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The EU's proposed budget and its implications for European integration

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Abstract

The European Commission's proposed Multiannual Financial Framework (MFF) for 2028–2034 is the most far-reaching recasting of the EU budget in the Union's history. Framed as a response to competitive decline, geopolitical insecurity and the imperative of strategic autonomy, the new framework folds fourteen existing funds into National and Regional Partnership Plans. It also shifts spending decisively towards competitiveness, defence and strategic autonomy, and moves delivery from cost reimbursement to performance-based milestones. We argue that, while the diagnosis behind the reform is clear, its likely consequences are deeply economically and politically counterproductive and damage the long-term legitimacy of the European project. We use the expanding literature on the territorial implications of the post-2027 MFF, alongside original cartographic analysis of competitiveness, defence capacity, trade exposure and industrial anxiety across European regions to show that the proposed budget architecture will concentrate investment in already advantaged places and weaken the institutional link between the EU and its most vulnerable territories. It will also hollow out the one policy instrument —Cohesion Policy— that has historically acted as a counterweight to territorial polarisation and the geography of discontent now fuelling Eurosceptic politics across the continent. The new budget seeks a Europe that is more competitive, more secure and more strategically autonomous. It may instead help produce a Europe that is less inclusive, more territorially polarised and therefore more fragile. Europe does not face a choice between competitiveness and cohesion. It faces a choice between a budget that mobilises its full territorial potential and one that gambles with the Union's legitimacy and survival.

Keywords: Cohesion Policy; Multiannual Financial Framework; European integration; Euroscepticism; territorial inequality; regional development trap; place-based policy; competitiveness

JEL codes: R11, R58, H77, O18, F15, D72

1. Introduction: A budget for a Union under siege; or a Union besieging itself?

Nothing sharpens the bureaucratic mind quite like the fear of decline. The European Union (EU), having spent much of the past two decades watching the United States (US) and China divide the spoils of the modern technological economy, has now proposed a sweeping overhaul of its long-term budget. The ambition is to make Europe more competitive, more secure, and more strategically autonomous. The danger is that the medicine may aggravate the illness.

The EU has always been, at heart, a wager. Its founders bet that binding together economies with long histories of mutual destruction would make war less thinkable and prosperity more widely shared. For much of the post-war period, that gamble paid off. Yet the odds have changed. The EU now faces a world in which its principal security guarantor is no longer reliably predictable, its chief economic rival subsidises industry on a scale Brussels cannot match, and a sizeable share of its own electorate backs parties that would prefer a looser European project; or none at all (Norris and Inglehart, 2019; Hopkin, 2020; Kostelka and Krejčová, 2025).

It is against this backdrop —a continent that has fallen behind the US and China in innovation and strategic industrial capacity, whose defence architecture was built on the assumption that somebody else would always guarantee the peace, and whose energy dependence and industrial vulnerability were exposed by Russia's invasion of Ukraine and the pandemic respectively— that the European Commission published its proposed Multiannual Financial Framework (MFF) for 2028–2034 on 16 July 2025 (European Commission, 2025). This is no routine adjustment of budget lines. It is an attempt to re-engineer the budget around competitiveness, security, strategic autonomy, crisis response and tighter performance control.

If approved, a new European Competitiveness Fund will channel support from research through to deployment, with a combined envelope of EUR 409 billion including Horizon

Europe. Defence —once peripheral to the EU's fiscal logic— is drawn into the mainstream. Fourteen existing funds will be consolidated into National and Regional Partnership Plans (NRPPs), aligned with the European Semester and governed by the milestones-and-targets logic pioneered by the Recovery and Resilience Facility (RRF). The budget would be leaner, more flexible, more centrally steered and more overtly geopolitical.

That all sounds reasonable enough. The trouble is that the reform will not land on a blank slate. It will land on an EU in which 60 million citizens live in regions with lower GDP per capita than in 2000 (European Commission, 2024; Rodríguez-Pose, 2025); in which one-third of the population resides in regions whose annual GDP growth has failed to exceed 0.5 per cent since the turn of the millennium (European Commission, 2024); in which the territories most susceptible to Eurosceptic mobilisation are precisely those caught in a "regional development trap" (Diemer et al., 2022; Rodríguez-Pose et al., 2024); and in which the one EU policy that has historically reached these places directly and visibly — Cohesion Policy— is the very instrument now being diluted, centralised and, in the judgement of a growing body of scholarship, dismantled (Berisha, 2025; Mendez and Kah, 2025; Molica et al., 2025; Rodríguez-Pose, 2025).

We will argue that the proposed MFF contains a basic contradiction. It seeks to deliver a Europe that is more competitive, better defended and more strategically autonomous. Yet it also risks producing a Europe that is less inclusive, more territorially polarised and therefore more fragile; economically, politically and institutionally. The problem is not that reform is unnecessary. It is that the reform on offer misreads both the sources of Europe's competitive weakness and the political foundations on which the integration project rests.

There are, in essence, two risks. The first is that the reform may fail on its own terms. By directing scarce resources into advanced sectors in which Europe already trails badly, the EU risks subsidising permanent catch-up while underinvesting in the sectors and places where it retains genuine strengths. The second risk is graver still. By sacrificing place-based cohesion in favour of top-down, sector-driven national plans, the new architecture

threatens to intensify the territorial grievances already igniting Eurosceptic politics. These dangers are linked. A Europe that fails to mobilise its full territorial potential will be a less competitive Europe; a Europe that deepens its internal polarisation will struggle to sustain any collective strategy, whether for competitiveness, defence or strategic autonomy. The real policy challenge is not to choose competitiveness over cohesion, but to design instruments that make competitiveness territorially inclusive. The proposed MFF does not do that.

The paper proceeds as follows. Section 2 sets out the architecture of the proposed MFF and examines the logic behind it. Section 3 reviews the emerging scholarly consensus on its territorial implications. Section 4 analyses the spatial geography of the MFF's key priorities —competitiveness, security and strategic autonomy— showing that each is likely to direct investment towards places that are already advantaged. Section 5 considers how the shift towards NRPPs may deepen within-country divergence and weaken democratic legitimacy. Section 6 concludes.

2. The proposed multiannual financial framework

The MFF proposal published by the Commission on 16 July 2025 is not a minor recalibration. At nearly EUR 2 trillion over seven years —equivalent to 1.26 per cent of the EU's gross national income— it is the largest long-term budget the Union has ever proposed (European Commission, 2025). It is also the most structurally ambitious. The present architecture of 52 programmes shrinks to 16. More than 500 regional instruments are replaced by 27 National and Regional Partnership Plans. Spending priorities are reweighted on a scale with no precedent in European fiscal policy.

To see why the Commission feels driven to propose changes of this magnitude, it helps to recall the pressures bearing down on the EU. Europe's productivity growth has trailed that of the US for several decades. Its share of global technology revenues has ebbed away. Defence spending, though rising, remains fragmented across 27 national procurement systems. The pandemic exposed the vulnerability of European supply

chains; Russia's invasion of Ukraine laid bare the costs of energy dependence; and the return of great-power competition turned strategic autonomy from slogan into necessity. The Draghi (2024) Report called for an additional EUR 800 billion in annual investment to close Europe's innovation gap, crystallising a diagnosis that had been forming for years: Europe was living off inherited capital, and the stock was being run down (Draghi, 2024; Letta, 2024).

