

Variable geometry for European trade: Building resilience and diversification

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In Summary

- **(Unfortunately) no imbalance was harmed in the making of the post-pandemic trade rebound: Europe's deficit with China doubled and its surplus to the US increased by +34%.** Since the pandemic, the trade surplus of Europe's top 10 economies expanded to EUR354bn (+18%), but: (i) the deficit with China doubled to –EUR300bn and now spans 400 critical import dependencies representing one-third of total imports (electronics, machinery and transition technologies) and (ii) the surplus with the US increased by +34% to EUR127bn and US reliance on critical European imports increased to around 200 products in 2024 (USD89bn; 14%), particularly in chemicals and pharmaceuticals.
- **In line with the European Commission's competitiveness agenda, trade policy needs to be reframed as an instrument of economic security and geopolitical leverage. We identify a two-pronged approach: First, Europe must build cost-effective supply resilience, avoid the 'whatever-it-costs' sovereignty trap and focus on high-return investments.** Cutting external reliance in manufacturing – still four-fifths of EU goods exports – requires further diversification of production footprints, nearshoring critical stages and addressing supply-chain redundancy. Despite progress in lower-value goods where extra-EU import shares have fallen below 50%, dependence still exceeds 50% in semiconductors, phones and laptops, with persistent capacity gaps in defense platforms and batteries. Meanwhile, rare-earth recycling currently covers just 1% of annual consumption, but lifting this to 25% by 2030 would require processing close to 5,000 tons, roughly 30% of today's imports from China. Absorbing large-scale nearshoring requires higher investment, and Chinese capital in particular starts to fill in part of the gap. Reshoring is further constrained by labor bottlenecks and cost pressures – EU industrial energy prices remain 2–3x US levels. While redirecting 25% of Chinese imports to CEE countries would only lift Eurozone inflation by +0.1pp and add +0.25pp to GDP, tight labor markets within CEE could lift inflation by +0.3pp to +0.7pp. Resilience requires shifting from cost-minimization to risk-adjusted sourcing – diversifying critical inputs, scaling domestic extraction and especially processing capacity where mineral dependence exceeds 70–90% and anchoring friend-shoring corridors through targeted FTAs. Progress also depends on having a comprehensive, horizontal industrial policy, including joint EU procurement platforms, diversification caps on strategic inputs and expanded stockpiling across semiconductors, critical chemicals and rare earths, supported by fiscal incentives to localize key production stages.
- **Secondly, as tariff uncertainty from the US continues, Europe must diversify further, multiply high-potential trade partnerships and double down on our internal market.** With tariffs at 10% under Section 122, EU export losses are estimated at USD54-85bn annually. Trade diversification channels can offset this shock. The Mercosur and India deals could jointly absorb USD46.1bn in export gains. Expanding the corridor to ASEAN would add a further USD16.7bn, while deeper integration with CPTPP markets could unlock close to USD65bn in export gains. Embedding autonomy will also require localization strategies, expanded euro trade invoicing and logistics sovereignty across shipping, ports and cargo aviation – securing supply, demand and infrastructure simultaneously. Finally, strengthening intra-EU trade is the fastest internal shock absorber. Since the pandemic, export absorption within the bloc has stalled at 61% of the total, while intra-EU import sourcing has inched up only marginally from 61% to 62%, pointing to limited internal rebalancing. Lifting intra-EU trade by just +1.4pp to +1.8pp would be enough to offset the impact of a 10% US tariff, underscoring how marginal gains in Single Market integration can materially cushion external export losses.

A tilting trade geometry: Europe between dependency and demand

The global economic landscape is undergoing a profound transformation from a rules-based order to a competitive, power-driven system. *Securonomics* is emerging, with more and more states prioritizing national wealth and security over unfettered globalization. One of the key features of this new paradigm shift is the return of proxy wars as countries reassert control to safeguard their strategic interests and resources. Unlike the previous era of deep globalization, fragmentation is now replacing integration. Supply chains are being duplicated and regionalized, reflecting growing concerns about dependencies and vulnerabilities. Moreover, trade weaponization has become a prominent challenge, with states reshaping trade rules and eroding global institutions such as the WTO. This creates significant hurdles for cross-border commerce and increases uncertainty in international markets. Finally, the rise of new alliances, often blurring traditional boundaries between public institutions, private elites and downstream businesses, illustrates a more complex interplay of power and economics.

Recent discussions at the World Economic Forum in Davos and the Munich Security Conference highlight a growing European consensus that economic resilience and geopolitical influence go hand in hand. Leaders including President Ursula von der Leyen, Chancellor Friedrich Merz and President Emmanuel Macron stressed that Europe must diversify improve its competitiveness through more trade partnerships, stronger internal market and lower dependencies in critical sectors, from semiconductors to the energy supply chain, to act confidently on the world stage. Yet, strategic autonomy does not mean isolationism; rather, it is a proactive effort to ensure that Europe can defend its interests, make independent decisions and maintain its global relevance in a shifting geopolitical landscape.

