UNIVERSITÄT BONN

CASSIS

Digital trade trap?

A wake-up call for the EU's Digital Decade

In cooperation with

Vodafone Institute for Society and Communications

Content

Foreword

This policy brief forms part of a series aimed at analyzing Europe's digital dependencies and the associated challenges and opportunities. The series results from a one-year collaboration between the Vodafone Institute and the University of Bonn. Through this collaboration, we aim to provide innovative assessments of how Europe's digital capabilities are developing and identify the implications of these trends for Europe's economic and political autonomy.

This first policy brief unpacks Europe's digital trade deficit and illustrates how hidden trade dependencies on the US and China fundamentally challenge the effectiveness of current European strategies. The second policy brief will look into the future, examining Europe's growing dependencies related to digital technology patents and connectivity. The series will conclude with a policy study presenting the Digital Dependence Index 2.0 – a comprehensive tool for comparing the digital dependencies of 51 countries – as well as several strategic priorities to increase Europe's digital autonomy.

Executive Summary

Strong growth in digital trade appears to provide a solid foundation for achieving the goals set out by the European Commission for its Digital Decade. However, closer analysis of the underlying data reveals features which could jeopardize future progress.

This brief examines these hidden weaknesses by taking a deep dive into Europe's digital trade balance. The innovative research approach highlights two worrying features in the trade realm: Ireland's disproportionate impact on the continent's digital trade balance and Europe's overreliance on China in digital goods trade. These significant imbalances make clear that contemporary Europe is squeezed between two digital giants – China and the United States (US). Moreover, they reveal Europe's apparent digital trade surplus is actually a digital trade deficit. This reality calls Europe's economic gains into question, increases its geopolitical vulnerability, and limits its digital autonomy.

To increase the chances of Digital Decade success, Europe must reshape its current strategies into a more muscular and more coherent policy approach. The emphasis should be on long-term commitments rather than quick fixes. Key recommendations include:

- **DEVELOPING A MORE COORDINATED INDUSTRIAL AND TRADE POLICY**
  Europe must adopt coordinated industrial and trade policies that facilitate vertical integration while continuing to boost European manufacturing and competitiveness. The Commission should also be much more ambitious in the goals it sets.

- **BEING MORE STRATEGIC ABOUT TRADE PARTNERSHIPS**
  Trade diversification is already underway, but Brussels should focus on trade partnerships that either promise a short-term export boost or where positive feedback effects can be expected. De-risking from China in digital goods trade should also continue to improve Europe's level of exposure to Chinese manufacturers.

- **PROMOTING MULTI-ALIGNED DIPLOMACY IN STRATEGIC DIALOGUE**
  The Commission should adopt policy language that reframes autonomy and sovereignty as shared goals rather than as incentives to cultivate national self-sufficiency. Doing so can encourage new, multi-aligned technology partnerships with public and private sector partners.

Digital decade in doubt

At first glance, European digital trade appears robust and is growing. Information and communication technology (ICT) goods and services trade represented a quarter of the European Union's (EU) total trade balance between 2023 and 2024. Since 2018, the EU has also sold more ICT goods and services to trade partners than it has bought from them. In 2024, this surplus reached US$145 billion, or just under one percent of the EU's GDP.[1]

These trade developments seem to highlight the value of the EU's Digital Decade. Started in 2020, the Digital Decade program aims to enhance Europe's economic competitiveness, technological sovereignty, and strategic autonomy via wide-ranging digital transformation. Operationally, the program assumes supportive policies, measurable targets and multi-country projects will advance progress in European digital connectivity, digital skills, digital business and digital public services.[2]

The digital trade surplus suggests that these efforts have been partially successful. After all, high levels of European digital exports imply that Europe's tech sectors are both productive and globally competitive. Accordingly, the 2025 State of the Digital Decade report praises the European Commission's international digital trade activities as setting "high-standard digital trade rules" and providing a "platform for cooperation on digital trade issues."[3]

Similar conclusions could be drawn from the ICT sector's added value contribution to the EU's economy. The value-added shares of ICT manufacturing and services increased in 2022 and 2023, and the sector's overall share was above 6% in both years.[4] This underlines the centrality of the ICT sector for the European economy and provides support for the decision to invest in Europe's digital transformation via the Digital Decade.

However, despite this apparent success, the 2025 State of the Digital Decade report also identifies significant hurdles to future progress. Six years in, European businesses continue to struggle with insufficient investment, supply chain disruptions, and an unpredictable geopolitical context.[5] Even the overall digital trade trend may be less positive than it appears. While European ICT services imports and exports have been increasing steadily since 2010, this figure hides a substantial and growing trade deficit in ICT goods over the same period (Figure 1).

1 UNCTAD. 2025. UNCTADstat Data Centre. unctadstat.unctad.org/datacentre/. Accessed 1 December 2025.

2 European Commission. 2025. "Europe's Digital Decade." digital-strategy.ec.europa.eu/en/policies/europes-digital-decade. Accessed 23 February 2026.

3 European Commission. 2025. "State of the Digital Decade 2025: Keep Building the EU's Sovereignty and Digital Future." digital-strategy.ec.europa.eu/en/library/state-digital-decade-2025-report. Accessed 23 January 2026.

4 EUROSTAT. 2026. " Percentage of the ICT Sector in Gross Value Added." ec.europa.eu/eurostat/databrowser/view/isoc_bde15ag/default/table?lang=en. Accessed 12 March 2026.

5 European Commission. 2025. "State of the Digital Decade 2025."

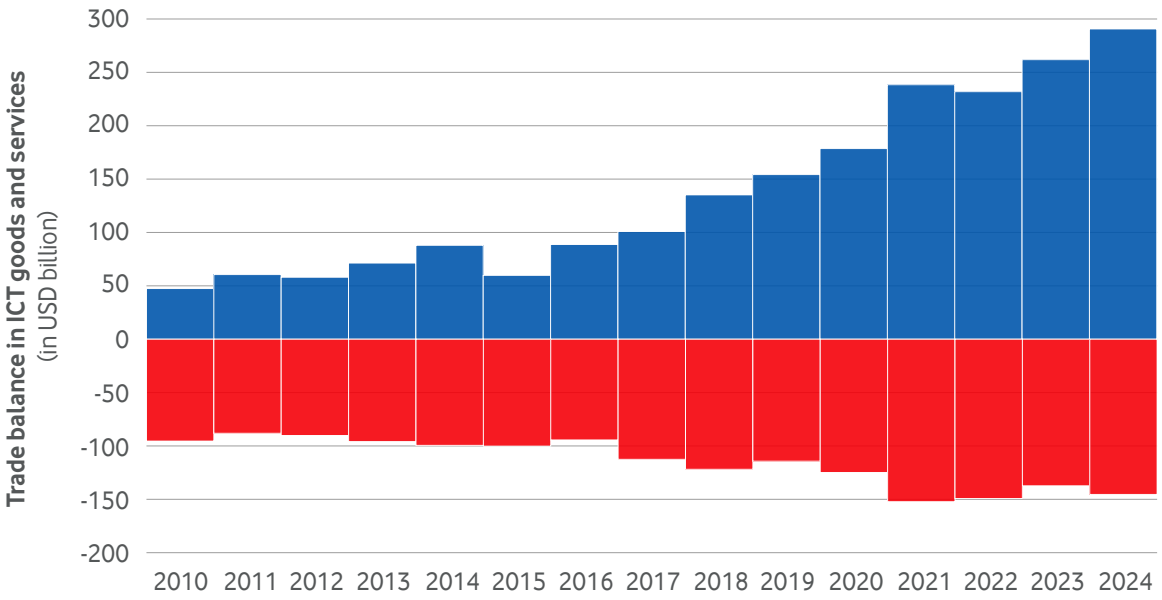

FIGURE 1
ICT goods and services trade balances, 2010-2024

Data sourced from UNCTAD[6]

