

STUDY

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Risks and Opportunities in Evolving EU–US Financial and Economic Relations

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External author:

Cinzia ALCIDI



Risks and Opportunities in Evolving EU–US Financial and Economic Relations

Crossroads in Transatlantic Ties

Abstract

This paper examines EU–US economic relations, presenting evidence on trade and investment patterns and analysing transatlantic differences in short-term macroeconomic developments, productivity trends, economic structures, and policy orientations. It outlines three plausible trajectories of the future EU–US economic relations, the risks they entail and the need for EU action. Finally, the paper assesses the adequacy of the current European Parliament oversight framework in monitoring and responding to evolving transatlantic macroeconomic dynamics.

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AUTHORS

Cinzia ALCIDI, CEPS.

ADMINISTRATOR RESPONSIBLE

Giacomo LOI
Ronny MAZZOCCHI

EDITORIAL ASSISTANT

Donella BOLDI

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

The Economic Governance and EMU Scrutiny Unit provides in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact Economic Governance and EMU Scrutiny Unit or to subscribe to its newsletter please write to:

Economic Governance and EMU Scrutiny Unit
European Parliament
B-1047 Brussels
E-mail: egov@ep.europa.eu

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LIST OF ABBREVIATIONS

AI	Artificial Intelligence
BEA	Bureau of Economic Analysis
ECON	Economic and Monetary Affairs
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
INTA	International Affairs
MFN	Most Favoured Nation
MNEs	Multinational enterprises
TFP	Total Factor Productivity
PPP	Purchasing Power Parity
TTC	Trade and Technology Council
US	United States
USD	US Dollar

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EXECUTIVE SUMMARY

- The EU–US **economic relationship has long been broadly balanced**, reflecting deep mutual interdependence. However, **in the domains of security and technology, the EU has remained significantly more dependent on the US**. As US strategic priorities shift, this asymmetry is becoming more visible and may increasingly shape economic and geopolitical outcomes in the EU.
- **Deep interdependence:** EU–US economic ties are among the world’s strongest. They extend far beyond trade flows. Cross-investment, integrated supply chains, shared research ecosystems, and dense financial interconnections support employment, technological innovation, and growth on both sides of the Atlantic.
- **Short-term cyclical asymmetries:** Currently, the US combines buoyant equity markets with a weak labour market and potential inflationary pressures, while the EU faces a generally weaker economic outlook. The current euro appreciation, which goes against expectations, could reinforce asymmetries, with potential implications for EU competitiveness and external balances.
- **Structural divergences:** US productivity continues to outpace that of the EU, and the gap is likely to widen, driven in large part by concentrated investment in artificial intelligence. These gains are clustered in a few, very large and highly capitalised firms and have not consistently translated into broad wage or price benefits. By contrast, EU productivity growth has been slower but more evenly distributed across sectors and regions. These trends correlate with deteriorating US social indicators.
- **Divergent policy orientation:** The US policy mix increasingly blends protectionism, sector-specific deregulation, and state intervention. The EU, by contrast, continues to prioritise an open, rules-based system grounded in regulatory stability, multilateralism, and competition. Furthermore, the US’s growing resort to geopolitical power poses strategic dilemmas for the EU in an uncertain global landscape.
- **Risks of strategic misalignments:** These macroeconomic, structural and policy divergences raise questions about the long-term sustainability of the transatlantic balance. They also heighten EU concerns over asymmetric dependencies, reinforcing calls for greater strategic autonomy.
- The paper advances **three possible trajectories for EU–US relations: Continued interdependence and EU vulnerabilities; Managed divergence; and Antagonistic turn**. None of these trajectories offers a clear solution to EU dilemmas. Each involves high risks of fragmentation, both within the EU and across the Atlantic. Yet, the **EU has no choice but to strengthen its preparedness to shape a more balanced relationship**. This requires, above all, **internal unity, time and deliberate efforts to reduce strategic dependencies**.
- From a **parliamentary oversight** perspective, increasingly complex transatlantic dynamics—marked by trade disputes, regulatory divergence, and strategic misalignment—highlight the limits of the current framework and the need to increase its responsiveness by introducing **early-warning mechanisms**. The Parliament **should also leverage its channels for dialogue and engagement with US counterparts** to offset increasingly weaker opportunities offered by international fora.

