

TWO DEPENDENCIES, TWO LOGICS: EUROPE'S ECONOMIC EXPOSURE TO THE UNITED STATES AND CHINA

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A question often raised is how dependent Europe is on the outside world, as if there were a single measure of dependence. There is not. This issue brief shows that Europe's exposure to the United States (U.S.) and China differs in kind, not merely in degree. Europe's dependency on the U.S. is concentrated in the financial and security sectors, and is demand-driven, comprising equity co-movement, dollar-denominated earnings, and deep, mutual investment ties that tend to stabilize rather than threaten. In contrast, Europe's dependency on China is more physical and input-based, centered on rare earths, magnets, pharmaceuticals, solar, and clean-tech; reinforced through state-owned stakes in ports and grids; potentially weaponizable within days; and largely unreduced despite de-risking rhetoric. Two areas complicate Chinese influence in Europe. The first is finance, where U.S. control of the dollar gives sanctions near-global reach, and the second is defense, where U.S. arms dependence carries genuine coercive potential for the EU. Additionally, in one area, technology, European dependency is split: the U.S. leads in the digital layer, China leads in clean-tech, and Europe trails both at the frontier. The brief argues that European policy should prioritize weaponizability over trade volume, manage dependencies together, and make Europe's response collective.

The starting point of this brief is a distinction that the public debate too often blurs: European dependence on the U.S. and China is not the same. Europe is dependent on both states, but in fundamentally different ways, and conflating the two can lead to misallocated efforts and

possibly greater dependency in the long run. The distinction between the U.S. and China is now more important than ever, as a U.S. that is paradoxically more isolationist and aggressive seems to be shifting toward Russia on critical issues, while an ally, at least on paper, is

KEY POINTS

- ✓ Europe's dependence on the U.S. and on China differs in kind, not merely in degree. U.S. dependence is financial and demand-driven; China's dependence is physical and input-based.
- ✓ The relationships point in opposite directions. The U.S. is Europe's largest export market, and China is its largest import origin.
- ✓ Only China's dependence is readily weaponizable, and it has not declined, unlike the U.S.'s influence in Europe.
- ✓ Transatlantic foreign direct investment (FDI) is vast and mutual (approx. €4.8tn and two-way) which makes it stabilizing, while Chinese FDI is far smaller, aimed at strategic assets, often state-owned stakes in ports and grids, and is to be screened, not blocked.
- ✓ The dependency on the U.S. is not all soft. Finance, defense, and digital technology each carry real coercive potential, including the dollar, U.S. arms lock-in (58 percent of imports), and direct control of the cloud and artificial intelligence (AI) stack.
- ✓ Technology is the most two-sided channel. U.S.-led in the digital layer (cloud, AI, chips) and China-led in clean-tech, while Europe trails both at the innovation frontier, and these are gaps de-risking cannot close.
- ✓ Policy should be prioritized by weaponizability, not trade volume, and the two dependencies must be managed together, on a European scale.

discrediting Europe to a degree not seen before. At the same time, China has weaponized its economy, especially in its dealings with the U.S., with Europe ending up as collateral damage. It is therefore increasingly important to understand what these dependencies entail and how Europe can counter or balance these challenges over time.

The U.S. and China have distinct logics of power that create vulnerabilities for Europe. The United States holds leverage as the hub of the global system, through the depth of its capital markets, the centrality of the dollar, the pull of its consumer market, and the security guarantee on which European defense still rests. Its power is primarily structural, working largely by gravity; it rarely needs to be exercised to be felt. China holds leverage from the other end of the chain, as the indispensable supplier of the materials, processing, and manufacturing that European industry cannot quickly replace. Its power is positional, working through deliberate limitation. The first is broad but slow and diffused, while the second is narrow but concentrated and can be turned on within days. No single political reflex, whether it is "de-risking" or "strategic autonomy," offers a simple solution to both dependencies simultaneously. This brief therefore explores the two dependencies across trade, supply chains, investment, defense, technology, and money, asking where each genuinely binds Europe and what, realistically, can be done about it, and in what order. This is the first piece of a much longer, more extensive study that compares European dependencies on China, Russia, and the U.S. and attempts to sequence the solutions.

As a brief first takeaway, European dependency on the U.S. is financial and demand-driven, whereas its dependency on China is physical and input-based. Dependence on the U.S. is broad and softening at the margins; dependence on China is narrow, strategic, and readily weaponized. This

brief aims to distinguish the two, outline the policy consequences, and offer a few practical solutions to a complex problem that will take decades to rebalance effectively, if it ever succeeds.

The American Exposure: Financial, Demand-driven, and Softening

The everyday impressions that “the European market just follows Wall Street” or that “Europe’s economy is dependent on the U.S. economy” are real to an important degree, but that assessment is too shallow. European and U.S. equities have long been highly correlated, tending to move in the same direction, driven by global capital, AI and technology themes, and algorithmic trading.¹ But co-movement in the same direction is not the same as dependency in outcome. For example, in 2025 Europe diverged in performance over the year: the STOXX Europe 600 rose about 17 percent and outperformed the S&P 500, led by banking, defense, and basic-resource stocks and a deliberate rotation out of U.S. assets.² Markets often move in the same direction on the same day without delivering the same returns over time, and they react to market forces rather than politically instigated actions, even if politically instigated chaos undeniably affects markets.