This briefing takes a deep dive into the EU's digital trade balance to provide a more accurate evaluation of where Europe stands in this critical area and what it means for the future of the Digital Decade. The analysis identifies two trade-relevant features which could compromise Europe's digital transformation going forward. One of these – overreliance on China in ICT goods trade – has long been a key driver of the EU's de-risking policies towards China.[7] Yet despite multiple de-risking initiatives, the ICT goods trade deficit persists, leaving the EU vulnerable to strategic manipulation by a major trading partner. Another trade feature – Ireland's disproportionate impact on the European ICT trade balance – highlights that Europe is under pressure from another direction as well due to the outsized presence of US tech multinationals in Ireland. Enabling persistent low-cost access to European markets for US Big Tech via this "Ireland effect" distorts European trade statistics and hides Europe's real exposure while reinforcing path dependencies that limit Europe's digital autonomy.

Although Brussels is already taking action to address these challenges, the Commission's failure to acknowledge the true risks implicit in Europe's digital trade position makes current industrial and trade measures insufficient at best and ill-equipped at worst to achieve Europe's objectives. The European Commission and member states must act as soon as possible to ensure the Digital Decade facilitates economic opportunities and prosperity for years to come. Crucial measures include prioritizing trade relationships where short-term export growth and/or positive feedback effects can be expected, building a more coordinated industrial and trade policy, and reframing policy language to promote multi-aligned diplomacy and new technological partnerships.

6 Here and for all items with this data source: UNCTAD. 2025. UNCTADstat Data Centre. unctadstat.unctad.org/datacentre/. Accessed 1 December 2025.

7 García-Herrero, Alicia. 2023. "The EU's Concept of De-Risking Hovers around Economic Diversification Rather than National Security." Bruegel, December 6. www.bruegel.org/sites/default/files/2024-07/The%20EU%E2%80%99s%20concept%20of%20de-risking%20hovers%20around%20economic%20diversification%20rather%20than%20national%20security.pdf. Accessed 23 February 2026.

Vulnerabilities in European digital trade

The aggregate trade data conceals the true extent of Europe's hidden trade weaknesses. This section identifies two critical features which could hinder the achievement of the EU's Digital Decade goals.

The Ireland effect

The first feature is Ireland's disproportionate impact on the EU's digital trade balance. Ireland is an extreme outlier. Between 2020 and 2024, Ireland accounted for 23% of global digital services exports, compared to 10% for India, 9% for China, and 7% for the US (Figure 2). Ireland is even more dominant in European digital services trade, accounting for 87% of the EU's trade surplus in ICT services in the same period (Figure 3).

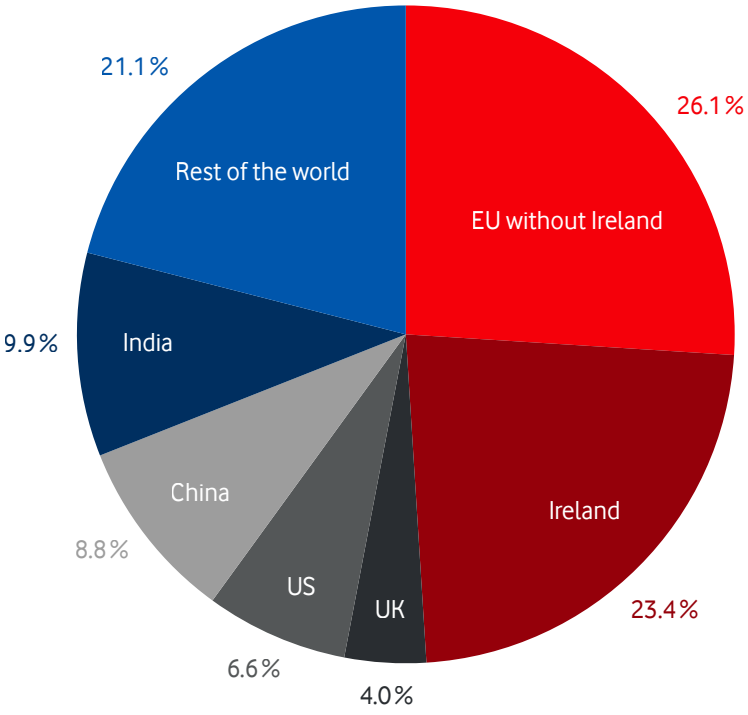

FIGURE 2
Global share of ICT services exports by country/group, 2020-2024 average
Data sourced from UNCTAD