1. INTRODUCTION

Since World War II, EU–US relations have extended far beyond simple economic exchanges. Trade and capital flows have been accompanied by deeply intertwined payment systems, cross-border provision of financial services, and strong investment linkages that laid the groundwork for technological cooperation. These ties were embedded in the post-war order, in which Europe effectively outsourced its defence to NATO—with the United States at its core—allowing European countries to focus on reconstruction and economic integration under the umbrella of US security guarantees.

From a strictly economic perspective (trade and capital flows), the EU–US relationship has historically been broadly balanced. The US current account with the EU has hovered around zero (once the services trade surplus is included), while capital flows have consistently moved in both directions. Stocks of foreign direct investment are huge on both sides and roughly equivalent, underlining the relationship's character as one of mutual economic interdependence, rather than asymmetry.

Yet, in the spheres of security and technology, the EU's reliance on the US has been much deeper. Since 1945, NATO has been the cornerstone of European security, with US leadership and capabilities ensuring deterrence and stability. Low levels of European defence spending by global standards were not simply the result of complacency or taking advantage of US generosity. They were the outcome of a deliberate US strategy to entrench its global leadership role, both building on alliances, dependencies and a key role in multilateral organisations (WTO, IMF, World Bank). Such organisations were created and shaped by the US and according to US strong preferences for free markets. This arrangement reinforced Washington's hegemonic position and brought substantial economic privileges—not least the "exorbitant privilege" of the US dollar as the world's dominant reserve currency – which contributed to the global leadership of US business, from banks and financial institutions to tech companies. This aspect is often forgotten in the current debate and completely overshadowed by a false narrative centred on US extreme generosity in supplying public goods to the world, and for which the world now has to pay.

In the domain of technology, US global dominance remained largely uncontested until little more than a decade ago. This position was built on enduring strengths: military-driven R&D, elite universities and high educational attainment, deep financial markets geared toward venture capital and high-risk innovation, and an open-market environment conducive to entrepreneurship. For decades, the EU and Japan could match the US in advanced manufacturing and certain mid-level technologies (see Fuest et al, 2024). But in frontier areas—advanced technologies, digital platforms, and later artificial intelligence (AI)—the US faced no serious rival, creating both deep transatlantic integration and structural European dependence on American suppliers and standards.

The rise of China has fundamentally altered this equilibrium. Since the global financial crisis (end of 2000s), and increasingly since the first Trump administration (mid-2010s), Beijing's strategic embrace of state-led innovation, coupled with its growing global economic footprint, has injected a new layer of competition into the US hegemonic leadership. China has gradually emerged as both an economic competitor and a systemic rival, reshaping industrial dynamics, technological race, and geopolitical

alignments. This shift forced the US to reconsider the balance between cooperation and competition—not only vis-à-vis China—while domestic politics increasingly turned attention to domestic priorities.

The greatest changes in transatlantic relations have come in 2025, with the second Trump administration. Like his predecessors—and during his first term—President Trump has pursued a retreat from global leadership. But unlike previous administrations, he has gone further in rejecting market principles and embracing a power-based approach to leadership, rooted in decades of US dominance yet increasingly inward-looking in its economic priorities (“America First,” “Make America Great Again”).

For the EU, this has been a profound shock. The EU’s deep and long-standing interdependencies with the US, particularly in the realms of security and technology, have created vulnerabilities now exposed by the erosion of trust in Washington as a reliable partner. This challenges not only the foundations of the transatlantic relationship but also the EU’s own model of prosperity, which US-led institutions and principles fundamentally shaped. That same model is now openly dismissed by the US itself, by retreating from global engagement, showing hostility toward multilateral institutions, and attempting to dismantle the very international organisations that underpinned the post-WWII order.

This represents a second fundamental shock for the EU after Russia’s aggression against Ukraine. In hindsight, many commentators have pointed to the EU’s naivety in international relations, from Russia to the US, and its openness to global markets. Whether true or not, at present, preparing for what comes next, in a context of high uncertainty but less reliable transatlantic relations, is crucial.