The Commission's response rests on four pillars. The first is a sharp tilt towards competitiveness, strategic technologies, defence and security. The new European Competitiveness Fund (ECF), billed as a vehicle to "accelerate the scaling-up, manufacturing and deployment of strategic technologies in Europe" (EU, 2025: 8) under a single framework, will receive EUR 234 billion. It will operate alongside a doubled Horizon Europe worth EUR 175 billion, for a combined EUR 409 billion; some 21 per cent of the future EU budget (European Commission, 2025). The internal structure of the ECF makes the priorities plain: "Clean transition and industrial decarbonisation" (EUR 26.2 billion), "Health and biotech, agriculture and bioeconomy" (EUR 20.4 billion), "Digital leadership" (EUR 51.5 billion), and a dominant "Resilience and security, defence, industry and space" window (EUR 125.2 billion). The aim is to transform a Europe which has often invented successfully into one also capable of creating and, more importantly, scaling up innovative firms.

Defence, until recently a marginal line in the EU's fiscal imagination, is folded into Heading 2 alongside space policy, with EUR 115.7 billion allocated to resilience, security, defence industry and space. The budget is unmistakably geopolitical. The Commission argues that the next MFF must "take the European Defence Union to the next level" (European Commission, 2025: 10), mainstreaming defence spending into the EU's core fiscal architecture for the first time. Since 2025, this push has been reinforced by initiatives such as ReArm Europe/Readiness 2030 and by loan-based instruments such as the Security Action for Europe (SAFE), which the Commission's own projections suggest could mobilise up to EUR 800 billion in defence-related spending by 2029. This reflects a belated recognition that European security can no longer be subcontracted indefinitely.

The second pillar is consolidation. Fourteen previously ring-fenced funding lines — including the ERDF, Cohesion Fund, ESF+, CAP, and instruments covering fisheries, migration and security— are drawn into a single planning logic built around NRPPs. The current architecture has produced a thicket of overlapping instruments, each with its own rules, reporting obligations and audit requirements. The Commission's claim is that a single plan for each Member State would reduce duplication, create synergies and permit more strategic deployment of funds.

The third pillar is a shift in delivery logic. The traditional cost-reimbursement model that has characterised Cohesion Policy since its inception has well-known weaknesses: it rewards spending over outcomes and subjects managing authorities to audit procedures that are often disproportionate to the sums involved. The RRF, on which this reform is inspired, was designed so that milestone-based disbursement can quicken delivery and direct attention towards results rather than process. The proposed MFF extends that logic to a much larger share of the budget, while also relying more heavily on loans, guarantees and financial instruments designed to crowd in private capital.

The fourth pillar is flexibility. The past decade has taught the EU that rigid seven-year programming cycles sit uneasily with a world of repeated shocks. The Commission therefore proposes fewer programmes, more unprogrammed resources, stronger flexibility instruments and a new crisis-loan mechanism backed by EU borrowing.

Taken on its own terms, the proposal addresses real problems with serious instruments. The diagnosis of Europe's competitive decline is broadly sound. The case for simplification has merit. The need for flexibility is undeniable. And the acknowledgement that defence requires a substantial fiscal commitment is a necessary adaptation to geopolitical reality.

What, then, becomes of territorial cohesion inside this new architecture? Here the Commission offers ample reassurance. Cohesion and agricultural policy are said to remain at the centre of the new framework. NRPPs are to be developed in partnership

with national and regional authorities, in full respect of multi-level governance and place-based action (European Commission, 2025: 5). A minimum earmark remains for the least prosperous areas. Rural areas, islands, outermost regions and eastern border regions are singled out for tailored support (European Commission, 2025:13). A 14 per cent social target and a 35 per cent climate and environment target are embedded in the partnership plans. The nominal cohesion envelope —EUR 453 billion— appears, on the surface, larger than in the current period.

That is the promise. The question is whether the proposed architecture rather than making Europe more competitive, more secure and more strategically autonomous, may instead make it less inclusive, more polarised and more brittle. It is to that question that we now turn.

3. The emerging scholarly consensus

The proposed MFF alters the operational DNA of the European project. By centralising expenditure and subordinating regional cohesion to aggregate, sector-driven competitiveness, the Commission has embraced a spatially regressive turn; one that buys short-term flexibility at the risk of long-term economic fragmentation.

A striking feature of the academic response is the degree of convergence in its conclusions. Scholars working from different disciplines, institutional settings and national perspectives have reached remarkably similar judgements. This literature highlights that the reform recentralises governance, weakens multi-level democracy and hollows out the policy architecture best suited to addressing the territorial grievances fuelling Euroscepticism across the continent. Cohesion Policy, the EU's principal territorial development instrument, emerges blurred in purpose and thinner in substance.

3.1. The economic implications

The economic critique rests on a straightforward proposition. When territorially differentiated funding streams are merged into a single national envelope and resources are allocated according to competitiveness and strategic criteria, money flows towards places that are already strong. The result is not merely inequitable. It is economically self-defeating, because it leaves large reserves of Europe's productive potential —human capital, institutional capacity and latent entrepreneurial energy— underused in precisely the territories a sensible long-term investment strategy ought to activate (Rodríguez-Pose, 2025).

Under the current architecture, Cohesion Policy ring-fences resources for particular kinds of territory and channels them through dedicated instruments that help ensure funds reach places on the basis of need rather than political weight. The proposed consolidation into a single national envelope weakens these protections. Fourteen previously separate funding lines will compete inside one plan, and the capacity of lagging territories to secure dedicated development funding "favour national priorities over territorially differentiated needs" (Berisha, 2025: 106). Berisha's judgement is blunt: "the new configuration of the MFF is subtly altering its mission from being a tool to reduce regional disparities to a purely financial tool at the disposal of Member States" (Berisha, 2025: 106). The allocation logic itself is being recast: the Berlin Formula, which since 1999 has linked funding to regional prosperity gaps, will be replaced by distribution keys that weaken the connection between regional disadvantage and financial allocation, with only less developed regions retaining a guaranteed —though minimum— earmark (Mendez et al., 2025).

The numbers strengthen the concern. Cohesion Policy spending is set to contract by roughly 12 per cent in real terms even as the European Competitiveness Fund receives a 139 per cent increase (Mendez et al., 2025). Moreover, "future funds could be used to replace the regional part of the common agricultural policy and to support fisheries and tourism" (Kaiser and Fasi, 2025: 15), which implies a real-terms dilution of development investment in lagging regions.

Nor does this happen in isolation. It is the latest chapter in a longer process through which Cohesion Policy has gradually been repurposed from a spatially targeted development instrument into a flexible, sectorally driven investment tool. Molica et al. (2025) trace that evolution across three phases, from "Lisbonisation" (2000–14), through "Territorialisation" (2014–20), to what they term "Hyper-Lisbonisation" (2020–present), in which crisis-driven reprogramming and the RRF model have shifted the balance of power decisively towards national governments and sectoral priorities. What is occurring is not modernisation but mutation: Cohesion Policy "has gradually evolved into a more generalised investment tool with limited territorial differentiation" (Molica et al., 2025: 10). The proposed MFF will complete that journey.

The practical consequence is a budget that systematically favours territories already well placed to benefit while putting extra hurdles before those the EU claims to support. The shift towards performance-based delivery illustrates the point. Milestone-based disbursement rewards regions able to design, implement and document results quickly. Yet the territories that absorb funds most slowly are often precisely those with higher unemployment, weaker entrepreneurial ecosystems and lower institutional quality; the very places most in need of sustained investment (Santos et al., 2025). Europe may not be able to close its innovation gap with the US and China by concentrating resources in a few dynamic hubs while leaving large swathes of its territory in stagnation, especially when many of the most successful innovations the century have come not from the main research hubs. The dominant spatial pattern of the past two decades has been widening divergence within countries: capitals pulling away from provincial cities, metropolitan corridors outpacing rural hinterlands, and a small number of innovation-intensive clusters capturing an ever-larger share of national dynamism while the rest fall further behind (Iammarino et al., 2019). Yet the Single Market works best when all its constituent parts are economically active, and the spillovers from cohesion investment flow back even to net contributor states through stronger export demand (Letta, 2024; Berkowitz et al., 2025).

