KONRAD ADENAUER STIFTUNG

International perceptions of Germany's and Europe's competitiveness

Opportunities, challenges and policy recommendations

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At a glance

- Germany and Europe urgently need new economic partners. However, in the global economic race, the EU is increasingly falling behind. Emerging economies expect comprehensive economic partnerships from global economic powers that go far beyond trade. Therefore, Germany and the EU need a strategic realignment of their foreign economic policy – one that closely integrates trade, economic, foreign, and development policies while focusing on their own economic interests. Only then does Europe stand a chance of remaining globally competitive.

- Active economic diplomacy is the foundation for building economic partnerships. However, Europe's diplomacy is often perceived as ineffective and condescending. A political and diplomatic exchange on equal footing is essential to support European businesses abroad. Consequently, Europe's relations with emerging economies require a diplomatic reset, based on shared interests and a willingness to engage in partnerships on an equal footing.

- Europe benefits from global trade and open markets like no other economic region. However, the EU's trade negotiations with several emerging economies are making little progress. These countries reject the EU's non-trade-related demands, such as environmental and labor protection requirements. The EU should adopt a pragmatic and flexible approach in trade negotiations. Moreover, trade agreements should be embedded in comprehensive economic partnerships that consider the economic interests of partner countries. Lastly, Europe must continue to advocate for a fair and rules-based trade system as well as a functioning WTO.

- Germany's foreign trade promotion should be strategically realigned to support businesses in accessing new markets and production locations. Special attention should be given to small and medium-sized enterprises (SMEs), which are deeply integrated into global industrial supply chains. Instruments for foreign trade promotion must be simplified and tailored more precisely to the needs of businesses. High requirements, such as those in sustainability, must not lead to competitive disadvantages for German companies.

- Development cooperation should integrate values and interests within a holistic approach. This includes linking development cooperation more closely with economic interests where appropriate and embedding it in a comprehensive foreign economic strategy.

Content

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Opportunities, challenges and policy recommendations

The current situation: Europe is falling behind globally

As part of the project "International perceptions of Germany's and Europe's competitiveness" the Konrad-Adenauer-Stiftung surveyed experts from emerging and developing countries as well as German and European business representatives around the world about the role of the EU and Germany as economic actors in their respective countries and regions. Their responses form the basis of this analysis. The goal is to assess Germany's and Europe's competitiveness in the global markets and provide policy recommendations to strengthen Europe's competitive position in the race for new economic partners.

Europe's economic success model of open markets is increasingly faltering. This is particularly affecting Germany, which, as an export-oriented economy, is more dependent than almost any other country on international trade and global economic interconnectedness. More than a quarter of all jobs in Germany depend on foreign trade, and in the industrial sector, this figure exceeds half.[1] Against the backdrop of stagnating growth figures in the EU and what could be the longest German recession since the founding of the Federal Republic, Europe's economy urgently needs external growth stimuli.

However, China, whose rapid economic growth over the past decades has driven the demand for German export goods from one record high to the next, is increasingly becoming a problem for the German economy. Many German companies that were previously successful in China are losing market share to domestic competitors. At the same time, they face the challenge of diversifying both their business operations and supply chains away from China. Meanwhile, the U.S., alongside China the EU's most important trading partner, is turning away entirely from the idea of a fair and rules-based international trade order under President Trump.

A look at the numbers highlights the enormous challenges facing Germany and Europe. According to forecasts by the International Monetary Fund, almost 90 percent of global economic growth will be generated outside the EU by 2030.

With nearly 45 percent of global growth, the Asia-Pacific region will be by far the most important growth engine of the world in the coming years. China alone (with a 22.4 percent share) accounts for nearly half of this figure. But India (8.4 percent) and the emerging economies of Southeast Asia (5 percent) also play an enormously important role in Asia's economic dynamism. Outside the Asia-Pacific region as well, the emerging markets of Latin America (including the Caribbean, 5.8 percent) as well as the Middle East and Central Asia (5.5 percent) show considerable growth potential (see Graph 1).

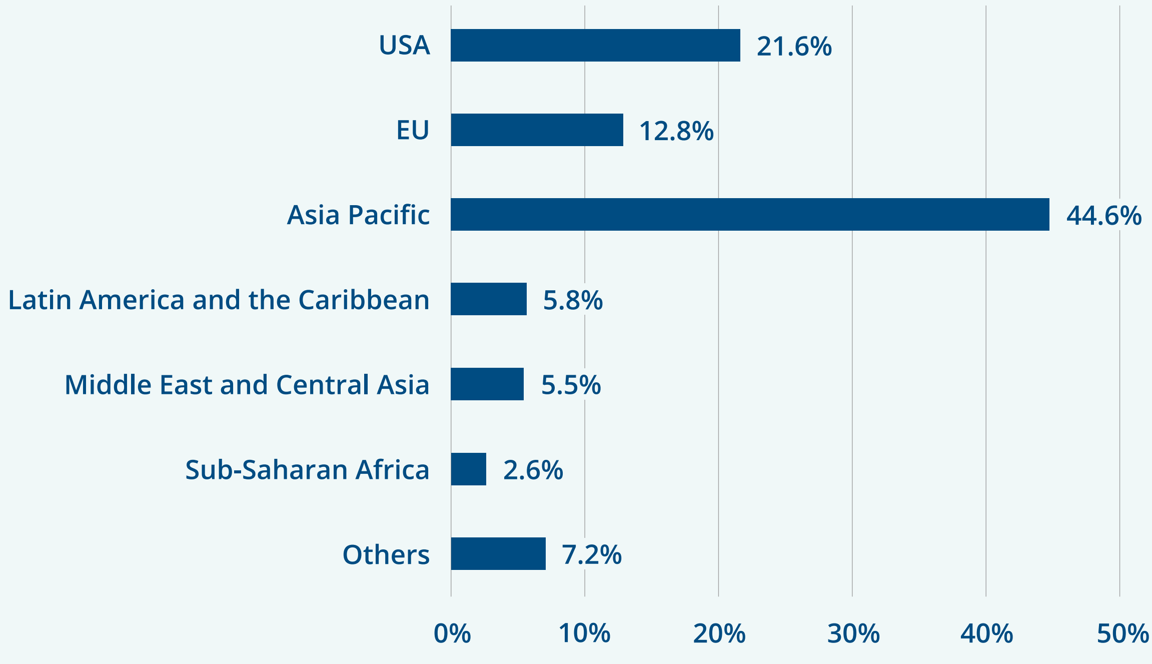
To benefit from the enormous growth momentum of emerging economies worldwide, Germany and Europe urgently need to deepen and expand their economic partnerships in these regions. Yet this is easier said than done: in recent years, Europe has clearly lost global competitiveness. A symptom of this is the significant decline in Europe's share of global exports. While the EU – led by former export champion Germany – was still responsible for 16.3 percent of global exports in 2016, this share had fallen to 14.3 percent by 2023. By contrast, China has been able to significantly increase its share of global exports in recent years, reaching 17.5 percent in 2023.[2]

With its close intertwining of state and business and its multibillion-dollar infrastructure investments through the Belt and Road Initiative (BRI), China has become the leading economic and trade partner for many emerging and developing countries within just a few years. Other industrialized nations such as Japan, South Korea, and the U.S. have strategically realigned their foreign economic policies to strengthen the global competitive position of their companies. Meanwhile, countries like India, Brazil, and the Gulf states are positioning themselves as attractive economic partners for emerging and developing nations worldwide.