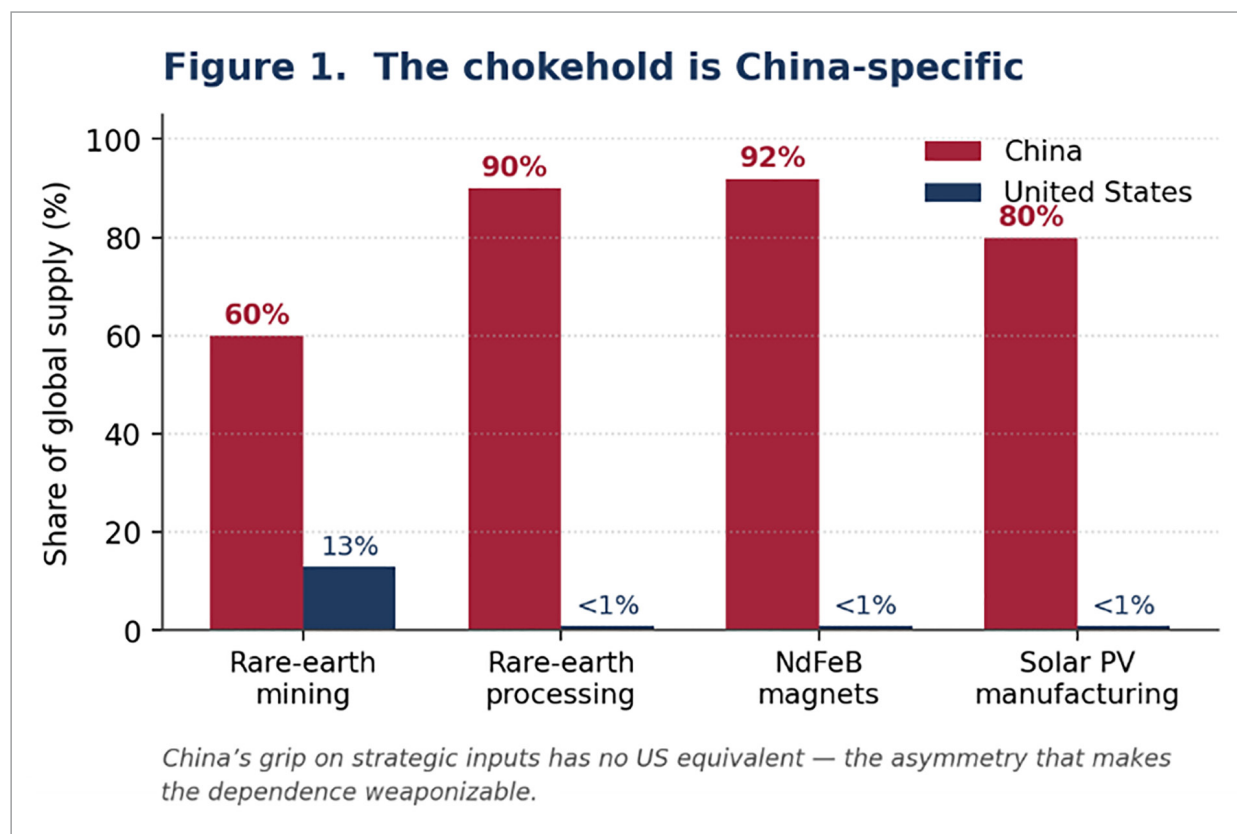
Structural U.S. dependence sits in companies, not in Europe’s index line, and European exporters book a substantial share of their sales in dollars. Hence, the currency matters as much as the customer: when the dollar weakens, their euro-denominated earnings erode.³ Goldman Sachs flagged in January 2026 that a strong euro could drag on European corporate earnings this year.⁴ Yet most of this depends on demand, capital, and currency, which are diversifiable over time, with one important exception, and that is the dollar’s role as global financial infrastructure, which will be discussed ahead. A new trend is also emerging: European dependence on U.S. markets appears

to be softening. Since April 2025, international investors have increasingly bought euro-area government bonds, partly seeking a haven beyond U.S. Treasuries, while the euro has gained portfolio share.⁵ This is mainly because capital is mobile and diversifiable over time in both the EU and the U.S., and this is the crucial contrast with China and the Chinese renminbi.

The Chinese Dependence: Structural, Weaponizable, and Sticky

Europe’s dependence on China is different and more concerning, without neglecting U.S. influence. It sits not in share prices but in supply chains, and it can be used as a political and economic weapon in a way the dollar cannot easily be. EU import reliance is very high for certain pharmaceutical inputs, chemicals, and critical raw materials, and the Commission has identified raw materials, batteries, chips, and solar as strategic dependencies on China. For several of the most critical inputs, such as magnesium, permanent magnets, solar cells, and some active pharmaceutical ingredients, there are no near-term substitutes within a reasonable financial and political timeframe, and critical dependencies are building up.⁶

This is not due to a lack of understanding of the problem within the European Union (EU), but rather to the positioning of the U.S. and pressure from Washington on the EU, which has forced Europe to maintain and even deepen its economic relations with China to balance an increasingly unpredictable U.S. policy. The asymmetry is most severe in strategic commodities, such as rare earth minerals, where there is simply no American equivalent to China’s position. China mines around 60 percent of the world’s rare earths, processes some 90 percent, and holds the true leverage: it makes over 90 percent of high-performance neodymium-iron-boron (NdFeB)



Sources: IEA, *Global Critical Minerals Outlook 2025*; U.S. Congressional Research Service (2026). Figures are approximate shares of global supply.

magnets. Its market share across all stages of solar manufacturing exceeds 80 percent. In contrast, U.S. magnet output is below one percent of the global total, and Washington remains roughly two-thirds net-import-dependent for most rare earths and, like Europe, lacks sufficient refinement capacity.

In 2025, Beijing demonstrated exactly how this could be exploited. Export controls were introduced in April 2025 and then sharply expanded in October, pushing automotive suppliers, wind-turbine manufacturers, and defense manufacturers to the point that some factories were days from shutting down, while European rare-earth prices spiked to as much as six times Chinese levels. In January 2026, China demonstrated the potential scale of its leverage when it imposed a sweeping minerals export ban

on Japan after Prime Minister Sanae Takaichi's comment on Taiwan, triggering Beijing's anger.⁷

No American lever looks like this or could affect Europe as fundamentally. Tariffs and market volatility hurt the economy, but they do not close production lines within a week in the way Chinese supply-chain dependencies can. In addition, unlike U.S. dependence, which eased somewhat in 2025, dependence on China has not diminished. China remained the EU's single largest source of imported goods in 2025, at 22.3 percent of the total, and EU imports from China rose 6.4 percent over the year. While the U.S. has been visibly decoupling from China, the EU has not reduced China's share of its imports. De-risking so far exists more on paper than in the figures, largely because of the international uncertainty caused by President Trump's actions and statements.⁸

Trade Geography: Market vs Source

The two relationships for the EU also point in opposite directions, and this is the heart of the matter. In 2025, the EU ran a goods-trade surplus of €199.6 billion with the U.S. but a deficit of €359.8 billion with China. It should be noted that a trade deficit is not necessarily a problem, as long as it is not caused by unfair practices or market manipulation. European consumption is a market choice, and EU institutions will not target it. The U.S. is Europe's largest export market; China is its largest import origin.⁹ To put it plainly, Europe *sells* to America and *buys* from China. The American relationship is about market access for European output, while the Chinese relationship is about the inputs European industry cannot readily make without.