3.2. The political implications

If the economic case is damaging, the political case is more so. Since the 1989 Structural Fund reforms, Cohesion Policy has been the EU's most distinctive experiment in multi-level governance: a policy designed not merely to transfer resources but to build institutional relationships between the EU and its territories (Barca et al., 2012). Partnership, shared management and place-based programming have given regions, cities and local actors a voice in the European project that few other instruments provide.

The proposed reform threatens to sever that connection. It marks a shift "from the long-standing notion of a 'Europe of Regions' —which for decades represented the normative and operational foundation of cohesion policy— towards an emerging 'Europe of Nations'" (Berisha, 2025: 108). That shift is not merely administrative. It is political, because it determines who participates in the design and delivery of EU investment and who experiences the Union as something that works for them.

The Italian case offers a cautionary example (Coletti and Filippetti, 2025). The Meloni government's recentralisation of Cohesion Policy governance —abolishing the Agency for Territorial Cohesion, concentrating powers within the Prime Minister's Office and replacing regionally programmed plans with centrally negotiated "cohesion agreements"— has been sold as an efficiency measure. Yet by April 2024 only 0.9 per cent of Italy's total structural funds had been spent. As Coletti and Filippetti (2025: 13) observe, "recentralization has not been advocated by Member States against the European Commission but rather proposed by the Commission itself." The supposed efficiency gains, however, remain elusive: "recentralization alone is unlikely to lead to substantial efficiency gains: it is neither a necessary nor a sufficient condition for the success of territorial development policies" (Coletti and Filippetti, 2025: 13).

The RRF has already shown the democratic costs of this approach. "In most Member States, NRRPs have been prepared rapidly in narrow government circles, often under the direction of the Prime Minister's Office or the Ministry of Finance, without real social consultation and without involving regional and local actors" (Kaiser and Fasi, 2025: 13).

The proposed MFF appears to generalise that model. If so, the resulting democratic deficit at territorial level will become a ready accelerant for anti-EU mobilisation.

Partially based on these criticisms, the European Parliament initially rejected the NRPP proposal outright, demanding separate policy frameworks, stronger regional roles and co-decision rights (Mendez and Kah, 2025). When the Parliament and 16 Member States are resisting a reform the Commission describes as simplification, the more apt word is not simplification. It is imposition.

3.3. The Eurosceptic paradox: dismantling the antidote at the moment of crisis

Cohesion Policy has long served as the EU's most visible instrument of solidarity with less developed and vulnerable regions. These are precisely the territories where discontent with the European project runs deepest (Rodríguez-Pose et al., 2024). Its strength has lain in making Europe tangible at local level: the billboard bearing the EU flag outside a renovated hospital, the co-funded business park at the edge of a struggling town, the training scheme that gives younger residents a reason to stay.

The paradox at the heart of the reform is that the Commission proposes to dismantle this architecture at the very moment when the political conditions that make it indispensable are more acute than ever. The geography of discontent is no metaphor. It is an empirically documented pattern in which regions suffering long-term stagnation, employment decline and eroding life chances vote disproportionately for parties hostile to the European project (Dijkstra et al., 2020; Rodríguez-Pose et al., 2024). The regional development trap —being stuck on a path of declining growth, productivity and employment relative to national and EU averages— now affects roughly one-third of Europe's population (Diemer et al., 2022).

"Diluting Cohesion Policy into centralised national plans would be [...] a mistake of historic proportions," because the proposed MFF "echoes demands from right-wing anti-system parties across Europe" (Rodríguez-Pose, 2025: 14) by championing a repatriation of

policies to national level, precisely the confederal logic that the EU's most hostile political forces have long advocated. Mendez and Kah (2025: 33) strike a similar note: "some interpret the reform as displacing rather than modernising Cohesion Policy."

The lesson of Brexit —that prolonged regional decline can translate directly into votes against the European project (Becker et al., 2017; Fetzer, 2019)— appears either not to have been learned or to have been brushed aside in the urgency of the competitiveness agenda. Yet urgency is not a strategy. A Union that sacrifices its most effective instrument of territorial integration in pursuit of industrial competitiveness may find that it has won the capacity race while losing the citizens on whose consent the whole enterprise rests.

4. The geography of competitiveness, security and strategic autonomy: where it does not rain but pours

The scholarly consensus reviewed above establishes the logic of concentration. This section supplies the evidence. Drawing on original cartographic analysis of manufacturing employment, AI exposure, defence-industrial capacity and trade vulnerability across European NUTS2 regions, we examine whether the MFF's three principal investment priorities are likely to distribute their benefits broadly or narrowly.

The underlying point is simple but too often ignored in European policy design: disruption is not a blanket phenomenon. It lands in particular areas and postcodes. Industrial decline, technological displacement, trade shocks and defence restructuring do not spread themselves evenly across the continent. They are concentrated in specific places, with specific labour markets, institutional endowments and political consequences. The spatial evidence underlines the folly of applying place-neutral policies to inherently place-specific shocks (McCann and Rodríguez-Pose, 2011; Barca et al., 2012). Yet place-neutral is exactly what the proposed MFF's major instruments largely are: sectorally targeted, nationally managed and territorially indifferent.

The answer is sobering. Each priority exhibits a spatial concentration that sits uneasily with the rhetoric of a Union in which all Europeans should have access to opportunity regardless of where they live. More troubling still, the concentrations overlap. The regions best placed to capture competitiveness investment are, to a striking degree, the same regions that stand to gain from the defence build-up and from strategic-autonomy measures. The result is a cumulative geography of advantage and neglect that the proposed budget will reinforce rather than correct.

4.1. The Competitiveness Fund: chasing what Europe lacks

The Competitiveness Fund is shaped by the diagnosis set out in the Draghi Report (Draghi, 2024), which identified three urgent priorities: closing the innovation gap with the US and China, linking decarbonisation to competitiveness and strengthening European security. The diagnosis is difficult to dispute. Europe does face formidable competition and does need more focused public investment across the full innovation chain.

What matters, however, is that the Commission's strategic technology agenda is not territorially neutral. When policy moves from redistribution to acceleration, it tends to favour ecosystems that can scale quickly. In the language of regional development, it rewards regions with thicker institutions, deeper labour markets and more mature innovation systems (Diemer et al., 2022). The Fund's deeper weakness is that it focuses overwhelmingly on what Europe does not yet possess —advanced semiconductors, hyperscale cloud infrastructure, frontier AI models— while paying comparatively little attention to what Europe does possess, where it already leads and how those existing strengths might seed broader economic reinvention.