In contrast, Germany and Europe are standing in their own way. Whether in trade talks, foreign trade promotion, or development cooperation, Germany and the EU fall far short of their potential. A major obstacle is that such foreign economic policy instruments often prioritize non-economic requirements, such as high sustainability and social standards in partner countries, over economic interests. This approach is increasingly met with rejection worldwide. In partner countries, Europe's climate policy and social demands are perceived as presumptuous, paternalistic, moralizing, missionary, or even neo-colonial. Emerging economies crucial for German and European businesses – such as Brazil, India, Indonesia, and the Gulf countries – can now choose from a wide range of economic partners, and Europe is increasingly becoming a less favored choice.

Germany and Europe therefore need a strategic realignment of their foreign economic policy that closely integrates trade, economic, foreign, and development policies while focusing on their own economic interests. Only if Europe is once again perceived worldwide as a preferred economic partner can German and European companies succeed in the global competition.

Graph 1: Share of global economic growth 2025–2030



Source: author's own calculation based on International Monetary Fund (April 2025) https://www.imf.org/external/datamapper

A Strategic Foreign Economic Policy for Global Economic Partnerships

Despite its stagnating growth figures, Europe remains highly attractive to emerging economies. Its vast internal market, with around 450 million affluent consumers, is unique worldwide. More importantly, many emerging economies view Europe's economies as exemplary for their own development due to their high-tech industrial sectors and their SME-driven economic structure. This is especially true for Germany, with its industrial hidden champions and its globally unique vocational training system. In numerous sectors that are central to many emerging economies – such as energy and environmental technology, medical technology and pharmaceuticals, or traditional industries like automotive and mechanical engineering – especially German companies are still considered world leaders.

Many of these countries expect Europe to offer comprehensive and strategic economic partnerships that support their own economic and, above all, industrial development. Their interest in cooperation with Europe goes far beyond trade. They are particularly focused on infrastructure investments, foreign direct investments, integration into supply chains, and the transfer of knowledge and technology. The EU stands to benefit enormously from such strategic economic partnerships, as they not only open up new markets and growth opportunities for European companies but also enable the urgently needed diversification of supply chains and raw material sources. However, Europe's global economic partnerships too often fall short of their potential.

Europe is falling behind other global and regional economic powers. Over the past 20 years, China, driven by its state led Going Out strategy, has emerged as the most important economic partner for many emerging economies. Through a state-capitalist, top-down approach, active economic diplomacy, and massive state investments, Chinese state-owned and private corporations have risen to become key economic players in many countries. Many emerging economies benefit from access to affordable yet advanced technology and industrial production investments. Other global economic powers, such as the U.S., Japan, and South Korea, have strategically realigned their foreign economic policies in recent years to remain competitive with China.[3]

A central element of these new foreign economic strategies is close and coordinated collaboration between state and business. European companies, which often lack such political support abroad, are increasingly falling behind in the global economic competition. In a survey conducted by the Association of German Chambers of Commerce and Industry (DIHK), 46 percent of the German companies surveyed stated that their competitive position at their global locations had improved over the past five years. However, in addition to their own high cost structures, strong local and third-market competition as well as government intervention in the market and the discrimination against foreign companies on the ground have had a particularly negative impact on their competitiveness.[4] Additionally, rather than being supported by the EU and member states' governments, European businesses abroad are often hindered by bureaucratic and, at times, ideologically motivated European regulations. To protect the competitiveness of their own companies in the global race, Germany and the EU must strategically realign their foreign economic policy and establish comprehensive economic partnerships with emerging economies worldwide.

Europe is highly valued in many emerging and developing countries for its reliability, transparency, and support for the multilateral trade order. For states increasingly caught in the crossfire of U.S.-China rivalry, a closer partnership with Europe offers a crucial opportunity for diversification and risk reduction. Moreover, Europe's decentralized and broadly structured economies – dominated by SMEs even in foreign trade – present an attractive alternative to China's state-centric approach or the U.S.'s sector-focused strategy. Growth and economic development are the top priorities for emerging and developing economies worldwide. To remain globally competitive, Europe must offer these countries economic partnerships that not only serve its own interests but also support them in achieving their economic goals. Otherwise, they will turn to partners willing to help them advance on this path – and that partner is, above all, China.

A Diplomatic Reset – Common Interests and Genuine Partnerships

Active economic diplomacy is the foundation for building economic partnerships. With the embassies and consulates of all 27 Member States, along with the EU's own diplomatic representations, one might assume that Europe's diplomatic influence is unmatched in the world. However, Europe's diplomacy is often perceived as ineffective.
A common criticism is that European and German foreign policy, in particular, frequently limits itself to signing joint declarations and proclaiming strategic partnerships – without sufficiently bringing these partnerships to life through concrete cooperation projects.

Countries like China, Japan, and India, by contrast, integrate their strategic partnerships with tangible cooperation projects and substantial investments from the outset. Additionally, they reinforce these partnerships with regular high-level political exchanges. European top politicians, on the other hand, have a weak presence in regions such as Southeast Asia or the Gulf countries.
In emerging economies like the BRICS nations, the state plays a decisive role in economic affairs. Most of these economies are dominated by large state-owned enterprises, government contracts, and state investments. Therefore, close, regular, and high-level political engagement with these governments is essential for building successful economic partnerships. High-level political visits – especially when accompanied by business delegations – can help companies establish partnerships, secure contracts, or overcome potential bureaucratic and political obstacles in these countries.

The European Commission and Member States must therefore strategically coordinate their diplomatic travel efforts. The fact that European Commission President Ursula von der Leyen's first foreign visit in her new term was to India was an important signal. However, Europeans must avoid the mistake of focusing on only a few emerging economies, as they have in past years. If top politicians from the 27 Member States and the Commission visit India and Vietnam but largely neglect countries like Malaysia, Mexico, Kenia, or the Gulf countries, little is gained. The lack of European engagement is clearly noticed in these countries, and frustration about it is increasingly expressed openly. Europe's response must not be ongoing disinterest.

Furthermore, Europe's strongly values-driven foreign policy is often perceived as presumptuous and patronizing, particularly in emerging and developing countries. Climate-related regulations such as the EU Deforestation Regulation or the Carbon Border Adjustment Mechanism (CBAM) are criticized by many of these countries as protectionist measures disguised as climate protection. Their governments feel that Europe does not take their interests seriously, prompting them to turn to other economic powers.

Genuine partnerships require clearly articulating one's own interests while also respecting the interests of the counterpart. This is only possible through collaboration conducted on equal footing – both politically and substantively.
A diplomatic approach based on lecturing and values-driven foreign policy from a position of superiority is not helpful. Europe's relationships with emerging economies urgently need a diplomatic reset – one based on common interests and a willingness to engage in equal partnerships.

A New EU Trade Policy – More Pragmatism, less Ideology

The European Union remains a major global trade power. Due to its large internal market and support for the multilateral trading system, the EU is a preferred trading partner for many emerging and developing countries. However, European influence is declining. This is primarily due to the rapidly growing importance of emerging economies in global trade. Asia is increasingly becoming the new center of global commerce, with China playing a dominant role. In 2022, the world's largest free trade zone, the Regional Comprehensive Economic Partnership (RCEP), came into effect, linking the ten ASEAN states with China, Japan, South Korea, Australia, and New Zealand. In contrast, the EU's trade negotiations with several key emerging markets have stalled in recent years. The successful conclusion of negotiations on the Mercosur agreement could have been the long-awaited breakthrough after years of deadlock. Yet a swift ratification of the agreement currently seems unlikely. The Indonesian-EU free trade agreement which was signed at the end of September 2025 will also have to take the arduous path of ratification through national parliaments. Other trade negotiations, for example with India, Malaysia, or the Gulf States, have made little progress for decades. Yet many emerging economies are now keen to conclude trade negotiations with the EU quickly, as they are in some cases heavily affected by U.S. tariff policies. Trump's so-called "reciprocal tariffs" have thus opened a trade policy door for the EU – one it should now move through as quickly as possible.

