Europe’s geoeconomic and trade strategy in a fragmented world

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18 November 2026

Thank you for the invitation to contribute to this hearing. I would like to make one central argument. The competition between the United States and China is no longer primarily a trade conflict fought with tariffs. It has become a contest over three levers of economic power: technology, critical resources and finance. Europe is the only major economy that is deeply dependent on both contenders at the same time, which makes it the most exposed actor in this contest. It also has strengths it has not yet used. My contribution is structured in three parts: how US-China competition is reshaping economic power, the dependencies that most constrain Europe’s capacity to act, and the strengths on which Europe can build.

1. How US-China competition is reshaping economic power

Technology: from chips to full technology stacks

The technology contest has moved beyond individual products. What is now at stake is control of entire technology stacks: the chips, the software ecosystems that run on them, the cloud infrastructure and the models built on top. In artificial intelligence, the decisive advantage of the United States lies not only in Nvidia’s processors but in the CUDA software ecosystem, whose network effects lock developers and firms into American hardware. China’s response is a parallel stack, built around Huawei’s Ascend chips and its CANN software layer, combined with a deliberate strategy of releasing open-weight models such as DeepSeek and Qwen at very low or no cost.

The result is a gradual bifurcation into two technology spheres. The fragile détente reached between Washington and Beijing in 2025, which traded tariff relief and chip export licences for Chinese concessions on rare earths, is unlikely to reverse this trend. The departure of Jensen Huang from the leadership of Nvidia removes the most influential corporate advocate of continued access to the Chinese market, and the legislative pipeline in the US Congress points towards tighter, not looser, export controls. For Europe, the critical point is that these controls are increasingly extraterritorial: they reach European equipment makers, European data centres and European firms that use American technology.

Critical resources: dependence as a weapon

The second lever is control over critical inputs. China dominates the refining and processing of rare earths and is responsible for the overwhelming majority of global production of permanent magnets, which are indispensable for electric vehicles, wind turbines, defence systems and robotics. In 2025, Beijing demonstrated that it is willing to use this position: successive export licensing regimes caused shortages that halted

production lines in Europe, even though Europe was not the target of the dispute. The suspension of some of these measures under the US-China truce is temporary and conditional. The lesson is that supply chain dependence is no longer an economic risk to be managed by firms alone, but a strategic vulnerability that can be activated at short notice.

Finance: two poles pulling in opposite directions

The third lever is finance, and here the world economy is increasingly organised around two opposite poles. The United States has become a reflationary, high-return economy: fiscal expansion and the AI investment cycle keep interest rates high and attract global savings. China, by contrast, is a deflationary economy with weak domestic demand, falling returns on capital and structural overcapacity. It generates savings that it cannot absorb at home, and exports both capital and deflation through a goods trade surplus that exceeded one trillion US dollars in 2025.

These two poles interact through Europe. American markets draw European savings towards US assets, while Chinese overcapacity, increasingly redirected away from the US market by tariffs, lands in the European single market and in third markets where European exporters compete. At the same time, both powers are using finance strategically: the United States through the reach of the dollar system and sanctions, China through the gradual build-up of renminbi payment channels and its role as creditor to much of the Global South.

2. The dependencies that most constrain Europe

Europe’s capacity to act is constrained by four dependencies, two of which are directed towards China and two towards the United States.

First, dependence on China for critical raw materials and intermediate inputs. This is the most immediate vulnerability. European diversification efforts under the Critical Raw Materials Act are moving in the right direction, but new mining, refining and magnet capacity takes years to build and will not be competitive without long-term offtake agreements and public co-financing.

Second, exposure to Chinese overcapacity. The EU’s trade deficit with China has widened significantly, and the pressure is no longer concentrated in a few sectors such as solar panels or electric vehicles. It now affects machinery, chemicals, components and consumer goods, where European small and medium-sized enterprises are on the front line. Unlike large firms, SMEs cannot relocate production, absorb prolonged price competition or navigate complex trade defence procedures. Europe also faces Chinese competition in third markets, where it loses market share in its traditional export strongholds.