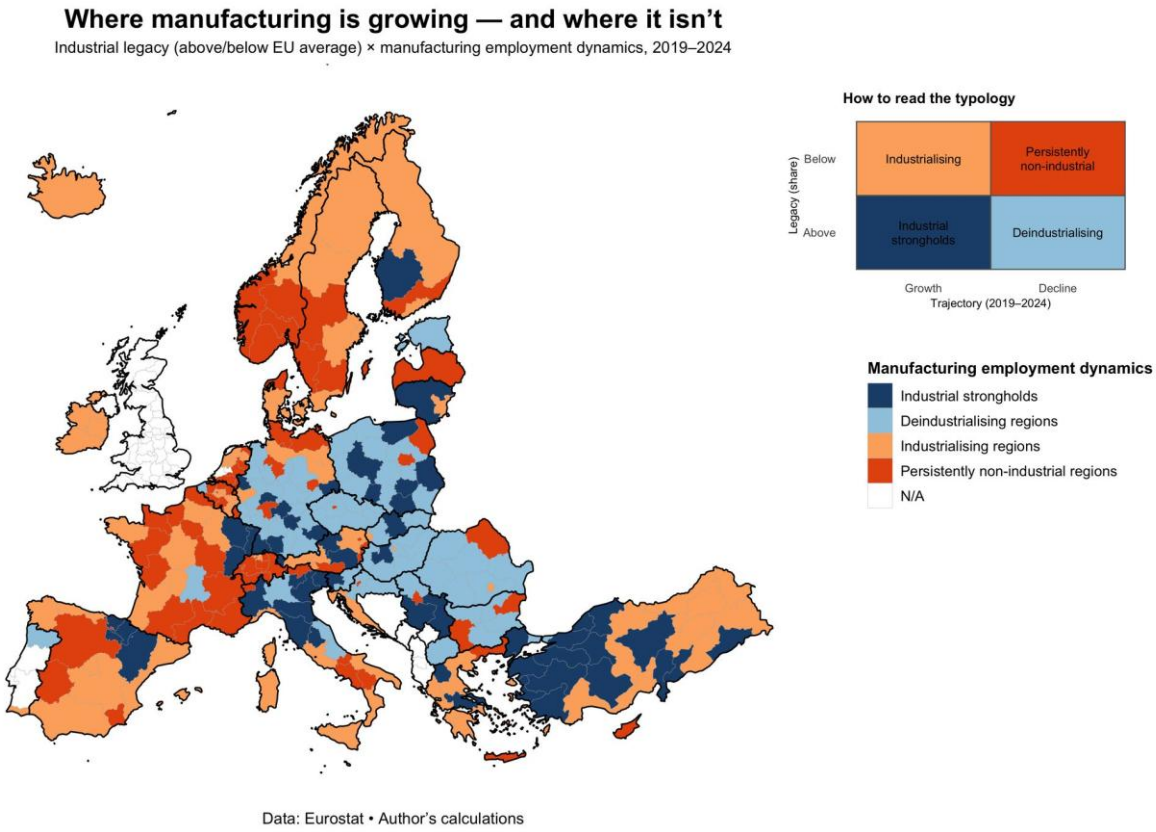
That creates a strategic risk. In several areas to which the Competitiveness Fund is likely to direct support, Europe trails so far behind that even substantial spending may do little more than secure a permanent place in the chasing pack. There is also a second, less remarked upon risk: the territorial distribution of the Fund's benefits within countries. Innovation capacity, industrial competitiveness and the infrastructure needed to absorb strategic investment cluster in capital regions, established metropolitan corridors and a

handful of specialised industrial districts. A Fund designed around sectoral priorities will therefore tend to direct resources towards places where those sectors already exist or where the supporting ecosystem is strongest.

4.1.1. Industrial transformation

"Europe is deindustrialising" has become the standard lament. Yet manufacturing employment in Europe is not falling in any uniform fashion. It is diverging sharply across regions. Figure 1 maps this divergence by classifying EU regions along two axes: whether manufacturing accounts for an above- or below-average share of employment, and whether that share expanded or contracted between 2019 and 2024.

Figure 1.
Manufacturing employment dynamics in the EU. 2019-2024.



What emerges is not generalised deindustrialisation but simultaneous consolidation and erosion in different places. Industrial strongholds —where manufacturing was already

central and continued to grow— sit alongside deindustrialising regions where a strong industrial inheritance is now paired with shrinking employment. Industrialising regions are creating jobs from a lower base, while persistently non-industrial regions remain peripheral and continue to decline.

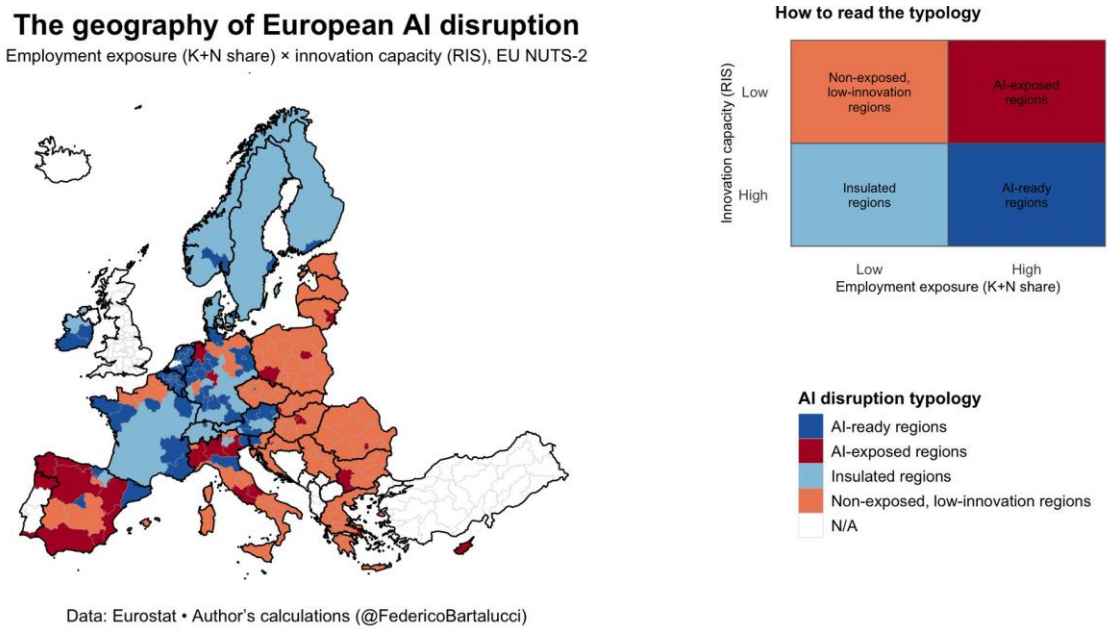
This divergence feeds directly into the geography of industrial anxiety mapped later (Figure 6). Where manufacturing job losses hit regions that remain structurally dependent on industry, labour-market stress turns into something closer to existential unease, eroding economic security and deepening dissatisfaction with both national and European elites (Dijkstra et al., 2020; Rodríguez-Pose et al., 2024). A uniform industrial strategy that simply directs more capital to highly productive hubs will not calm that anger. It will sharpen it.

4.1.2. Digitalisation and AI

Many talk about AI taking jobs (e.g. Acemoglu and Restrepo, 2020). The IMF estimates it will affect 40 per cent of jobs worldwide. Much less often asked is where those jobs are, and where the capacity to adapt exists. AI exposure is not evenly distributed across space, and neither is the capacity to absorb the shock.

Figure 2 classifies EU regions along two dimensions: employment exposure, measured by the share of clerical occupations most susceptible to automation, and innovation capacity, understood as the institutional ability to absorb disruption and capture AI's upside. The typology reveals a sharp territorial divide.

Figure 2. The geography of AI disruption in Europe.



A small number of AI-ready regions —e.g., Île-de-France, Munich and Eindhoven— face high exposure but also possess the R&D infrastructure, talent pipelines and institutional capacity needed to adapt. At the other end of the scale, AI-exposed regions —including several eastern European capitals, much of northern Italy and of the Iberian Peninsula— combine high clerical employment with weak innovation capacity. Here the threat is more immediate: the jobs most vulnerable to automation are concentrated in places that lack the ecosystem needed to generate replacement employment. Insulated regions —much of the Nordics, Germany or France— combine low exposure with strong innovation systems. Then there are the broad hinterlands of southern and eastern Europe that appear insulated from AI mainly because they are largely excluded from the modern knowledge economy altogether. Their apparent safety from automation is not resilience. It is irrelevance.

