Flash Economics

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The very low bargaining power of Europe vis-à-vis the United States cannot be explained

To hold bargaining power vis-à-vis the American administration, countries can rely on:

- Their dominant position in a given production sector; this is, for example, the case of China with rare earths;
- The importance of their contribution to financing the American economy: this is the case, for example, of the United Arab Emirates or Saudi Arabia.

Europe has revealed its weak bargaining power vis-à-vis the United States, for example by accepting tariffs of 15% (50% for steel and aluminium) on its exports to the United States, while it does not impose tariffs on American products, and by agreeing to invest in the United States.

Yet:

- European exports of medicines and vaccines to the United States have no easily found substitutes;
- Europe exports between 300 and 400 billion dollars of its savings to the United States every year.

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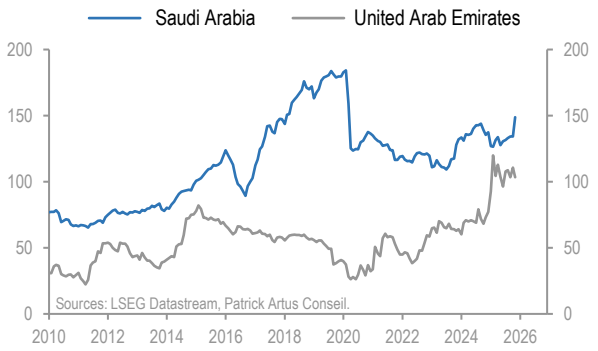
How to withstand American threats?

The Trump administration in the United States tries to extract benefits from other countries (market access, deregulation, even choice of leaders…) by threatening them with trade retaliation or by stopping the provision of security.

To resist these threats and blackmail, countries can rely on:

- **Their dominant position in an essential production sector**; this is, for example, the case of China with rare earths (China accounts for 69% of global rare earth production and controls 85% of light rare earth refining and 100% of heavy rare earth refining);
- **The importance of the financing provided to the United States**; this is the case, for example, of the United Arab Emirates and Saudi Arabia (**Chart 1**).

Chart 1
United States: Holdings of Treasuries by country (USD bn)



Europe has revealed its weak bargaining power vis-à-vis the United States

The 21 August 2025 agreement between the United States and the European Union includes:

- **Tariffs of 15% on European exports to the United States**, 50% for steel and aluminium; aircraft and generic drugs are not being taxed;
- **No tariffs on exports from the United States to the EU**;
- **A promise by the EU to purchase 750 billion dollars** of American natural gas and oil by 2028;
- **A promise by the EU to purchase 40 billion** euros of American artificial intelligence chips;
- **Additional investments by European companies of 600 billion dollars** in strategic American sectors by 2028;
- **The commitment by the EU to substantially increase its purchases of American military equipment**;
- **The renunciation** by the EU to apply the carbon border adjustment mechanism to goods coming from the United States, and of the due diligence directive.

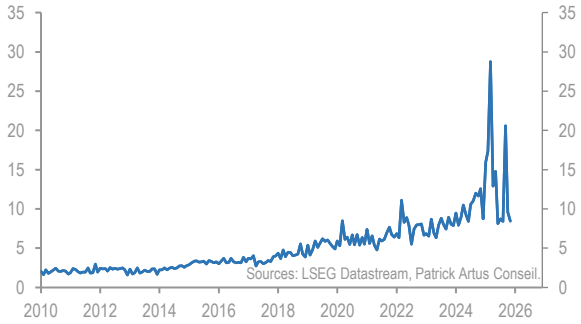
It is therefore clear **that Europe has shown the weakness of its bargaining power vis-à-vis the United States**, by giving in on tariffs, on purchases and investments in the United States, as well as on regulations.

Yet, Europe could have used effective threats

Europe could have emphasised, in the negotiations with the United States:

- **The large quantity of its exports of drugs and vaccines to the United States** (**Chart 2**); the interruption of these exports would cause significant damage to the American economy since there are no short-term substitutes available for these products;

Chart 2
European Union: Exports of Medicinal and Pharmaceutical Products to the United States
(monthly data, EUR bn)



- **The importance of EU capital exports to the United States** (**Chart 3a** shows the holding of U.S. Treasury securities by European Union investors, while **Chart 3b** shows the EU current account surplus, which is mainly invested in the United States); the interruption of these capital exports would cause serious financing difficulties for the United States' external and budgetary deficits (**Chart 4**).

Chart 3A
United States: Holdings of Treasuries by European Union
(USD bn)



Chart 3B
Current account balance (as % of nominal GDP)

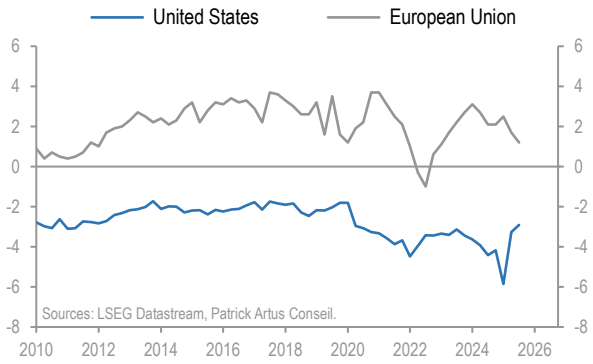
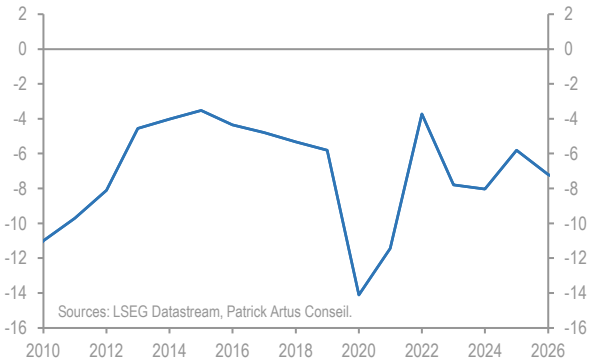


Chart 4
United States: Fiscal deficit (as % of nominal GDP)



Summary: Europe did not dare enter into a conflict with the United States

Although Europe could have wielded significant bargaining power (resulting from its exports of drugs and vaccines and capital to the United States), it chose not to use it, as clearly shown by the outcome of the August 2025 negotiations.

Either Europe dislikes conflicts, or it considered the risk of the United States withdrawing from the defence of Europe in the event of a conflict. The result is that the competitiveness of European products has been undermined, and Europe's reindustrialisation is compromised, following the promises of purchases and investments in the United States by Europeans.

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