FII INSTITUTE ESSAY SERIES:
WHAT IS EUROPE'S ECONOMIC FUTURE - AND HOW DOES EUROPE GET THERE?

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WHAT WILL EUROPE'S ECONOMIC FUTURE HOLD?

EUROPE ENTERS 2026 IN A NEW PHASE: moving from crisis management to reimagining its strategic autonomy in energy, technology, security, and finance. The decisions made in Brussels, Berlin, Paris, Rome and boardrooms across the continent over the coming years will determine whether the continent leads the next wave of technological and economic transformation – or lets others define the future of the world economy.

These essays collected from FII Members and Strategic Partners do not share a single view. They reflect the perspectives of investors, entrepreneurs, technologists, economists, and statisticians who have each looked carefully at Europe's present condition and arrived at a common sense of urgency.

From demography to digital currency, from artificial intelligence to venture capital, the picture that emerges is a continent rich in talent, heritage, and institutional depth – yet yearning for bold action that can transform those advantages into the kind of scalable innovation the moment demands.

These essays are a call to clarity, for speed, for greater competition – and, yes, for a lower burden from regulations.

Our writers acknowledge that Europe's regulatory instinct comes from a good place: the desire to protect citizens, preserve competition, and ensure that powerful technologies serve the public interest. This structure reflects values the continent has fought hard to uphold.

But good intentions do not guarantee good outcomes. When regulation moves faster than innovation, when compliance costs more than creation, when the brightest entrepreneurs weigh whether to build here or elsewhere, then the balance has tipped in the wrong direction.

The world is not waiting. Capital is being redeployed. Talent is mobile. The great technological platforms of the next decade are being built somewhere, right now. The question is not whether Europe has what it takes to compete – it clearly does. The question is whether it has the will to transform along with the rest of the world.

The FII Institute's mission is Impact on Humanity. That requires us to engage honestly with the forces shaping our world – and to bring together the kind of thinking that moves beyond diagnosis toward action. The voices in these pages represent exactly that spirit.

Read them with an open mind. The future belongs to those who are willing to reach for it.

Richard Attias
Chairman of the Executive Committee, FII Institute

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EUROPE'S DEMOGRAPHIC FUTURE: CLUES FROM GRECO-ROMAN FECUNDITY

SOME 150 YEARS AGO, AROUND THE TIME OF Italy's Risorgimento, Italians were as fertile as their alluvial plains, averaging a healthy five children per couple. That bounty triggered food shortages and mass emigration. The youth who remained matured into the engineers and laborers who built the industrial triangle of Milan, Turin, and Genoa.

Those former champions of fertility have now become chronic abstainers. Italy's total fertility rate fell below two children per women in 1977. Today, couples give birth to barely more than one child.

Net of migration, Italy's primary and secondary school age population is set to shrink by more than 40% by 2050. Fortunately, this is not the first time a great civilization has faced falling fertility and population collapse. Mediterranean history offers a lesson.

Hidden in the ancient libraries of Byzantium are the remnants of a forty-volume opus written by the Greek historian Polybius around 150 BC. They chronicle the period when Rome displaced Greece as the dominant world power.

Greek influence had peaked in the Classical period, the age of the Parthenon and Alexander the Great. But a process was then set in motion that would weaken the Greek empire just as Rome's foundations were solidifying.

Polybius diagnosed the cause:

"In our own time the whole of Greece has been subject to a low birthrate and a general decrease of the population, owing to which cities have become deserted and the land has ceased to yield fruit, although there have neither been continuous wars nor epidemics." [1]

He continued:

"... men had fallen into such a state of pretentiousness, avarice, and indolence that they did not wish to marry, or if they married [did not wish] to rear the children born to them, or at most, as a rule, but one or two of them ..." [2]

Civilizations thrive when cities gain critical mass. But prosperity breeds the very habits that undermine it: fewer babies, less economic activity, depleted armies, defenceless empires.

PHOTOS: FII INSTITUTE

In the 6th century BC, Greek explorers sailed to the northern tip of Africa where they encountered Silphium, an herb (now extinct) prized for its aphrodisiac and contraceptive properties. The plant was so valuable it was eventually worth its weight in silver.

Whether from philosophical introspection or hedonistic diversion, Greece depopulated. The Romans, with greater manpower, built the next empire ... until they also got their hands on the Silphium seed. During the era of Silphium abundance, Rome's birth rate collapsed despite rising prosperity, longer and healthier lives, and relative peace.

In 18 BC, the Roman Emperor Augustus responded by penalizing the unmarried and childless. When that failed, the Papia Poppaea law of AD 9 targeted celibacy and adultery. Neither worked.

Theories for Rome's demographic decay abound. Lead-infused wine was thought to have caused sterility and mortality.[3] Others noted noble males' preference for only-child brides, hoping low fertility was hereditary. Natural deselection, if you wish. The most entertaining explanation is Stanford classicist A.M. Devine's contention that male reproductive damage results from repeated immersion in excessive heat. Pliny the Elder counted 170 bathhouses in Rome by 33 BC, and most Roman men bathed at least daily.

