

GEOPOLITICAL OUTLOOK FOR 2026

The Era of Forced Adaptation



EXECUTIVE SUMMARY:

The Era of Forced Adaptation

The year 2026 represents a definitive inflection point for the European Union. The post-Cold War interregnum, characterised by the decoupling of economic prosperity from hard security, has conclusively ended.

Intelligence assessments and economic modeling for the upcoming year suggest that the EU will face a “poly-crisis” environment where the external guarantors of European stability - US security umbrellas, cheap eastern energy, and frictionless Asian trade - are simultaneously eroded or withdrawn.

This report, synthesising forecasting data from major geopolitical risk consultancies, economic institutes, and open-source intelligence, posits that 2026 will be the year of “**Forced Adaptation.**”

The bloc will no longer be able to delay the operationalisation of “Strategic Autonomy.” The theoretical debates of 2024-2025 regarding defense bonds, industrial sovereignty, and migration conditionality will transition into urgent operational necessities.

Global economic growth is projected to stabilise at a tepid **2.6% to 3.1%** [i][ii], a figure that masks profound regional divergences. While the US economy may see growth driven by protectionist industrial policy, and parts of Asia remain resilient, Europe faces a stagnation trap, with growth forecasts hovering between **1.2% and 1.6%**[iii]. This economic anemia complicates the fiscal response required to meet the geopolitical challenges on the EU’s periphery.

The analysis that follows details twenty-five distinct geopolitical developments across six regional and thematic pillars.

[i] <https://unctad.org/news/global-growth-expected-slow-26-through-2026>

[ii] <https://www.spglobal.com/ratings/en/regulatory/article/economic-research-economic-outlook-europe-q1-2026-germanys-fiscal-reawakening-s101657610>

[iii] <https://www.spglobal.com/ratings/en/regulatory/article/economic-research-economic-outlook-europe-q1-2026-germanys-fiscal-reawakening-s101657610>



I. REGION: EUROPE & THE EASTERN FLANK

1. The Russia-Ukraine War: Strategic Drift and Diplomatic Pressure

By 2026, the war in Ukraine is expected to have evolved from a decisive military maneuver toward a prolonged phase of attrition or coerced settlement. We anticipate stalemate persisting throughout the year, with periodic Russian offensives in the Donbas but no decisive breakthrough. However, the primary risk in 2026 is not military collapse, but diplomatic imposition.

Diplomatic De-Escalation Efforts and Strategic Constraint

A central feature of the 2026 outlook is the growing prominence of diplomatic initiatives aimed at reducing the intensity of the conflict, particularly those driven by actors seeking to limit long-term resource commitments.

Impact on the EU:

- **Transatlantic Rift:** Divergences in threat perception and risk tolerance may become more pronounced, particularly between frontline states and those geographically further removed from Russia. This could test alliance cohesion and expose unresolved questions about burden-sharing, leadership, and strategic prioritisation.
- **The “Grey Zone” Security Vacuum:** Any outcome that leaves Ukraine neither fully secured nor fully defeated risks creating a long-term zone of instability on the EU’s borders. Such an environment would necessitate sustained European investment in defence readiness, border security, and hybrid-threat resilience, regardless of formal conflict status.
- **Financial Liability:** Sustaining deterrence and support for Ukraine, whether through continued assistance or post-conflict stabilisation, will place enduring strain on European fiscal frameworks. This is likely to accelerate debates over joint financing mechanisms, defence integration, and the limits of existing budgetary rules.

The “Reparations Loan” Mechanism

To manage this fiscal cliff in 2026, the EU is expected to fully operationalise a “reparations loan” structure. This mechanism utilises the windfall profits from frozen Russian assets held in Euroclear and other depositories to back syndicated loans for Kyiv. This is projected to provide approximately **€90 billion annually**.^[i]

- **Risk:** While this alleviates immediate budgetary pressure, it risks a permanent rupture in EU-Russia financial relations and could prompt retaliatory cyber-attacks on Western financial infrastructure.