One of the main obstacles to successfully concluding trade agreements is the EU's tendency to overload trade negotiations with non-trade-related demands, such as environmental or labor protection requirements. Additionally, demands for public procurement reforms often fail to consider the economic structures and the central role of state-owned enterprises in these countries. Moreover, Europeans are accused of unfairly protecting their agricultural market. Since raw materials and agricultural products are the main export goods for many emerging and developing countries, they demand better market access to the EU. European trade policy is increasingly perceived as one-sided and solely focused on its own interests. High environmental and sustainability standards are seen primarily as protectionist measures. The EU is viewed as merely seeking new sales markets while being unwilling to make substantial concessions in return. More and more emerging economies refuse to accept European demands, instead confidently asserting their own interests in trade negotiations and increasingly willing to let negotiations fail.

To maintain Europe's leadership in international trade, EU trade policy must become more pragmatic and flexible. Trade negotiations should focus on trade-relevant issues rather than being overloaded with unrelated demands. Given this, the EU should increasingly consider EU-only agreements in the future, which fall within the EU's exclusive jurisdiction and can therefore be negotiated and implemented more quickly. Additionally, the EU should embrace so-called mini deals that cover only specific trade areas, such as sector-specific trade agreements, mutual recognition of standards, or investment protection.

Trade agreements can strongly boost the EU's economic relations with its trade partners, as demonstrated by the 2020 agreement with Vietnam. Yet the rules agreed upon in such agreements are often highly complex, their implementation overly bureaucratic, liability risks too high, and the customs reliefs associated with them relatively small compared to the effort required. This poses a major hurdle, particularly for small and medium-sized enterprises. In fact, the utilization rate of free trade agreements in the EU averaged only 67 percent in 2021.[5] EU free trade agreements must therefore also become simpler and more pragmatic in terms of implementation by European companies themselves. Moreover, according to a number of managing directors, EU trade agreements are only used to a limited extent by European companies with locations in partner countries, as these primarily serve local or regional markets and therefore mainly rely on existing regional trade agreements. Instead, these companies expect stronger foreign trade policy support on the ground from European policy-makers, as well as the conclusion of investment agreements.

Thus, trade agreements can only be one pillar of a comprehensive economic partnership. Therefore, the implementation of trade agreements should be accompanied by a foreign economic strategy that integrates such agreements into a broader approach. For example, individual Member States like Germany could support their businesses in entering new markets through targeted foreign trade promotion while simultaneously launching additional negotiations, initiatives, and development investment projects in areas such as infrastructure, investment protection or vocational training with the partner country.

Trade agreements are not even the most crucial pillar of European foreign trade. More than half of all German exports to non-EU countries, for example, are conducted solely under the rules of the World Trade Organization (WTO).[6] Furthermore, these rules serve as the foundation for all European trade agreements. Germany and the EU thus have a strong interest in a modern and functioning WTO to ensure a level playing field and maintain the global competitiveness of their businesses. Many small and medium-sized emerging and developing countries also rely on the functionality of the multilateral trading system. Therefore, the EU should work globally – and in coordination with emerging and developing countries – to strengthen the WTO, thereby securing global, rules-based free trade. At a time when the United States is turning away from the very trade order it helped establish, the EU can become the global champion of a fair and rules-based trade system through the successful conclusion of trade agreements and its advocacy for open markets and a functioning WTO. This would allow Europe to regain trust and influence, particularly among emerging and developing nations.

Germany needs a Strategic Foreign Trade Promotion Policy

Foreign trade and investment promotion is the key instrument of EU Member States to support their companies abroad. Germany, with its economy strongly focused on foreign trade, urgently requires a fundamental reform of its foreign trade promotion strategy. While German companies are under significant pressure to explore new markets and production sites amid de-risking and diversification efforts, demand for foreign trade and investment promotion instruments has declined in recent years.[7] German foreign trade promotion is often seen by businesses as a last resort for securing foreign transactions, burdened by excessive bureaucratic requirements and long processing times. As a result, it no longer meets the challenges of global competition.

Germany needs a proactive, strategic foreign trade and investment promotion policy that actively supports the expansion into new markets, setting up production sites as well as creating new supply chains and generating new raw material sources. Special attention must be given to medium-sized enterprises, which make up the majority of internationally active companies. These firms, often facing challenging financing conditions and higher risk aversion, can particularly benefit from state-backed support mechanisms.

Foreign trade promotion must be strategically integrated with development and trade policy instruments, such as infrastructure or raw materials investment projects. Instruments like investment and export credit guarantees should be more strongly aligned with companies' diversification efforts and the development of new market access and production sites. To achieve this, foreign trade promotion must be modernized and adapted to the demands of global competition.

Foreign trade promotion must play a more active supporting role on the ground in target countries – from the initiation of projects and investments, through implementation, to completion. To achieve this, actors in foreign trade promotion at home and abroad need to be better connected, and the relevant instruments more closely coordinated. In addition, when necessary, swift political support for individual projects must be possible. German foreign missions could assume a stronger coordinating role in this regard. This would by no means be extraordinary. More and more governments are using foreign trade promotion as a strategic tool to enhance the competitiveness of their national industries.

Moreover, the existing foreign economic policy instruments and actors must also be continuously and incrementally adapted to the changing challenges. Modern instruments of foreign trade promotion for instance go beyond merely securing against payment default risks for exporters or political risks for investors; they also include financing options for customers in target markets. Attractive financing options are becoming an increasingly decisive factor for customers when selecting suppliers or partners. However, Germany's foreign trade promotion still does not offer such financing instruments. Instead, the bureaucratic hurdles and non-business-related requirements – such as stringent climate protection conditions – place unnecessary burdens on both German companies and their potential customers and partners. As a result, the lack of appeal of these instruments has become a genuine competitive disadvantage for German businesses.

Therefore, support instruments must not be overloaded with non-business-related requirements that restrict companies' competitiveness and unnecessarily complicate projects. The highly complex application processes must also be urgently simplified. Since medium-sized enterprises, in particular, rely on foreign trade promotion support, these instruments should be designed to be as straightforward and low-bureaucracy as possible. Additionally, decision-making on granting support must be accelerated to avoid unnecessary delays in investments and export transactions. Economic security measures affecting foreign trade, such as export controls or foreign investment screenings, should be applied only within a narrowly defined scope and with minimal bureaucracy. Similarly, foreign trade-related regulations – such as sustainability requirements – must not become a competitive disadvantage for German and European companies in global markets. Specifically, the German Supply Chain Due Diligence Act should be repealed, and the EU Supply Chain Directive should be implemented in a way that remains feasible for medium-sized businesses, considering their integration into global supply and value chains.

German foreign trade promotion should be strategically realigned in close coordination with the German business sector, focusing on countries with particular potential – especially following the ratification of trade or raw materials agreements. The entire spectrum of German foreign trade must be considered, avoiding ideologically motivated and overly detailed steering of foreign trade promotion efforts. In this context, the climate policy sector guidelines of the German government must be revised for instance. Excluding competitive projects that do not meet strict climate policy requirements is entirely disconnected from the reality faced by German companies in emerging and developing countries. Hindering investments by German companies in areas such as fossil energy may ultimately even harm the climate if foreign competitors with less advanced technology step in. The OECD has already established an extensive set of criteria and requirements for the foreign trade promotion policies of its member states, which are continuously being updated. Germany should not tighten these regulations further with unilateral national measures that could harm the competitiveness of its own businesses.

