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EUROPEAN EXPORTS IN GEOPOLITICAL STORMS

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The global trading system is undergoing profound changes, and current developments in the United States and China will have significant implications for the European economy. Both countries were at the heart of globalisation but are now becoming less dynamic export markets. Chinese economic growth is expected to slow as pressures on the economy accumulate. In the US, trade policy has taken a sharp inward turn.

For the European Union, these shifts point to structurally weakening demand growth from two of its largest trading partners, which together account for nearly 30 percent of all EU-generated value-added exports.

However, in this paper we show that the growth of EU exports is driven to a much greater extent by demand in other markets, and we argue for a stronger policy focus on the 70 percent of EU value added in trade with other partners. While reduced demand from the US or China would pose challenges – especially for highly exposed sectors like pharmaceuticals – there remains substantial scope for the EU to diversify and expand trade with the rest of the world.

The EU already has an extensive network of trade agreements, covering 74 percent of trade with partners other than the US and China. Deepening these relationships and forging new partnerships should be priorities. Offering a stable and rules-based trade regime can help offset losses from reduced integration with the US and China.

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1 Introduction

The global trade system is undergoing profound changes. Trade policy is often understood as "*enlightened mercantilism*" (Krugman, 1996), driven by export interest rather than import interest. Contrary to this, at least since the COVID-19 pandemic there has been a trend toward reshoring and insulating domestic markets from import disruptions, reflecting the current political emphasis on supply chain security (McCaffrey and Poitiers, 2024). Long-term economic strength, however, also depends on maintaining and expanding export competitiveness, meaning that focussing solely on reducing imports risks undermining the very trade relationships that sustain domestic production. We believe, therefore, that the effects of these changes on exports deserve more attention.

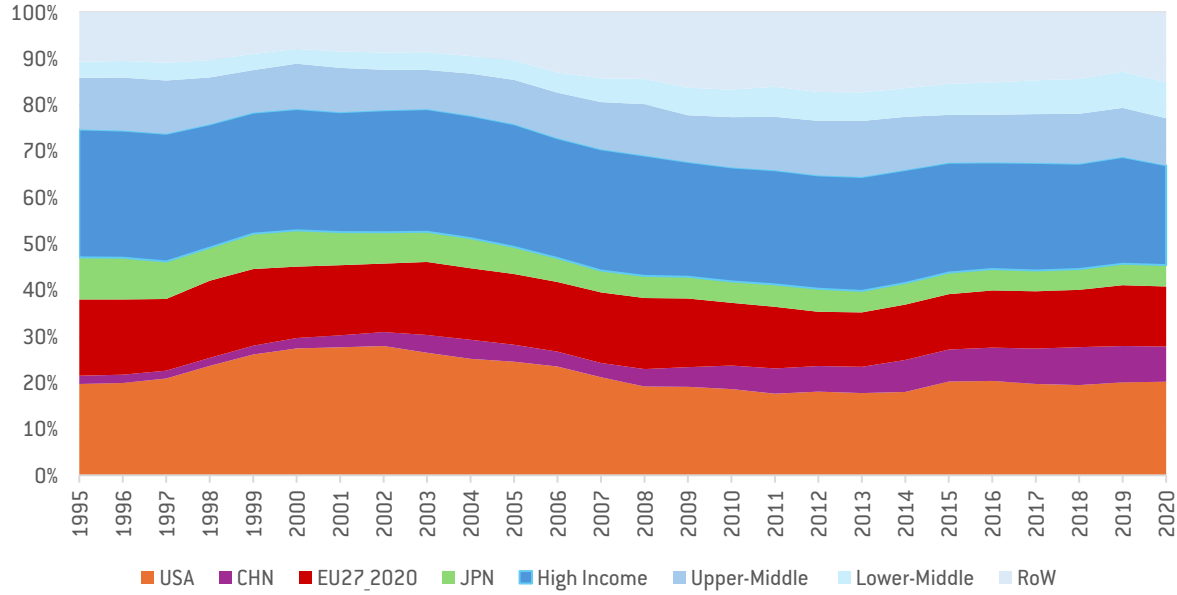
The tariffs imposed by US President Donald Trump signal a turning point away from decades of increasing global trade integration (Sapir *et al*, 2025). The two countries that are in the centre of this trend, the US and China, seem increasingly at odds with both each other and the global trading system at large. With the US reorienting its economy toward domestic production and strategic self-reliance and reducing its dependence on global supply chains, it is retreating from its role as the central pillar of the global economy.

At the same time, another important change is taking place. There are growing signs that the Chinese mercantilist model is facing serious challenges. Not only are key trading partners increasingly pushing back against perceived Chinese overcapacity, but the high growth rate that China enjoyed in past decades looks increasingly unsustainable from a demographic and structural viewpoint.

These twin shifts – the United States' retreat from its role as the centre pole of global trade and the waning of China's mercantilist growth model – will have significant implications for the European economy. The US and China account for roughly one quarter of global final demand for traded goods (see Figure 1). What political scientist Constanze Stelzenmüller said about Germany can be asserted about Europe more generally: *"it outsourced its security to the US, its export-led growth to China, and its energy needs to Russia"* (Stelzenmüller, 2022). The US and China are the two largest trading partners of the EU in combined imports and exports[1], and both are facing large but distinct challenges. In this paper, we survey the factors that are driving structural changes in China and the US, then look at what a continuation of these trends could mean for the demand for European exports.

[1] If only considering exports, the UK beats China as the EU's second-largest trading partner by a large margin.

Figure 1: Global final demand of trade goods by country (percent of global final demand)



Source: Bruegel based on OECD TiVA. Note: calculated by dividing for each year and country the gross imports of final products by the global imports of final products.

