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TRADE UNITED STATES

# Rethinking transatlantic power: Why trade dependencies cut both ways

The transatlantic debate often frames Europe as overly dependent on the United States, often ignoring the fact that Europe also holds some important cards. However, before getting overly enthusiastic about a stronger European stance in possible new trade negotiations, Europe should address some construction flaws in its own trade bazooka



The EU's Ursula von der Leyen with President Trump in Scotland last year

## Beyond American dominance

When it comes to trade relations and negotiations, the US is often portrayed as the superpower, using tariffs as threats to extract favourable outcomes. You could easily see this pattern during the first round of EU-US trade negotiations, which resulted more or less in [damage control for Europe](#) rather than a mutually beneficial agreement.

Following the [Supreme Court ruling](#) restricting President Trump's use of the International Emergency Economic Powers Act (IEEPA) as well as new tariff threats during the Greenland conflict, uncertainty about new US trade actions resurfaced. Contrary to the negotiations last summer, the EU has taken a tougher stance, freezing ratification of the current deal and contemplating retaliatory trade actions.

Is this new stance simply a 'whistling in the dark' phenomenon, or has the EU fundamental reasons to take a more aggressive stance vis-à-vis America?

### Trade volume is not everything

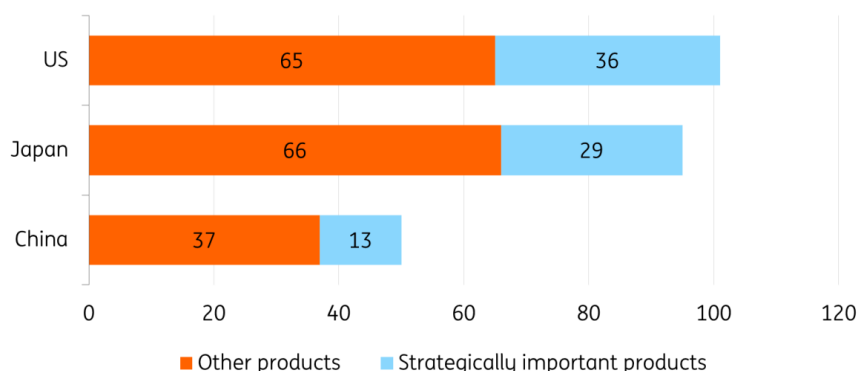
The fact is that the US and EU remain deeply intertwined through trade. In 2025, the European Union was the largest foreign supplier to the United States, accounting for USD 633 billion in exports and 19% of total US imports, according to the US Census Bureau. In the other direction, the United States supplied around 14% of all extra-EU imports, underscoring the depth of the transatlantic trade relationship.

However, economic leverage in trade does not so much stem from how much a country exports, but rather from how easily those exports can be replaced. Highly complex, scarce or strategically sensitive goods, such as critical raw goods, complex machinery or patent-protected pharmaceuticals, typically have a low short-term substitutability, so buyers cannot easily switch to alternative suppliers. This limited substitutability increases the economic cost of trade disruptions, thus raising the exporter's bargaining power.

The notion of substitutability has several distinct dimensions, which we define and categorise in line with the approach developed by [CEPII](#). Simply speaking, a country's trade vulnerability depends on how many suppliers it relies on, whether it could switch to others globally or produce the good itself, and how long-lasting and strategically critical that dependence is. The fewer the alternatives and the more essential the sector – think chemicals, pharmaceuticals, steel, defence, transport or electronics – the greater the risk if supply chains break down.

### Europe's hidden leverage: Where global economies rely on the EU

Number of product lines where countries depend on EU suppliers (2024)



### Key notes

Strategically important products are defined as the chemical, pharmaceutical, steel, defence, transport, and electronic products, where supply disruptions can have outsized economic and security implications.

Based on the CEPII methodology, we identify 468 EU and 462 US import dependencies out of 4400 product lines, of which respectively 129 and 119 are deemed strategically important. The EU's exposure is heavily skewed towards China, which accounts for 63 strategic product dependencies (50% of all strategic dependencies), while US-based dependencies amount to only 17 products, or about 14% of the EU total.

By contrast, US dependencies are mainly split between China (48 products or 40%) and the EU (36 products or 30%). Based on this analysis, the US depends more on the EU (36 products) than the EU does on the US (17 products).

Within this landscape, country-level heterogeneity is pronounced, with the three largest EU economies accounting for the majority of identified dependencies (22 out of 36). Germany stands at the centre, accounting for 13 of the 36 EU-linked import-dependency product lines. These dependencies are concentrated in areas that closely align with Germany's industrial strengths: chemicals and pharmaceuticals.

### Renewed tensions and tariff threats spark retaliatory discussion

New tensions resurfaced after President Trump threatened to “cut off all trade with Spain” following Madrid's refusal to grant access to its military bases. At the same time, tariff uncertainty is rising again, with Section 122 rather than IEPPA in play for broad-based tariffs under a strict 150-day timeline, while Section 301 investigations were initiated just this week. EU lawmakers will reconvene on March 17 to decide whether to unfreeze the ratification process of the current US-EU trade agreement.

EU leaders also discussed the potential activation of the Anti-Coercion Instrument (ACI), the EU's so far unused “trade bazooka.” The ACI would allow Brussels to impose retaliatory measures, potentially including export controls, which could cause substantial economic damage.

Politically, however, the ACI is contentious: France is the loudest advocate of activating it, while Germany would be hit the hardest by any export-related retaliation due to its industrial structure and trade exposure. Or in other words, Europe would probably hit the US economy more by limiting its exports of advanced chemicals or pharmaceuticals rather than of wine and

cheese. This asymmetry immediately raises questions about intra-EU compensation for companies affected by any export restrictions under the ACI. A topic that has not been discussed in public so far and which would be a clear test case for European solidarity if the ACI was ever activated.

### A more assertive Europe?

The EU recently also strengthened its global trade footprint with the preliminary enforcement of the [Mercosur trade agreement](#) and the [EU-India agreement](#). While both deals hold meaningful long-term potential and signalling power that Europe does not stand still, they are still far from matching the scale or economic weight of the US market.

In any upcoming discussions between the US and the EU, both sides should carefully consider how their economies are intertwined and how quickly this can turn into a point of friction, harming both sides. Any renewed trade tensions could easily spill over into other policy areas.

A closer look at the trade dependencies between both blocs shows that Washington has more to lose than is often assumed. At the same time, however, Europe should ensure that its tools are actually functional to avoid a trade bazooka suddenly turning into a water gun due to internal political constraints.

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