Europe's trade map is tilting. China is becoming the bloc's structural deficit pole, while the US is consolidating its role as surplus counterweight. The overall surplus may still be expanding, but the underlying geometry is stretching and with it, Europe's exposure to geopolitical risk, supply disruption and industrial dependency. Between 2019 and 2024, the external trade engine of the EU's 10 largest economies did not stall, but it started running on two very different cylinders. Headline resilience masks a growing fracture line in bilateral trade. The aggregate world trade surplus expanded from EUR299bn to EUR354bn (+18%), yet this strength rests on an increasingly unbalanced foundation: a ballooning deficit with China set against a deepening surplus with the US, leaving Europe increasing vulnerable to critical supply from China, on one hand, and on the other, higher protectionism and tariffs from the US.

Table 1: Dependence of top 10 largest EU economies on China, the US and rest of the world

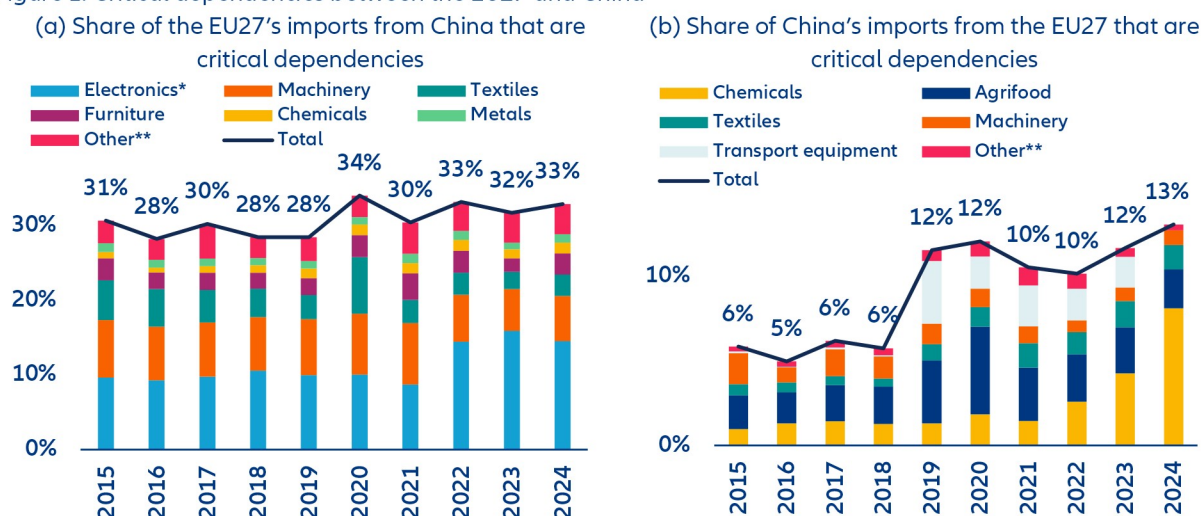
EURbn	Trade balance with China		Trade balance with the US		Trade balance with the world	
	2019	2024	2019	2024	2019	2024
Germany	-14	-67	48	72	224	243
France	-32	-43	3	-5	-79	-105
Italy	-19	-34	29	39	56	55
Spain	-22	-36	-2	-10	-34	-44
Netherlands	-30	-29	-11	-22	55	72
Poland	-25	-48	-1	-6	1	6
Belgium	-10	-25	-4	2	17	28
Sweden	-2	-4	-1	-1	1	6
Ireland	3	-2	31	50	62	90
Austria	-5	-10	3	9	-5	2
Total	-156	-298	95	127	299	354
Change		91%		34%		18%

Sources: ITC, Allianz Research

Nowhere is the shift more striking than with China. The EU-10 deficit almost doubled in five years, widening from –EUR156bn to close to –EUR300bn. Germany alone saw its deficit surge nearly fivefold to –EUR67bn, while France, Italy, Spain and Poland all posted double-digit billion deteriorations. Part of this deficit widening is explained by the fact that Europe's reliance on Chinese manufacturing is rising: The number of products where the EU27 presents

a critical dependency¹ on China has increased from 253 in 2016 (worth USD110bn) to nearly 400 in 2024 (worth USD184bn). They represented on average 6% of EU27's imports in 2015-2019 and 7% in 2020-2024. One-third of the EU27's imports from China are now critical dependencies, compared to c.30% ten years ago, with the rise mainly due to goods in the electronics and electrical equipment sector (see Figure 1a). Meanwhile, though the share of Chinese imports from the EU27 that are critical dependencies increased to around 13% compared with 6% ten years ago (mostly driven by chemicals, see Figure 1b), they continue to represent just 1% of China's total imports, and the number of products concerned has remained roughly stable, averaging 100. The message is clear: Europe's industrial core is importing the future faster than it is exporting it, from electronics to machinery to transition technologies. Supply-chain dependence is no longer creeping; it is accelerating.