2 Chinese growth deceleration

For the last two decades, China's rise as a manufacturing powerhouse and its rapid economic growth have been defining features of the global economy. The Chinese accession to the WTO in 2001 is often cited as an inflection point in the global economy[2]. However, the rise of China began earlier: from 1977 to 2001, China's GDP grew on average at an astonishing rate of 9.80 percent per year – compared to the world average of 3.11 percent[3]. Until the 2010s, China sustained a growth rate of about 10 percent on average. As a result, China became the world's second largest economy, with an internal market rivalling the US and the European single market. This growth benefitted not just the Chinese economy; advanced economies gained a fast-growing export market and were able to improve production efficiency by outsourcing lower value-added stages of manufacturing there.

The Chinese policy that facilitated this growth could be broadly classified as following the 'East Asian' model[4]. It relied on exports of manufactured goods, using capital controls and state-owned banks to channel the high savings of Chinese citizens towards investments into manufacturing and infrastructure (Dorrucci *et al*, 2013). Special economic zones helped integrate Chinese manufacturing into global value chains, with Li *et al* (2025) showing that these zones enhance firms' GVC positions via productivity gains, cost reductions, and improved access to financing. Migration to urban centres meant that millions of workers shifted from low-productive agriculture to manufacturing industries, increasing manufacturing employment and further reducing labour costs (Imbert *et al*, 2022). Together with a

[2] Kaiser Kuo, 'How China got rich: A 40-year history of economic transformation', World Economic Forum, 19 June 2025, https://www.weforum.org/stories/2025/06/how-china-got-rich-40-year-history-of-economic-transformation.

[3] World Bank (2025) 'GDP growth (annual %) – China', https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2024&locations=CN&start=1961&view=chart.

[4] See Birdsall *et al* (1993) for a classical exploration of the theme.

growing workforce, this led to a significant 'demographic dividend'; during China's period of peak growth from the 1980s to 2010, the working-age population grew at an average annual rate of two percent[5].

However, by 2024 China's average growth rate has slowed to an official rate of around five percent (Barcelona *et al*, 2025). Independent analysts at Rhodium Group estimate that actual growth in 2024 was far lower, at just 2.4 to 2.8 percent, and predict that even under optimistic scenarios, growth may reach only 3-4.5 percent in 2025 (Wright, 2024). Regardless of the current growth rate, there are reasons to expect growth to decelerate (García-Herrero, 2023). The factors that initially fuelled its rapid expansion have become considerably less favourable, and could reverse. Demographic changes, structural transformation away from manufacturing and resource misallocation caused by the very industrial policies that supported the rise of Chinese suggest that China's demand for European capital goods will grow at a slower pace.

The UN projects that the Chinese labour force will fall approximately 20 percent by 2050, from a peak of 823.72 million in 2022 to 663.39 million (UN World Population Prospects, 2024; see Figure 2)[6]. Rural migration to urban centres has also largely ceased, limiting further gains from this dimension[7]. Given China's demographics, the scope for any further labour-based growth is limited to expansion of human capital[8]. The rapidly rising proportion of the elderly population will divert resources away from productivity, and toward public expenditures to support older citizens.

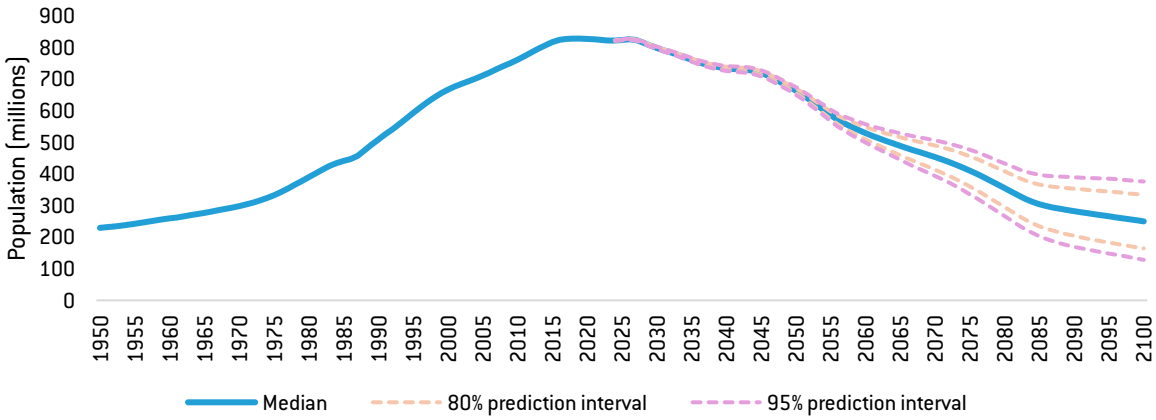
[5] Richard Jackson, 'Can an Aging China be a Rising China', *China Business Review*, 1 April 2011, https://www.uschina.org/articles/can-an-aging-china-be-a-rising-china/.

[6] Even these numbers are criticised for being overly optimistic; see *The Economist*, 'Humanity will shrink, far sooner than you think', 11 September 2025, https://www.economist.com/interactive/briefing/2025/09/11/humanity-will-shrink-far-sooner-than-you-think.

[7] A declining work force means that there are fewer workers for a given capital stock, leading to lower efficiency of utilisation. In the classical Solow growth model, the returns on capital are directly related to the capital to labour ratio in an economy (Solow, 1956). There is growing concern that aging populations may suppress returns on capital. As population aging dampens domestic investment demand while increasing savings, economies may become capital exporters, leading to reduced returns on capital at home (Brooks, 2003).