Aligning Development Cooperation with Economic Interests

The EU and its Member States, accounting for 42 percent of global development spending, are the world's largest donor in development cooperation.[8] Following the United States' broad withdrawal from development cooperation through the dismantling of USAID, Germany has likely become the largest single donor country in the world.[9] However, the German and European development policies are often perceived by experts in partner countries as too fragmented and ineffective. Other global economic powers and donors, such as China and Japan, are viewed as significantly more successful. These countries have strategically integrated their development policies into a comprehensive foreign economic policy agenda in recent years, which includes trade agreements, the establishment of supply chains, and access to raw materials. The focus of their development projects is on expanding transportation and energy infrastructure, along with the associated economic opportunities for both donor and recipient countries. These donor countries primarily concentrate on states and regions where they have economic interests. Development policy here is a building block of comprehensive economic partnerships that are built in the interest of both parties.

Instead of a strategically coordinated approach, German and European development policies are seen as a collection of uncoordinated individual projects with various content-related objectives. Creating economic opportunities for their own companies has so far played a subordinate role. Due to the fragmentation of the development policy approach, scaling projects seems hardly possible, thus limiting their effectiveness and visibility in target countries. This is particularly true for the European Global Gateway Initiative, which is hardly recognized worldwide. Global Gateway has been promoted by the EU as a response to China's Belt and Road Initiative (BRI). However, it is currently just a collection of unconnected national projects, some of which were planned long before the initiative was launched. Given the small financial volume of many projects and the lack of a strategic European coordination, Global Gateway is not seen in emerging and developing countries as a serious response to China's BRI.

German and European development cooperation should be more strategically aligned with their own interests. In the sense of a holistic approach, it is essential to connect values and interests. In addition to promoting global public goods such as peace, democracy, or climate protection, their own geostrategic interests must also be brought to the forefront of development cooperation and be integrated into a comprehensive foreign economic policy strategy, where appropriate.

Investment projects in development cooperation should place greater emphasis on economic interests and consider sectors and regions in which Germany and Europe have a particular stake (e.g., raw materials) or where their own companies are especially competitive. From the planning stage of investment projects, close coordination with suitable German and European companies should take place to ensure their successful participation in later bidding processes. Tenders should be designed so that small and medium-sized enterprises (SMEs) can also participate.

Where appropriate and possible, development cooperation organizations should make greater use of tied aid. Tied aid means that the disbursement of development funds – such as concessional loans for infrastructure investments – is linked to the condition that the corresponding contracts be awarded to companies from the donor country. So far, only a relatively small share of 11 percent of projects financed with German development funds has gone to German companies. By comparison, in other major donor countries such as the United States, Japan, France, or the United Kingdom, this share was already between 65 percent and 80 percent in 2019/20.[10]

At the same time, businesses should be supported from the outset with foreign trade promotion instruments in these projects. A closer linkage between development cooperation and foreign trade promotion would also have the potential to mobilize additional private capital for such investment projects (blended finance). Moreover, the ownership structure of companies should be better considered in awarding contracts. The fact that development projects of German development bank KfW are often, particularly in Africa, awarded to Chinese state-owned enterprises[11] clearly shows how little the bidding criteria align with the economic strengths and interests of domestic companies.

The reality is, however, that Germany no longer has the kind of turnkey companies capable of acting as general contractors for large-scale infrastructure projects in emerging and developing countries. Therefore, European coordination, the promotion of European consortia, and the establishment of strategic international partnerships with actors who already have a strong market position in various countries and regions are essential. Japan has shown openness to such partnerships in infrastructure and raw material extraction in Southeast Asia in recent years. Similarly, the United Arab Emirates has done so in Sub-Saharan Africa.

International perceptions of Germany's and Europe's competitiveness

An outside perspective

The relationship between the EU and Brazil is strong, but evolving

A short interview with Maria Antonieta Del Tedesco Lins,
Associate Professor at Institute of International Relations,
University of São Paulo, Brazil

» How do you see the economic relationship between the EU, Brazil and Latin America?

The economic relationship between EU and Brazil, as well as Latin America as a whole, is strong and multifaceted. The EU is one of the largest trading partners. The main exports from Latin America to the EU include agricultural products, minerals, and energy resources. The EU exports machinery, pharmaceuticals, chemicals, and high-tech products to the region. The EU-Mercosur Free Trade Agreement, negotiated in 2019, but not yet ratified, is expected to boost trade by reducing tariffs and facilitating market access. However, although the 2024 Mercosur Summit approved the agreement, several European countries oppose it. The EU is also a major foreign investor in Latin America, particularly in Brazil, Argentina, and Mexico. EU companies invest heavily in sectors like infrastructure, renewable energy, telecommunications, and finance.

On the political side, the EU has strategic partnerships with Brazil and broader cooperation agreements with Latin America through organizations like CELAC (Community of Latin American and Caribbean States). These partnerships encompass trade, development cooperation, political dialogue, and collaboration on global challenges such as climate change, security, and migration. Over the years, the EU has strengthened its engagement with Latin America through various mechanisms, such as the EU-Latin America and Caribbean (LAC) summits and specific EU bilateral agreements with individual countries or regional organizations like Mercosur. They have been relatively successful in areas such as trade, environmental cooperation, and development assistance. There have been tangible projects and deliverables, particularly in sectors like climate change, sustainable development, and peacebuilding. However, these partnerships also faced significant challenges, such as political instability, slow implementation of agreements, and diverging interests on key global issues.

The future success of EU-Latin America partnerships will depend on maintaining a delicate balance between trade and development cooperation while addressing the political and social realities of both regions. There are several significant challenges. Ratification of the EU-Mercosur deal faces political and environmental concerns, particularly regarding deforestation in the Amazon. Economic instability in Latin America, currency fluctuations, and political shifts impact trade relations. The EU's focus on sustainability and ESG (Environmental, Social, and Governance) policies may shape future economic ties. However, overall, the relationship is strong, but evolving, with opportunities for deeper trade and investment integration.

» What should the EU do to improve its economic relationship with Brazil and Latin America?

The EU and its Member States need to adapt their strategies and policies in several key areas. These adjustments should be driven by both strategic shifts as well as pragmatic diplomatic and investment initiatives, with a focus on sustainable development, mutual benefits, and adaptation to evolving political dynamics in Brazil and the region. Key aspects could be, for instance, the deepening of regional cooperation and the diversification of economic relationships. To build a stronger economic relationship with Brazil and the wider Latin American region, the EU must adjust its diplomatic, trade, and investment strategies to align with Brazil's priorities to enhance EU's role as a key partner in the region's development.

Several sectors offer strong potential for increased economic cooperation between the EU and Brazil. First, renewable energy and sustainability: Brazil has vast potential for solar, wind, and bioenergy development. EU companies can invest in green hydrogen projects, biofuels, and carbon credits. And there is a strong alignment with EU's sustainability goals and its Green Deal. Brazil, for instance, with its vast rainforests, could benefit from EU-led carbon offset initiatives. Second, agri-business and food tech: Brazil is a global leader in soy, beef, and coffee exports. Opportunities for EU investment exist in precision agriculture, organic farming, and sustainable food production. In addition, there is demand for EU agri-tech solutions to improve productivity and environmental standards.

