CENTRE FOR EUROPEAN REFORM
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The European economy in a fraying rules-based global order

Ditchley Park, Oxfordshire
13-14 November 2026



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McKinsey Global Institute
Co-funded by the European Union

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Europe built its prosperity in a world where trade, capital, energy, technology and currencies were progressively depoliticised. That world is rapidly disappearing. The US increasingly wields tariffs, sanctions, export controls, and financial power to coerce allies. Its ill-conceived war in Iran choked off global oil and gas supplies, exposing the EU to its second energy shock this decade. As China's domestic economy weakens, its exports continue to surge, squeezing EU machine-, car- and chemical-making – the mid-tech sectors where Europe is strong – and deepening the continent's dependence on Chinese supply chains.

With Mistral, Europe's only frontier AI lab, losing the race for cutting-edge models, the EU is implicitly betting that the gains from AI will lie in adoption and application, not in building the technology itself. That bet would have made sense in an era of unfettered globalisation. Now the EU must reckon with the risk that the US or China uses Europe's reliance on their AI models as leverage – or simply cuts the continent off from the frontier altogether. The EU enters the age of China, compute and AI, and economic coercion, with an unfinished single market and sluggish capital markets, which constrain dynamism and firm size, and a fragile fiscal construction, which leaves highly indebted members exposed to sudden spikes in borrowing costs.

As a result, the EU is on the wrong side of history's big three this year: on the receiving end of China shock 2.0; on the sidelines of the AI boom; and on the hook for the surge in global bond yields. The coercive turn raises a further risk: that European firms leave. China's extensive subsidies and undervalued exchange rate entice firms to shift production there, even as the US works to coerce Europe's remaining top firms to relocate stateside.

The EU used to anchor its economic policy in global rules and collaboration, implementing the Washington Consensus with vigour through open trade, free capital markets and strict limits on state aid. The EU could project power simply by setting the rules – the "Brussels effect" – in which the sheer size of the single market let EU standards become the default for firms worldwide. But that effect may fade, now that power over international rules is far less potent than discretionary control over production capacity and chokepoints.

So what happens when trade, capital, energy, technology and currencies are all repoliticised at once? How should Europe respond? This year's conference brings together leading politicians, officials, academics, journalists and thinkers to confront that question.

Friday, 13 November 2026

13.30-15.00 Arrival of participants and afternoon tea

15.00-15.15 Welcome and introduction

15.15-16.45 **Session 1: Can the EU fight a trade war with China without the US and UK?**

Europe is facing a reckoning with 'China shock 2.0'. With its property-led growth model collapsed and domestic demand weak, China's state-directed capital and manufacturing muscle are generating persistent excess supply, exported into world markets and displacing industrial production across advanced and emerging economies alike. China now directly competes with the eurozone in close to 40 per cent of the sectors where Europe holds a comparative advantage, up from roughly 25 per cent in the early 2000s. All of Europe is affected, but Germany's exports of cars, machine-tools and chemicals to China are collapsing, even as it faces cut-throat Chinese competition at home and in third markets. China is set to wring another 1.5 per cent of growth from net exports in both 2026 and 2027, and add 3.5 million worldwide car exports in 2026 alone. Brussels, Paris and Berlin are focused on expanding the EU's trade-defence arsenal, such as fast-tracked safeguards via reverse qualified majority voting and speedier provisional anti-dumping and anti-subsidy remedies. The bloc is mulling building a US-style Section 301 instrument to offset China's currency undervaluation or "resilience instrument" against supply-chain concentration risk. But Europe is divided on whether to use any of it. And it is largely alone: the US sits inside a trade and tech truce with China signed in Busan, and the UK shows no appetite to join the fight. Does Europe have the tools to slow the China shock down, or just little-used paperwork? Can – and should – Europe wage a trade war alone, or even agree to try? Europe still provides the largest open market for Chinese exports. China has supply-chain dominance, especially its fearsome control over rare earths. Weaponised demand or weaponised supply chains: which matters more?

Speakers: Camille Boullenois, Soumaya Keynes, Brad Setser and Caroline Wilson

Chair: Anton Spisak

16.45-17.15 Coffee break

17.15-18.45 **Session 2: Should Europe still leave exchange rates to the market?**