[8] Rozelle and Hell (2020) argue that due to poor infant and primary education practices in rural China, low education levels are already locked in for the next generation. There are also signs that the expansion of higher education has led to a skill-mismatch instead of human capital-intensive growth. A rising youth unemployment rate among graduates suggests limits to the absorption capacity of the Chinese economy of more human capital; see *The Economist*, 'China's defeated youth', 17 August 2023, https://www.economist.com/briefing/2023/08/17/chinas-defeated-youth.

Figure 2: Chinese population (Age 25-64)

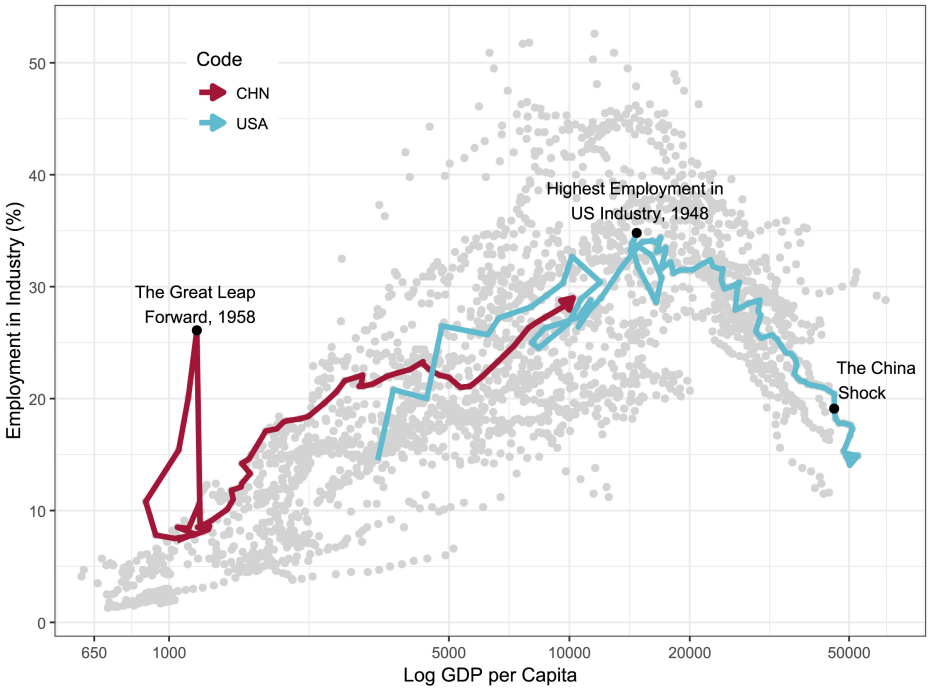


Source: United Nations, Department of Economics and Social Affairs, Population Division.

Beyond demographics, there are indications that China has reached the height of its industrialisation drive. Historical patterns of structural transformation (Herrendorf *et al,* 2014), where economies evolve from manufacturing toward service-oriented growth, indicate that the manufacturing sector's weight in the Chinese economy may have reached its peak. Figure 3 provides a comparative view of historical industrial employment trends in China and other countries. China's past trajectory has largely mirrored this well-established pattern, with the share of employment in industry and GDP per capita both increasing between 1800 and 2015[9]. One can expect industrial employment to start to decline as GDP per capita continues to rise. This trend is typically driven by a transition toward a service-based economy, as consumer demand and production resources shift[10].

[9] A notable exception was a sharp rise in industrial employment in 1958, driven by the Great Leap Forward when millions of rural workers were mobilised into small-scale rural industries in an effort to boost output and catch up with advanced economies. While this campaign temporarily increased the share of industrial employment, much of the production was of poor quality or economically unviable. The programme collapsed within a few years, and industrial employment levels fell.
[10] It should be noted that this pattern can also be observed in other East Asian economies that already completed the transition into advanced economies.

Figure 3: Employment in industry, 1800-2015



Source: Bruegel based on Our World in Data's harmonisation of Herrendorf *et al* (2014).

Capital accumulation has played an important role in China's economic development. But, given well-developed infrastructure, an already overbuilt real estate sector and a worsening capital to labour ratio, there are limits to how much further capital accumulation can contribute to high growth rates. Therefore, further expansion of the Chinese economy will have to rely on increasing total factor productivity. This has, however, recently experienced a deceleration. Aggregate total factor productivity growth fell from 4.1 percent in the 2000s to 2.6 percent in the 2010s, and then to below two percent after the Covid pandemic (Muir *et al*, 2024). A large driver of this shift is the misallocation of capital and labour in the economy[11]. Within-sector inefficiency has been a substantial issue in China, with economic frictions leading to fast-growing, high-performing companies being underpowered. This has been tied to China's industrial policies, driven by geopoliticsal tensions since 2018 and designed to achieve technological independence from the West (Cai *et al*, 2025)[12].

In sum, the Chinese economy seems to be at an inflection point, with decreasing productivity growth, a reversal of demographic trends and signs of decelerating economic growth at a time when, historically, economies had to shift from manufacturing to services-based growth. This not only points to long-term challenges but to a deceleration of Chinese demand growth for global – and European – imports in the near future.

[11] A decline in allocative efficiency means resources are becoming more concentrated in relatively unproductive work (IMF, 2024). A reduction in allocative efficiency may stem from lower efficiency within a sector, such as when resources are directed toward less productive firms. At the macro level, it can also reflect the misallocation of resources to less efficient sectors (IMF, 2024).

[12] In a perfectly competitive market, firms pursue maximum profits and perfect supply chains by choosing the best combination of locally and internationally sourced inputs to yield economic efficiency (Cai *et al*, 2025). However, such industrial policies disrupt this by pushing domestic firms to rely less on international inputs (Cai *et al*, 2025).

