CENTRE FOR ECONOMIC POLICY RESEARCH

Europe 2050:
Geometries of Peace, Power, and Prosperity

October 2026

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To ensure timely dissemination, the "Europe 2050" papers are published without editing or typesetting. These contributions will subsequently form the basis of CEPR Paris Report 5, to be published at a later stage and edited by Olivier Blanchard, Pascal Lamy, Enrico Letta, and Beatrice Weder di Mauro.

Global Coordination after the loss of the hegemon: a viable basis for European cooperation*

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Paper for the Europe 2050 Project

14 September 2026

Revised Draft

Abstract

For over 70 years, the world order, at least as regards the advanced economies, was led by the US, as hegemon. However, this era is over, and almost certainly permanently. Consequently, this paper argues for countries that wish to cooperate to do so through 'Coalitions of the Willing', operating by 'Concerted Unilateralism'. This involves, in each policy area, agreement as to what each country's role might be – the 'Concerted' part – and then each country playing its agreed role – the 'Unilateral' part. In game theory terminology, such cooperation takes the form of a 'Stag Hunt' policy game, in which *coordinate-coordinate* is the Nash equilibrium from which, unlike with a 'Prisoner's Dilemma', countries are not incentivised to defect. For Europe on intrinsically European issues, such coordination implies agreement amongst its members; on global issues, with countries beyond as well. The paper provides examples of such coordination: in the auto and aircraft industries; in European capital markets; in the provision of defence; in sustaining a rules-based framework for international trade; and in dealing with climate change. The paper concludes that there is a wide range of policy areas – going well beyond the particular examples presented – in which European policymakers could usefully pursue successful outcomes.

* We are grateful to Olivier Blanchard and Michael Wulfson for helpful suggestions.

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1 Introduction and Summary

The post-WWII world order was led by the US, as hegemon. However, this era is over, and almost certainly permanently. This is both because an "America-first" ideology has taken hold in the US, and because the rise of China has challenged the ability of the US to act in a hegemonic manner.

At the same time, contemporary problems that policymakers face have become increasingly numerous, complex, and diverse.

In this global environment, today's Europe is of considerable actual, and potential, importance. It is of comparable economic size to the US and China. It is capable, in principle, of taking on a major global role – and indeed it should do so in its own interests. As part of this, it needs to strengthen both its ability to cooperate with itself and its capacity to be more effective on the world stage.

This paper argues that, in today's circumstances, both efforts will require 'Coalitions of the Willing'. Such Coalitions will perforce be various and quite likely numerous, and achieved by 'variable geometry' so as to meet preoccupations that differ according to each issue in question.

The resulting policies will best be achieved through a process of 'Concerted Unilateralism'.[1] This involves, in each policy area, agreement as to what each country's role might be – the 'Concerted' part – and then each carrying out its allocated role in an agreed manner, according to an agreed timetable – the 'Unilateral' part.

Achieving such outcomes is demanding; and all the more so for the European Union, which is a much more complex political entity than is a single nation state. However, it is feasible.

The paper provides particular examples of such coordination, both amongst countries within Europe and between Europe as a whole and countries in the wider world.

First, therefore, it describes the kind of cooperative process that is most appropriate in today's fragmented world.

2 Cooperation and Coordination

International cooperation has often been thought about using a 'Prisoner's Dilemma' game-theory framework. This perspective was taken initially by international relations scholars.[2] But it does not work well, whether in theory or in practice.

In that framework, because countries almost always have more policy objectives then policy instruments with which to achieve them, trade-offs inevitably have to be made. Hence, each country faces the temptation to make agreements, but then to renege. Each thinks that it may be able, at least partly, to evade the trade-off that it faces; and that the policy burden will thereby be borne largely by others.

The loss of hegemonic leadership, together with differences between countries, makes the risk of such behaviour increasingly likely.

(i) Stag Hunts rather than Prisoner's-Dilemma Games

A more appropriate view, also coming from the international relations literature[3], can be found in the analysis of 'Stag Hunt' games.[4]

A 'Stag Hunt' depicts a situation in which participants each wish to coordinate their strategies. They may fail. But because all perceive the large potential benefits from cooperating, they are incentivised to coordinate, notwithstanding the risks.

