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# Friends or foes?

Four scenarios for the next decade of the  
EU-PRC-USA relations

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# Four scenarios for the next decade of the EU-PRC-USA relations<sup>1</sup>

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*With a preface by Renato Loiero, Economic Advisor of the President of the Council of the Italian Republic*

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## A preface by Renato Loiero, Economic Advisor of the President of the Council of the Italian Republic

The complex interplay between the European Union, the United States, and the People's Republic of China lies at the heart of the contemporary global order. These three powers represent not only economic titans but also competing visions of governance, technological innovation, and strategic influence. Their relationships shape the dynamics of international trade, finance, and security, and understanding their evolving trajectories is essential for policymakers, businesses, and scholars alike.

The European Union stands at a critical juncture. Historically, it has balanced its transatlantic partnership with Washington with pragmatic engagement with Beijing. The EU's dependence on external suppliers for critical raw materials, its commitment to high standards in data governance, and its ambition for "open strategic autonomy" have defined its delicate positioning. Meanwhile, the EU's trade surplus with the US and deficit with China underscore the structural asymmetries that characterize its economic interactions. The conflict between Russia and Ukraine, and the resulting energy crisis, have further sharpened Europe's awareness of its vulnerabilities and the need for diversification in its external relations.

The United States continues to lead in technological innovation and global financial dominance, but it faces challenges to its preeminence. With China advancing rapidly in critical technologies and consolidating near-monopolies over strategic resources such as rare earths, Washington has doubled down on policies of containment and technological decoupling. Initiatives like the Inflation Reduction Act and export controls on advanced semiconductors reflect a broader effort to preserve US leadership in the face of rising competition. However, these measures have also generated tensions with allies, particularly in Europe, as the EU seeks to defend its industrial base while navigating its commitments to free trade and multilateralism.

China, for its part, has emerged as the largest industrial power in the world, producing nearly 30% of global manufacturing output. Its Belt and Road Initiative has expanded its influence across Asia, Africa, and parts of Europe, while its 15th Five-Year Plan emphasizes technological self-sufficiency, climate goals, and structural resilience. Yet, China's ascent is not without friction. Trade imbalances, state subsidies, and market access restrictions have fueled skepticism in Brussels and Washington alike. At the same time, Beijing's emphasis on opening up to the outside world reflects a growing understanding that its long-term stability and growth depend on a nuanced engagement with both the West and the Global South.

The four scenarios developed in this report offer a valuable framework for exploring possible futures. They avoid simplistic predictions, instead providing decision-makers with a spectrum of plausible trajectories ranging from rivalry and fragmentation to cooperation and renewal. Such scenario-building exercises are particularly relevant at a time when the global system is marked by uncertainty, geopolitical competition, and transformative technological shifts.

For Italy, these dynamics carry profound implications. As a leading economy within the EU and a historic bridge between Europe and the wider Mediterranean, Italy must navigate these currents with strategic foresight. Its enterprises, from advanced manufacturing to luxury goods and agri-food, are deeply integrated into global value chains that are increasingly influenced by great power competition. Italian diplomacy, grounded in a tradition of legal internationalism and pragmatic engagement, can contribute to shaping an EU posture that combines principled autonomy with constructive dialogue.

This report is an invitation to think critically and creatively about Europe's place in the emerging multipolar world. It underscores the importance of maintaining Europe's cohesion, investing in its technological and industrial capabilities, and fostering partnerships that respect its values while advancing its interests.

In offering these reflections, I commend the authors for their rigorous analysis and innovative methodology. Their work reminds us that the future is not predetermined but is shaped by the choices we make today. By anticipating challenges and identifying opportunities, Europe, the United States, and China can collectively contribute to a more stable, prosperous, and inclusive international order.

## European Union, the People's Republic of China, and the United States of America: The picture of a complex relationship

The economic relations between the European Union, the United States, and China constitute the core of the global economic and geopolitical system. Their interaction is played out on four strategic dimensions - raw materials, productive capacity, technological innovation, and consumption - the relative weight of which differs among the three players: the EU is heavily dependent on foreign suppliers of critical resources<sup>2</sup>; China boasts the largest industrial production capacity (about 30% of global manufacturing output)<sup>3</sup>; the US is struggling to defend its leadership in innovation, with China investing more and more<sup>4</sup> (Chinese R&D spending now higher than in Europe)<sup>5</sup> and also holding a near-monopoly position on so-called rare earths<sup>6</sup>; as for domestic consumption, it accounts for 68% of GDP in the US<sup>7</sup>, 52% in the EU<sup>8</sup> and 39% in China<sup>9</sup>.

The transatlantic economic relationship is among the most integrated in the world. In 2023, EU-US trade in goods reached €851 billion<sup>10</sup> and the EU recorded a surplus of about €157 billion<sup>11</sup>. The US is the main outlet market for European exports (especially machinery, pharmaceuticals, and vehicles) and an important source of energy raw materials for Europe. In fact, following the war in Ukraine, the US replaced Russia as the EU's leading supplier of liquefied natural gas and oil<sup>12</sup>. Despite some industrial rivalries (e.g., in the aviation and automotive sectors, or over subsidies for green technologies), strategic convergences between the EU and the US remain strong. The EU-US Trade and Technology Council launched in 2021 has strengthened coordination on technology standards, supply chain security, and digital regulation. Alignment on sanctions and trade policies toward third countries, particularly in the confrontation with China, shows close cooperation, although disputes remain on specific issues (such as duties on steel and aluminium).

The EU-China relationship is characterized by large but unbalanced trade. China is the EU's largest supplier of goods and second largest overall trading partner: in 2023 bilateral trade reached €739 billion<sup>13</sup> with an EU deficit of €292 billion<sup>14</sup>. European exports to China (€224 billion) mainly involve machinery, automobiles and chemicals, while imports from Beijing (€516 billion) are dominated by machinery, electronics, and other manufactured goods<sup>15</sup>. This European dependence in critical sectors, from rare earths to solar panels, creates vulnerabilities and has ignited debate about

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<sup>2</sup> <https://www.consilium.europa.eu/en/infographics/critical-raw-materials/>.