Whatever the reasons – hedonism, contraceptive herbs, lead poisoning, or excessive heat – fewer babies were born, troops were depleted, and Rome fell into decay. By the Middle Ages, the population had collapsed to 20,000, and much of the city was farmland.

European leaders, while benefiting from many classical traditions, would be wise not to sleepwalk into Greece and Rome's demographic traditions if they want to preserve Europe's greatness for generations to come.

Nor does Europe need to wait 1,600 years for the next renaissance. The answer to Italy – and Europe's – imminent depopulation is neither extra visas for foreign financiers nor flat taxes for the wealthy. Recruiting retirees won't rejuvenate the country.

Young students, on the other hand, integrate well. They learn local languages, fall in love, build careers and often stay. Bologna founded Europe's first university in 1088. Italy knows how to attract young minds; it has simply forgotten to try.

Italy leads Europe's demographic decline; what works here becomes the continent's template. Court the booming and talented populations of Africa, the Middle East, South America, and Asia. Set a target of reducing the median age from 49 to 37 within a generation.

Plant saplings, not oaks.

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ABOUT THE AUTHORS

DAVID MUNRO uncovers demographic trends that move financial markets, inform government policy, underpin real estate and healthcare, suggest business opportunities, and identify when a country is ripe for revolution.

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POLITICS IS LOCAL, BUT AI IS EVERYWHERE: RETHINKING THE EU AI ACT IN A GLOBAL ECONOMY

IN 2020, BEFORE LLMS WERE A GLIMMER IN THE public's eye, the European Union published a white paper announcing its intent to become the first economic powerhouse to comprehensively regulate AI. Six years and hundreds of pages later, it succeeded. But now, as AI innovation flourishes in the US, Gulf States, and Asia, many in Europe and beyond are wondering: was first-to-regulate-AI the right race to win?

One problem quickly emerged: AI is a far more difficult beast to tame than past iterations of the "Brussels Effect." Where the GDPR set a global baseline for one risk domain (privacy), regulating AI meant tackling many competing evolving risks, from safety, accuracy, fairness, explainability, and agency to continuous change and evasion of human control.

Another enduring problem: AI is not – and never was – one thing. Years into drafting the AI Act, European regulators listed the definition of AI as a critical open issue. Up to the tail-end of negotiations, no one could agree on what they were regulating.

Adding to this was AI's rate of change. The EU spent years drafting rules for what is now "old-fashioned" AI – single-purpose, deterministic, gatekept by IT teams. Midway through AI Act negotiations, generative AI arrived: multi-purpose (from cake-baking to code-breaking), probabilistic, and as accessible as speaking commands. Rather than remake the law, the EU shoehorned weighty new "GPAI" sections into the bill.

The result? A proposal exceeding 100 pages, yet rife with open questions. Days before the first major deadline, the EU issued over 100 pages of guidance on which practices were "prohibited." With the next deadline came similarly copious guidance on whether a company's AI is "high risk." The stakes were global and high: the law was extraterritorial by design, and fines for the worst offenses reached a staggering 7% of worldwide annual revenue. All this sat within a broader web of EU laws – the Digital Decade – reflecting over 700 pages of rules.

The EU had the world's attention. But where did that lead?

The Act promised benefits to open-source models, but the largest open-source provider held back EU releases in 2024 and 2025 for fear of regulatory risk. A survey of over 1,000 tech firms found nearly 60% of EU and UK developers reported launch delays and one-third stripped features to comply. Sixty percent reported delayed access to frontier AI models, the foundation of both next-gen start-ups and future corporate productivity.

Despite the guidance issued, uncertainty was the norm. The Commission estimated only 5% to 15% of AI systems should qualify as high risk; one study found nearly one-third of EU AI start-ups thought their AI was subject to those higher burdens. Forty percent weren't sure where they landed at all. Even European market authorities wondered aloud whether parts of the Digital Decade had gone too far, too fast.

What's more, the world proved bad at predicting AI's risks. The Act cited chatbots operating outside high-risk areas as paradigmatically lower risk; those now sit at the center of the storm in the US and beyond, from IP litigation and workforce disruption to claims of psychosis and harmful outputs. What if the AI Act was a massive net that tangled up innovation while harm slithered through?

PHOTOS: FII INSTITUTE

→ Counternarratives exist: the European think tank Bruegel argued against blaming digital regulation, citing a decline in European R&D that was decades in the making. But in a challenged R&D environment, is piling on new regulation the right move? Ultimately, the EU itself reported a tangible economic burden on AI start-ups under the law.

In May 2026, the European Council and Parliament provisionally agreed to revisions extending high-risk timelines and better aligning the Act with sectoral laws. But the overhang remains. Just recently, OpenEvidence, the medical AI hailed as a "gamechanger" in US healthcare, withdrew from the EU and UK, citing regulatory risk.

In the United States, the opposite problem has emerged: stalled federal efforts have left a patchwork of state laws and litigation. But downstream deployment risk doesn't halt innovation the way upfront regulatory capture does.

No one doubts that well-targeted regulation can drive AI innovation. If AI is inevitable, we need smart, targeted rules to keep it on a productive path, away from competition-driven mutually assured destruction.