Third, Digital Economy and Innovation: Brazil has a fast-growing fintech and e-commerce sector. EU companies can invest in AI, cybersecurity, and digital infrastructure. There is rising demand for cloud services, software development, and 5G technology. Fourth, Automotive and Mobility: Brazil is a major player in automobile and ethanol fuel production. EU firms can expand EV (electric vehicle) infrastructure and battery production as well as collaboration in smart mobility solutions and public transportation projects.

Fifth, Healthcare and Pharmaceuticals: Brazil has a large healthcare market with rising demand for EU medical technology. The country also produces high-tech vaccines and pharmaceuticals. There are strong opportunities for cooperation with the EU in biotech, medical devices, and digital health solutions. And finally, Mining and Raw Materials: Brazil has rich lithium, nickel, and rare earth minerals, essential for EU's green transition. There is strong potential for responsible mining partnerships that meet EU sustainability standards.

» What does Brazil expect from stronger economic relations with the EU?

In times of uncertainty in international markets, taking into account the trade war promoted by the US president, deepening the partnership between the EU and Latin America is extremely interesting. A closer relationship between Brazil and the EU could bring significant benefits to both sides in various economic, political, and social areas. By expanding trade, Brazil could expand its access to the EU's large consumer market, while the EU would gain greater access to Brazil's agricultural, mineral, and industrial products. The diversification of supply chains would reduce dependence on China and the US by strengthening EU-Brazil trade routes. Increasing EU Investments in Brazil would provide more capital for infrastructure, renewable energy, digital transformation, and manufacturing. EU standards on sustainable agriculture could help Brazil develop eco-friendly farming practices and improve deforestation controls.

Closer cooperation in technology, R&D and education could boost innovation and technology transfer as European expertise in AI, cybersecurity, and smart cities could help modernize Brazil's tech sector. There should also be more joint projects in biotechnology, pharmaceuticals, and space technology as well as more student and professional exchange programs between Brazilian and European universities. Finally, closer EU-Brazilian political ties could lead to stronger geopolitical Influence and stability. Brazil could play a larger role in EU-Latin America relations, balancing influence from China and the US. And there could be stronger alignment between the EU and Latin America on climate policies, human rights, and global governance.

» How do you assess EU competitiveness in Latin America vis-à-vis other economic powers?

If we look at Brazil and Latin America as a whole, several major outside economic actors play significant roles in trade and investment. China is the largest trade partner and investor and the top destination for Brazilian exports, especially soybeans, iron ore, and oil. The country is responsible for heavy investment in infrastructure, energy, and mining as it provides strategic financing for railways, ports, and agribusiness in Latin America. Pre-Trump, Brazil used to have strong ties with the US in technology, finance, and defense. US companies invested heavily in AI, digital services, and oil production. Brazil was a major recipient of US FDI, especially in manufacturing, banking, and pharmaceuticals. Japan and South Korea also are important investors. Toyota, Honda, and Hyundai have large factories in Brazil. Both countries have investments in smart cities, semiconductors, and clean energy. Middle Eastern countries show a growing demand for Brazilian halal meat and grains. Relations include investment in renewable energy, with sovereign wealth funds exploring Brazilian infrastructure projects.

The EU still possesses undeniable strengths in global competitiveness, stemming from its solid industrial foundation and strategic trade policies. However, maintaining this position in international markets presents significant challenges. A key concern is slower economic growth, as Europe's growth rate has consistently lagged the US and China. The EU also faces a tech gap in areas like Big Tech, AI, and semiconductors, where it trails both nations. Strict regulatory frameworks, while ensuring high standards, can hinder business innovation and scalability. On the resources front, Europe's energy dependence – due to its reliance on imported energy and raw materials – poses a vulnerability. Additionally, an ageing population threatens productivity and workforce availability, adding further economic pressure.

The EU-India economic partnership is underperforming

A short interview with Mihir Swarup Sharma,
Director of the Centre for Economy and Growth Programme at the Observer Research Foundation, India

» How do you see the economic relationship between the EU and India?

The EU has consistently been among the top three trading partners for India. But India itself does not occupy so large a position in the EU's economy. It is only the bloc's tenth largest partner. The greatest challenge is India's own unwillingness to open itself more closely to economic integration, combined with a certain rigidity in the EU about applicable rules that limit the closeness of the economic relationship. This means that the economic partnership is underperforming. The EU's exports to India, in fact, peaked in 2011 and only since 2022 have reached levels comparable to what was seen at that point. In the interim, China's exports to India nearly doubled. India's share in the EU's imports broadly stagnated between 2010 and 2022. The EU's share in Indian goods exports declined in a corresponding period.

EU investment in India may appear sizeable, approaching a total stock of $100 billion. But this is still small relative to other geographies. It is less than the stock of EU investment in Brazil or Mexico, for example, and only 40 percent more than the stock of EU investment in some much smaller economies like Israel. In both trade and investment, the relationship is underperforming.

Nevertheless, there are two essential strengths to the Indo-European economic relationship. First, it is led by the private sector and features a strong commercial component. Large companies, especially from France, Italy and Sweden, have a significant presence in Indian manufacturing and are powerful voices for closer integration. As compared to their American counterparts, in particular, Indian policy makers see the European private sector as focusing on the very activities – for example, manufacturing investment – that are domestic political priorities in India.

Second, there is a common understanding of the strategic importance of the economic relationship. Between 20 and 35 percent of future global growth may come from India, and European investment can reap returns from that growth. It is the only market of size that, if it grows, can serve to partially substitute lost markets in China; and India is usually willing to follow the rules-based order that underlies strong and resilient economic partnerships. Derisking from China is effectively impossible for India without the EU, and for the EU without India.

» What should Europe do to improve its economic relationship with India?

Closer economic integration between the EU and India depends upon three things. First, European policy makers need to convince the Indian side that mutual openness will benefit both sides, rather than just European companies. The Indian hesitation about trade that stems from its developing-country and socialist heritage needs to be squarely addressed and overcome, with European help. Second, European and Indian stakeholders that will benefit from economic integration need to make common cause and identify common gains that they can present to policy makers on both sides. Third, the EU establishment itself needs to revisit some of the excessive regulatory burden that it has placed on trade and economic integration.

Brussels has done a somewhat poor job of convincing its counterparts in New Delhi of the mutual economic benefits of freer trade and a closer economic partnership. The impression has been left in India that the only reason DG Trade is talking to the Indian commerce ministry is because they have been told to by the Commission President, and that these conversations about free trade and integration are happening because they have been forced to have them.

The EU's policy makers should also recognize that they have added to the burden associated with trade negotiations, including introducing sustainable development chapters that are very hard for developing nations to sign on to. India, unlike some other groupings or countries, has an active domestic judicial system which will implement provisions in such chapters in letter and spirit. Thus, the Indian side is very cautious about taking on such responsibilities, as they cannot be subsequently ignored the way they might be by other European trading partners. We must also recognize that Brussels' recent insistence on "civil society" presence in trade issues is anathema in Indian politics, which views such organizations as unrepresentative, undemocratic, and vulnerable to influence operations.

» In which sectors do you see potential for greater economic cooperation?

It is hard to narrow down a single sector, since room to improve exists across the board. In fact, the EU's underperformance in the Indian market is visible in almost every sector. With the sole exception of pharmaceuticals, every single one of the top 20 traded sectors saw Europe's share of the Indian market decrease since 2010. In many cases, these were replaced by Asian sources, following India's FTAs with ASEAN, Japan and Korea.