<sup>3</sup> <https://www.statista.com/chart/20858/top-10-countries-by-share-of-global-manufacturing-output/>.

<sup>4</sup> <https://sciencetechaction.org/wp-content/uploads/2024/12/China-Leave-Behind-FINAL.pdf>.

<sup>5</sup> <https://sciencebusiness.net/news/international-news/us-holds-china-challenge-global-rd-spending-race>.

<sup>6</sup> China controls 17 crucial metal elements for advanced technologies. It also controls about 60% of the world's supply and 90% of the processing and refining capacity. <https://www.politico.eu/article/china-rare-earth-materials-donald-trump-west-magnets-cars/>.

<sup>7</sup> <https://tradingeconomics.com/united-states/private-consumption-percentage-of-gdp-percent-wb-data.html>.

<sup>8</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Household\\_consumption\\_by\\_purpose](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Household_consumption_by_purpose).

<sup>9</sup> <https://www.project-syndicate.org/commentary/china-household-consumption-expenditure-is-probably-higher-than-official-figures-by-zhang-jun-2024-07>.

<sup>10</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states_en).

<sup>11</sup> Ibid.

<sup>12</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=USA-EU\\_-\\_international\\_trade\\_in\\_goods\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=USA-EU_-_international_trade_in_goods_statistics).

<sup>13</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

the EU's “strategic autonomy”. Brussels also denounces poor reciprocity and market-distorting practices on the Chinese side using state subsidies and regulatory barriers<sup>16</sup>. In response, the EU has strengthened defensive measures on imports and strategic investments. Mutual investments remain modest (stock around €180 billion each)<sup>17</sup> and have declined over the past decade<sup>18</sup>. Despite this, China remains a key market for many European companies, forcing the EU to strike a delicate balance between economic engagement and mitigating critical dependencies<sup>19</sup>.

The US-China relationship is marked by a systemic competition with increasing economic barriers. Bilateral trade in goods remains high (about \$575 billion in 2023)<sup>20</sup>, but the US runs a large trade deficit. Since the “trade war” began in 2018, Washington has maintained punitive tariffs on many Chinese goods, promoting diversification of its production chains. Technological competition is even more pronounced. The United States has imposed strict export controls to deny Beijing access to advanced technologies while banning Chinese suppliers (e.g., Huawei) from its telecommunications networks. On the other side, China aims for technological self-sufficiency and has restricted exports of strategic materials (e.g., rare earth, gallium). Even in the digital sector, the two countries operate largely on separate ecosystems (US giants blocked in China and Chinese apps limited in the West). Bilateral direct investment is now negligible<sup>21</sup>. In sum, the former economic complementarity between the US and China has given way to an open rivalry where national security needs prevail over commercial ones.

*Tab. 1 Comparison of key economic indicators*

Indicators	EU – US	EU - China	US- China
Exchange of goods (annual)	€851 bn (2023) <sup>22</sup>	€739 bn (2023) <sup>23</sup>	\$582 bn (2024) <sup>24</sup>
Trade balance	+€157 bn (UE, 2023) <sup>25</sup>	–€292 bn (UE, 2023) <sup>26</sup>	–\$295 bn (USA, 2024) <sup>27</sup>
Main sectors	Machinery, pharmaceuticals, aerospace, energy	Machinery, auto, chemical, electronics, textile	Electronics, machinery, agricultural, aerospace
FDI stock (cumulative)	~€4,7 trillion (2023) <sup>28</sup>	€185 bn (EU→CN), €188 bn (CN→EU) <sup>29</sup>	\$127 bn (US→CN), \$28 bn (CN→US) <sup>30</sup>

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> <https://rhg.com/research/chinese-investment-rebounds-despite-growing-frictions-chinese-fdi-in-europe-in-2024/>.

<sup>19</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en).

<sup>20</sup> <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>.

<sup>21</sup> <https://www.congress.gov/crs-product/IF11284>.

<sup>22</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states_en).

<sup>23</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en).

<sup>24</sup> <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>.

<sup>25</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states_en).

<sup>26</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en).

<sup>27</sup> <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>.

<sup>28</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/united-states_en).

<sup>29</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en).

<sup>30</sup> <https://www.congress.gov/crs-product/IF11284>.

The evolution of these relationships affects the EU's strategic autonomy and future geopolitical balances. Europe benefits from its alliance with Washington in terms of economic and technological security, but it must also mitigate its vulnerability to Beijing in critical areas. Recent crises have highlighted the risks of excessive dependencies, prompting the EU to invest in domestic capabilities and diversify partners. The EU is seeking to strengthen synergies with the US and other like-minded democracies on global rulemaking while maintaining a pragmatic dialogue with China on issues of common concern (climate, finance) and avoiding compromises on its own interests. The balance between cooperation and competition in this triangle will be crucial for Europe's international role.

#### Four Scenarios: A Methodological Note

In this report we apply the scenario building technique to shed light on the future relationship among China, EU, and the US. Scenario building is a structured method for exploring and anticipating the range of possible futures that might emerge from complex and uncertain environments. Rather than predicting what will happen, scenario building seeks to illuminate what could happen, providing a framework for strategic thinking, decision-making, and policy planning in the face of uncertainty. Scenario building doesn't assign probabilities and doesn't make forecasts. Instead, it constructs internally coherent narratives that describe alternative, plausible futures<sup>31</sup>. These scenarios are not predictions or statements of likelihood; instead, they are carefully crafted stories that stretch the imagination, challenge prevailing assumptions, and provoke critical reflection. These scenarios help organizations, governments, and more general analysts, to recognize emerging risks, identify opportunities, and test the robustness of their strategies under different conditions<sup>32</sup>.