Third, dependence on the United States for the digital and AI stack. American firms provide the large majority of Europe’s cloud infrastructure, the leading AI processors and most frontier models. This dependence has been benign for decades, but it can no longer be taken for granted when US export controls and industrial policy are applied to allies as well as to rivals.

Fourth, dependence on the United States for security. This dependence limits Europe's room for manoeuvre in trade and technology, because economic choices are increasingly linked to security commitments. It also explains why Europe has been reluctant to respond firmly to American measures that harm its economic interests.

Beyond these external dependencies, Europe faces an internal constraint: its decision-making speed. Several of the instruments it has developed, including the Anti-Coercion Instrument, are slow to activate and require qualified majorities to start. In a world where economic power is exercised at short notice, the speed of response is itself a source of leverage.

3. The strengths on which Europe can build

Europe should not see itself only as a victim of this contest. It holds strengths that neither the United States nor China can easily replicate.

The single market. With some 450 million consumers and high purchasing power, the single market is one of the few large markets that remain open as the US market closes. This gives Europe considerable leverage over Chinese firms, which need access to it more than ever. Europe can make access conditional: on local production, local sourcing, technology sharing and the employment of European workers, as China itself did for decades with foreign investors.

Technological chokepoints of its own. Europe is not only dependent; it is also indispensable. ASML's lithography machines, specialised chemicals, precision machinery and industrial software are critical inputs for both the American and the Chinese semiconductor and manufacturing ecosystems. These assets give Europe a seat at the table, provided they are protected and used strategically rather than surrendered under pressure from either side.

Regulatory capacity and trust. European rules on data, competition and AI still shape global standards. More importantly, Europe offers predictability and rule of law at a time when both larger powers use economic policy in an increasingly discretionary way. This is an asset for attracting investment and talent.

A large pool of savings and the euro. Europe is a net saver. If its capital markets were integrated, these savings could finance the technology and energy transition at home rather than flowing to US assets. The current environment also offers an opportunity for the euro to play a greater international role, provided Europe develops a deeper market for safe euro-denominated assets.

A dense network of partnerships. Europe has the broadest network of trade agreements in the world, including the recent agreements with India and Mercosur. Many middle powers in Asia, Latin America and the Gulf share Europe's interest in an open, rules-based system and do not wish to choose between Washington and Beijing. Coalitions of these middle powers, in technology standards, critical raw materials and AI infrastructure, can create a scale that no single member could achieve alone.

4. What this means for Europe

Without pre-empting the policy priorities that Mr García Bercero will present, I would draw four conclusions from this analysis.

First, Europe should aim for **leverage rather than autarky**. Full technological sovereignty is neither achievable nor desirable. The objective should be to ensure that Europe is as indispensable to others as they are to Europe, so that no dependency can be used against it without a cost.

Second, trade defence instruments **buy time but do not deliver competitiveness**. A broader toolbox to address overcapacity is necessary, including faster instruments than those currently available. But protection without a parallel effort to raise productivity, lower energy costs and finance innovation will only delay the loss of market share, as the experience with solar panels has shown.

Third, Europe needs **conditional openness** towards Chinese investment. Chinese capital and technology can contribute to European reindustrialisation, notably in batteries and electric vehicles, but only if investment is accompanied by real integration into European supply chains, including European SMEs, and by the transfer of know-how.

Fourth, Europe must **act at scale and at speed**. This requires completing the capital markets union, pooling investment in strategic technologies and energy, and equipping the Commission with instruments that can be deployed quickly.

All in all, the fragmentation of the world economy is not a temporary disruption. It is the new framework in which European trade policy will operate for the foreseeable future. Europe enters this period with real vulnerabilities, but also with assets that the two largest economies cannot ignore. The question is whether it will use them in time.

Thank you. I look forward to the exchange.