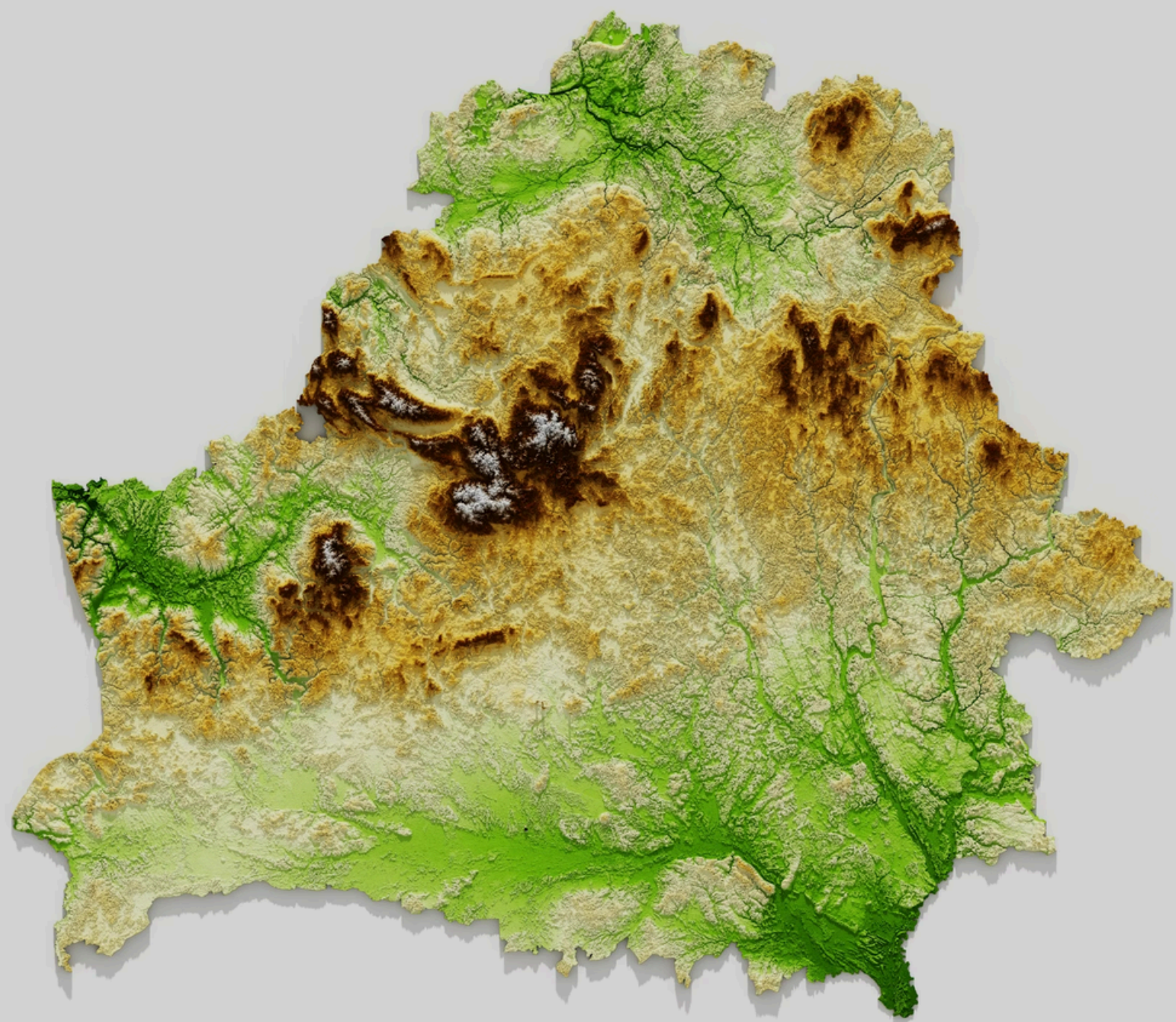
Impact on Europe

The trajectory of the Ukraine war in 2026 will act as a forcing function for Europe’s broader strategic choices, shaping defence spending trajectories, alliance cohesion, and the credibility of the European Union’s ambition to function as a coherent security actor.

Regardless of whether the conflict moves toward negotiation, stabilisation, or continued confrontation, the outcome will influence how European states assess risk, allocate resources, and define their long-term security responsibilities.

Most critically, it will test whether Europe can adapt to a security environment in which external guarantees are less certain and where long-term stability depends increasingly on European political will, institutional cohesion, and the collective capacity to act independently when required.

^[i] <https://internationalbanker.com/news/its-continued-support-for-war-could-place-europe-increasingly-at-odds-with-ukrainians-and-with-its-own-citizens/>



2. Poland’s Emergence as the Land Power Anchor

As the traditional Franco-German engine stutters due to political paralysis and fiscal conservatism, 2026 will mark the definitive rise of Poland as the indispensable land power of the European NATO alliance. Warsaw’s military modernisation program, driven by the existential threat from the East, reaches maturity in 2026.

Quantitative Dimensions of Rearmament:

Poland’s draft budget for 2026 projects defense spending at a record 4.83% of GDP, the highest in NATO. This amounts to approximately 201 billion zlotys (\$55.1 billion)[i]. This funding supports a massive expansion of the Polish Armed Forces, which aims to recruit up to 155,841 professional soldiers by 2026, alongside a robust Territorial Defense Force[ii].

Table 1: Comparative Defense Metrics (2026 Projections)

Metric	Poland	Germany	France
Defense Spending (% GDP)	4.83% (Notes From Poland, 2025)	~2.1% (est.)	~2.0% (est.)
Primary Focus	Heavy Armor / Land Deterrence	Logistics / Capability Gaps	Expeditionary / Nuclear / Naval
Key Procurement Partners	USA, South Korea	European / USA	European Domestic
Strategic Posture	Forward Defense	Alliance Integration	Strategic Autonomy

Data Sources: Notes From Poland (2025 Budget Draft) [iii]; Defense News (SAFE Instrument & Poland) [iv];

[i] <https://notesfrompoland.com/2025/08/29/poland-plans-record-defence-spending-of-4-8-gdp-in-2026-budget-along-with-lower-deficit/>
[ii] <https://notesfrompoland.com/2025/08/29/poland-plans-record-defence-spending-of-4-8-gdp-in-2026-budget-along-with-lower-deficit/>
[iii] <https://notesfrompoland.com/2025/08/29/poland-plans-record-defence-spending-of-4-8-gdp-in-2026-budget-along-with-lower-deficit/>
[iv] https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en

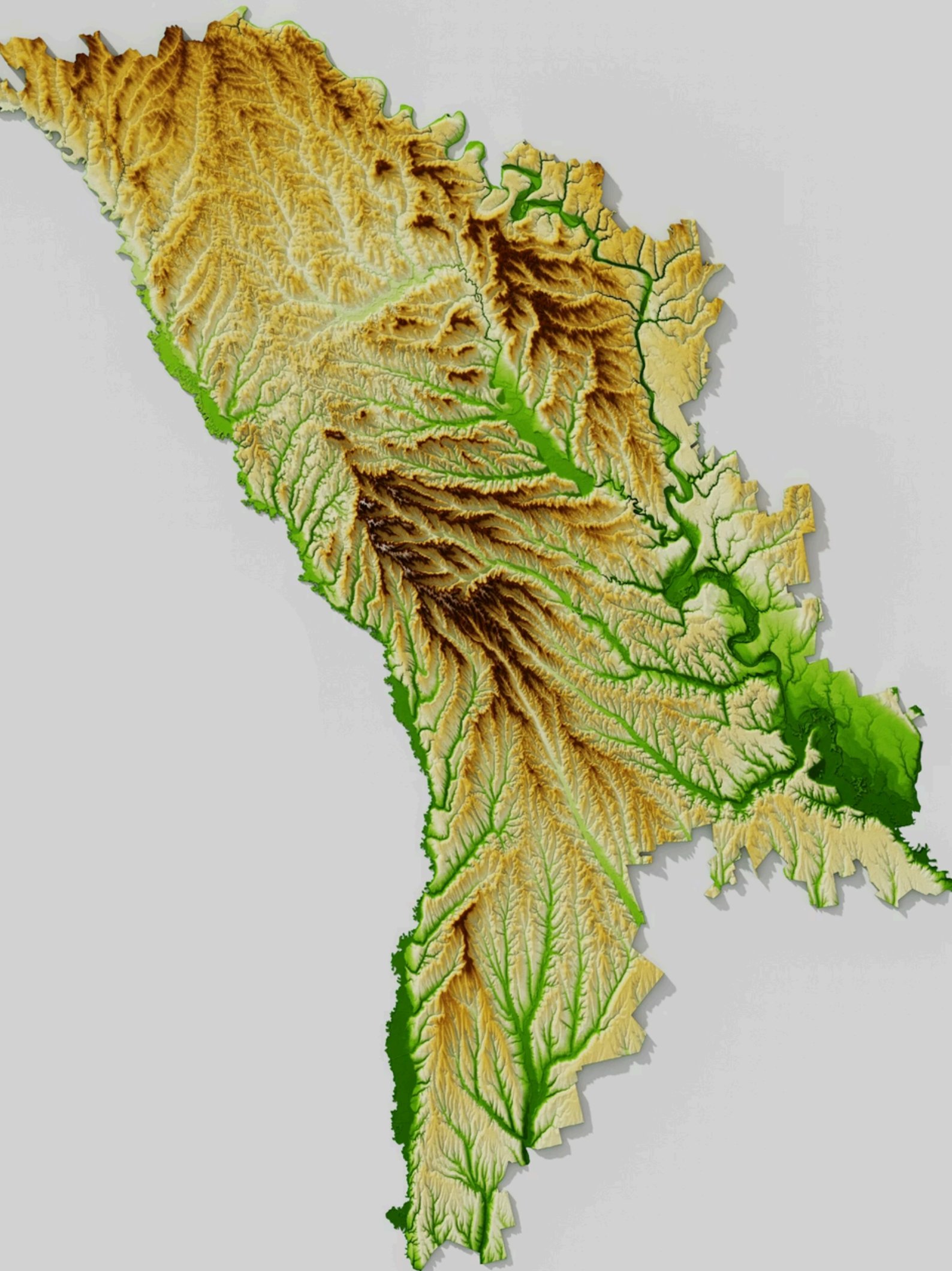
Strategic Implications for the EU:

