



The State of EU-US Economic Relations in 2026: Resilient Ties under *Massive* Strategic Pressure

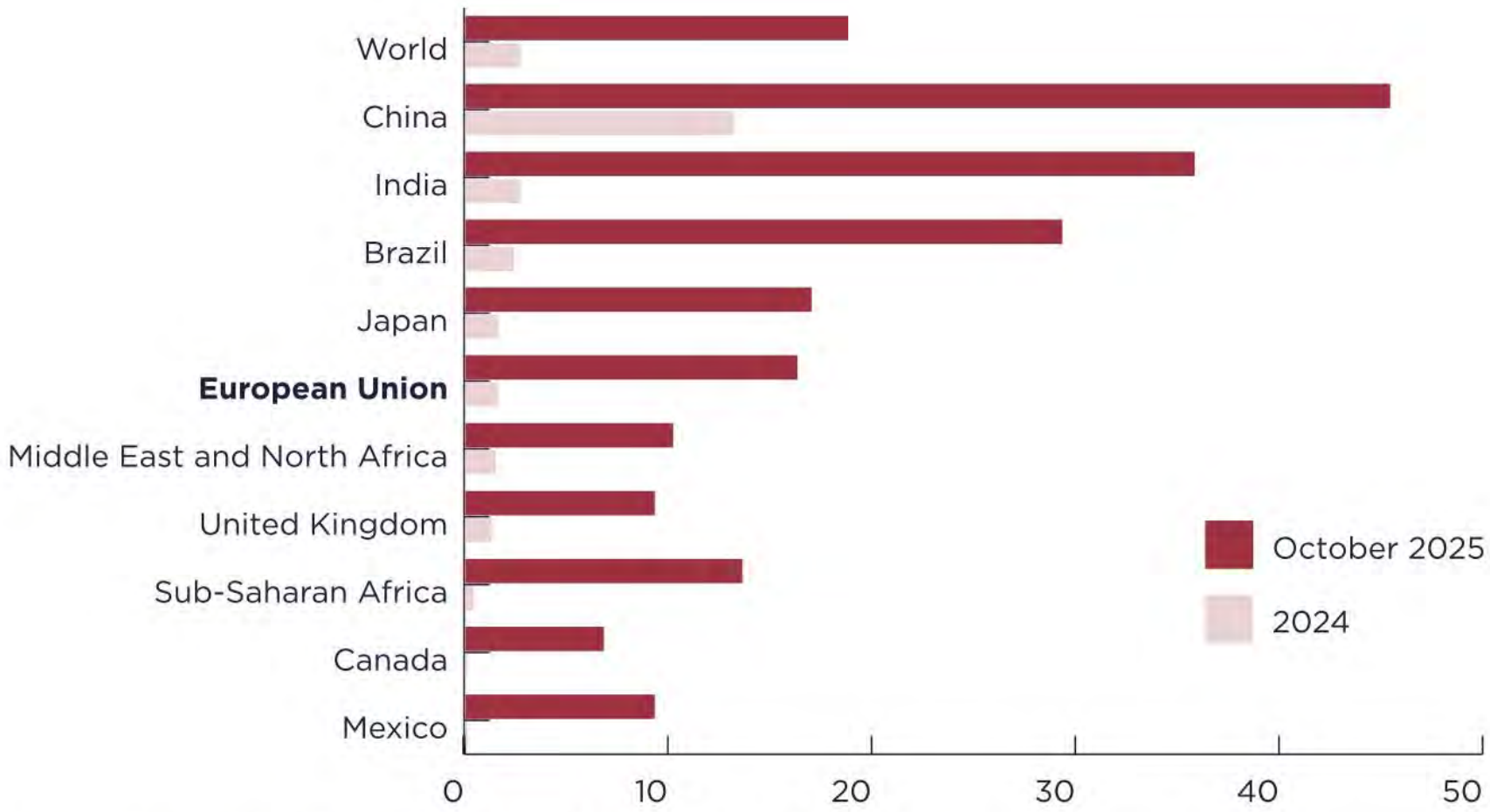
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Key Takeaways