Formally, a Stag Hunt has a payoff matrix of a different kind from a Prisoner's Dilemma. A two-player Prisoner's Dilemma game has only one Nash equilibrium, namely *defect, defect*. By contrast, a two-player Stag Hunt has two Nash equilibria, namely *coordinate, coordinate* (for example on hunting

stags) and *do not coordinate, do not coordinate* (for example just hunt rabbits, with each actor acting separately). In a successful Stag Hunt, both players choose c*oordinate.*

(ii) Concerted Unilateralism

While a successful Stag Hunt is not straightforward to achieve – countries have diverse geopolitical needs and aims, unequal capabilities, and markedly differing economic and sectoral structures – a good outcome may well emerge, provided there is flexibility, both in the range of participants and in the agenda. The particular contributions that each country wishes to make may (and often should) be different from each other.

Goodwill and trust are prerequisites – as are a range of other matters, including 'rules of the game', monitoring, and some degree of enforcement. Flexibility over the time horizon is particularly important. Norms of behaviour matter too.[5]

Nevertheless, such coordination will be fragile; a Stag Hunt can unravel if things change enough. Some kind of punishment process may still be necessary. A strategy of – say – generous 'tit for tat' could well be useful.

The following sections provide examples in which 'Stag Hunt' coordination, by a 'Coalition of the Willing' engaging in 'Concerted Unilateralism', stands to be beneficial for Europe: first within Europe itself; and then between Europe and the wider world.

3 Cooperation amongst European countries

(i) Coordination – and its absence - within the European aircraft industry

The Airbus consortium. This is an exemplar of industrial policy coordination through a Coalition of the Willing around the production of a particular product. It shows that coordination can indeed be achieved in complex projects with supply chains that cross national boundaries.

In the late 1960s, European national players faced the risk of becoming relegated to the margins of the global aircraft industry. Europe's companies were pursuing independent development and innovation programmes, with the result that none had the scale of their American counterparts. In response, political leaders from France, Germany, and the United Kingdom agreed in 1967 "to take appropriate measures for the joint development and production of an airbus".[6]

The immediate challenge was to agree the division of labour and specialisation among national firms and countries. The solution was a 'work-share agreement', which distributed productive specialisation across partnering countries.[7] This coordination – a form of negotiated division of labour – ensured that each partner could capture tangible industrial benefits, thereby increasing the likelihood of maintaining continuing political commitment to the project.

This arrangement generated significant collective gains. Not only did Airbus successfully challenge the US monopoly and create a globally competitive European aerospace industry, but the consortium facilitated large-scale investment, technological learning, and risk-sharing across national boundaries.[8]

Clearly, the phrase 'Concerted Unilateralism' can properly be used to describe the process that was adopted.

The Future Combat Air System (FCAS). This case concerns a *failure* of coordination, in relation to the production of sixth-generation fighter aircraft within Europe. The doomed project was launched by France and Germany in 2017, and joined by Spain in 2019.[9]

A major step beyond today's fifth-generation aircraft, sixth-generation aircraft will feature many technological advances, including deep AI integration for decision-making, optional or reduced crewing, and 'manned-unmanned teaming'.[10]

The economics looked compelling. By concentrating on a single design, combining national markets, spreading the fixed R&D costs over a large number of aircraft, avoiding duplication, and preserving European technological capability, France, Germany, and Spain were to reap large benefits. While the projected cost was of the order of €100 billion, it had a commensurate potential to generate a substantial surplus. [11]

However, notwithstanding all the key players being located within the European Union, the key companies proved unable to agree on industrial leadership, division of work, and the sharing of intellectual property,[12] and in June 2026, France and Germany finally abandoned the central part of the programme.[13]

(ii) Other cases of desirable coordination within Europe

Capital markets Union. This is widely recognised as an important potential next step for Europe, to enable it both to mobilise its substantial net savings more effectively, and to compete with the deep and liquid US capital market.

Opposition however has so far proved to be deeply rooted in political caution and a general preference for traditional bank-intermediated financing over market-based risk and equity investment. Concerns include loss of national regulatory powers over financial supervision, licensing, and market rules; and a wish to protect domestic markets, financial centres, and banking systems.

This is a clear case where Stag Hunt coordination would be highly desirable, but making the case for all countries to participate in the collective interest has so far proved too difficult. And the loss of the UK from the EU meant the loss of one of the most powerful advocates for capital markets union.

European Defence. This is a complicated issue, but of great importance. Realistically, in some areas a modernised European defence structure requires coordination between all member countries – ranging from an overall command structure down to matters such as standardisation of the calibre of bullets.

But in other areas, coalitions involving just some member countries will be appropriate, e.g. a Northern Europe structure and capability primarily to defend against Russia; but a Southern Europe structure and capability to deal primarily with immigration.

4 Coordination both within and beyond Europe

The next case involves cooperation between the European Union and one non-European country, namely China. Subsequent cases involve cooperation with a number of foreign countries.