Figure 1: Critical dependencies between the EU27 and China



*Electronics and electrical equipment

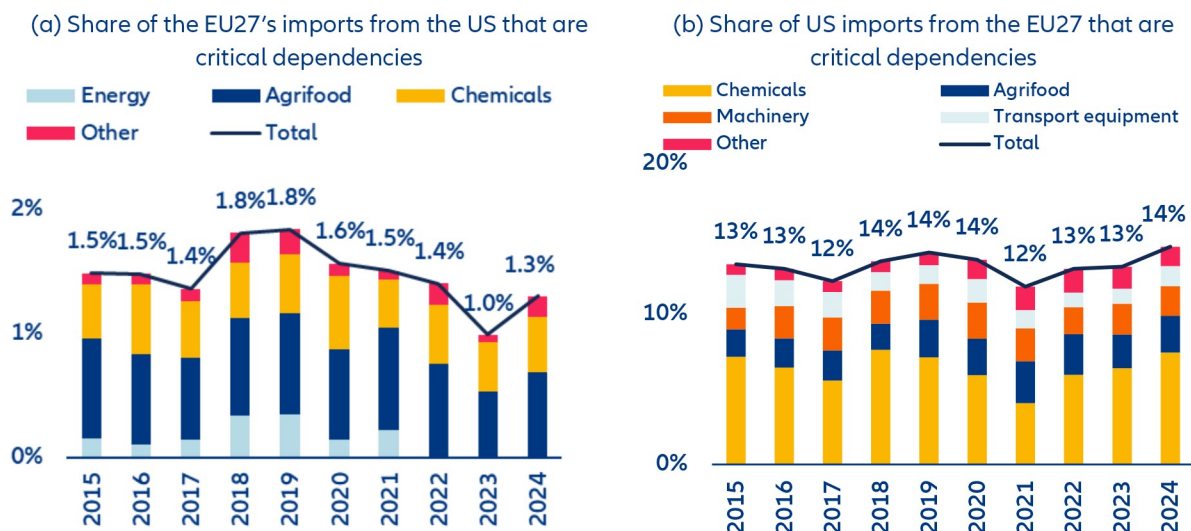
**"Other" in Figure (a) includes products in agrifood, automotive, construction, energy, paper, transport equipment and others. "Other" in Figure (b) includes products in paper, energy, metals, automotive, electronics and electrical equipment, furniture, construction and others.

Sources: UN Comtrade, Allianz Research

Across the Atlantic, the EU-10 surplus climbed from EUR95bn to EUR127bn (+34%), confirming the US as Europe's indispensable demand anchor. Germany (EUR72bn), Ireland (EUR50bn) and Italy (EUR39bn) are powering the transatlantic surplus on the back of chemicals, pharmaceuticals, agrifood and high-value manufacturing. Reassuringly for Europe, the US's non-substitutable reliance on the block seems to be rising: The number of products where the US presents a critical dependency on the EU27 has increased from 134 in 2016 (worth USD48bn) to around 200 in 2024 (worth USD89bn). This means that 14% of the US imports from the EU27 were critical dependencies in 2024, a slight increase since 2016 (see Figure 2b) – with the share out of total US imports remaining broadly stable at c.2% over the period. Around half of the US critical dependencies on the EU27 are concentrated in the chemicals sector, and in agrifood, machinery and transport equipment to lesser extents. In contrast, the share of EU27 imports from the US that are critical dependencies has stayed stable at around 2% over the past ten years (representing barely 0.2% of EU27 total imports), consisting of less than 30 products, mostly in the agrifood and chemicals sectors (see Figure 2a). Overall, the US market is not just a partner; it is Europe's external shock absorber, offsetting deficits building elsewhere.

¹ The EU27 presents a critical dependency on China for product 'X' (China thus being a critical supplier of product 'X' for the EU27) if all the following criteria are met: (i) the EU27 is a net importer of product 'X', (ii) more than 50% of the EU27's imports of product 'X' comes from China and (iii) China's global export market share for product 'X' exceeds 50%.