The process begins with a clear definition of the focal issue and the identification of key driving forces and uncertainties, which are then combined in various ways to generate divergent scenarios. Each scenario is then developed as a logical, evidence-based narrative that is relevant to the decision at hand, yet distinct from the others, ensuring a wide exploration of possible outcomes. The strength of scenario building lies in its ability to reveal blind spots, test the robustness of strategies, and foster adaptive thinking by encouraging the recipients to consider a broader range of possibilities than they might otherwise entertain<sup>33</sup>. Ultimately, scenario building is not about narrowing uncertainty to a single forecast, but about expanding strategic vision, enhancing preparedness, and equipping decision-makers to navigate the unexpected twists and turns that the future may hold.

The scenario exercise that was developed here takes into three main actors, the USA, China and the EU. The objective is to understand possible dynamic developments with reference to the changing strategies and capacities of the actors. Scenarios foresee different approaches the USA can have towards China and vice versa, with the UE in an external orbit. Three scenarios assume that the USA will maintain an assertive approach to China. One of these scenarios (*The Boggled down world*) describes a situation where tensions remain high, but they don't escalate beyond current levels. In this scenario, the three actors can cooperate in a framework that alternate periods of openness and

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<sup>31</sup> Börjeson, L., Höjer, M., Dreborg, K. H., Ekvall, T., & Finnveden, G. (2006). Scenario types and techniques: Towards a user's guide. *Futures*, 38(7), 723-739.

<sup>32</sup> Sus, M., & Hadeed, M. (2020). Theory-infused and policy-relevant: On the usefulness of scenario analysis for international relations. *Contemporary Security Policy*, 41(3), 432-455.

<sup>33</sup> Pherson, R. H., & Heuer Jr, R. J. (2019). Structured analytic techniques for intelligence analysis. *Cq Press*.



closeness. Two of these three scenarios assume that the USA will implement a stronger stance against China, in this case the EU could develop its own path of relations with China (*The EU-China love story*) or could instead strengthen its ties with the USA (*The EU-USA love story*) prompting a distancing from China. Finally, a scenario of convergence is considered (*The Renewed world*) where tensions ease and the three actors are able to cooperate within multilateral frameworks.



## The Bogged Down World

### Scenario

In this scenario the tensions between the US and the EU, between the US and the PRC, and between the EU and the PRC remain unresolved. On the overall the US is declining, and China is raising, while the EU is unable to reverse its gradual marginalization from global power. The day in which Chinese economy is going to overtake the US leadership is not determined yet. In fact, such overtaking is slightly postponed every year. However, most analysts believe such change in the economic ranking is going to happen within a decade. Such slow-motion change generates medium intensity global tensions, without resolving them either through a global settlement or a world war. The accumulation of pressure, if not resolved, slowly draws a path of high security risk possibly leading to a military confrontation for the future.

In such global competition, ultimately no actor is confident about its long-term predominance. Every actor takes time in order at least to preserve its status or possibly improve it “somehow”, but while doing that also get bogged down in this long, uncertain, and tense transition. Some in the US continue to think they can curb Chinese raise and preserve their global primacy, while other analysts expect the US to lose its leadership soon or later. In China the elites feel the national rejuvenation trajectory provides a clear pathway to global leadership, but a number of them also see this as still

dependent on several challenging national and international variables that can intervene to slow it down or altogether halt it.

Because of this intense global competition, the world economy gets scattered and fragmented along lines of political alignment. Global value chains are slowly redesigned to shape like-minded systems that are resistant to external pressures like sanctions or boycotts. This is particularly marked in the military and dual-use sectors in which increasingly surveillance is imposed in order to prevent both espionage and acquisitions from hostile countries. Other “safe” sectors remain untouched by these direct actions, but they too suffer indirectly from the growing difficulties in doing business globally, especially in the financial sector restrictions. A limited number of countries try to play in both fields. Turkey, India, GCC all attempts to do business with both G7 and BRICS countries indifferently, but this remains a difficult endeavour.

Every country is pulled by one or the other global power, receiving rewards or penalties accordingly. Governments are unstable because of the continuous external pressures. Local tensions are somehow supported by global powers and at times yield proper conflicts which are difficult to tame. Significant socio-economic cleavages make America and Europe politically divided domestically. Policy decisions are taken but then cancel with the following governments due to deep national divides, creating high uncertainty in the international economic actors. International organizations too struggle to function properly because of the reciprocal vetoes on different policy fields.

Month after month new crisis emerge, the effects of past wars in Ukraine and the Middle East continue to be felt, old tensions remain. Limited innovation and limited push for global advances are observed. The world continues in its down spin in which no political leadership emerge that can overcome the rancour, the complaints, and the perceived past & present injustices. Rather than on progress and win-win arrangements, the dominant narratives are centred on resentment, reparations for past wrongdoings and zero-sum relations.

### **Actors**

The US continues in its relatively decline in terms of percentage of global GDP vis a vis the other countries. This is mostly due to the growing national debt that no American leader manages to curb and to an overall slowdown of innovation and development in the American economy. This generates a reduced attractiveness in terms of financial capitals, industrial investments and human resources. Domestic cleavages grow and the American society is increasingly polarized with significant weaknesses at the political/institutional level.

The PRC continues its growth, but it cannot go beyond a moderate expansion due to its limited domestic market and fierce external pressure which constrain the FDI and the possibility to expand into new global markets. A number of domestic political-economic challenges are observed linked to traditional long-term issues like housing market and the growing relevance of middle-class component in Chinese society. Moreover, local tensions in Xinjiang, Tibet, Hong Kong and those in Taiwan continue to be under the western spotlight and used to create political pressure on the CCP.

The EU sees a marked decline in its overall economic performance. Fragmented dynamics with internal competition between Member States prevent a serious European-wide economic planning. Few investments, insufficient innovation, demographic winter, and heavy public spending contribute to worsen the economic outlook which in turn damage the political and military standing of the old continent. Some countries feel closer to the transatlantic bond, other are open for business to China.

The rest of the world, the global south/world majority, continue its raising path with differing pace. Some, like the GCC countries and some countries in Africa and South Asia, experience a significant growth with rate between 5% and 8%, while most of the remaining countries struggle to attract investments, to provide adequate training for their human resources, and to generate innovation.