Still, two things are clear: regulation must be lighter on procedure and more adaptive to a technology and harms that refuse to sit still, lest regulators spend their tenure trying to catch falling knives. And no region can go it alone without inviting comparison with easier places to invest and deploy. On an issue this large, heavy local regulation is like squeezing a balloon: press it flat in one place and you will watch it swell in another.

PHOTOS: FII INSTITUTE

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INNOVATION NOT REGULATION: HOW EUROPE CAN COMPETE IN THE AI RACE

A NEW DIGITAL REVOLUTION IS UPON US. AND ONCE again, Europe is lagging. As was the case with the Internet explosion of the 1990s, the companies driving the present AI Revolution are almost exclusively American: OpenAI, Anthropic, Google DeepMind, xAI, Nvidia, and many others.

While Europe remains strong in niches like semiconductor manufacturing, its strict regulatory regime for AI could leave the continent far behind in what many consider to be the next Industrial Revolution.

The Trump administration recently decided to step back from stricter regulation of AI in the United States, rather than risk America's leadership in this future-defining sector. Europe, by contrast, is moving aggressively in the opposite direction. The European Union's AI Act represents the most comprehensive effort yet to regulate artificial intelligence, imposing new compliance requirements and legal obligations on developers and users of AI systems.

The legislation is driven by understandable concerns over privacy, discrimination, transparency, and public safety – legitimate issues that deserve attention. But Europe risks making a familiar mistake: regulating innovation before it has had a chance to flourish.

Europe helped develop many of the technologies that formed the foundation of the Internet age. Yet when the digital economy bloomed, the world's dominant platforms emerged elsewhere. America produced Google, Amazon, Meta, Apple, and Microsoft. China produced Alibaba, Tencent, and ByteDance. Europe produced regulations.

The consequences extend beyond corporate rankings and valuations. The world's leading technology companies generate jobs, attract capital, drive research, strengthen national security, and shape global standards.

AI is rapidly becoming a general-purpose technology with the potential to transform virtually every sector of the economy. From drug discovery and advanced manufacturing to financial services, education and defense, AI will increasingly determine which nations lead and which follow.

That is why policymakers should be careful not to confuse managing risk with eliminating it.

Innovation has always involved uncertainty. The steam engine, electricity, aviation, and the Internet all carried risks alongside enormous benefits.

Europe's challenge is not a lack of talent. Its universities produce world-class engineers, scientists, and mathematicians. Its research institutions remain among the best in the world. The problem is that too many entrepreneurs, investors, and innovators encounter a policy environment that treats technological disruption primarily as a threat rather than an opportunity.

The result is predictable. Capital flows elsewhere. Start-ups relocate. Talent follows investment. Over time, innovation ecosystems weaken.

None of this means AI should operate without rules. But there is a profound difference between creating sensible safeguards and constructing regulatory barriers that make innovation prohibitively expensive.

Europe still has time to compete. It has the talent, institutions, and economic strength to play a major role in the future of AI. But doing so will require a shift in mindset – from seeing regulation as a substitute for innovation to recognizing that innovation itself is a strategic asset.

The AI Revolution is still in its early chapters. But one lesson from the Internet age is already clear: technological leadership rarely belongs to those who move most cautiously.

To be more than a consumer of AI developed elsewhere, Europe must ensure that its innovators have the freedom to build, compete, and succeed.

My own lived experience follows this trajectory. My husband and I moved to the United States to study and work at Stanford University in California, where we encountered possibilities unavailable in our native India.

There we met a Russian-born PhD student, Sergey Brin, whom we mentored as he laid the building blocks for Google with his business partner Larry Page.

If Europe continues on its regulatory path, the brightest minds of tomorrow won't seek out the continent to develop the boldest innovations of tomorrow.

It's not too late – Europe still possesses many advantages, and now is the time to embrace innovation rather than regulation.

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THE DIGITAL EURO IN 2026: POLICY ALIGNMENT, PERSISTENT CONCERNS, AND EMERGING SOLUTIONS

THROUGHOUT 2026, EUROPEAN INSTITUTIONS and financial services firms have increasingly aligned on the strategic rationale for a Digital Euro – a Euro-denominated Central Bank Digital Currency (CBDC), with parallel progress across legislative, technical, and political tracks.

At the same time, the project continues to face objections (particularly around financial stability, industry costs, and infrastructure integration), which have led to a series of proposals to address them.

In February, the European Parliament voted to support the creation of the Digital Euro, describing the move as "essential to strengthen EU monetary sovereignty, reduce fragmentation in retail payments and support the integrity and resilience of the single market."[1]

Over March and April, the European Central Bank (ECB) continued its technical preparations for the Digital Euro and for infrastructure supporting tokenized money and financial assets in Europe more generally. This broader tokenization agenda involves two pillars:

Pontes is an initial drive to create an interoperable European Distributed Ledger Technology (DLT) system, which will connect existing DLTs and certain core "target services" essential to creating an on-chain European money system, including the Digital Euro.[1] Pontes is currently scheduled to go live towards the end of 2026. Appia is a longer-term project to create integrated DLT-based capital markets throughout Europe, and connect European digital capital markets to global ones.