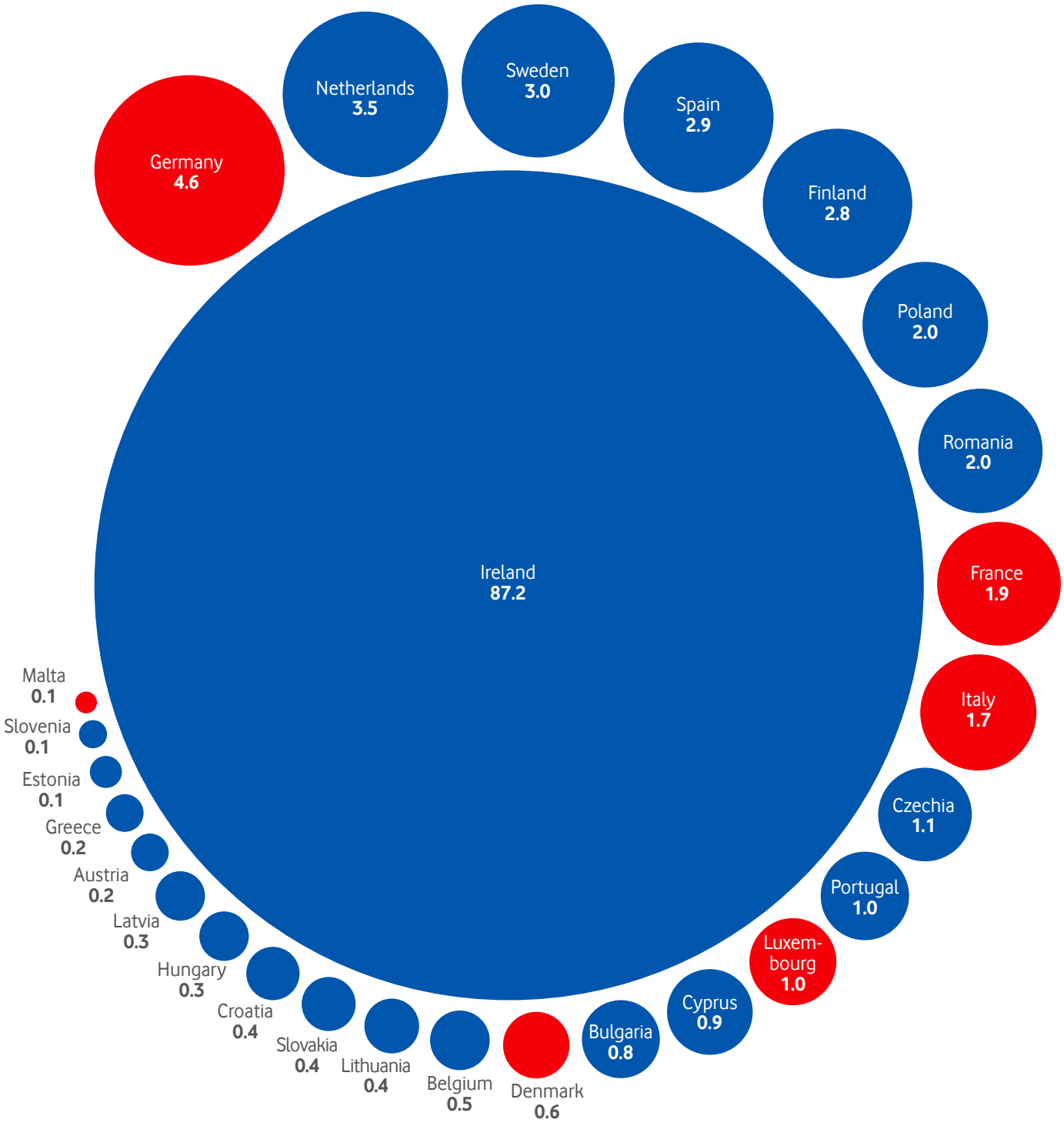

FIGURE 3

Country shares (%) of cumulative EU ICT services trade balance, 2020-2024

Data sourced from UNCTAD

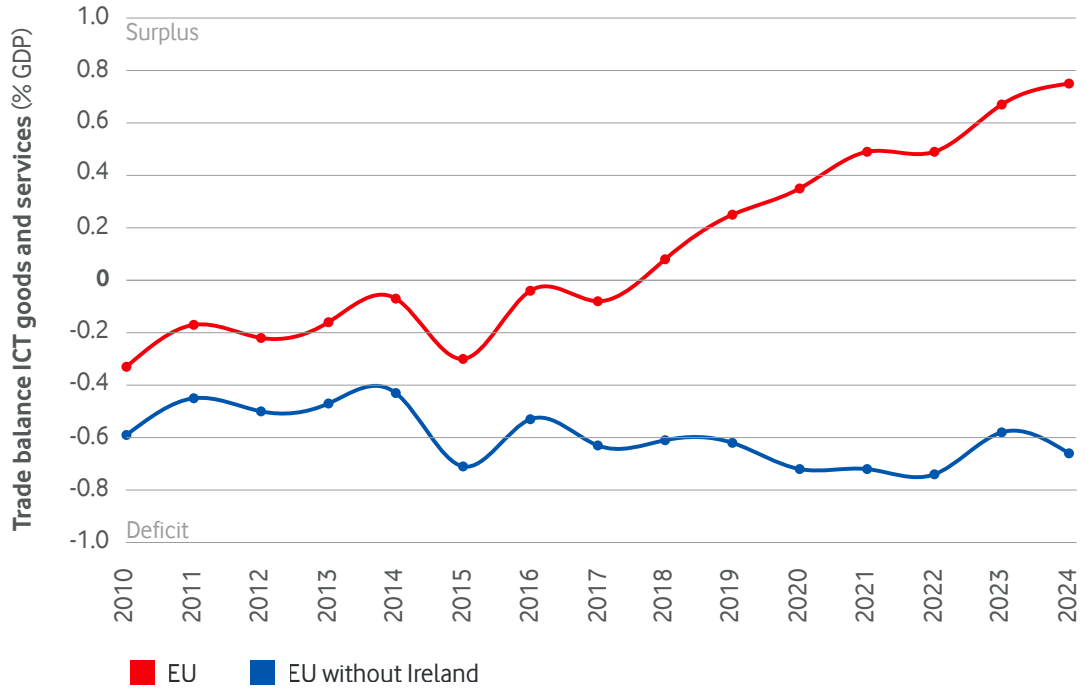

FIGURE 4

EU trade balance in ICT goods and services with and without Ireland

Data sourced from UNCTAD and World Bank[8]

To understand Europe's actual digital trade position, this Ireland effect must be taken into account. When Ireland's contribution is removed from the ICT goods and services trade balance, the EU's digital services trade surplus transforms into a digital services trade deficit. Without Ireland, not only is the EU's overall digital trade stagnant. It also displays structural weaknesses that seem likely to harm future digital trade growth (Figure 4). This position as an outlier is confirmed by the value-added data as well. Figure 5 shows that Ireland's ICT sector makes up a bigger share of total value created than all other European countries together in digital goods and digital services.

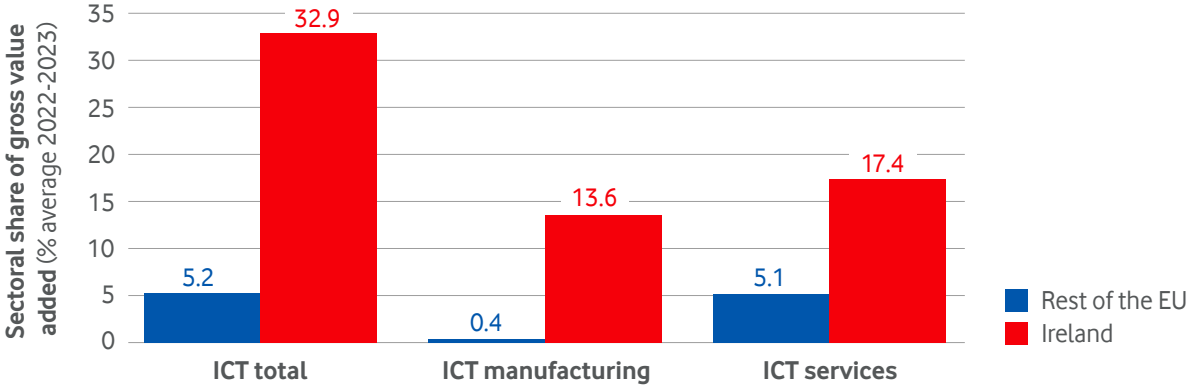

FIGURE 5

ICT sector share of EU gross value added, average 2022-2023

Data sourced from Eurostat[9]

8 Here and for all figures with this data source: World Bank. 2025. "World Development Indicators." databank.worldbank.org/reports.aspx?source=2&series=SI.POV.GINI&country=. Accessed 4 December 2025.