- **The Shift to the East:** Warsaw will leverage its military weight to demand a decisive voice in EU foreign policy. Poland is expected to lead a bloc of eastern member states opposing any premature normalisation with Russia, potentially clashing with Berlin if the latter seeks to revive energy ties or diplomatic dialogue.
- **The SAFE Instrument:** The sustainability of Poland's buildup is heavily reliant on debt financing through its Armed Forces Support Fund (FWSZ). In 2026, Warsaw is likely to become the primary beneficiary of the EU's newly developed "Security Action for Europe" (SAFE) defense financing initiative[i]. The success or failure of SAFE in 2026 will determine whether the EU can collectively finance rearmament or if member states will be left to face fiscal crises individually.
- **Industrial Fragmentation:** Poland's procurement strategy - purchasing American Abrams tanks and Korean K2 Black Panthers rather than waiting for the Franco-German Main Ground Combat System (MGCS) - undercuts the EU's "European Defence Industrial Strategy" (EDIS). This fragmentation weakens the long-term competitiveness of the European defense industrial base.

Impact on Europe

Poland's ascendance reflects a broader shift in European strategic weight toward the eastern flank. This reorientation, while necessary for defending against Russian aggression, risks fragmenting European defense procurement and decision-making if not managed through coordinated EU frameworks like SAFE and EDIS.

[i] https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en



3. Moldova: The Hybrid Warfare Frontline

While Ukraine absorbs kinetic blows, Moldova is expected to be the epicenter of "grey zone" or hybrid warfare in 2026. Following parliamentary elections on September 28, 2025, the political landscape in 2026 will determine the country's survival as a sovereign, pro-European state.

The Hybrid Threat:

Russia is expected to intensify disinformation campaigns, utilise energy coercion (gas cutoffs), and leverage the breakaway region of Transnistria to destabilise the government in Chisinau.^[i]

EU Response:

The EU will be forced to treat Moldova's accession process as a security imperative rather than a bureaucratic one. This implies accelerated budget support and the deployment of EU civilian missions to bolster cyber resilience and border security.

The cost of keeping Moldova solvent and energy-secure will require continued financial aid, likely drawn from the Neighborhood, Development and International Cooperation Instrument (NDICI).

Impact of NDICI Funding:

The cost of keeping Moldova solvent and energy-secure will require continued financial aid, likely drawn from the Neighborhood, Development and International Cooperation Instrument (NDICI). Sustaining Chisinau via NDICI funding is critical not just for solvency, but for strategic detachment from Moscow; specifically, these funds will finance the completion of high-voltage transmission lines to Romania (breaking Russian energy leverage) and infrastructure projects that physically integrate Moldova into the European logistics grid. Without this lifeline, the pro-EU government would likely face economic collapse, creating an opening for pro-Russian proxies to regain power.

Impact on Europe

Moldova's fate will serve as a test case for the EU's ability to extend strategic autonomy to its immediate neighborhood. Success in stabilising Moldova would signal Europe's capacity to manage hybrid threats, while failure would demonstrate the limits of European agency without US support.

^[i] <https://www.spglobal.com/ratings/en/regulatory/article/economic-research-economic-outlook-europe-q1-2026-germanys-fiscal-reawakening-s101657610>

II. REGION: THE ARCTIC

4. The Militarisation of the Arctic and Institutional Paralysis

The Arctic, once a zone of “high north, low tension,” will face a grim reality in 2026. The region is increasingly characterised by militarisation and the breakdown of governance mechanisms.

The Death of the Arctic Council:

Following the suspension of meaningful cooperation with Russia - which controls over 50% of the Arctic coastline - the Arctic Council risks irrelevance. Denmark, holding the chairship for the 2025-2027 term, will attempt to keep the institution alive by focusing on “low-politics” issues like indigenous rights and climate monitoring^[i]. However, the security and environmental cooperation tracks are effectively dead.

Russian Posture and EU Vulnerability:

- Russia is expected to further consolidate its military infrastructure in the High North, viewing the region as a strategic bastion for its nuclear deterrent. The “nationalisation” of the Northern Sea Route (NSR) and increased restrictions on foreign vessels will heighten the risk of maritime confrontation.
- Environmental Threat: A major concern for the EU in 2026 is the “shadow fleet” of aging tankers transporting Russian crude through icy Arctic waters. With the breakdown of cooperation, there is no joint mechanism for responding to an oil spill, leaving Scandinavian coastlines vulnerable to an unmanaged ecological disaster.
- Resource Denial: The geopolitical freeze hampers the EU’s ability to access potential Arctic critical minerals, complicating the diversification strategy away from Chinese supply chains.

Impact on Europe

The loss of Arctic cooperation mechanisms represents both an environmental and strategic vulnerability for Nordic EU members. The region’s militarisation and the inability to manage transnational environmental risks underscore Europe’s weakened institutional capacity in the Arctic.

^[i] <https://arctic-council.org/about/kingdom-of-denmarks-chairship-2025-2027/>



III. REGION: THE BALKANS

5. Western Balkans: The Stability Trap

The Western Balkans remain a persistent flashpoint. In 2026, the region is projected to see slow growth (**3.2-3.4%**), tempered by geopolitical risks[i].

Serbia-Kosovo Tensions:

Relations between Belgrade and Pristina are expected to flare up, potentially triggered by disputed municipal elections or the implementation of the Association of Serb Municipalities. An EU-led mediation effort will be critical. Failure to stabilise the region could trigger a refugee surge, testing the EU's Schengen border management.

Enlargement vs. Budget:

The EU may grant candidate status updates to Albania and North Macedonia in 2026. However, this political win risks being undercut by the bloc's internal economic slowdown. The United Nations Conference on Trade and Development (UNCTAD) projection of subdued global growth implies that the EU budget will be stretched, limiting the funds available for the structural adjustments needed in Balkan candidate states[ii].

Impact on Europe

The Balkans remain a managed instability zone where US attention is limited and EU leverage is constrained by budget constraints. The region will serve as a barometer of European agency: success in stabilising Serbia-Kosovo relations would signal EU capacity to manage regional conflicts; failure would demonstrate European limitations.

[i] <https://wiiw.ac.at/autumn-forecast-eastern-europe-with-robust-but-slower-growth-n-700.html>

[ii] <https://unctad.org/news/global-growth-expected-slow-26-through-2026>

6. Russia's Influence Operations in the Balkans

Russia will continue to exploit local grievances in Republika Srpska (Bosnia) and Serbia. Intelligence suggests Moscow aims to open a “second front” of instability to distract the EU from Ukraine. This will involve hybrid influence operations and the funding of proxy political groups[i].

