Geostrategic Europe Taskforce

February 2026

Relearning the Language of Power

Geopolitical coalitions and pooled geoeconomic deterrence as Europe's plan B for a post-WTO world

Report to inform debates at the Munich Security Conference

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"In a world of great power rivalry, the countries in between have a choice – compete with each other for favour, or to combine to create a third path with impact. We shouldn't allow the rise of hard power to blind us to the fact that the power of legitimacy, integrity and rules will remain strong, if we choose to wield them together"

Mark Carney, Prime Minister of Canada, World Economic Forum 2026

"At a time when the global trading system is crumbling,
we are securing the global rules through bilateral agreements."

Ursula von der Leyen, Commission President, State of the Union Speech 2025

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About the Geostrategic Europe Taskforce

The Taskforce consists of 14 policy experts covering economics, finance, security and climate science from 10 member states. The members provide public policy institutions with thought leadership, foresight and targeted policy solutions for Europe's multi-dimensional security challenges at the intersection of economic, defence and climate security.

Disclaimer

The views and opinions expressed in this publication are solely those of the authors and do not necessarily reflect the views of the members of the Taskforce or the institutions they represent.

Acknowledgement

The authors would like to thank a number of colleagues and peers for their valuable insights, critical feedback, and intellectual engagement throughout the development of this report. In particular, sincere thanks go to Susi Dennison, Mats Engström, Leo Hoffmann-Axthelm, Jennifer Morgan, and Sander Tordoir for their thoughtful comments. The authors are also grateful to the participants of the roundtable discussion "Sovereignty in a Hostile, Climate-Disrupted World: Europe's Strategic Choices", held in Brussels on 28 January 2026. The discussion provided important perspectives that helped sharpen the analysis and arguments presented in this report.

Finally, the author would like to thank the members of the Geostrategic Europe Taskforce for their continued engagement and exchange, which provided an important sounding board for many of the ideas developed here: Olivia Lazard, Linda Zeilina, Tassos Haniotis, Eila Kreivi, Shahin Vallée, Francesco Saraceno, Ignacio Álvarez Peralta, Raluca Csernatoni, Marcin Korolec, Melchior Szczepanik, Mats Engström, Sylvie Matelly, and Suzana Carp.

Citation

When referencing this publication, please cite as:
Barth Jonathan, Eisl Andreas (2026): Relearning the Language of Power: Geopolitical coalitions and pooled geoeconomic deterrence as Europe's plan B for a post-WTO world. Report. Geostrategic Europe Taskforce.

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1. Executive Summary

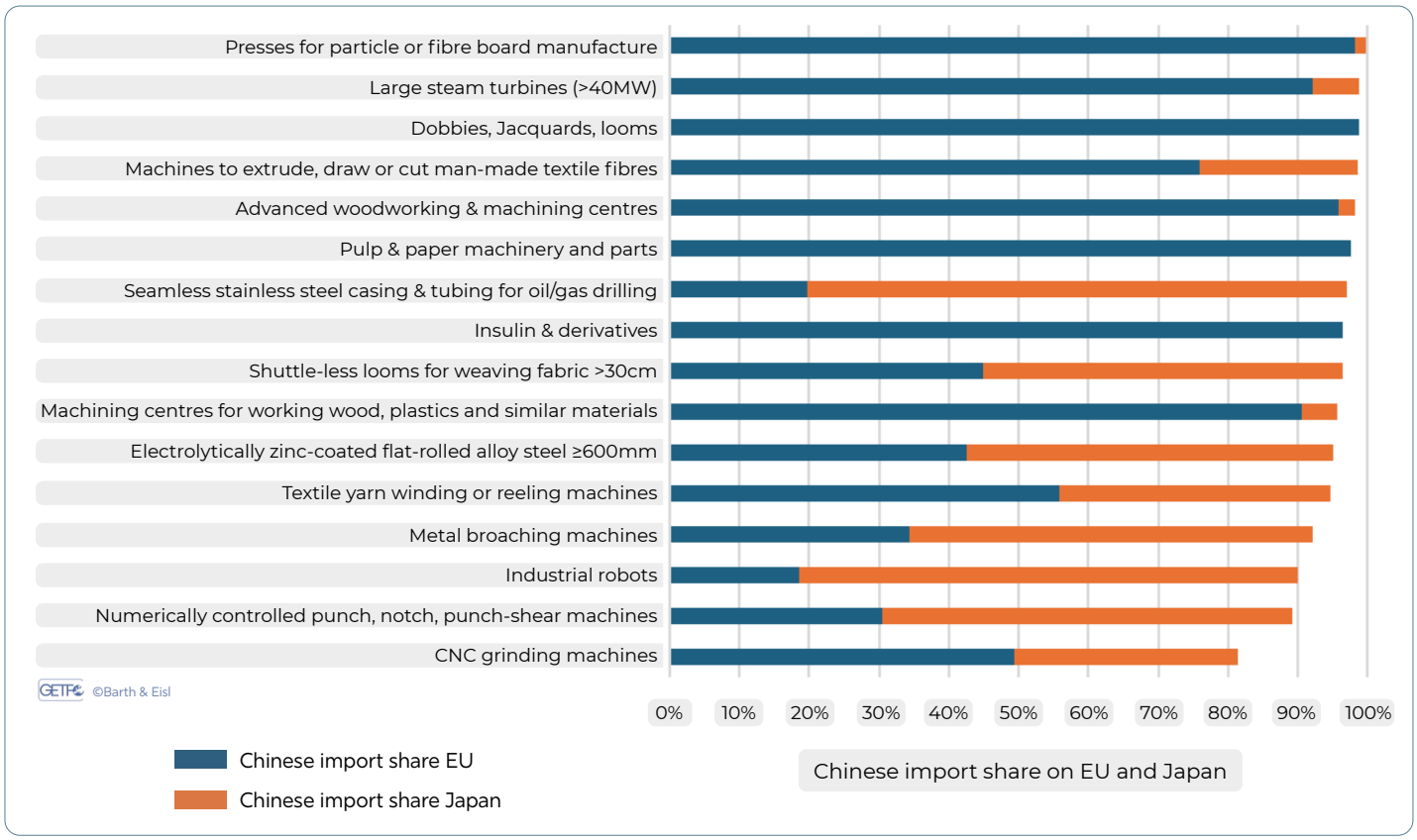
This report shows that Europe is controlling several critical chokepoints in global value chains that can be deployed as geoeconomic deterrence vis-à-vis the US and China. If combined with an offer to cooperate on the development of future markets and decarbonisation, Europe can lead the establishment of geopolitical middle-power coalitions as a blueprint for a global order following the WTO.

As the United States, Russia, and China increasingly converge on a world divided into spheres of influence, Europe has no credible Plan B for an international order in which the US is no longer the ultimate guarantor of stability. Instead, Europe is increasingly pushed into an order defined by others. The United States routinely deploys its economic and security leverage to extract concessions from Europe, while China has built structural power through critical supply chokepoints, from rare earths to chips.

Europe's recent success in defending the territorial integrity of Greenland should not obscure that European leaders have repeatedly confused sovereignty with geopolitical power. De-risking and resilience may preserve freedom of action, but they do not translate into power understood as the ability to shape the behaviour of others in line with Europe's interests and in defence of global cooperation.

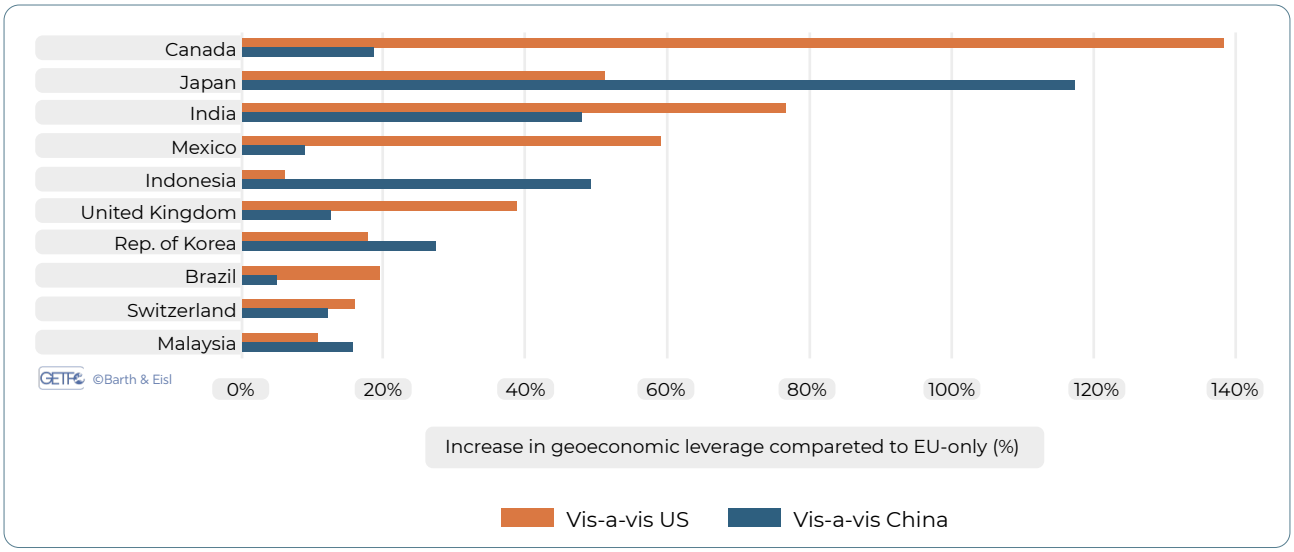
Contrary to widespread perceptions, Europe does possess significant tools of power (see blue bar in Figure 1). Based on a novel analysis of trade data, this report identifies **41 critical chokepoints where China depends on the EU for more than 80 per cent of its imports**, and **67 such dependencies for the United States**. These span essential inputs including insulin, pharmaceutical intermediates, medical technologies, and specialised machinery for agriculture, paper production, and industrial processing. These dependencies are not easily or quickly substitutable and therefore constitute deployable instruments of statecraft.