The current US administration has not only pressured the EU to increase military spending and NATO contributions—while even questioning its defence commitments under the NATO treaty—but has also introduced or threatened policies that strike at the heart of EU sovereignty. These include:

- The imposition of unilateral tariffs in an unbalanced trade deal, forcing the EU to accept terms to avoid escalation.
- Pressure on the EU to commit to large-scale multi-annual additional investments in the US and to gas purchases from the US.
- Demands for the [EU to impose high tariffs on India and China](#), in violation of WTO principles, effectively attempting to dictate EU trade policy.¹
- Threats to alter the EU’s regulatory framework [in favour of US big tech companies](#), undermining the EU’s right to legislate independently.²

Taken together, these measures amount to a dramatic wake-up call on the EU’s ability to define its policies autonomously.

While the focus of this study is on EU–US economic relations, it is essential to recognise that these ties are embedded in a much broader strategic context. Economic outcomes in the years ahead will not be

¹ See for instance, “Trump urges EU to impose 100% tariffs on China, India to pressure Putin”, [Reuters 10 September, 2025](#)

² Tom Wheeler (2025), Are tariffs Big Tech’s new tool against EU regulation? Brookings commentary

determined by market forces alone, but by wider geoeconomic dynamics that intertwine trade and financial linkages, security, and technological rivalry.

Against this background, the analysis aims not only to describe the evolving transatlantic dynamics but also to assess their implications for EU economic governance, in particular the role of the European Parliament, and the EU's strategic autonomy. The study is structured as follows: Section 2 provides an overview of EU–US economic ties, arguing that these links are even deeper than conventional trade and investment indicators suggest. Section 3 compares short- and long-term indicators of the EU and US economies to assess whether the two are drifting apart. Building on these findings, Section 4 develops scenarios for the future evolution of EU–US economic relations, identifying key risks and opportunities. Section 5 explores the role of the European Parliament's oversight framework in addressing transatlantic economic shifts. Section 6 concludes.

2. DEEPEST GLOBAL ECONOMIC TIES AT RISK?

The EU–US relationship is the most profound and multifaceted partnership in the global economy. Yet, since the beginning of 2025 and the start of the second Trump administration, it has been put to the test. Tensions have surfaced across multiple fronts, from trade frictions and increasingly assertive industrial policies to diverging approaches toward China and the continuing challenge of Russia’s aggression against Ukraine.

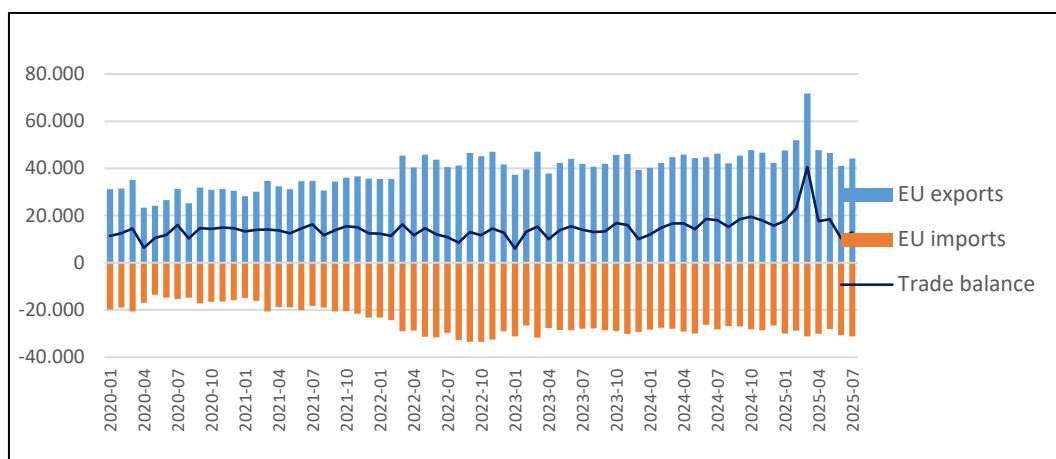
This section presents evidence to document the depth of the EU-US economic relation, focusing on trade, investments and the trade-investment nexus, which represents a critical factor to fully understand how such ties define economic outcomes on both sides of the Atlantic.