### **Implications: So What?**

The tension between the USA and PRC remains strong, with ups and downs that are not solved once and for all mostly due to the lack of strategic leadership in the two countries. The economies remain highly interdependent, though with a decreasing level of integration. American politics remains pushy but does not cross the line into an open confrontation. Chinese government too remains in a tense relation but is unable to find adequate reassuring measures.

Such strategic impasse damages the market insofar as uncertainty for the future remain high. Many are disappointed, but the stalemate remains fundamentally because of the combination of the lack of strategic clarity and contrasting interests. The US has an interest in stopping China and China has an interest in preserving the situation that is perceived to be in favour of Beijing. At the same time a number of stakeholders in the US have an interest in continuing the interaction with China, and vice versa some stakeholders in China would like to take a firmer stance to defend the national interests. Such minority stakeholders in the two countries remains minorities, but their presence is enough to prevent bold policies to be initiated.

In the rest of the world, including in Europe, such split remains significant in domestic constituencies. In “transatlantic countries” most of the elite remains tied to the US, but there are relevant political, economic and social stakeholders that have a relatively favourable view of China. Similarly, in the global south in which many countries have opted for an alignment with Beijing, there are significant forces that contest such stance, pushing for a rapprochement with Washington. Every country, be it USA, China, Europe and the global south remain differently split with a significant national cleavage pro/against US or pro/against PRC.

International economic rivalry remains high. Global political competition is intense. Domestic cleavages are deepening. All in all, this bogged down situation stay moderately stable, but it accumulates underpinning tension that may emerge in sudden political moves and bold decisions. In the medium-long term, the inability to tackle the deep causes of such competition and to find a mutually acceptable arrangement led to an increased risk profile which in turn may open the way for military confrontation.

### **Key points**

- The US perceive its relative decline but is unable to reverse it because of its domestic cleavages.
- PRC is moderately confident about its raise but remain fully aware of the significant challenges that can slow it down or altogether halt it.
- The EU continues in its progressive marginalization with inability to ignite deep transformations in the political-economic outlook.
- On the overall, the global system remains bogged down into this political-economic mud. The security situation is not yet irreversibly deteriorated, but there is a high risk that such trends may lead to a military confrontation in the future.

## The EU-China Love Story

### Scenario

In this scenario the European Union forges increasingly strong economic and diplomatic ties with the People's Republic of China, while traditional transatlantic ties with the United States gradually fade. This Euro-China rapprochement is the result of targeted political choices by all three actors: the EU pursues greater strategic autonomy and exploring alternative partnerships, Beijing intensifies its economic diplomacy towards Europe, and Washington adopts measures that, intentionally or not, push Europeans to differentiate their alliances. In June 2023, EU leaders reiterated the "multifaceted" nature of their approach to Beijing, simultaneously defining China as a partner, an economic competitor, and a systemic rival. In this future scenario, the pendulum clearly shifts toward cooperation: the EU prioritizes partnership with China to pursue its economic, technological, and climate interests, while strategic divergences with Washington deepen.

A combination of events catalyses this shift. On the one hand, the United States adopts increasingly unilateral and protective trade and industrial policies: for example, a new round of punitive tariffs is being mooted, starting in 2025, prompting Brussels to seek alternative markets. At the same time, Washington intensifies pressure on its allies to embrace its approach of technological "decoupling" from China, creating friction with a Europe reluctant to sacrifice its own commercial interests. On the other hand, Beijing seizes the opportunity of this transatlantic rut: facing what Xi Jinping calls a period of "geopolitical turmoil" and long-term dispute with the US, the Chinese leadership redirects its diplomatic efforts toward Europe. China also signals greater openness on economic issues: for example, it revives promises of a "high level of opening" of its market and dialogues on greater reciprocity in investment. This diplomatic activism is aimed at "softening" the European position and exploiting the crucial role of Brussels, considered the weak link in the US strategy of isolating China.

Key policy decisions that made this arrangement possible mature by the middle of the decade: the EU adopts a carefully calibrated "de-risking" approach that avoids complete decoupling from China, maintaining open economic channels despite the risks. This approach reflects Europe's desire to diversify partnerships to reduce critical dependencies, without giving up the vast Chinese market. At the same time, China integrates the need for Europe as a partner into its economic planning (the 15th Five-Year Plan 2026–2030<sup>34</sup>): the strategic directives issued in 2025 emphasize internal economic security and technological resilience, as well as the continuation of foreign investment and "high-quality" trade to support growth. Beijing, preparing for a decades-long confrontation with the US, aims to reduce its dependence on the American market by focusing on the Eurasian axis. On the US side, however, the administration's decisions are fueling the rift: the reintroduction of massive pro-domestic subsidies (such as the Inflation Reduction Act, perceived in Europe as distorting competition<sup>35</sup>) and the insistence on an ideological narrative of a clash between "democracies versus autocracies" contribute to cooling European public opinion toward Washington. In fact, polls indicate that most EU citizens would prefer to remain neutral in a potential US-China conflict and not fully

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<sup>34</sup> <https://dirittocinese.com/2025/06/23/come-procede-la-pianificazione-del-xv-piano-quinquennale/>.

<sup>35</sup> [https://www.europarl.europa.eu/thinktank/en/document/IPOL\\_IDA\(2023\)740087](https://www.europarl.europa.eu/thinktank/en/document/IPOL_IDA(2023)740087).

embrace a hard line against Beijing<sup>36</sup>. Such orientations make it easier for European governments to move toward a more autonomous foreign policy.

### Actors

The European Union adopts an "open strategic autonomy" approach, seeking a balance between values and interests, maintaining relations with China while reducing critical dependencies. This de-risking approach, distinct from US decoupling, guides a more constructive dialogue with Beijing, with China still viewed as a partner, competitor, and rival, but with a growing emphasis on economic and environmental cooperation.