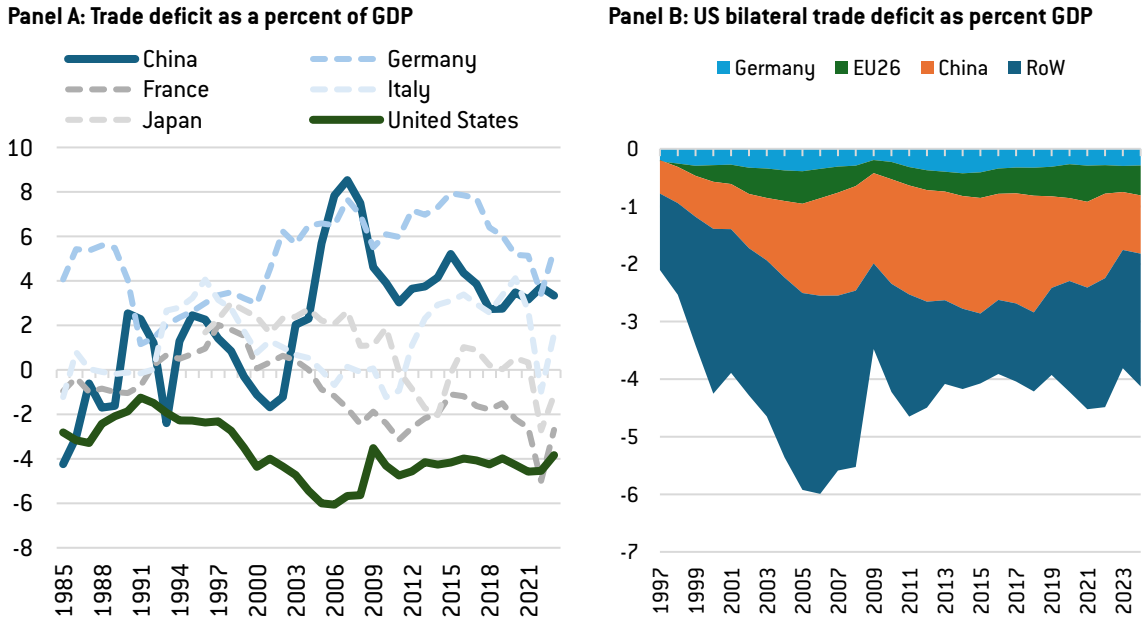
3 The US turns inward

The accession of China to the WTO was enabled by the American appetite to export to the growing Chinese market. When advocating for normalising trade relations with China, US President Bill Clinton famously touted the benefits of this step as *"For the first time … We'll be able to export products without exporting jobs."* and warned *"If we don't sell our products to China, someone else will step into the breach"*[13]. However, while US companies did benefit from the opportunities offered by an opening Chinese economy, the export-led growth model has also contributed to significant macroeconomic imbalances. The argument by Eichengreen (2008) that poorer countries have become lenders to richer countries supports the view that global capital flows reversed their traditional pattern, with China accumulating surpluses that ultimately financed consumption and investment in advanced economies.

Especially during the 2000s, China's Central Bank reinvested export earnings into US treasuries, supporting low borrowing costs for both the US government and consumers.

This contributed significantly to the consistent trade deficit in goods that the US has maintained since 1975. This pattern is consistent with the findings of Bayoumi *et al* (2014) that net official flows have a significant effect on current account balances, often financing persistent deficits in countries like the US. The American trade deficit has widened significantly since the late 1990s, reaching more than $1.2 trillion in 2024. Panel A of Figure 4 highlights the scale of the US trade deficit relative to other countries, underscoring its outsized role in fuelling global demand. For decades now, the US purchased a substantial share of the world's exports – including from the EU.

Figure 4: Trade deficit



Source: Bruegel based on United States Census Bureau and Federal Reserve Bank and Word Bank, World Development Indicators.

[13] Speech by President Clinton at the Paul H. Nitze School of Advanced International Studies of the Johns Hopkins University on 9 March 2000, https://www.iatp.org/sites/default/files/Full_Text_of_Clintons_Speech_on_China_Trade_Bi.htm.

Increasingly, the US has seen this as a bad bargain and begun to blame China for perceived American 'deindustrialisation'. The so-called 'China shock' literature argues that China's accession to the WTO led to significant shocks and distortions of the US labour market (Autor *et al,* 2016). At the political level, this has led to a re-evaluation of trade-openness and to the conclusion that supporting the accession of China to the WTO might have been a strategic mistake. US policymakers increasingly point to trade deficits as a threat to domestic industry and national security, expressing concerns over dependency on foreign adversaries or unstable actors in critical sectors such as defence, energy, and advanced manufacturing[14] [15]. This rethinking has enabled the US to justify a range of aggressive trade interventions, and the US has increasingly crafted policies around strategic self-reliance instead of economic thinking.

In the US, mercantilist policies have thus become *en vogue* (Rodrik, 2025). There is a bipartisan consensus on the need to rebuild American manufacturing through trade policy and industrial policy, but with two quite distinctive approaches. 'Bidenomics' sought to emulate Chinese industrial policy to reverse American deindustrialisation and rebuild American manufacturing, especially in strategic sectors. It used a combination of strategic tariffs, discriminatory subsidies and large-scale industrial policies to achieve this.