Figure 1:
The EU (blue) can leverage China's import dependencies as a geoeconomic deterrent, with deterrence increasing further through coordinated export controls with Japan (orange).
(Own illustration based on BACI 2021–2023)



Europe can amplify its power even further, by pooling its leverage with like-minded partners and transform bilateral dependencies into systemic deterrence (see Figure 2). Coordinated export controls with Canada, for example, would increase Europe's geoeconomic deterrence capacity **vis-à-vis the United States** by **138%**. A coalition with Japan would increase leverage **vis-à-vis China** by **118%**. Other partners with high potential to increase leverage include the UK, Switzerland, Mexico, Indonesia, India, South Korea, Malaysia and Brazil.

Figure 2:
The EU can form geopolitical coalitions with countries to increase the geoeconomic leverage towards the US and China (Own Illustration, based on BACI 2021-2023)



As Mark Carney noted in Davos, "from the fracture [of the old order], we can build something bigger, better, stronger, more just. This is the task of the middle powers." This report argues that pooled geoeconomic leverage should become the cornerstone of a new European strategy. By forging **geopolitical coalitions** around a renewed rules-based order beyond the WTO, and aligns cooperation on shared priorities such as decarbonisation, energy security and the development of future markets in clean technologies, artificial intelligence, and critical raw materials.

Together with other small and middle powers, European leaders can build a credible power base that strengthens protection against coercion, and hedges against global volatility and US unpredictability. Such coalitions would materially alter the cost–benefit calculations of coercive behaviour in both Washington and Beijing. Due to current blockages and institutional deadlocks, this will likely require parallel institutional formats to the WTO, the UNFCCC or the Paris Agreement.

Europe needs to transform its existing foreign, trade, and security policy architecture from managing partnerships to projecting power. To date, relationships with key partners, such as India, are structured as fragmented arrangements across trade, security, and development, rather than as integrated frameworks that maximise European leverage. Repurposing this architecture requires consistently prioritising partners, aligning instruments such as market access, finance, decarbonisation commitments, security cooperation, and anti-coercion into a single, coherent strategy.

1.1. Key recommendations to renew Europe's power model

This report calls on European leaders to promote the establishment of a "Platform for Economic Security, Trade and Technology Cooperation" to renew the rules-based order within like-minded coalitions organised around four mutually reinforcing pillars, the four "D's": Deterrence, Distinction, Decarbonisation, and Development. The four D's form an integrated strategy for building geopolitical coalitions that combine incentives and sanctions, and enables Europe to shape the behaviour of others in line with its interests and values.

1. **Deterrence through pooled leverage:** Use Europe's geoeconomic strength to raise the costs of coercion and alter adversaries' calculations.
   - **Institutionalise EU geoeconomic leverage** by systematically mapping critical chokepoints across global value chains and operationalising them for trade defence, export controls, and anti-coercion.
   - **Lower the activation threshold of the Anti-Coercion Instrument** and explicitly deploy it as a deterrence tool, not only as a reactive response.
   - **Pool leverage through targeted geopolitical coalitions**, using coordinated export controls and joint response mechanisms with like-minded partners.
   - **Embed mutual export ban support clauses against economic coercion in trade, investment, and strategic agreements** to trigger cascading deterrence effects.

2. **Distinction between members and non-members:** Differentiate access and benefits to enforce rules and protect coalition integrity.
   - **Condition market access on compliance**, using instruments such as CBAM, EU preference schemes, procurement rules, and access to financing as enforcement tools.
   - **Collectively deploy tariffs and export restrictions against defectors** and coercers to complement anti-coercion instruments.
   - **Introduce safeguards against structurally asymmetric dependencies** in future trade rules, correcting a core weakness of the WTO order and reducing weaponisation risks.

3. **Decarbonisation as a shared commitment:** Turn decarbonisation and energy security into a source of resilience, alignment, and influence.
   - **Build clubs of partner countries around the clean transition and market development**, anchored in multi-year cooperation frameworks.
   - **Mobilise EU financial instruments** including ODA and the MFF to support clean industrial transitions abroad, including grants, guarantees, and risk-sharing mechanisms.
   - **Create lead markets for clean technologies** through quotas, standards, and joint value chains in sectors such as steel, chemicals, and energy-intensive industries.
   - **Advance pragmatic reform of global trade rules** to accommodate decarbonisation, carbon markets, clean-technology subsidies, industrial policy, and energy-security investments.

4. **Development of future markets**: Foster cooperation by offering technological upgrading, expanding global demand, diversifying exports, and leveraging market complementarities.
   - **Support industrial and technological upgrading** in mid-sized partner countries as a strategic investment in future EU export markets, not as a competitiveness risk.
   - **Prioritise joint market development** in sectors with strong EU–partner complementarities, including AI, clean technologies, and critical raw materials.
   - **Use co-investment, joint ventures, and selective IP** sharing as tools of influence and geopolitical alignment.

2. The Starting Point: Mistaking independence for geopolitical power has pushed Europe into an order defined by others

Europe has "no obvious Plan B." As Philip H. Gordon and Mara Karlin recently argued in Foreign Affairs[1], Europe is "unprepared" to deal with a world in which it "can no longer count on the United States" as the ultimate guarantor of order.

As a result, the European Union has increasingly been pushed into an international order defined by others. This has been evident when the United States set the parameters for discussions on a potential peace deal with Russia through its 28-point plan last year; when President Trump withdrew from international institutions and agreements; when the US paralysed the WTO appellate mechanism; and when the US administration threatened the global economy with unilateral tariffs in April 2025.

Europe's independence is increasingly under threat. While the European Union (EU) defends its sovereignty in Ukraine against Russian imperialism, the U.S. administration does not leave any opportunity unused to use its leverage to push Europe into a position of subordination: from the speech by JD Vance at the 2025 Munich Security Conference, to the intention of the U.S. to pull away Italy, Hungary, Poland and Austria from the EU in the leaked previous version of the U.S. National Security Strategy[2] - all amounting to direct interference in EU politics -, to an EU-U.S. trade deal that grants Washington new leverage through increased European imports of U.S. LNG, as well as continued threats against EU digital regulation.

China, in turn, has built substantial leverage by owning 90% of the worlds rare earths refinery and processing capacity and over 90% of magnet manufacturing[3]. It raced to a technological leadership position on future industries in batteries, robotics and AI. In recent years, it demonstrated it is increasingly willing to weaponize this leverage, limiting first rare earths and later crucial automotive chip exports, when the Netherlands took over control of Nexperia, a subsidiary of Chinese-owned Wingtech.[4][5]

Without decisive action, this pattern will persist. Europe will continue to face limited capacity to resist agendas that run counter to its interests and are already taking shape: the projection of US fossil-fuel dominance in strategic competition with China and potentially in third countries; the U.S. idea to create a G5 with India, China, Russia, Japan[6]; the erosion of territorial sovereignty norms, whether through US actions in Venezuela and Greenland, the Russian invasion of Ukraine, or Chinese pressure on Taiwan; the growing use of food, water, and contracting ecosystems as tools of geopolitical leverage; and mounting challenges to Europe's global leadership in digital and AI regulation of rapidly evolving technologies that pose existential risks to humanity.

Europe's success in temporarily defending the territorial integrity of Greenland should not obscure a deeper structural problem. European leaders have mistaken independence for geopolitical power. While the EU strengthens its resilience and ability to shield itself from increasingly frequent shocks, its capacity to shape the behaviour of others beyond its borders remains limited. This constraint stems from three core weaknesses.

1. **Europe lacks a clear vision for the future global order.** While the United States, Russia, and China increasingly converge on a world divided into "spheres of influence", Europe has yet to articulate its own coherent alternative: one that remains committed to multilateral principles, addresses the failures of the old system, and is realistic about enforcement in a world of power politics and rising authoritarian power.

2. **Europe continues to conflate sovereignty with power.** Recent policy initiatives have focused on de-risking, supply-chain resilience, and exposure to geoeconomic chokepoints, as well as on strengthening defence capabilities. Yet geopolitical power requires the strategic use of Europe's political and economic tools, including market access, export bans, and anti-coercion measures to protect geopolitical coalitions of likeminded countries. While sovereignty is about shielding freedom of action from coercion, power is about the ability to influence the behaviour of others along Europe's interests.

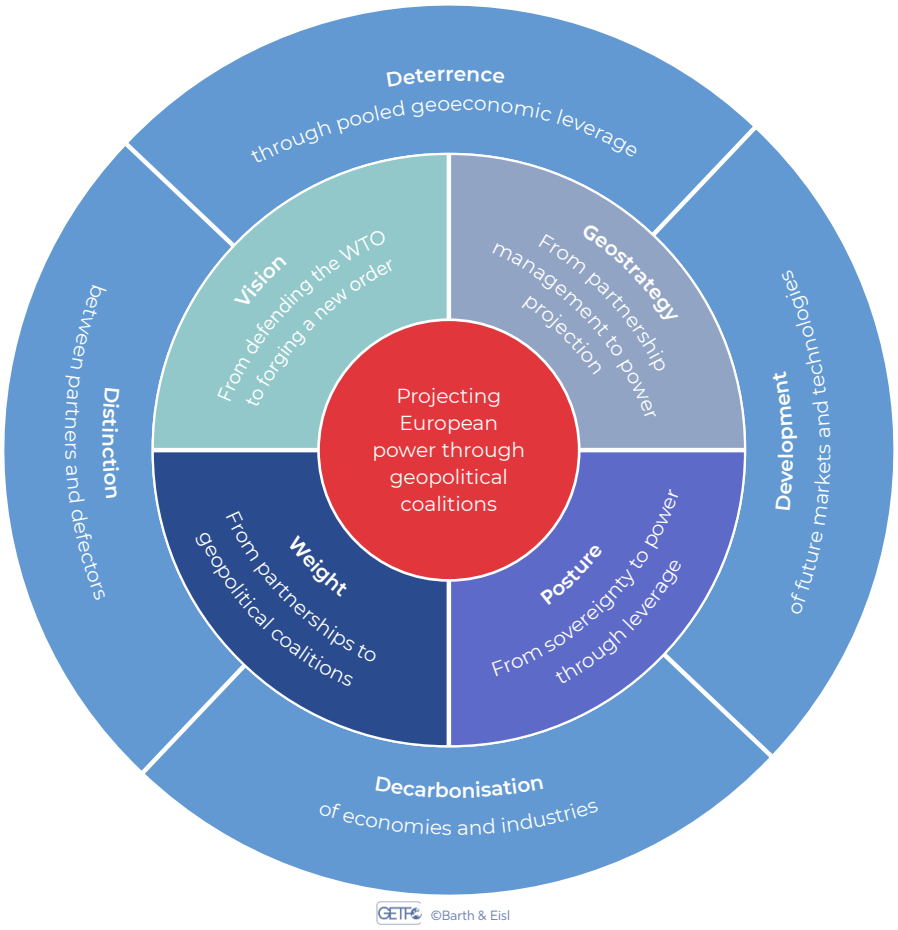
3. **Europe prioritises partnerships where it needs coalitions.** Initiatives such as Mercosur and the EU–India partnership represent meaningful progress in diversifying external relations. However, they remain rooted in a traditional trade logic. They stop short of pooling leverage with like-minded middle powers to jointly pursue shared interests and address common challenges, from coercion and climate change to governance of new technologies and development.