The Chinese State Council White Paper<sup>37</sup> values the EU's role as a moderating force and potential interlocutor for stabilizing global trade. Beijing points out that the European Union, while sharing some of the United States concerns, has been more open to multilateral dialogue and has shown caution in adopting systemic restrictions.

On the trade front, China remains a priority partner. The EU works to rebalance the trade balance by strengthening exports in strategic sectors such as machinery, electric vehicles, agri-food, and pharmaceuticals, also thanks to the implementation of China's 15th Five-Year Plan. The EU promotes joint ventures and technology agreements with major Chinese companies such as Tencent, Kuaishou, Huawei, and Alibaba, with the aim of imposing EU standards on security, data, and AI. Economic integration deepens, without sacrificing screening and trade defense tools. The ratification of a CAI 2.0, in 2027, is a necessary tool to ensure greater protections for EU investors in China, transparency regarding the implementation of the Chinese government's 2025 Action Plan for the Stabilization of Foreign Investment, and regulated access to Chinese investments in Europe.

In the 15th Five-Year Plan (2026–2030), Beijing prioritizes structural resilience and economic security but considers its relationship with the EU strategic for accessing capital, technology, and markets. It promotes its image as a reliable partner through concrete openings in sectors such as automotive, healthcare, and finance, and supports regulatory facilitation. It initiates structured institutional dialogues with Brussels to improve the level playing field.

The Chinese White Paper accuses the United States of adopting "unilateral, protectionist, and discriminatory" measures that harm not only China but also the interests of its European allies. In this context, Beijing reinforces the narrative of EU-China cooperation as a response to the turmoil generated by Washington. Openings toward Europe are presented as consistent with China's commitment to the stability of value chains and the efficiency of the global market.

Chinese investment in Europe returns to grow and is oriented toward sectors with a high employment impact. Beijing favours greenfield and minority stakes to reduce political friction. Domestically, the Five-Year Plan calls for public investment in high-tech for technological independence, while encouraging foreign capital and expertise. Tax incentives are extended until 2030, and European companies are involved in national projects, in line with the EU's climate goals. Beijing tones down its assertive diplomacy and positions itself as a responsible actor in current conflicts. Cultural diplomacy strengthens China's image in Europe, with the aim of positioning itself as a "Euro-compatible" partner, distinct from the United States.

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<sup>36</sup> <https://ecfr.eu/rome/publication/keeping-america-close-russia-down-and-china-far-away-gli-europei-di-fronte-a-un-mondo-sempre-piu-compettitivo-riassunto/>.

<sup>37</sup> It refers to the *China's Position on Some Issues Concerning China-US Economic and Trade Relations* White Paper, see <https://dirittocinese.com/wp-content/uploads/2025/04/White-Paper-China-US-Economic-and-Trade-Relations.pdf>.

In this context, China further develops cooperation with European regions and cities, supporting joint initiatives on smart cities, digital health and sustainable infrastructure. It promotes youth and academic exchanges and proposes a common cultural agenda. In parallel, it revises its foreign investment rules to provide greater legal certainty by establishing one-stop shops and transparent procedures for European operators.

Washington perceives the EU-China rapprochement as a strategic threat and consequently increases diplomatic pressure, resorting to the rhetoric of common values and contemplating reductions in intelligence sharing and strategic support if the EU cooperates with Chinese companies deemed critical, aims to militarize interdependence, and threatens export controls even to the EU to prevent indirect technology transfers to Beijing.

On the economic front, the US revives the idea of a US-EU trade agreement and promotes pressure to move European investment to the US. However, the strong EU-China interdependence limits the effectiveness of these pressures. As a counterweight, the US intensifies Indo-Pacific alliances (Quad, AUKUS), marginalizes the EU, and strengthens relations with the UK, Poland, and Baltics. They reorient NATO strategy, shift resources to the Pacific, and launch alternative technology consortia to Euro-Chinese ones. They adopt a very hard public line, denouncing the risk of Europe becoming a threat and preparing to treat the EU as a “swing state,” with more transactional cooperation.

At the same time, the US strengthens its diplomatic network in the Global South to counter China's growing influence and recover some of the lost space in multilateral fora. They strengthen export control to strategic sectors and promote bilateral agreements with individual EU member states, in the logic of divide and rule. In addition, US media and academic pressure aims to delegitimize EU-China cooperation on AI, climate, and data, fearing the emergence of alternative standards and the erosion of US regulatory primacy.

### **Implications: So What?**

A multipolar system is born with EU-China increasingly aligned on trade and governance, countering US centrality. The two players coordinate monetary policies (euro-renminbi), increase influence in the IMF and G20, and promote alternative multilateralism. EU becomes China's first trading partner; overall interdependence expands to intermediate goods, components, vehicles, pharmaceuticals, and green energy. EU-China balance rebalances. US-EU import-export trade contracts. Chinese foreign direct investment exceeds direct investment to the US. European companies expand investment in China. An interdependent Eurasian economic bloc is formed and facilitated by land links; the US instead integrates with the Americas and Indo-Pacific. Technological and industrial standards follow the EU-China axis, marginalizing the US.

Transatlantic cohesion diminishes. In NATO, Europe strengthens its autonomous defense. On Taiwan and China, the EU takes more neutral positions. The UK consolidates ties with Washington. A dual architecture is formed, on the one hand, a cooperative EU with China, and on the other an antagonistic Anglo-American sphere. In the UN and WTO fora, the EU and China coordinate. Climate and development initiatives see Euro-Chinese convergence, often in the absence of the US, which is moving toward disengagement. Tensions emerge within EU states, i.e., eastern and northern states most critical of China, and between Brussels and the US. However, the European public maintains concerns about human rights. EU-China trade disputes are handled with preventive dialogues. In the global arena, Russia fears the EU-China arrangement and seeks alternatives. Africa

sees trilateral cooperation emerging and sees the EU-China understanding as a form of guarantee. Geopolitical fragmentation increases, but so does the flexibility of positioning.

