

# Clashing trilemmas in the United States and China will shape the global order

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# Table of contents

<b>Executive summary</b>	<b>2</b>
<b>Two predatory superpowers</b>	<b>4</b>
<b>Clashing macroeconomic trilemmas</b>	<b>4</b>
<b>Striving for a better global equilibrium</b>	<b>6</b>
<b>Endnotes</b>	<b>7</b>

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# Executive summary

The United States and China are both pursuing technological dominance through excess investment. In both cases, vast industrial and financial resources are being mobilised at a rising cost to other domestic priorities, with growing spillover effects for trading partners. A different outcome is economically possible but, politically, it is likely to emerge only once the underlying macroeconomic contradictions in both superpowers come to the fore. Against this backdrop,

the European Union should lay the ground for a more stable long-term global equilibrium.

It is in Europe's paramount interest to foster a more stable long-term global equilibrium. In an international environment dominated by two rapacious superpowers, the European Union cannot rely on persuasion alone; its strategy must be grounded in action. Three orientations could guide this effort:

1. **First**, to avoid contributing to the global investment glut and widening global imbalances, the EU should ensure that its higher investment is matched by stronger domestic consumption.
2. **Second**, it should implement measures to retain savings within the Union, preventing them from fueling the US investment boom, while protecting

itself against an influx of Chinese products to make overinvestment costly for China.

3. **Third**, building on the Mercosur agreement and other free trade agreements in the pipeline (notably, the one with India), the EU should strive to rally countries beyond the G2 in support of a rules-based multipolar world.

# Two predatory superpowers

In 2025, the United States and China confirmed their status as the world's uncontested political and economic superpowers – often at the expense of the rest of the world. Their predatory nature has been increasingly laid bare.<sup>1</sup>

Under President Trump, the United States has moved away from the role of an 'indispensable nation' towards that of an 'extractive superpower'.<sup>2</sup> Rather than underwriting a stable rule-based international economic order, Washington increasingly uses tariffs, sanctions, regulatory pressure and security leverage to pull investment, technology and rents towards itself – from adversaries and allies alike.<sup>3</sup>

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China is a superpower of a different nature. Beijing has adopted the strategy of making its economic partners increasingly dependent on the Chinese economy. Its role as a 'dependency superpower' rests on massive exports, control over key segments of global supply chains and critical materials and the provision of credit and foreign direct investment. In parallel, on the domestic front, China has made strong efforts to reduce its own dependencies (the "dual circulation" theory)<sup>4</sup> and to develop "new quality productive forces" to compete with the United States in high-tech sectors.<sup>5</sup>

## Clashing macroeconomic trilemmas

Looking ahead, both the United States and China face clashing macroeconomic trilemmas: that is, sets of three policy objectives that cannot be achieved simultaneously.

As shown in the figure below, technological superiority through high levels of investment is a common objective in both economies, although the policy tools used to pursue it differ. Technological dominance underpins the predatory character of the two superpowers. Precisely because this goal is shared, it has become a major source of bilateral tension and generates significant negative spillovers for their trading partners.

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Last year, growth remained strong in both countries despite growing disruption and turbulence generated by the erosion of the rule-based international economic order, to which both Trump's America and Xi's China have contributed significantly. Still, underlying economic weaknesses persist. In the United States, strong headline figures mask a K-shaped recovery that is translating into an affordability crisis.<sup>6</sup> The US fiscal position continues to deteriorate. Tariffs and strong-arm immigration policies are slowing the return of inflation to target.