The Turkish Factor:

Concurrently, it is crucial to recognise that Turkey has already established a pervasive influence in Bosnia and North Macedonia through economic investments and cultural soft power, effectively turning parts of these nations into Turkish client states. This adds another layer of complexity, as the EU must navigate not only Russian disruption but also Ankara's independent geopolitical agenda in the region.

Impact on Europe

Russian hybrid warfare in the Balkans will stretch European security resources and test the EU's capacity to counter disinformation and influence operations in a contested information environment. Success in countering Russian hybrid threats will require coordinated EU-wide action and significant investment in cyber resilience.

[i] <https://civil.today/the-fracture-line-russias-hybrid-strategy-in-the-western-balkans/>



IV. REGION: TRANSATLANTIC RELATIONS

7. Transatlantic Trade Wars and the Tariff Shock

Beyond security, 2026 is projected to be a year of intense geoeconomic friction. Global economic forecasts indicate that growth in 2025 may have been “front-loaded” as businesses raced to export goods before anticipated US tariff hikes take effect in 2026[i].

This reflects the broader fragmentation of the global trade system, where, as “different political systems or values won’t preclude cooperation on mutual interests” but trade is increasingly subordinated to geopolitical objectives.[ii]

The “Universal Baseline Tariff”:

If the US administration implements a universal baseline tariff (e.g., 10%) or targeted tariffs against EU autos and steel, the EU faces a “double shock”:

1. **Direct Market Loss:** Reduced access to the US export market, which is vital for the German automotive and French luxury sectors.
2. **Indirect Dumping:** Increased competition from Chinese goods that are diverted away from the US market and “dumped” into Europe.

Economic Impact:

A full-scale trade war could shave 0.5% to 1.0% off Eurozone GDP in 2026, pushing fragile economies like Germany back into recession[iii]. However, recent developments suggest partial de-escalation: as of November 2025, the US reduced the “fentanyl” tariff from 20% to 10% on Chinese goods and suspended additional 24% retaliatory tariffs[iv]. This fragile truce, however, remains temporary, with underlying tensions persisting “especially around technology and critical minerals”[v].

Impact on Europe

The transatlantic trade environment in 2026 will be characterised by unpredictability and protectionism. European exporters will face a bifurcated market: restricted access to the US paired with intensified competition from Chinese goods. This will necessitate a strategic pivot toward intra-EU trade and partnerships with non-aligned economies like India and ASEAN nations.

[i] [i] <https://civil.today/the-fracture-line-russias-hybrid-strategy-in-the-western-balkans/>

[ii] [i] <https://civil.today/the-fracture-line-russias-hybrid-strategy-in-the-western-balkans/>

[iii] [i] <https://civil.today/the-fracture-line-russias-hybrid-strategy-in-the-western-balkans/>

[iv] [i] <https://civil.today/the-fracture-line-russias-hybrid-strategy-in-the-western-balkans/>

[v] [i] <https://civil.today/the-fracture-line-russias-hybrid-strategy-in-the-western-balkans/>



V. REGION: THE AMERICAS

8. US Retrenchment and the “Dormant NATO”

The return of an “America First” foreign policy doctrine in the US creates a high probability that Washington will withdraw or significantly degrade its presence on NATO’s eastern flank in 2026.

Scenario: Partial Withdrawal:

B&K Agency's assessments suggest a scenario where the US reduces its footprint to naval and air support, withdrawing ground combat teams and leaving land defense entirely to European nations. This would create a “security gap” that the EU is currently ill-equipped to fill.

EU Policy Shift: Operationalising Autonomy:

- **Strategic Autonomy:** The loss of the automatic US security guarantee forces Brussels to accelerate “European Strategic Autonomy.” This moves from a theoretical concept to an operational necessity, including joint procurement of air-defense systems (e.g., expanding the European Sky Shield Initiative). According to the Centre for European Reform[i] by 2026, the European pole of a multipolar world will increasingly be forced to assume responsibility for its own defense without relying on automatic US support.
- **Budgetary Shock:** To compensate for the US withdrawal, EU analysts warn that defense spending would need to rise well above the standard NATO targets. Critically, this refers to the new baseline established at the June 2025 NATO Summit in The Hague. While the 2% spending floor had been the standard for a decade, the alliance under intense pressure from the US administration adopted a new “Warfighting Readiness Target” of 5% of GDP by 2035[ii].

[i] <https://www.cer.eu/in-the-press/geopolitics-2026>

[ii] <https://nato-veterans.org/not-de-coupling-but-de-risking-nato-europes-bid-for-strategic-autonomy/>

This new 5% metric is bifurcated:

- 3.5% allocated strictly to "Core Defense" (personnel, procurement, and R&D).
- 1.5% allocated to "Civil Resilience & Dual-Use Infrastructure" (cybersecurity, logistics rail lines, and energy hardening).

In the immediate context of 2026, European nations are scrambling to bridge the gap between their current ~2.1% average and this steep new trajectory. This will likely necessitate a revision of EU fiscal rules to exempt these specific defense investments from deficit calculations.

Impact on Europe

A significant US withdrawal from NATO's eastern flank would fundamentally alter European security calculations, forcing rapid militarisation and a recalibration of the transatlantic partnership. This scenario represents the most acute challenge to European strategic autonomy in 2026.

9. US Military Intervention in Venezuela

While considered a lower probability than trade wars, the scenario of a US military intervention in Venezuela in 2026 is a “high impact” wildcard. By “high impact wildcard,” we refer to a low-probability event that, should it occur, would have disproportionately massive consequences on global energy markets and migration flows, catching most analysts unprepared. Tensions involving US policy shifts, regional drug interdiction efforts, and the breakdown of the Barbados Agreement could escalate into kinetic action.

Scenario Variations & Oil Market Impact:

B&K Agency's outlines three potential intervention scales and their impact on Venezuelan oil output:

- **Targeted Disruption Scenario:** A short, contained campaign that avoids major infrastructure would likely cut output by 10-15 percent.
- **Regional Escalation Scenario:** Fighting extending into coastal oilfields and export terminals could drive a 15-25 percent fall in production and a 20-30 percent decline in exports.
- **Comprehensive Conflict Scenario:** A prolonged occupation would risk a 25-50 percent collapse in supply and a 30-60 percent reduction in exports.

Implications for the EU:

- **Energy Price Spike:** The removal of heavy crude from the market would tighten global supply. While the EU has diversified away from Russian oil, a global spike affects all indices. Estimates suggest this could raise EU energy prices by 10-20%. It is worth noting that this vulnerability exists despite Venezuelan oil having recently returned to the global market under the Biden administration's easing of sanctions, which is a supply cushion that would be immediately removed.