Figure 2: Critical dependencies between the EU27 and the US



Sources: UN Comtrade, Allianz Research

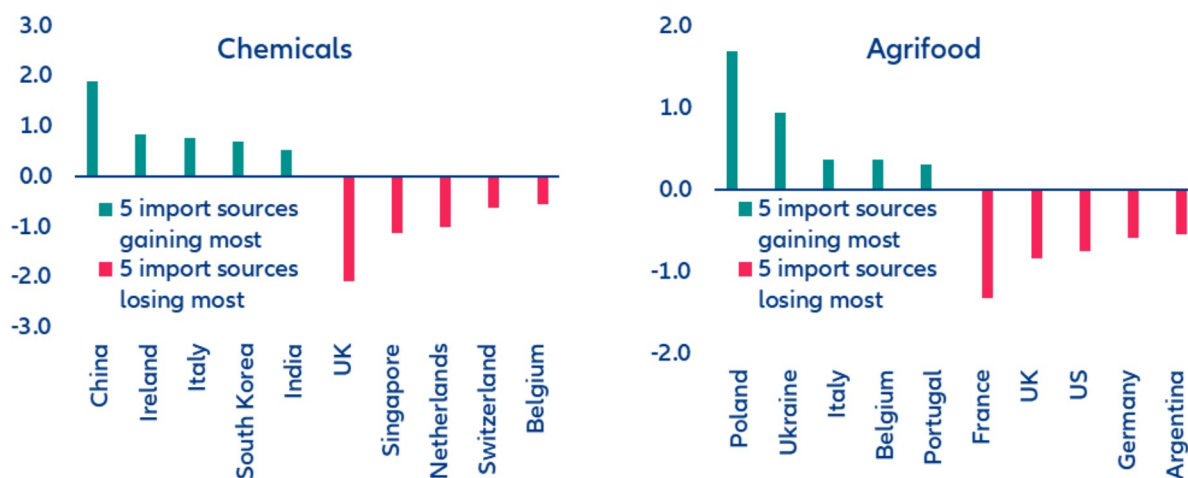
The EU's trade geography is becoming slightly more inward-looking but not necessarily more dominant. Since the pandemic, the share of exports absorbed within the EU has stagnated at 61% of total, while the share of imports sourced from within the bloc edged up only marginally from 61% to 62%. But beyond this apparent stability lies erosion. Several export powerhouses, including Romania (-6.4pps), Denmark (-2.1pps) and Slovenia (-2.0pps), have lost intra-EU export share, signaling intensifying competition both at home and abroad. On the import side (excluding energy), the core six EU countries in terms of trade (Belgium, France, Germany, Italy, Netherlands and Spain), saw a rising reliance on China and a few other partners in Asia (e.g. South Korea and India) between 2016 and 2024, but also a higher share of imports coming from Poland. More precisely, the reliance on China has risen in each of the largest import sectors (except for textiles), while Poland is the only European import source that is gaining ground in multiple sectors (agrifood, machinery, electronics and electrical equipment, automotive, metals and transport equipment). Other central and eastern European peers that have become larger providers for the EU core in certain sectors between 2016 and 2024 include Hungary (in electronics and electrical equipment), Czechia (in automotive) and Romania (in automotive). Looking at Asian providers beyond China, South Korea (in transport equipment and chemicals) and India (in electronics and electrical equipment, metals and chemicals) have gained ground, while a number of south and southeast Asian countries (Vietnam, Bangladesh, Cambodia, Pakistan Myanmar) have raised their textiles footprint in the EU core, at the expense of other European countries (the UK, Romania, Portugal and Czechia). In parallel, the core six EU countries' imports from Germany, France, the Netherlands, the UK, Japan and the US particularly saw their shares declining. Imports within the group of six countries particularly lost ground in agrifood, electronics and electrical equipment, machinery, automotive and transport equipment. The share of imports from the UK declined in most of the largest import sectors (except for transport equipment and machinery).