India is well known for its competitiveness in services, and EU imports of services from India doubled in the period 2010-2019. But trade in services between India and the EU has been held back by the failure to harmonize regulations. For example, India's new privacy regulations may or may not qualify to be recognized as "adequate" in the EU. Such mutual recognition is necessary for the freer flow of data.

Straightforward labor-intensive sectors can also benefit from closer integration. India's share in the EU's textile imports, for example, decreased from over 10 percent to under three per cent in the 2010s, its share of footwear imports halved, and its share of automobile imports went down by 75 percent. There is considerable room for improvement.

India's attempts to improve its domestic manufacturing sector and move it up the value chain present an important opportunity for European industrial machinery exports. In 2021, India has only a two per cent share in EU exports of industrial machinery, as compared to 12 percent for China and almost 20 percent for the US. This share can and likely will increase, as will India's dependence on Europe for precision engineering and electrical machinery. Finally, sectors with a green focus in India will most obviously benefit from access to European technology and finance, as well as from efforts to meet stringent European climate-related regulations. Green steel, low-carbon chemicals and other similar sectors in India will need European know-how, European finance, and European markets to survive and grow.

» How do you assess the EU's future economic competitiveness in India?

The EU is the only large and developed market that will be reliably open for business over the next decade, as China and the US retreat behind various walls. For export-focused growth, India cannot ignore the EU. In addition, the importance of broader Europe as sources of high-quality financing and investment is vitally important. Investment in Indian manufacturing will come only from two sources, for example: Japan and the European Union. The US, aside from one or two companies such as Apple, does not show the same level of interest. American investment mostly comes in through equity markets or private equity deals in specific sectors such as technology. For broader capital flows, India knows the EU is more important. Finally, India sees itself over the next decades as a reliable source of legal temporary migration. Its willingness to sign specific migration-related agreements that embed is born of its confidence that it has a large pool of skilled labor that can fill temporary requirements particularly in Europe.

When thinking about, how the EU could improve its competitiveness in India, it should take a closer look at Japan. Japan is India's most trusted trade and investment partner, and it has earned that position by consistent, multi-sectoral commitment to the Indian market. Japanese investment is vital for Indian infrastructure in particular, and Japanese companies have been encouraged by the government in Tokyo to scope out Indian options to replace manufacturing units in China. The close integration of Japanese corporations with the government and financial sector, as well as the creation of new bodies such as the department for economic security, mean that it has a commanding advantage when it comes to managing the economic and investment environment in India. A unified approach between government, private sector and finance, alongside the presence of large investment agencies, is something that Japanese economic outreach in India could teach the EU.

The EU risks deterioration of its strategic relationship with ASEAN

A short interview with Edmund Terence Gomez,
Emeritus Professor at the Faculty of Business and Economics,
Universiti Malaya, Malaysia

» How do you assess EU-ASEAN economic relations?

The EU is ASEAN's third-largest trading partner, accounting for 10 percent of the region's trade. Since ASEAN is expected to emerge as the fifth-largest economy globally by 2030, the EU must enhance its economic ties with the bloc. In 2025, the EU and ASEAN achieved almost half a century of diplomatic ties. However, the "dialogue relations" created in 1977 have not been adequately built on. Fortunately for the EU, ASEAN countries need to maintain a close relationship with it – especially given the US-administration's tariffs that have hit Southeast Asian economies exceptionally hard. However, China is already the most influential economic force in the region as it seeks new production venues that offer a blend of low costs and relatively free access to Western and Asian markets.

» How should Europe react to these challenges?

To secure a nuanced response to this query about the EU's relationship with ASEAN – whose member states seldom act as a collective whole – what is required is a country-to-country perspective. The EU cannot have a one policy approach for ASEAN. This differentiation between countries is necessary because ASEAN member states comprise those that range from the highly industrialized to the deeply underdeveloped. In this context, the EU must adopt a multi-dimensional outlook. Two core issues figure. First, the nature of the state, specifically the extent to which power is concentrated in the executive arm of government. Some ASEAN nations are still governed by a single dominant party or led by a strongman, a factor that shapes their ties with China. Second, the dominant force in the corporate sector in each ASEAN country must be determined, i.e. if it is multi-national companies (MNCs), state-owned enterprises (SOEs), oligarchs, or small- and medium-scale enterprises (SMEs). The dominant enterprise in each country differs significantly.

» What are the most pressing issues to improve Europe's competitiveness in ASEAN?

A core issue contributing to the EU's poor engagement with ASEAN countries is that free trade agreements (FTAs) have been signed only with Vietnam and Singapore. FTA negotiations with Indonesia, Thailand, Malaysia, and the Philippines have to be concluded to pave the way for investment flows into crucial sectors where other foreign companies have been moving into at a rapid pace. For instance, the Regional Comprehensive Economic Partnership (RCEP), the world's largest FTA, comprising all ASEAN states, China, Japan, South Korea, Australia, and New Zealand – its combined population is 2.2 billion – will expand trade, covering as it does some of the world's largest markets and more than half of global exports. RCEP will strengthen ASEAN's competitiveness and increase the number of supply chains. For this reason, the conclusion of more FTAs is vital if the EU hopes to help European firms compete. But, differing trade policies, constant introduction of regulations, and persistent criticisms of "values" hamper dialogue. The EU aims to eliminate trade barriers and advance environmental and labor protection when negotiating FTAs. These issues have prolonged FTA negotiations with ASEAN countries. A deeper engagement is required between EU businesses and political leaders, as well as between the EU and ASEAN, to better communicate and understand their respective priorities and constraints. Otherwise, the EU risks stagnation, even deterioration of its strategic relationship with ASEAN.

In addition, building supply chains is a vital method to tackle intense business competition. So, how to help European firms address competition accruing from enterprises of different sorts from North America, Britain, Japan, South Korea, Taiwan, and India? After all, China's close ties with authoritarian states in Southeast Asia facilitate investment flows, with preferential access to major projects accorded to Chinese firms. In this context, European firms cannot compete with companies from China, particularly its financially well-endowed SOEs.

EU firms have encountered problems creating production networks in Southeast Asia, due to regulations imposed by Brussels. The EU's environmental-based regulations are having a dire impact on ASEAN SMEs. Few SMEs have the capacity to institute these directives that will increase production costs, thus reducing their ability to compete in global markets. Moreover, EU companies will have to assess the greenhouse gas footprint of all SMEs in their supply chains. Confronted with these problems, Asean SMEs prefer to enter supply chains created by other MNCs, such as those from China, which do not impose tough environmental-based regulations.

Since the EU's focus on regulations also contributes to higher production costs, this has further undermined the ability of European firms to compete. ASEAN countries and the EU regularly clash over anti-deforestation issues. The EU Deforestation Regulation (EUDR) requires firms to ensure that products sold in the EU do not contribute to deforestation. European firms worry about compliance, potential cost increases, and the competitive disadvantages that may arise. And, since the European Green Deal has upset governments in Southeast Asia, high-level engagement with this region's environment ministers is imperative. But EU ministerial-level representation on energy issues does not seem to be a priority.

ASEAN firms, including this region's vast number of SOEs, strive to forge joint ventures (JVs). ASEAN governments have used JVs to facilitate investment flows and know-how from MNCs. These governments have also encouraged MNCs from highly industrialized countries to create JVs that include domestic firms. This serves as a method to ensure transfer of technology from different MNCs to Asean firms, while encouraging the creation of multi-national supply chains in core sectors. These types of JVs serve as an avenue to implement major infrastructure and energy-related projects. However, there are impediments that must be dealt with in order to facilitate investment flows through JVs. The EU must ensure constant contact with ASEAN governments about how European firms can contribute to infrastructure and industrial development, particularly in view of the competition from Japanese and Chinese MNCs.