- **Refining Competition:** US refineries, deprived of Venezuelan heavy crude, would compete aggressively for alternative heavy grades from the Middle East and Canada. This would drive up premiums that European refiners must also pay to secure similar grades.
- **Migration Crisis:** A conflict would trigger a massive refugee outflow. While primarily impacting the Americas, secondary flows would reach the EU's outermost regions (e.g., the Canary Islands) and Spain, which is already home to a large Venezuelan diaspora.
- **Diplomatic Fracture:** The EU would face intense pressure to align with US sanctions or military actions. Given the EU's emphasis on international law, this would create a diplomatic crisis, splitting the bloc between interventionist states (aligning with Washington) and those favoring non-intervention.

Impact on Europe

A Venezuela intervention would test European unity and reveal fissures regarding alignment with US military actions. It would also exacerbate energy price pressures and create a secondary migration challenge for southern EU members.



10. Latin America: The Mercosur Deal and China's Regional Pivot

The EU-Mercosur trade agreement faces a decisive moment in early 2026. Ratification votes in national parliaments will determine if the deal survives.

Strategic Stakes:

For the EU, this is about more than beef and cars; it is about geopolitical diversification. Securing access to South America's critical minerals (Lithium Triangle) and consumer markets (creating a market of 780 million people) is a vital hedge against China.

- **Target:** The deal targets **€416 billion** in trade[i].
- **Failure Scenario:** A failure to ratify would push Mercosur nations closer to Beijing, which is actively negotiating its own deals in the region.

Impact on Europe

The Mercosur deal's fate in 2026 will signal the EU's capacity to execute strategic diversification. Success would demonstrate Europe's ability to build alternative trade relationships; failure would reinforce China's gravitational pull over Latin America.

[i] <https://www.bbvaresearch.com/en/publicaciones/latam-the-mercotur-european-union-agreement-a-historic-opportunity/>

VI. REGION: EAST ASIA

11. The Taiwan “Limited Blockade” Scenario & The 2026 War Scenario

The 2026 War Scenario: Strategic Context

The US Naval War College’s Phase III scenario, published in 2023, outlines a plausible if dangerous pathway to conflict in 2026[i]. The scenario posits that following the January 2024 Taiwan presidential election, politics in Taiwan trend further toward independence.

Simultaneously, China’s economy slows due to global reshoring trends, and youth unemployment remains at or near 20%. President Xi Jinping, facing domestic pressures, increasingly stokes nationalist sentiments and paints China as the victim of international aggression.

The Mechanics of a Conflict:

According to the imagined Phase III scenario, a collision between a People’s Liberation Army Navy (PLAN) ship and a U.S. Navy destroyer in the Taiwan Strait in late 2025 would provide the spark for conflict. In 2026, China would then declare an operation to “restore the integrity of Greater China,” and the PLA rapidly takes control of Taiwan’s offshore islands, the Penghus, and the southern third of Taiwan, including the port of Kaohsiung[ii].

The PLA would then conduct swift ballistic and cruise missile attacks, neutralising the U.S. 5th Air Force in Japan, destroying most U.S. Air Force aircraft on the ground at Kadena and Misawa. U.S. naval facilities in Yokosuka and Sasebo are heavily damaged, with the command ship USS Blue Ridge and carrier USS George Washington sunk or heavily damaged. Seventh Fleet commander is killed. The global economy, equity markets, and capital flows take major hits. Concurrent ballistic and cruise missile attacks would then neutralise the U.S. 5th Air Force in Japan, and area denial platforms would sink or heavily damage US aircraft carrier fleets. China would then encourage Russia and Iran to take advantage of the Pacific war to stir up tensions in the Black Sea, Eastern Europe, the Strait of Hormuz, and broader Middle East, effectively dividing US military attention.

While the Phase III scenario has not, yet, come to pass, it is illustrative in the U.S. defence establishment’s posture concerning a potential future flare-up.

[i] <https://www.bbvaresearch.com/en/publicaciones/latam-the-mercosur-european-union-agreement-a-historic-opportunity/>

[ii] <https://www.bbvaresearch.com/en/publicaciones/latam-the-mercosur-european-union-agreement-a-historic-opportunity/>

The Mechanics of a Limited Blockade:

Beijing would likely frame a limited blockade not as an act of war but as a customs enforcement action, restricting specific maritime vessels or aircraft from entering Taiwanese ports to block “contraband” (weapons).

Impact on the EU:

- **Supply Chain Cardiac Arrest:** Taiwan produces over 90% of the world’s most advanced semiconductors. Even a partial blockade would disrupt supply chains for EU manufacturers. Estimates suggest the EU could lose 1% of GDP solely from disrupted semiconductor flows.
- **Diplomatic Tightrope:** The EU would be pressured by Washington to impose sanctions on Chinese financial institutions. However, given the EU’s economic dependence on China, achieving unanimity for maximalist sanctions would be difficult. Specifically, nations with deep industrial ties to Beijing namely Germany, Hungary, and Slovakia would likely resist broad sanctions that could trigger reciprocal economic devastation.
- **Military Escalation Risk:** If a blockade escalates into kinetic conflict, Europe faces a choice between supporting the US-led response or maintaining strategic autonomy. The outcome will depend on the nature of Chinese escalation and the speed of US decision-making.

Impact on Europe

A Taiwan crisis in 2026 would represent one of the most acute challenges to European strategic coherence since the Cold War. The event would force the EU to recalibrate its approach to China while simultaneously demonstrating the persistence of US primacy in the Indo-Pacific.

For European firms dependent on Taiwanese semiconductors and Chinese markets, a conflict would trigger severe supply-chain disruptions and necessitate rapid industrial recalibration.

12. South China Sea Militarisation

Beyond Taiwan, 2026 will see the further militarisation of the South China Sea. China may operationalise a permanent logistics hub in the Solomon Islands or expand its footprint in the Paracel/Spratly chains.

China's Assertive Posture:

China may be tempted to transition geopolitically from defence to a more forward-leaning offensive approach in 2026.

EU Response:

- **Naval Presence:** The EU, via its “Pacific Step-up” strategy, will likely increase maritime security cooperation. Member states with naval projection capability (France, Germany, Netherlands, Italy) will deploy assets for freedom-of-navigation operations, risking “grey zone” incidents with the People's Liberation Army Navy (PLAN).
- **Freedom of Navigation Operations:** These operations, while symbolically important, carry escalation risks if Chinese forces perceive them as provocative.

Impact on Europe

EU naval deployments to the South China Sea will signal solidarity with regional partners like the Philippines and Vietnam but may also invite Chinese diplomatic complaints and counter-escalation. The region's militarisation underscores the need for European naval modernisation and expanded presence in the Indo-Pacific.

A satellite night view of South and Southeast Asia, showing a dense network of city lights and transportation routes across the region. The lights are concentrated in major urban centers and along coastal areas, with a dark, textured background representing the land and sea.

VII. REGION: THE SOUTH & SOUTHEAST ASIA

13. Diversification: EU-India and ASEAN

A critical development reshaping the Indo-Pacific strategic landscape is the strengthening of India-Russia relations, exemplified by Putin's December 4-5, 2025 summit visit to New Delhi - the 23rd India-Russia Annual Summit. This summit occurs under intense pressure, as the US Trump administration has imposed 50% tariffs on Indian imports and additional penalties on energy trade to curb India's engagement with Russia.