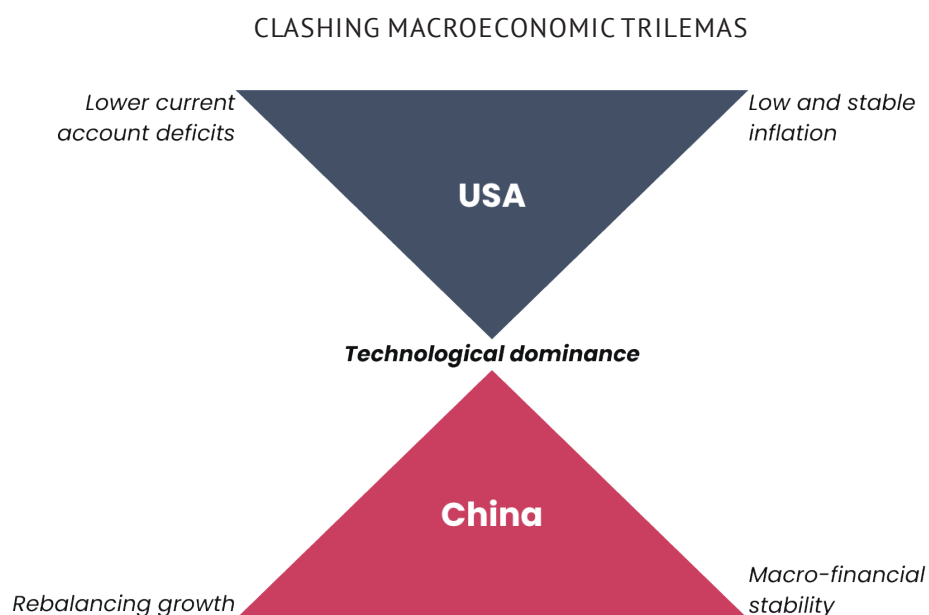
In China, high growth was largely driven by a net export boom, and in 2025 its trade surplus surpassed \$1 trillion for the first time. The strong performance of Xi's "new quality productive forces" was counterbalanced by worrying developments in the real estate sector. Falling housing prices, high youth unemployment and weak wage dynamics have kept consumption subdued. In 2025, the goal of rebalancing China's economic model was missed again.

### THE UNITED STATES'S TRILEMMA

In the case of the United States, the other two corners of the trilemma are (i) a lower current account deficit and (ii) low and stable inflation. These three objectives are incompatible: at best, only two can be achieved at the same time.

To secure technological dominance, US authorities must continue to deregulate across key sectors, notably AI and finance, alongside extractive practices vis-à-vis countries and firms to attract foreign investment into the United States. This, however, will come into conflict with the goal of keeping inflation low and reducing the current account deficit.

Figure 1



Source: Authors' elaboration.<sup>7</sup>

To reduce its external deficit, US savings must rise and the dollar must depreciate. This could be achieved through aggressive interest rate cuts by the Federal Reserve, but at the cost of higher inflation. New tariffs, tolerance for inflation and a weaker dollar may help narrow the external deficit and prop up investment, but they would keep inflation above target and worsen the affordability crisis.

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If, instead, the United States seeks to combine technological dominance with low inflation, some tariffs would need to be rolled back and monetary policy less accommodative. The ensuing capital inflows would strengthen the dollar, the counterpart of which will be a persistent current account deficit.

## CHINA'S TRILEMMA

In China, alongside technological dominance, the other two corners of the trilemma are (i) macro-financial stability and (ii) wage and consumption growth.

To develop Xi's "new quality productive forces" and preserve its position as the factory of the world,<sup>8</sup> China continues to subsidise investment in targeted sectors without fully abandoning traditional manufacturing. However, this policy has led to overinvestment, excessive production, low profit, deflation and trade surpluses. With the real estate sector in dire straits, non-performing loans will rise, increasing the risk that the financial sector instability. To contain these risks, authorities must use regulatory tools and financial resources. Yet the attempt to sustain high investment while maintaining financial stability impedes the efforts to rebalance China's economic model. As a result, consumption growth remains slow, deflation entrenched, and a deluge of exports may trigger new protectionist waves.

Alternatively, as outlined in the conclusions of last October's Fourth Plenum of the Communist Party of China, Beijing could pursue a policy of high investment aimed at developing new productive forces while boosting domestic demand. This second goal would require expansionary fiscal and monetary policies, alongside a strengthening of social safety nets to lift household income and consumption. While such a policy could alleviate deflationary pressures that plumb the Chinese economy, pursuing both goals jointly would raise China's already high debt, thereby increasing the risk of a financial crisis.