China's yuan, Korea's won and the Taiwan dollar are all undervalued, while the US dollar remains unusually strong by multi-year averages. Global investors are flooding the US with capital as corporate profits surge – heralding the era of the "profit dollar." The euro, meanwhile, has bounced back from the dollar parity it briefly touched in 2022. Meanwhile, exchange rate policy is becoming politicised. China has always tightly managed the yuan, but its state-directed banking system has intervened heavily over the past year to resist appreciation, further turbocharging Chinese exports and inflating China's $1.2 trillion trade surplus. The US, too, is becoming more interventionist, having supported the Argentinian peso and Japanese yen through its Exchange Stabilisation Fund. The US Treasury failed to notify the European Central Bank that it used euros to prop up the yen, breaking with decades of currency co-ordination practice. President Macron and Chancellor Merz have asked China for a yuan revaluation, while others have called instead for the euro itself to weaken, to slow the second China shock. There has even been chatter of a "Plaza Accord 2.0" – a co-ordinated adjustment of major currencies to stem global imbalances – though economists are debating whether nominal currency adjustments and interventions work at all. But the ECB continues to treat exchange rates as largely downstream of monetary policy set for domestic conditions. Is Europe naïve to cling to the idea that exchange rates should be set entirely by the market? As the bloc bleeds capital to the US and industrial capacity to China, should it push for a Plaza Accord 2.0, even if prospects are dim? And after Washington used euros, not dollars, to prop up the yen, can the ECB still pretend exchange rates are none of its business?

Speakers: Clémence Lenoir, Shahin Vallée, Isabel Vansteenkiste and Maarten Verwey

Chair: Sander Tordoir

18.45-19.30 Drinks reception

19.30 Dinner

22.00 Bus transfer to the Macdonald Bear Hotel

Saturday, 14 November 2026

07.45-08.30 Breakfast served at the Macdonald Bear Hotel

08.30 Bus transfer to Ditchley Park

08.00-08.45 Breakfast served at Ditchley for guests staying in the house

09.00-10.30 **Session 3: High debt, high interest rates: Whose fiscal model is most vulnerable?**

European governments are hard-pressed to find the money to fund rearmament, green their economies, and pursue industrial policy. European governments are carrying large debt burdens, just as government borrowing costs are rising rapidly. Only a handful of member-states, including the Netherlands, Denmark, Greece, Portugal, and to a lesser degree, Spain, have managed to reduce debt levels. Italy's fiscal situation is stable, but its debt burden remains formidable. The EU's pandemic recovery fund, which has been providing a fiscal boost, especially to Italy and Spain, is running out. Germany, long the low-debt anchor of the EU, is now borrowing at scale to rearm and rebuild its capital stock, pushing up eurozone benchmark yields. Above all, the relentless upward march of France's public debt since 2008 is finally catching up with the country. Markets increasingly demand a risk premium to hold French government debt ahead of a 2027 election that could bring political extremes to power and trigger panic. But debt jitters are not an exclusively European delicacy. Interest rates are now the US government's second-biggest expense, and its deficits remain persistently out of control. The UK's nominal borrowing costs are the highest in the G7, leaving it vulnerable to speculative attacks. Japan carries one of the highest debt-to-GDP ratios in the world, although the country owns a large stock of external assets. The globally synchronised rise in long-term interest rates has led some commentators to interpret the shift as a benign break with secular stagnation, reflecting stronger expectations for long-term growth amid supportive macroeconomic policy and the prospect of AI-driven productivity gains. Is Europe headed for a public debt reckoning or are fiscal jitters overblown? Can the continent take comfort in the relatively worse position of others? As long-end yields rise across US treasuries, UK Gilts, French OATs and Japanese JGBs, whose fiscal model is most vulnerable?

Speakers: Joyce Chang, Matthew Klein, Emmanuel Moulin and Martin Wolf

Chair: Mehreen Khan

10.30-11.00 Coffee break

11.00-12.30 **Session 4: How should Europe's central banks manage the age of energy shocks?**

Central banks initially treated the supply shocks unleashed by the pandemic and Russia's energy shock as "transitory," only to see inflation run away from them. The lesson was a shift to risk-based frameworks, designed to lean against second-round effects from supply shocks rather than wait them out. The Iran war energy shock tested that thesis this year. Europe, like the rest of the global economy, has been relatively resilient so far, thanks in no small part to China's compression of oil imports by 6 million barrels a day. But the ECB and Bank of England will face similar challenges again, even as they have already missed their inflation targets for years. The EU still depends heavily on imported gas and oil, which are increasingly sourced from a hostile US. The bloc is also falling behind on electrification. Despite the Green Deal, electricity accounts for only about 23 per cent of the EU's final energy consumption, comparable to the US. Europe relies on Chinese clean tech, which makes it vulnerable to coercion from Beijing. And the Green Deal risks being dismantled. Resistance to its centerpiece, the Emissions Trading Scheme, is mounting as it pushes up prices in the short run, while public budgets prioritise rearmament over green economies. Meanwhile, the rates needed to fight energy-driven inflation are stalling investment in the clean technologies Europe was counting on to cut its dependence in the first place.
As a result, Europe's central banks are likely to be confronted by further disruptions to energy supply, stoking inflation. How should the ECB and Bank of England respond to this age of high-frequency energy shocks?