Across industrial transformation and digitalisation alike, the competitiveness pillar points in the same direction: the regions most likely to benefit are those already strongest, while the regions most in need of activation are either overlooked or placed at a further disadvantage by the design of the instruments.

4.2. Security: the uneven defence dividend

European defence spending reached EUR 343 billion in 2024 —a 19 per cent increase on the previous year— and is projected to rise to EUR 381 billion in 2025, taking spending beyond 2 per cent of GDP for the first time (EDA, 2025). With NATO allies committing at The Hague Summit to spend 3.5 per cent of GDP on core defence by 2035, the direction of travel is unmistakable.

The key territorial question is where those benefits will land. The answer reveals a pattern of concentration so strong that the competitiveness pillar begins to look comparatively broad-based.

Figure 3. Defence investment and jobs

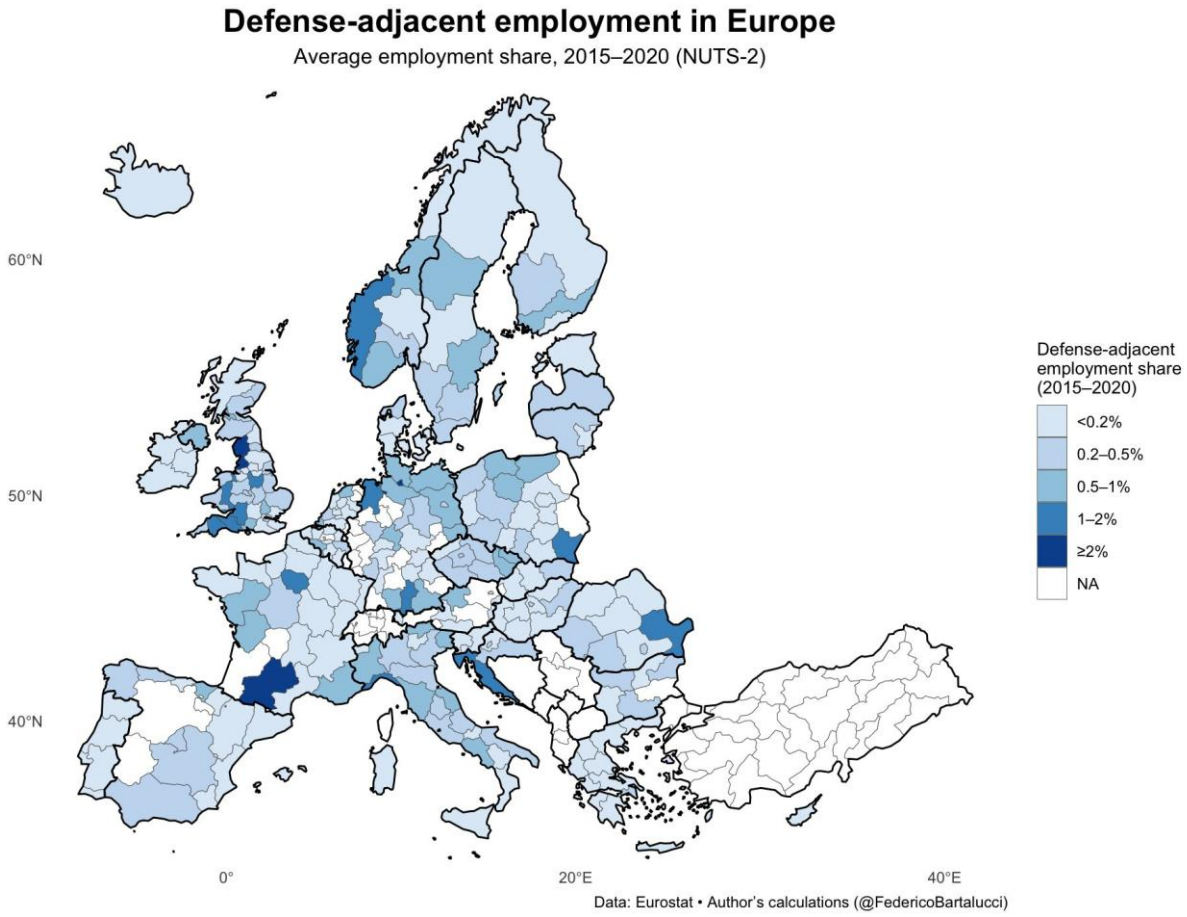


Figure 3 maps the geography of defence-adjacent employment across EU regions, using

employment in transport equipment manufacturing —aircraft, ships and military vehicles— as a proxy for defence-industrial capacity. A relatively small set of regions — Midi-Pyrénées (Toulouse/Airbus), Cumbria and Lancashire (BAE Systems), Bremen and Hamburg (aerospace and naval production), Friuli-Venezia Giulia and Liguria (Italian shipbuilding), País Vasco, Podkarpackie and Sud-Est in Romania— account for a disproportionate share of Europe's defence-industrial workforce. The median EU region has less than 0.2 per cent of its workforce in defence-adjacent manufacturing. For most European territories, the defence surge will be economically invisible: they will shoulder the fiscal costs of rearmament through national budgets without capturing any meaningful share of its industrial benefits.

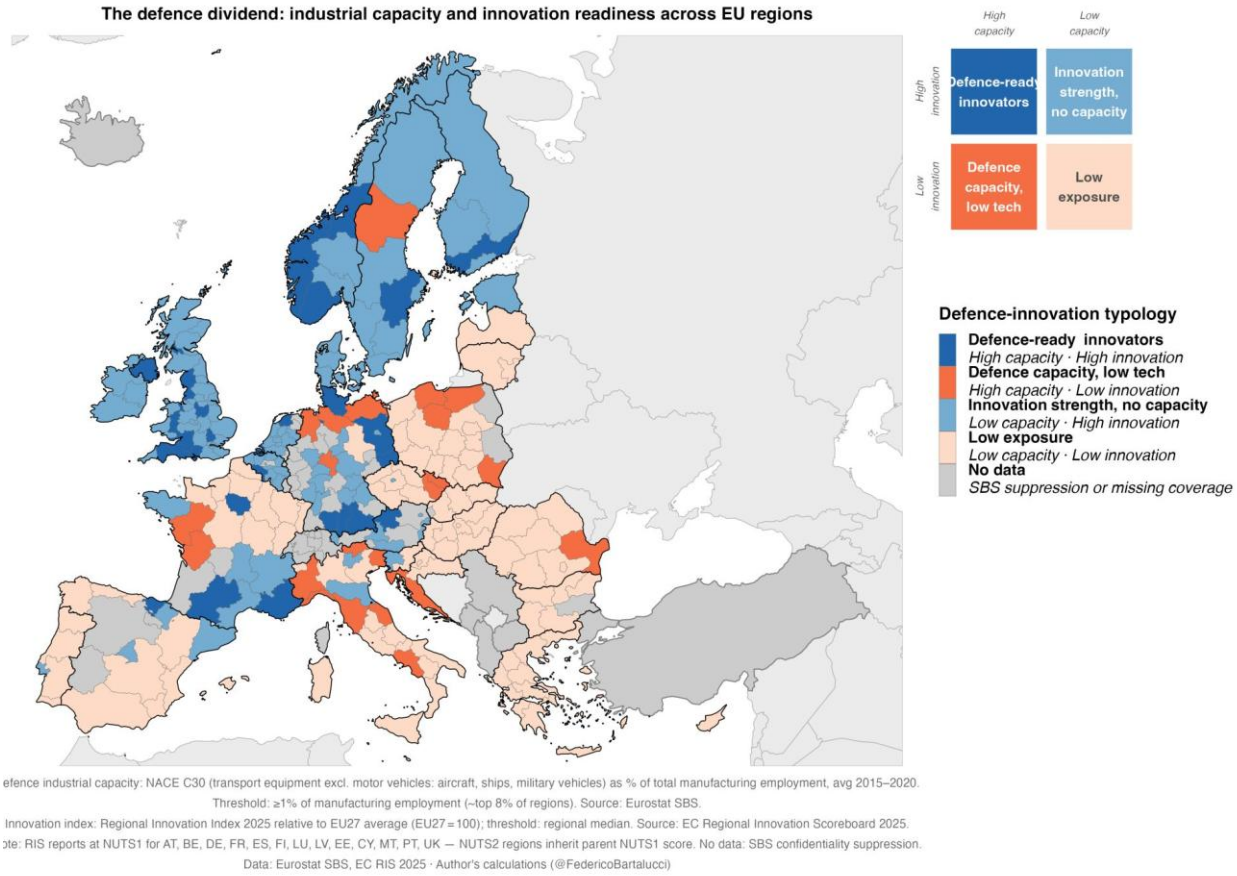
This is not a distribution that fresh spending can readily transform. Defence manufacturing depends on decades of accumulated expertise, specialised supply chains, security-cleared workforces and proximity to prime contractors. There is also a cruel paradox for much of eastern Europe. The regions closest to the security threats driving the defence build-up are precisely those whose geographic exposure makes them awkward locations for the most sensitive investments. The front line carries the insecurity; the rear line collects the industrial dividend.