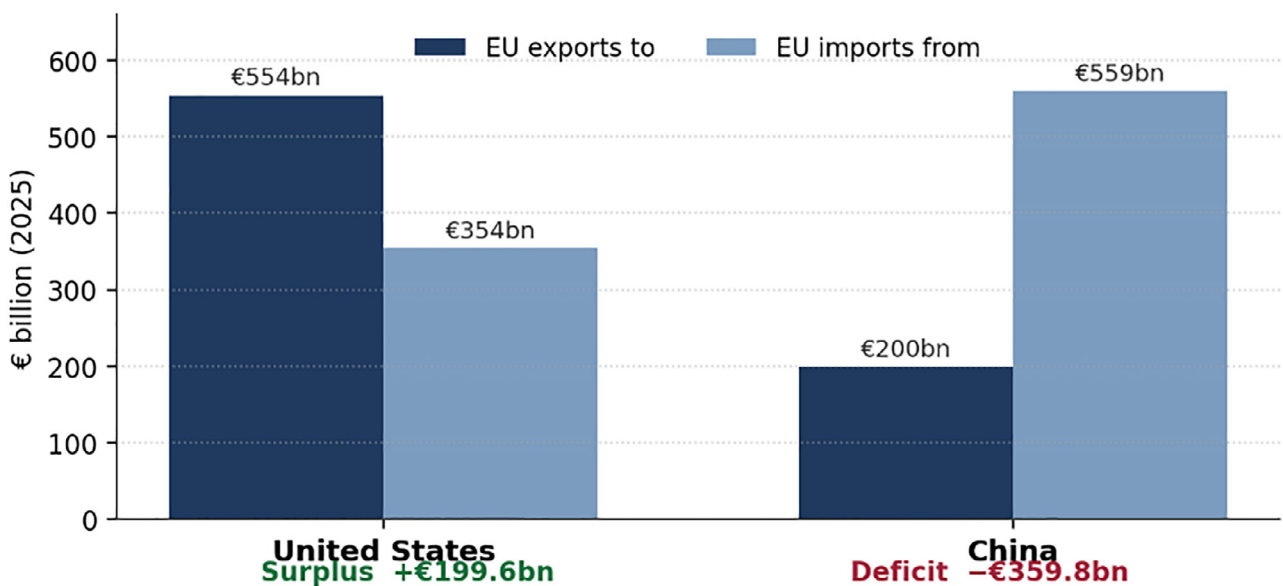
That difference in direction maps onto a difference in vulnerability for Europe. A market can be substituted over time, and we see efforts in the EU to diversify its markets to Latin America and

Asia; a sole-source input cannot be substituted as quickly, and the EU has begun to focus on this through its economic diversification and supply chain security policies.

The Investment Dimension: Integration vs Strategic Targeting

Foreign direct investment tells a similar story about capital that trade tells about goods. The transatlantic relationship is among the deepest in the world, and it is mutually reinforcing. EU and U.S. firms hold roughly €4.8 trillion invested in each other's markets, and the flows run both ways, with €2,673 billion of EU investment in the U.S. against €2,243 billion of U.S. investment in the EU at the end of 2024. This link supports around 2.4 million jobs on each side of the Atlantic. This is real interdependence, not one-sided dependency, and each side is, in effect, constrained by the other, which itself is a source of stability and economic cooperation.

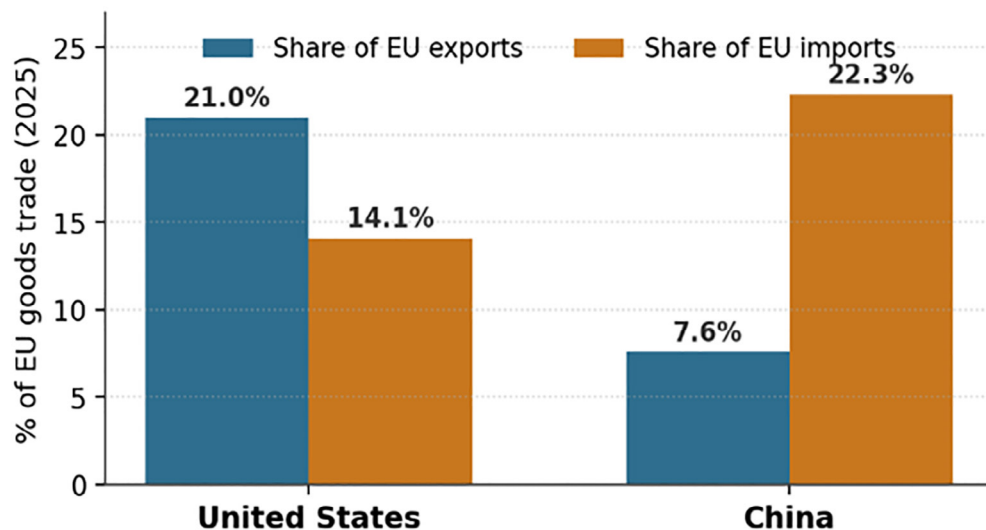
Figure 2. Europe sells to America, buys from China



EU goods trade, 2025. A near-mirror: a large surplus with the US, a far larger deficit with China.

Source: Eurostat (2026), shares of EU goods exports and imports by partner, 2025.

Figure 3. A market for our goods vs a source of our inputs



The US is the EU's largest export destination; China its largest import origin. The relationships point in opposite directions.

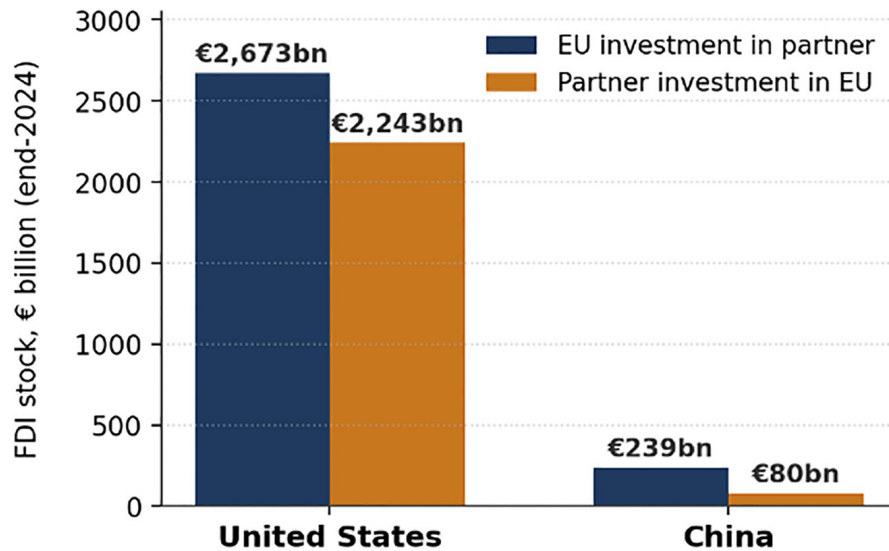
Source: Eurostat (Nov 2025) and European Commission; bilateral FDI stocks, end-2024.