Operationally, 2026 marked a shift toward execution. The ECB has moved beyond conceptual work to focus on rulebook design, infrastructure build-out, and ecosystem integration. However, legislation from the European Commission, approved by the European Parliament, is still essential for the creation and implementation of the CBDC.

Despite broad institutional support, several impediments have been raised in recent months by policymakers and industry stakeholders.

Financial stability and banking disintermediation remain the thorniest issues. The Digital Euro would exist alongside digital versions of commercial bank money in the form of tokenized deposits, acting interoperably with Euro-denominated digital cash created by the European banking system.[3] Banking representatives have argued that the Digital Euro turns central bank money into a direct competitor of commercial bank money, raising concerns about deposit outflows and pressure on bank funding models. This view is echoed in policy discussions, where deposit migration to the ECB is seen as a potential risk to the two-tier banking system. The ECB is also interested in a CBDC as an alternative to private sector stablecoins, which it argues could act as a threat → to bank liquidity and consequently the stability of the banking sector.[4]

The cost implications for banks and merchants is another key issue. Banks have highlighted the scale of required investment and operational costs, while merchants have warned that unclear or complex fee structures could discourage adoption. The ECB's 2024 merchant research paper argued that the potential of the digital euro will not be realized without a streamlined and predictable cost model.

Interoperability and infrastructure challenges have also featured prominently. Industry participants note the technical difficulty of integrating a new central bank digital currency into a fragmented European payments ecosystem while ensuring compatibility with existing systems.[5]

To these objections, the ECB has outlined a clear set of mitigants. To address financial stability risks, the ECB has proposed holding limits on digital euro balances and zero interest remuneration. On cost and adoption, →

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→ proposals include compensation mechanisms for banks distributing the digital euro and merchant calls for no scheme or processing fees, including zero-cost offline payments. To tackle interoperability, the ECB is pursuing open technical standards and extensive industry collaboration and testing.

The Digital Euro has progressed from concept to a coordinated policy and implementation effort backed by strong institutional consensus across central and national governments, regulators, and the financial services sector.

And, while impediments continue to exist, so do design solutions – suggesting that the debate has shifted from whether the digital euro should exist to how it can be implemented in a way that preserves Eurozone financial stability and consumers of banking and other services.

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FORTUNE FAVORS THE BOLD: EUROPE'S CAPITAL OPPORTUNITY

THE GLOBAL INVESTMENT LANDSCAPE IS undergoing important reallocation. Long-term institutional capital is repositioning around two criteria that have grown short in supply: institutional credibility and investment resilience to rapidly diverging states of the world. Each determines where long-duration capital flows and at what cost. Europe has the chance to attract an enormous part of the relocating capital if it doubles down on its investment strengths and deregulates.

Sovereign wealth funds deployed $179 billion in 2025, largely into infrastructure, AI and digital platforms, energy systems, and logistics. These offer resilience to the investment portfolio, not just diversification.

What makes this moment distinctive is the erosion of credibility and weaker confidence at the center of the financial system. Across the US and Europe, commitment to fiscal rules has drifted and policies have become unpredictable. G7 government debt is projected to reach 130% of GDP by 2031, with no credible consolidation path in the forecast. Consequently, the G7's average 30-year bond yields have risen above their post-Covid peak even as inflation has fallen toward 2%. Yields rising while inflation falls are less a story of rates than the harbinger of a loss in institutional credibility.

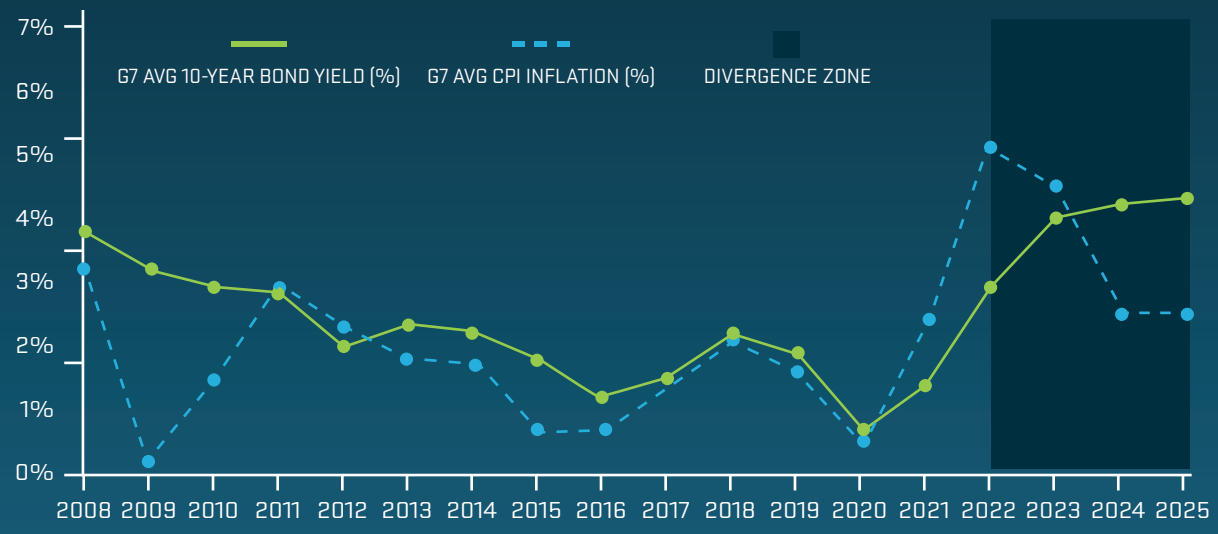
In the current episode of geopolitical stress, the dollar strengthened on liquidity demand while →

