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The weakness of Europe's negotiating power

Europe has weak negotiating power, not only with the United States but also with China.
This weakness in Europe's negotiating power stems from:

- in relation to China, its dependence on imports of refined rare earths, electric batteries, solar panels, active pharmaceutical ingredients, as well as the importance of the Chinese market for European companies;
- in relation to the United States, the significance of the American market, but also Europe's dependence on imports of energy products and on American information technology companies.

As long as Europe does not overcome its delay in the production of critical minerals and in the development of new technology enterprises, its negotiating power will remain weak. This was clearly evident at the G7 meeting in June 2025, where it was decided that the minimum 15% tax on multinationals would not apply to American companies – a decision affecting both Canada and Europe. This weakness in Europe's negotiating power was also apparent at the conclusion of the trade negotiations between the United States and the European Union, where Europe clearly conceded on many points.

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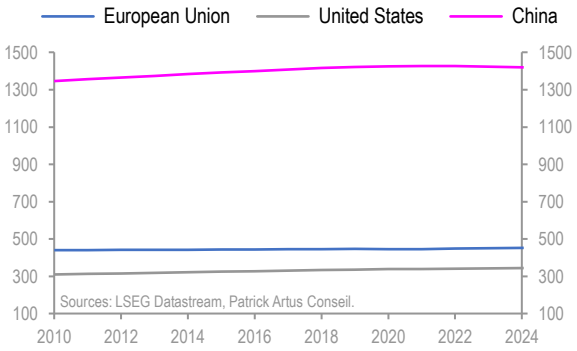
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Despite the size of its economy, the European Union has weak negotiating power

The European Union:

- Has a larger population than the United States (Chart 1);

Chart 1
Population (in millions of inhabitants)



- Is as large a market as China or the United States, as shown by the level of its imports (Chart 2) or its gross domestic product (Chart 3);

Chart 2
Imports of goods (monthly, USD bn)

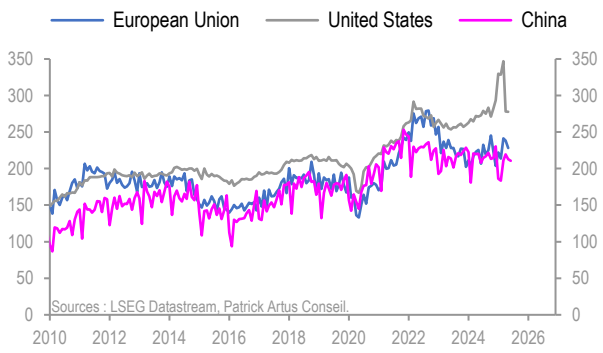
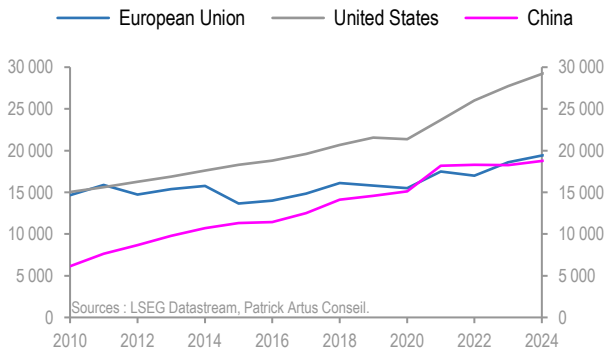


Chart 3
Nominal GDP (USD bn)



Yet the EU's negotiating power is clearly weaker than that of China or the United States.

Europe's weak negotiating power with respect to China

Europe's weak negotiating position vis-à-vis China results from:

- The significance of EU exports to China (Charts 4a/b);

Chart 4A
European Union: Exports of goods to China
(monthly data)

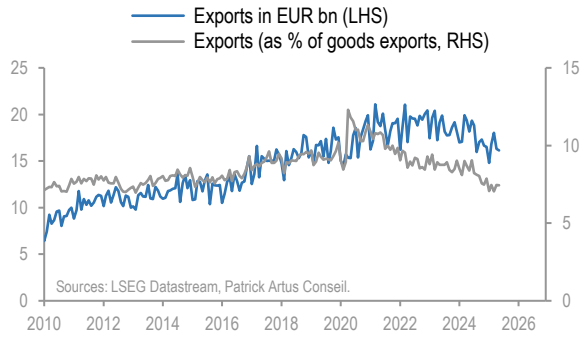
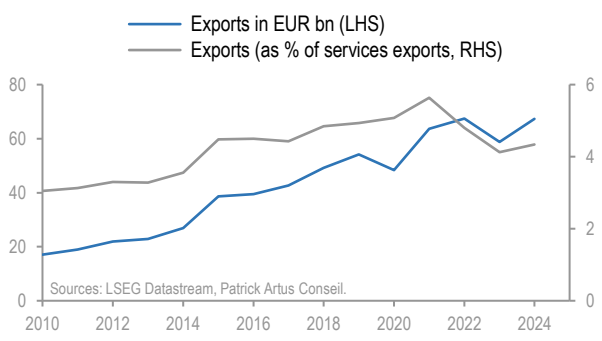