# Striving for a better global equilibrium

Is another global equilibrium possible? Yes, economically; unlikely, politically. A different course would require the US and China to abandon their predatory nature and accept the revival of some form multilateral cooperation. That will not happen out of sudden self-enlightenment. Instead, it will likely have to wait until their internal macroeconomic contradictions come to the fore.

Sooner or later, the United States and China will need to reckon with the inconsistencies between their pursuit of worldwide technological dominance via the full control of the entire supply chain and their domestic macroeconomic goals. Pursuing absolute rather than comparative advantages through excess investment creates resource misallocation at home and contributes to a global investment glut.

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As the EU (following Draghi's recommendations)<sup>9</sup> and India (through economic reforms it introduced last year) also embark albeit more cautiously on an investment drive, the macroeconomic frictions of this uncooperative

strategy are bound to intensify. A potential bursting of the AI bubble,<sup>10</sup> persistent difficulties in containing inflation or the current-account imbalance in the United States, and the materialisation of macro-financial risks in China may ultimately expose the limits of technological dominance built on investment bulimia.

It is in Europe's paramount interest to foster a more stable long-term global equilibrium. In an international environment dominated by two rapacious superpowers, the European Union cannot rely on persuasion alone; its strategy must be grounded in action. Three orientations could guide this effort:

1. **First**, to avoid contributing to the global investment glut and widening global imbalances, the EU should ensure that its higher investment is matched by stronger domestic consumption.
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3. **Third**, building on the Mercosur agreement and other free trade agreements in the pipeline (notably, the one with India), the EU should strive to rally countries beyond the G2 in support of a rules-based multipolar world.

A non-cooperative world dominated by a destructive investment race between the US and China is not inevitable – but avoiding it will require Europe to act.

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- <sup>1</sup> Wolf, M. (2025) "[A world with two predatory powers](#)", *Financial Times*, 30 September. A world with two predatory superpowers.
  - <sup>2</sup> Acemoglu, Daron and Robinson, James (2012), *Why Nations Fail: The origins of power, prosperity and poverty*, New York: Crown Business.
  - <sup>3</sup> Bertoldi, Moreno and Buti, Marco (2025), "[The US is Now an Extractive Superpower](#)", *Project Syndicate*, Long Reads; Bertoldi, Moreno and Buti, Marco (2025), "[The European Union in a pincer between an 'extractive' and a 'dependency' superpower](#)", Robert Schuman Centre for Advanced Studies, Working paper RSC 2025/35, European University Institute.
  - <sup>4</sup> Economy, Elizabeth C (2023), *The World According to China*, Cambridge: Polity Press.
  - <sup>5</sup> Kroeber, Arthur, "Unleashing "new quality productive forces": China's strategy for technology-led growth", Brookings Institute, 4 June 2024; Bertoldi and Buti (2025), "[The European Union in a pincer between an 'extractive' and a 'dependency' superpower](#)".
  - <sup>6</sup> Carbonell, Javier, "[It's the affordability, stupid: What Mamdani's victory means for Europe](#)", European Policy Centre, 06 November 2025.
  - <sup>7</sup> An earlier version of this graphic has also appeared in the authors' commentary: [Moreno Bertoldi](#) and [Marco Buti](#), "The World's Two Largest Economies Should Slow Their Investment Race", *Project Syndicate*, 14 January 2026.
  - <sup>8</sup> Baldwin, Richard, "[China is the world's sole manufacturing superpower: A line sketch of the rise](#)", *Vox EU*, 17 January, 2026.
  - <sup>9</sup> Draghi, Mario (2024), *The Future of European Competitiveness*, Brussels: European Commission, September.
  - <sup>10</sup> Frey, Carl Benedikt, "[The AI Bubble's Shaky Math](#)", *Project Syndicate*, 18 November 2025; Allen, Hilary, "[Will the AI Bubble Trigger a Financial Crisis?](#)", *Project Syndicate*, 17 October, 2025.

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