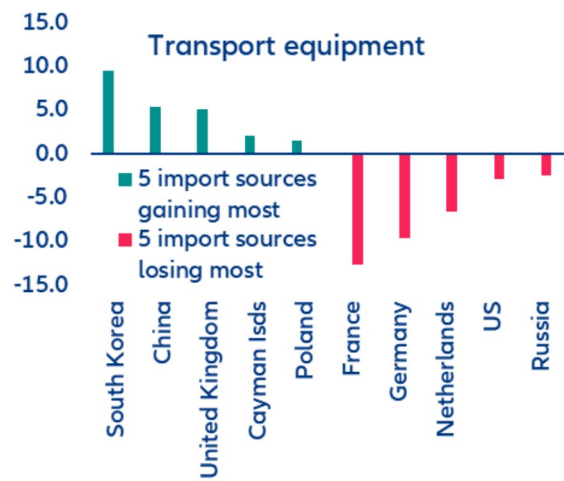
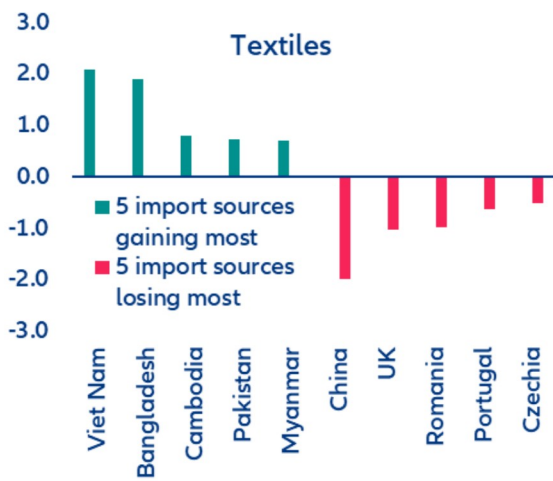
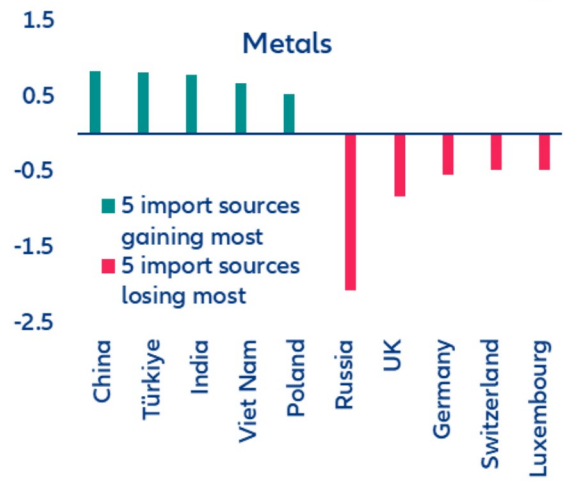
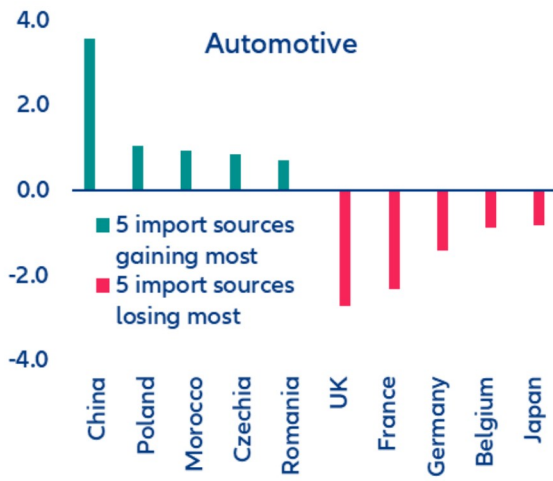
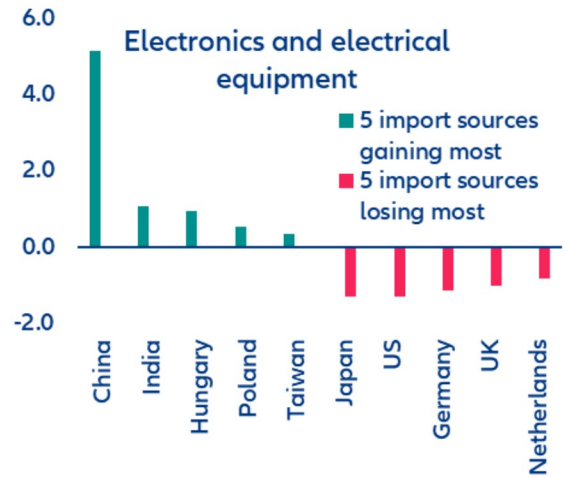
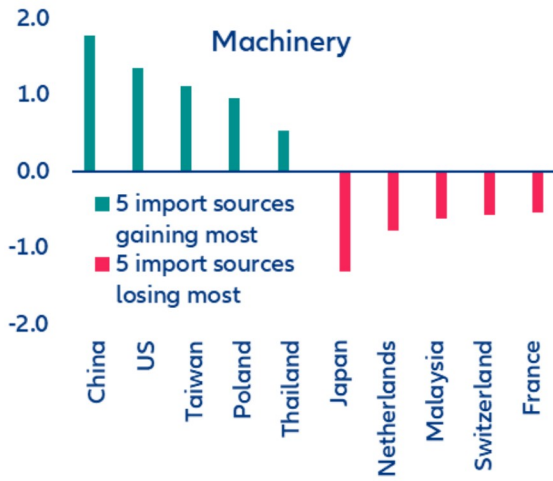
Table 2: EU exports and imports to and from the EU as a share of total