» Why are other economic powers like China and Japan more competitive in ASEAN?

The United States, China and Japan have introduced several plans to help their companies compete in Southeast Asia. For instance, Japan created two "economic corridors" in Indochina to aid the entry of its firms into this underdeveloped region. Japan and the United States created the Luzon Economic Corridor in the Philippines, another segment of underdeveloped Asean with much growth potential. China's Belt-Road Initiative (BRI) has facilitated massive investment flows into Asean. These government initiatives by China, Japan, and the United States to support their enterprises have seriously undermined the ability of EU firms to compete effectively. The United States, China, and Japan are also engaging at the highest levels through regular meetings with ASEAN ministerial bodies on issues related to the digital economy and health and financial services, with a focus also on agriculture, energy, transportation, and infrastructure. When EU-ASEAN dialogues occur about these sectors, they are seldom handled by senior officials from Brussels. European firms are thus left navigating the complexities of the ASEAN market without the high-level political support that their competitors enjoy.

In fact, European firms lament that EU engagement with ASEAN states is sorely inadequate. It appears that the EU pays little heed to supporting European firms in Southeast Asia. The EU also appears unaware of the problems encountered on the ground by European firms in different Southeast Asian economies. The 2024 EU-Asean Business Sentiment Survey disclosed that 59 percent of the European firms polled felt that the EU was not doing enough to support their interests in Southeast Asia. This was the highest volume of company dissatisfaction recorded by this survey since it was first undertaken in 2015.

The EU needs to tailor its competitive offering to South Africa's needs

A short interview with Steven Gruzd,
Head of the African Governance and Diplomacy Programme, South African Institute of International Affairs

» How do you see the economic relationship between the EU and South Africa?

The economic and political relationship between South Africa and the EU has a long and complex history. Post-apartheid South Africa has strengthened its relationship with the EU, with its mix of former colonial powers, Nordic supporters of the country's liberation struggle and former Communist countries. Historical relations, particularly with countries like the United Kingdom (UK) when it was still in the EU, the Netherlands and Germany, have provided a solid basis for ongoing partnerships, particularly in agriculture, minerals supply and the automotive trade. South Africa nevertheless sees the EU as part of the Global North, at once generous with aid and offering much by way of skills, trade and investment, but also discriminatory against African migrants, less influential with the rise of China and protectionist in its trade practices.

South Africa is the EU's only Strategic Partner in Africa, having held this status since 2007. This relationship builds on the Economic Partnership Agreement with the Southern African Development Community (SADC-EPA). There is regular high-level dialogue on a variety of issues including heads of government summits. One of the strengths of the relationship is the volume of trade between the EU and South Africa. The EU is South Africa's largest trading partner, while South Africa is also the EU's biggest trading partner in Sub-Saharan Africa.

However, economic relations are not without their challenges. EU sanitary and phytosanitary regulations have frequently been a point of contention. For instance, new cold treatment regulations for citrus fruit introduced by the EU in 2022, due to concerns about the codling moth – which turned out to be false – resulted in delays and about a €35 million loss for the South African citrus industry.

Another concern is the trade imbalance, which hinders the development of value chains. The bulk of South Africa's exports to the EU are raw materials including gold, platinum and iron ore and unprocessed fruits, while imports are dominated by machinery, vehicles and chemicals. South Africa repeatedly calls for value-addition or "beneficiation" rather than the export of raw commodities. For example, instead of exporting raw platinum, EU businesses could support production of catalytic converters in South Africa.

According to Brookings Institution figures, the EU share of trade with Sub-Saharan Africa is shrinking. It declined from 29 percent in 2000 to 22 percent in 2020, mainly due to increased competition from China, India and the Gulf States. This also resonates in the South Africa-EU relationship, as other players take more market share.

» What are the areas where Europe should strengthen its economic ties with South Africa?

South Africa faces a triple challenge of unemployment, poverty and inequality. Youth unemployment – at 42 percent in 2024 – is staggeringly high, and this is an area where the EU could have an impact. Together with the South African government and the private sector, the EU could launch joint vocational training programs in ICT, engineering and renewable energy, and utilize instruments such as the Erasmus+ program. The EU can encourage its businesses to set up research and development centers and technical training to boost employable skills. Offering vocational training and apprenticeships with EU companies will likewise assist with technology transfer and developing skills in South Africa.

Another aspect is the recalibration of EU agricultural regulations, while still addressing health and safety concerns. Phytosanitary standards should be adjusted to take Southern African climate cycles into account, as well as respecting the professionalism and competence of South African scientists. For instance, for citrus exports, there could be cold treatment exemptions predicated on enhanced pest control measures in South Africa. Currently, just 20 percent of agricultural exports from South Africa to the EU are processed goods. The EU could support the development of agro-processing hubs, to add value and create employment opportunities in South Africa. In 2023, 90 percent of South Africa's agricultural exports to the EU were duty-free. Even greater market access to the EU would enhance and deepen this relationship.

Another area is enhancing industrial collaboration. The EU should give further support to manufacturing in Special Economic Zones, as it is doing in Coega in the Eastern Cape for the production of vehicles. Stronger partnerships that enable the transferal of technology between Europe and South Africa could assist in the modernization of several industries in South Africa. Projects funded by Germany in the automotive industry have already introduced advanced production technologies. There is a distinct opportunity in the EU nurturing the nascent electric vehicle (EV) industry in SA, taking advantage of the country's plentiful deposits of nickel and lithium, used in EV batteries. If the EU were to give greater support to joint ventures to add value to minerals – such as refining lithium and cobalt at source in SA – this could diminish the EU's current dependence on China for critical minerals.

A critical area of collaboration is in climate action, particularly in helping South Africa make the transition to clean energy without destroying jobs. The untapped potential for solar and wind energy in South Africa is considerable. The country has over 2,500 hours of sunshine per year, and over 200 gigawatts of potential renewable energy. As projected in the European Hydrogen Strategy EU support could see South Africa supplying up to 15 percent of the demand for hydrogen by Europe by 2030. The EU could provide experts to assist South Africa to gear up its infrastructure for hydrogen production. The Just Energy Transition Partnership (JETP) seeks to reduce South Africa's reliance on coal by 60 percent by 2030. The EU should substantially increase the 600 million Euro it has pledged for renewable energy projects in South Africa and follow through on its existing commitments through the JETP.

Although a competitive space, infrastructure development is another area that could benefit from greater EU investment. South Africa's road, rail and port infrastructure has steadily deteriorated and are in desperate need of rehabilitation. Although, for instance, South Africa's ports handle about 70 percent of regional trade, they are notoriously inefficient and have been rated as some of the world's most congested and poorly run. The digital technology and connectivity represent a strong opportunity for partnership with Europe, too. Areas of future focus could be the construction of data centers and 5G deployment. Investing more heavily in innovation programs like AfricaConnect could help enhance collaboration between research and education networks.

» How do you assess Europe's future competitiveness in South Africa?

The EU will remain a vital trade and investment partner for South Africa over the next 25 years, especially if the era of rising tariffs initiated by the US continues. The EPA will frame trade ties with the EU. Trade and investment around combatting climate change and decarbonizing the economy will likely be an important component of South Africa's relations with the EU. The EU's efforts to diversify its natural gas imports, including liquified natural gas (LNG), may create opportunities for natural gas exports from Southern Africa. But the European carbon border tax adjustment mechanism (CBAM) is one regulation that will likely have a negative impact on South Africa's exports and may cause tensions in the relationship. South Africa's position on the energy transition is that developed countries should not introduce regulations to address climate change that in effect disadvantages developing countries.