The two headline policies in this regard – the US Chips Act and the Inflation Reduction Act – specifically targeted clean tech and semiconductor industries (Kleinman *et al*, 2023; Bown and Wang, 2024). These sectors were deemed justified targets of large-scale subsidies due to their future technological potential, their strategic importance (in the case of chips) and for climate policy (in the case of clean tech). In both policy areas, these industrial subsidies were complemented with trade policies and export restrictions specifically targeted at China. In the case of clean tech, cars containing Chinese batteries and minerals were not eligible for subsidies, and a 100 percent tariff was applied to Chinese-made passenger vehicles. In the case of semiconductors, US President Joseph Biden made extensive use of export restrictions to maintain US dominance in semiconductor applications such as AI.

Some of these policies were in clear violation of international trade rules. The Inflation Reduction Act violated WTO prohibitions on local content requirements, while steel and aluminium tariffs were found to be unjustified[16]. The Biden administration also did not reverse the expiration of preferential trade access for the least-developed countries under the Generalised System of Preferences (Fossum *et al,* 2024). Nevertheless, even where discriminatory, the Biden administration made some efforts to limit the effects of its policies on key allies, such as the EU (Bown, 2024).

It could be said that the second Trump administration, while sharing its predecessor's grievances over US 'deindustrialisation' and the goal of rebalancing US trade, has turned this strategy on its head. Instead of seeking to 'de-risk' from China in strategic sectors, the new administration seeks to directly tackle US trade deficits – not only with China, but with all trading partners. The policy of tariffs on strategic goods,

[14] See remarks by National Security Advisor Jake Sullivan on the Biden-Harris administration's National Security Strategy on 13 October 2022, https://bidenwhitehouse.archives.gov/briefing-room/speeches-remarks/2022/10/13/remarks-by-national-security-advisor-jake-sullivan-on-the-biden-harris-administrations-national-security-strategy/.

[15] This is not only used to invoke domestic trade exemptions such as the IEEPA, but in the past also played a role in justifying US trade action in the remit of WTO rules, see Maruyama and Wolff (2023).

[16] Doug Palmer, 'WTO says Trump's steel tariffs violated global trade rules', *Politico*, 22 September 2022, https://www.politico.com/news/2022/12/09/wto-ruling-trump-tariffs-violate-rules-00073282.

targeted against China, has given way to wholesale tariffs against virtually all trading partners. In April 2025, the US administration declared a national emergency linked to persistent trade deficits. An executive order imposed a baseline 10 percent tariff on all imports, with higher 'reciprocal tariffs' for countries deemed to maintain discriminatory practices. The EU was hit with a 20 percent rate, while China faced an initial 34 percent – raised for a short period to 125 percent – in the context of retaliatory escalation.

These measures were presented not as protectionist, but as corrective: to "rebalance" trade relationships and restore fairness and resilience. With the so-called 'Big Beautiful Bill' (BBB) being passed in July 2025, many of the industrial subsidies of the Inflation Reduction Act are being phased out. Meanwhile, export restrictions that were a key component of the Biden administration's 'small yard high fence' economic security strategy are being dismantled, with certain chip exports being permitted for an additional fee[17]. The tariffs imposed by Trump violate one of the central principles of the WTO: the most-favoured nation (MFN) treatment which imposes non-discrimination in tariff rates between trade partners, except with comprehensive trade agreement partners (Mavroidis, 2025).

In July 2025, the US and EU came to a preliminary agreement that fixed the tariff rate on the US side at 15 percent, or the current most-favoured nation rate; whichever is higher. Further uncertainty about the Trump administration's tariffs is likely to remain, also because there are questions regarding the legality of some of the justification for them (Wolff, 2025). There is also considerable consensus among economists that the tariffs are damaging to the US economy and do little to reduce the trade deficit, which is largely driven by financial flows (Bayoumi and Gagnon, 2025). However, given the bi-partisan consensus regarding the need to rebalance trade in the US, it seems likely that EU exports to the US will continue to face increasing impediments for the foreseeable future.

4 What would Chinese and US retrenchment mean for the EU?

As argued above, there are reasons to suspect that two of the three largest export markets for the EU are undergoing profound changes and might become less dynamic export destinations. However, it is also important to understand their relative importance. Table 1 illustrates the share of each region's value added that is ultimately consumed by other regions, expressed as a percentage of global domestic value added used in foreign final demand. The EU accounts for 17.62 percent of value added consumed abroad, while it absorbs 14.71 percent of value added generated in other countries that is not consumed domestically. The EU, USA, and China are significant trading partners for one another. Specifically, 3.51 percent of global domestic value added used in foreign final demand was generated in the EU and consumed by the USA, while an additional 1.88 percent was generated in the EU and consumed by China. Together, these two destinations account for 30 percent of all globally traded EU-generated value added[18].

[17] Demetri Sevastopulo and Michael Acton 'Nvidia and AMD to pay 15% of China chip sale revenues to US government', *Financial Times,* 10 August 2025, https://www.ft.com/content/cd1a0729-a8ab-41e1-a4d2-8907f4c01cac.

[18] From the perspective of China and the USA, there is a notable degree of reliance on EU exports. The United States sources just over 20 percent of its imported value-added content from the EU (3.51 out of 17.34 percent), while China sources nearly 15 percent from the EU (1.88 out of 12.14 percent).

This suggests that, faced with a gradual decline in demand from China and the United States, EU exports would remain well-supported by broader global demand. Notably, another 31 percent of traded EU value added is consumed by other high-income countries.