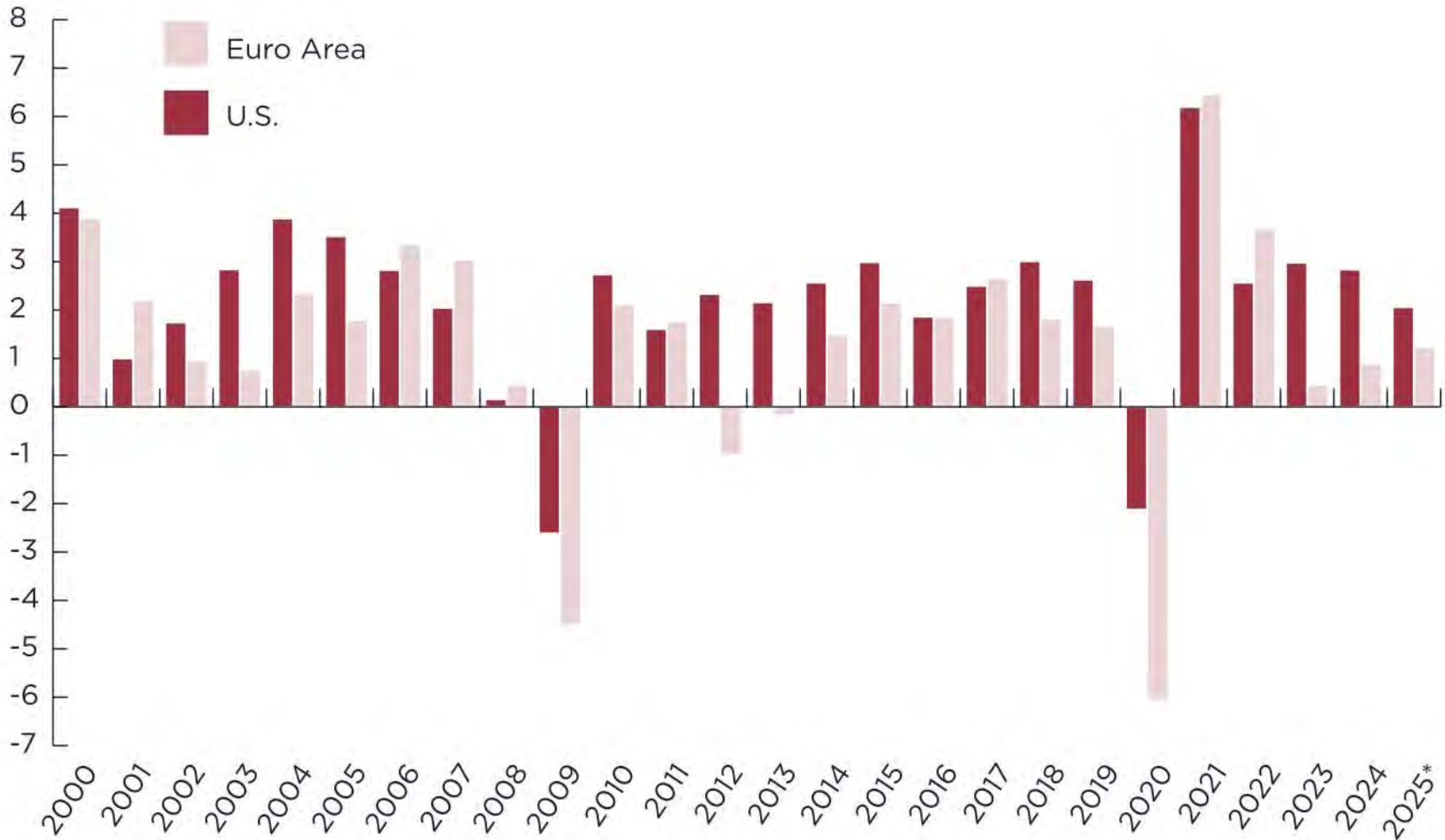
- ▶ The transatlantic economy is **THICKER** than ever, **NOT** thinner (but that may not last)
 - ▶ Despite new tariffs in 2025 and increased uncertainty about the future of the transatlantic alliance, U.S.-EU trade surged 11.5% in the first half of 2025
 - ▶ Europe still accounts for 62.5% of total overseas earnings for U.S. firms
- ▶ The U.S. has quietly (or not so quietly!) imposed a major tariff shock on Europe
 - ▶ U.S. Import tariffs on EU goods have jumped from an average effective tariff rate of 3.5% in 2024 to an average of 16-18% -- a five-fold increase
 - ▶ EU import tariffs on U.S. imports are due to fall to close to 0% but the EU-US trade deal struck at Turnberry in Scotland faces uncertain ratification in the EU parliament
- ▶ **But the transatlantic economy may have peaked and is a lot more FRAGILE today...**
 - ▶ EU now faces higher effective tariffs than Canada, Mexico or the United Kingdom
 - ▶ This is not symbolic protectionism, but a material shock to transatlantic commerce
 - ▶ EU is struggling to implement the recommendations of the Draghi Report
 - ▶ Economic asymmetries causing strategic tensions, including in defense and domestic politics
- ▶ EU Response
 - ▶ Short-term **'appeasement'** to Trump's demands
 - ▶ Medium-term **'diversification'** to other trade partners
 - ▶ Long-term building of **'strategic autonomy'**

