In geoeconomic times, EU trade and industry should remain sources of creation toward reglobalisation

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In apical geoeconomic times, the EU – whose economy relies heavily on trade openness – sees its economic competitiveness and resilience being structurally eroded. In this context, the EU recently adopted the European economic security strategy, striking a delicate balance between trade openness and protection from related risks based on the fundamental alignment across its trade and industrial policies. To continue taking advantage of the benefits of a more integrated single market – with an outward-looking industrial policy and facilitated intra-EU trade – as well as of open trade as adjusted to strategic autonomy, it is crucial for the EU to continue conceiving trade and industry as sources of preservation and – critically – also of creation for the longer term driven by reglobalisation.

1. Introduction

The global economy entered a new era of *expansionist and gravitational security and control* markedly shaped by two rival great powers, the United States and China, who are animated by hegemonic ambitions in all domains along the tech frontier. The global economy is increasingly defined by the law of the strongest, and crossed by major mercantilist trends, historic levels of protectionism and economic weaponisation, and the monopolisation of strategic resources (Orain, 2025). The foundations of the rules-based multilateral trading system are thereby greatly undermined.

In this context, the EU – whose economy relies heavily on trade openness – sees its economic competitiveness and resilience being structurally eroded and its security endangered. The United States and China represent, in fact, its two main trading partners. The EU's trade relations with China significantly deteriorated over the past decade. The EU is, in fact, facing an important trade deficit in goods with China (i.e. more than EUR 300 billion since 2022 (European Commission, 2026)) that may to a great extent be traced back to China's non-market and predatory practices (e.g. overcapacities) entailing significant EU dependencies in key sectors (e.g. critical raw materials, clean tech) and undermining its industrial base. Furthermore, China has an increasing recourse to economic coercion (e.g. export restrictions on rare earths). And it continues to indirectly support the war in Ukraine by backing Russia politically and economically (e.g. supply of key tech).

With the Trump II administration, the EU is equally facing U.S. disruptive tariffs of 15 % on most of its goods if based on the EU-U.S. trade deal (except steel, aluminium and copper at 50 %), i.e. a five-fold increase compared to early 2025. And, it is more frequently subject to U.S. economic coercive practices for various reasons, including (digital and green) deregulation and sovereignty acquisition (e.g. Greenland). In this context, the EU goods trade surplus with the U.S. shrank in 2025 – translating into a marked decline in bilateral trade flows (exports) these last months. Similarly, the U.S. investment outflows to the EU dropped considerably compared to 2024 (Eurostat, 2025a; Hamilton and Quinlan, 2025). Furthermore, the U.S.-China trade war – that entailed till recently significant U.S. tariffs of 47 % tariff on China imports and reciprocal export restrictions – has important repercussions on the EU economy via diverted China overcapacities (i.e. second China shock) (Boutelet, 2025) and supply chain disruptions (Bonnefous et al., 2025). The latest U.S. Supreme Court decision on Trump's tariffs could, however, change the situation.

Against this background, the EU has progressively reoriented its trade and investment policy – traditionally founded on openness – towards *open strategic autonomy* since 2021. This new paradigm is being gradually realised through the 2023 European economic security strategy, which is aimed at striking a very delicate balance between trade openness *maximisation* and economic security risks *minimisation* based on a three-pillar approach, i.e. promotion, protection, and partnerships (European Commission and High Representative of the Union for Foreign Affairs and Security Policy, 2023). It was updated in December 2025 with an emphasis on systematicity and security (Ibid., 2025).

This evolving EU trade policy trajectory will be depicted in further detail and critically assessed in this short paper.

2. The European economic security strategy in support of the EU's enhanced economic resilience and competitiveness

More concretely, the European economic security strategy is aimed at mitigating relevant risks linked to (potential) key EU dependencies through *the fundamental alignment between the EU industrial policy and the EU trade and investment policy* in support of the enhanced resilience and competitiveness of the European economy and related supply chains. In apical geoeconomic times, the size of the EU economy and its competitiveness become, in fact, (paradoxically) of crucial importance for preserving and possibly strengthening the EU's economic and geopolitical positioning in a global context that is further marked by the fundamental green and digital transitions.