Addressing these gaps doesn't require independence, but that Europe promotes club-like geopolitical coalitions organised around shared interests, collective challenges and pooled leverage. This report defines the cornerstones of such coalitions as a tool to counter the global influence of China and the US and defend European interests (see Figure 3). It does so by:

- **using a novel set of trade-date to make a case for export controls as a geoeconomic deterrence tool** vis-a-vie the US and China
- **quantifying how pooling of geoeconomic leverage between middle-powers and the EU** can counter-balance the geopolitical power of the US and China
- **outlining four" D's" as geostrategic cornerstones of EU's offer to the world** as a structure for geopolitical coalitions: Deterrence, Distinction, Decarbonisation and Development.

In doing so, the paper contributes to the emerging debate on the future of middle-power cooperation and Europe's economic security. It offers practical recommendations to underpin a European geostrategy, particularly at the intersection of partnerships, trade, climate, and security. The analysis deepens the "partnerships" pillar of the EU's economic security strategy, clarifies the sources of Europe's geoeconomic leverage needed to underpin credible deterrence through anti-coercion, and identifies priority countries for building effective geopolitical coalitions.

Figure 3:
Europe can project power through geopolitical coalitions. The required four shifts translate into four D's as cornerstones of geostrategic cooperation: Deterrence, Distinction, Development and Decarbonisation (own illustration)



3. The Twist: Pooling geoeconomic leverage to balance geopolitical power

Europe's geoeconomic debate has so far been skewed towards vulnerability, de-risking, and fears of lost competitiveness. This defensive framing has obscured that Europe possesses significant geoeconomic leverage that remains largely underused. As a result, the EU has focused on limiting exposure rather than shaping outcomes.

Contrary to widespread perceptions, Europe controls a number of critical chokepoints in global value chains that can be deployed as instruments of statecraft. Trade flow data show at least 41 single points of failure where China depends on the EU for more than 80% of its imports, spanning sectors such as hormones, pharmaceutical intermediates, medical technologies, and specialised machinery for agriculture, paper production, and industrial processing. These are inputs that cannot be substituted quickly or at scale. For the case of China a selection of products with high leverage is shown in Figure 5, where the blue bar represents the EU's leverage.

The same logic applies vis-à-vis the United States. There are 67 products for which the US imports more than 80% from the EU, again concentrated in machinery, hormones, and basic chemicals essential for pharmaceutical production.

Europe's power is maximized further, by pooling its leverage with like-minded partners. Coordinated export controls as part of a geopolitical coalition, for example between the EU and Japan, would substantially deepen and broaden deterrence (see Figure 4). Pooling leverage with Japan would add 17 additional critical products through which the coalition could exert pressure beyond the EU's existing 67. At the same time, US trade vulnerability would increase by 27% due to higher import exposure.

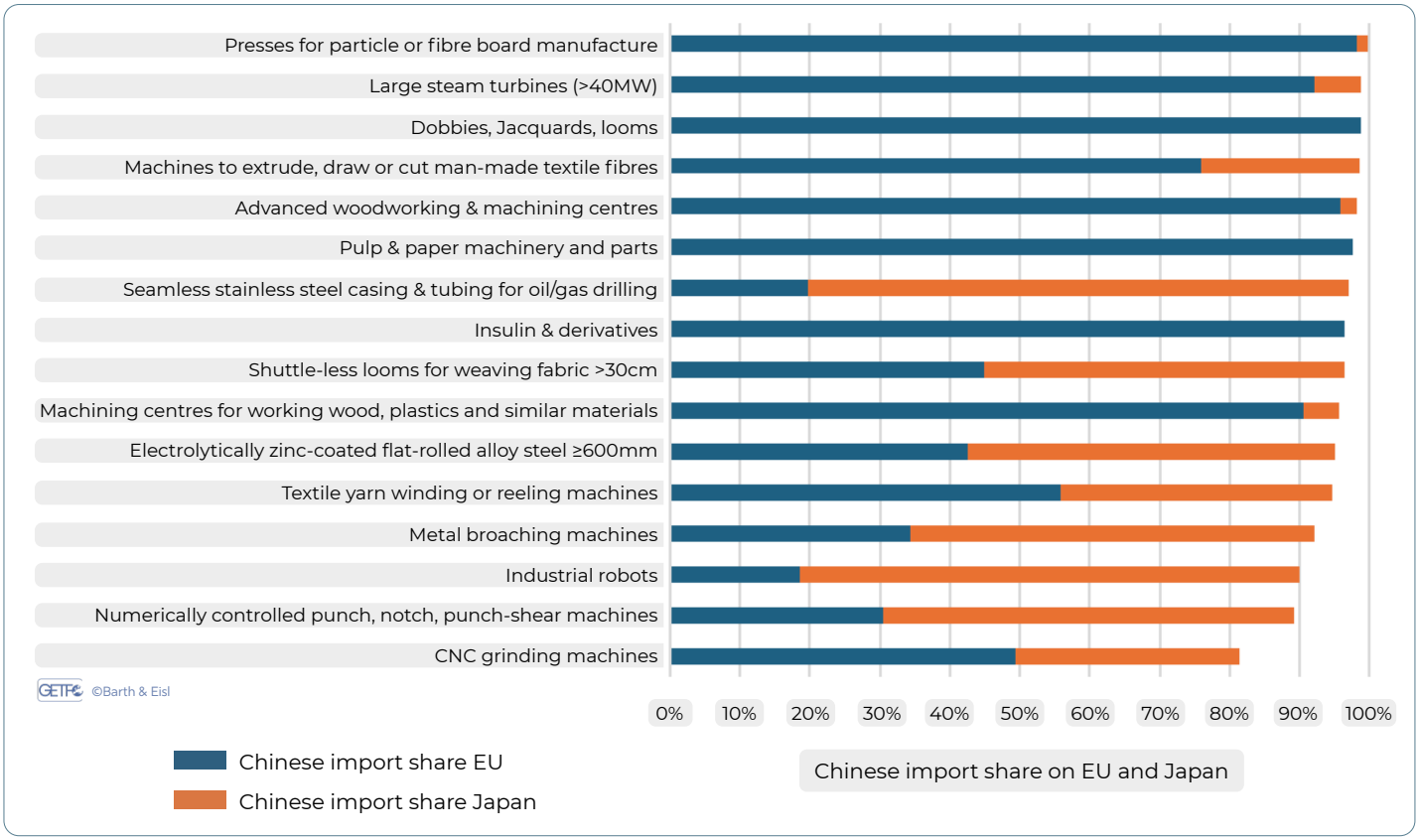
Used credibly, including through export controls, this leverage could materially affect cost–benefit calculations of e.g. Beijing or Washington and strengthen Europe's ability to defend its interests. While Europe has so far been reluctant to treat export controls as a geopolitical tool, deploying them in a targeted and proportionate manner would significantly enhance its bargaining position.

The remainder of this paper examines how Europe can translate this latent strength into a renewed power model. It sets out how leverage, when embedded in club-like geopolitical coalitions, can be a cornerstone to enable international cooperation around shared interests and global challenges, and provide a credible foundation for shaping outcomes in an increasingly contested international order.

Figure 4:
By coordinating export bans with other middle-powers the EU can leverage higher US import dependence as geoeconomic deterrent (Own Illustration, based on BACI 2021-2023)

The x-axis represents the increase in leverage through increased import penetration by the coalition compared to the baseline of EU-only (e.g. US import dependence on a product increases from 80% to 90% when the EU partners with the respective country). The y-axis represents the increase in the number of products for which the US depends more than 80% on imports by the coalition compared to EU-only. The size of the bubble represents the number of additional products that can be used as leverage when joining the coalition.

Figure 5:
A geopolitical coalition between the EU and Japan can increase geoeconomic leverage towards China. The blue bar represents the EU leverage towards China, and the orange bar represents the increase in leverage by building a geopolitical coalition with Japan. For all of these products export shares of the EU and Japan combined are bigger than 60%. (Own Illustration based on BACI 2021-2023)



4. The Why: Europe's power model has eroded

Europe must relearn the language of power politics if it wants to play a role in the emerging global order and achieve three objectives:

- **Hedge against global volatility and U.S. unpredictability** by diversifying partnerships and building its own power base through coalition-based leverage.
- **Create a blueprint for a post-WTO order** that addresses the risks of trade weaponisation and restores predictability through club-based cooperation around shared challenges.
- **Build a coalition of middle and regional powers** capable of defending and renewing a rules-based order aligned with European values and interests, and with those of the many, not just the strongest.

Achieving these objectives requires a fundamental transformation of Europe's power model into one that builds up leverage for Europe in which it can protect its interest as well as developing a functioning international system as a global good.[7]

For decades, Europe's influence beyond its borders rested on two building blocks: market-based influence and multilateral rules.

- **Market soft power.** Known as the "Brussels Effect", Europe used the size of its Single Market as a soft-power instrument to shape the behaviour of other countries through regulation rather than coercion. GDPR, the Digital Services Act, the EU's environmental and climate regulations all led to firms adapting globally to European rules.
- **Multilateralism.** The EU, as the world's biggest open economy, strongly benefited from a multilateral order anchored in free trade and rules. Not only because it was able to shape and refine those rules, but also because these in reality favoured the EU as a Union of advanced economies.