2.1. EU-US trade is not only about goods

The EU is one of the world's most open economies. Despite its large internal market and the absence of trade barriers within the EU, extra-EU trade as a share of total (intra- and extra-EU) trade is very large, averaging just below 50%, although it is on a declining path. The EU trades with almost all countries worldwide and has more than 40 trade agreements covering approximately 80 countries, but the US is its main trade partner (exports plus imports) and the largest export market for goods. It is because of such strong trade linkages that the US tariffs (see Box 1 for an overview of the EU-US framework agreement) have generated major concerns in the EU, in fear that this would limit access to the US market with large repercussions on EU companies and employment.

It is too early to say what the actual effects of the tariffs are. For the time being, data up to Q2 2025 suggest a normalisation of trade flows to their 2024 average levels, following the surge observed ahead of the so-called “*Liberation Day*”, largely driven by inventory accumulation and stockpiling (see Figure 1).

Figure 1. EU-US trade flows in goods: recent developments (million EUR)



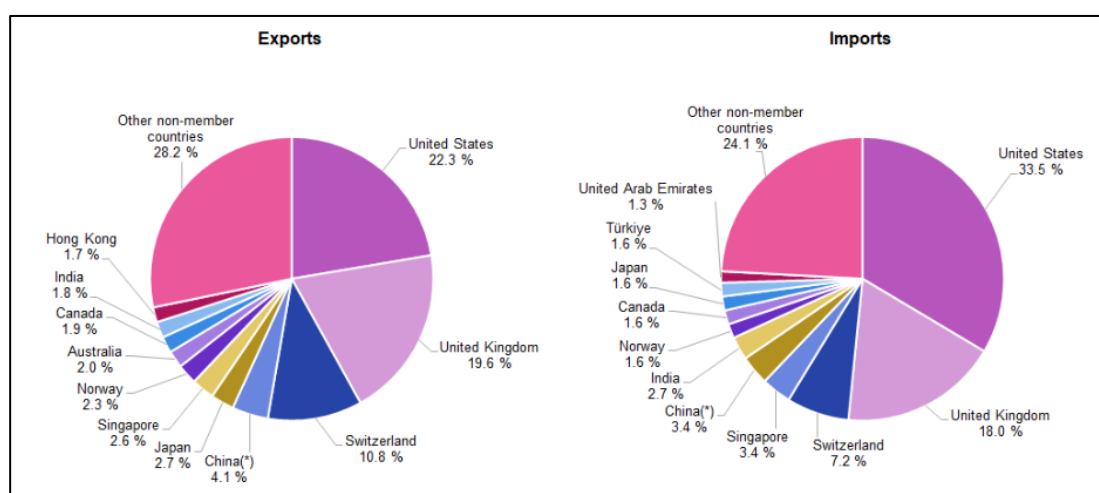
Source: Eurostat

Although the EU has been running a systematic trade surplus in goods vis-à-vis the US, the EU market is also crucial for US companies. According to the US Bureau of Economic Analysis (BEA), US exports

of goods to Europe (EU plus the UK and Switzerland) are more than three times US exports to China. Forty-eight of the fifty US states exported more goods to Europe than to China.

These figures give a sense of the EU's importance as an export destination for the US, which is, in fact, much larger when one also includes US exports of services.³ Services account for a smaller share of global trade than goods, but they have been growing at a faster rate.⁴ The US and the EU are the two largest traders of services in the world, each other's most important trading partners and service markets (see **Figure 2**). It is worth recalling that, despite the dominant US narrative on trade, the US consistently runs services trade surpluses with the EU.

Figure 2. Extra-EU trade in services, 2023 (shares, %)



Source: [Eurostat \(bop_its6_det\)](#); Note: Excluding Hong Kong

The Council reports that EU-US services trade totalled an estimated EUR 817 billion in 2024,⁵ comprised of EU services imports of EUR 482 billion and exports of EUR 334.5 billion, resulting in a US surplus of USD 148 billion.⁶

Overall, in 2024, the total EU-US trade in goods and services reached EUR 1.68 trillion, higher than the previous year and more than doubling over the past decade. The total EU trade surplus vis-à-vis the US amounted to EUR 50 billion, a rather negligible share of the EU GDP (around 0.3%) and even smaller of the US GDP.

³ EU's imports of services from the US consist mainly of intellectual property services, telecommunication, financial services and travel.