9 Here and for all figures with this data source: EUROSTAT. 2026. " Percentage of the ICT Sector in Gross Value Added." ec.europa.eu/eurostat/databrowser/view/isoc_bde15ag/default/table?lang=en. Accessed 12 March 2026.

The Ireland effect is concerning, first, because it disguises Europe's real dependence on US tech companies. A recent report from the Central Bank of Ireland showed that, in 2021, 94% of profits and 97% of value created by the Irish ICT sector stemmed from foreign-owned firms (Figure 6).[10] The International Trade Administration indicates that much of this foreign presence is American, including US tech multinationals like Google, Apple and Microsoft and American small and medium enterprises working in areas like fintech and software.[11] Although Irish tax policies have changed in response to recent EU and OECD pressure, they continue to give US companies access to the EU market with a minimum tax burden. This locks Europe into path dependencies which reinforce US platform dominance. It also endangers the Irish economy, which would suffer greatly if US tech corporations were to relocate or decrease their economic contributions.[12]

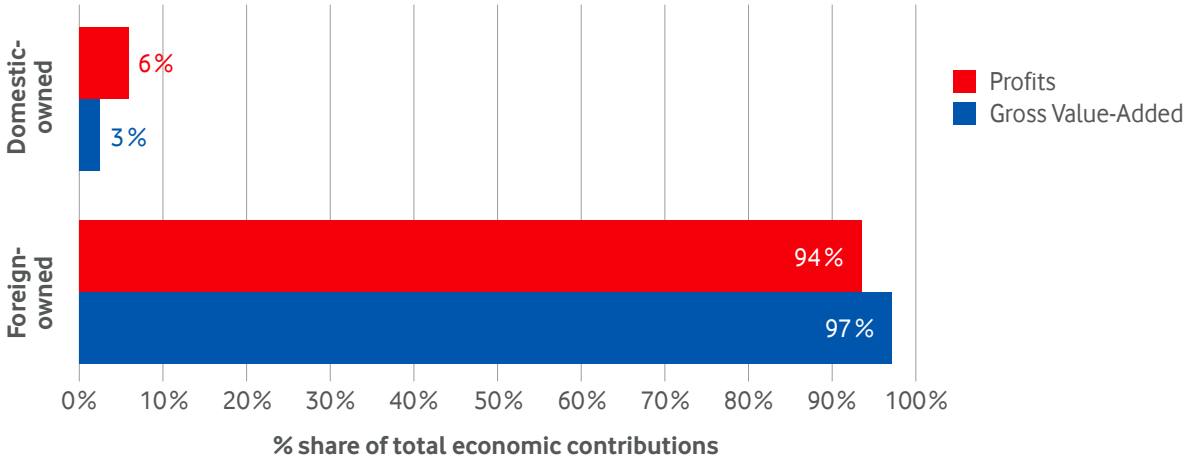

FIGURE 6
Source of economic contributions to the Irish ICT sector, 2021

Data sourced from the Central Bank of Ireland[13]

Just as importantly, the Ireland effect obscures the significant economic costs of Europe's hidden digital trade deficit. The EU's cumulative trade deficit in ICT goods and services without Ireland was equal to US$350.1 billion between 2022 and 2024. At current exchange rates, this is equivalent to roughly 37% of the €800 billion that European governments plan to invest in defense by 2030.[14]

10 Central Bank of Ireland. 2023. "Signed Article: QB1 – March 2023." www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/quarterly-bulletin-signed-articles/the-role-of-ict-services-sector-irish-economy.pdf. Accessed 12 March 2026.

11 International Trade Administration. 2026. "Ireland Country Commercial Guide, Digital Economy." www.trade.gov/country-commercial-guides/ireland-digital-economy. Accessed 13 March 2026.

12 Traynor, Jessica. 2025. "What US Tech Did to Ireland." The Dial, November 11. www.thedial.world/articles/news/ireland-us-tech-meta-google-apple. Accessed 7 January 2026.

13 Central Bank of Ireland. 2023. "Signed Article: QB1 – March 2023." www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/quarterly-bulletin-signed-articles/the-role-of-ict-services-sector-irish-economy.pdf. Accessed 12 March 2026.

14 European Commission. "White Paper for European Defence - Readiness 2030." December 23. defence-industry-space.ec.europa.eu/eu-defence-industry/white-paper-european-defence-readiness-2030_en. Accessed 12 January 2026.

Overreliance on China

A different, yet equally important, feature relates to Europe's dependence on China in digital goods trade. The EU's performance in ICT goods trade demonstrates multiple problems. For instance, between 2018 and 2022 the foreign value created via computer, electronics and electrical equipment exports outpaced the domestic value created (Figure 7). This means European ICT producers are increasingly dependent on high-value imports to produce these digital exports and that those digital exports are poorly suited to create much wealth for European economies. Moreover, the EU was the only major ICT leader where this happened. In other countries, domestic companies either continued to dominate value creation (US, China) or stayed ahead despite gains by foreign producers (Korea, Japan, UK).