The EU-China investment relationship is considerably smaller and differently shaped. EU investment stock in China stood at about €239 billion at the end of 2024, while Chinese stock in the EU was only €79.8 billion.¹⁰ The risk here is not necessarily scale but selectivity in the investment pattern. Chinese investment in Europe has shifted from the acquisition wave of the mid-2010s toward greenfield projects in batteries, electric vehicles, and strategic infrastructure. There was also a renewed rebound in acquisitions in late 2025, targeting precisely the assets that could reinforce existing dependencies or transfer sensitive technology and data. That is why the EU has built and tightened an FDI-screening regime since 2020 under its Economic Security Strategy.¹¹ In simple terms, American exposure is broad and mutual, while Chinese exposure is narrow and targeted at critical sectors.

Ownership type matters as much as ownership scale, or even more. The transatlantic stakes

are mostly broad, commercial and portfolio-type, held by pension funds and asset managers on both sides, creating a mutual constraint rather than a mutual threat. Chinese holdings are different and are smaller, but concentrated where ownership could translate into control of critical systems and/or sectors and are often held by state-owned enterprises. Currently, Chinese operators hold stakes in more than 20 European ports, with Piraeus effectively under full Chinese control, and the Hamburg terminal stake was cut to 24.99 percent once the site was designated critical infrastructure.¹² In the energy sector, State Grid of China holds a 25 percent voting stake in Portugal's transmission operator Redes Energéticas Nacionais (REN), China Three Gorges (CTG) is the largest shareholder in Energias de Portugal (EDP), and State Grid also holds stakes in Italy's Terna and Snam.¹³ A minority stake in critical companies and information rights can shape strategy without a majority, and a state-owned holder can make the stake a potential

Figure 4. Transatlantic capital dwarfs EU-China investment



Bilateral FDI stock, end-2024. US-EU investment is vast and roughly balanced both ways; China FDI is an order of magnitude smaller.

Source: SIPRI, Trends in International Arms Transfers 2025 (March 2026). Rolling five-year periods.

instrument of policy. Moreover, a particularly uneven and potentially critical challenge is that exit strategies are also asymmetric: European investors can be trapped in China while Chinese investors can divest from Europe freely, reflecting the different political systems. Cross-ownership therefore does not cancel out dependencies: with the U.S., it is mutual and stabilizing; with China, it adds another point of leverage on top of trade and supply chains.

The Defense Dimension: Dependence, Autonomy, and the Trade Trap

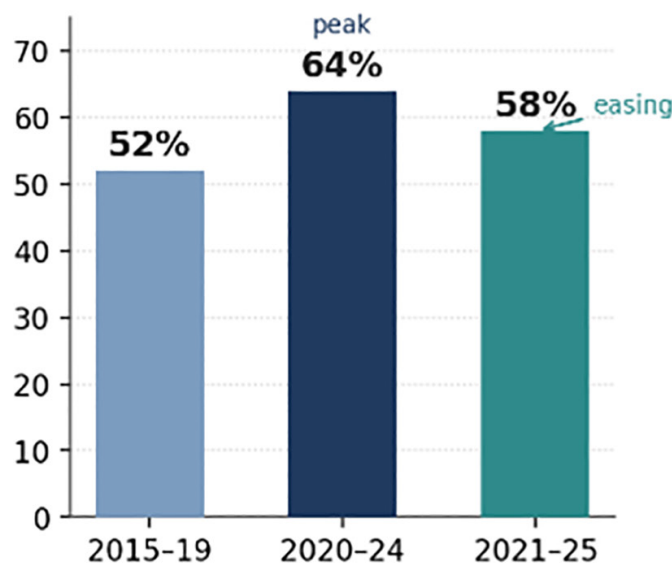
Defense is where European dependence on the U.S. is most acute, and least benign. It is the one channel where U.S. leverage resembles the coercive quality this brief otherwise mostly attributes to China. The U.S. supplied 58 percent of European NATO members' major-arms

imports between 2021 and 2025, and the lock-in is structural. As one example, at the end of 2025, 12 European states had 466 F-35 fighters on order or pre-selected, tying European security to the U.S., but not the other way around.¹⁴ The much-needed combat aircraft, long-range air defense, and the software, spare parts, and International Traffic in Arms Regulations (ITAR)-controlled components that sustain them tie European militaries to American goodwill for decades, creating a dependency with a real, if rarely used, off-switch. This makes defense a critical long-term dependency

We have seen a tendency for the U.S. to threaten Ukraine with this possibility in the proposed "peace" negotiations. Europe is now trying to escape this dependency, even if doing so will be slow and costly. The €150 billion Security Action for Europe (SAFE) instrument, the ReArm

US share of European NATO arms imports (%)

Figure 5. US arms dependence: high, but past its peak



Share of major-arms imports by European NATO states, SIPRI rolling five-year periods. The 2025 share fell sharply, pulling the latest window below its peak.

Sources: TechPolicy. Press and European Parliament study (2025); Centre for European Reform (2025).

Europe / Readiness 2030 plan, and a target of 55 percent European or Ukrainian content by 2030 are explicitly designed to channel rearmament into the European defense-industrial base and largely exclude U.S. suppliers. The U.S. share of European imports has already edged down from its 64 percent peak.¹⁵

But here the security logic collides head-on with the trade logic. U.S. arms sales are a large transatlantic export flow that partly offsets the EU's goods surplus with America, and in the 2025 trade truce the EU explicitly committed to buy more U.S. military equipment to narrow that surplus and ease tariff pressure.¹⁶ Genuine European substitution would do the opposite: it would shrink U.S. exports to the EU and widen the very surplus Washington objects to, but it would increase Europe's independence. The two goals point in opposite directions, and rapid short-term

rearmament actually deepens dependence on the U.S., because Europe buys virtually everything that is certified and available now. Autonomy and trade-pacification cannot both be maximized at the same time, and Europe must choose what to prioritize, and when.