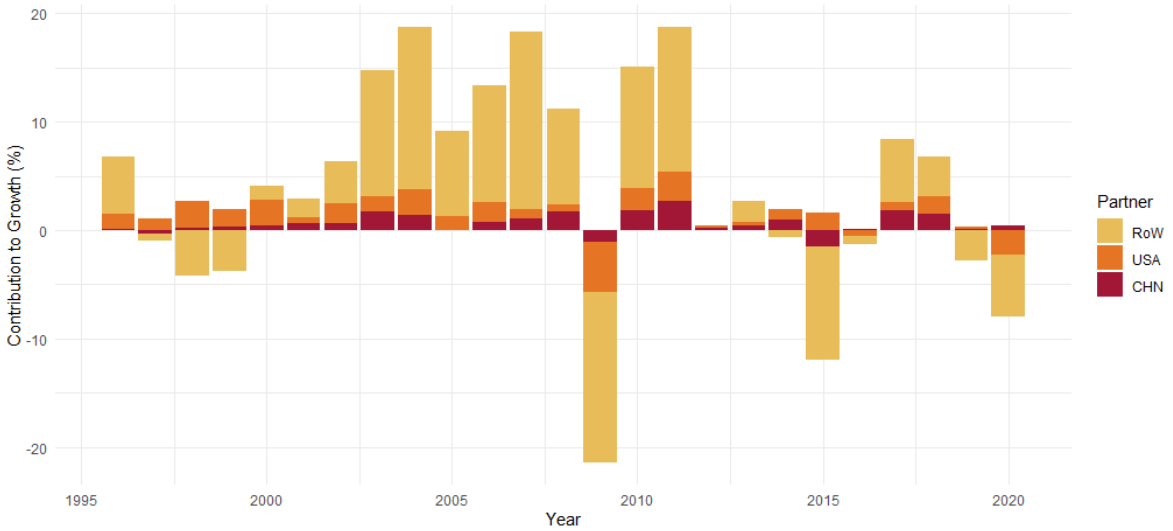
Table 1: Origin of value added in traded goods by destination

Source (row) / Destination (column)	China	EU27	High Income	Low Middle	ROW	USA	Upper Middle	Total value-added
China		**2.12**	3.64	1.52	1.25	**2.86**	2.27	13.67
EU27	**1.88**		5.41	1.46	2.61	**3.51**	2.75	17.62
High Income	4.27	4.39	4.26	1.85	2.14	5.40	2.36	24.67
Low Middle	0.96	1.30	1.55	0.75	1.01	1.54	0.87	7.99
ROW	1.65	1.53	1.62	1.25		1.00	0.96	7.99
USA	**1.37**	**2.64**	4.26	0.90	1.70		2.41	13.29
Upper Middle	2.01	2.73	2.30	1.27	1.53	3.03	1.90	14.77
Total value-add demanded	12.14	14.71	23.03	9.02	10.25	17.34	13.51	100.00

Source: Bruegel based on OECD TIVA. Note: Intra-EU trade is excluded. Each table entry represents the value added from a source country (by row) in foreign value added in final demand by destination country (by column) as a percent of foreign value added in final demand globally.

Looking at the dynamic picture, Figure 5 examines the contribution of China and the US to the annual growth of EU exports. Despite their relative importance as export destinations for the EU, China and the US contribute only a minor share to EU export growth, both in years of expansion and in years of contraction, underscoring the broad base of global partners that drive EU export performance. This highlights the importance of viewing export dynamics not just through the lens of major economies, but also through the aggregated impact of smaller partners, whose collective demand consistently drives the bulk of EU export growth. Moreover, these findings suggest that a slowdown in demand from China and US, while certainly impactful, may not result in a dramatic decline in EU exports.

Figure 5: Partner contribution to EU Total Export Growth



Source: Bruegel based on OECD TIVA. Note: intra-EU trade is excluded.

This is corroborated by trade modelling trying to assess different 'decoupling' scenarios and modelling the impact of the Trump tariffs on EU trade and GDP. For example, Baquee *et al* (2024) found, for Germany, long-term economic losses of around 1.5 percent of GDP in the extreme case of a gradual but complete decoupling from China. Aiyar *et al* (2023) put the cost of trade fragmentation between 0.2 and seven percent of global GDP, based on a variety of models and scenarios. Meanwhile, the modelling done to estimate the impact of Trump's tariffs also shows only a limited impact on the EU. Given the uncertainty surrounding American tariff rates[19], Barata da Rocha *et al* (2025) looked at a variety of studies. They estimated the tariffs' impact on EU exports to range from 0.6 to 1.1 percent[20] of GDP.

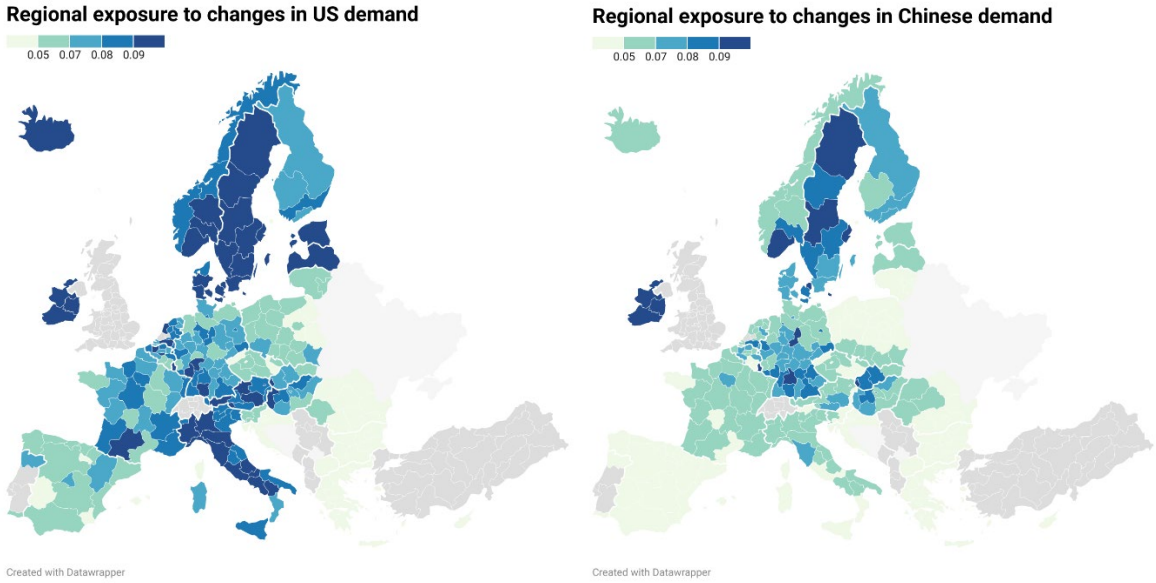
Importantly, models estimate that the macroeconomic cost is smaller for the EU than for the US itself, due to the latter's greater reliance on imported final and intermediate goods. While the US is setting historically high tariff rates on the vast majority of its trade, for the EU only trade with the US is affected. Furthermore, given the importance of imported inputs, the US strategy of imposing some of the highest tariffs on key industrial inputs such as copper, steel and aluminium is likely to hurt US competitiveness in third country markets[21].

