching costs make return prohibitively expensive.
- **Not a competitiveness gap, a sovereign deficit:** Europe is losing legal control over its most strategically critical firms.
- **Techno-nationalism accelerates the loss:** every firm outside European jurisdiction can be turned against European interests.

121 vs 721
EU vs US
unicorns

61% vs 6%
US vs EU AI funding

<10%
EU VC scale up vs US

KEY GEOPOLITICAL INSIGHT:
Europe is not only losing firms, but it is losing jurisdiction over its own strategic future.

Sources: Mazza (2025), CB Insights (2026), (Angeloni et al., Bocconi IEP (2026), KPMG (2026)

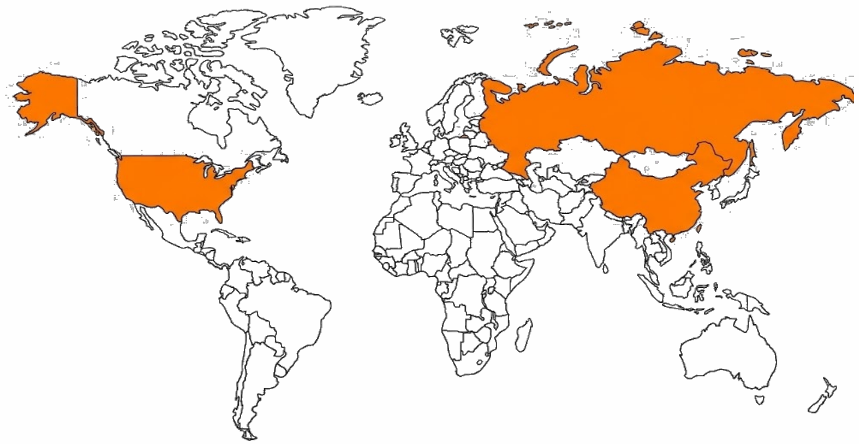
The internal-external nexus: domestic policy for foreign interests

A divided Europe is everyone else's interests

Two distinct groups emerge….

Ireland, Luxemburg & The Netherlands: fiscal advantages & competitiveness reasons

Poland, Austria, Italy, Hungary: political and sovereigntist reasons



Russia uses political networks to replicate the fragmentation logic deployed through energy

China builds economic dependencies in Central and Eastern Europe through bilateral deals

US actively aligns with EU sovereigntist parties

KEY GEOPOLITICAL INSIGHT: *The threat to the 28th Regime is not only external pressure, but the structural convergence between domestic blocking coalitions and foreign powers that benefit from a fragmented Europe.*

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Where the 28th Regime delivers maximum geopolitical payoff

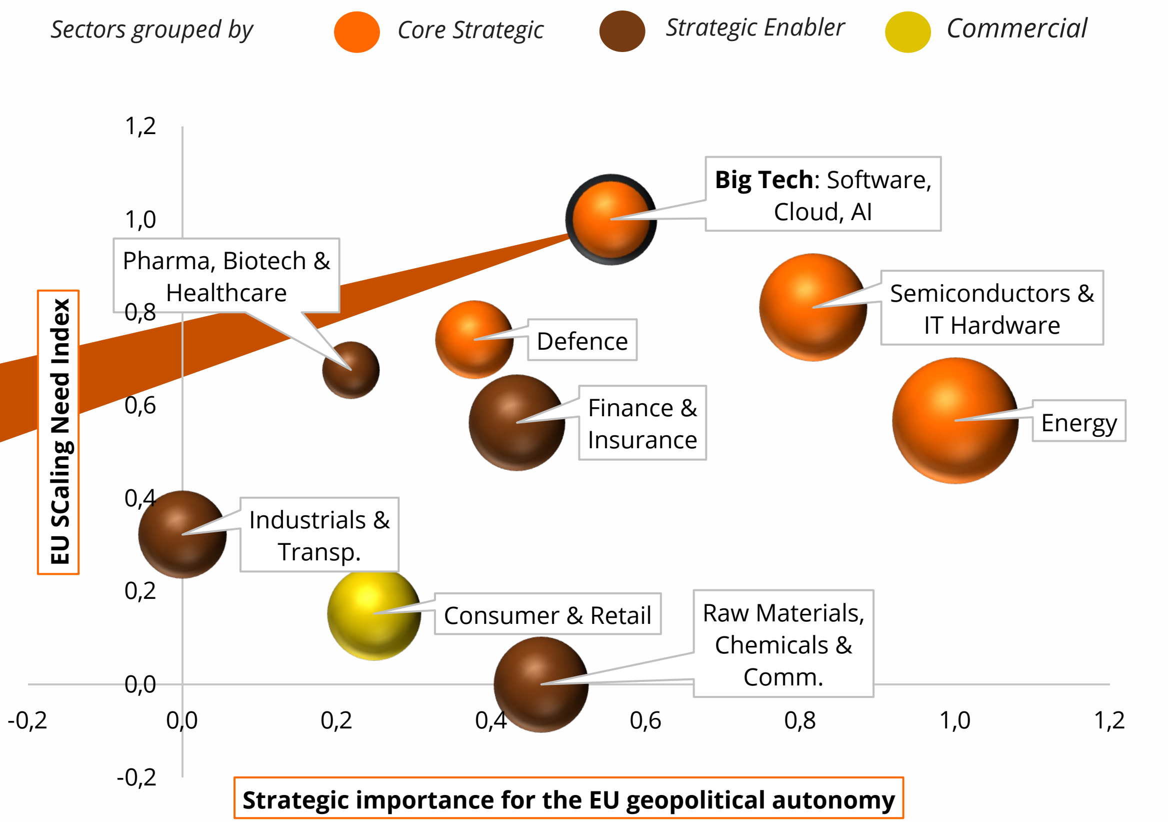
Big Tech is where EU legal fragmentation causes huge geopolitical damage and where the 28th Regime's intervention has the highest leverage.