The same trade-for-tariff-relief bargain extends beyond arms to energy. Having displaced Russian pipeline gas after the full-scale Russian invasion of Ukraine, the U.S. is now by far the EU's largest liquefied natural gas (LNG) supplier, providing roughly half of Europe's liquefied gas in 2025. In the July 2025 trade truce, the EU pledged to procure up to \$750 billion of U.S. energy through 2028 in exchange for lower tariffs. Most analysts would judge the economic figure to be politically symbolic and barely feasible, but the direction is unmistakable. Europe is swapping one energy dependence for another and handing Washington

a recurring bargaining chip unless Europe can shift its energy system toward renewables. At the same time, the very purchases that ease tariffs lock in fossil imports that are at odds with its own climate goals.¹⁷

Arguably, Europe's other energy dependency is its reliance on China for green-energy and renewable technologies. Europe is heavily dependent on China for its green transition, and breaking both dependencies simultaneously would be costly and potentially unsustainable.¹⁸

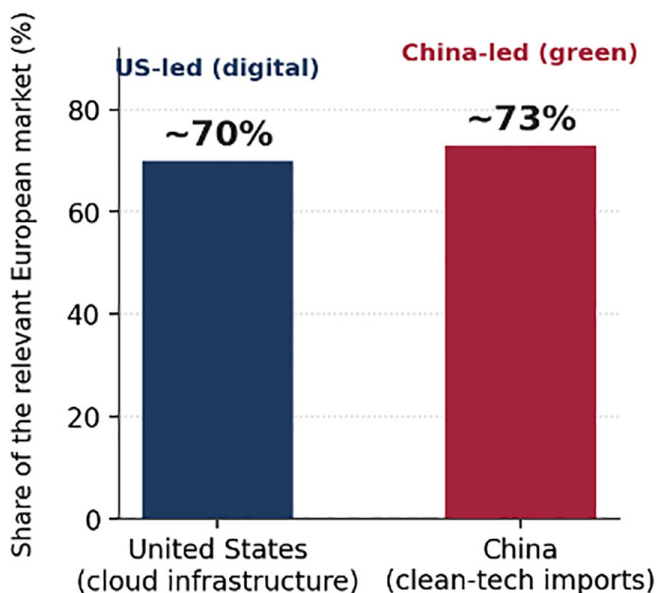
The Technology Dimension: A Split Dependency and an Innovation Deficit

Technology is the most genuinely two-sided channel of all, and the one where Europe is squeezed from both ends. It splits by layer, leaving Europe in a very vulnerable position. On the digital and foundational layer, Europe

leans heavily on the U.S.; the three big American hyperscalers hold close to two-thirds of the European cloud market, and European providers' share has fallen from 27 percent in 2017 to about 15 percent, while the EU's digital trade deficit exceeds €100 billion a year.¹⁹ This is not a soft dependency in any way, as U.S.-controlled cloud providers can be legally compelled under American law to grant access to EU-hosted data, creating a standing sovereignty conflict, and, like defense, an area with real coercive potential.²⁰

On the green and hardware layer, the dependence runs the other way, as noted before. By 2024, some 73 percent of the EU's clean-tech imports came from China, on top of the solar, battery, and rare-earth dominance already described, and China is now climbing the clean-tech intellectual property (IP) ladder, not just the manufacturing one.²¹ Advanced chips are the exception and more closely resemble the transatlantic financial

Figure 6. Squeezed from both ends: Europe's tech dependence



Two different markets, comparable magnitudes: the US dominates the digital layer, China the clean-tech layer. The dependence runs in opposite directions.

Sources: TechPolicy. Press and European Parliament study (2025); Centre for European Reform (2025).

tie, creating a web of mutual dependence in which Asians manufacture, Americans design, and Europeans build the machines that make production possible. Europe cannot do without the U.S.- and UK-designed chips, and the U.S. cannot do without Europe's lithography and chip-imaging capability, including Advanced Semiconductor Materials Lithography (ASML) and imec.²²

The deeper point is not "U.S. versus China" at all; it is that Europe is a technology-taker on both frontiers. On breakthrough innovation, the U.S. leads in AI, semiconductors, and quantum; China ranks second in AI and semiconductors; and the EU sits in a distant third place, roughly tied with China in quantum, where both trail the U.S. Worse, Europe is slow even to replicate others' breakthroughs. The scale of the gap shows up in spending: the U.S. devotes about 3.5 percent of GDP to research and development and China about 2.6 percent, with spending rising rapidly, while the EU spends roughly 2.2 percent, still short of its own 3 percent target. The simple reality is that you can diversify a supplier. You cannot diversify a capability you do not have. Dependency de-risking alone cannot fix this without a major overhaul of research and investment policies and a stricter focus on research and innovation security in Europe.

However, one moving part could reshape the American side of this picture. U.S. technological primacy rests on a research-and-talent magnet that the current administration is straining. Proposed cuts were dramatic; the Fiscal Year (FY) 2026 request sought to cut the National Science Foundation (NSF) by 57 percent and the National Institutes of Health (NIH) by over 40 percent. Still, Congress largely rebuffed them, leaving headline funding broadly intact, even though organizations such as the United States Institute of Peace (USIP) were completely shut

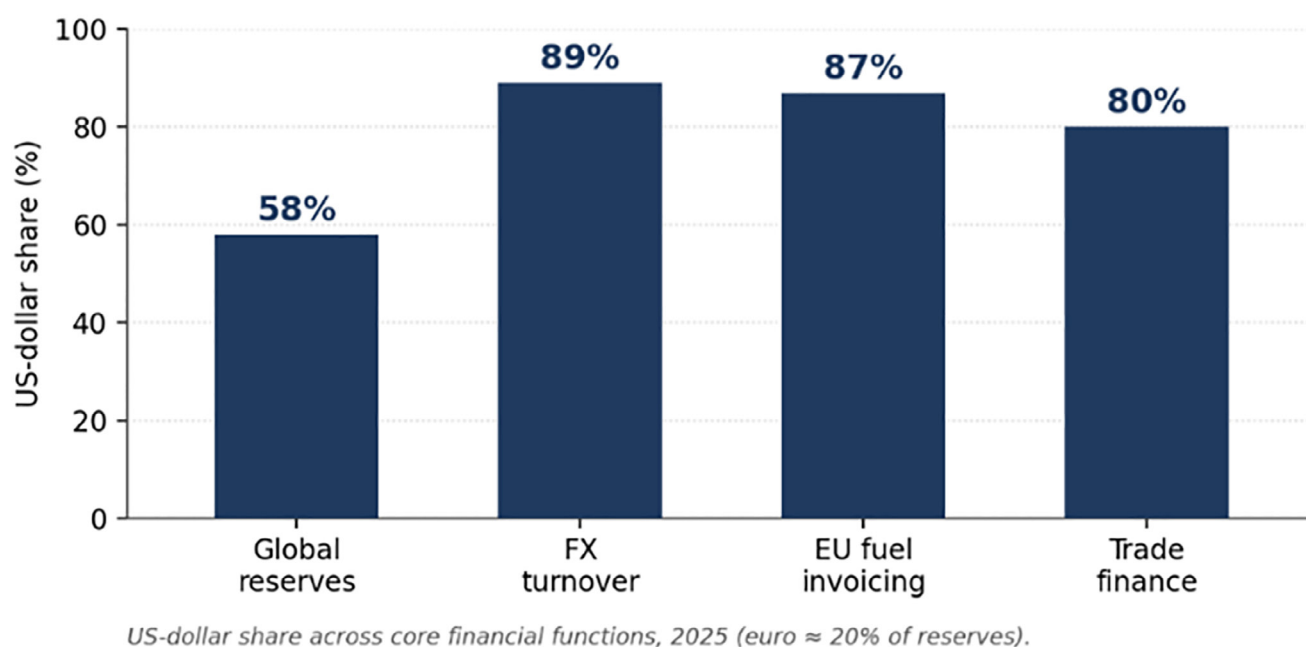
down. The disruption is nonetheless real: billions in grants were frozen or canceled, international doctoral applications dipped, and a *Nature* poll found that three-quarters of U.S.-based scientists were considering emigration. Europe is courting them directly through the €500 million "Choose Europe for Science" initiative. If this trend persists, it could slowly erode the talent base underpinning U.S. research dominance and hand Europe a rare chance to narrow its innovation gap. The opportunity is real but contingent, as it depends not only on Washington's missteps but also on whether Europe can absorb talent and turn research into scale, which has long been its weakness. Europe would also need to commercialize that research, an area where it has long struggled.