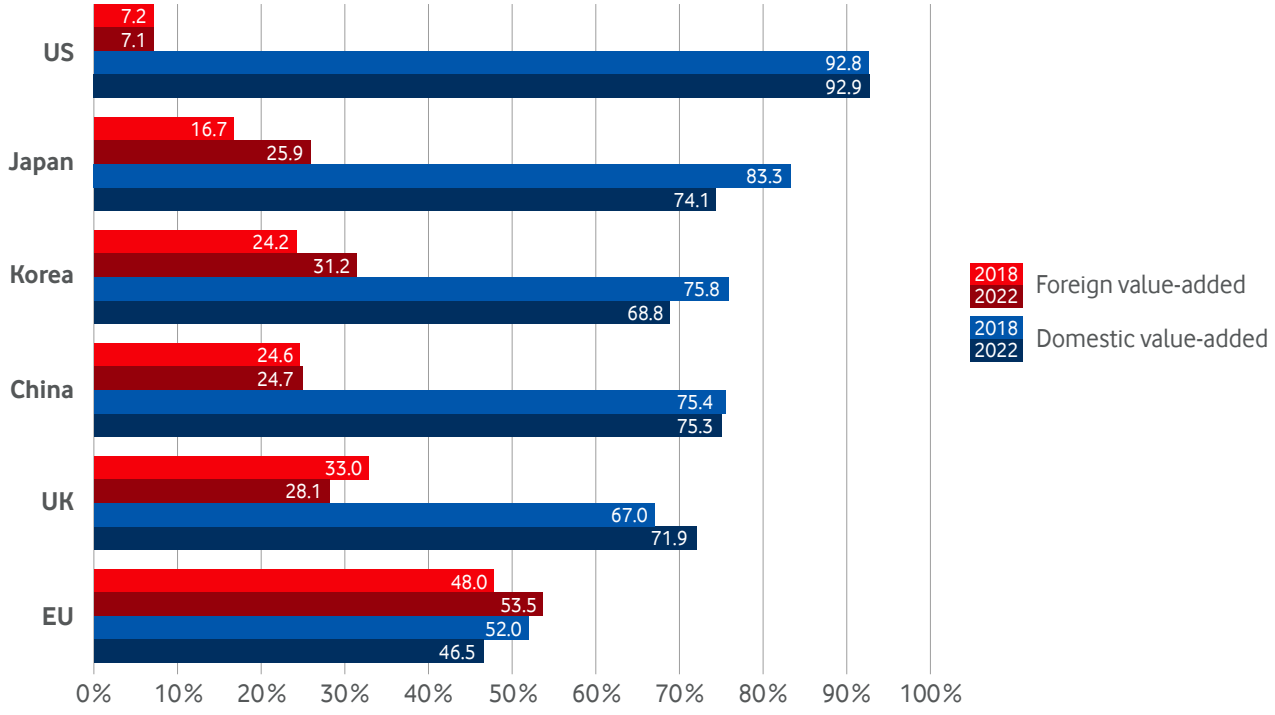

FIGURE 7
Shares (%) of domestic and foreign value-added content in computer, electronics, and electrical equipment exports, selected countries

Data sourced from WTO[15]

In this context, the EU's dependence on a singular partner, China, in ICT goods trade is cause for concern. The EU recorded a trade deficit in ICT goods between 2020 and 2023. This deficit affects all ICT goods sectors but was particularly pronounced in the computers and peripheral equipment (stable), communication equipment (growing) and electronic component (growing) sectors in the past few years (Figure 8).[16] A majority of ICT goods trade occurred with non-EU partners, and China accounted for 76% of the deficit on its own (Figure 9).

15 WTO .2026. "GVC Sectoral Linkages." WTO Stats Dashboard. stats.wto.org/dashboard/gvc_en.html. Accessed 14 March 2026.
16 UNCTAD. 2025. UNCTADstat Data Centre. unctadstat.unctad.org/datacentre/. Accessed 1 December 2025.

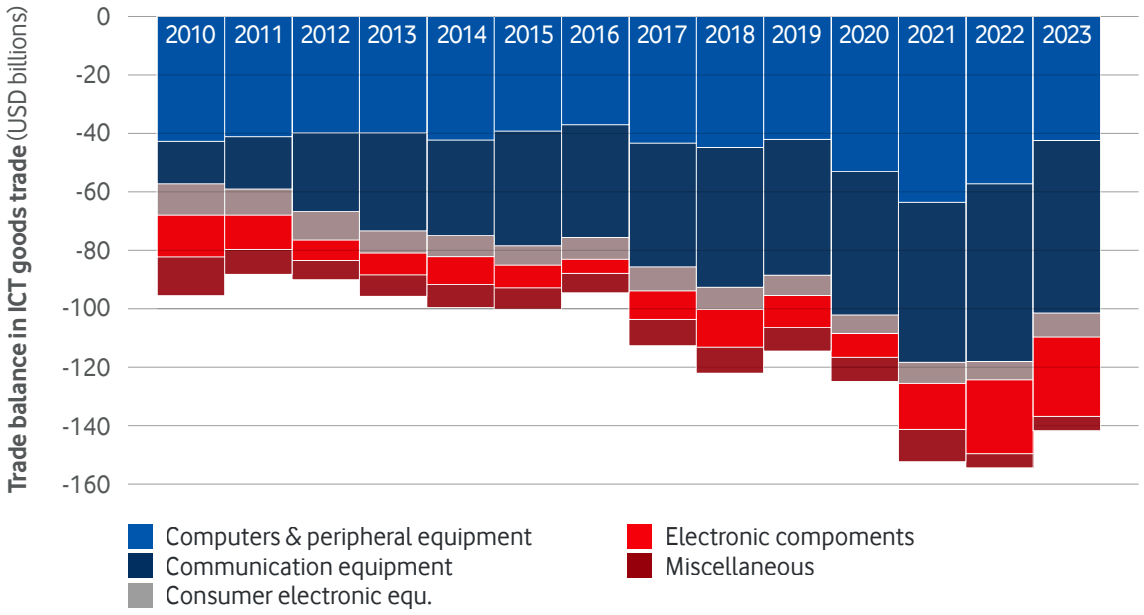

FIGURE 8
EU's ICT goods trade deficit by category (USD billions), 2010-2023

Data sourced from UNCTAD

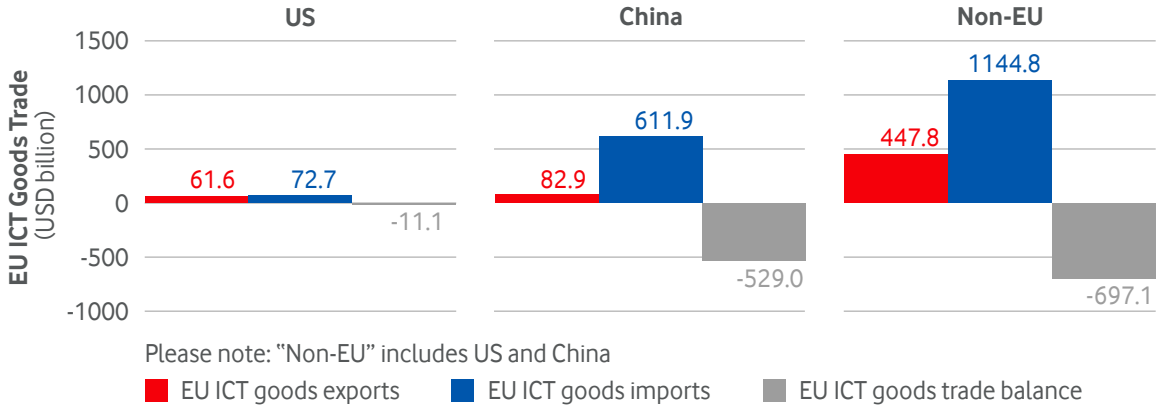

FIGURE 9
Cumulative EU ICT goods trade by partner, 2020-2023[17]

Data sourced from UNCTAD

While the Commission has already identified trade as one of the four pillars of its de-risking strategy,[18] it also faces sophisticated Chinese opposition in doing so.[19] The drive for more EU sovereignty in the short-term is highly challenging given the extent to which the EU relies on China for digital trade: European customers spent roughly $529 billion more on Chinese products between 2020 and 2023 than was received via European sales to China. As with the US and the Ireland effect, a high level of dependence on a single trade partner in ICT goods is a dependency that is already a vulnerability.

17 Between 2020 and 2023, exports of ICT goods within the EU accounted for 65% of the EU's total exports of ICT goods and produced a modest intra-EU trade surplus. By contrast, 62% of ICT goods imported into the EU came from outside the European Union, largely contributing to the EU's overall trade deficit in this sector.