Today's reality lays bare the limitations of this model for Europe to survive the world of power politics, the very world the EU aimed to transcend.

First, trade is no longer a "neutral" arena. What increasingly matters today is not soft power through markets, but hard power and what Christine Lagarde has termed "system power": the ability to weaponize interdependencies to pursue geopolitical objectives. Trade becomes an instrument of national security statecraft, as in the case of the recent trade deal between the US, Malaysia and Cambodia (see box 1).

BOX 1: The US uses trade agreements with Cambodia and Malaysia for geoeconomic deterrence.

The use of trade as a geopolitical tool, is not only visible in Russia's exploitation of Europe's energy dependence, but also in recent US trade agreements with Malaysia and Cambodia. At the ASEAN summit in Kuala Lumpur in October 2025, the United States concluded agreements with Malaysia and Cambodia. What on the surface appears to be a conventional trade deal, in substance is the projection of national security through economic means. E.g. for the case of Malaysia, Section 5 "Economic and National Security" requires Malaysia to mirror US export and import controls. It allows Washington to terminate the agreement if it enters other trade arrangements deemed to threaten essential US national security interests Similar conditions apply for Cambodia.

Second, with multilateralism fading, legality gave way to leverage. The core benefit of multilateralism for smaller and middle powers disappeared once the United States withdrew its support. Smaller and middle powers, including Europe, benefited from the rules-based order mainly because (de jure) they were able shape and refine these and negotiate on equal footing with superpowers like the US, who are holding the means of coercion and hard power. Given their subordinate power position, this benefit outweighed the loss of freedom of action through rules. With the US withdrawal from the rules-based system, that benefit of symmetry is no longer there. The WTO's dispute settlement mechanism remains stalled. Trump's tariffs show: smaller and middle powers no longer negotiate on equal footing (see box 2).

Without renewing its geopolitical power model, without strengthening its ability to organise leverage collectively, and updating its approach to partnerships, Europe risks becoming a passive object of others' strategies rather than an active shaper of outcomes. In a world where major powers selectively comply or defect, insisting on universal rules without enforcement weakens, rather than protects, those who still abide by them. Unless Europe adapts its power model to a world of power competition beyond de-risking of supply chains, its sovereignty may be preserved at home, but its influence abroad will continue to decline. Trade agreements with Mercosur or India may feel like a bout of fresh air. Yet, if they are not understood as pretext to geopolitical coalitions, they don't succeed in substantially altering the global balance of power.

BOX 2: The dependence of multilateralism on US support as hegemon

Multilateralism worked because, at the moment of its creation, the United States, as hegemon, accepted to give up optionality. That sacrifice created predictability and a fair playing field for smaller and middle powers, allowing them to engage major powers on more equal terms despite their lower military and coercive capacity.

It is important to remember that the WTO system emerged from the Cold War context, in which Washington embraced rules-based trade as a strategic tool to integrate allies and competitors, including China, into an order aligned with US interests and positioned against the Soviet Union.

However, with the rise of the East Asian "tiger states" and, later, China, and with the end of the Cold War, this calculation has changed substantially for the United States. One way to look at today's shifts, is that US backing of the WTO faded in result. In any way the system's capacity to mitigate power asymmetries was substantially weakened.

The world Europe is entering is characterised by conflict, volatility, and scarcity – particularly driven by the compounding trends of continued population growth and the impacts of climate change. By now two major intelligence services (Australia and the MI5) withheld climate security reports, due to fears about the reaction by the public and financial sectors on the scale of climate impacts.[8] The return of power politics needs also to be interpreted as a response to this trend. By shifting from legality to leverage, countries are geopolitically adapting to megatrends like climate change that got out of control. They prepare to exploit future vulnerabilities in resources, water, food systems, and contracting ecosystems to ensure influence and the protection of their interests.

5. The What: Europe needs to relearn the language of power

Europe does possess tools of power. Yet so far, it has failed to recognise, interpret, and deploy them as such and failed to close important gaps. Four shifts are required to relearn the language of power.

5.1. Vision: From defending the WTO to forging geopolitical coalitions

Europe lacks a compelling vision for the global order at a moment when power politics is returning. While the United States, China, and Russia increasingly converge on a world organised around "spheres of influence", Europe lacks a vision of what should follow the old order, particularly on trade. The WTO-based system relied on rules compliance, non-distinction, and peaceful conflict resolution. Its main assumption: interdependence would constrain escalation and foster prosperity. Its result was free trade.

In practice, however, these assumptions had many blind spots. Comparative advantages led to asymmetric leverage. Agreements treated critical upstream goods such as energy and raw materials on par with other goods, subordinated environmental and social objectives to trade liberalisation, and depended on a hegemon willing to enforce the rules.

A renewed European vision for multilateralism must therefore start by correcting design failures. The core mistake was the assumption that uniform rules alone could manage concentration, coercion, and defection. Future arrangements must combine legality with enforceability: rules to coordinate behaviour among those who comply, and credible leverage to deter those who do not. Both are complements: Without enforcement, rules invite exploitation; without rules, leverage escalates quickly.

The resulting vision is not independence, but club-like geopolitical coalitions organised around shared interests and collective challenges. Such clubs would operate with differentiated rules for different categories of goods, giving priority to national interests for essential goods like agriculture, energy, and critical resources, and dynamic trade balancing mechanisms to prevent excessive concentration and weaponisation. Non-discrimination would apply within clubs, while defection would trigger pre-defined consequences. Incentives to join a coalition would emerge from a set of rules that actively promotes economic development for coalition members: Industrial policy, investment protection, and local content rules in combination with technology transfers and joint ventures as means to balance asymmetric trade dependencies or establish domestic industries need to be explicitly allowed.

In theory, this logic could be embedded in a reformed WTO. In practice, given current blockages, it will likely require parallel institutional formats. Europe's geostrategic task is therefore to use existing multilateral infrastructures like the WTO or COP meetings to actively forge coalitions around a new order. While these coalitions should explicitly be open for everyone to join, they should no longer naïve about free-riding, defection and power imbalances.

Table 1:
Renewing the rules-based order through forming clubs around shared interests (own illustration)

Old WTO Order: Design Failures	New Order: Clubs Around Shared Interests
• Focus on comparative advantage led in practice to asymmetric leverage and dependency risks • Essential and non-essential goods treated identically, including critical raw materials, fossil fuels, and energy • Primacy of trade over environmental and social objectives, visible e.g. in Mercosur delegation to the ECJ • Agricultural competition encouraged a race to the bottom in environmental protection, undermining ecosystem resilience • Unfair advantages embedded for some developing countries, without dynamic adjustment mechanisms • Most-favoured nation principle didn't allow for reasonable discrimination e.g. to address concentration risks or socially inacceptable import substitution • Dependence on a hegemon for enforcement, with no exit mechanisms or credible punishment for defection • Primacy of legality over leverage, assuming rules alone would prevent weaponisation of interdependence • No tools to manage trade concentration risks once they emerged	• Focus on collective challenges (AI, decarbonisation, population growth, poverty reduction, biodiversity) as organising principles • Differentiated treatment along the essentiality of goods: stricter governance for agriculture, critical resources (incl. energy), and strategic inputs • Primacy that agreements must not constrain action on collective challenges • Club rules: most-favoured-nation treatment applies within the club, except where asymmetric leverage requires balancing measures • Graduated participation and obligations, reflecting capacity, exposure, and contribution • Defection sanctions as a core feature; differentiating between compliers and defectors becomes a condition for system survival • Legality and leverage combined: rules coordinate cooperation, leverage deters coercion • Dynamic balancing mechanisms to prevent excessive concentration and reduce weaponisation risks

5.2. Geostrategy: From partnership management to power projection

Europe has built a fragmented architecture for foreign policy coordination, external partnerships, and economic security. The Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP) provide frameworks for diplomatic reach, crisis management, and political alignment among member states. In parallel, instruments including the Global Gateway, Clean Trade and Investment Partnerships, and Critical Raw Materials partnerships structure external partnerships and cooperation around specific issues and challenges. Combined with the financial capacity provided by NDICI–Global Europe, member states' development programmes, and offers by the EIB and EBRD, the EU is in theory capable of projecting global influence.

However, while foreign and development policy are increasingly streamlined through the Team Europe approach, economic statecraft remains the EU's most powerful lever in external relations. The Economic Security Strategy, FDI screening mechanisms, the Anti-Coercion Instrument, CBAM, or export controls mostly require qualified majority in contrast to unanimity requirements in CFSP and CSDP. While advantageous, this institutional reality also undermined the strategic integration of foreign, trade and economic policy.

Europe's geostrategic challenge is strategic coherence and institutional learning. The existing architecture was designed to manage partnerships, not to project power. In result partnerships – like the one with India – consist of a series of fragmented agreements on trade, security and defence, whereas cross cutting partnerships are what might more sense in terms of European leverage. Repurposing the existing architecture requires a deliberate shift: prioritizing partners consistently, organising leverage collectively, aligning incentives across instruments, and using security, market access, decarbonisation commitments, finance, and anti-coercion

as integrated rather than fragmented tools. If achieved, this would allow Europe to move from partnerships to coalition-building and to translate these into geopolitical influence. Where progress is blocked through unanimity, enhanced cooperation or a "supranational avantgarde"[9] of member state should lead the way.

5.3. Posture: From sovereignty to power through leverage

Europe's weakened power model stems from the mistake to confuse sovereignty with power. Sovereignty protects freedom of action; power shapes the behaviour of others. Recent EU action has focused on reducing vulnerabilities, de-risking supply chains, and restoring a minimum degree of autonomy. While necessary, this defensive posture does not generate the leverage required to advance a European vision of global order or to defend Europe's geopolitical interests vis-à-vis the United States and China.

This gap matters because Europe's core interests are increasingly shaped externally. Decisions taken elsewhere on trade, technology, energy, and security have immediate consequences for Europe's economy, social model, and political stability. At the same time, key European objectives, including decarbonisation, technological governance, global development, and security stability, cannot be achieved unilaterally. They require coordinated behaviour by other actors. Influence, not insulation, determines outcomes.