U.S. Effective Tariff Rate by Country



Source: International Monetary Fund. Data as of October 2025

U.S. vs. Euro Area Real GDP (% change)



*Estimate. Source: International Monetary Fund. Data as of October 2025

Transatlantic Economic Divergence since 2008...

- ▶ US growth = estimated to be around 2% for 2025
 - ▶ Q1: -0.5%, Q2: 3.3%, Q3: 4.4% (mostly driven by AI boom)
- ▶ EU growth = estimated to be around 1.3-1.4% for 2025 - but uneven!
 - ▶ Main cause: subdued investment and external headwinds
- ▶ Around 2008, EU and US economies were roughly comparable in size (in nominal terms) - close to parity, with the EU slightly larger
- ▶ By the early to mid-2020s, U.S. GDP roughly doubled (about 87% growth), from roughly \$14.8 trillion to \$27.7 trillion. EU GDP only grew modestly (about 13.5%) from roughly \$16.4 trillion to \$18.6 trillion.
- ▶ As a result, EU GDP in 2024 was about 67% of U.S. GDP, down from roughly 110% in 2008
- ▶ The Gap widened because of faster U.S. growth rates - driven by stronger investment, higher productivity, and demographics (2/3), and Brexit (EU loss of the UK) (1/3)

Draghi Report (2024)



- ▶ Core diagnosis
 - ▶ Europe faces a structural competitiveness crisis: weak productivity growth, underinvestment, high energy costs, fragmented capital markets, and slow innovation.
 - ▶ The EU risks strategic irrelevance in a world shaped by US industrial policy and Chinese state capitalism.
- ▶ Three binding constraints
 - ▶ Investment gap - Europe invests too little in green tech, digital, AI, defense, and infrastructure.
 - ▶ Fragmentation - Single Market incomplete (especially capital, energy, telecoms, defense).
 - ▶ Governance mismatch - EU ambitions exceed its fiscal, regulatory, and institutional tools.

Draghi: Key Recommendations

- ▶ Scale up investment (**≈ €750bn/year**): EU-level financing, common borrowing, stronger EIB role.
 - ▶ Complete the Single Market: Capital Markets Union, Energy Union, telecoms & defense integration.
 - ▶ Industrial & geoeconomic policy: targeted support for strategic sectors; reduce regulatory drag.
 - ▶ Energy reset: lower energy prices via integration, grids, and long-term contracts.
 - ▶ Security-economy nexus: competitiveness, climate, and defense treated as one agenda.
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- ▶ Bottom Line: EU must move from rules to power, or accept long-term decline...
 - ▶ ...but to date, of Draghi's 383 recommendations, only 11% have been adopted.