Big Tech. Maximum EU Scaling Need Index cross sectors

- **Global VC:** $194.8bn attracted in 2025; EU captures a disproportionately small share.
- **EU unicorn value in Software/AI**: $115bn vs $1,731bn in the US, a scaling gap. The 28th Regime directly attacks the legal root cause
- **Strategic importance:** high, lower than Energy & Semiconductors. Cloud, AI and data services are foundational to state functioning and security.

Mapping nine sectors against strategic importance for EU geopolitical autonomy and **EU Scaling Need...**

Bubble size = EU market dependency (extra-EU imports share)



X-axis (Strategic Importance Index): weighted avg of Trade Vulnerability [30%, Eurostat], Criticality to Sovereignty [30%, authors + Draghi/Letta], Declining-Market Exposure [40%, McKinsey]. Y-axis (EU Scaling Need Index): VC Intensity [40%] + EU Startup Strategic Gap [60%, unicorn count & valuation vs US/Global]. Bubble size: EU Market Dependency = extra-EU imports/(imports + exports), normalised [0.2–1.0].

Sources: Eurostat (2024); KPMG (2026); CB Insights (2026); McKinsey GI (2024); Draghi (2024); Letta (2024).

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US tech dominance in Europe is now a structural condition

Europe is not a weak innovator, it is a weak scaler. Fragmentation is the root cause, not a lack of talent.

$25T vs $1.67T

Combined market cap of Top-10 US vs EU tech firms

85%

of EU cloud market controlled by US hyperscalers, up from 71% in 2017

70%

of foundational AI models since 2017 built in the US

74 %

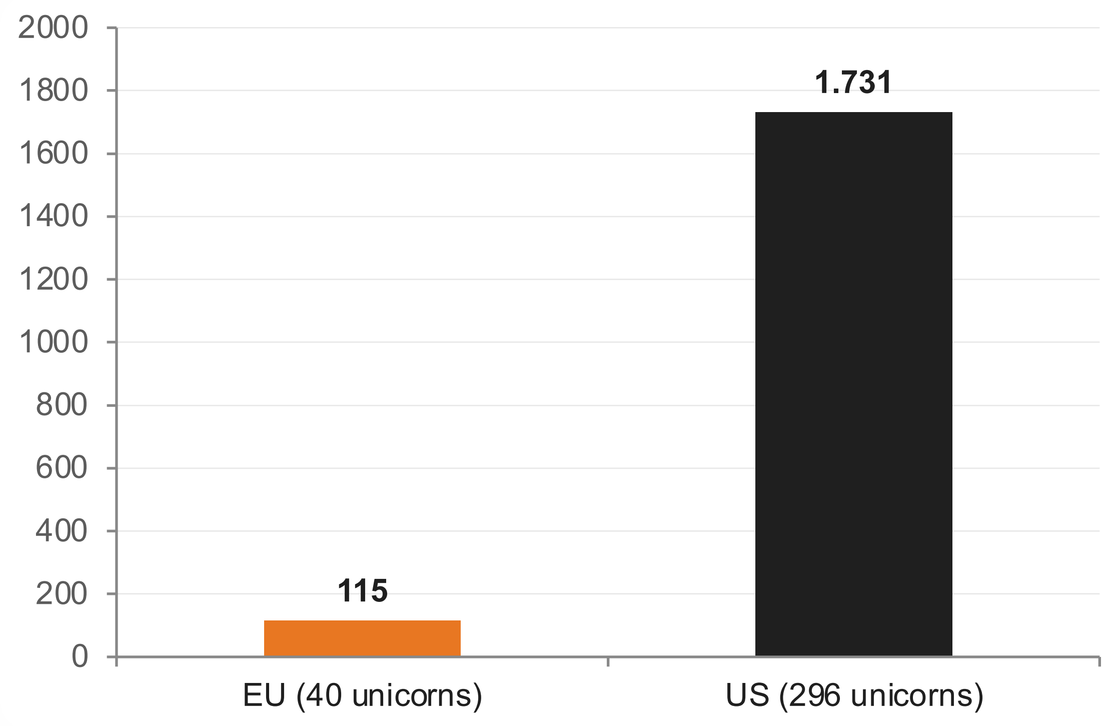
of EU listed firms depend on US tech for core operations