G7 avg inflation 2022 peak
5.1%
Highest since 1980s

G7 avg inflation 2025
~2.5%
Near target; sharply lower

G7 avg 10Y yield 2025
~4.3%
Above post-Covid peak

The anomaly
Divergence
Yields rising as inflation falls



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SOURCE: DEALROOM EUROPEAN DEEP TECH REPORTS 2021–2026 (WITH LAKESTAR AND WALDEN CATALYST); 2020–2023 FIGURES APPROXIMATE; 2024 AND 2025 CONFIRMED FROM PUBLISHED REPORTS.

→ long-dated yields rose; the safe haven function of the US bond market has been impaired. The foundational assumption embedded in how global capital has priced sovereign risk for decades – the unquestioned institutional environment in advanced economies – is being reassessed.

This is not uniformly bad news. Capital market fragmentation is a risk, but also a redistributive force. When institutional credibility grows scarce globally, the jurisdictions that hold their ground will capture a disproportionate share of long-term capital.

This is starting to appear in investor behavior. Sovereign funds have begun reducing allocations to longer-maturity US government debt and shifting financial relationships toward European alternatives as a targeted repositioning to build portfolio resiliency. This creates a structural and differentiated opportunity for jurisdictions that offer clear and consistent policies.

Europe is positioned to seize this opportunity. It has the legal and institutional architecture in place: the deep capital markets and institutional memory that investors depend on. These advantages took decades to build. Key sectors can benefit, particularly renewable energy, a European industrial story as much as a climate one.

These structural advantages are not self-sustaining; credibility needs to be consistently demonstrated. The tension in Europe's economic future is most acute in the sectors where long-term capital is now concentrating: AI infrastructure, digital systems, and the energy sector. Europe is disadvantaged in most of them, encumbered by heavy and inconsistent regulations across the continent that raise the cost of compliance and limit European-scale deployment.

The capital response is already visible. In 2025, Roche, Sanofi, and AstraZeneca collectively committed more than €100 billion to US investment, citing Europe's regulatory environment. Europe faces a genuine calibration challenge: mitigating the real risks of technological disruption without ceding the sectors that will define the next decade to jurisdictions that have chosen a different balance. That challenge is not yet being met.

Europe's regulatory impulse is not without justification. Governments are correct to worry about unconstrained AI development, data concentration, and digital market dominance. But the execution has imposed costs that are now measurable and consequential. More than sixty digital laws were proposed or adopted in the last EU legislative term alone, with over 60% of European companies citing regulation as a key obstacle to investment.

As global capital becomes more selective, concentrating in jurisdictions that offer clarity and cohesion at scale, the distance between Europe's structural potential and its institutional delivery grows increasingly consequential. Capital is making a judgment on where the systems that matter can be built. So far, they are finding that answer lies outside Europe.

Europe's economic future is therefore not just an investment question. The opportunity created by institutional drift globally is genuine and significant. Europe needs to ease the regulatory burden or it risks missing a generational opportunity to attract capital in sectors that will shape the global economy for decades to come. This will require clarity around the trade-offs involved and the political will to compete for global capital once again.

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EUROPE DOESN'T HAVE A CAPITAL PROBLEM, IT HAS A BUYER PROBLEM

WHEN YOU RAISE CAPITAL FOR A DEEP-TECH VENTURE in Europe, the first question from a European investor is almost never "How big is the vision?" or "How do we capture the market?" It is almost without exception: "Do you have commercial traction?"

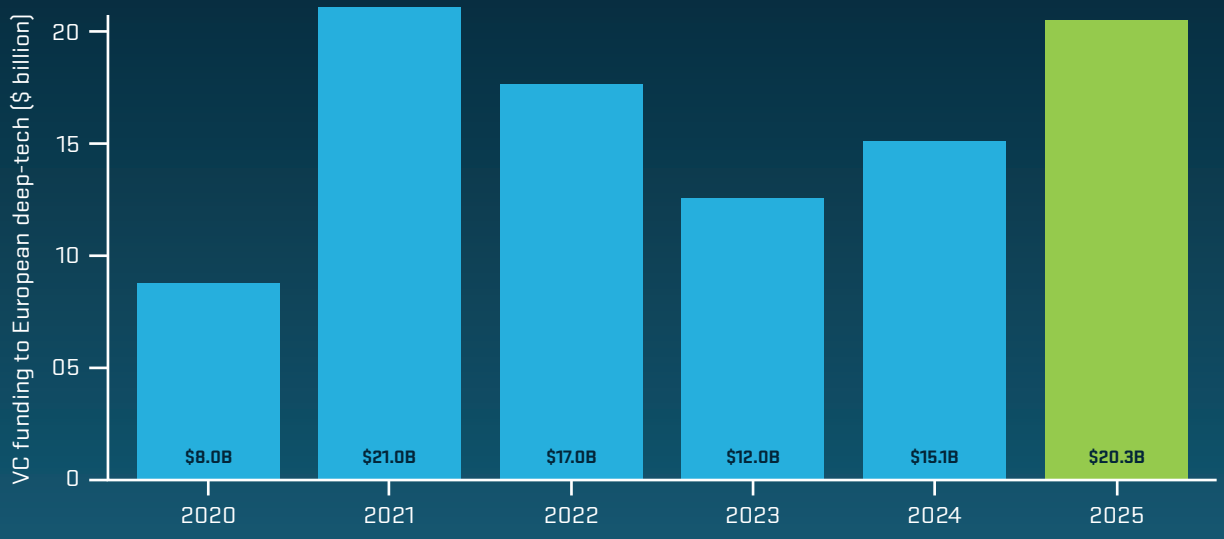
That question is usually asked last in Silicon Valley, if it is asked at all. Tesla was founded in 2003 and didn't show meaningful market traction until the Model S launched in 2012. Very few European VCs would have backed that journey on the question of traction.