Exports to the EU, share in total				Imports from the EU, share in total			
	2019	2024			2019	2024	
Belgium	63%	62%	- 1.1	Belgium	68%	70%	1.8
Bulgaria	61%	62%	0.3	Bulgaria	60%	59%	- 1.4
Czechia	76%	75%	- 0.7	Czechia	66%	64%	- 1.7
Denmark	44%	42%	- 2.1	Denmark	55%	53%	- 1.5
Germany	49%	50%	0.3	Germany	53%	53%	- 0.3
Estonia	73%	71%	- 1.8	Estonia	80%	80%	0.1
Ireland	30%	33%	2.8	Ireland	22%	24%	1.8
Greece	45%	48%	3.4	Greece	46%	46%	0.6
Spain	57%	60%	2.9	Spain	52%	51%	- 0.8
France	49%	51%	1.4	France	53%	51%	- 1.3
Croatia	69%	68%	- 0.9	Croatia	77%	76%	- 0.3
Italy	50%	53%	2.3	Italy	57%	59%	2.4
Cyprus	39%	39%	- 0.3	Cyprus	44%	46%	1.7
Latvia	65%	68%	2.4	Latvia	74%	80%	6.1
Lithuania	63%	70%	7.0	Lithuania	64%	71%	6.1
Luxembourg	62%	64%	2.5	Luxembourg	62%	62%	- 0.6
Hungary	76%	74%	- 1.3	Hungary	71%	72%	1.0
Malta	61%	63%	1.9	Malta	53%	52%	- 0.3
Netherlands	62%	61%	- 0.9	Netherlands	51%	51%	0.5
Austria	72%	72%	- 0.0	Austria	72%	69%	- 2.3
Poland	71%	72%	0.5	Poland	68%	68%	0.9
Portugal	65%	65%	- 0.4	Portugal	72%	73%	1.3
Romania	78%	71%	- 6.4	Romania	77%	74%	- 2.9
Slovenia	76%	74%	- 2.0	Slovenia	77%	77%	- 0.1
Slovakia	81%	82%	1.3	Slovakia	59%	55%	- 3.4
Finland	52%	54%	2.1	Finland	60%	62%	1.7
Sweden	50%	52%	2.6	Sweden	62%	61%	- 1.3
Total average	61%	61%	0.6	Total average	61%	62%	0.3

Sources: Eurostat, Allianz Research

Figure 3: Change in import share, for the top six EU countries (Belgium, France, Germany, Italy, Netherlands and Spain), by sector (pp)





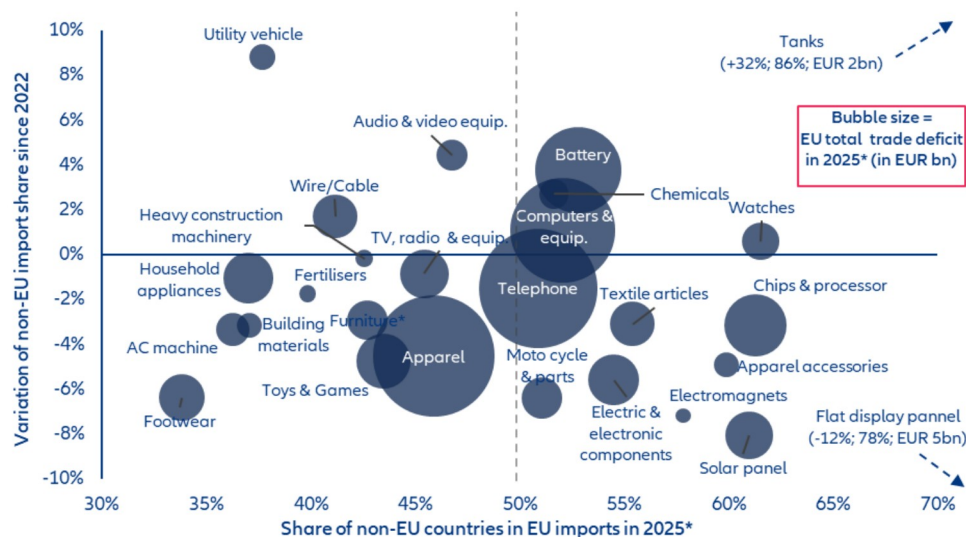
Sources: UN Comtrade, Allianz Research

Strengthening European trade resilience in a fragmented global regime

European exporters' resilience will be determined first at the firm level. In manufacturing – which accounts for roughly four-fifths of EU goods exports across machinery, transport equipment, chemicals, pharmaceuticals and electronics – mitigation hinges on diversifying production footprints, nearshoring critical manufacturing stages and embedding supply-chain redundancy. More systematic use of FTAs and trade advocacy will be essential to preserve market access as tariff and non-tariff barriers rise. Sectoral exposures vary. Agricultural exporters must prioritize multiple export corridors and scale storage and logistics buffers to absorb price and demand shocks, while technology exporters – facing concentrated semiconductor ecosystems and captive supply chains – need to accelerate regionalization and diversify end-markets to reduce single-country dependence. Safeguarding Europe's export engine therefore requires structurally embedding flexibility, geographic spread and shock-absorption capacity across sectors.