(i) The auto industry

One of Europe's largest sectors is now in crisis, the result of China's exports of cars to the EU, which have risen from just a very few in 2020 to around 1.1 million in 2025. At least 700,000 were exported to the EU in the first four months of 2026.[14] China's market share has increased from virtually nothing in 2021 to just under 10% by 2026.

Two main forces lie behind this expansion: genuine competitive advantage;[15] and China's sluggish domestic demand. Together, these have led not only to a huge expansion in productive capacity, estimated for 2025 at between 45 million and 50 million, but also to considerable spare capacity, which has created a powerful incentive to export.[16]

Much can be learned from a similar crisis in the late 1970s and early 1980s, involving Japan's car exports to the US.

The second oil shock of 1978/79 had further raised gasoline prices in the US, shifting US demand further toward smaller, more fuel-efficient, cars. Japan's auto producers were particularly well placed to meet this demand.

Thus Japanese cars, which had accounted for less than 10% of the US market in 1975, by 1980 accounted for approximately 21%. Meanwhile, sales of US-produced cars fell by about 28% between 1978 and 1980. And US manufacturers moved from earning combined profits of the order of $5.6 billion to losses of about $4.2 billion. Employment and production were cut dramatically.

Although President Reagan was ideologically committed to freer markets, Congress was threatening to introduce swingeing restrictions on imports from Japan: the political pressure to protect Detroit was enormous.

The solution was an imaginative collaborative response, whereby Japan was persuaded, largely by the then United States Trade Representative, to restrict its own exports.

Thus, on 1 May 1981, Japan's government announced a system of so-called "voluntary export restraint" (VER) on passenger-car exports. The VERs did not remove Japanese automobiles from the American market; but they prevented Japan's manufacturers from continuing their hitherto rapid expansion of exports.[17]

In the short run, Japanese producers were clearly damaged by this policy. US car producers benefited; their profitability recovered dramatically.

However, there were also costs to American consumers. Restricting the supply of Japanese cars enabled the price of these cars to be raised in the American market.[18]

The final, and all-important, act of the story was still to come, however.

The VER framework created a powerful incentive for Japan's auto companies to replace exports from Japan with foreign direct investment and production within the United States. Thus, by 1990, vehicles manufactured in Japanese-owned American "transplant" factories represented, to take just one product line, nearly 10% of US light-vehicle sales. Later analysis explicitly identified the VER as an important inducement to this foreign direct investment.

Thus in the long run, the VER accelerated the transformation of Japan's automobile companies from foreign exporters into deeply established participants in the American economy. The restraint also gave Detroit time to restructure and become more competitive. It did this, at least in part, by making use of the skills and ideas that had entered the country along with the Japanese FDI.[19]

This historical, 'Stag Hunt', process of coordination provides a useful background against which to consider what form EU policy might take in response to Europe's car-industry crisis.

If, as presumably it must, Europe is to preserve some level of car production, it has to respond with some form of protection. Tariffs, subsidies, quotas, or some combination would be politically instinctive, but far from ideal.

Some form of VER might be preferable, along the lines of what was done three decades ago as part of the US-Japan agreement. But China would seem unlikely to agree to that.

Alternatively, Europe could pursue a more cooperative 'accommodation' policy, whereby it would accept Chinese investment and partnerships, which would preserve manufacturing activity and employment in Europe, and accelerate the availability of inexpensive EVs within Europe. This would be attractive to China; but Europe would risk becoming merely a manufacturing platform for Chinese technology, rather than maintaining its own technological capability.[20]

It may therefore be appropriate to attempt a third, 'conditional integration', strand of policy. This would permit Chinese companies to manufacture in Europe, and would encourage the FDI necessary to bring this about. But it would make market access conditional upon European production, employment, R&D, local supply chains, and some degree of technology transfer.

This strategy increasingly looks like becoming the central issue for negotiation. The issue is beginning to resemble, in reverse, the relationship between European manufacturers and China twenty or

thirty years ago. Then, European companies were allowed to enter China, in return for which China demanded local production, joint ventures and − explicitly or in practice − technology transfer. Europe is now considering whether it needs to impose analogous requirements on Chinese firms.

(ii) The Global Combat Air Programme (GCAP).

This case involves coordination by three countries: one EU member (Italy), one non-EU European country (the UK), and one Asian country (Japan).