18 Von der Leyen, Ursula. 2023. Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre. Brussels, March 30. ec.europa.eu/commission/presscorner/detail/en/speech_23_2063. Accessed February 9, 2026.

19 Messingschlager, Stefan. 2025. "Courting Berlin, countering Brussels: China's Twin-Track Approach to Germany and the EU." MERICS Commentary, September 10. merics.org/de/kommentar/courting-berlin-countering-brussels-chinas-twin-track-approach-germany-and-eu. Accessed February 9, 2026.

Limits of Europe's current strategies

Together, these features of Europe's digital trade structure raise questions about the fundamental premise of the Digital Decade, namely, that Europe's digital transformation will secure its economic future in the long-term. So far, the European Commission has used two types of strategies to remedy this gap.

Boosting Europe's tech competitiveness and production

Initiatives like the Strategic Technologies for Europe Platform[20] program seek to enhance the competitiveness of European tech companies by scaling up tech manufacturing in critical technologies – for which there is a rapidly expanding global market. The rationale is that doing so will not only enhance European economic growth and productivity. Rather, it will also showcase European innovation, enhance Europe's digital sovereignty and boost the competitiveness of European tech products.

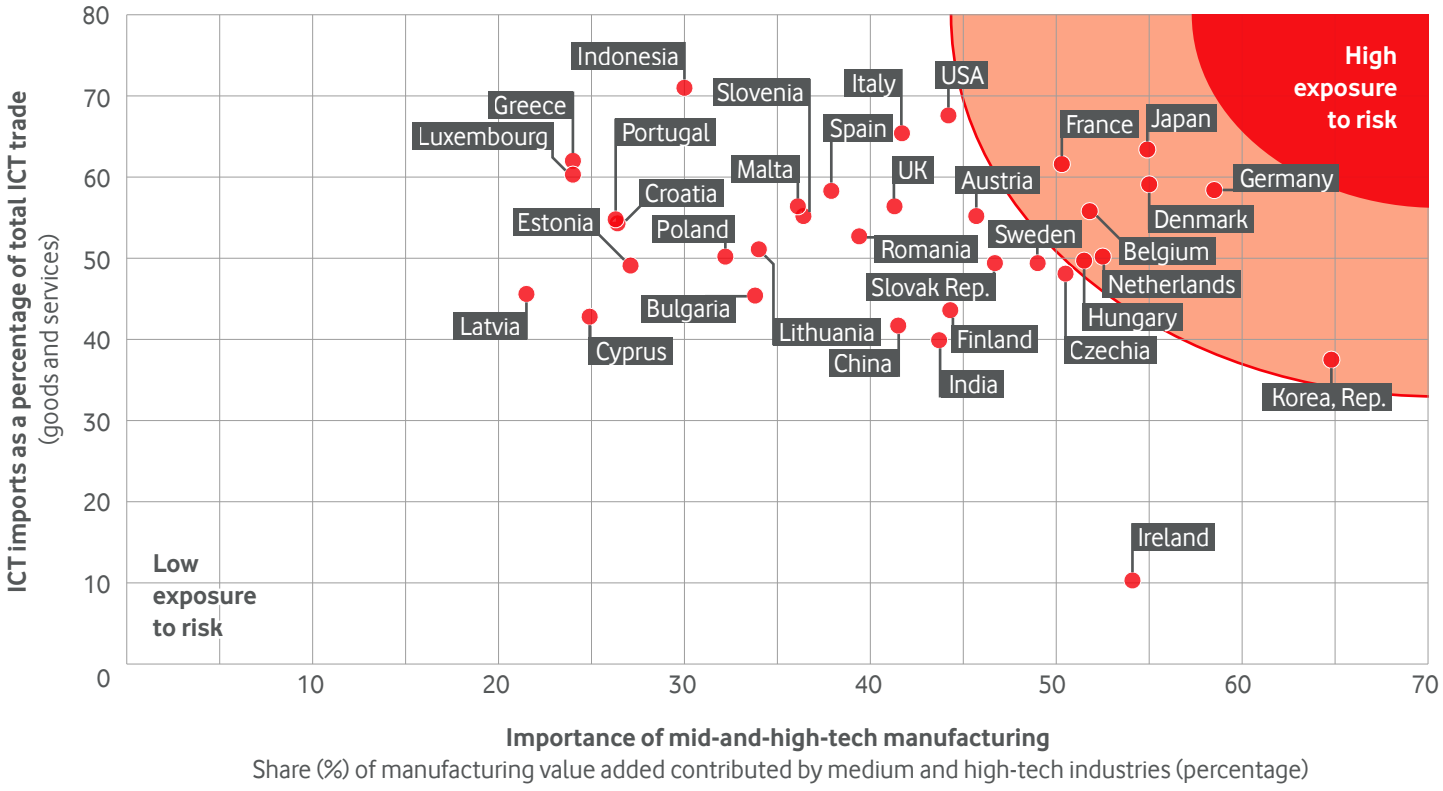

FIGURE 10
Risk exposure in high- and mid-tech manufacturing from ICT imports, selected countries, 2020-2023

Data sourced from UNCTAD and World Bank

20 European Union. 2026. "Strategic Technologies for Europe Platform." strategic-technologies.europa.eu/index_en. Accessed 23 January 2026.

Unfortunately, data suggests this turn to industrial policy will do little to alleviate the digital trade deficit. Figure 10 illustrates the relationship between high- and mid-tech manufacturing and ICT goods and services imported by European countries. It displays their varying exposure to trade-related risks, including geopolitical disruptions, weaponized interdependence, structural traps, infrastructural path dependency, and others. Clearly, ICT imports remain crucial inputs for mid- and high-tech manufacturing for most of Europe – especially for industrial leaders like Germany, France and the Netherlands. The Commission's efforts to increase European ICT exports by boosting competitiveness and production will consequently depend on boosting ICT imports as well, at least in the short-term. This means current industrial policy measures will not only fail to alleviate over-reliance on China – they may make it worse, moving more countries closer to or into the high exposure zone.

Boosting Europe's tech exports

A second prong of the Commission's strategy to translate digital transformation into economic gains involves expanding European tech exports by diversifying trade partnerships. Programs such as the Global Gateway seek to develop new and expand existing markets for European technologies and technological inputs.[21] In addition to generating economic opportunities, expanded trade partnerships are seen as a means of promoting European values abroad and developing partnerships that help the EU reform the global trading system in its favor.