Speakers: Katharina Bergant, Megan Greene, Christian Kopf and Erik Nielsen

Chair: Heather Grabbe

12.30-13.45 Lunch

13.45-15.15 **Session 5: Will Europe miss the AI boom or find its edge?**

Leadership in AI rests on five layers: energy, which determines whether the technological stack can scale; manufacturing, led by firms like TSMC; cloud, the hyperscalers and chip designers; models, the AI systems themselves; and the devices operating the systems. The US and China compete across the entire stack. But Europe is a non-player character in the AI boom. Data-centre buildout is far more rapid in the United States and China, which dominate AI model generation between them. Europe has no leading homegrown frontier models, and its own data-centre buildout is slow. Parts of Asia – Taiwan, South Korea, and to a lesser extent, Japan – are benefiting from exploding demand for the equipment behind data centers, especially semiconductors. Europe retains a foothold in manufacturing through its semiconductor machinery sector and a handful of legacy electrical giants building power infrastructure, but is largely absent from the rest of the AI tech stack. That absence poses risks for Europe; the US briefly cut off foreign access to its Mythos model, whilst China is mulling export controls on its own cutting-edge AI tech. Lacking frontier models, Europe will have to keep importing them from both – a de facto bet that adoption, not invention, is where the gains lie. But on that front China may already be ahead, particularly in applying AI to industry. Should Europe prioritise its homegrown 'good enough' models? Can Europe carve out a space of its own in the AI race, or will China compete any European advantage away? How should the EU manage the risk of access to AI models being weaponised or the models themselves being turned into weapons?

Speakers: Cristina Caffarra, Luis Garicano, Jan Mischke and Dorothée Rouzet

Chair: James Green

15.30 Departure of participants

List of participants

David Adler	Chief Economist, Undersecretariat for Economic Affairs, United States Department of State
Alan Beattie	Senior Trade Writer, *Financial Times*
Katharina Bergant	Deputy Director, Bruegel
Camille Boullenois	Associate Director, Rhodium Group
Cristina Caffarra	Founder & Chair, EuroStack Initiative Foundation
Joyce Chang	Managing Director & Chair of Global Research, JP Morgan Chase
Ole Funke	Deputy Director-General European Affairs, Federal Chancellery, Germany
Luis Garicano	Professor of Public Policy, London School of Economics & Political Science
Miguel Gil Tertre	Head of Cabinet, Executive Vice-President Teresa Ribera, European Commission
Heather Grabbe	Senior Fellow, Bruegel
Charles Grant	Director, Centre for European Reform
James Green	Research Fellow, Centre for European Reform
Megan Greene	External Member, Monetary Policy Committee, Bank of England
Anatole Kaletsky	Chairman & Chief Economist, GaveKal Dragonomics
Soumaya Keynes	Economics Columnist, *Financial Times*
Mehreen Khan	Economics Editor, *The Times*
Stephen King	Senior Economic Adviser, HSBC Holdings plc
Matthew Klein	Founder, The Overshoot
Christian Kopf	Head of Fixed Income & FX, Union Investment Group
Clémence Lenoir	Macroeconomic, Public Policy, G7 & G20 Adviser, Élysée
Charles Lichfield	Director, Economic Foresight & Analysis & C Boyden Gray Senior Fellow, GeoEconomics Center, Atlantic Council
Eric Lonergan	Portfolio Manager, Calibrate Macro Fund, Calibrate Management Ltd
Jan Mischke	Partner, McKinsey Global Institute
Yasmine Moezinia	Programme Director of Climate Finance, Sequoia Climate Foundation
Emmanuel Moulin	Governor, Banque de France
Erik Nielsen	Senior Advisor, Independent Economics
Christian Odendahl	European Economics Editor, *The Economist*
Elina Ribakova	Non-Resident Senior Fellow, Peterson Institute For International Economics
Dorothée Rouzet	Chief Economist, French Treasury
Yael Selfin	Vice Chair & Chief Economist, KPMG
Brad Setser	Whitney Shepardson Senior Fellow, Council on Foreign Relations
Beat Siegenthaler	Director of Macro Policy, Rokos Capital Management LLP
Anton Spisak	Assistant Director, Centre for European Reform

John Springford	Research Director, Centre for European Reform
Ron Stoop	Research Fellow, Centre for European Reform
Sienna Tompkins	Geopolitical Strategist, Lazard
Sander Tordoir	Chief Economist, Centre for European Reform
Ángel Ubide	Managing Director, Citadel
Shahin Vallée	Senior Research Fellow, German Council on Foreign Relations (DGAP)
Kristin Vandenbergen	First Counsellor, Taxation & Customs, Financial Services & Economic Matters, Delegation of the European Union to the United Kingdom
Isabel Vansteenkiste	Principal Counsellor to the President, European Central Bank
Maarten Verwey	Director-General for Economic & Financial Affairs, European Commission
Elise Viadere	Research Fellow, Centre for European Reform
Caroline Wilson	Ambassador & Head of Mission, United Kingdom Mission to the European Union
Martin Wolf	Chief Economics Commentator, *Financial Times*
Jeromin Zettelmeyer	Director, Bruegel

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