The Monetary Dimension: The Dollar as Infrastructure

One further American dependence is anything but soft: European and global dependence on the U.S. dollar. The dollar is not merely a currency Europe trades in, but the foundation of global finance, and that foundation can be weaponized, even though it would be costly for the U.S. The dollar still accounts for about 58 percent of global reserves and some 90 percent of foreign-exchange turnover, and even most of Europe's own fuel imports are invoiced in dollars.²³ Crucially, U.S. control of dollar clearing, SWIFT messaging and New York correspondent banking gives American sanctions near-global reach. This is because dollar transactions ultimately clear through U.S.-supervised banks, meaning that even commerce between non-U.S. parties can be blocked by Washington.

Europe has felt this directly on several occasions. After the U.S. left the Iran nuclear deal, U.S. secondary sanctions forced European companies out of Iran despite the EU's opposing policy,

Figure 7. The dollar is the plumbing Europe runs on



Source: Atlantic Council Dollar Dominance Monitor; CITP, University of Sussex (2025-26).

and the bloc's special-purpose workaround failed because banks were unwilling to risk the American market. So monetary dependence belongs alongside defense and the digital layer of technology as a channel with real coercive potential, a financial equivalent of an off-switch. It is also the one Europe cannot quickly escape, because no rival yet matches the dollar's depth. Its slow erosion—the dollar's reserve share is at a two-decade low, and the EU is weighing a digital euro, joint safe assets, and deeper capital markets—is therefore as much a strategic project for Europe and China as a market trend.²⁴

The Balance of Risk: Weaponizability Over Volume

Pulling the threads together—trade, strategic inputs, investment, defense, technology, and money—the two dependencies are comparable in

headline scale but asymmetrical in structure. The comparison below summarizes why dependence on China, though numerically smaller in several respects, is the more acute supply-side risk. At the same time, on the American side, three channels (finance, defense, and the digital layer of technology) carry coercive potential that the “soft dependence” label obscures.

The Squeeze: How the Two Interact

The dependencies are not separate problems; they compound one another. U.S. tariffs are redirecting Chinese exports toward the European single market, even as Chinese industrial overcapacity already presses into that market and threatens deindustrialization. Europe risks being caught between two powers that both utilize economic dependencies as geopolitical instruments: the U.S. through tariffs and conditional security guaran-

Dimension	United States	China
Nature	Financial and demand-driven – capital markets, the dollar, security guarantees	Physical and input-based – raw materials, components, supply chains
Where it sits	Large-cap earnings and assets; equity-market co-movement	Strategic bottlenecks: rare earths, magnets, APIs, solar cells
Direction of trade	Europe’s largest export market	Europe’s largest import origin
Weaponizability	Low-medium in trade; but high in finance, defense and digital tech	High: an export license can stop production lines within days
Substitutability	Diversifiable over time – capital is mobile	Often no substitute on a short-to-medium horizon
Investment ties	Deep and mutual – ~€4.8tn two-way; broadly balanced integration	Small but targeted – ~€239bn EU stock vs ~€80bn Chinese stock; screened for strategic assets
Ownership type	Broad, mutual, mostly portfolio/commercial – a stabilizing “mutual hostage”	Concentrated, often state-owned stakes in critical infrastructure – a control lever
Monetary system	Dollar = global financial plumbing (clearing, SWIFT, sanctions reach) – coercive	Limited reach; CIPS/renminbi small – not a lever over Europe
Technology & research and development (R&D)	Digital/foundational layer – cloud, AI, chip design; frontier IP (coercive via CLOUD Act, export controls)	Green/hardware layer – clean-tech, manufacturing; fast-rising IP. The EU trails both at the frontier.
Direction of travel	Softening at the margin (equity decoupling in 2025; euro-bond demand)	Sticky – the import share has plateaued, not fallen

tees, which have too often been communicated through Truth Social rather than official channels, and China through export controls and dependence-building. In late May 2026, the Commission declared that the trade and investment relationship with China was “not sustainable” and reaffirmed a strategy of de-risking but not decoupling, with concrete proposals expected in

the third quarter of 2026.²⁵ The weakness in the response is that it has been reactive, as it has been with the U.S., and Europe knows where its vulnerabilities lie but lacks a doctrine for when and how to use its own leverage.

A final word concerns the speed of dependencies. Pressure from China and the U.S. does not move

at the same speed, and that asymmetry should shape European planning. China's leverage can be created within days, through a single export license that could halt European industry, as Chinese actions in 2025 showed with clarity. In contrast, American leverage builds more slowly and politically, through tariffs, the reach of sanctions, and the terms the U.S. attaches to security and technology, but it is also leverage against which the EU has better countermeasures. The shocks most worth analyzing are, respectively, a renewed rare-earth or magnet squeeze, further tariff escalation, and any narrowing of dollar-payment access. Europe should plan for the fast shock from China first while hedging against the slow one from the U.S., the logic that underpins the recommendations below.