⁴ According to the IMF, between 2011 and 2023, global trade in goods has increased by an average of 2.2% per year, while trade in services has grown at 4.7% annually (in nominal US dollar terms). The share of services trade in total world trade rose from 20% in 2011 to 25% in 2023

⁵ Official [Eurostat](#) statistics report EUR 746 billion in 2023

⁶ It should be noted that the data reported by the US White House are much lower: in 2024, the US-EU total services trade (exports plus imports) is estimated at USD 500.9 billion. Discrepancies in bilateral trade statistics are not new and can result from different recording principles, exchange rate effects, and reporting inaccuracies. For services in particular, additional factors such as valuation and classification differences, as well as the mode of delivery, play an important role. In this case, the discrepancy appears large by any standard.

Box 1: US trade tariffs and the EU-US Framework Agreement

On Liberation Day (2 April 2025), US President Donald Trump announced US tariffs applying to all trading partners, with a 10% baseline rate and higher, country-specific rates calculated on the basis of each bilateral US goods trade deficit. On that day, tariffs on EU exports rose to 20%, in addition to existing sector-specific duties. Within the following 90 days devoted to bilateral negotiations, the EU-US reached a political agreement. The EU-US Framework Agreement struck in Scotland, presented as a demonstration of the two sides' continued commitment to fair, balanced, and mutually beneficial trade and investment relations, includes several key components:

US tariff ceiling at 15% for most EU exports: The agreement establishes a uniform ceiling tariff of 15% across most sectors, including autos, semiconductors, pharmaceuticals, and lumber. This ceiling is *binding*: no stacking of additional tariffs beyond that rate. Sectors already subject to Most Favoured Nation (MFN) tariffs of 15% or higher will not face additional tariffs under the agreement.

Zero or near-zero tariffs for strategic product categories: A special MFN-only tariff regime applies to certain critical categories: unavailable natural resources (e.g. cork), aircraft and aircraft parts, generic pharmaceuticals and their ingredients, and chemical precursors. Both the EU and the US commit to an ambitious agenda to expand this favourable tariff treatment to additional product categories over time, which is a key deliverable for the EU side.

Protection for steel and aluminium (unfair competition safeguards): The agreement includes a joint mechanism to shield the EU and US steel and aluminium industries from unfair or distortionary global overcapacity. The intention is to harmonise safeguards rather than duplicate them, and to coordinate on enforcement.

Liberalisation of EU imports from the US: The trade deal includes reductions in US-origin tariffs on goods entering the EU. This is expected to remove protection for EU producers while generating savings of roughly EUR 5 billion annually for European importers and consumers. Crucially, core sensitivities in EU industrial and agricultural sectors are preserved (i.e. no forced concessions in protected areas).

Reduction of Non-Tariff Barriers: The agreement emphasises regulatory cooperation: aligning car standards, mutual recognition of product checks, and reducing red tape in investment and trade procedures. This aims to lower compliance costs, reduce technical trade barriers, and improve market access.

Economic security and cooperation: Provisions on strengthening supply chain resilience, countering non-market practices (e.g. unfair subsidies), and bolstering cooperation in investment screening and export controls. The deal frames trade not only in economic terms but increasingly in security and strategic terms.

Energy and future supplies access: The EU commits to procuring US liquefied natural gas (LNG), oil, and nuclear-related energy products, aiding the EU's effort to reduce reliance on Russian energy imports. This dimension blends economic, geopolitical, and security objectives.

The US has a 50% tariff on European steel and aluminium products that remains unchanged under the deal. The 50% steel and aluminium tariff was increased from 25% in June 2025. There is a potential for the steel and aluminium tariffs to be replaced with a quota system eventually

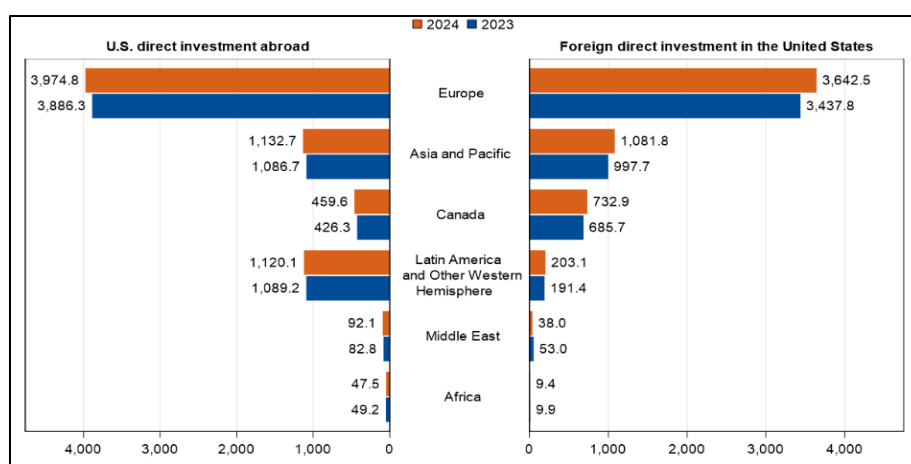
Source: [European Commission](#)