2.1 Towards a cohesive and integrated EU industrial policy

The EU is aiming to revitalise its single market with *targeted enhanced innovation and production capacities in strategic sectors* based on a more integrated EU industrial policy. Accordingly, the EU has recently adopted different measures in key domains, notably clean tech (the Net-Zero Industry Act, NZIA) and critical raw materials (the Critical Raw Materials Acts, CRMA), that comprise relevant mitigation strategies such as reshoring, stockpiling, and circularity.

Regarding *reshoring*, both the NZIA and the CRMA provide relevant (voluntary) benchmarks. For instance, the former foresees a benchmark of at least 40 % of the EU's annual deployment needs for the covered tech that are needed to achieve the Union's 2030 climate targets. The latter sets benchmarks along the value chain, such as one of 40 % regarding the EU's processing. In this perspective, both types of projects are supported by a simplified regulatory framework (e.g. for permit-granting), but are still evolving in a context of fragmented EU financial frameworks and to be improved Important Projects of Common European Interest (IPCEIs).

The circularity approach is equally central to the CRMA. It is designed to incentivise resource efficiency, including improved recycling of relevant waste – currently operationalised by the Commission regarding permanent magnets, aluminium and possibly copper. With the upcoming EU Circular Economy Act, the circular transition will be extended across further relevant domains.

2.1.1 Some reflections

To firmly enhance the EU's economic competitiveness, the current EU industrial policy architecture should evolve towards *a much more integrated and cohesive European industrial policy* that would enable the mutualisation among EU Member States of reinforced capacities *in key digital and green sectors* that may thus leverage on improved labour productivity and economies of scale (to be further aligned with the reglobalisation process). The EU reshoring endeavours should, accordingly, be geared towards sectors for which the EU (may) benefits from such *efficiency gains* – thus notably fine-tuning the NZIA clean tech list (e.g. regarding solar PV tech). Otherwise, it is preferable that the EU orients its efforts towards research and development (e.g. focusing on experimental solar PV technologies incorporating perovskites). As to *the EU's circularity perspective*, it represents a significant emerging approach for the reinforcement of the EU's capacities to the extent it entails resource efficiency (i.e. re-use) and thus an enhanced relocalisation and autonomy of certain sectors. It should become central to all relevant domains and regarding innovation for the development of mature circular solutions.

Finally, *the wide-ranging internal non-tariff barriers – such as national labelling or fragmented distribution – to the EU single market should be progressively lifted*. According to recent studies by the International Monetary Fund and the European Central Bank, such barriers represent the equivalent of 44 % – or even 65 % – of tariffs on intra-EU goods trade (Adilbish et al., 2025; Bernasconi et al., 2026). To give an order of magnitude, the share of intra-EU trade for most Member States lies between 50 and 75 % (Eurostat, 2025b) – it represents two-thirds of Austria's and Belgium's overall trade relations, for instance (DG du Trésor, 2024; Boulanger, 2025). If they were lifted, *the intra-EU trade* could potentially increase by 45 %, taking into account its inherent advantages linked notably to geographical proximity or common money compared to extra-EU trade (Maes, 2026).

2.2 Towards a unified forward-looking diversification strategy

The EU's engagement policy via trade and investments is essentially deployed as *a strategy of diversification* of the EU's supply chains with like-minded trading partners aimed at securing the EU's access to key inputs and to external growth markets.

