Has Europe fully digested the new geoeconomic realities – and does it have the energy to cope with them

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1 Introduction

Ladies and gentlemen, It is a pleasure to speak to you this evening.

The Society of Professional Economists was originally established back in 1953. That was four years before the Bundesbank was created. Much has changed in the global economic landscape since then.

Growth and prosperity have risen to unprecedented levels due to globalisation, the rules-based order and trade integration, in particular. Those factors are now fragmenting, however, as I will talk about later. The Cold War rivalry between the United States and the Soviet Union has ended. Today, the defining strategic rivalry is between the US and China.

But, I'm glad to say, the friendship between the UK and Germany – and between the Bundesbank and the Bank of England – is deep and enduring. Many thought Brexit would see the UK diverge significantly from the EU.

It is true that Brexit represented a profound turning point. It has been dampening trade between the two sides and is having a tangible day-to-day impact on businesses and people's lives. But ten years on from that referendum, it appears – at least to me – that UK divergence has been rather limited.[1] If anything, the UK is now seeking closer cooperation with the EU and, in selected areas, also greater regulatory alignment.[2]

Looking ahead to the next UK/EU summit, both sides are seeking to deepen their partnership further in matters ranging from youth mobility to defence and security.[3] I am very pleased to see the UK and its European neighbours pursuing closer relations once more.

I would argue this has something to do with the fact that the EU and the UK are facing quite similar challenges. Indeed, both are facing the same forces of geoeconomic fragmentation. That's a term the IMF[4] defines as a "policy-driven reversal of integration, often guided by strategic considerations".[5]

In my speech today, I would like to explore current geoeconomics along three dimensions: First, I will examine what the new geoeconomic realities look like. Second, I will consider how Europe is dealing with those realities. Lastly, I will provide some examples of what the EU is doing, before wrapping up.

2 What do the new geoeconomic realities look like?

Ladies and gentlemen, we can see current geoeconomics at play in the strategic rivalry between the US and China. Both use critical dependencies – chokepoints – to exert strategic influence over other economies.

Let's start with China: One important of such chokepoints is China´s control over rare earths. China is also leveraging its role as a manufacturing powerhouse. Today, China accounts for roughly 30 percent of global manufacturing output.[6] This could be eating away at Europe's strength in mid-tech manufacturing.[7]

The United States, meanwhile, controls an overwhelming share of global financial services. It is also home to the world's premier tech companies. And it is the primary member of NATO, with its security umbrella for the North Atlantic, including Europe. Those pressure points already give the US significant geoeconomic clout, including in relation to its European allies.

On top of this, the current US administration is imposing tariffs to get its way. Recent Bundesbank analysis[8] shows that tariffs are weighing on global trade, on the global economy – and on the US itself. What our analysis also reveals is that the world economy – and global trade in particular – performed robustly last year despite the tariffs. And that was mainly due to the AI boom.

Global Trade Alert reports that the number of trade restrictions worldwide reached record highs in 2023-25, reversing decades of gradual liberalisation.[9] Even excluding the US protectionist measures, the number of trade restrictions has increased. As a result, global trade policy uncertainty in the 2020s is, on average, nearly five times as high as it was in the 2000s.[10]

Ladies and gentlemen, all these harsh realities – and many more besides – are sitting heavily on Europe's stomach. How is it faring?

Let's look at Germany first. According to a survey by the Bundesbank,[11] German exporters were squeezed by US tariffs in 2025. The mounting pressure from Chinese competitors came on top.

In France, President Emmanuel Macron is concerned that China's export-driven economic model is threatening the existence of European industries.[12]

For the UK, the Chatham House think tank sees geoeconomic forces worsening the already serious domestic challenges facing the UK.[13]

So, in a world of great power rivalry, what can the middle powers – as Canadian Prime Minister Mark Carney calls them[14] – and a bloc like the EU do in response?

3 Does Europe have the energy to cope with today's geoeconomic challenges?

Ladies and gentlemen, Does Europe have the energy to cope with these challenges? I am in no doubt: Yes, it does.

Both the EU and the UK are aware of the threats to their economic and national security.[15] But also – might I add – of the underlying values and interests that have made their economies grow.

The preamble to the Anglo-German Kensington Treaty, which was signed last year,[16] states that the two parties will better master the challenges they face by deepening their close cooperation as European neighbours and allies based on the strong ties that connect their countries, their shared history, values and interests.

Ladies and gentlemen, I firmly believe that those words apply in equal measure to the EU and the UK. You see, those deeply held values – combined with our inherent strengths – put us in a pretty good position to digest the new realities.