However, cutting external reliance is structurally more complex in high value-added industries. Successive supply-chain disruptions – from the 2020 pandemic shock to the Ukraine war and semiconductor shortages in 2022 – exposed Europe's overdependence on single suppliers. Diversification has advanced fastest in lower-value segments: Extra-EU import shares for goods such as apparel, footwear, toys and furniture have fallen below 50% as sourcing shifted toward Eastern and Southern Europe and, increasingly, African partners. Strategic sectors tell a different story. Defense autonomy is progressing across weapons systems, radar technologies and UAVs, yet limited domestic production capacity and slow infrastructure deployment still require reliance on foreign platforms, including armored equipment. Consumer electronics reveal a similar duality: External dependence is lower for household appliances and TVs but remains above 50% for phones, laptops and semiconductors – reflecting years of underinvestment, misallocated capital toward automotive chips and captive supply chains dominated by a handful of global players. The same gap is visible in batteries, where domestic capacity lags decarbonization ambitions. Policy support is beginning to shift the trajectory – solar import reliance has already fallen by around – 8% on the back of feed-in tariffs, grants and accelerated depreciation – but diversification gains will take time and require tighter EU-level coordination on industrial priorities and trade frameworks.

Figure 4: Evolution of non-EU market share in European imports since 2022 in segments recording a substantial negative trade balance (above EUR 500mn in 2025*)



* Data as of November 2025. Sources: Eurostat, Allianz Research

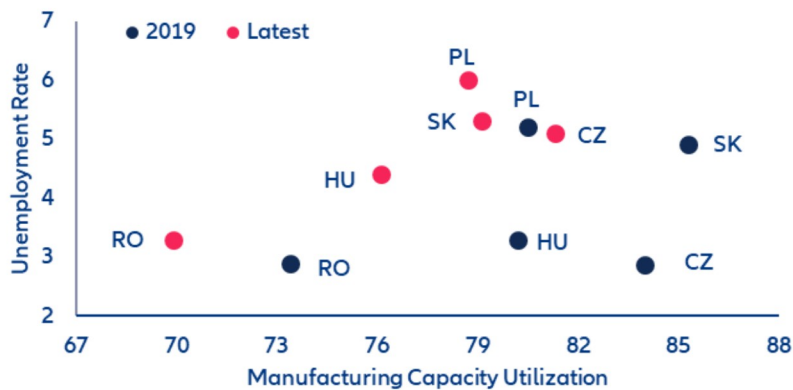
Even where reshoring is feasible, defensive strategies face economic limits. Domestic-input mandates risk eroding margins in globally contested industries, particularly with European industrial energy prices still 2–3x US levels. Cost pressures are amplified by currency and price dynamics: the 2025 decline in Chinese export prices combined with RMB depreciation compressed European firms' margins, forcing widespread cost absorption. Rather than blunt

reshoring requirements, next-generation instruments should track persistent real-cost divergences – inflation, FX misalignments and subsidy gaps - triggering consultations and calibrated countermeasures. Targeted fiscal incentives tied to domestic sourcing thresholds, such as the 60% EU-input benchmark embedded in joint procurement frameworks, could strengthen resilience while preserving competitiveness.

Simulations of substituting Chinese imports (EUR520bn) toward Central and Eastern European production show minimal inflation spillovers. Our calculations show that even redirecting 25% of imports from China to CEE countries (Poland, the Czech Republic, Hungary, Romania and Slovakia) is likely to raise Eurozone CPI by only ~+0.1pp at peak, while intra-European trade multipliers add +0.1pp to +0.25pp to GDP. CEE is more expensive than China because of higher labor costs, but these are partly offset by shorter transport distances, lower inventory requirements and reduced coordination costs.

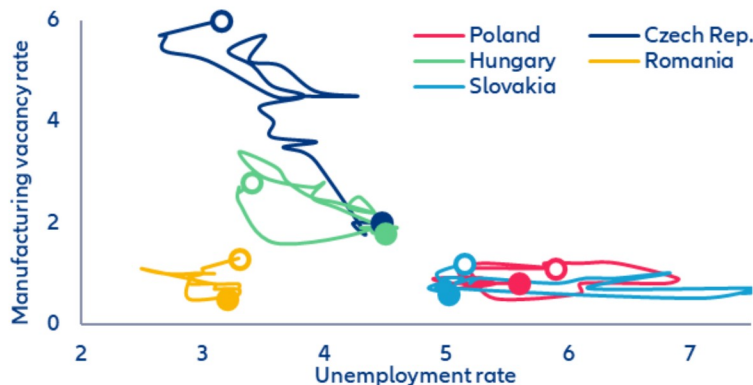
CEE labor markets look loose, but they're not. Manufacturing capacity utilization remains 2–6pp below 2019 levels and unemployment sits slightly above pre-pandemic rates, yet both indicators are still historically tight (Figure 5). Beveridge curve shifts reinforce this picture, signaling deteriorating matching efficiency and shrinking workforces (Figure 6). In practice, the region has limited room to expand output without significant cross-sector reallocation. As a result, adjustment pressures would concentrate in these recipient economies. Tighter labor markets could lift inflation by +0.3pp to +0.7pp, and by up to +1.5pp in extreme cases, as capacity constraints emerge. Scaling nearshoring successfully will therefore require automation, skills upgrading, and greater labor mobility rather than capital alone.