Announced in December 2022, the GCAP brings together the UK-Italian Tempest/Future Combat Air System work and Japan's F-X programme.[21] Each partner brings distinct industrial strengths, reflecting expertise built up through earlier national programs. [22]

Policymakers face much the same risks as those faced by French, German, and Spanish policymakers in relation to the FCAS Programme. The timetable is demanding, and there are broader issues, including the operational requirements of the three air forces, which may well come to diverge as the project develops. Perhaps most importantly, because so much sixth-generation capability depends on software, AI training data, and networked infrastructure, rather than the airframe alone, GCAP's ultimate outcome may hinge as much on the three nations' ability to integrate digital and data-sharing systems as on traditional aerospace engineering.

All that said, so far the CCAP is on track, and seems to have a reasonable chance of succeeding.

It is thus evident 'Concerted Unilateralism' can be used to describe the process that has been adopted for the development and management of this programme too. The initial process of concertation was demanding. But unilateralism has been important too – the responsibilities for components of the programmes have been significantly delegated.

(iii) Some wider examples

There are also important cases where Europe as a whole has an important interest in collaborating with the widest possible number of other countries.

Supporting the rules-based framework for international trade . The post-WWII world order led by the US was underpinned by the view that countries should grow and develop in an open manner. But the world has entered a new regime.

In particular, both Chinese and US policies are guided by ideas of economic nationalism, bringing together interventionist, industrial-policy-oriented, trade and technology strategies.[23] Furthermore, the second Trump administration has embarked on a wholesale attack on the international rules-based order. Other countries are beginning to realise that they must respond to this, preferably in a concerted manner. There is much that can be usefully done.

One approach would be to construct a work-around for the WTO dispute settlement procedure. Indeed, a sub-committee of the WTO Appellate Court continues to function with a subgroup of countries electing to be bound by its decisions.

Another way forward would involve the construction of alternative regulatory regimes to compete with, or supplant, those managed by the US. Data and AI are two obvious, and pressing, areas.

A third could be a full-blown, multi-country, 'Stag-Hunt' Coalition of the Willing to support Canadian its ongoing dispute with the US, the outcome of which is especially important for Europe. In Prime Minister Carney's words, "The middle powers must act together because, if we're not at the table, we're on the menu." [24]

Europe clearly stands to benefit by helping to bring together as many players as possible in an extended rules-based system, notwithstanding the absence of the United States. If Europe does this, it will find much support in East Asia amongst the members of the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CCPT). The policy process of Concerted Unilateralism was explicitly deployed during the East Asian miracle of the 1990s; a group of countries, each under strong domestic pressure not to liberalise trade, found that liberalisation, and wider reforms, became possible once other countries had embarked on the same journey.[25] Something similar might still be possible, for the world as a whole, in the middle of the twenty-first century.

Climate change. The damage from, and economic and other costs of, climate change are well known, as is the basic combination of requisite actions, which include increased carbon taxes; decreased fossil fuel subsidies; improvements in carbon storage; de-carbonized energy generation; adoption of sector-specific low-carbon technologies; and many others.

Climate change being a global problem, ideally the solution will involve global coordination. And indeed, achieving this has long been a policy objective of many governments. But the important big exception is the United States, the world's second-largest greenhouse gas emitter, where current government policy action is often moving in the opposite direction from what science requires.

This issue is potentially existential for Europe: if it does not join with other major parts of the rest of the world, and if that does not in turn oblige the others (especially the US and India) to cooperate, then Europe, along with the rest of the world, faces a bleak future.

The omens suggest some optimism, in that the Conference of the Parties (COP) is now proceeding according to Stag-Hunt /Coalition-of-the-Willing principles. This new approach was given concrete form at the COP in 2015. Gone are the targets and enforcement timetables of the kind agreed at the Kyoto Conference in 1997. Instead, countries reached concerted agreement on an objective to "keep global increases in temperature well below 2°C", and required each country to put forward unilateral voluntary proposals. These would be, and have been, discussed by peers, and tightened periodically.

But the world is still not there for even for 2°C, and pressure is building for faster action.

While it is impossible to be sure what form such actions may take, it seems likely that, at least, the carbon border adjustment tax mechanisms that are now in place will be strengthened and increased. And it is possible, if the mood amongst publics becomes powerful enough, to envisage outright bans on the trading of products that are greenhouse-gas-intensive. At the moment at least, such additional action will have to be managed, in a second-best outcome, by a Coalition of the Willing that does not include the United States.

There is a central, key, role for Europe in any such coalition, quite possibly with China and possibly India, working alongside a large number of other countries. Europe is a region that has been concerned about global warming from a comparatively early stage, and already has a carbon border tax in place. It is importantly placed to help play a more central and influential role in any enhanced set of internationally-coordinated policies. Europe could usefully spearhead a highly relevant Coalition of the Willing.

