

The End of the Age of Predictability: Europe's Strategic Challenge

At a recent event hosted by IFIS, Karel Lannoo, Chief Executive of the Brussels-based think tank CEPS, offered a wide-ranging assessment of Europe's economic position, strategic vulnerabilities and policy response in an increasingly fragmented geopolitical landscape. Drawing on developments in Brussels, Washington and Asia, he argued that Europe is entering an era in which old assumptions about globalisation, security and economic leadership can no longer be taken for granted.

While acknowledging widespread concerns about Europe's competitiveness, Lannoo challenged what he sees as an excessively pessimistic narrative surrounding the European Union. According to him, Europe often undervalues its own strengths while focusing disproportionately on its weaknesses. As he put it: "The Americans are very good at overselling themselves. We are underselling ourselves."

Europe Is Stronger Than It Thinks

A central theme of the presentation was that Europe's economic foundations remain more resilient than often suggested in political or media circles. Lannoo argued that the EU benefits from relatively disciplined public finances, lower inflation pressures and stronger fiscal controls than many of its global competitors. He reminded the audience that Europe is not in recession and stressed that comparisons with the United States often overlook the scale of American public borrowing and budget deficits.

At the same time, he recognised that Europe faces significant structural challenges. Traditional strengths in manufacturing, automotive production and industrial activity are under pressure, while Europe continues to lag behind the United States and China in key technologies such as artificial intelligence, cloud computing and data infrastructure.

His analysis emphasised the scale of the technological gap facing Europe. Referring to investment in AI-related infrastructure, he observed that Europe remains largely absent from the sectors likely to determine future economic leadership. "We are nowhere in big tech," he said, warning that Europe's lack of investment in data centres, cloud services and AI should be "a huge reason to worry."

The Geopolitical Reality: Europe Is Not Yet a Global Force

Lannoo devoted considerable attention to Europe's international standing. Having recently travelled in both the United States and Taiwan, he argued that Europeans often overestimate the Union's global influence.

"The EU doesn't exist abroad. Europe doesn't exist abroad," he told the audience. "We are not visible abroad and we are not taken seriously."

In his view, the dominant strategic relationship today is between the United States and China, with Europe struggling to define itself as an autonomous geopolitical actor. American policymakers, he suggested, focus overwhelmingly on competition with China rather than on Europe. This leaves the EU facing a critical strategic choice: whether it

can develop the unity and capabilities necessary to emerge as a genuine Middle Power between the two superpowers.

His warning was unequivocal: "If we don't make up our mind as Europeans, we will all lose out together. We have to act together."

China: Europe's Most Pressing Economic Challenge

Among the external challenges facing Europe, Lannoo identified China as perhaps the most immediate and difficult.

He argued that Chinese industrial expansion, supported by significant state intervention and subsidies, is creating growing imbalances in global trade. Europe's trade deficit with China continues to widen, while weak domestic consumption in China is pressuring Chinese producers to export surplus production abroad.

In his assessment, the current model is becoming increasingly difficult to sustain economically. Referring to discussions with economists and industry representatives, he suggested that China's combination of industrial overcapacity, property market weakness and deflationary pressures creates long-term risks for both China and its trading partners.

At the same time, he acknowledged the issue's complexity. Europe benefits from access to Chinese products and from trade diversion resulting from US-China tensions, yet the broader imbalance remains a growing concern for policymakers in Brussels.

A More Active European Commission

Despite concerns about competitiveness, Lannoo argued that the European Commission under Ursula von der Leyen has responded with greater urgency than many observers recognise.

He highlighted what he described as an extensive programme of regulatory simplification and burden reduction. Rather than introducing new layers of regulation, the Commission has increasingly focused on streamlining existing rules through a series of legislative "omnibus" packages intended to reduce compliance costs and simplify requirements for businesses.

"The overall mantra is ... we need to reduce regulatory burden," he noted, describing simplification as one of the Commission's defining priorities.

Alongside deregulation efforts, he pointed to the emergence of a more explicit European industrial policy. Initiatives aimed at increasing manufacturing capacity, strengthening digital sovereignty, supporting AI infrastructure and reducing strategic dependencies reflect a significant change in the EU's policy approach. While he expressed scepticism about the feasibility of large-scale reindustrialisation, he nevertheless viewed these initiatives as evidence that European institutions now recognise the scale of the challenge.

Trade Policy as a Strategic Asset

One area where Lannoo saw clear progress was trade policy.

He noted that the EU has recently concluded or advanced several major trade agreements, including arrangements with India, Australia and others. These agreements are increasingly viewed not only as economic tools but also as instruments of geopolitical resilience, helping secure supply chains and diversify economic partnerships.

Europe's wider strategy, he argued, is increasingly focused on building reliable trade corridors and strengthening connections with partners across the Indo-Pacific, the Middle East and the Caucasus. Such initiatives strive to reduce vulnerabilities exposed by global political tensions, energy shocks and disruptions to global transport routes.

The Investment Gap

A recurring concern throughout the presentation was Europe's inability to channel sufficient capital into innovation and growth.

Lannoo argued that European financial markets remain too fragmented and too dependent on traditional banking structures. While Europe possesses significant savings, these resources are not being mobilised efficiently to support innovative firms, technology development and scale-up financing. As a result, many successful European companies still look to the United States when seeking growth capital.

He linked this directly to Europe's difficulties in developing leadership positions in AI, digital infrastructure and other emerging technologies. Without deeper and more integrated capital markets, he warned, Europe risks falling further behind the United States and China in the sectors that will drive future competitiveness.

Conclusion: Awareness Is Growing, but Time Is Short

In concluding, Lannoo struck a cautiously optimistic tone. He rejected the idea that Europe is treading water and argued that Brussels has become increasingly aware of the need to respond to mounting competitive pressures. The recommendations of the Mario Draghi and Enrico Letta reports are shaping a growing number of policy initiatives, while trade policy, industrial strategy and regulatory reform are moving higher up the European agenda.

Nevertheless, he stressed that awareness alone will not be sufficient. Europe must mobilise more investment, build stronger capital markets, reduce strategic dependencies, address the competitive challenge posed by China and develop a more coherent geopolitical identity.

"There is an awareness," he concluded. "We are trying to tackle the problem. But I think the issues which we need to overcome are very high."

Karel's broad conclusion was clear: the age of predictability has ended. Europe retains substantial economic strengths and valuable policy tools, but maintaining prosperity and strategic relevance will require greater unity, investment and political resolve in a world increasingly shaped by competition between major powers. One might repeat the old saying: United we stand, divided we fall.

Postscript:

Readers interested in exploring these themes in greater depth are encouraged to read Karel Lannoo's accompanying background paper, also available on this website. While the presentation provided an overview of Europe's competitiveness challenge, the written paper develops these arguments in greater detail and broader context.

In particular, the paper expands on the idea that Europe could emerge not merely as a balancing force between the United States and China, but as a leading voice among the world's middle powers.

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