Figure 5: Manufacturing Capacity Utilization and Unemployment in CEE-5: 2019 vs Latest (%)



Sources: LSEG Datastream, Allianz Research

Figure 6: CEE-5 Labor Market Dynamics: Beveridge Curve (2019 vs Q3 2025, %)



Notes: Empty markers indicate the starting point of the Beveridge curve (Q1 2019); filled markers indicate the latest observation (Q3 2025). Sources: LSEG Datastream, Allianz Research

Absorbing large-scale nearshoring requires higher investment, and Chinese capital in particular is already filling part of the gap. Chinese FDI into the EU reached EUR10bn in 2024 (+47% y/y), with greenfield projects heavily concentrated in Central and Eastern Europe – Hungary alone captured roughly one-third. While this capital expands industrial capacity and alleviates labor shortages, it also embeds strategic risk, as projects remain focused on assembly activities with limited technology transfer. Capacity expansion may therefore solve production constraints while reinforcing supply-chain dependence.

Europe’s trade autonomy will not be built by retreating from globalization, but by rewiring its operating system. On the import side, resilience requires a structural shift from cost-minimization to risk-adjusted sourcing: diversifying critical inputs across multiple geographies, scaling domestic extraction and, more critically, processing capacity in minerals where import dependence often exceeds 70–90%, as well as anchoring friend-shoring corridors through targeted FTAs with resource-rich partners. Joint EU purchasing platforms² for energy, critical raw materials and defense inputs could replicate the demand leverage of the Single Market on the buying side. Additional safeguards would include mandatory diversification thresholds and capping single-country sourcing of strategic inputs at e.g. 50% for state-aid beneficiaries, alongside “Strategic Stockpiling 2.0” frameworks extending beyond energy to semiconductors, critical chemicals, pharma APIs and rare earth magnets. Fiscal levers such as resilience tax credits could accelerate the relocation or duplication of critical production stages within Europe.

The EU–CPTPP bridge talks mark the early blueprint of a transcontinental trade architecture rather than a conventional FTA. By linking two blocs spanning ~40 economies and ~1.5bn consumers, the initiative would pivot integration from tariff cuts to supply-chain engineering. The core innovation, i.e. cross-bloc rules-of-origin cumulation, would allow components sourced anywhere across the EU and CPTPP to qualify for preferential access, effectively knitting together transcontinental production chains in sectors such as autos, machinery and electronics. For European firms, this would expand tariff eligibility without renegotiating market access, lower compliance costs and enable multi-country sourcing strategies that strengthen supply resilience. Strategically, the timing is not coincidental: With the US and China together absorbing close to one-third of EU extra-bloc exports, Brussels is accelerating diversification alliances to de-risk both demand and supply exposure. If operationalized, the EU–CPTPP bridge would not just facilitate trade, it would rewire global supply chains around a Europe–Indo-Pacific production axis.

On the export side, autonomy means de-risking demand concentration. With the US and China together absorbing nearly one-third of extra-EU exports, diversification is becoming macro-critical for an export engine that underpins >40% of EU GDP and ~25mn jobs. Brussels is therefore accelerating trade architecture with high-growth markets, India, Southeast Asia and Mercosur, to rebalance exposure. The EU-Mercosur agreement alone could lift exports by USD27bn annually and add +0.1pp to GDP, offsetting roughly one-third of projected US-related trade losses. Broader tariff elimination with Japan, Canada and ASEAN would generate additional upside, while accession to a CPTPP-style framework, potentially including the UK, could unlock USD65bn in exports and +0.3pp GDP, compensating for more than 80% of US export losses. Even smaller accords, such as EU-Australia, carry strategic weight given raw-materials access.

Operationally, Europe’s exporters will also need deeper market embedding. Localization-for-access strategies, establishing regional assembly and servicing hubs, can lock in demand where local content rules are tightening. Financial and monetary levers matter too: expanding euro-denominated trade invoicing in commodities and aerospace would reduce FX exposure and strengthen financial sovereignty. Finally, autonomy has a physical backbone, requiring logistics sovereignty through scaled EU-controlled shipping capacity, port infrastructure and cargo aviation.

² See our report [Industrial policy: old dog, new tricks? | Allianz](#)

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(v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures,

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