Conclusion: What Europe Should Do

The first conclusion is that Europe needs to prioritize dependencies by weaponizability and speed, not necessarily by trade volume, because the largest economic flow is not inevitably the largest risk. Financial resources and priorities should be directed to the narrow, substitute-free dependencies in which China dominates—rare earths, permanent magnets, active pharmaceutical ingredients, and solar components—and can be weaponized quickly. These are areas where a single export decision in Beijing could have a disproportionately large impact in Europe, halting production and causing economic turmoil. Diversification, stockpiling, recycling, and domestic processing capacity matter more than broad trade-balance measures in these segments.

The EU needs to build economic deterrence, not merely reduce vulnerability, which will not be sufficient. It is clear that de-risking lowers exposure but does not deter coercion. Europe needs a doctrine for the credible and timely use of its leverage in market access, technology, and

capital. The instruments already exist—the Anti-Coercion Instrument (ACI), FDI screening, the International Procurement Instrument (IPI)—but what is missing is the will and coordination to follow through.

Manage the two dependencies together. U.S. and China exposure must not be managed in separate silos. A weaker dollar, a tariff dispute, and a Chinese export halt can strike the same sector at once. Economic security needs a single, integrated picture, along with the recognition that strategic autonomy applies to both powers, not just one.

The EU needs to act as one Europe, and not along 27 tracks. It is clear that China's and the U.S.'s leverage depends on dividing member states and negotiating bilaterally with each of them. The only credible counterweight to this pressure will be collective action, such as joint stockpiling of critical materials, joint procurement, and a shared willingness to bear short-term economic pain for long-term resilience; doing nothing is more expensive than de-risking.

Building partnerships with third actors will be crucial, whether with the Southern Common Market (MERCOSUR), Japan, Australia, the Association of Southeast Asian Nations (ASEAN), South Korea, Canada, or through broader multilateral or minilateral solutions. These partnerships will be crucial to reducing Europe's future exposure, and this is not about excluding partners, but about reducing dependencies that could hurt European security more broadly. Much of the cooperation with external actors will necessarily be issue-based. Still, the EU should pursue broader multilateral structures and ensure it uses its normative power effectively.

Build frontier capability; do not only guard against dependence. Diversification, stockpiling and screening reduce exposure, but they cannot

manufacture a capability Europe does not have. The technology channel, and the innovation deficit behind it, calls for the harder, more dedicated work of building and retaining frontier capacity through sustained research funding, a credible European digital and clean-tech stack, and the ability to absorb the scientific talent now in motion.

The same logic applies to money. In essence, deeper, unified capital markets, joint safe assets, and a digital euro would, over time, lessen Europe's exposure to dollar-based coercion. This capability-building effort is necessary because neglect compounds the dependency: capability gaps widen over time, and this is the one area where the current disruption to U.S. science hands Europe a rare opening to close ground rather than merely defend it.

It will be crucial to hedge all dependency relationships, not only the Chinese one. The points above lean toward China, but three U.S. channels—finance, defense and digital technology—now carry coercive potential of their own. Europe should treat the U.S. as a partner to be hedged, not only an ally to be relied on, by reducing single points of failure in cloud and payments, securing sovereign fallbacks for critical software and data, and protecting the sustainment of U.S.-made weapons against political conditionality. Hedging is not decoupling from America; it is insurance against the day the relationship is used as leverage.

Europe's dependence on America calls above all for financial and strategic diversification over time, while its dependence on China calls for urgent, targeted, coordinated action now. The conclusion is that Europe needs to build capabilities that neither diversification nor deterrence alone can provide. Treating the two as the same problem, or measuring them with the same yardstick, is precisely the error Europe must avoid.

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Endnotes

- 1 Julian McManus, “Chart to Watch: Month by month, European equities make their case,” Janus Henderson, August 26, 2025, <https://www.janushenderson.com/en-us/investor/article/chart-to-watch-month-by-month-european-equities-make-their-case/>. European and U.S. equities have historically been highly correlated, but the STOXX 600 has increasingly outpaced the S&P 500 on a monthly basis since late 2022.
- 2 Joana Ferreira, “European Stocks End 2025 Near Records,” Trading Economics/Reuters, December 31, 2025, <https://tradingeconomics.com/euro-area/stock-market/news/513654>. STOXX 600 advanced about 17 percent in 2025 (strongest year since 2021), led by banks and basic resources, and outperformed U.S. markets in dollar terms.
- 3 Vahid Karaahmetovic, “Goldman sees modest gains for European equities, lifts STOXX 600 target,” Investing.com, January 6, 2026, <https://www.investing.com/news/stock-market-news/goldman-sees-modest-gains-for-european-equities-lifts-stoxx-600-target-4431733>. European exporters earn a large share of revenue abroad, much of it in dollars and analysts note a stronger euro/weaker dollar weighs on European corporate earnings.
- 4 Ibid. A stronger euro and lower oil prices are expected to weigh on European earnings in 2026, with the drag fading into 2027.
- 5 Tiago Luís Freitas, and Pedro Braz, “What is the European version of the S&P 500? S&P 500 equivalent index in Europe,” EU Personal Finance, April 13, 2026, <https://www.eupersonalfinance.eu/articles/european-version-of-the-s-p-500>.
- 6 European Commission/Euronews (June 2026). The Commission identifies raw materials, batteries, chips and solar as strategic dependencies on China; EU import reliance is very high for certain pharmaceutical inputs and chemicals, with no near-term substitute for several critical inputs. <https://www.euronews.com/my-europe/2026/06/02/the-eu-says-its-trade-with-china-isnt-sustainable-what-does-de-risking-mean>.
- 7 James Kynge, “China’s new restrictions on rare earth exports send a stark warning to the West,” IEA (Oct 2025) and Chatham House (Oct 2025), <https://www.chathamhouse.org/2025/10/chinas-new-restrictions-rare-earth-exports-send-stark-warning-west>. China’s April and October 2025 rare-earth export controls forced carmakers and others to cut or halt output, with European prices reaching up to 6× Chinese levels; a minerals export ban on Japan followed in early 2026.
- 8 Eurostat, “EU trade in goods surplus down to €128 billion in 2025,” March 2026, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20260326-4>. In 2025 China remained the EU’s largest source of imported goods at 22.3 percent of the total, with imports up 6.4 percent. Bruegel (2025) notes the U.S. has been decoupling from China while EU-China trade has not.
- 9 Eurostat, “Trade in goods with China in 2025,” April 2026, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20260410-2>. 2025 EU goods surplus with the U.S. €199.6bn (exports €554.0bn, imports €354.4bn); deficit with China €359.8bn (exports €199.6bn, imports €559.4bn). US = largest export destination (21.0 percent); China = largest import origin (22.3 percent).
- 10 European Commission, DG Trade (EU-China): EU investment stock in China €239.3bn (2024); China’s stock in the EU €79.8bn (2024); Chinese FDI flow to the EU €10.6bn (2024), up from €6.4bn (2023). https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en.
- 11 EU FDI Screening Regulation (in force 2020), tightened under the European Economic Security Strategy (2023–24); Q3 2025 saw a rebound in Chinese acquisitions and continued greenfield investment in automotive and tech (Euronews, June 2026). <https://www.euronews.com/my-europe/2026/06/02/the-eu-says-its-trade-with-china-isnt-sustainable-what-does-de-risking-mean>.
- 12 Euronews (June 2026) and academic analysis (ScienceDirect, 2025): Chinese operators hold stakes in 20+ European ports, with Piraeus effectively Chinese-controlled; the COSCO stake in Hamburg’s Tollerort terminal was cut from 35 percent to 24.99 percent after the site was designated critical infrastructure. <https://www.euronews.com/my-europe/2026/06/08/plan-to-curb-chinas-growing-influence-in-eu-ports-takes-shape>.
- 13 Caspar Hobhouse, “The dragon in the grid” (Jan 2026), and The Soufan Center (2025), EUISS, <https://www.iss.europa.eu/publications/briefs/dragon-grid-limiting-chinas-influence-europes-energy-system>. State Grid of China holds a voting 25 percent stake in Portugal’s REN; China Three Gorges is the largest shareholder in EDP; State Grid holds indirect stakes in Italy’s Terna and Snam; bids for grid operators in Germany (50Hertz), Spain and the UK were blocked on national-security grounds.