This is not because European investors are less ambitious. It is because they are responding rationally to a structural condition that the current prevailing narrative still misses: Europe doesn't have a capital problem. It has a buyer and market adoption problem.

In 2025, European deep-tech start-ups raised approximately $20.3 billion, nearly one-third of all European venture capital. Paris-based Mistral AI closed a €1.7 billion Series C, led by ASML, at an €11.7 billion valuation. Munich-based Helsing raised €600 million at a €12 billion valuation. French unicorns have soared from seven in 2015 to 42 in 2024.

The scale of funding is still smaller than in the United States, but the capital in Europe is sufficient. The high-quality talent is there. What is missing is the bridge between the two and revenue.

European deep-tech VC funding has reached record levels



SOURCE: DEALROOM EUROPEAN DEEP TECH REPORTS 2021-2026 (WITH LAKESTAR AND WALDEN CATALYST); 2020–2023 FIGURES APPROXIMATE; 2024 AND 2025 CONFIRMED FROM PUBLISHED REPORTS

→ THE FIRST-BUYER CONSTRAINT

European deep-tech founders live inside a circular dependency. Smart capital waits for first industrial buyers before backing scale-up rounds. First industrial buyers wait for the technology to be de-risked at commercial scale before placing orders. Each side is acting rationally, but together they are paralyzing the European technological scale-up.

This dynamic exists with much less intensity in the United States, where industrial competition is fiercer than collaboration. If a US incumbent does not adopt a novel technology, their closest competitor will – and then overtake the incumbent. The prevailing R&D culture in Europe is collaboration, inadvertently removing the urgency for incumbents to take early bets on scale-up companies. The result is a continent that funds world-class research, builds globally competitive labs, then watches its scale-ups stall, get acquired abroad, or relocate to where buyers move first.

Two developments are now disrupting this equilibrium that deserve a closer look.

The first is geopolitical. The post-2022 environment has shaken Europe's sense of strategic security, and not entirely in a bad way. There is now a top-level commitment to building European capacity in defense, AI, semiconductors, aerospace, and clean industrial technology. For the first time in decades, European deep-tech rounds rival Silicon Valley headlines, and Gulf capital is opening offices to participate. Aramco Ventures will open a Paris office in 2026, with over $7 billion in allocated capital and hundreds of millions earmarked for European deep tech. Its first French bets include Pasqal, a quantum company that signed an agreement in 2024 to install Aramco's first quantum computer in Saudi Arabia. A European scale-up and a Gulf first-buyer is precisely the kind of industrial demand architecture needed for European start-ups to succeed.

The second is industrial pressure. Europe's chemical, energy, and materials majors are being squeezed by disrupted supply chains, high energy costs, and regulatory complexity. This perfect storm is forcing European incumbents to do what they have historically resisted: take real risks with scale-up companies to share market exposure and accelerate local technology development.

WHAT EUROPE STILL NEEDS TO BUILD

The strategic autonomy lever Europe is missing is not another funding round (though Europe needs those too), but an industrial demand architecture - public procurement guarantees for first-of-a-kind technologies, government-backed offtake agreements, and project insurance that allows European industrial leaders to act as first buyers without their boards treating it as a career-ending bet. The Gulf does this instinctively. The US does it through both private competition and government procurement. Europe must learn to do it more deliberately.

The capital and science are here in Europe. The geopolitical will is also finally here. What is needed now is the demand-side commitment that converts scale-up pilots into European industrial champions. Building that architecture is the most consequential industrial policy decision of the decade, and the one with the highest return if executed successfully and urgently.

PHOTOS: FII INSTITUTE

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THE GROWTH PATH EUROPE HAS YET TO CHOOSE

EUROPE DOES NOT HAVE TO ABANDON ITS DISTINCTIVE social model to grow, but it does have to grow to maintain it. The challenge is whether its leaders can rise to the occasion and build support for the trade-offs that accelerated growth requires.

Europe's economic future can be strong, and its social model can still be preserved. Its scientific base and skills pool, spread across both European Union (EU) and non-EU economies, are assets many regions cannot match. Capital is available and institutional frameworks such as the General Data Protection Regulation (GDPR), while arguably imperfect, underpin key European values.