It relies first on its *widely growing network of free trade agreements* (FTAs), which have lately been adjusted to the new frontier of *security of supply* (e.g. EU-Chile FTA). Most recently, the EU-India and the EU-Mercosur FTAs were sealed – translating a more pronounced *geopolitical* dimension (i.e. in favour of win-win rules-based trade with significant regions of the world – equally greatly affected by Trump's tariffs). At the same time, these agreements have to some extent been concluded at the expense of economic or other EU ambitions. For instance, while the EU-India FTA decreases high tariffs on over 90 % of EU goods exports, its provisions on services and digital trade are rather limited and tariff cuts on electric vehicles are foreseen for after 2031.

Second, emerging platforms for engagement have been developed. They are designed to enhance flexibility through a more targeted and results-oriented approach. Since 2021, the EU has been establishing a growing network of *strategic partnerships on raw materials* with resource-rich countries to ensure secure and resilient supply chains. The EU has further recently launched *Clean Trade and Investment Partnerships (CTIP)* (e.g. with South Africa based on the key principle of 'beneficiation' favouring local value chains) that are comprehensive collaboration frameworks targeting critical raw materials, clean tech, and clean energy.

Digital partnerships and trade agreements have equally recently been concluded by the EU with key trading partners such as Japan or Singapore with the objective of strengthening connectivity and related supply chains, and fostering a safe digital space based on common standards. *Sustainable investment facilitation agreements (SIFA)* have, furthermore, been developed with African and Latin American countries.

As an overarching multilateral constructive ambition, *the EU proposed a rapprochement with* the twelve nation Pacific trade group composing *the Comprehensive and Progressive Agreement for Trans-Pacific Partnership* with the objective of redesigning the global trade rules body. The related Dialogue covers five key areas relating to trade diversification, digital trade, trade and investment facilitation, supply chain resilience, and the global trade environment, including the reform of the World Trade Organization (WTO).

2.2.1 Some reflections

To unleash the full potential of the EU's diversification strategy, it would be important to develop *a unified EU foreign economic policy* that aligns the different European external economic instruments (e.g. clean tech development supported by EU FTAs coupled to industrial cooperation – i.e. CTIP, SIFA, NZIA industrial partnerships – and Global Gateway). Such a unified EU foreign economic policy approach would also contribute to the enhanced attractiveness of the EU's trade and investment offer to international trading partners, which would, however, require a further alignment with the EU internal policies (e.g. the EU deforestation-free regulation).

The EU engagement policy – to remain a *sustainable* source of resilience and competitiveness – should *continue capitalising on the dynamic of reglobalisation*, i.e. involving better and newly integrated economies globally, enhanced sustainability and growing services trade (WTO, 2023). Many developing and emerging economies continue to benefit from trade and grow via the expansion of global supply chains (e.g. India or Brazil as future hubs in high-tech or green energy). Services trade is seen as the new globalisation frontier for both developed and developing economies. Finally, the EU should play a key role as part of a global decarbonisation partnership that would complement China's related supply chains.

3. The updated European economic security strategy: Towards lost illusions?

On 5 December 2025, the EU released *its updated economic security strategy* – potentially *doctrine* in the making – which brings about a noticeable paradigm shift in adopting a more restrictive definition of economic security that focuses on *security as such* as primary objective of the strategy in a framework founded on *short-term* EU actions. Europe's economic security concerns "the Union's ability to ensure security, alongside other objectives, through a strong, dynamic and resilient economy by anticipating, deterring and responding to potential or actual threats, linked to the EU's economic relationships with the wider world" (European Commission and High Representative of the Union for Foreign Affairs and Security Policy, 2025).

In this context*, the EU seems to be at a potential tipping point*. Its updated strategy implies, indeed, a relatively more inward-looking approach to both its industrial and trade policies and potentially also a more geopolitical perspective of the latter, thus, with an enhanced risk of protectionism and potentially less sustainable trade relations.