5 Most affected regions, industries and products

Focusing on global final demand and overall contribution to export growth suggests that a decline in US or Chinese demand would likely pose a manageable risk to overall EU exports. Even in the scenarios of a slowdown of Chinese growth and a sustained inward turn of the US, a slowdown or sudden stop of exports seems unlikely. Nevertheless, while the aggregate impact may be manageable, certain regions, industries, or specific product categories could still experience significant effects. Figure 6 illustrates the relative index of regional exposure in the EU at the NUTS II level to changes in US and Chinese demand[22]. It shows the share of value added of an industry at the national level going to the US and China respectively, and weighs this against with the share of this industry in regional employment.

[19] See the Policy Uncertainty website, http://www.policyuncertainty.com/index.html.
[20] See also Felbermayr *et al* (2024), Bouët *et al* (2024), Goldman Sachs (2024), Du and Shepotylo (2025), McKibbin and Noland (2025), IMF (2025) and Rodríguez-Clare *et al* (2025).
[21] The steel and aluminium tariffs introduced under Trump's first term were indeed detrimental to US industry, see Flaaen and Pierce (2019).
[22] See the European Commission website on the NUTS classification system, https://ec.europa.eu/eurostat/web/nuts.

Figure 6: Regional exposures to demand shifts



Source: Bruegel based on Eurostat structural business statistics (SBS) and the OECD trade in value added database (TiVA).
Note: calculated by multiplying for each industry the value added embedded in direct and indirect exports to US/China as a share of total value added at the national level by the share of employment in an industry in each region. A higher value indicates a greater relative exposure to demand shifts.

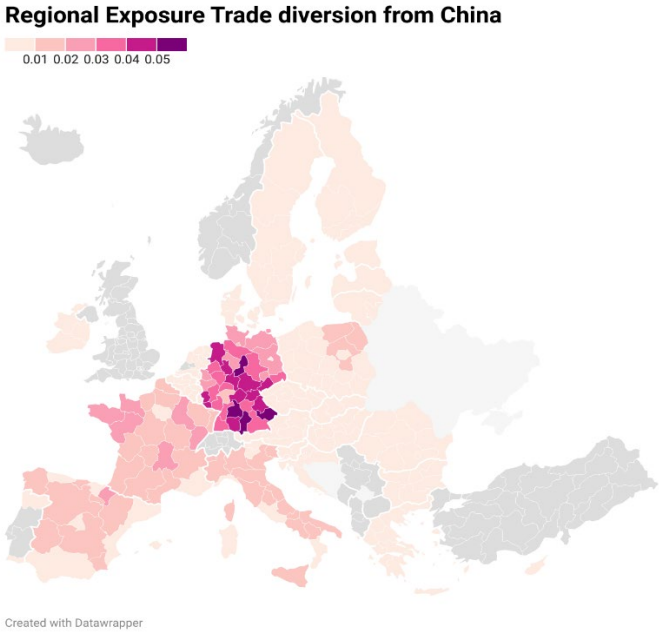
According to this measure, Italy stands out significantly in its exposure to changes in US demand. In its northern regions, exposure is primarily driven by the machinery and equipment and motor vehicles sectors. In the south, while motor vehicles remain important, food products and textiles also play a significant role. Germany also shows high exposure in some regions where pharmaceuticals and chemical products are the main drivers. Denmark's exposure is shaped by its pharmaceutical, machinery, and equipment industries, while Sweden shows elevated exposure driven mainly by coke and refined petroleum products. In the Baltic region, Estonia's exposure is driven by computers and electronics, whereas in Latvia, food products are the primary contributor. In Ireland the high exposure is predominantly linked to pharmaceuticals.

The regional exposure across the EU is generally lower for Chinese compared to US demand shifts. Among the regions most exposed to changes in Chinese demand, Sweden stands out, primarily due to metallurgic and paper product sectors, with pharmaceuticals also playing a role in some regions. In Ireland, exposure is driven by computers and electronics and furniture products. In Germany, exposure is predominantly driven by the motor vehicles sector, which is the main contributor in most regions. Machinery and equipment also play a role. In Slovakia, exposure is similarly explained by the motor vehicles sector.

Box 1: Regional exposure to trade diversion from China

Beyond demand-side risks, another important dimension of exposures stems from potential trade diversion from China. In the current context of escalating geopolitical tensions between US and China, Chinese exporters may shift exports previously destined for the US towards alternative markets, including the EU. Although this is distinct from the demand side shocks, it is highly relevant in the current geopolitical landscape. Redirected Chinese exports may put pressure on domestic European producers, with uneven effects across regions depending on their dominant sectors and on the extent to which these sectors overlap with sectors affected by redirected trade flows. Figure 7 maps the regional exposure to potential trade diversion from China. Regions are considered more exposed if their economic activity is concentrated in industries that align with the current Chinese exports to the US.