2.2. Cross-border investments: the backbone of the EU-US economic relations

While headlines often highlight trade as the key pillar of the EU–US economic relations, the operations of US companies in the EU, and European companies in the US, form the backbone of transatlantic economic activities. This is grounded on the very large stock of EU investment in the US and US investment in the EU.

In 2024, the stock of EU direct investment assets abroad (FDI)⁷ amounted to EUR 12.2 trillion and external direct investment liabilities (FDI in the EU) to EUR 10.0 trillion.⁸ Of these stocks, the EU and the US are the main origin and destination of these investments. According to the US BEA data⁹, at the end of 2024, the stock of EU foreign investment in the US and of US foreign investment in the EU continued to grow compared to 2023 and was above USD 7.6 trillion (see Figure 3). During the period 2009–2023, more than 50% of US FDI outflows were directed to European countries.

Figure 3. US direct investment positions, 2023 and 2024



Source: [BEA](#)

⁷ In the IMF's definition, a cross-border financial flow qualifies as foreign direct investment (FDI) when a resident entity in one nation, referred to as the direct investor, secures a long-lasting stake in an enterprise situated in another nation, known as the direct investment enterprise. This form of investment represents a durable association between the direct investor and the direct investment enterprise, and by a substantial level of influence (although not necessarily control) exercised by the direct investor. Direct investment encompasses not only the initial transaction that establishes this form of influence but also all ensuing transactions occurring among these entities and affiliated enterprises, whether incorporated or unincorporated.

⁸ This is much bigger than the US stock of investment abroad. At the end of 2024, the US direct investment abroad position amounted to USD 6.83 trillion (about EUR 6.3 trillion). In contrast, foreign direct investment in the US amounted to USD 5.71 trillion (or about EUR 5.3 trillion) at the end of 2024.

⁹ Eurostat data are not yet available for 2024

US multinational enterprises (MNEs) maintain a vast global presence, with affiliates operating in nearly every economy. Yet, as noted by Hamilton and Quinlan (2025), their FDI is highly geographically concentrated. Five countries alone account for more than half of the total US FDI abroad. The UK leads with USD 1,025 billion. In the EU, the Netherlands (USD 1,012 billion) and Luxembourg (USD 570 billion) rank second and third, respectively, with the latter serving as a major hub for financial intermediation and intra-group funding. Ireland ranks fifth (USD 467 billion), after Singapore (USD 468 billion), benefiting from open investment regimes and competitive corporate tax systems.

This concentration highlights the central role of a handful of EU jurisdictions as gateways for US outward investment. These economies combine stable legal frameworks, favourable tax treatment, and extensive treaty networks, which facilitate capital mobility and corporate structuring. Consequently, a significant portion of recorded US FDI reflects financial and intra-company flows—often motivated by tax optimisation, balance-sheet management, or intellectual property relocation—and they are not associated with productive investment. These investments are often routed through intermediaries (typically Special Purpose Entities, SPEs) before reaching final destinations, making the ownership structure of companies very complex, as well as the origin and destination of productive FDI. According to Alcidi et al. (2025), such a part of the FDI could account for up to half of the stock of EU Member States' inward FDI recorded in official statistics.