Where Europe does not actively align incentives and pressures so that others act in ways consistent with its interests, others will shape behaviour instead. The United States and China already deploy market access, export controls, and coercive measures as instruments of statecraft. If Europe limits itself to protecting its own autonomy without influencing external behaviour, it risks becoming a rule-taker in a system defined by power politics rather than shared rules.

Europe possesses the tools to shift its posture, but continues to underuse them:

- **Instruments such as EU preference regimes, trade defence, and CBAM** should be understood not only as industrial policy, but as geopolitical leverage: access to the European market as an offer to join coalitions that hedge collectively against subordination.
- **The Anti-Coercion Instrument should not be confined to reactive retaliation.** Used proactively, it could function as collective insurance, transforming conflict resolution from bilateral disputes between superpowers and fragmented states into contests between rule-abiders and defectors.

Relearning the language of power therefore requires European leaders to move from managing exposure to organising leverage.

5.4. Weight: From partnerships to geopolitical coalitions

Europe's external strategy remains anchored in traditional partnerships like the G7, NATO, G20, while the reality of asymmetric power politics increasingly demands coalitions. Agreements such as Mercosur or the EU–India partnership are important steps in diversifying trade relationships, but they largely reflect a trade logic rather than a geostrategic one. They are not the result of a systematic assessment of which partners Europe shares interests with in renewing the global order, nor do they extend meaningfully beyond trade into areas such as security, geoeconomic deterrence, or are strongly conditional on cooperation on global challenges like decarbonisation.

Mark Carney argued in Davos, that "from the fracture [of the old order], we can build something bigger, better, stronger, more just. This is the task of the middle powers — the countries that have the most to lose from a world of fortresses and the most to gain from genuine cooperation."

In a world of power politics, any future order, whether through reformed institutions or club-based arrangements, will depend on the collective capacity of its members to enforce it. No single actor can do so alone. Europe's strategic task is therefore to move from managing bilateral partnerships to deliberately building incentive mechanisms and coalitions around pooled leverage, mutual protection against coercion, and joint rule-setting in key domains. Potential candidates include middle powers such as India, Brazil, South Africa, Canada,

or Indonesia. These actors face similar pressures from transactional US policies and assertive Chinese economic coercion and overcapacity. Europe is well placed to do this. Its core identity as a peace project demonstrates its capacity to build power through institutions and shared governance.

This implies to resist expanding existing formats for power-building. Forums such as the G7 or G20 remain useful for dialogue, but they are structurally unsuitable for organising collective leverage. Including the United States or China creates opportunities for agenda-setting, dilution, and statecraft from within. To hedge against superpower dominance, Europe should form its own coalitions with like-minded middle powers, based on conditional membership, aligned incentives, and credible enforcement. Only such formats allow Europe to pool leverage and shape rules.

While generally coalitions should be designed by function e.g. on critical minerals, decarbonisation, and technology governance, Europe should define a core group of members, where development and decarbonisation incentives must be tightly linked to deterrence and clear differentiation between partners and defectors to make use of co-benefits and compromises across policy domains.

6. The How: Four D's underpin Europe's offer to the world

Once Europe aligns behind a shared vision and recognises that influence now derives from leverage and coalition-building rather than openness alone, it can articulate a credible offer to the world. The strategic shift required is to move from trade partnerships to **geopolitical coalitions** structured along four mutually reinforcing "D's":

- **Deterrence through collective power:** pooling market access, regulatory capacity, and response instruments to credibly protect coalition members against economic, technological, and political coercion.
- **Distinction between members and non-members:** conditioning access to markets, finance, and cooperation on adherence to shared rules, and systematically differentiating between coalition members and actors that don't play by the rules, e.g. by deploying economic coercion.
- **Decarbonisation as a shared commitment:** accelerating the clean transition through coordinated industrial policy, technology transfers, supply-chain integration, upskilling and joint investment, turning decarbonisation into a source of resilience, competitiveness, and geopolitical alignment.
- **Development of future markets:** jointly shaping the markets of tomorrow, from clean energy and critical raw materials to digital infrastructure and advanced manufacturing, so that innovation, standards, and value creation reflect coalition interests rather than superpower dominance, including enticements such as technology transfers.

6.1. Deterrence through collective power and uncertainty

Trump has consistently exploited uncertainty over whether, when, and at what scale he would act on his threats as leverage to advance US interests. This dynamic was visible in successive rounds of tariff pressure, in threats to withdraw the US from NATO, and in the recent Greenland episode, where he refused to rule out military means. The tactic proved effective because it was deployed largely in one-to-one settings in which the balance of leverage appeared asymmetric.*

Faced with this combination of elevated stakes, irritations about a fundamentally changed transatlantic relationship and uncertainty about follow-through, European leaders often prioritised damage limitation. Trump's threats were widely perceived as credible. They were effective, because stakes were high, ranging from security guarantees, intelligence cooperation to continued US support for Ukraine. As a result, the EU accepted concessions that appeared asymmetric, whether on trade, defence spending, or aspects of exposing the European economy to another energy dependency in the form of US LNG exports. But not only did they give in. They also spared Trump any consequences when he unilaterally withdrew from the global rules-based order, and key international organizations and treaties including the Paris Agreement and the WHO.

There were clear alternatives available to European leaders. These ranged from adopting more self-confident rhetoric at moments of pressure, to signalling a greater willingness to retaliate and escalate[10], and to committing credibly to first-order principles, such as the rejection of unilateral trade threats as a legitimate political tool. The limited concessions Trump ultimately made towards China, and his backtracking on Greenland once Europe shifted its strategy from "bargaining" to "commitment", illustrate the potential of a more assertive approach.

6.1.1 Rebalancing power through geoeconomic strength

The foundations of assertiveness, the willingness to take risks, whether vis-à-vis the United States or China, ultimately follows an awareness of one's own material leverage. So far, Europe's debate has been distorted by an overwhelming focus on vulnerabilities, de-risking, and fears of lost competitiveness. The debate consistently underestimated Europe's own structural strengths.

*With bilateral we refer here to the European counterparts as one coalition actor that is pressured

ASML's lithography machines are the most frequently cited example for the EU's leverage but are not the only leverage Europe has. As show in chapter 3, the EU holds 41 single points of failure where China and 67 where the US depends at least by 80% on EU imports ranging from hormones to intermediate pharmaceutical inputs, medical technologies, and machinery for all kinds of applications from agriculture to paper production. In these areas, Europe possesses the capacity to retaliate substantially with limited abilities for the counterpart to substitute these products quickly. If deployed credibly, including through the Anti-Coercion Instrument, this leverage could materially alter the cost-benefit calculations underlying coercive behaviour by both Washington and Beijing.

It would be a mistake to think of leverage in isolation, rather than in combination with other countries. If the EU would succeed in multiplying its own leverage by joining forces with other countries that command similar chokepoints and face comparable risks of being squeezed between the United States and China, geoeconomic deterrence can increase substantially.

6.1.1.1 The EU's and Japan's pooled geoeconomic leverage vis-a-vis China

Figure 5 in Chapter 3 has already shown to what extent the geoeconomic leverage changes towards China, by creating a geopolitical coalition with Japan. Figure 6, illustrates the increase in leverage through pooling for the case for China for a series of countries. For example, a geopolitical partnership with Japan would mean the coalition has additional 37 products through which it can deter China (compared to 41 only from the EU), while the vulnerability of China through higher export shares would increase by 75%, e.g. because imports from EU and Japan combined account for a higher share of Chinese imports, than from the EU alone. Despite Japan, India, South Korea, Malaysia, Canada and Singapour offer significant opportunities for maximizing leverage.

Given the limited granularity of trade data, the assessment can be complemented by qualitative assessments. China's most binding external vulnerabilities lie in advanced industrial technologies that are difficult to replicate quickly.[11] These vulnerabilities are not confined to Europe alone. Japan again occupies a central position through its dominance in high-end semiconductor manufacturing materials, precision machine tools, advanced bearings, battery production and OLED production equipment. Taiwan and South Korea exert leverage through frontier semiconductor fabrication, in logic and memory respectively. Australia, Chile, and Argentina hold structural leverage over China via lithium supply; Indonesia and the Philippines through nickel; and South Africa and Australia through manganese, all of which are foundational inputs for China's battery and clean-tech industries despite its strength in downstream processing. In more specialised niches, Switzerland is relevant for ultra-precision manufacturing components and bearings, while Myanmar and Malaysia have emerged as politically sensitive sources of rare-earth feedstocks.

Figure 6:
The EU can form geopolitical coalitions with countries to increase the geoeconomic leverage towards China (illustration and calculations based on BACI 2021-2023)

The x-axis represents the increase in leverage through increased import penetration by the coalition compared to the baseline of EU-only (e.g. China's import dependence on a product increases from 80% to 90% by partnering with the respective country). The y-axis represents the increase in the amount of products for which China depends more than 80% on imports by the coalition compared to EU-only. The size of the bubble represents the number of additional products that can be used as leverage when joining the coalition.