The 28th Regime is necessary but insufficient for strategic autonomy

Comparing EU vs. US Tech Unicorns in number and valuation:
Europe’s structural scaling ceiling exposed……

EU vs US Tech Unicorn Valuation

Software, Cloud, Data & AI, combined unicorn value $B (CB Insights, 2026)



15× valuation gap: Europe's weakness is not innovation -> it is scaling
The 28th Regime targets this structural ceiling directly

CASE STUDY

Sources: CompaniesMarketCap (2026), Synergy Research Group (2026), European Commission (2024), Proton Europe Tech Watch (2025), CB Insights (2026), The Register (2025), Draghi (2024), Letta (2024)

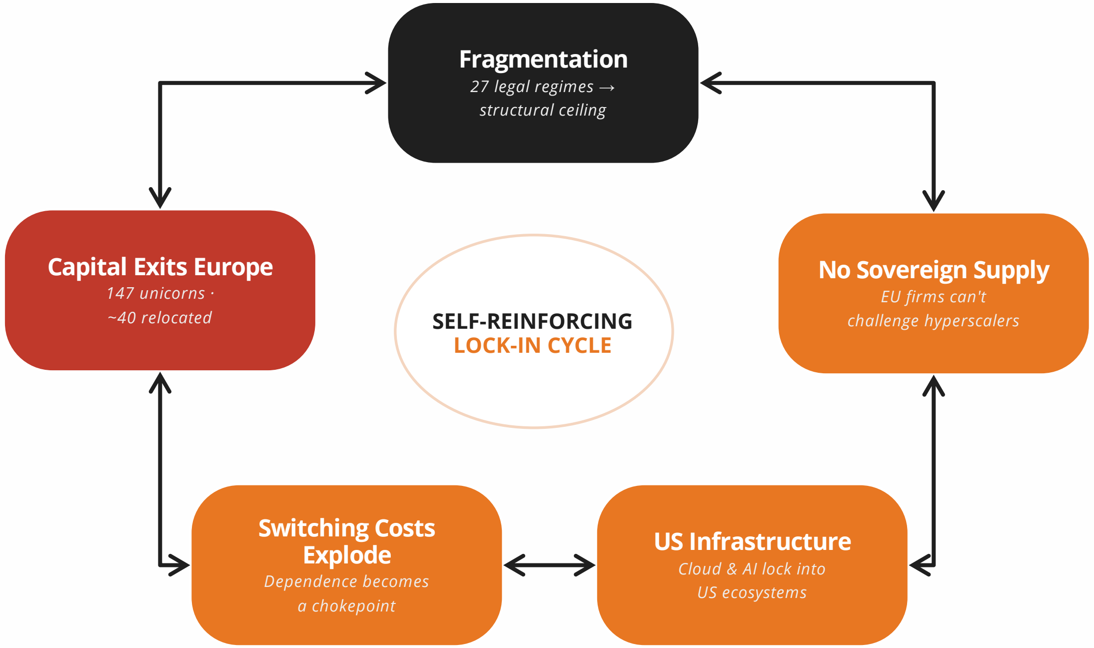
CASE STUDY

Europe is a weak scaler and dependence is already weaponised

Farrell & Newman (2019): chokepoint + panopticon effects turn infrastructure dependence into geopolitical leverage