The MFF's defence and security allocations —EUR 115.7 billion for resilience, security, defence industry and space— will therefore be layered on top of an already unequal geography. Regions hosting Europe's aerospace, naval and advanced-electronics clusters will receive another injection of investment and employment. The vast majority of territories, lacking that base, will see little of it.

Figure 4 sharpens the picture by crossing industrial capacity with innovation readiness, proxied by the 2025 Regional Innovation Index. Defence-ready innovators —Toulouse, Oberbayern, Hamburg, Stockholm and Île-de-France— are best placed to capture the most technologically demanding contracts. Defence-capacity, lower-tech regions — Romanian Sud-Est, Polish Podkarpackie and Czech Moravskoslezsko— have industrial depth but weaker innovation systems and may find themselves confined to lower-value

subcontracting. Low-exposure regions —largely in southern and eastern Europe— have neither industrial depth nor strong innovation systems. For them, rearmament appears mainly as a line in the national budget, generating neither local contracts nor local employment.

Figure 4. The potential defence dividend



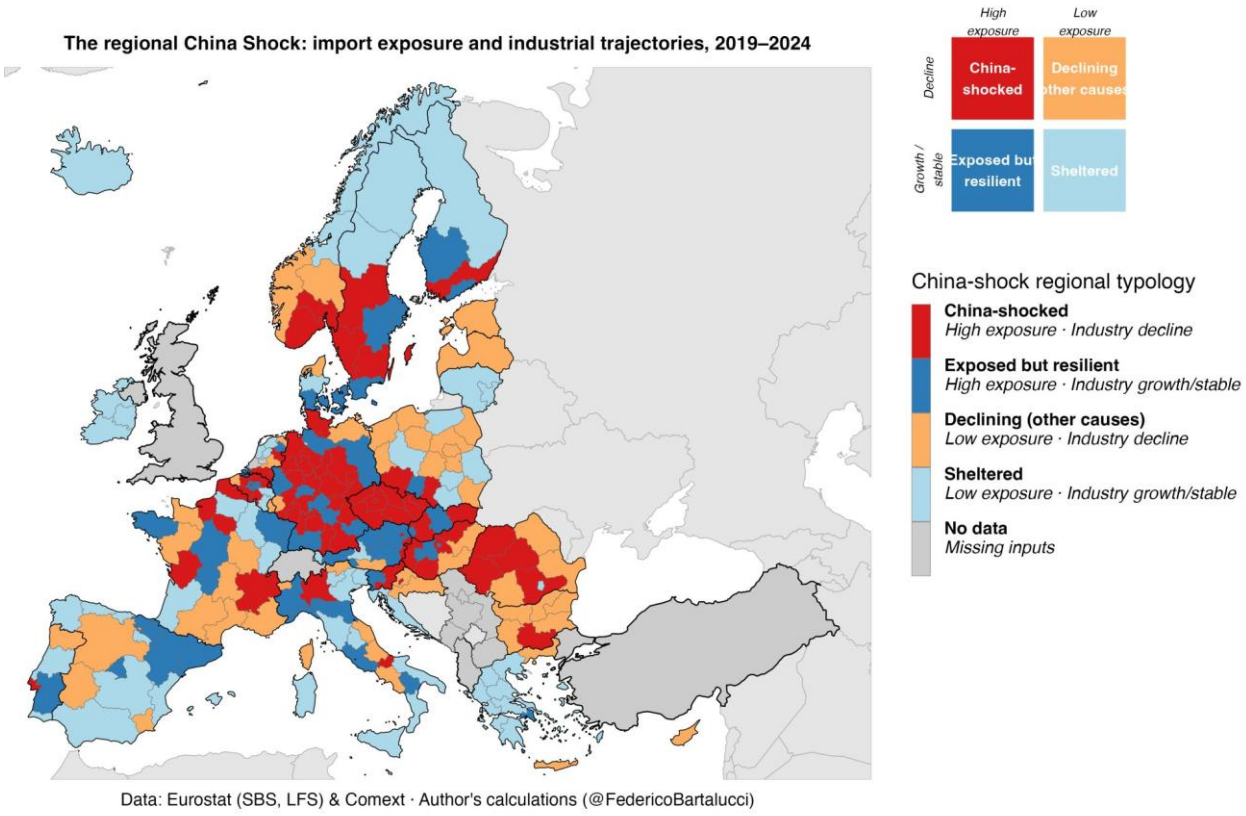
4.3. Strategic autonomy: the new China Shock

Strategic autonomy is intended to reduce Europe's vulnerability in moments of crisis. But the original China Shock literature (Autor et al., 2013, 2016) established a lesson that aggregate policy still too often ignores: trade shocks do not land evenly across space. They concentrate in regions specialised in exposed sectors.

Figure 5 applies the Autor-Dorn-Hanson methodology to European NUTS2 regions, classifying them by China import exposure and industrial employment trajectory

between 2019 and 2024. The geography looks markedly different from the “old” China Shock of the 2000s. Then, the frontline ran through light manufacturing. Today, the fastest-growing Chinese imports are in electrical equipment (+63 per cent), chemicals (+103 per cent) and, above all, motor vehicles (+213 per cent, from EUR 8 billion to EUR 25 billion). Textiles and apparel, by contrast, are broadly flat.

Figure 5. The China shock for Europe.



The map has therefore shifted northwards into Europe’s industrial core. Germany’s automotive heartland —Stuttgart, much of Bavaria and Saxony— now lies in the highest exposure zone. So do parts of northern Italy and central France. Czechia, tightly bound into European automotive supply chains, records declining industrial employment across all eight of its regions. Meanwhile, regions in southern Italy, parts of Spain and much of Romania and Bulgaria face industrial decline despite relatively low direct trade exposure. Their problems are structural —demography, underinvestment and weak institutional

capacity— rather than trade-driven.

A uniform continental shield may protect some regions while being largely irrelevant to others whose decline springs from very different roots. Knowing where the shock actually lands is the first step towards policy that matches the problem. In its current form, the Competitiveness Fund does not take that step.