Strategic Significance:

India's stance represents a critical test of strategic autonomy in the Global South. By hosting Putin despite US pressure, New Delhi signals its refusal to align fully with Western sanctions while maintaining its "Special and Privileged Strategic Partnership" with Moscow. The summit agenda includes:

- Accelerating S-400 Triumf air defense system deliveries (of five contracted units, only three have been delivered, with two scheduled for 2026 and 2027)
- Potential co-production of Su-57 stealth fighter jets
- Formalising a roadmap for **\$100 billion in bilateral trade by 2030**, up from nearly \$70 billion in FY 2024-25
- Integrating RuPay and Mir payment systems to bypass Western banking sanctions
- Securing long-term non-sanctioned oil contracts (Russian crude has jumped from 2% to 39% of India's total oil imports since the Ukraine invasion).

India's Balancing Act:

India maintains a principle of **strategic autonomy** - the refusal to join any single power bloc. While diversifying arms purchases with France and Israel, India views Russia as a "time-tested partner" essential for balancing power dynamics in Asia and preventing Russia from becoming a "junior partner" to Beijing.

India remains wary of the "no limits" partnership between Russia and China, with a key imperative being ensuring Russia remains neutral in potential Sino-Indian border conflicts.

Implications for Europe:

The strengthening of India-Russia ties complicates the EU's strategy of pivoting toward India as a counterweight to China. While India remains open to deeper EU engagement - particularly on critical raw materials and technology - New Delhi's pragmatic neutrality and defense partnership with Russia suggest that India will not serve as a fully aligned European partner.

The EU must therefore pursue "friend-shoring" opportunities with India on a transactional basis, recognising that India prioritises strategic autonomy over bloc alignment.

India as Pivot Power

According to the Centre for European Reform^[i], India emerges as a critical "swing country" in the multipolar order of 2026. The CER forecasts that India's economy will be much larger than any individual European country by 2026, positioning it as a central player in any realignment of global power. However, as the India-Russia summit demonstrates, India will pursue its own interests rather than serve as a proxy for European or Western interests. The EU's challenge is to offer India compelling value propositions - access to markets, technology transfer, and capital - that align with India's strategic interests without demanding ideological alignment.

EU-India Partnerships

The EU will seek to deepen cooperation on critical raw materials (particularly lithium and cobalt) and digital technology with India. However, concerns over democratic backsliding and human rights in India may complicate the ratification of a deep trade deal. The EU will likely pursue sectoral partnerships in areas like renewable energy, semiconductor manufacturing, and pharmaceutical supply chains, recognising that comprehensive strategic alignment is unlikely in the near term.

^[i] <https://www.cer.eu/in-the-press/geopolitics-2026>

ASEAN Diversification

The EU will increase economic-security partnerships with ASEAN nations, focusing on “friend-shoring” manufacturing capacity. This supports the forecast of steady **4-5% growth** in the Asia-Pacific (ex-China) region, offering a lifeboat for EU exporters[i]. The EU’s “Pacific Step-up” strategy will emphasise maritime security cooperation, infrastructure development, and technology partnerships with ASEAN nations as a counterweight to Chinese influence.

Impact on Europe

The EU’s diversification strategy toward India and ASEAN will remain constrained by the reality that these nations prioritise their own strategic autonomy over bloc alignment. India’s strengthening ties with Russia further complicate European efforts to construct an “anti-China coalition.” The EU’s best approach is to pursue pragmatic, sectoral partnerships that offer mutual benefit rather than seeking ideological alignment or automatic support in great-power competition.

[i] <https://think.ing.com/articles/asia-2026-six-big-questions-shaping-the-outlook/>

VIII. REGION: THE MIDDLE EAST & NORTH AFRICA

14. Middle East: The Iran Nuclear Sunset and Geopolitical Fragmentation

The year 2026 marks a critical “sunset” phase for the JCPOA and UN Resolution 2231. Key international restrictions on Iran’s nuclear program (enrichment levels, centrifuge R&D) are set to expire in late 2025 and 2026[i].

Proliferation Crisis:

This regulatory vacuum leaves the EU with limited diplomatic leverage. If Tehran chooses to “sprint” toward a nuclear weapon capability in 2026, the EU faces a proliferation crisis on its periphery. This would almost certainly trigger a regional arms race (involving Saudi Arabia and Turkey) and heighten the risk of an Israeli preemptive strike.

Energy Implication:

Tension in the Persian Gulf threatens the Strait of Hormuz, a vital artery for LNG. Any disruption here would be catastrophic for an EU that has just weaned itself off Russian gas, causing an immediate spike in electricity prices across the continent.

Impact on Europe

Iran’s nuclear trajectory in 2026 will define the region’s stability and energy security. A crisis would force the EU to choose between supporting US-led containment efforts and pursuing independent diplomatic channels with Tehran.

[i] <https://iranprimer.usip.org/blog/2023/jan/11/explainer-timing-key-sunsets-nuclear-deal>

15. The Abraham Accords and Regional Realignment

The Abraham Accords, signed in 2020 between Israel and several Arab nations (UAE, Bahrain, Morocco, and Sudan), remain a central pillar of Middle Eastern statecraft in 2026. However, their trajectory is uncertain given regional instability and Palestinian concerns.

Expansion Possibilities:

Throughout 2026, the Trump administration has sought to expand the Accords to include Syria, Lebanon, Saudi Arabia, and Kazakhstan, with the latter having agreed to join. Saudi Arabia's potential inclusion would represent a transformative development, as Riyadh remains the most influential Arab nation and its normalisation with Israel would reshape the regional order.

Conditional Participation:

However, both Saudi Arabia and the UAE have set strict preconditions for deepening involvement: a stable and lasting ceasefire in Gaza, gradual Israeli withdrawal, disarmament of Hamas, and transfer of authority to the Palestinian Authority (PA) or another internationally legitimate body.

Impact on Europe

The trajectory of the Abraham Accords in 2026 will determine the EU's diplomatic role in Middle Eastern statecraft. An expanded and deepened Accords framework could marginalise the EU, as US-mediated agreements take precedence. Conversely, if tensions within the Accords emerge (particularly over Palestinian issues), the EU could position itself as an alternative mediator emphasising a comprehensive Middle East peace process.

16. Gaza Reconstruction and Regional Dynamics

Gaza's reconstruction remains one of the most contentious issues in 2026. The region faces a binary choice between reconstruction led by Saudi Arabia and the UAE (conditional on Hamas disarmament and PA control) versus reconstruction led by Qatar and Turkey (while preserving Hamas's role).