6.1.1.2. The EU's and Japan's geoeconomic leverage vis-a-vis the US

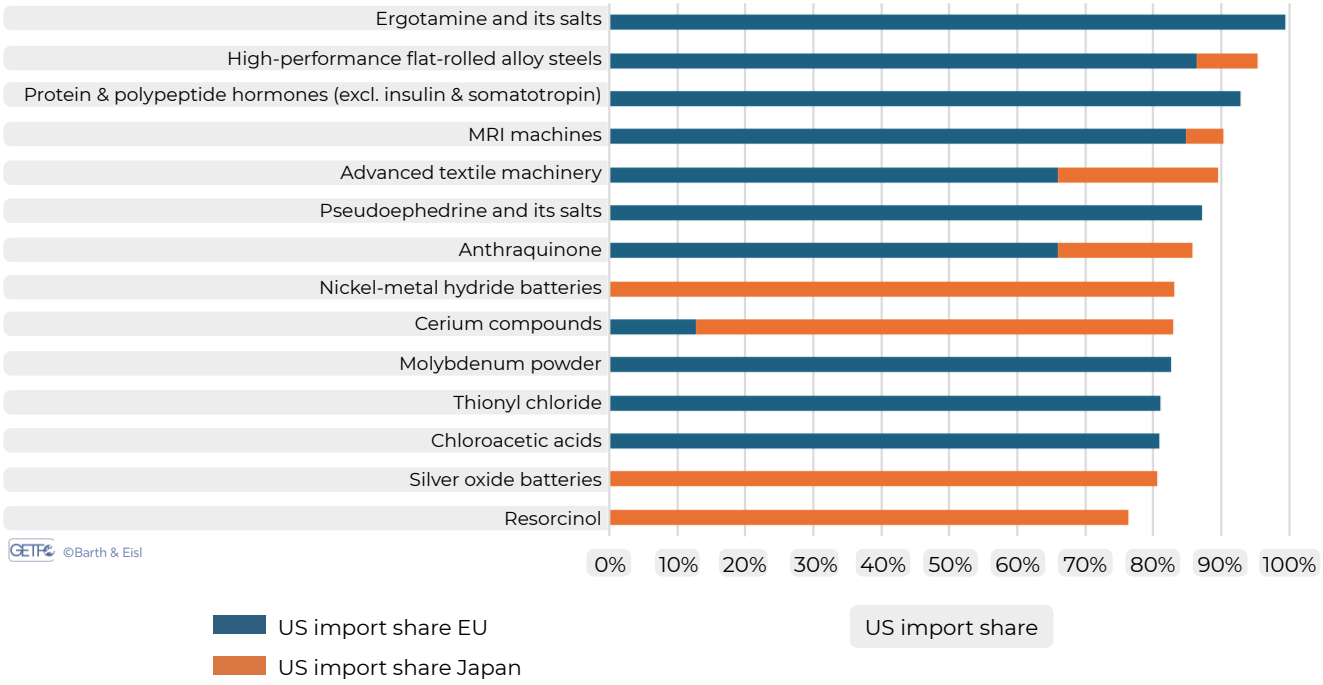
Furthermore, the EU holds leverage vis-à-vis the US through specific, high-value industrial and pharmaceutical exports that are central to US production systems. This includes advanced industrial and manufacturing machinery for printing, textiles, wood, paper, metalworking and specialised processing, as well as construction and mining equipment such as mobile cranes, lifting frames and coal or rock cutters (excluding cement). In addition, the EU is a key supplier of agricultural and food-processing machinery, including haymaking and baling equipment, root and tuber harvesters, poultry-keeping machinery, and confectionery and food-manufacturing machines.

At the upstream end of the value chain, EU leverage is concentrated in pharmaceutical and health-related products, notably pharmaceutical APIs and biologics such as ergot alkaloids, insulin and other protein and polypeptide hormones, alongside pharmaceutical and specialty chemical inputs including thionyl chloride, chloroacetic acids, dimethyl phosphite, organophosphorus derivatives and phenothiazine-based compounds. This is complemented by EU exports of medical apparatus using alpha, beta or gamma radiation, which are relevant for diagnostics and therapy.

If it pools this leverage with Japan, the coalition could create considerable geoeconomic leverage towards the US. Figure 7 illustrates this for a subset of products, where both countries together hold an global export share of bigger than 60%. While the EU brings its own strength, Japan would increase import exposure of the US on some products like MRI machinery and Antraquinone. At the same time the list of products would be extended e.g. through cerium compounds and nickel-metal hydride batteries.

In addition to the products shown in Figure 7, geoeconomic leverage over the United States exists in number of highly specialised supplier countries that occupy critical technological or material exports.[12] In several cases, the US has already sought to anchor these countries firmly within its strategic orbit. Taiwan dominates leading-edge semiconductor manufacturing; Japan is indispensable for advanced photoresists, photomask materials, precision components, and key inputs for high-end manufacturing; and South Korea plays a central role in memory semiconductors. Canada and Mexico matter structurally for grid- and infrastructure-relevant manufacturing, including power transformers, while Canada is also a key supplier of graphite, on which the United States is fully import-dependent. Similar dependencies exist for critical resources like gallium, tantalum, arsenic, and mica, where leverage is distributed across a small number of supplier countries rather than concentrated in China alone. Beyond close allies, Brazil holds a near-monopoly on niobium for high-strength steels, the Democratic Republic of Congo supplies the majority of global cobalt production, with significant reserves in Australia, Canada, Cuba, and Indonesia, and South Africa plays a critical role in manganese supply.

Figure 7:
A geopolitical coalition between the EU and Japan can increase geoeconomic leverage towards the US. The blue bar represents the EU leverage towards the US, and the orange bar represents the increase in leverage by building a geopolitical coalition with Japan. For all of these products export shares of the EU and Japan combined are bigger than 60%. (Own Illustration based on BACI 2021-2023)



6.1.2. How joint geoeconomic deterrence works

Collective geoeconomic deterrence would expand the option space for middle powers. Rather than defaulting to appeasement or subordination, they could plausibly defend a rules-based order and a commitment to addressing shared global challenges, while actively reshaping the order in ways that better reflect their shared interests.

Whether through a formal geopolitical coalition or through decentralised bilateral agreements designed to trigger cascading effects, the underlying logic of coercion would shift. Commitments to mutual support in cases of economic coercion, for example where the EU pledges to respond when a partner is targeted and vice versa, would raise the stakes for coercers. Coercion would no longer remain a bilateral contest with manageable risks, but would instead risk activating a broader response whose scale and consequences are harder to control.

Agreements around coercion themselves already have a deterrent effect. Actors like Trump would face a situation in which the consequences of coercion are no longer fully calculable but uncertain. This is the very logic the power of coercion is underpinned: preserving uncertainty about the scale and costs of escalation. Europe's task is not to reject this logic, but to learn from it: deterrence in a world of power politics requires the credible organisation of collective consequence that creates uncertainty for the coercer.

Importantly, such an approach would not abandon multilateralism, but reinterpret it and provide a mechanism for its defence. Traditional multilateralism has focused on creating predictable institutional frameworks that foster trust and cooperation. Yet, international institutions like the WTO didn't foresee a scenario where they are captured by superpowers like the US. Through collective geoeconomic deterrence, predictability for those who comply with shared rules would be preserved, while uncertainty and risk would deliberately increase for those who seek to undermine them through coercion.

Yet, the existence of leverage does not guarantee its use. The EU's Anti-Coercion Instrument is a case in point: legally robust yet politically constrained by risk aversion. The same challenge would apply, at a larger scale, to any attempt by middle powers to pool their geoeconomic leverage. While cooperation of the kind envisaged here, could in principle generate meaningful counter-power, building the institutional frameworks, trust, and political will required to do so is an uncertain task.

Similarly, democratic societies will have to be clear-eyed about the political and financial costs of exploiting trading partners' vulnerabilities. To lower the threshold for action, coalitions may need stabilisation mechanisms such as compensatory funds, a rainy-day fund or pre-agreed burden-sharing arrangements to absorb temporary export losses. Even minor impacts on GDP will likely significantly increase the political cost of activation. Partners will only commit if leverage is deployed selectively and predictably, in defence of shared rules rather than ad hoc confrontation.

Additional incentives are required to increase the chances of new alliances between middle-powers. Ultimately a system of geoeconomic deterrence depends on its credibility**.** Without a demonstrated willingness to act, they risk becoming declaratory rather than deterrent. This is where the next principles becomes decisive: distinction between partners and coercers and incentives for coalition building through development of future markets and decarbonisation. Coalition-building always relied not only on shared benefits, but also on credible consequences for defection. Without the ability to differentiate clearly between those who uphold common rules and those who violate them, collective deterrence would struggle to move from aspiration to practice.

6.2. Distinction between partners and defectors

The WTO order assumed non-discrimination would stabilise international relations. It was built on the principles of most-favoured-nation treatment once a country joined the WTO. The underlying assumption: concentrated trade flows driven by comparative advantage would support economic development and mutual interdependence would reduce incentives for escalation. In a world of functioning international institutions, this logic largely held. Dispute settlement mechanisms worked, and the combination of legality and predictability disciplined both states and firms (see Box 2 on the geopolitical history of the WTO).

That model failed to account for asymmetric dependencies in critical upstream goods. The framework was structurally blind to the risks created by concentrated control over essential inputs and technologies like rare earth materials or pharmaceuticals. Only as long as supply chains were reliable and dispute settlement was credible, these asymmetries remained tolerable.

By shifting from legality to leverage in geopolitics and the paralysis of WTO enforcement, asymmetric dependencies have become a direct national security risk. The problem is not dependence per se, but asymmetry, where only one side can credibly threaten disruption. Then trade becomes a tool of coercion. Absent collective enforcement and geoeconomic deterrence, exposed states have little recourse beyond subordination.

The future trade order must therefore be designed around defection, not ideal compliance. Trade policy needs to move from assuming universal rule-following to managing a world in which individual actors defect when it suits their interests. Two principles should guide this shift:

- Trade relationships should aim to reduce structural asymmetries (not dependencies) over time
- The full benefits of trade should be reserved for actors that adhere to cooperation on issues of collective relevance, including decarbonisation, development, and systemic stability.

This implies a deliberate shift from neutrality to conditionality in EU trade policy. Europe's position should not be protectionism, but strategic distinction as a pillar to create geopolitical coalitions. It needs to use trade defence, tariffs, export controls, and market restrictions to differentiate between partners and defectors and to stabilise cooperation among the former.

6.3. Development of future markets – from AI to clean-tech

Europe and middle powers share a structural challenge: competing for future markets under conditions of geopolitical rivalry. In key sectors such as electrotech, critical raw materials, and artificial intelligence, market outcomes are increasingly shaped by power, scale, and state-backed strategies rather than comparative advantage alone. At the same time, Europe faces structural constraints of its own, including high energy costs, demographic ageing, and slower productivity growth. Acting alone, Europe risks being squeezed between the technological dominance of the United States and the industrial scale of China.

Strategic technology cooperation offers a triple dividend for Europe. First, it provides access to scarce inputs that Europe lacks domestically, including digital skills, abundant low-cost renewable energy, and critical resources. Second, by supporting industrial and technological upgrading in partner countries, Europe helps create alternative growth and export markets that can partially offset declining dependence on the United States and China. Third, offering tangible economic and technological benefits creates incentives for partners to cooperate with Europe on broader objectives, including decarbonisation and collective geoeconomic deterrence.**This requires a fundamental shift in how Europe understands development partnerships.** Historically, Europe has treated the industrial upgrading of potential competitors as a risk to be contained. However, while this protected market shares in the short term, it also constrained global market growth and led to foregone revenues over time. China's rise illustrates the alternative logic: its industrial policy aimed at expanding its technological and skills base, creating demand, investment opportunities, and has become a major export market for advanced economies. Had other regions followed a similar trajectory, Europe would today be less exposed to export concentration risks and enjoy a broader set of trading opportunities.