4.4. The cumulative geography of polarisation

Taken separately, each of the MFF's three priority areas displays strong spatial concentration. Taken together, they reveal a cumulative geography in which the same territories are repeatedly favoured across all three domains, while others are repeatedly overlooked.

The regions that lead on innovation capacity are overwhelmingly the regions that host defence-industrial clusters and the regions best equipped to absorb the new China Shock. Île-de-France, Oberbayern, Stockholm, Toulouse, Hamburg and the Randstad will capture the competitiveness dividend, the defence dividend and the strategic-autonomy dividend at once. For them, the new MFF is a cornucopia.

For the regions absent from all three maps —much of southern Italy, inland Spain, rural France, the Balkans, and large stretches of Romania, Bulgaria and Greece— the picture is the reverse. They are not competitive enough to attract major Competitiveness Fund investment. They lack the defence-industrial base to benefit from rearmament. Their manufacturing decline is structural rather than trade-driven, so the strategic-autonomy shield offers little. And the one instrument that has historically reached them —Cohesion Policy— is being diluted and folded into national plans over which they will exercise less and less influence.

Crucially, this pattern operates not only between Member States but within them. In virtually every EU country, the regions best placed to capture the gains from the competitiveness, defence and strategic-autonomy pillars are the capital regions, the

established metropolitan corridors and a limited number of specialised industrial clusters. Those left outside are the provincial cities, the former industrial heartlands and the rural hinterlands; the very places that have borne the brunt of two decades of widening within-country divergence (Iammarino et al., 2019). In these places, economically, it doesn't rain but it pours. The proposed MFF will exacerbate this trend. It will concentrate advantage where it already exists and layer neglect where it already bites, hence not only failing to break this cycle but actively accelerating it.

5. The nationalisation of European investment: Partnership plans and the widening of within-country divides

The previous section showed that the MFF's principal spending priorities are likely to concentrate their benefits in regions already well positioned to receive them, and that those advantages stack across policy domains. There is, however, a second and equally dangerous dimension to the problem: what happens within Member States when European investment is absorbed into nationally managed plans.

If the Competitiveness Fund is likely to concentrate resources in already advantaged places across the EU, the shift towards National and Regional Partnership Plans is likely to concentrate resources in already advantaged places within each Member State. The two processes reinforce one another. New industrial investment channelled through the Competitiveness Fund will flow predominantly to metropolitan regions and specialised clusters that already lead on innovation and industrial capability. And when Cohesion Policy resources are folded into national envelopes managed by finance ministries, those same regions —with stronger institutions, closer access to national decision-makers and greater economic weight— will also be best placed to capture territorial investment. For the regions on the other side of the divide, the effect is cumulative: excluded from the competitiveness budget at European level and marginalised within the national plan at domestic level.

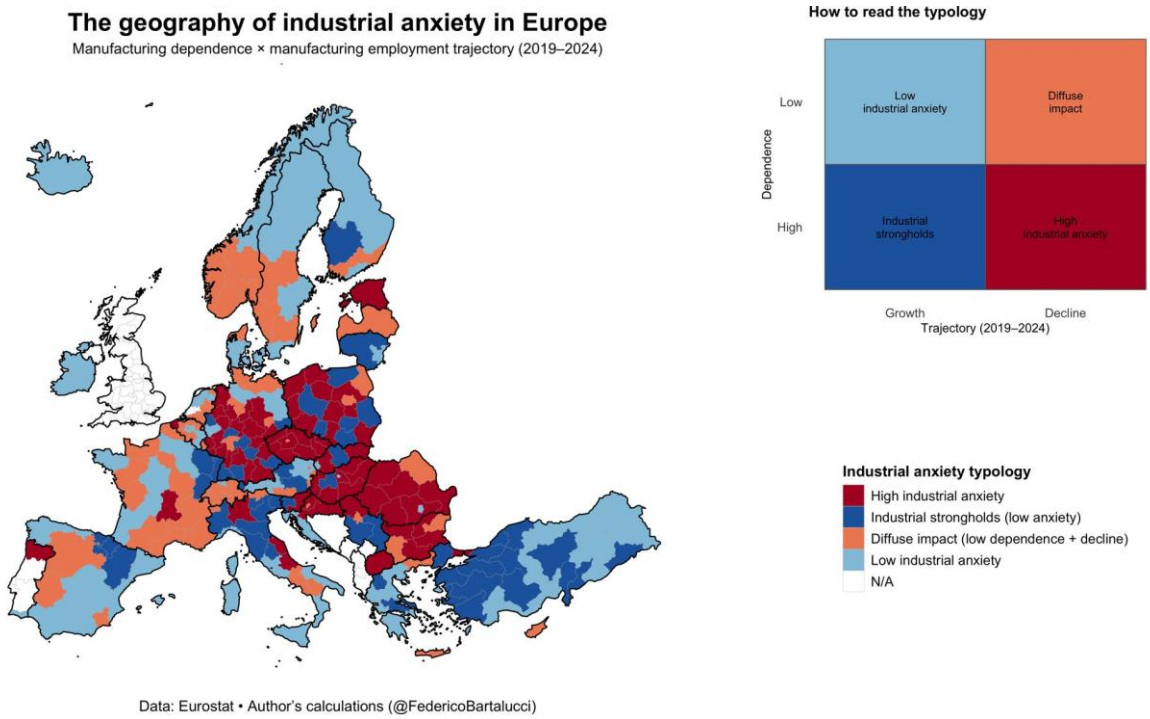
This matters because the dominant European spatial pattern of the past two decades has been one of convergence between countries combined with divergence within them (Iammarino et al., 2019). Since the 2004 enlargements, the accession states have moved from roughly half of the EU-average GDP per capita to almost 80 per cent (Berkowitz et al., 2025). Yet within nearly every Member State, the gap between the capital region and the rest has widened. As Żuber et al. (2025: 414) note, "economic growth at the national level does not reduce social tensions, reaffirming the importance and relevance of cohesion as a Treaty objective for the EU." National policies, though nominally horizontal, repeatedly end up operating as policies for big cities, capitals and the most developed regions, because these are the places with the institutional capacity, political access and economic heft to capture national resources (Barca et al., 2012).

Cohesion Policy has historically been the principal counterweight to that tendency. Its ring-fenced allocations, regional programming and partnership requirements ensured that EU investment reached territories national budgets routinely underserve. Folding that investment into national envelopes —controlled by finance ministries, aligned with the European Semester and governed by centrally negotiated milestones— will inevitably subordinate territorial need to national strategy.

5.1. The geography of industrial anxiety and the loss of its only counterweight

The consequences of this nationalisation become clearest —and politically most dangerous— when mapped against the geography of industrial anxiety already reshaping European politics. Figure 6 classifies EU regions according to two variables: their dependence on manufacturing employment and whether that employment grew or declined between 2019 and 2024.

Figure 6. The geography of industrial anxiety.



High-anxiety regions —where manufacturing still accounts for a large share of employment, but jobs are shrinking— are the places where industrial decline translates most directly into labour-market strain, economic insecurity and dissatisfaction with both national and European policy. This is the territorial dynamic of the "revenge of places that don't matter" (Rodríguez-Pose, 2018): places that feel left behind not because they are necessarily the poorest, but because they are losing the activities that once anchored their status, prosperity and sense of purpose.

These are also the places that have depended most heavily on ring-fenced Cohesion Policy to offset the pull of national spending towards capitals and economic cores. Under the current architecture, high-anxiety regions receive dedicated ERDF and ESF+ funding programmed at regional level, with local stakeholders involved in designing investment strategies tailored to specific structural challenges. That ring-fencing has kept EU investment visible in these territories and has given citizens some reason to believe that the European project offers something to their place, not only to someone else's.