A more dynamic, innovative Europe that retains its social protections and distinct regulatory identity is achievable, but the continent's leaders have yet to be explicit about how it could be funded, and which trade-offs voters would be asked to accept as the costs of population ageing, defense, and debt servicing grow and productivity gaps tighten.

Beyond a handful of smaller European economies, leaders have largely avoided making those trade-offs clear. Credible visions of the future need to define which social protection programs remain affordable, which need redesign or cessation, and the implications of changes to society. Instead, much of European politics continues to dodge these difficult choices.

They are becoming harder to avoid. Policymakers need to determine which welfare commitments remain sustainable under demographic and fiscal pressure, how burgeoning immigration could contribute to labor supply and the tax base, and where investment must be prioritized alongside social spending adjustments when fiscal capacity is limited.

In 2026, those questions are no longer abstract. They are already shaping outcomes in at least two parts of the economy, AI and life sciences, that will do much to determine whether Europe leads or follows the world's future economy.

In May 2026, despite the AI Act's core high-risk obligations being due to take effect in August, Brussels delayed implementation until 2027-28 under pressure from Washington and US technology firms. In doing so, it weakened a framework intended to be a strategic differentiator before it had been fully implemented. Europe's pharmaceutical champions Roche, Novartis, AstraZeneca, GSK, and Sanofi have already redirected roughly $170 billion of forward R&D and manufacturing to the US. These are two examples of how regulatory uncertainty and capital market pressures are pushing Europe behind.

While Europe has made important advances in AI regulation, it has been less successful in creating the conditions needed to build globally competitive AI businesses. The GDPR, which underpins European values and consumer trust, should remain. However, duplicative compliance requirements that penalize scale need to be streamlined much faster. Also, if AI infrastructure remains primarily foreign-owned, much of the power to shape the sector's direction will continue to reside elsewhere. This will create growing economic and security challenges to Europe's sovereignty.

A similar tension is visible in European life sciences innovation. Recent analysis by L.E.K. Consulting shows that Europe leads the US in terms of generating research output, but lags in bringing products to market. Yet between 2015 and mid-2025, EU biotechs raised only €25 billion in venture capital against €219 billion in the US, and 66 of 67 European biotechs that listed over the past six years did so on foreign exchanges.

Even once approved, new medicines take a median 532 days to reach European patients. Europe also lags in company maturation: US-headquartered small →

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→ biotechs independently launched more than three times as many drugs as European biotech peers from 2018 to 2024. Frustratingly, securing the EU's European Medicines Agency (EMA) and the UK's Medicines and Healthcare Products Regulatory Agency approval for a new drug requires separate national reimbursement negotiations in each major market, often adding years between approval and commercial return.

Europe's response should be to drive greater investment while streamlining regulation. While biotech, defence, and energy systems are clear targets, Europe can also focus on semiconductors and AI compute infrastructure as key areas for future growth. A genuine capital-markets union combined with coordinated public-private investment frameworks (notably for biotech, energy and defense) could generate visible returns in jobs and strategic resilience while expanding the tax base that sustains the social model. Particularly in biotech, harmonizing EU reimbursement and health technology assessment processes, alongside delivering on the proposed Biotech Act so that a single EMA approval translates into full EU market access without 27 separate national negotiations, would yield substantial benefits.

Labor-market reform and an explicit immigration compact tied to skills and demographic need would become more defensible to Europeans if accompanied by an economic and investment agenda producing visible results. Many of Europe's policymakers understand the changes required to attain substantial economic growth. What is lacking is bold leadership at the top willing to frame those changes in compelling and honest terms that voters can embrace.

In the absence of such bold leadership, the risks of deferral are growing. EU age-related spending already absorbs about one-quarter of GDP, the old-age dependency ratio is set to climb from 46% to 70% by 2070, and in France debt-servicing costs alone are rising from €36 billion in 2020 to €59 billion in 2026. Germany's open-ended defense spending far exceeding that of both France and the UK will bring additional debt pressure. The costs and benefits of reforms do not fall on the same people, nor arrive on the same timetable. Without effective leadership, voters respond by backing political movements that reflect personal concerns, further fragmenting debate and making consensus harder to deliver.

Europe needs a more consistent and credible case for growth, one that explains how investment and competition are foundational in maintaining social protection, and how both the burdens and benefits of reform must be shared fairly across society. The perceptive leaders who make that case clearly will find more political support than current debates suggest.

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FOR EUROPE TO BENEFIT FROM ITS AI INVESTMENTS, IT MUST IMPROVE AI GOVERNANCE

EUROPE STANDS AT A CRITICAL INFLECTION POINT: how to accelerate investment in transformative technologies like AI while ensuring those systems are trusted, accountable, and resilient. The IMF has indicated that higher productivity – through structural reforms and market integration – could crowd in up to €800 billion in additional private investment over ten years. Europe has made it clear that, in an unstable geopolitical environment, driving greater resilience is key. Realizing these growth goals while ensuring resilience will therefore require more than capital deployment; it will require technology that is trusted by organizations, governments, and citizens.