THE LOCK-IN CYCLE

A self-reinforcing loop, fragmentation is both cause and consequence



"Fragmented rules can hold back European talent from building global companies natively within Europe."
— Anton Osika, CEO Lovable

WEAPONISATION IN ACTION

Five documented mechanisms translate EU exposure into direct US leverage

CLOUD Act / FISA 702
US firms must produce EU data on government request regardless of storage

OFAC sanctions via cloud
EO 14203 (Feb 2025): ICC officials lost access to US-hosted European systems overnight

White House Memorandum
Feb 2025 Pres. Memo: EU digital rules treated as trade barriers subject to retaliatory tariffs

Tariffs for deregulation
Commerce Sec. Lutnick explicitly linked EU digital regulation removal to transatlantic tariff deal

Lobbying intensity
151M EUR annual Big-Tech lobbying (+33% YoY); 890 full-time lobbyists outnumber MEPs

"European enterprises are realising that they cannot afford to entirely depend on foreign providers."
Arthur Mensch, AI entrepreneur · The Economist, 2026

Sources: Farrell & Newman (2019) ; Letta (2024); Draghi (2024); European Commission (2024); Burwell & Propp (2026); Winston & Strawn (2025) Xinhua (2025); Corporate Europe Observatory / CEO (2025); Smith (2025)

CASE STUDY

Substitution risk & what the 28th Regime changes, and what it does not

Replacing one dominant infrastructure provider with another transfers vulnerability, it does not reduce it

THE CHINA VARIABLE

Substitution Trap

Replacing US with Chinese providers does not reduce vulnerability, it transfers it. The 28th Regime supplier-neutrality is a strategic liability.

Deliberate Positioning

Chinese hyperscalers remain marginal in Europe for now, but trajectory is deliberate. Huawei targets 1,000 EU startups in 5 years via aggressive pricing

Legal Coercion Risk

China 2017 National Intelligence Law obliges all providers to cooperate with state intelligence on request, identical logic to CLOUD Act.

Policy gap: cloud is strategically critical, yet enforcement still sits with member states, reproducing the exact fragmentation the 28th regime was built to overcome.

WHAT IT CHANGES AND WHAT NOT

WHAT IT CHANGES ✔

- Market access in 48h + non-discrimination in procurement → Delaware flip becomes less attractive
- EU Inc. = target is the EU, not a member state → foreign sanctions/export controls face the whole bloc
- Lower due diligence costs → EU firms can access growth capital without transferring jurisdictional control

WHAT IT DOES NOT SOLVE ✖

- **Voluntariness paradox:** Opt-in instrument, firms can bypass it, undermining market-wide unity
- **Legal ≠ operational sovereignty:** EU Inc. on US cloud architecture = legally European, operationally American
- **Standard-setting gap:** Scaling on US tech means future digital standards remain American

Sources: Goovaerts (2025), Chervek (2023), Morris (2026), Reuters (2026), European Commission (2026), Letta (2024), Strange (1988), Farrell & Newman (2019), Schaefer (2026), The Economist (2026), Wilkinson et al. (2025).

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Sectoral impact of the 28th Regime and geopolitical scenarios

EU internal political cohesion is the key variable. China substitution risk is the most underestimated threat across all scenarios.

A Robust Implementation

Full EU Inc. adoption + sectoral prioritization & shared procurement

EU gains structural power over IP, capital flows freely, tech talent stays in Europe, US/Russia/China cannot exploit fragmentation. **EU gains competitiveness in crucial sectors**.

B Partial implementation

Scenario A but only for few member states

Flight to Delaware continues, limited scale, partial US dependence, selective Chinese entry, weakened regulatory coherence. **EU East-West fragmentation persists**.