Figure 7: Regional exposure trade diversion from China



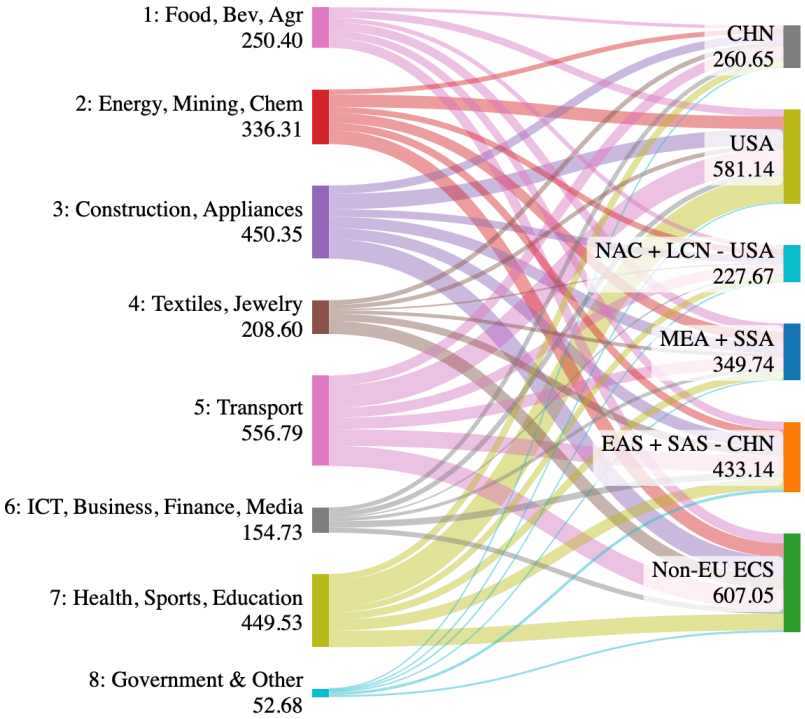
Source: Bruegel based on Eurostat structural business statistics (SBS) and the OECD trade in value added database (TiVA).
Note: calculated by multiplying for each industry the national value added as a share of total value of Chinese exports to the US of that industry by the share of employment in an industry in each region. A higher value indicates a greater relative exposure to trade diversion.

Germany accounts for most of the EU's exposure to potential trade diversion from China, concentrating a substantial share of the overall vulnerability. This is largely due to the prominence of the motor vehicles sector, which plays a central role in Germany's export-oriented industrial base. In the south, food products also contribute significantly to exposure, while in central regions, both basic metals and food products are important drivers.

Outside Germany, northwestern France shows notable exposure, primarily linked to food products and chemical goods. In Poland, the most affected regions specialize in food, wood, and paper products. In Italy, although exposure is generally lower, certain regions remain vulnerable due to their reliance on food products and basic metals.

Similar to regional variations, specific industries are also more exposed to shifts in demand from the US or China. Figure 8 shows the distribution of EU export value by broad economic categories, illustrating how key sectors allocate their exports across major destination markets. For most industries, the proportion of their exports going to a particular region is similar to the overall EU export share to that region, typically differing by no more than five percentage points. The health sector is the clear outlier, with its exports to the US far exceeding its overall share in EU trade. The sector's vulnerability is further amplified by its composition, with pharmaceuticals accounting for 58 percent of the sector's value, while optical, photographic, measuring, and medical or surgical instruments contribute another 22 percent.

Figure 8: EU exports by industry and destination region



Source: Bruegel based on WITS Comtrade 2023 EU Exports (as reported by EU27) and on the BEC-5 industries (WITS data pulled as 6-digit HS2022 products and converted to BEC-5 using the UN concordance table). Destinations are based on WITS pre-aggregated regions. Export values shown are in billions $.

6 Policy implications

The relationship with the EU's two largest trading partners has become increasingly difficult. We argue in this piece that both the US and China are unlikely to have the same role as a growing destination for EU exports in the future as they did in the past. There is no immediate replacement for them in the global economy, and their changing engagement with global trade threatens to become a drag on global growth. This is especially problematic for highly exposed sectors, such as the pharmaceutical industry with its exceptionally high level of exposure to US demand. The challenges faced regarding exports to these two partners are unlikely to resolve themselves and are outside of the control of the EU; thus we argue for a reorientation of trade policy and further integration with other partner countries.

While the Chinese implementation of its commitments prescribed by the WTO accession process has been lacking (Mavroidis and Sapir, 2021), and President Trump's trade policy has put its trade relationships outside the WTO framework, the system itself still provides a basis for the 70 percent of EU value added going to the rest of the world. Being a treaty-based organisation, the EU can play a key role in anchoring rules-based trade in the rest of the world. The EU has the most expansive network of trade agreements, already covering 74 percent of its trade with partners other than the US and China. Continuing to deepen existing trade relationships with this group and expanding the network with key partners such as Mercosur and India should be a key priority going forward (García Bercero, 2025). Economic policy tools such as export credit agencies can also play an important role to further integration of supply chains (McCaffrey and Poitiers, 2025). As the trade policy of the US is becoming increasingly volatile, a predictable and stable trade policy will bring economic opportunities that might make up for some of the losses from decreasing economic integration with the US and China. Building new supply chains can take a decade or more, which makes a stable policy regime a strong comparative advantage.

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