Chart 4B
European Union: Exports of services to China
(yearly data)



- **The importance of the revenues generated by European companies in China** in sectors such as capital goods, chemicals, retail, etc.. China's weight is especially notable in the automotive sector, where it accounted for 50% of Volkswagen Group sales in 2017, and in the luxury sector, where China represents 29% of LVMH sales;
- **Europe's dependence on goods produced in China**. China accounts for 90% of global rare earth refining. Chinese production makes up a large share of global output: 73% of electric batteries, 78% of solar panels, and 40% of active pharmaceutical ingredients.

It is therefore clear that Europe is dependent not only on goods produced in China but also on the Chinese market to sell its own products — **resulting in weak negotiating power vis-à-vis China**.

Europe's weak negotiating power with respect to the United States

Europe's weak negotiating position vis-à-vis the United States results from:

- **The importance of EU exports to the United States** (**Charts 5a/b**), mainly cars, industrial equipment, and medical products;

Chart 5A
European Union: Exports of goods to the United States (monthly data)

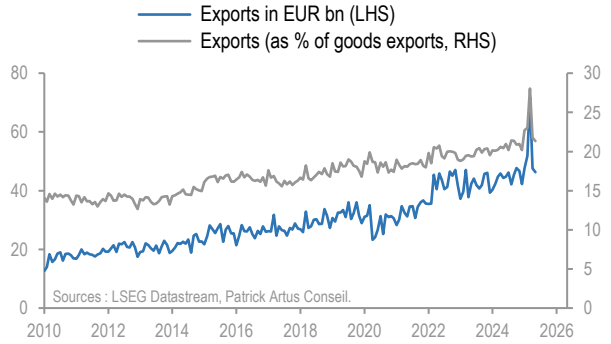
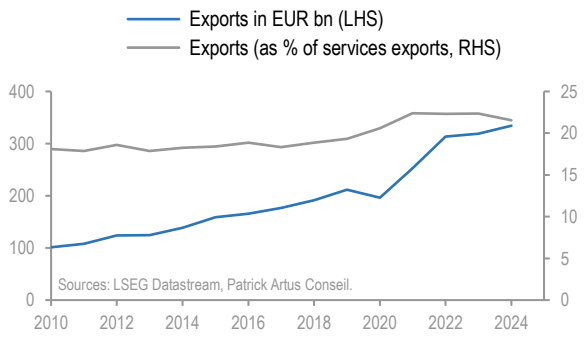


Chart 5B
European Union: Exports of services to the United States (yearly data)



- **The fact that the European Union cannot do without a range of goods and services produced in the United States**: oil, refined products and natural gas, information technology services, and intellectual property-related services (**Table 1**).

Table1: European Union: Imports from the United States of services for the use of intellectual property, digital services, oil, and natural gas (2024)

Imports	EUR bn	Share of imports (%)
Mineral fuels, lubricants and related materials	76.69	16.47
Telecommunications, computer, and information services	45.51	37.72
Charges for the use of intellectual property	198.59	78.71

Source : Eurostat ; authors' calculations.

Given the importance of the American market for European producers, and the fact that Europe cannot dispense with certain goods and services produced in the United States, it is evident **that Europe's negotiating power vis-à-vis the United States is weak**.

Summary: consequences of the European Union's weak negotiating power

This weak negotiating power vis-à-vis China and the United States implies that:

- threats of trade retaliation from Europe, if the US or China increase their tariffs, are not credible. This was clearly seen during the EU–US negotiations. The EU is reluctant to enter a trade war with the United States or China, as such a conflict would be too costly for European exporters and consumers due to rising prices of imported goods;
- the European Union will struggle to resist American demands for deregulation and the opening of European markets.

However, it should be noted that sectors in which European companies are integrated into the value chains of American companies (e.g. aerospace) are not subject to tariffs. This may offer a potential path to strengthen Europe's negotiating power: by encouraging European companies to become more integrated into American value chains.

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