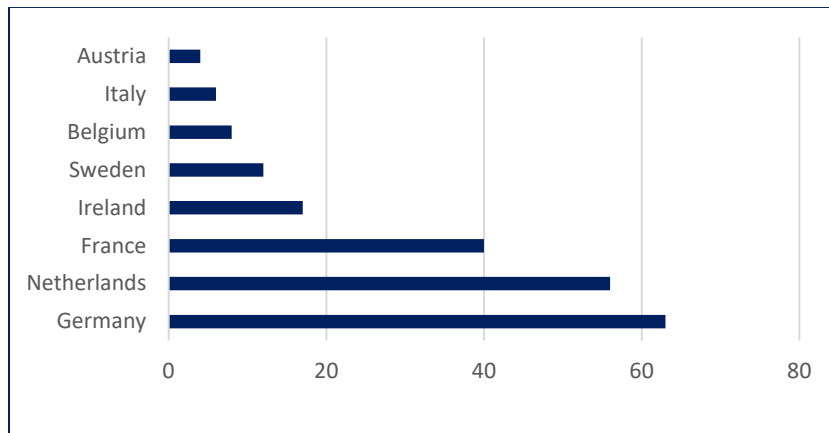
2.2.1. The trade-investment nexus

A substantial share of global trade takes place within multinational enterprises, which are cross-border exchanges that occur within the same corporate group. In this perspective, trade and investment are not independent phenomena but mutually reinforcing components of the integrated economic system. This integrated system centrally defines the EU-US trade investment nexus, where the EU¹⁰ and the US serve as each other's largest trading partners and sources of investment.

According to Hamilton and Quinlan (2025), about two-thirds of US imports from Europe (essentially EU plus UK and Switzerland) consisted of intra-firm trade in 2023, and for some EU countries, this share is much higher, notably Ireland (90%). The [EBC estimates](#) that nearly 30% of the euro area's goods surplus with the US in 2024 involved trade by these US affiliates. Often, these firms act as major exporters and importers, making a significant share of US exports originate from EU-owned firms operating in the US and vice versa. A known example is BMW's US-based production, which is exported worldwide. Based on the [Figure 4](#), in 2022, about USD 180 billion of US exports were associated with EU-owned companies. This is equivalent to about 9% of the US goods exports in 2022 (USD 2.08 trillion).

¹⁰ This is much larger when the UK and Switzerland are included.

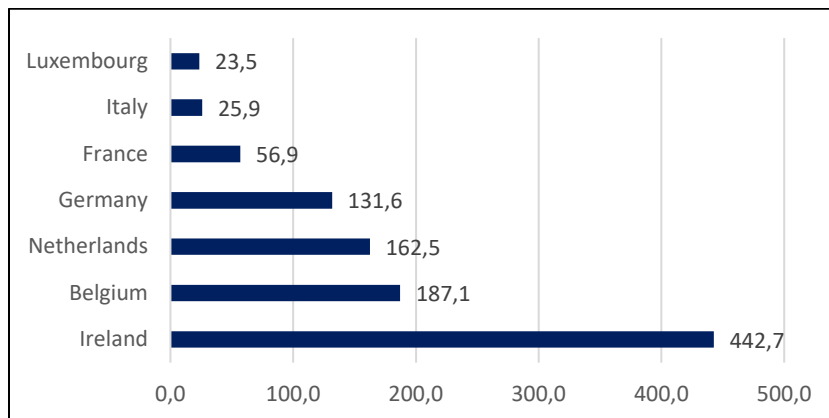
Figure 4. US exports of goods shipped by European companies operating in the US (USD billions)



Source: Hamilton and Quinlan (2025), Table 2, p. 27.

Meanwhile, US-owned firms located in the EU account for an important portion of EU exports. According to Hamilton and Quinlan (2025), seven of the top twenty global export platforms for US companies are located in Europe. Ireland ranks second (after Singapore) and together with six other EU countries account for more than USD 1 trillion (see Figure 5)

Figure 5. Global export platforms for US multinationals (USD billion)



Source: Based on Hamilton and Quinlan (2025), data from the US Bureau of Economic Analysis

Note: the amount represents sales of the US affiliate from abroad to other destinations (Other destinations include sales to third markets and to the US, for majority-owned foreign affiliates).

This interdependence highlights even deeper transatlantic relations than trade and investment statistics alone would suggest. While both American and EU stakeholders (both companies and workers) have benefited directly from the scale, efficiency, and innovation generated by dense transatlantic integration, concerns are growing about the harmful effects of the new US strategy, which fundamentally undermines such synergies and benefits. The combination of US trade tariffs and investment diversion into the US could destabilise this model and be mutually harmful.