And yet... “EU Sovereignty” has been slowly emerging as New Paradigm since 2019

- ▶ In Response to the Pandemic: May 2020: Joint Franco-German Declaration by Merkel & Macron:
 - ▶ (1) EU to develop strategic health sovereignty through joint health strategy
 - ▶ (2) Recovery Fund of 500 billion euro financed by joint EU bond issues
 - ▶ (3) Speeding up both digital and green transitions
 - ▶ (4) enhancing EU economic and industrial resilience by giving new impulse to the single market & EU industrial policy



The EU's Response to the COVID-19 Pandemic (2020): Next Gen EU



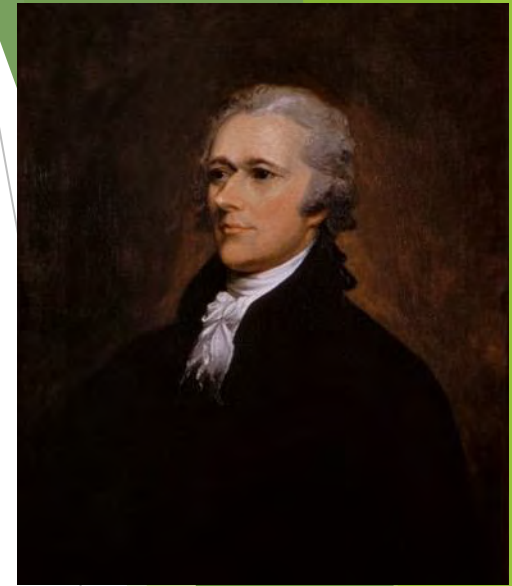
**Next
Generation
EU**

#NextGenerationEU #EUBudget

  European Commission

9

The graphic features a blue background with a white and orange text overlay. It includes images of a woman wearing a face mask and a group of people working together, also wearing masks. The text 'Next Generation EU' is prominently displayed in white and orange. Below it, the hashtags '#NextGenerationEU' and '#EUBudget' are written in orange. At the bottom right, there are logos for the European Union flag and the European Commission, followed by the text 'European Commission'. A small number '9' is located in the bottom right corner of the graphic.



And in response to the 2022 Russian invasion of Ukraine...

▶ Key EU Actions

- ▶ Sanctions at scale: 13+ packages targeting energy, finance, technology, transport, and individuals; asset freezes and export controls.
 - ▶ Energy decoupling: Rapid reduction of Russian gas imports; joint gas purchasing, LNG diversification, REPowerEU, accelerated renewables.
 - ▶ Military & security support: **€5bn+ via the European Peace Facility; arms deliveries, training missions, defense industrial ramp-up.**
 - ▶ Fiscal & macro support: **€80bn+ in grants and loans to Ukraine; EU budget backing, macro-financial assistance, Ukraine Facility. New €90bn loan for 2026 and 2027**
 - ▶ Refugees & solidarity: Temporary Protection Directive activated for millions of Ukrainian refugees.
 - ▶ Enlargement & geopolitics: Ukraine granted EU candidate status; sanctions coordination with G7; frozen Russian assets leveraged for Ukraine.
- ▶ EU crossed long-standing **red lines** on arms, debt, energy sovereignty, and geoeconomics.

The EU Commission: from RULES to TOOLS

- ▶ Von der Leyen (2019): New Commission will be “geopolitical” in nature.
 - ▶ Compare with Barroso (2004-2014) and Juncker (2014-2019)
- ▶ EU’s “geo-economic” turn & the “end of naïveté”
- ▶ Last five years: **a whole series of new ‘geo-economic’ tools == nothing short of revolutionary!**
 - ▶ Investment Screening Framework
 - ▶ International Procurement Agreement/Instrument (IPI)
 - ▶ Foreign Subsidies Regulation (FSR)
 - ▶ Anti-Coercion Instrument (ACI)
 - ▶ **Retaliation tool against countries taking coercive economic action against a member state’s legitimate sovereign choices for political reasons**
 - ▶ Enables countermeasures (tariffs and quotas, exclusion from public procurement, blocking exports, restricted access to EU capital)
 - ▶ Future instruments
 - ▶ Discussions on outbound screening, on the nature of economic security, etc. etc.



“(Open) Strategic Autonomy” or “European Sovereignty” = new EU Paradigm?