Future partnerships must therefore focus on joint market development, not just trade in existing goods. Free trade agreements are effective between largely equal partners such as Canada, Japan, or South Korea. For emerging economies, however, market-building requires a different toolkit: technology cooperation, joint ventures, selective IP sharing, co-investment, and integration into regional and global supply chains.

Europe wouldn't be an exception. Both the US and China are already shaping markets along geostrategic interests and national security considerations. The U.S. seeks to preserve its advantages through semiconductor and chips export controls, dominance in cloud infrastructure, and control over data platforms that underpin AI and intelligence capabilities. China, in turn, uses export controls on critical raw materials, prioritises domestic processing, and protects the intellectual property of battery technologies. Europe must respond not by retreating from market-building, but by organising it collectively with partners.

Prioritization of sectors for joint market development should focus on complementarities between the EU and partner countries:

- **Artificial intelligence:** Europe brings market scale, research excellence, and industrial integration; partners such as India could contribute talent, skills, and fast-growing digital ecosystems.
- **Clean technologies:** Europe holds advanced technologies and intellectual property, while many middle powers offer lead markets for deployment and scaling. At the same time, countries with abundant renewable energy can host the most energy-intensive production stages.
- **Critical raw materials:** China's leverage stems less from reserves than from refining capacity. Joint mining and refining projects, co-investment, and education programmes can combine European technology and finance with access to resources in partner-countries, reducing concentration and chokepoint risks.

Cooperation on the development of future markets is a geopolitical power strategy. By helping partners move up the value chain, Europe expands global demand, stabilises its export base, reduces strategic dependencies, and builds coalitions with a shared interest in open yet resilient markets. Shaping future markets collectively is one of Europe's most effective ways to translate economic strength into geopolitical influence.

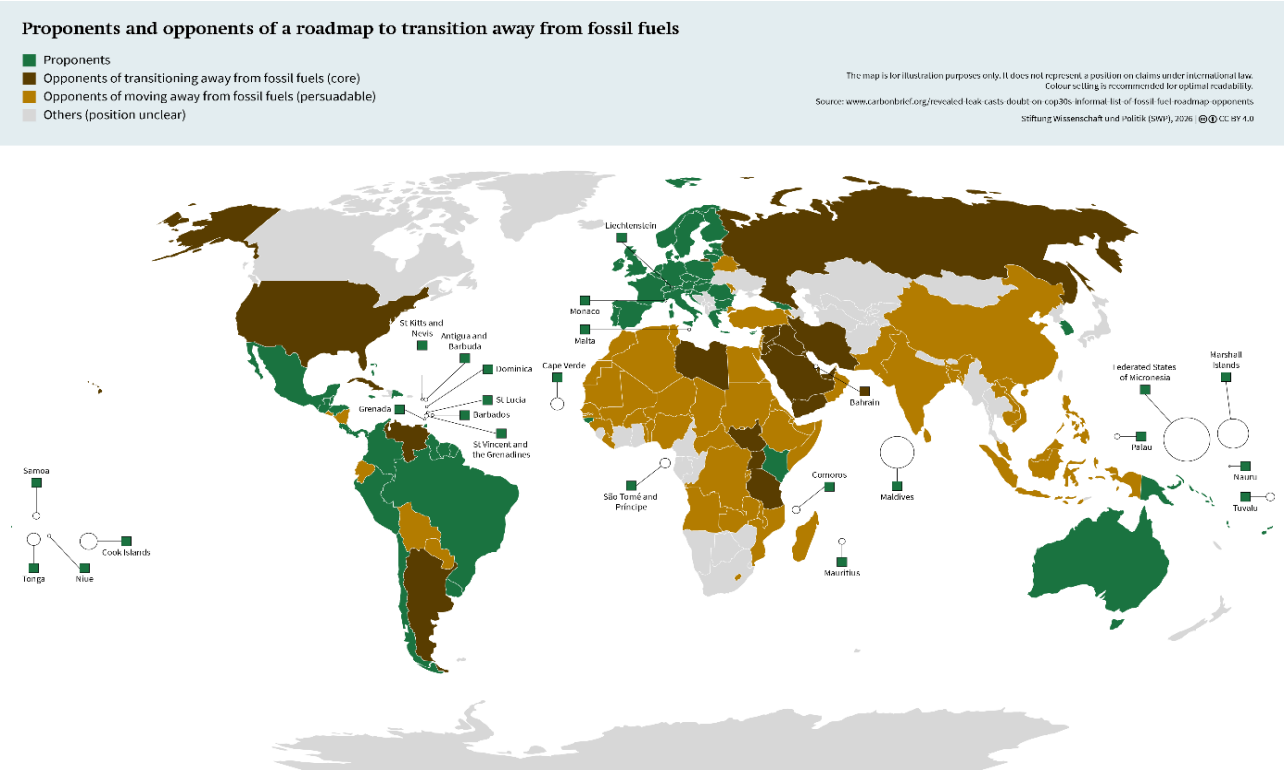
6.4. Decarbonisation as Europe's geostrategic asset

Global decarbonisation has so far relied on multilateral cooperation, but this model is reaching its limits. Climate mitigation has long been framed as a collective action problem best addressed through global agreements. The Paris Agreement marked a major achievement in this respect. It contributed to a significant downward revision of projected warming trajectories, from up to 4,4°C[13] in 2018 to around 3,3°C[14] under current policies by 2025 according to the climate Action Tracker and 2,5°C according to the UNEP Climate Gap Report[15]. Yet this progress remains fragile. Actual global emissions continued to rise in 2025, increasing by an estimated 1.1%. The gap between commitments and delivery is widening.

Climate impacts are accelerating and directly threaten Europe's security and prosperity. Recent assessments by intelligence agencies in Australia,[16] Germany,[17] and the MI5 of the United Kingdom[18] indicate that rising temperatures will substantially increase water stress, undermine food security, and expose millions of people to displacement and instability. Europe is among the most exposed regions. Average temperatures on the continent have already risen by 2.4°C[19], well above the global average, while the world crossed the 1.5°C threshold for the first time in 2024. Climate change is no longer a distant risk; it is a present driver of insecurity, fragility and conflict within Europe, its neighbourhood and the world.

At precisely the moment when cooperation is most needed, climate policy is becoming a geopolitical battleground. Rather than converging, state strategies are diverging and states start to actively engage in geopolitical hedging. Climate mitigation is increasingly contested between so-called petro-states and electro-states (see Figure 8).[20] The US withdrawal from the Paris Agreement has highlighted the limits of a multilateral system that lacks penalties for defection. The current US administration's focus on expanded fossil fuel production, the rollback of key elements of the Inflation Reduction Act, and the dismantling of climate science infrastructure underscore how quickly national commitments can reverse. With focusing its national security strategy[21] on global fossil energy dominance as a tool "to project power" and rejecting "climate change ideologies" the world's most potent security actor will use its geopolitical influence to split the world in aligned countries benefiting from continued fossil fuel use and those committed to decarbonisation. The first indications of this dynamic were visible during COP30.[22]

Figure 8:
Blocks of Petro and Electro-states became visible on the negotiations regarding the "Transition Away From Fossil Fuels" commitment during COP30 negotiations (source: Carbon Brief[23] and SWP[24])



The existing multilateral climate architecture lacks any mechanisms to counter these threats. While the hybrid nature of the Paris Agreement achieved to move from entirely on voluntary commitments to binding commitments in terms of measuring, reporting and verification national contributions remain voluntary. By its mandate the UNFCCC offers few credible tools to address free-riding, defection or backsliding. Most prominently trade-based incentives or penalties are excluded from the negotiations by the mandate. As a result, the current setup struggles to anchor long-term cooperation in a world of strategic rivalry. Multilateralism alone is no longer sufficient to deliver climate outcomes at the necessary speed and scale.

6.4.1. Decarbonisation provides a powerful geopolitical tool for coalition building

Europe should therefore pivot from universal agreements to coalitions for clean development and decarbonisation. Deepening cooperation with the large majority of countries that remain committed to climate mitigation and winning over swing candidates like India, China, Indonesia or Soth Africa provide promising strategies. Building coalitions of action offers a pragmatic way to renew global climate and environmental governance. Nascent initiatives already point in this direction, including the Climate Club[25] chaired by Turkey and Germany and the LeadIT[26] initiative launched by Sweden and India. Expanding and strengthening these formats could allow for deeper coordination among willing actors without being held back by defection.

Decarbonisation is a geostrategic asset for Europe. It should be understood as a geopolitical tool for trust-building, an economic tool for shaping future markets and a security tool for increasing Europe's freedom of action. Clean energy and electrification technologies[27] are central to global growth trajectories. The EU holds strong leadership potential across key segments from electrification technologies to wind, and can still catch-up on future technologies like batteries and EVs. By helping partners shift towards clean technologies, Europe can align with the preferences of many societies that do not wish to see the global order dominated by either the United States or China, as recent ECFR polling suggests[28].

Europe can credibly link decarbonisation with competitiveness. Given its technological and scientific strengths, the EU is well placed to demonstrate that the perceived trade-off between industrial decarbonisation and economic competitiveness is false. Through coordinated industrial policy, technology cooperation, and external partnerships, Europe can offer a model of clean development that supports development, resilience, and strategic autonomy. In doing so, it would not act alone[29], but alongside other advanced economies such as Australia, Japan, and South Korea, which are increasingly investing in external partnerships to reinforce clean and inclusive development.

Partner countries are becoming more demanding and more selective in how they engage on decarbonisation. As transactionalism increases and coalitions such as the BRICS project greater confidence, emerging and middle-income economies are more explicit about what they require in return for supporting the clean transition. Partnerships that rely on rhetorical alignment alone are no longer sufficient. Countries increasingly expect tangible benefits that strengthen their own industrial, technological, and economic capacity. This is a call for the EU to articulate a clear and compelling offer.