Key Reconstruction Scenarios:

1. **Involvement of All Key Actors (Likely):** If Israel agrees to Saudi and Emirati conditions of restoring PA control over the Strip and committing to a two-state solution, Riyadh and Abu Dhabi would agree to help rebuild Gaza with funding and de-radicalisation expertise.
2. **Stalemate (Possible):** Israel continues to reject Saudi and Emirati conditions while resisting US pressure to advance reconstruction without demilitarisation. Gaza remains without a viable path to recovery, persisting as a humanitarian and security burden entirely on Israel's shoulders.

Financial Burden:

The EU, while expressing humanitarian concern, will likely play a limited financial role in providing for the estimated \$70 billion reconstruction estimate for Gaza, given budget constraints and the primacy of US-led initiatives in Gaza's political future.

Impact on Europe

Gaza's reconstruction trajectory will shape humanitarian migration patterns and determine whether European aid resources are drawn into a multilateral reconstruction effort. Limited EU financial involvement suggests that European humanitarian responsibilities will be confined to UNRWA support and EU contribution to international trust funds rather than direct reconstruction investment.

IX. REGION: SUB-SAHARAN AFRICA

17. Africa: The Sahel & Critical Minerals

Sahel Instability:

The “Alliance of Sahel States” (Mali, Niger, Burkina Faso) has consolidated power, pivoting towards Russia for security. In 2026, continued instability or a new coup in the region could lead to a surge of migrants across the Central Mediterranean, testing the EU’s newly implemented “New Pact on Migration”^[i].

Critical Minerals Partnerships:

Conversely, the EU will aggressively pursue “green minerals” deals with non-Sahelian African states like the DRC, Zambia, and Angola. The goal is to secure cobalt and lithium supplies for the EU battery industry, reducing reliance on China. Angola, in particular, is emerging as a “Middle Power” partner for the EU in energy.

EU-Africa Engagement:

The Joint Declaration from the 7th African Union-European Union Summit (2025) emphasises sectoral cooperation on critical minerals, infrastructure, and security. The EU will position itself as a more reliable partner than China in African development, emphasising democratic governance, rule of law, and labor standards as conditions for investment.

Impact on Europe

Africa’s role as a critical minerals supplier will be central to Europe’s energy transition and industrial resilience. Success in securing long-term mineral supply contracts with African nations will partially offset the EU’s dependence on Chinese rare earth processing and enable the decarbonisation of European industry.

^[i] <https://iranprimer.usip.org/blog/2023/jan/11/explainer-timing-key-sunsets-nuclear-deal>

18. Sudanese Civil War

The Sudan civil war that began in April 2023 has produced the world's worst humanitarian crisis and represents a critical test case for international crisis management in 2026.

Scale of the Crisis:

The conflict is fought between the Sudanese Armed Forces (SAF) and the Rapid Support Forces (RSF). By late 2025, roughly **80% of healthcare facilities in Sudan were no longer functional**, and approximately **12 million people have been forcibly displaced**, making it one of the largest displacement crises in recent history (Humanitarian Impact of the Sudanese Civil War, 2023-present). In Darfur, the UN has warned of an impending catastrophe, with civilians facing relentless violence, sexual abuse, and starvation (UN, 2025).

Siege and Massacre:

The siege of El Fasher, the last major city in Darfur under government control, reached catastrophic levels between July and October 2025. More than **2,000 people were executed on October 26, 2025**, in the El Fasher massacre, including many children, women, and older people[i]. Humanitarian aid remains blocked, with 260,000 civilians trapped without safe exit routes as the RSF builds berms to block movement and supplies.

Funding Shortfall:

The crisis is worsened by severe funding shortfalls. With only 25% of Sudan's \$4.2 billion humanitarian plan funded as of late 2025, humanitarian organisations face impossible operational constraints.

Weaponisation of Starvation:

Both the SAF and RSF have been reported to use starvation as a weapon of war by systematically obstructing the delivery of food, medical supplies, and humanitarian aid[ii]. Malnutrition, cholera, and dengue fever spread rapidly in overcrowded displacement sites.

[i] <https://www.migrationpolicy.org/article/sudan-civil-war-displacement>

[ii] <https://www.migrationpolicy.org/article/sudan-civil-war-displacement>

EU Response and Limitations:

The EU faces severe constraints in responding to Sudan's crisis:

- **Limited diplomatic leverage:** With the conflict driven by internal SAF-RSF dynamics and external actors like the UAE allegedly backing the RSF, EU diplomatic influence is minimal.
- **Budgetary constraints:** The EU's stretched budget and focus on European security leave limited resources for African humanitarian crises.
- **Sovereignty concerns:** Sudan's government may restrict EU humanitarian access, limiting the EU's ability to provide direct assistance.

Secondary Impacts on Europe:

- **Migration:** While Sudan's borders limit immediate secondary flows to Europe (unlike Ukrainian or Syrian refugee crises), prolonged instability could trigger Sudanese migration to the Middle East, with tertiary flows to Europe via Egypt and the Mediterranean.
- **Regional Destabilisation:** Sudan's collapse could trigger spillover effects in neighboring countries (Chad, Egypt, Ethiopia), creating additional instability and humanitarian emergencies.

Impact on Europe

Sudan's humanitarian catastrophe represents a failure of international crisis management and underscores the limitations of European agency in addressing global humanitarian emergencies. The EU will respond through UNHCR (the UN Refugee Agency) support and EU contributions to international trust funds, but cannot play a leading role in conflict resolution or reconstruction without US engagement or regional consensus.

 BK AGENCY



X. GLOBAL THEMATIC ISSUES: ECONOMIC & TECHNOLOGICAL SOVEREIGNTY

19. Macro-Economic Outlook: Subdued Growth & Fiscal Shifts

UNCTAD and other forecasters project global growth at approximately **2.6% to 3.1%** for 2026[i] [ii] (UNCTAD, 2025; S&P Global Ratings, 2025). For the EU, growth is expected to be anemic, hovering around **1.2% to 1.6%**[iii].

Geopolitical Economy of 2026:

According to CaixaBank Research[iv], the global economy in 2026 faces a fundamental transformation. The post-Cold War order - characterised by Pax Americana, free trade, and open markets - is transitioning toward a more fragmented system where trade and finance are instruments of geopolitical objectives. This “geoeconomics” framework will define pricing, investment decisions, and market access in 2026.

Germany’s Fiscal Reawakening:

A key variable is Germany. Following elections in late 2025, 2026 will be the first full year of a new government. Predictions suggest a “fiscal reawakening” where Berlin loosens its debt brake to fund defense and infrastructure. This fiscal expansion could boost German GDP by 0.5%, providing a much-needed engine for the broader Eurozone[v].

