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# **Dependence and Innovation: Europe's Tech Sector Amid Global Fragmentation**

Global trade is becoming more fragmented due to increasing trade barriers, retaliatory measures, and a growth in bilateral and unilateral agreements. Although technology and digital communication once helped drive globalization, the tech sector now reflects these geopolitical and economic tensions sharply. Technology companies and digital infrastructure are at the heart of these conflicts, impacting the flow of goods, services, and data around the world.

The tech industry is particularly affected by these changes. Normally, distance between countries reduces trade, but the internet and digital tools have lessened this effect by making cross-border exchanges easier. However, foreign direct investment (FDI) in the technology sector has slowed down. Many countries, including those in the European Union and the United States, have tightened controls on foreign investments in sensitive areas like artificial intelligence, robotics, and data storage. These stricter regulations aim to protect national interests but also highlight the growing geopolitical rivalry within the market. The limitations on data sharing between countries also dampen trade volumes, potentially reducing them by 7% over five years.

A key reason for this fragmentation is the heavy dependence on critical raw materials, most of which come from outside Europe. These materials, such as nickel, silicon, cobalt, and germanium, are crucial for high-tech production but are increasingly concentrated in a small number of supplier countries. To tackle this, the European Union introduced the "Critical Raw Material Act" in 2023 to strengthen and diversify supply chains while promoting partnerships within friendly countries (friendshoring). Europe is also working to reduce its reliance on Asian semiconductor production, which dominates 90% of the global market, through initiatives like the European Chips Act, aiming to double Europe's market share by 2030. Additionally, companies like NVIDIA, which control major parts of the AI hardware market, create barriers for European tech firms, increasing Europe's strategic dependence in this sector.

Monetary fragmentation is also part of the bigger picture, fueled by the formation of economic blocs. The BRICS+ countries have proposed a blockchain-based joint payment system to reduce reliance on the traditional SWIFT system and challenge the dominance of the US dollar and euro. Though the dollar still leads global trade invoicing and reserves, its dominance is gradually eroding, benefiting alternative currencies like the Chinese renminbi. At the same time, rising protectionism and retaliation—

the US being a notable example—raise the risks of depending on the dollar. Europe is developing its own digital currency projects to maintain financial stability and independence. The European Central Bank is planning an interbank central bank digital currency (CBDC) for 2027-2028 to provide a secure, blockchain-based payment system for banks and financial institutions. A separate retail digital euro for everyday consumer use is also in development to enhance payment efficiency within Europe and reduce dependence on American payment firms.

In summary, Europe faces major challenges and opportunities as global tech competition and geopolitical fragmentation reshape investment, trade, and monetary systems. By strengthening supply chains, fostering innovation, and developing digital currencies, Europe aims to reduce dependencies while navigating an increasingly polarized global landscape.

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