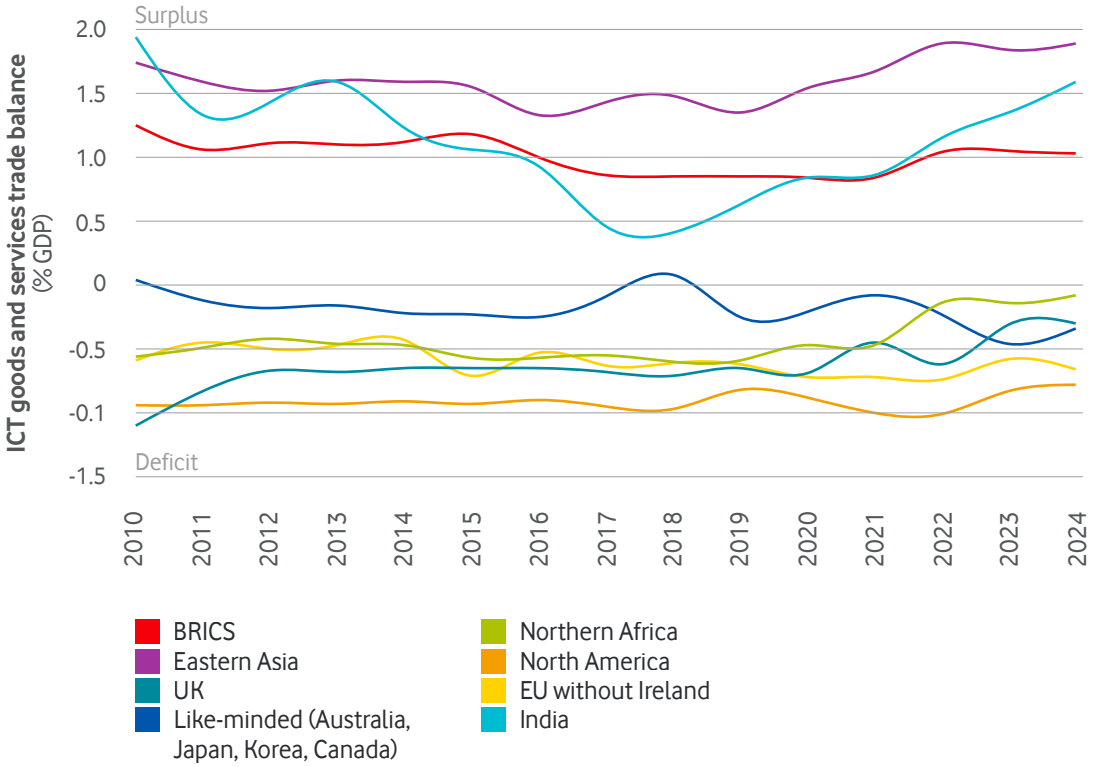

FIGURE 11
Selected ICT trade balances by region or group

Data sourced from UNCTAD and World Bank[22]

21 European Commission. 2026. "Global Gateway. Information on the Roll Out of the Global Gateway Strategy, Partnerships, Projects and Funding Opportunities." international-partnerships.ec.europa.eu/policies/global-gateway_en. Accessed 23 January 2026.

22 Please note: Due to the time frame of the analysis, the BRICS line only includes BRIC members prior to the 2024 and 2025 expansions.

Figure 11 shows the EU's trade balance in a regional comparison, using the EU without Ireland as a baseline. This helps to identify potential trade partners by targeting markets that are already invested in digital trade. East Asia and the BRICS countries are clear export leaders. By contrast, the UK and other like-minded countries such as Australia and Canada, as well as North American and North African countries, all buy more than they sell. The EU without Ireland has a slightly smaller deficit than North America.

Increasing digital exports to any of these markets in the short-term will require not only competitive European products, but also regulatory infrastructure and political will on both sides. The latter can be identified through the existence of ongoing trade agreements or negotiations.[23]

Based on these criteria, the following countries demonstrate clear potential[24] to help boost Europe's ICT exports:

- **SELECTED EAST ASIAN COUNTRIES**
  Digital Trade Agreement negotiations with South Korea and the July 2025 reaffirmation of the EU's Economic Partnership Agreement with Japan suggest potential for gains.

- **SELECTED BRICS COUNTRIES**
  Ongoing agreements and negotiations – including the recently signed EU-Mercosur and EU-India deals – could increase European exports in ICT services (India) and clean technologies (South Africa) and help create export-friendly procurement opportunities (India and Mercosur).

- **LIKE-MINDED COUNTRIES**
  In addition to the Japanese and Korean developments mentioned above, the EU is negotiating a Digital Trade Agreement with Canada. The recent EU-Australia trade deal is not currently focused on digital trade, but critical minerals provisions could create trade-boosting investment opportunities.

- **SELECTED NORTH AMERICAN COUNTRIES**
  In addition to Canada, Mexico seems on track as a potential partner, having concluded a Global Agreement with the EU in 2025 that includes digital inputs and services procurement as focus areas.

- **THE UK**
  The EU-UK Trade and Cooperation Agreement contains tech-relevant services provisions. While the UK's ICT goods imports from the EU have fallen since Brexit, they remain a significant proportion of the UK's total goods imports from the EU, signaling a strong existing working relationship in digital goods.[25]

23 European Commission. 2026. "Negotiations and Agreements." policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/negotiations-and-agreements_en. Accessed 12 January 2026.

24 These proposals are indicative based on a high-level assessment of the trade data. More detailed proposals will be provided when we publish the revised Digital Dependency Index later this year.

25 UNCTAD. 2025. UNCTADstat Data Centre. unctadstat.unctad.org/datacentre/. Accessed 1 December 2025.

In contrast, the following countries currently lack the infrastructure and/or political will to facilitate increased European ICT exports in the short-term:

- **CHINA**
  The EU's ICT goods deficit with China reached a record $143.4 billion in 2024.[26] Chinese pushback last year against requiring technology transfer as a precondition for future Chinese investment in Europe implies the export environment for European ICT services may be similarly constrained.[27]

- **UNITED STATES**
  The mercurial nature of US trade relations with Europe since the return of President Donald Trump and the US's desire to boost its own ICT exports bode poorly for increasing exports to the US in the near future.

- **NORTH AFRICA**
  Agreements and negotiations with relevant North African partners are alternately outdated (Algeria, Egypt) or on hold (Morocco, Sudan, Tunisia). This makes boosting exports in the short-term unlikely.

These moves towards digital trade diversification can help improve the business climate and create opportunities for European businesses. However, as with the industrial policy measures discussed earlier, in isolation they will not fully alleviate the Ireland effect or overreliance on China. Nor are they likely to significantly reduce the geopolitical vulnerabilities accompanying Europe's digital trade deficit.

26 Chia, Osmond, and Nick Marsh. 2026. "China Announces Record $1tn Trade Surplus Despite Trump Tariffs." BBC, January 14. www.bbc.com/news/articles/c9wx1v84rzyo. Accessed 11 January 2026.

27 Reuters. 2025. "EU Floats Conditions such as Tech Transfers for China Investments." www.reuters.com/world/china/eu-floats-conditions-such-tech-transfers-china-investments-2025-10-14/. Accessed 23 January 2026.

Evolving strategic narratives and paths to partnership

In this context, it will be crucial to maintain and develop the partnerships implicit in the Commission's Digital Decade strategy. These are diverse, ranging from trade partnerships between countries to relationships amongst European governments and tech start-ups. Such partnerships are critical for mediating European vulnerabilities and keeping pace with rapid technological and geopolitical developments.