Let's look at some of the UK's many strengths first: its leading global financial and professional services sector; its strong advanced manufacturing base;[17]and its well-educated population.

The EU has a few things going for it as well: It's the world's largest trading bloc, with the biggest network of trade agreements.[18] It's home to world-class manufacturing and a global leader in some technical areas. It has an integrated market of 27 Member States and 450 million consumers.

Yet, there are certainly also areas where the EU can improve to fully make use of its potential. Let me look in more detail at three initiatives where the European Union still has – or certainly ought to have – an appetite for progress: improving on competitiveness, digital resilience and artificial intelligence.

3.1 The EU's competitiveness agenda

The European single market has been around for more than 30 years now. But more still needs to be done to leverage its full potential. A key initiative to boost Europe's prosperity, stability and competitiveness by creating deeper, more integrated financial markets is the savings and investments union (SIU).

Put simply, it is all about connecting savings and investments to create financial opportunities for people and businesses.[19] Other initiatives I could mention include the "Made in Europe" label, the Competitiveness Compass, the Union of Skills, the simplification initiative, and the EU Startup and Scaleup Strategy.

The EU is also looking to address the scale-up financing gap. Too often, start-ups are forced to go looking for later-phase funding outside the continent.[20] The plan now is to mobilise private capital within Europe towards this strategically important segment.

Last, but not least, the EU is aiming to introduce the "EU Inc." concept: a fully digital business format for European start-ups that can be set up online within 48 hours at a maximum cost of €100.

I'm very pleased to note that the savings and investments union is discussed by the regular Joint EU-UK Financial Regulatory Forum, which also covers topics including banking, financial stability and digital finance. That Forum is a great example of the deep dialogue between the EU and the UK.

3.2 Enhancing digital resilience

In the digital sphere, meanwhile, you will no doubt have heard about the EU's digital euro project. Payments are becoming increasingly digital. In addition, payment processes are becoming ever more intertwined with digital business processes. This is where the digital euro comes into play. If introduced, it will propel central bank money into the digital age.

Not just that: it has the potential to reduce the EU's reliance on non-European payment providers and infrastructure in electronic payments. In the euro area, we see the digital euro as a means to foster our strategic autonomy in payments and help us overcome existing market fragmentation.

It can also unlock new business models for market participants and support pan-European interoperability. That's good for efficiency, innovation and growth. With the legislative framework expected to be finalised by the end of 2026, the Eurosystem is firmly on track to launch the digital euro in 2029.[21]

A wholesale CBDC settlement solution for the financial industry is already in operation – it was launched yesterday, in fact. This "tokenised euro" infrastructure connects market DLT platforms to the TARGET services of the Eurosystem to enable the efficient, on-chain settlement of tokenised asset transactions in central bank money.[22]

This initiative also has a strategic dimension. By making central bank money available for new financial market structures, it can support an integrated European capital market and promote the savings and investments union. European wholesale CBDC can reduce dependence and strengthen resilience. It can support Europe's financial sovereignty and the international role of the euro.

From a geoeconomic perspective, both the digital euro for retail payments and the wholesale settlement solutions would run on secure, robust and – crucially – European infrastructure. That's good for resilience. The euro area is at the vanguard of the world's major currency areas as far as work on a CBDC is concerned.

3.3 Artificial intelligence

Of all the areas dominated by non-European players, artificial intelligence is currently the most hotly debated. The broader implications of the AI boom for growth and price stability are still uncertain.

But it has a transformative – and perhaps even disruptive – potential. And the promised efficiency gains appear to be huge. That's the impression we are getting, and not only from our everyday experience. We are also seeing it in the first phase of professional applications in both the private and public sectors, including at central banks.

At the same time, there is the issue of cyber security. It is increasingly clear that frontier AI models pose significant risks to financial stability, as Andrew Bailey, in his role as Chair of the Financial Stability Board, wrote recently.[23] So, both the EU and UK have an interest in the safe deployment of AI.

This is another sphere where I am pleased to see the EU and the UK cooperate closely in areas of mutual interest, and hold regular cyber dialogues.[24] All these examples show that our responses to the new geoeconomic realities are firmly grounded in a very similar set of common values and interests.

4 Conclusion

Ladies and gentlemen, let me conclude. New geoeconomic realities are at play. These realities are sitting heavily on Europe's stomach and need to be digested. I argued today that both the UK and the EU have the energy and inherent strengths to cope with them.

By combining their strengths with their shared commitment to values that have served them well in the past, the UK and the EU will, in my view, digest the challenges they face and emerge stronger and more resilient than before.

On that note, I'd like to hand back to you, George. Thank you for your attention.

Footnotes:

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