EU and China promote reforms within global institutions such as the WTO, IMF, and UN, consolidate the Multi-Party Interim Appellate Mechanism (MPIA) as a replacement for the Appellate Body, and propose rules on digital trade and AI. Beijing accepts greater financial responsibilities internationally. New voting coalitions form around sensitive issues such as climate, health, and cyberspace. Differences on human rights remain but in more conciliatory tones. EU-China collaboration improves Beijing's image and makes its integration more acceptable. The US risks isolation but may rejoin fora.

The EU imposes its regulatory strength, and China its productive strength. They collaborate on 5G/6G, AI, digital payments, and cybersecurity. A Euro-Chinese setting power emerges where US companies must adapt to EU-China standards. CAI 2.0 is ratified and becomes a reference for other countries as well. EU considers cross-accession to Regional Comprehensive Economic Partnership (RCEP) or ASEAN agreements. Trade rules are defined on a bilateral basis but with a global impact. European Carbon Border Adjustment Mechanism expands with China agreement, strengthening the EU-China regulatory sphere. The axis can become a pillar of a shared multipolar order.

## **Key points**

### **EU**

- Adopts a strategy of "open strategic autonomy";
- De-risking (not decoupling): differentiated approach from the US, with constructive dialogue;
- Promotes joint ventures and technology agreements by imposing EU standards on security and data;
- Maintains screening tools for Chinese investments;
- Possible CAI 2.0 (2027), which aims to provide greater protection for European investors in China and transparent rules for Chinese investments in Europe.

### **US**

- Sees the EU-China rapprochement as a strategic threat; increases diplomatic pressure and threatens restrictions (intelligence, export controls to the EU);
- Strengthens Indo-Pacific alliances (Quad, AUKUS) and bilateral relations with the UK, Poland, and the Baltics; marginalizes the EU;
- Reorients NATO toward the Pacific and creates technology consortia as alternatives to EU-China standards;
- Treats the EU as a "swing state" with more transactional cooperation;
- Strengthens diplomatic networks in the Global South to contain China;

### **China**

- 15th Five-Year Plan (2026–2030): focus on resilience and economic security; the EU remains a strategic partner for capital, technology, and markets;
- Sectoral openings (automotive, healthcare, finance) and institutional dialogue with Brussels for a level playing field;
- Growing Chinese investment in Europe, with a focus on greenfield projects and minority stakes to reduce political friction;

- Tax incentives extended to 2030, openness to foreign capital and expertise for high-tech and climate projects;
- Diplomatic restraint and strengthening the image of a "Euro-compatible" partner;
- Cooperation with European regions and cities on smart cities, digital healthcare, sustainable infrastructure; youth exchanges, and a common cultural agenda;

## The EU-USA Love Story

### Scenario

In this scenario the USA and the EU have distanced themselves from China which tries to find alternatives elsewhere. In such scenario marked by increasing polarization, a convergence between the USA and the EU will lead to a distancing from China, whether by choice or necessity. This evolving scenario is shaped by the strategic preferences of the three main actors, USA, the EU and China, in a context of diverging values where geopolitical goals become decisive factors in redefining alliances. The premise underlying this scenario is that transatlantic relations between the USA and the EU take precedence over those between the EU and China. Consequently, if the EU-China relationship is to undermine EU-US ties, the EU would likely prioritize its transatlantic bond, adopting a stance of detachment from China and remaining within the American sphere of influence. Furthermore, if the USA explicitly demands a European distancing from China, it is plausible that Brussels will align with its position, even at the cost of sacrificing some direct economic interests.

This assumption gains strength from as US-EU dependence and internal consolidation of the Atlantic bloc reinforces following Russia and Ukraine conflict. Despite the assertive attitude of the Trump administration that seems to compromise Atlantic relations, Washington and Brussels can maintain good cooperation and strengthen it in core areas such as defence and foreign policy. Even Europe's mild criticism of US policies on the Israel-Palestine issue and the Iranian nuclear question are likely to be solved. In this scenario, the distancing happens mostly on the initiative of the USA and the EU as follower. While China's best output is to keep collaborating with everyone, the USA considers this cooperation as damaging to itself and pull Europe into reducing its relations with Beijing as well. Beijing's actions are thus envisaged more as reactive than proactive, based on the idea that China currently derives no immediate advantage from disengaging from the West. While China may exhibit assertiveness or competitive posturing, its dominant strategy will remain one of openness and stability in international relations.

### Actors

The USA continues to drive a process of strategic containment of China, not only geopolitically but across sectors such as trade, innovation, and more. Washington also reinforces its leadership within the Western bloc, especially as global uncertainty and security threats persist. The US maintains an assertive approach toward China, building on the trajectory established since the Obama administration. This manifests in policies that seek to contain China's influence. Strengthen alliances in the Indo-Pacific and impose economic and technological restrictions on Beijing. The USA strengthens ties with opponents of China while trying to weaken China's allies. The USA also



pressures the EU to align more closely with its stance, expecting European partners to distance themselves from China even at the expense of some economic interests. In the event of heightened Chinese assertiveness, whether economic, political, or military, the US responds by further hardening its position, drawing Europe even more firmly into its orbit. The continuation of the Ukraine conflict catalyzes deeper transatlantic dependence, with the US leveraging this context to consolidate Western unity and marginalize China within global governance structures.

China responds to Western pressures primarily in a reactive manner, seeking to preserve stability in its international relationships while safeguarding its economic and strategic interests. Beijing avoids a unilateral break with the West, recognizing that continued engagement with US and European markets remains advantageous. However, with the USA and EU intensify their distancing, China accelerates efforts to diversify its partnerships, especially by deepening ties with the Global South and strengthening multilateral cooperation through platforms like BRICS and the Shanghai Cooperation Organization (SCO). In this case, China also consolidates its alliance with Russia, particularly if the Ukraine conflict remains unresolved, and asserts its interests in contested regions such as the South China Sea and Taiwan if it perceives growing western antagonism in areas it considers an internal matter or regional matter. While China continues to promote a multilateral international order, it does not hesitate to adopt a more assertive posture when Western actions threaten its core interests or security.