That trust is currently under strain, particularly when it comes to AI. Across Europe's enterprises and public institutions, the same story repeats: significant investment in AI capabilities, yet an inability to connect that spend to measurable outcomes. Intelligence becomes fragmented across hundreds of disconnected applications and services with no common governance layer.

A governance layer is the infrastructure that tells you what your AI is doing, why, and whether it should be. It is what allows an organization, or a government, to audit a decision, trace it back to source, and correct it before it causes harm or cost. Without it, AI systems operate as black boxes: active, consequential, and invisible.

The stakes of that invisibility are not abstract. The United States and China are both moving at speed: one through market-led investment, the other through state coordination. In both cases, the infrastructure decisions being made today will determine who captures the value of AI for decades. Europe, by contrast, risks becoming a continent that regulates AI it cannot yet govern – importing the technology, absorbing the risk, and exporting the value.

Yet without smoothly translating that regulatory framework into embedded governance tools to date, we have instead seen a paradox unfold. Organizations are moving faster on AI adoption than on the governance frameworks needed to make that adoption defensible, and the consequences are becoming visible. As of 2025, despite record investment, AI maturity had declined 20% year-on-year, and only 27% of government leaders said digital transformation has delivered more humanized constituent experiences.

Without a common layer to audit, monitor, and connect AI activity across the enterprise, the promised returns have not been difficult to identify – they have been measurably disappointing. IBM's 2025 CEO Study of 2,000 chief executives across 33 countries found that only one in four AI initiatives delivered the expected return on investment. In Europe, where AI investment is accelerating fastest relative to governance capacity, the gap is wider still. In turn, investor and consumer confidence is eroding.

To realize the promise of AI, including measurable benefits, productivity gains, and predictable costs, a primary pillar must be governance – effectively operationalizing smart policy decisions that build trust and promote competition, without adding burdensome and unnecessary regulatory barriers or uncertainty.

In this era, every responsible organization needs an AI Control Tower – the ability to exercise unified, intentional control over every AI system, agent, and workflow, regardless of where it runs. The design principle is straightforward: an AI agent only becomes trustworthy when the platform beneath it enforces accountability.

Underpinning all this is data. Well-structured, securely maintained, and free from the lock-in that stifles both innovation and competition. The contrast with other →

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leading AI economies is instructive. Singapore has built its AI advantage precisely by making governance the foundation, not the finish line. Its Model AI Governance Framework is now interoperable with EU, US, and OECD standards – giving Singapore's enterprises a trusted baseline that attracts investment and enables scale. Europe has the frameworks; what it has lacked is the embedded infrastructure to make them operational at the enterprise level.

The consequences are visible in the numbers. In France, ranked second in Europe for declared AI maturity, over 80% of organizations report no measurable financial impact from their AI investments. In Germany, a similar pattern holds: companies have strategies, but enterprise-wide governance frameworks remain the exception, not the rule. AI is everywhere, governance is nowhere. This is not a European outlier problem. It is a European structural problem.

Europe produces roughly 30% more AI talent per capita than the United States and nearly three times as many AI professionals as China, yet it experiences a net outflow of senior AI professionals. The organizations and nations that build governed AI infrastructure, from data centers to skills transition programs that map to quality employment outcomes, will attract the capital and talent that others lose.

Governance is not a friction cost. It is what makes speed possible, sustainable, and trustworthy. Without it, AI is a liability, not an asset. This belief is core to ServiceNow's founding philosophy, trust must be established through transparent, documented governance practices, including model documentation, data lineage tracking, and systematic risk assessment frameworks.

The policy agenda following from this leaves room for competition and innovation, but does require coherence and collaboration. Regulatory frameworks should reward smart governance in accordance with best practices, not penalize adoption.

Public procurement should set the standard by requiring audit trails and interoperability from AI vendors. Investment in skills transition needs to run in parallel with investment in infrastructure. You cannot realize productivity gains from AI if your workforce cannot engage with it or if your skills training programs fail to align with actual skills gaps and employer needs.

Europe has shown that it can help lead when it acts with ambition. Now is the time when AI governance frameworks will be defined and operationalized, shaping Europe's AI-enabled future. Governance will unlock it through trust. Europe can continue its leadership in this area by ensuring AI regulation rewards innovation without stifling competition.

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FUTURE INVESTMENT INITIATIVE (FII) INSTITUTE is a global non-profit foundation with an investment arm and one agenda: Impact on Humanity. Global, inclusive, and driven by data, we foster great minds from around the world and turn ideas into tangible solutions and actions in four critical areas: Artificial Intelligence (AI) and Robotics, Education, Healthcare, and Sustainability. We are in the right place at the right time, when decision-makers, investors and an engaged generation of youth come together in aspiration, energized and ready for change.

We harness that energy into three pillars: THINK, XCHANGE, ACT. Our THINK pillar empowers the world's brightest minds to identify technological solutions to the most pressing issues facing humanity. Our XCHANGE pillar builds inclusive platforms for international dialogue, knowledge-sharing, and partnership. Our ACT pillar curates and invests directly in the technologies of the future to secure sustainable real-world solutions. Join us to own, cocreate, and actualize a brighter, more sustainable future for humanity. ←

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