- ▶ Both “open strategic autonomy” and “EU sovereignty” mean different things to different people, elites, and national electorates
- ▶ Consensus emerging that EU needs to be able to act more autonomously to defend its interest in multipolar world
 - ▶ More power for the European Commission
- ▶ But different views on how to get there...
- ▶ And... fault lines remain:
 - ▶ North-South
 - ▶ East-West
 - ▶ Small vs. Large Member States
 - ▶ EU vs. National Sovereignty



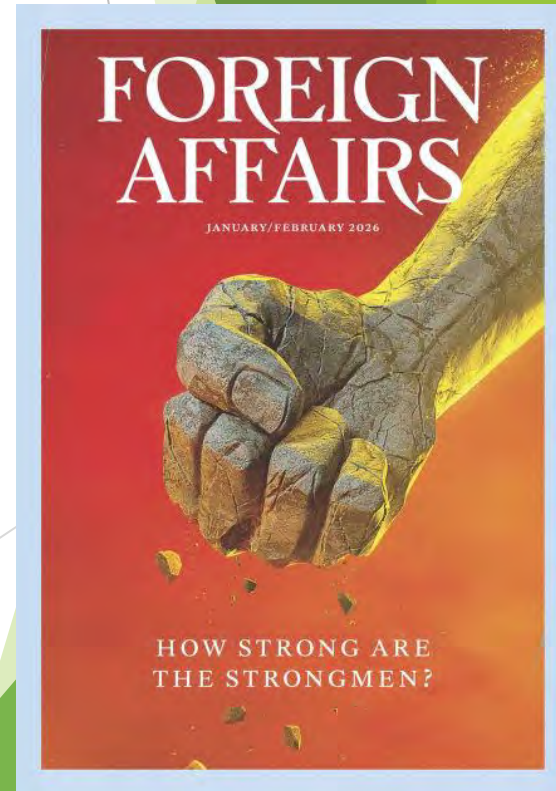
Donald Trump's
Return to the
White House in
2025...

...more direct
challenge to
European unity!



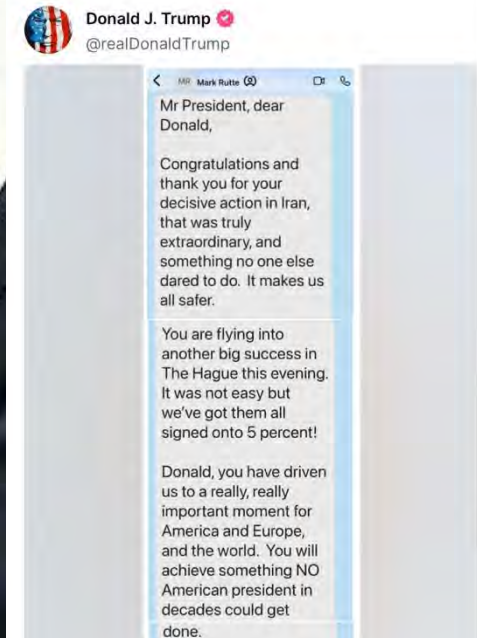
The “Transatlantic Trump Trap” (with Nathalie Tocci)

- ▶ “How Europe Lost” (Jan/Feb 2026, *Foreign Affairs*)
- ▶ Since Trump’s return in January 2025, Europe’s reaction has been one of APPEASEMENT
- ▶ Instead of building more autonomy or collective resistance, the EU has tended towards BENDING THE KNEE
- ▶ Across three core areas - **there has been “accommodation” and “submission”**
 - ▶ Security (NATO Summit in the Hague, June 2025)
 - ▶ Trade (Turnberry Agreement, July 2025)
 - ▶ Values (Democratic Backsliding, Independence of the Judiciary, Freedom of the Press, etc.)
- ▶ RESULT: Short-term STABILITY, but long-term DEPENDENCE



Defense & Security

- ▶ The Hague Summit (June 2025)
 - ▶ 5% GDP defense pledge (3.5% + 1.5%)
 - ▶ **Trump “WIN”**
- ▶ Europe buys American weapons
 - ▶ U.S. Profits; Europe Pays
- ▶ Dependence on U.S. defense supply chains deepens
- ▶ The NATO Secretary General, Mark Rutte, calls Trump ‘NATO’s Daddy’
 - ▶ Symbol of subservience