C Blocked implementation

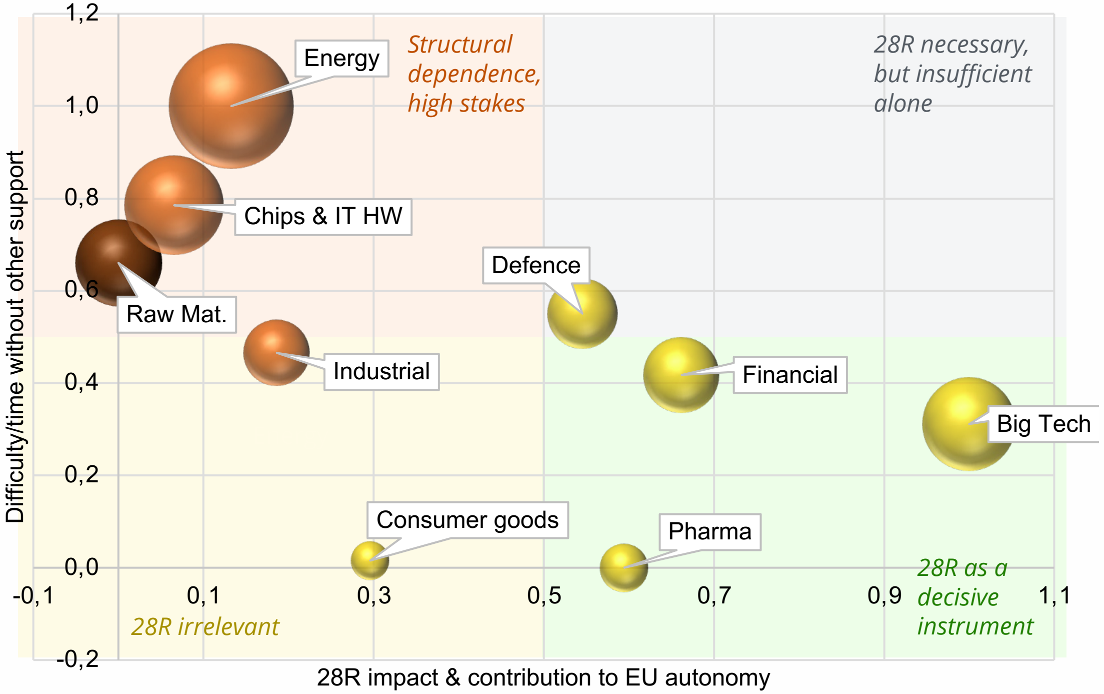
Sovereigntist coalitions and US lobbying block EU. Inc.

Scaling gap becomes permanent; startups forced to relocate, **EU fragmentation weakens, US dependency, China substitution risk, Russia may exploit division**.

Mapping nine sectors against **28th Regime potential impact** on EU autonomy and **difficulty in reaching independence…**

Bubble size = EU geopolitical importance (trade vulnerability x speed of shock transmission

Sectors grouped by country of primary dependency *China* *Multi-source* *US*



The figure maps each sector according to three dimensions: X = 28R contribution to strategic autonomy (composite, normalized 0–1); Y = structural difficulty without complementary instruments (composite, normalized 0–1). Bubble size = EU strategic geopolitical importance (trade vulnerability + geopolitical shock speed). Colour = primary trade dependency

Sources: Eurostat (2024); KPMG (2026); CB Insights (2026); McKinsey GI (2024); Draghi (2024); Letta (2024).

Five moves to convert legal integration into autonomy

TRANSITION WINDOW MGMT

Public sector migration to European cloud must begin in sectors most coercion-exposed. Every year of US platform reliance is a year Bruxelles cannot enforce its own rules without triggering retaliation

LINK PROCUREMENT TO 28R

Chinese providers are already positioning to enter. EU-level supply chain security requirements must be introduced and not delegated to member states.

CAPITAL MARKET REFORM

EU Inc. firms will still migrate to U.S. financing as long as capital markets remain underdeveloped. The Savings & Investment Union and Scale-up Europe Fund are strategies for sovereignty.

A SOVEREIGNITY MEASURE

To avoid partial adoption by large states, frame the 28R as a sovereignty measure, as fragmentation serves Washington and Beijing, not national interests.

EXTEND THE 28R TO PARTNERS

Open to UK, Norway, and Ukraine in exchange for alignment on procurement rules, standards, and capital market integration to increment the scaling base.

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The 28th Regime and a shifting global economic landscape

1

Legal integration as a precondition

Fragmentation is not neutral: it transfers power. 27 regimes are an implicit ~110% tariff on services, paid by Europe and captured by rivals. The 28th Regime is the floor of strategic autonomy.

2

The 28R targets the right lever

Software, Cloud & AI emerge as the sector with maximum sovereignty criticality and maximum Regime leverage. Where fragmentation is most dangerous, EU Inc. has the highest geopolitical payoff.

3

A starting point

Procurement conditionality, the Savings & Investment Union, and political coalitions must move in parallel. Without bridging measures, the Regime arrives technically on time and politically too late.

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