The EU increasingly aligns with the United States, especially in the face of mounting geopolitical tensions and the imperative to “de-risk” its economic and technological dependencies. Brussels prioritizes the transatlantic relationship, likely pushed by higher levels of securitization and investments in the defense sector that will strengthen the ties with the US industry. The EU gradually distances itself from China, particularly in strategic sectors such as energy transition and semiconductors, where vulnerabilities have become apparent. While the EU seeks to maintain a degree of engagement with China, it finds its room for maneuver constrained by both internal and external pressures, including the ongoing conflict in Ukraine and the strengthening of the China-Russia partnership. With the US demanding a more explicit distancing from China, the EU complies, reinforcing its integration into the Western bloc. However, the EU’s ability to regain a more balanced position between the USA and China depends on the evolution of transatlantic relations and the potential normalization of ties with Russia, scenarios that remain unlikely in the short term.

### **Implications: So What?**

The scenario described a situation in which USA EU and China distance themselves. Such scenario appears conceivable with regards to the increasing uncertainty of the international system, the continuation of the Ukrainian conflict and the increasing assertiveness of the USA in the Indopacific. With the USA focused on pursuing its national interest goals, it strengthens its position on key areas and prefers defection over collaboration if there is the possibility to limit China develop or even to damage it. Given this situation, the scenario shows the incapacity or the unwillingness of the EU to play an independent foreign policy, aligning with the primary partner, the USA. This scenario might change depending on changes in actors preferences or capacities. The EU could indeed try to play an intermediary role, although currently it doesn’t seem to have the ability to move the USA from their track of containment. At the same time, China could try to rebuild ties with the EU, possibly building a more active position towards Ukraine and siding with the EU on issues the Union considers crucial such as the fight against climate change, fair trade and the international rule of law.

## Key points

- The USA prioritizes and reinforces its strategic partnership with the EU, expecting greater alignment from European allies on China policy.
- Washington maintains and likely intensifies its assertive, containment-oriented approach toward China, using economic, technological, and security levers.
- The EU increasingly aligns with US positions, even at the expense of its autonomy and some economic interests in China, especially in sensitive sectors.
- China avoids initiating a break with the West but responds to Western distancing by deepening ties with the Global South, strengthening alliances such as with Russia and expanding multilateral cooperation.
- Economic interdependence between the EU and China persists, but strategic vulnerabilities drive Brussels to reduce exposure in key sectors.
- The possibility of the EU regaining a balanced position between the US and China is limited in the short term, hinging on unlikely shifts in transatlantic relations or a resolution of the Ukraine conflict.
- China's dominant strategy remains one of stability and engagement, but PRC does not hesitate to adopt a more assertive stance if Western actions threaten its core interests.
- The global system becomes increasingly polarized, with alliances and economic blocs consolidating around US-led Western and China-led spheres.

## The Renewed World

### Scenario

With a decade, after years of economic tensions, trade wars, and mutual accusations among the major powers of the international system, the world witnesses an unexpected event: a new global rebalance within the World Trade Organization (WTO). This scenario outlines a path through which the United States, China, and the European Union (EU) not only find common ground within the WTO, but also reinvigorate the rules of multilateral trade, making them fairer, more up-to-date, and more widely respected.

Between 2005 and 2025, the WTO experienced near-total paralysis. The Dispute Settlement Mechanism (DSM) was blocked, disputes piled up, and reforms were minimal. The system shifted toward growing trade regionalism, with mega FTA agreements like the RCEP (Asia-Pacific) or the CAI (EU-China Comprehensive Agreement on Investments, though never ratified) replacing multilateral cooperation. Tensions between the US and China remained high, with sharp restrictions in technology, industrial subsidies, and protectionist policies dominating the agenda. The EU, for its part, tried to defend a rules-based trade order, adopting measures such as the Carbon Border Adjustment Mechanism (CBAM).<sup>38</sup>

Trade at the regional level also gained new momentum, with RCEP's entry into force in Asia and a surge in bilateral agreements across the Global South. Regulatory and geopolitical fragmentation made global trade increasingly unpredictable and subject to political pressures. In this context, multinational corporations adapted through value chain diversification and regionalization,

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<sup>38</sup> [https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism\\_en](https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en).

while multilateral governance lost relevance. Mutual distrust among the three major powers prevented any form of cooperation. A key obstacle was China's state-owned enterprises (SOEs) and subsidies, while the US pursued aggressive industrial policies (e.g., CHIPS Act, Inflation Reduction Act) that contradicted its WTO commitments.

The shift toward a multilateral rebalancing was not triggered by a sudden shock (like a climate disaster), but by the cumulative outcome of intensifying global economic competition. Between 2026 and 2030, the dynamic reaches a systemic breaking point: an endogenous crisis of the global trade system, fuelled by conflicting policies, overlapping interests, and institutional dysfunction. The three structural drivers of the crisis are:

1. *Unregulated Industrial Competition*: The US, EU, and China continue implementing massive subsidies for strategic sectors—batteries, green tech, AI, semiconductors—using opaque mechanisms that often discriminate against foreign actors. This results in a spiral of restrictive countermeasures, distorting trade flows, competition, and investment localization.
2. *Regulatory Fragmentation and Economic Sovereignty*: A growing trend of extraterritorial unilateral standards—like the EU's CBAM, US tech export controls (like the DoD list), and China's cross-border data rules—creates incompatible regimes. Global businesses, especially SMEs in developing countries, struggle with compliance costs and chronic legal uncertainty.
3. *Declining Trust in Multilateral Institutions*: The WTO is seen as paralyzed and unresponsive to new challenges: it fails to regulate subsidies effectively, lacks authority on digital trade or green transition, and cannot enforce dispute resolutions. Alternative forums (G7, G20, BRICS, regional platforms) proliferate but fail to coordinate policy meaningfully, adding to fragmentation.