[i] <https://unctad.org/news/global-growth-expected-slow-26-through-2026>

[ii] <https://www.spglobal.com/ratings/en/regulatory/article/economic-research-economic-outlook-europe-q1-2026-germanys-fiscal-reawakening-s101657610>

[iii] <https://www.spglobal.com/ratings/en/regulatory/article/economic-research-economic-outlook-europe-q1-2026-germanys-fiscal-reawakening-s101657610>

[iv] <https://www.caixabankresearch.com/en/economics-markets/activity-growth/world-economy-2026-resilience-transition-or-disruption>

[v] <https://www.spglobal.com/ratings/en/regulatory/article/economic-research-economic-outlook-europe-q1-2026-germanys-fiscal-reawakening-s101657610>

Transatlantic Trade Under Strain:

Despite milder-than-expected tariff impacts through mid-2025, underlying tensions persist, with “an all-out trade war” avoided but the possibility remaining. The economic impacts of tariffs will continue to materialise throughout 2026 as the US-China tariff framework stabilises. The average US tariff has reached around **14.5%-16%** (compared to 2.5% prior to Trump’s mandate), with critical uncertainties remaining around semiconductors and rare earths - sectors where mutual dependence creates potential for negotiation[i].

Impact on Europe

Europe’s economic performance in 2026 will depend critically on Germany’s fiscal stance and the resolution of transatlantic trade tensions. Without German fiscal expansion and a trade deal between the US and China, the EU risks a deep recession that would undermine defense spending increases and strategic autonomy initiatives.

[i] <https://www.caixabankresearch.com/en/economics-markets/activity-growth/world-economy-2026-resilience-transition-or-disruption>

20. The “Compliance Cliff” of the AI Act

August 2, 2026, marks the deadline for full compliance with the EU AI Act for high-risk AI systems[i]. This creates a “compliance cliff” for businesses.

Impact:

- **Regulatory Superpower:** The EU attempts to set the global standard (The “Brussels Effect”).
- **Innovation Drag:** However, the high cost of compliance may deter startups and foreign tech investment, potentially widening the gap between the EU and the US/China in Generative AI development. **80% of EU government CIOs** are expected to increase AI spending, but primarily on compliance and “sovereign” AI models rather than frontier research[ii].

Impact on Europe

The AI Act’s compliance deadline in 2026 will test Europe’s capacity to regulate technology while maintaining competitiveness. The result will likely be a bifurcated market: US firms operating under lighter compliance frameworks and European firms under stricter rules, further widening the innovation gap between the EU and the US.

[i] <https://www.orrick.com/en/insights/2025/11/the-eu-ai-act-6-steps-to-take-before-2-august-2026>

[ii] <https://www.gartner.com/en/doc/top-strategic-technology-trends-2026>

21. Digital Sovereignty & 6G Standards

The battle for the future of telecommunications will intensify in 2026. The 3GPP Release 20 study phase, which lays the groundwork for 6G, concludes in June 2026[i].

- **The War for Standards:** Unlike 5G, where Europe lost ground to Huawei, the EU is coordinating early with the US to ensure 6G standards align with Western interests. This is an existential imperative for European champions like Nokia and Ericsson.
- **Cyber Defense:** With **85% of EU CIOs** earmarking funds for self-defence, the focus in 2026 shifts to “active defense” and resilience against AI-driven cyber threats (Agentic AI)[ii].

Impact on Europe

The 6G standards battle represents a critical test case for US-EU technological coordination. Success in coordinating on standards would signal alliance cohesion; failure would demonstrate the fragmentation of Western technology leadership.

[i] <https://www.huawei.com/en/huaweitech/future-technologies/itu-r-wp5d-completed-recommendation-framework-imt-2030>

[ii] <https://www.gartner.com/en/doc/top-strategic-technology-trends-2026>

22. CBAM: The Green Trade War

January 1, 2026, marks the definitive entry into force of the Carbon Border Adjustment Mechanism (CBAM). Importers must now pay for embedded emissions^[i].

Consequences:

- **Diplomatic Friction:** Major partners (India, China, Brazil, US) view this as “green protectionism.” Brazil faces potential **50% duties on steel exports** exceeding quotas.
- **Inflation:** The cost of certificates will likely drive inflation in EU construction and manufacturing inputs.
- **Retaliation:** The EU should expect challenges at the WTO and retaliatory tariffs on high-value EU exports (wine, luxury goods).

Impact on Europe

CBAM represents both a strategic tool for achieving climate objectives and a potential flashpoint for trade conflict. The mechanism’s implementation in 2026 will reveal whether emerging economies view it as legitimate climate policy or illegitimate protectionism.

^[i] https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

23. Critical Minerals Deficit: The Resource Wall

The global energy transition is projected to hit a “resource wall” in 2026. A refined **copper deficit of roughly 150,000 tonnes** is expected, and **lithium demand is projected to surge by 30%**^[i].

EU Vulnerability:

Despite the Critical Raw Materials Act, domestic mining faces permitting delays. The deficit in 2026 threatens the viability of European battery “gigafactories.” This scarcity will drive the EU to aggressively pursue the African and South American partnerships mentioned in Pillar V, effectively militarising supply chain diplomacy.

Impact on Europe

2026 will be a critical year for testing the EU’s ability to secure critical mineral supplies through diversification partnerships. Failure to establish reliable supply chains will undermine the EU’s energy transition and strategic autonomy in clean energy manufacturing.

^[i] <https://www.mining.com/glencore-cuts-2026-copper-target-but-sets-long-term-surge/>

 BK AGENCY



CONCLUSION: THE IMPERATIVE OF STRATEGIC AUTONOMY

B&K Agency's global outlook for 2026 presents a picture of a world in transition, where the post-Cold War order has definitively dissolved into multipolar competition. For the EU, the luxury of decoupling security from economics is over.

Key Takeaways for Policymakers:

1. **Defense is Non-Negotiable:** The **prospect of a long-term** zone of instability on the EU's eastern borders and potential US retrenchment mean the EU must prepare to underwrite the security of its eastern flank alone. The operationalisation of the SAFE instrument and the Poland-led land deterrence force are critical. Target spending of up to **5% of GDP** should be considered across the NATO bloc to achieve credible deterrence.
2. **Economic Security is Expensive:** The implementation of CBAM, diversification of supply chains away from China, and critical minerals scarcity will be inflationary. Policymakers must communicate this "security premium" to the electorate to avoid populist backlash. The EU's ability to negotiate alternative trade partnerships (Mercosur, ASEAN) will be crucial for offsetting lost US market access.
3. **The "Third Way" is Narrow:** Caught between US tariffs and Chinese dumping/blockades, the EU's only viable path is a rigorous internal market strengthening - specifically in digital and energy sovereignty - to maintain its status as a global regulatory and trading power.
4. **Pragmatism Over Ideology:** Europe's partnerships with non-aligned powers like India require pragmatic, transactional engagement rather than ideological alignment. India's strengthening ties with Russia demonstrate that strategic autonomy will trump bloc alignment for many Global South powers.
5. **Taiwan Crisis Would Be Existential:** A Taiwan conflict in 2026 would represent the most acute challenge to European strategic coherence since the Cold War. Preparation for semiconductor supply disruptions and diplomatic coordination with the US-led response should begin immediately.
6. **Strategic Autonomy Requires Financial Sacrifice:** The full operationalisation of European strategic autonomy will require persistent defense spending increases, restructured fiscal rules to accommodate security investments, and potential trade-offs in social spending. The political will to execute these changes remains uncertain.