The shift to NRPPs removes that counterweight at precisely the moment when it is most needed. Under the proposed framework, funds that have historically reached high-anxiety regions through dedicated regional programmes will be absorbed into national envelopes managed by finance ministries and allocated according to milestones negotiated between Brussels and national capitals. Regions experiencing the sharpest industrial decline —the Wallonias, the Asturias, the Saxonys, the Silesias— will find themselves competing for resources inside a single national plan against capital regions and innovation hubs that national governments are naturally inclined to favour. In that competition, high-anxiety regions are poorly placed. They often lack the institutional capacity to design milestone-ready proposals. They lack the political leverage to shape national priorities. And their economic profile —manufacturing-dependent, innovation-weak and structurally vulnerable— is precisely the sort of profile a competitiveness-oriented national plan is likely to downgrade.

Under the proposed NRPPs, the funds may still flow, but through national channels, to nationally determined priorities and under nationally controlled branding. The EU's fingerprints on the investment will fade. And with them will fade one of the last institutional mechanisms through which citizens in high-anxiety regions experience the European project as something that works for them, in their place, on their terms.

The link with a competitiveness-driven polarisation as direct. High-anxiety regions are often the same territories that appeared in none of the advantaged quadrants of the competitiveness, defence and strategic-autonomy typologies. Under the current architecture, these regions still receive ring-fenced investment designed for precisely such structural challenges. Under the proposed NRPPs, that ring-fencing disappears, and with it any serious guarantee that EU territorial investment will reach the places where industrial anxiety is most acute, economic problems are piling up, and the political consequences of neglect are likely to be most severe.

5.2. Handing Eurosceptics their biggest victory

The cumulative picture that emerges from the potential implementation of the reform is one of self-reinforcing territorial polarisation. The MFF's priorities on competitiveness, defence and strategic autonomy channel investment towards regions that are already strong. The shift to national plans removes the principal countervailing mechanism that historically directed resources towards regions falling behind. And the regions that lose out on both counts are the very places where discontent with the European project runs deepest and Eurosceptic parties are advancing fastest.

There is a deeper political irony here that deserves to be stated plainly. For decades, Eurosceptic and nationalist parties have advocated a "Europe of Nations": a confederal model in which EU institutions are weakened and policy authority is repatriated to national capitals. The proposed MFF, by centralising Cohesion Policy into nationally managed plans and weakening the direct institutional link between the EU and its regions, "echoes the Eurosceptic playbook" (Rodríguez-Pose, 2026a: 173).

The risk is not merely that the reform fails to contain Euroscepticism. It is that the reform advances one of Euroscepticism's core demands —the repatriation of EU policy to national level— while simultaneously stripping the EU of its most visible instrument for showing that integration delivers something tangible to left-behind places. Populists will pocket the concession and ask for more. The EU, meanwhile, will have disarmed itself, removing the billboards with EU flags in remote towns that have provided a quiet rebuttal to the claim that Brussels does not care.

Cohesion Policy gives people "the freedom to build a life and prosper in their own community" (Rodríguez-Pose, 2026a: 175). To dismantle that capacity at a time of surging nationalism is to hand Eurosceptics their largest victory yet.

6. Conclusions: The fork in the road

The proposed MFF for 2028–2034 is an ambitious attempt to equip Europe for a world of harsher competition, geopolitical threat and strategic vulnerability. Its objectives —a more competitive, better defended and more strategically autonomous EU— are legitimate and urgent. The diagnosis underlying the reform is, in many respects, sound. The question posed by this paper is not whether Europe needs to change, but whether the particular change now on the table will deliver what it promises or whether, in pursuing competitiveness, security and autonomy without regard to territorial consequences, it will instead produce a Europe that is less inclusive, more polarised and far more fragile than the one it seeks to strengthen.

The argument advanced here points to the latter conclusion, and it rests on three propositions. First, the proposed MFF changes the operating logic of the EU budget from territorially differentiated development to broad, centrally steered national envelopes. In practice, this amounts to a spatially regressive turn likely to concentrate investment in already advantaged places, deepen Europe's internal asymmetries and leave large reserves of human and economic capital underused. Europe cannot restore competitiveness by writing off large parts of its territory. Neglecting regions that are not at the technological frontier is not only inequitable; it also lowers aggregate EU growth, weakens the Single Market and makes the green, digital and technological transitions more uneven and more brittle (Berkowitz et al., 2025; Rodríguez-Pose, 2025).

Second, the reform implies a significant centralisation of EU development governance that weakens one of the European project's most democratic features. Even if the language of partnership is retained, the practical effect is to move decision-making upwards —towards the Commission and national capitals— and away from the regions, cities and local actors whose participation has given citizens a tangible stake in integration. As Mendez and Kah (2025: 2) warn, "the reforms risk increasing centralisation, weakening regional autonomy, raising administrative burdens and undermining the long-term, place-based logic that underpins Cohesion Policy's added

value, effectiveness and legitimacy."

Third, the reform is politically hazardous at a moment when European integration is openly contested at the ballot box. Weakening the participatory and locally visible dimension of EU spending is likely to deepen the geography of discontent in left-behind places. Most damaging of all, the reform risks conceding to Eurosceptics the very institutional architecture they have long sought. The EU is weakening one of its most citizen-visible policies at precisely the moment when citizen attachment matters most.
None of this implies that Europe should abandon strategic investment. It implies the opposite. Strategic investment that ignores territorial cohesion is unviable and strategically incoherent. A continent-sized competitor requires continent-sized mobilisation of talent, firms and regions. But alignment that rewards only the already aligned is not alignment. It is the acceleration of divergence. The case for cohesion is therefore not sentimental. It is the hard-headed recognition that an economy which leaves the majority of its territory and a large percentage of its talent idle cannot hope to outcompete rivals that mobilise all of theirs.

The real trade-off embedded in the Commission's proposal is not between old Europe and new Europe, nor between solidarity and strategy. It is between short-term budgetary flexibility and long-term integration capacity. The proposal purchases agility, crisis responsiveness and easier reallocation of resources. But it does so at the price of stable, place-based investment, visible development effects in weaker territories and the democratic legitimacy that comes from citizens seeing themselves as participants in a European project rather than passive recipients of centrally determined milestones.
"Europe stands at a fork. One path leads to a virtuous circle in which place-based investment sustains both growth and solidarity; the other to a vicious spiral of geographic concentration, political disaffection and strategic decline" (Rodríguez-Pose, 2026b: 10). The literature reviewed here and the spatial evidence assembled leave little doubt as to which path the proposed MFF would set the EU on.

Europe does need budget reform. It does need a budget that makes it more competitive,

better defended and more strategically autonomous. But it does not need —and cannot afford— a reform that pursues those goals at the expense of territorial inclusiveness, political cohesion and democratic legitimacy. The real challenge has never been to choose between competitiveness and cohesion. It has been to design instruments that make competitiveness territorially inclusive. These are instruments that direct strategic investment not only to the places that already lead, but also to those whose activation would make Europe stronger, more resilient and more democratically grounded. Competitiveness built on polarisation is brittle. Security purchased at the expense of solidarity is unstable. Autonomy that leaves a high share of the EU's citizens feeling abandoned is autonomy unlikely to survive its first serious electoral test.

The question is whether the Union's leaders will recognise this before the places that don't matter deliver their verdict again. The record so far does not inspire confidence. But the stakes could scarcely be higher, and the window for correction, though narrowing, has not yet closed.

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