Competition for influence in clean development is intensifying, particularly from China. China has significantly expanded its offer to partner countries[30]. This includes large-scale vocational education programmes, green innovation initiatives, training opportunities for tens of thousands of workers, joint laboratories, exchange programmes, and support for young scientists and research institutes. At the same time, this model has attracted criticism for creating debt dependencies through infrastructure financing and for the abrupt withdrawal of support when strategic priorities shift.

Europe's offer must therefore shift from conditionality to value creation in clean development coalitions. Successful partnerships will need to deliver visible gains on both sides. Europe must overcome its instinct to negotiate from a position of normative or economic superiority and move towards genuinely equal-footed engagement. Partner countries do not want to be confined to the role of raw-material suppliers, producers of clean hydrogen, or exporters of critical minerals. They seek to use decarbonisation as a pathway to technological upgrading, industrial development, and long-term growth. Europe must offer its demand markets, financial

and investment support to integrate supply chains, technology transfers to enable industrial upgrading and programmes to support research and skills development.

When offering technology transfers, Europe must think of the long-term benefits for its exports. Technological upgrading in partner countries should not be seen as a threat to European competitiveness, but as an opportunity. Stronger industrial bases and higher incomes abroad translate into larger, more stable future markets for European exports, a critical consideration for an export-reliant European economy. Supporting industrial upgrading is therefore in Europe's strategic self-interest, particularly when the Economies at question are not having the size and population of China, like in most cases of the emerging economies at question.

6.4.2. Potential partner countries for decarbonisation

There is clear demand for deeper climate-centred partnerships with Europe. Momentum in middle powers like Japan, South Korea, Canada, and Australia but also South Africa and Brazil remains. In addition, as the ECFR[31] has shown, many countries are actively seeking closer cooperation with the EU on climate action, particularly when it is embedded in a broader package that includes technology, security, financing and investment. In its Multilateral Matchmaker[32] these include for example Chile, Colombia, Ghana, Indonesia, Kazakhstan, Kenya, Malaysia, Mexico, Morocco, Nigeria, the Philippines, and the United Arab Emirates. Looking specifically at the resources critical to Europe's own clean transition, ECFR's power atlas[33] identified further opportunities that exist with Argentina, Australia, and Bolivia on lithium; Algeria, Botswana, Mongolia, and Namibia on solar energy; and the United Kingdom and Iceland on wind power.

Building on recent work by Bruegel[34], Europe should structure its engagement with partner countries on decarbonisation and biodiversity protection around a clear, tiered coalition model that embeds decarbonisation, market access, and investment into a coherent power strategy. This approach clusters partners across four mutually reinforcing pillars:

- **Pillar 1: Carbon pricing and border alignment:** A coalition of advanced and developing economies linking differentiated carbon pricing with a common Carbon Border Adjustment Mechanism (CBAM) to anchor credible incentives, prevent leakage, and reward alignment.
- **Pillar 2: Power-sector decarbonisation finance:** A finance coalition to mobilise public and private capital to accelerate the decarbonisation of power sectors in developing economies where financing constraints are the main barrier.
- **Pillar 3: Clean industrial value chains:** Strategic partnerships to locate selected energy-intensive, clean industrial production stages in renewables-rich partner countries and integrate them into EU and other advanced-economy supply chains.
- **Pillar 4: Scalable carbon removals markets:** A redesign of markets to create credible, scalable mechanisms for funding carbon removals and ecosystem restoration, enabling investment-grade projects and long-term demand.

Strategic climate partnerships can anchor a broader geopolitical coalition of middle powers. In moving towards a coalition model in which access to EU markets, finance, and technology is explicitly linked to participation in collective action, Europe would provide a foundation for building coalitions that are first cooperating on specific issues and set the foundation of broader future middle-power alliances. If combined with pooling geoeconomic deterrence to sanction deviation from cooperation, these coalitions have the opportunity to balance the geopolitical weight of China and the United States in shaping supply chains, and markets for the clean transition.

The implication for Europe is clear: credibility, scale, and speed matter. Decarbonisation offers Europe one of its strongest levers to build trust, shape future markets, and anchor geopolitical coalitions. If Europe hesitates, the space will be filled by China, by BRICS-led initiatives, and by intensified South-South cooperation among emerging and developing economies, often on terms less aligned with European interests and values.

7. Recommendations

Based on the principles outlined in this report, member states and the EU need to work in tandem to promote the establishment of an "Platform for Economic Security, Trade and Technology Cooperation" to renew the rules-based order within like-minded coalitions: The EU should take the lead in creating a renewed and integrated multilateral-trade, decarbonisation and economic governance framework outside the WTO that addresses the failures of the previous one and moves beyond strict most-favoured-nation logic and unanimity constraints.

This institution should anchor a club of rule-abiding economies around enforceable commitments on non-coercion, market access, decarbonisation, industrial upgrading, and supply-chain resilience, while embedding credible enforcement and graduated sanctions for defection. It would function as a practical blueprint for a renewed rules-based order in a world where hegemonic enforcement has collapsed and systemic blockage by powerful actors prevents reform from within.

The following recommendations provide additional ideas for its direction and insights how this new institution could be embedded in the broader geopolitical context:

7.1. Deterrence

1. **Systematically map and institutionalise Europe's geoeconomic leverage:** Mandate the Commission, together with member states, to maintain a regularly updated inventory of EU single points of failure in global value chains, including products where China and the US have import dependencies above critical thresholds (e.g. >80%). This mapping should be operationalised across trade defence, export control, and anti-coercion instruments to ensure leverage is protected, recognised and usable in real time.
2. **Lower the political threshold for deploying the Anti-Coercion Instrument:** Allow single countries to implement anti-coercion even without approval of the Council on the basis of national security provisions in the treaties. In addition, clarify activation criteria, accelerate decision timelines, and pre-authorise response packages for clearly defined coercive scenarios. Member states should explicitly endorse the use of the Anti-Coercion Instrument as a deterrence tool, not merely a last-resort response, to strengthen credibility vis-à-vis the US and China.
3. **Actively multiply EU leverage through targeted geopolitical coalitions:** Prioritise coalition-building with countries that command complementary chokepoints and face similar exposure to US or Chinese coercion, including South Korea, Japan, Canada, Australia, and selected middle powers. Use bilateral and minilateral agreements to pool leverage in specific sectors, rather than aiming for comprehensive alignment from the outset.
4. **Embed mutual support clauses against economic coercion in external agreements:** Introduce explicit commitments to mutual response in cases of geoeconomic coercion into future trade, investment, and strategic partnership agreements. Even limited, sector-specific clauses can trigger cascading effects that raise uncertainty and costs for coercers and shift coercion away from bilateral calculability.

7.2. Distinction

5. **Use conditional market access as enforcement:** Access to the EU's market, finance, and cooperation frameworks (including CBAM, EU preference schemes, and "Made with EU" criteria) should be explicitly conditioned on adherence to shared rules, including commitments against geoeconomic coercion and rules defection.
6. **Deploy collective tariffs and sanctions as deterrence tools:** Distinction through tariffs, export restrictions, or procurement exclusions should complement anti-coercion instruments (see previous chapter). When applied jointly, these measures reduce individual exposure while increasing deterrent credibility. The objective is not escalation, but to alter cost–benefit calculations for coercive behaviour.
7. **Introduce safeguards for structurally asymmetric dependencies:** A renewed multilateral framework must allow targeted protection or investment promotion in sectors where dependencies are structurally uneven. This corrects a core weakness of the WTO order. For example, tariff schedules could be designed to increase dynamically with rising import concentration, fundamentally changing the incentives that lead to excessive dependency.
8. **Treat discipline as the foundation of trust:** Coalitions endure not only through shared benefits, but through credible consequences for non-compliance. Distinction is therefore not exclusionary by default. Properly designed, it is a stabilising mechanism that underpins cooperation, deters coercion, and restores symmetry as the basis for open exchange.

7.3. Development

9. **Build a club of partner countries around clean transition and market development:** Establish a coalition of willing partners that jointly advances the clean transition and the development of future markets including emerging and digital technologies. Use e.g. CTIPs and the CRM Partnerships to anchor multi-year cooperation focused on electrification, renewable energy deployment, critical raw material mining, technological upskilling, and sustained investment.

10. **Actively support industrial upgrading in partner countries to expand future export markets and solidify global influence:** strengthening of innovation ecosystems including by technology transfer, IP sharing and joint-ventures to support technological and industrial upgrading. View it as a strategic investment that grows global demand and diversifies EU export destinations, rather than as a threat to future competitiveness.

11. **Prioritise joint market development in sectors with clear EU–partner complementarities:** like AI, where the EU can combine market scale and research strength with partner-country talent and digital ecosystems; Clean technologies to link EU technology and IP with partner lead markets and energy-abundant production locations and critical raw materials to invest in joint mining, refining, and processing to reduce chokepoints and concentration risks.

7.4. Decarbonisation

12. **Mobilise EU financial instruments to enable clean industrial transitions abroad:** Use the Multiannual Financial Framework, a dedicated share of revenues from CBAM and ODA to co-finance low-carbon industrial transformation and renewable energy deployment in partner countries and avoid any cutbacks on development finance to sustain credibility. Complement this with the creation of an EU-level export credit and risk-sharing facility to de-risk private investment in clean industrial projects.

13. **Use conditional market access as geostrategic leverage:** Deploy instruments such as CBAM, EU preference criteria, and public procurement rules as positive incentives for partners aligned with Europe's clean transition objectives. Embed these tools within a broader geoeconomic deterrence framework to protect investments and discourage coercive behaviour.

14. **Create lead markets for clean technologies through quotas and joint value chains:** Use quotas for low-carbon products such as decarbonised steel, iron, ammonia, and chemicals to generate predictable demand. Link these quotas to joint value-chain development with key partners that share concerns about technological dependence on the United States or China. Prioritise sectors where the EU has strong capabilities and where clean technologies are critical, including steel, cement, chemicals, and other energy-intensive industries.

15. **Advance pragmatic reform of global trade rules to support the clean transition:** Promote reforms that better accommodate industrial policy, clean-technology subsidies, and energy-security investments in the context of rapid technological and market shifts. Use this as a foundation for a post-WTO trade order that balances openness with decarbonisation and resilience.

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