This crisis produces a shared realization: no actor, however powerful, can do without a predictable and rules-based trade system. Protectionism proves counterproductive and even *decoupling* (US) or *de-risking* (EU) cannot guarantee autonomy in interdependent sectors. While maintaining strategic divergences, the key powers recognize the need for a minimal multilateral framework.

In this context, the EU launches a diplomatic initiative—the WTO Reform Coalition—involving the US, China, India, Brazil, South Africa, ASEAN members, and African countries. The proposal is pragmatic: not a comprehensive overhaul but an ad hoc reform process through thematic agreements to rebuild consensus. The EU's proactive role reflects its long-standing leadership in WTO negotiations.<sup>39</sup>

Simultaneously, a change in US leadership helps defuse tensions. The new administration, while maintaining 'strategic competition' with China, decides to invest in multilateralism as a means of regulating competitive economic relations.

## Actors

The US maintains a fundamentally cautious and competitive stance toward China but chooses to re-engage with the WTO as part of a systemic containment strategy. Domestic politics remain divided: industrial and tech sectors support rule-based cooperation to protect market access, while parts of Congress and public opinion remain protectionist.

The US decision to unblock the WTO DSM is driven not by ideological change, but by business pressure and strategic calculation: a reformed WTO where Washington exerts influence is preferable

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<sup>39</sup> [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/689365/EPRS\\_BRI\(2021\)689365\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/689365/EPRS_BRI(2021)689365_EN.pdf).

to one dominated by others. The US secures concessions, including stricter oversight of Chinese subsidies and leadership in rulemaking on AI, semiconductors, and data governance.

Domestically, the administration frames multilateral engagement to defend high standards and ensure fair global competition. The US continues its aggressive industrial policy but commits to WTO notifications, leveraging new flexibilities in the reformed system.

By 2030, China faces a challenging economic context: slower growth, weak domestic demand, demographic pressures, and international scrutiny over overcapacity. Access to Western markets is limited, and resistance toward Chinese tech firms is growing. In response, Beijing adopts a strategy of conditional and selective openness, driven by pragmatism rather than structural change.

China's WTO reform engagement serves three goals: prevent OECD market marginalization, re-legitimize its leadership in the Global South as a responsible actor, and consolidate preferential access to emerging markets via multilateralism. China does not abandon its state-owned enterprise model but agrees to stronger subsidy notification rules in exchange for structural and development-related exemptions. It rejects imposed Western standards but accepts gradual technical cooperation.

On digital and environmental issues, China promotes alternative rulemaking and joins WTO talks to avoid exclusion. It strengthens South–South coalitions and proposes complementary BRICS-led initiatives.

The EU remains the most committed actor to WTO reform—not out of idealism but long-term interest. In a fragmented world, the EU needs shared rules to protect exports and global value chains. However, it adopts a more pragmatic and flexible strategy. After past failures to impose unilateral standards (e.g., CBAM), Brussels shifts to promoting shared norms with tailored approaches and support mechanisms for middle-income countries.

The EU retains normative leadership, especially in green trade, corporate social responsibility, and supply chain transparency. It accepts tactical compromises with China and the US but continues defending rule-based trade with more sophisticated and less confrontational tools.

### **Implications: So What?**

The geopolitical implications outlined in this scenario have deep roots in today's developments. Since 2024, the global landscape has been marked by a contradictory movement: on one hand, rising systemic competition and regulatory fragmentation; on the other, growing acknowledgment of structural interdependence among major powers.

The US is consolidating a “coordinated de-risking” strategy with G7 allies, aiming to reduce exposure to China in critical sectors (e.g., semiconductors, batteries) without full decoupling. China is responding with internal resilience and selective openness, seeking foreign investment in advanced industries while reinforcing ties with the Global South through the Belt and Road Initiative and the Three Initiatives (GSI-GDI-GCI). The EU occupies a middle ground: promoting strategic autonomy while remaining deeply embedded in multilateral regimes and reliant on global trade (e.g., EU's interest in CPTPP).<sup>40</sup>

The WTO rebalancing scenario is only achievable through deliberate political choices and multilevel coordination. The central challenge is turning the necessity of cooperation into structured political will before the next crisis makes systemic repair impossible.

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<sup>40</sup> <https://www.iss.europa.eu/publications/commentary/momentum-not-membership-three-ways-eu-can-engage-indo-pacific-trade>.

### Key points

- The WTO avoids irrelevance and partially restores its regulatory function. The rebalancing among the US, China, and the EU is not a return to old-style, traditional multilateralism, but a realistic compromise: selective cooperation, flexible multilateral rules, technical dispute resolution, and limited but pragmatic convergence. This model does not eliminate systemic tensions but offers a framework for managing them predictably. The US and China continue to clash over AI, semiconductors, and green tech—but within recognized regulatory spaces.
- The EU emerges as a “regulatory bridge power”, able to engage both sides without choosing camps.
- An increasing number of middle powers use the WTO to counterbalance bilateral geopolitical pressures and expand agency.
- However, the scenario remains fragile: any crisis—a regional conflict, new pandemic, or global financial shock—could reignite protectionist dynamics, especially in politically unstable contexts.

### Conclusions

In this report we presented four different scenarios on the inter-relation among the PRC, EU and US. These are not a probabilistic forecast, but rather scenario hypotheses that should be used to reflect critically about the present situation. We were motivated to prepare this report precisely by the urgency of the current situation in which we observe unresolved tensions, future risks, but also significant opportunities that need to be leveraged by the three actors in order to set up a win-win path that delivers peace and prosperity to the global system.

Each scenario suggested a path within which the actors at stake take their policy decisions. It is important to observe how the scenario may be generated and unfold over time. It is precisely from the sequence of events that crucial insights can be drawn to avoid negative outcomes. Many bilateral negotiations are undergoing, important bilateral meetings are planned for the forthcoming months, and perhaps in the future even trilateral gathering might be envisaged to facilitate a better dialogue on global issues. We hope these “unthinkable” scenarios may be of use in the policy reflections for the coming years.

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