- 14 Mathew George, Katarina Djokic, Zain Hussain, Pieter D. Wezeman, and Siemon T. Wezeman, “Trends in International Arms Transfers, 2025,” SIPRI, March 2026, https://www.sipri.org/sites/default/files/2026-03/fs_2603_at_2025.pdf. The U.S. supplied 58 percent of European NATO members’ major-arms imports in 2021-25 (64 percent in 2020-24; 52 percent in 2015-19). By end-2025, 12 European states had 466 F-35s on order or pre-selected.
- 15 SAFE (€150bn loans-for-arms program, adopted May 2025, favoring EU/Ukrainian suppliers); ReArm Europe / Readiness 2030; the plan targets 55 percent European or Ukrainian content by 2030, largely excluding U.S. contractors (EU sources; Courthouse News, Oct 2025), <https://www.courthousenews.com/europes-860-billion-defense-plan-freezes-out-us-contractors/>
- 16 US-EU Joint Statement on trade (2025), para 7: the EU committed to “substantially increase procurement of military and defense equipment from the United States.” Washington has rejected the EU’s “Buy European” defence-procurement push and warned of retaliation (eunews.it, Feb 2026), <https://www.eunews.it/en/2026/02/20/us-rejects-buy-european-in-defence-procurement-vows-retaliation/>.
- 17 European Commission (2025) and German Marshall Fund / Intereconomics (2025): the U.S. supplied roughly 50-55 percent of EU LNG imports in 2025, having become the EU’s main LNG supplier after 2022; in the July/August 2025 trade framework the EU pledged to procure up to \$750 billion of U.S. energy (LNG, oil, nuclear) through 2028 in exchange for lower tariffs — widely judged symbolic and barely feasible, and functioning as a recurring bargaining chip. <https://www.gmfus.org/news/powering-forward>.
- 18 Niklas Swanström and Filip Borges Månson, Europe’s Green Technology Development: Chinese Challenges to Research and Innovation Security, Institute for Security and Development Policy, July 2025, <https://www.isdp.eu/publication/europes-green-technology-development-chinese-challenges-to-research-and-innovation-security/>
- 19 TechPolicy.Press (Dec 2025) and European Parliament study (2025): the three U.S. hyperscalers hold about two-thirds of Europe’s cloud market (European providers’ share down from 27 percent in 2017 to about 15 percent); the EU digital trade deficit exceeds €100bn/year, with about €264bn (about 1.5 percent of GDP) flowing to foreign cloud/software vendors. <https://www.techpolicy.press/europe-tried-to-take-control-of-its-digital-stack-in-2025-where-does-it-stand-now/>.
- 20 On the extraterritorial reach of U.S. law over cloud-hosted data (the CLOUD Act) and the resulting “sovereignty conflict” for EU-hosted data, see e.g. industry/analyst assessments (2025-26). <https://gartsolutions.com/digital-sovereignty-of-europe/>.
- 21 Centre for European Reform (2025): by 2024 about 73 percent of the EU’s clean-tech imports originated in China; U.S. tariffs are redirecting cheap Chinese exports into the EU, deepening the dependence. <https://www.cer.eu/publications/archive/policy-brief/2025/between-rock-and-hard-place-europes-clean-tech-industry>.
- 22 CEPA, “Meeting China’s Tech Challenge” (Mar 2026): in advanced chips, “Asians manufacture, Americans design, Europeans build the machines” — Europe cannot do without U.S./UK chip design, and the US cannot do without ASML lithography and imec; NVIDIA holds about 80 percent of the most advanced AI-chip market. <https://cepa.org/article/meeting-chinas-tech-challenge/>.
- 23 Atlantic Council Dollar Dominance Monitor and CITP (2025–26): the dollar is about 58 percent of global reserves (a two-decade low, down from about 72 percent in 2001), 89–90% of FX turnover, half of trade invoicing, 87 percent of EU fuel-import invoicing and 80 percent of trade finance; the euro is about 20 percent of reserves. <https://citp.ac.uk/publications/dollar-decentring-de-dollarisation-and-the-uks-trade-and-investment-policy>.
- 24 Brookings (Oct 2025): control of dollar clearing, SWIFT and CHIPS—once seen as neutral—became geopolitical tools via U.S. secondary sanctions (from 2010) and Russia’s SWIFT exclusion (2022). European firms were forced out of Iran by U.S. secondary sanctions despite EU policy (the INSTEX workaround failed). De-dollarization is gradual; the euro is constrained by safe-asset scarcity and fragmented capital markets. <https://www.brookings.edu/articles/is-the-global-financial-system-fracturing-under-geopolitical-pressure/>.
- 25 European Commission (May 29, 2026), reported by Bloomberg and Euronews: EU Commissioners declared the current trade and investment relationship with China “not sustainable”; “de-risking, not decoupling”; concrete proposals expected in Q3 2026. <https://www.bloomberg.com/news/articles/2026-05-29/eu-warns-trade-relationship-with-china-is-not-sustainable>.