Conclusion

A 'Stag Hunt', rather than a 'Prisoner's Dilemma', framework is appropriate for analysing the conditions necessary to make cooperation work.

'Stag Hunt' coordination, involving Coalitions of the Willing, operating through a process of Concerted Unilateralism, has worked within Europe (Airbus). But it has also failed (the Future Combat Air System). Importantly, it suggests the way forward in other key areas too, including defence and capital markets union.

It also looks like being the appropriate way to address issues involving Europe and one or two non-member countries: China and Europe in respect of cars; Italy, the UK, and Japan with the Global Combat Air Programme.

Finally, 'Stag Hunt' cooperation between Europe and as many countries, in as wide a world as possible, seems to be the one feasible way of strengthening the rules-based international trading system and, perhaps most importantly, addressing climate change.

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Endnotes

[1] See Garnaut (1994), Llewellyn and Vines (2026) and Susskind and Vines (2024).

[2] See Axelrod and Keohane (1995).

[3] See again Axelrod and Keohane (1995).

[4] See Llewellyn and Vines (2026) and Susskind and Vines (2024).

[5] See Young (2024).

[6] Slotnick, 2020.

[7] See Albertone and Lebdioui (2027) for more details.

[8] See Niosi & Zhegu (2005).

[9] See Airbus, et al, 2022.

[10] See UK Ministry of Defence (2022a), House of Commons Defence Committee (2025), and BAE Systems (2024).

[11] See Siebold and Hubner (2025).

[12] By April 2026 Airbus was publicly insisting that it had not entered FCAS merely to become a subordinate supplier in a French-led programme. See Bergs and Terhorst (2026).

[13] That said, not all was wasted. France, Germany, and Spain may still preserve parts of the wider FCAS programme, particularly the Combat Cloud. See also Rinke and Hepher (2026).

[14] White, E. *et al* (2026).

[15] China has acquired important advantages in EV technology, batteries, supply chains, manufacturing scale, and production organisation. International Energy Agency estimates, cited by the *Financial Times,* suggest that producing a small petrol or electric SUV in China costs only 70% of the cost in advanced economies. Other estimates suggest a figure as low as 50%.

[16] This matters particularly because Europe itself is not a rapidly expanding automobile market. European manufacturers are particularly vulnerable because their existing factories are – unlike those in China – producing at only about 70% capacity, according to S&P Global estimates reported by the *Financial Times.*

That creates a classic problem of high fixed costs. A car factory requires enormous investment regardless of whether or not it operates at 70% or 95% capacity. Falling utilisation therefore raises effective unit costs. And this is happening at precisely the time when European manufacturers are both confronting lower-cost Chinese competitors, and they need to make large additional investments to convert from internal-combustion vehicles to electric vehicles. There is a further aspect to this European crisis. For many years China was a highly profitable market for German producers, not least BMW, Mercedes-Benz, Porsche, and Volkswagen. That source of profits is disappearing, again for the same two reasons: Chinese cars are cheaper; and Chinese demand for cars is no longer growing rapidly. And Chinese consumers have shifted decisively towards domestically-produced EVs.

[17] The restraint, initially 1.68 million cars per year, was administered in Japan by the Ministry of International umber Trade and Industry (MITI) which divided the overall quota among individual Japanese manufacturers. The VER was initially envisaged as a 3-year temporary measure but was extended to 1984–85 when the permitted number being increased by about 10%. From 1985 the Reagan administration no longer formally requested continuation of the restraint, but Japan continued the restriction, at 2.3 million until 1991, and then at a slightly lower for two more years.

[18] Furthermore, under a VER, a substantial part of the scarcity value − a quota rent − accrued to the Japanese manufacturers rather than to the US government, which it would have done had a tariff been imposed. See Feenstra (1984, 1985) and Berry *et al* (1999).

[19] See Graham and Krugman (1995, p.122).

[20] Europe does not want BYD, CATL, Xpen and other Chinese companies simply to build assembly plants ('screwdriver factories') in Europe. It wants their arrival to contribute to rebuilding European technological capability in high-value-added activities, including software, battery chemistry, vehicle architecture, engineering, and intellectual property.

[21] See UK Government (2022) and Barrie and Koshino (2022).

[22]For the UK see BAE Systems (2024) and Leonardo UK, 2026); for Italy see Grevatt (2023) and Marrone and Nones (2025); and for Japan see Japan Ministry of Defense (2026) and Janes (2023).

[23] See Sullivan (2023).

[24] See Okubo (2026).

[25] See Garnaut (1994), Llewellyn and Vines (2026) and Susskind and Vines (2024).

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