Since the start of the Digital Decade in 2020, the EU has sought to attract and establish partnerships in two different ways. The first is by creating economic opportunities, whether via government investment, trade negotiations or investment facilitation. The second is by highlighting the value-based nature of EU cooperation, emphasizing fairness, justice, sustainability and human rights to make Europe more attractive to potential partners.[28]

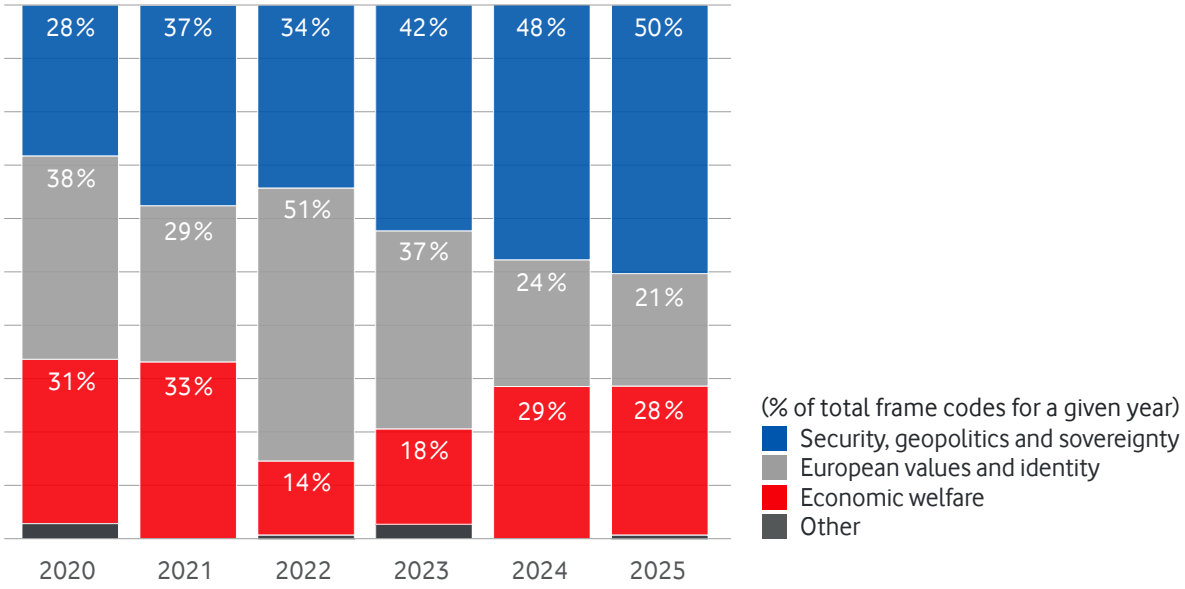

FIGURE 12
Frames of Commission digital and economic discussions since 2020

Data sourced from EU State of the Union addresses, Digital Decade documentation, and economic forecast announcements, 2020-2025

28 European Commission. 2026. "What is the Global Gateway?" commission.europa.eu/topics/international-partnerships/global-gateway_en. Accessed 23 January 2026.

However, over the past five years, these strategic narratives have shifted. Although economic welfare remains central to how the Commission speaks about Europe's digital transformation, values and identity are increasingly subsumed by concerns about security, geopolitical competition and European sovereignty (Figure 12). This reflects a more reactive strategic environment, evident in legislation like November 2025's Digital Omnibus. That policy package was criticized for weakening Europe's landmark data protection and AI regulations in response to the Trump administration's push for AI dominance.

So far it is unclear how these narrative developments will affect Brussels' potential to attract international partners. Language implying a 'go-it-alone' approach runs counter to diversification as a means of limiting Europe's vulnerabilities. Securitization of policy discussions could pit countries' desire for cooperation against fears that cooperation will generate more exposure. And prioritizing geopolitical concerns at the European level could also drown out voices highlighting the national gains countries and companies derive from collaboration. From this perspective, how Europe talks about digital and economic affairs could potentially limit what Europe can achieve in these areas.

Yet this new emphasis on sovereignty and geopolitics also holds potential to facilitate cooperation. As geopolitical developments increase the prominence of sovereignty in national policymaking worldwide, sovereignty could serve as a normative frame for targeted collaboration that improves Europe's autonomy. This could take the form of sectoral international agreements, such as Germany's recent bilateral agreements with India in the fields of critical minerals, semiconductors and renewable energy. Alternatively, Europe could present joint efforts to reform global and transregional governance as necessary to address the demands of a more sovereignty-focused world.

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Rebalancing Europe's dependencies

For now, the EU remains caught in a persistent digital trade deficit. While a trade deficit is not necessarily a problem, Europe's hidden – and growing – digital trade deficit suggests that Europe's economy is far too vulnerable to two trading partners and that this level of digital dependence is unsustainable. With limited prospects for significantly narrowing these gaps in the short- to medium-term and with current industrial policy measures potentially exacerbating the situation, a successful Digital Decade requires a pragmatic and bold approach.

Three elements seem crucial:

- **DEVELOP A MORE COORDINATED INDUSTRIAL AND TRADE POLICY** Europe needs to design a more coordinated and comprehensive industrial policy. Current industrial policy measures will likely increase, not decrease, the digital trade deficit. An industrial policy focused on boosting vertical integration of European industry alongside manufacturing and competitiveness gains has a better chance of decreasing dependence. Similarly, alternative, more ambitious policy measures, such as mandatory tech transfers, joint venture requirements, or policies fostering European hyperscaler champions, may be more effective in alleviating the Ireland effect. Both could help remedy Europe's loss in domestic value-added in the digital goods and services sectors.

- **BE MORE STRATEGIC ABOUT TRADE PARTNERSHIPS** Europe should continue to pursue incremental gains through trade diversification and digital partnership agreements. However, the EU needs to prioritize partners where progress is feasible in the short-term, as indicated above. Additionally, Europe should focus on negotiations where positive feedback effects can be expected. One option would be to fast-track negotiations with new and old BRICS states, such as the trade and digital trade negotiations underway with India and the UAE, respectively. Reducing asymmetric import dependence on China is imperative.

- **PROMOTE MULTI-ALIGNED DIPLOMACY IN STRATEGIC DIALOGUE** The European Commission should develop a new policy language that promotes multi-aligned diplomacy and new technology partnerships. As was evident during the January 2026 meeting in Davos, doing so will resonate with many partners around the world and can provide new opportunities for Europe to increase its own digital skills via private and public sector collaboration.

These measures are long-term commitments to a stronger digital backbone for Europe, not quick fixes. They must occur in tandem to improve Digital Decade outcomes and address the root causes of Europe's hidden digital trade dependencies. Fortunately, such coordinated approaches are not without precedent in Brussels, having appeared in high-profile Commission documents like the 2024 Draghi report. The suggestions made above can consequently provide a pragmatic path towards minimizing European trade vulnerabilities.

However, as the next policy brief in this series will show, getting digital trade right is only the first step in securing Europe's digital transformation. ICT intellectual property, public investments and connectivity raise even bigger issues.

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