From where South Africa sits, EU competitiveness seems to be declining relative to China especially. The latter dominates the critical minerals value chain, and the EU has fallen behind in the electric vehicle market, and in infrastructure provision, although it retains the reputation for reliability, quality workmanship and superior design. In the longer term, South Africa seems set to deepen its economic relations with its BRICS partners – especially China, India and the Gulf States – while still seeking to maintain its ties to Western players. The EU will have to understand these competitors better to counter what they are offering, and to maintain its competitiveness. Issues like CBAM and the conditionalities that the EU imposes on development assistance, including on human rights and good governance, can make competitors more attractive, and cause the EU to lose business influence in South Africa. The EU needs to make its commitment to clean energy also to make sense commercially for South Africa. The bottom line is for the EU's competitive offering be tailored to South Africa's expressed needs – in energy, and in addressing the triple challenge of unemployment, poverty and inequality.

The center of gravity for the Gulf region has shifted to Asia

A short interview with Mohammad Baharoon,
Director General of the Dubai Public Policy Research Center (b'huth)

» How do you see the economic relationship between the Gulf region and Germany?

The economic relationship between the countries of the Gulf Cooperation Council (GCC) and Germany is driven by the needs of Germany and its industry rather than the priorities and requirements of the GCC. There is a significant imbalance in trade between the two, with Germany exporting goods worth more than ten times its imports from the GCC, including oil and gas. It clearly shows that trade between Germany and the GCC is a one-sided love affair. Germany's energy transition has accelerated new types of trade including renewable energy sources such as hydrogen and ammonia as well as products like green aluminum. However, this shift is similarly pushed only by German priorities and does not necessarily reflect the priorities of GCC countries.

While Germany was the first country that signed a strategic partnership agreement with the United Arab Emirates (UAE) back in 2004, it also has been the least successful in being filled with life, considering the progress that other strategic partnerships have made even though they came much later, such as the Comprehensive Partnership Agreement with China 2012, and the Comprehensive Strategic Partnership with India in 2017. This points to a lack of seriousness with which Germany has considered the UAE a strategic partner based on the size of its country, people and economy. Today, new economic partnerships of Gulf countries are evolving especially with China, India and Brazil. These are based more on the shared objectives of the GCC and those countries in contrast to the partnership with Germany. In turn, the GCC's economic relationship with Germany will become more transactional and less strategic as GCC countries including the UAE and Saudi Arabia would wish it to be.

» How could Germany and the EU improve their economic partnership with the GCC?

The EU has been negotiating a free trade agreement with the GCC for the past 30 years, without bringing negotiations to a successful closure. The Gulf has recently seen that the negotiations over visa-free entry for citizens of three Gulf countries (Kuwait, Oman, Qatar) have been derailed by the EU because of allegations that Qatar had apparently engaged in bribery of members of the European Parliament and other EU officials. This is an indication that negotiations like those for an FTA between the EU and the GCC can run into further, unrelated complications. The decision to allow for a more bilateral development of relations between the EU and individual countries (EU-UAE trade negotiations have been opened in April 2025) will possibly help overcome the 30 years impasse. Negotiations of a bloc-to-bloc agreement should not hinder the economic relationship to develop before a successful end of negotiations, also on a bilateral basis. In addition, strong bilateral economic ties assist in building trust towards a block-to-block FTA.

It is important to underline that economic relations are not synonymous with trade relations. Therefore, there is a need to think about the new forms of economic relationships that include the knowledge economy and the services sector, which are both important sectors for the UAE and the EU. In order to develop ties in these fields different kinds of investments that go beyond the mere exchange of goods will be required. The knowledge economy is the most potent area of economic diversification since it involves a wide range of sectors that are long-term and deep-rooted such as changes in the education system, capacity building for R&D and other policies that can potentially entail a lot of economic exchange between countries. It also has the potential to impact cultural interaction and human development. This is currently one of the sectors of least growth between Europe and the GCC while it is the field that is creating the biggest link between Gulf States and countries like China, India, and South Korea.

Another important field of cooperation would be infrastructure development and connectivity. Germany and the EU are signatories to the India-Middle East-Europe (IMEC) project that was announced in 2023 at the G20 Summit in India, but their support is more heard than seen – since Germany has not publicly disclosed a specific investment amount in IMEC. It is quite risky if Europeans continue to see a connectivity project like IMEC as means to "disconnect" China. This rather seems to be the US discourse, which sees IMEC as an alternative to the Chinese Belt and Road Initiative (BRI). IMEC provides an opportunity to become a partner in global supply chains not only on trade but also increasing the connectivity of people, money and informational exchange. This requires an approach to IMEC similar to the Marshall Plan that created modern Germany. It needs to be understood as a cross-continental project that is powered by regional connectivity. Germany and the EU also need to look at supporting other projects, like the Iraq Development Road, which is aiming to connect Asia with Europe through the UAE, Qatar, Iraq and Turkey, or developing other new connectivity initiatives that support global issues like energy security, food security and digital connectivity.

» What is your assessment on the state of Germany's and the EU's economic competitiveness in the Gulf region?

Europe still has a lot to offer for many Gulf countries. A strong case for Europe's competitiveness is, firstly, its principle of transparency. Gulf states are far more comfortable with systems in Europe, especially regarding legislation and business culture which create a transparent environment that is easy to deal with. A second advantage for Europe are its financial institutions: For the GCC it is easier to work with banks and other financial institutions in Europe. The access to funds originating from Europe is also easier in comparison to other regions. Third, historic investment relationships are a comparative advantage for Europe in the Gulf: There is a historical background of investment in Europe, which has no parallel historically in any other country or region worldwide – even including the US, where the UAE's investments have been largely limited to buying US treasury bonds. This is now changing, however, due to stronger investment links in the tech industry.

However, these traditional advantages for Europe are currently waning. First of all, the impact of ideological stances by the EU on issues like human rights, for instance, are increasing risks for investment. Second, the overuse of non-UN sanctions is making Europe a riskier place to invest for GCC countries because of the ease of applying secondary sanctions on Gulf assets in Europe. Thirdly, the increased interest in the knowledge economy has made knowledge transfer a major focus for joint investments from the Gulf. There is an increasing competition in this area, and especially China and India are far more willing to grant knowledge transfers as part of investment deals. Recently, even the US started to change its approach to countries like the UAE in allowing knowledge transfer in the AI sector. We have not seen Europe move in the same direction yet, which could limit investments from Gulf-Europe deals in the future.

For the Gulf countries, the EU member states are "traditional" economic partners. The EU has been the biggest exporter of goods and the biggest importer of energy for decades. This is now shifting due to Europe's energy transition and the growing role of both China and India as new producers of manufactured goods. If you take the automobile industry for instance, car imports to the United Arab Emirates (UAE) from China have already surpassed those from Europe or the US. This dynamic also applies direct foreign investment (FDI) where flows from and to China are significantly higher than the EU's and even India is now a bigger investment partner to the UAE than Germany.

All these developments show that the economic relationship between the Gulf countries and Europe on the one hand and Asia on the other is shifting. Although the EU used to be the traditional economic partner for much of the Gulf, the center of gravity for Gulf states has now shifted to Asia, most importantly to China and India.

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