3.1 Towards lost illusions regarding the EU industrial policy?

The new strategy foresees *the recently proposed Industrial Accelerator Act (IAA),* which is aimed at further reinforcing the EU's industrial capacities – towards 20 % of EU GDP by 2035 – based on new (to some extent groundbreaking) requirements that are prone to (still) selected protectionism. On the one hand, the proposed IAA introduces *Made in EU* clauses for public procurement and public support schemes in strategic sectors such as cars and net-zero tech. It remains though – by principle – in line with the EU FTA commitments and WTO rules on public procurement, i.e. content from partners benefiting from these agreements shall be deemed of Union origin. On the other hand, the proposed IAA conditions large investments in key emerging sectors such as batteries and electric vehicles – where 40 % of the global manufacturing capacity is controlled by a single third country – notably to technology transfer or compliance with local content requirements.

While based on a targeted approach, these proposed IAA clauses may to some extent entail trade distorting effects (affecting prices, competition and innovation) and possibly also – even if more limited – a tit-for-tat approach. Furthermore, the second proposed IAA clause may be incompatible with the letter or spirit of WTO law (Schaus, 2025; Garcia Bercero et al., 2026). It is therefore important that this still selective EU protectionism remains very much constrained – targeted at specific sectors (see reflections on reshoring), and that discussions towards WTO-compatible first-best solutions be pursued. To the extent these EU measures aim at addressing China's global overcapacities, they should also be further coordinated with like-minded trading partners to induce China to change its regulatory trajectory and to trigger a change of model globally regarding key sectors – i.e. a form of inward-looking global planning – based on reshoring processes and reglobalisation (e.g. the principle of 'beneficiation' could act in this direction) (Schaus, 2025).

3.2 Towards lost illusions regarding the EU trade policy?

The EU cooperation with trusted countries is envisaged exclusively through the restricted prism of economic security, i.e. taking solely account of the external threats (e.g. joint risk management in key sectors). Reglobalisation – translating long term trends regarding the rules-based multilateral trading system and the digital and green transitions – is therewith relegated to the background. However, to be sustainable and most efficient, any external cooperation has to be anchored in solid bases of engagement and openness in the long term – beyond any necessary ad hoc commitment founded in security. In other words, *the EU external cooperation should be able to continue benefiting from a holistic approach relying on both parallel dynamics*, i.e. the management of economic fragmentation coupled with the progressive building of the future to perpetuate the mutual gains from trade.

In the same vein, the reform of the WTO requires itself to be further supported by the EU and its trusted trading partners. The questioning by the Commission of *the most-favoured-nation (MFN) principle of the WTO* is inappropriate. This fundamental WTO principle is, in fact, *not at the source of the contentious trade imbalances.* The MFN principle is cardinal to the proper functioning of the rules-based multilateral trading system, contributing to the clarity and efficiency of the tariff regimes and the protection against power asymmetries.

The emphasis put on *short-termism* in the updated strategy may equally risk translating into increasing haste towards the conclusion of EU FTAs that may thus be marked by *a more geopolitical dimension* at the expense of legitimate economic ambitions necessary for reglobalisation. It is indispensable *to continue pursuing efforts with a long-term perspective* (e.g. EU-India FTA as a leverage towards the WTO reform). Indeed, history shows that purely geopolitical affiliations generally undergo significant changes over time (WTO, 2023).

4. Conclusion

To continue taking advantage of the natural benefits of a progressively more integrated single market – with an outward-looking industrial policy and facilitated intra-EU trade – as well as of open trade as adjusted to strategic autonomy, it is crucial for the EU to continue conceiving its two main policy pillars – trade and industry – as sources of preservation and – critically - also of creation for the longer term firmly anchored in core foundations of the rules-based multilateral trading system. In this perspective, the EU should move beyond its currently ambiguous positioning. Based on its historic project – founded on trade and cooperation – and its assumed international responsibility, the EU – as a supranational entity – is best positioned to federate a union of nations aimed at supporting the liberal rules-based trading order and therewith at opposing any logic of economic fragmentation or even war as imposed by China and the United States.

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