Trade & Investment

- ▶ From “**Hard Bargain**” to “Turnberry Deal”
 - ▶ EU accepts asymmetric truce at **Donald Trump’s** Turnberry Resort in Scotland (late July 2025)
 - ▶ U.S. Tariffs capped at 15%, still far above pre-Trump levels
 - ▶ Unrealistic promises on investment and energy purchases
 - ▶ Europe decides not to retaliate, **let alone use its ‘Anti-Coercion Instrument’**
 - ▶ “**Rules-based trade**” replaced by Trump transactionalism



Democracy & the Rule of Law

- ▶ Silence in the Face of Backsliding
 - ▶ Trump attacks press, judiciary, and democratic norms
 - ▶ Europe stays mostly silent to preserve détente
 - ▶ Silence normalizes U.S. illiberalism and shrinks any **'moral authority'** Europe had left



Why Appeasement?

- ▶ **Fear of Something Worse...**
 - ▶ NATO collapse, trade war, or Trump-Putin détente
- ▶ **“Better a bad deal than no deal”**
- ▶ Placation seen as damage control, not strategy (à la Brexit)
- ▶ **But appeasement is different from autonomy...**
 - ▶ It entrenches hierarchy



Domestic Roots: Europe's Own Right Turn

- ▶ Rise of far-right populism:
 - ▶ Means a much more divided, cautious EU
 - ▶ After all, far-right argues, the U.K. got a better deal!
- ▶ Centrist elites look weak -> far-right gains legitimacy
- ▶ Nationalism dampens integration
 - ▶ Draghi & Letta reports stalled
- ▶ New and higher defense target fuels **“guns vs butter”** backlash
- ▶ CONSEQUENCES for the European Union:
 - ▶ Weak integration
 - ▶ No new joint borrowing, minimal defense coordination
 - ▶ Renationalization of certain policies
 - ▶ Self reinforcing trap:
 - ▶ Dependence -> weakness -> populist gain -> more dependence



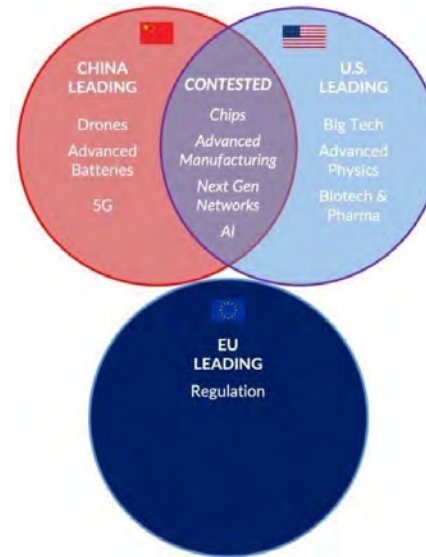
What Europe Will Likely Do...



- ▶ Follow the Draghi Roadmap *selectively*...
- ▶ Defense “**coalition of the willing**” to support Ukraine
 - ▶ France & UK (leaders), Germany, Poland, Baltics & Nordics
- ▶ Trade diversification **beyond the United States**...
 - ▶ Find other like-minded partners, middle powers, etc.
- ▶ Pursue a More Autonomous China Policy
 - ▶ Firm + pragmatic
- ▶ Go after “**energy sovereignty**” via Green Deal rather than ever more U.S. LNG



Where Friction is Structural & Strategic Risks Ahead...



- ▶ Industrial Policy
 - ▶ U.S.: fast, fiscal/trade, centralized
 - ▶ EU: slow, rules-bound, fragmented
- ▶ Regulation/AI
 - ▶ U.S.: innovation-first, firm-driven, angel investors/venture capital
 - ▶ EU: precautionary, market-shaping, conservative banks/finance
- ▶ These are SYSTEMIC DIFFERENCES, rather than PERSONALITY CLASHES
- ▶ Strategic Risks Ahead for the Transatlantic Relationship:
 - ▶ Subsidy races without coordination
 - ▶ Regulatory divergence becoming de facto protectionism
 - ▶ Economic disputes spilling into security cooperation and disputes over security spilling into economic cooperation



THANK YOU VERY MUCH
FOR YOUR ATTENTION!