3. COMPARING CYCLES AND STRUCTURES: ARE THE EU AND US ECONOMIES MOVING APART?

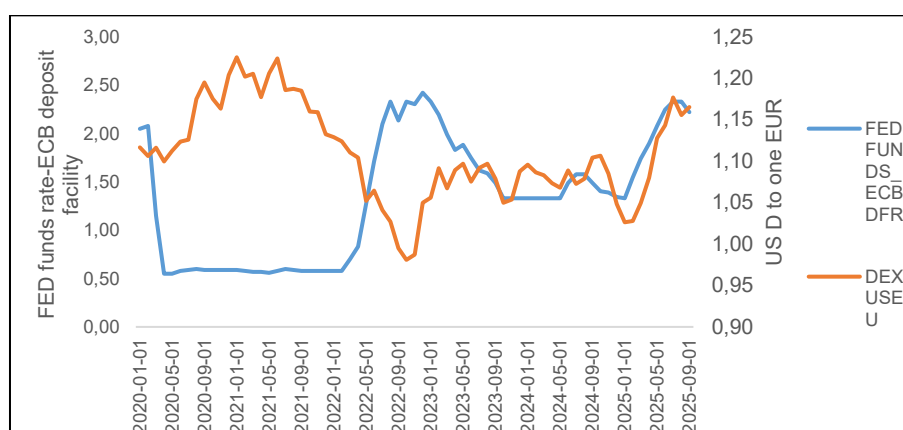
As documented above, the strength of EU–US economic ties is indisputable. These ties play a decisive role in shaping the EU’s real economic outcomes and they also carry significant monetary and financial implications. As such interdependencies come under growing pressure, it becomes essential to examine short-term economic dynamics and their implications and to assess, over the longer term, whether structural and policy trajectories are diverging and their implications.

3.1. Short-term EU-US asymmetries

There is a substantial body of literature, particularly from the early 2000s, comparing the cyclical behaviour of the EU and US economies. Studies such as Artis et al. (2003), Wouters (2004), and ECB (2011) found that while both economies are exposed to common global shocks, their cycles have historically differed in duration, amplitude, and transmission mechanisms. The euro area tended to exhibit more persistent and less volatile cycles, reflecting structural rigidities, stronger automatic stabilisers, and less flexible financial and labour markets. In contrast, the US economy showed faster recoveries and more pronounced business cycle fluctuations, driven by higher responsiveness of investment and productivity to shocks. Later work (Di Pietro and Saltari, 2018) confirmed that although cyclical synchronisation increased in the run-up to the Global Financial Crisis—partly due to globalisation and financial integration—it declined again in the post-crisis period; a point with potential implications for monetary policy.

However, Alcidi et al. (2025) argue that in the post-financial crisis period, external factors have not exerted a systematic effect on euro area monetary policy conditions; therefore, the decline in cycle synchronisation has had limited practical relevance, and this is likely to remain the case. What is now receiving renewed attention in the context of the US tariffs, however, is the exchange rate channel, which is usually strongly influenced by monetary policy asymmetries. This clearly moves the attention from cycle synchronisation to monetary policy synchronisation. Historically, higher US policy rates have been systematically associated with dollar appreciation against the euro (see **Figure 6**)¹¹. For instance, the post-pandemic divergence in monetary policy—marked by earlier and sharper rate hikes by the Fed—contributed to a strong dollar through 2022–2023, while the ECB’s delayed tightening kept the euro under pressure. Yet, since 2025, despite a wide interest gap, the euro has appreciated against the dollar (see the co-movement of the two lines in the last period in the Figure).

¹¹ This holds beyond the short time period illustrated in the Figure.

Figure 6: ECB and FED interest rate differential and exchange rate, 2020–2025 (September)

Source: [FRED](#),

This trend began in early 2025 and accelerated following the announcement of US tariffs under the Trump administration. Conventional economic intuition would suggest that tariffs, by increasing inflationary pressures in the US, should lead to an appreciation of the dollar. Yet, US inflation has remained lower than expected, while the USD has depreciated by roughly 12% against the euro.

The USD depreciation against the euro is not exceptional from a historical perspective, but it runs counter to standard expectations and has a real economy's consequence: EU exports to the US become more expensive, effectively compounding the impact of the US tariffs.

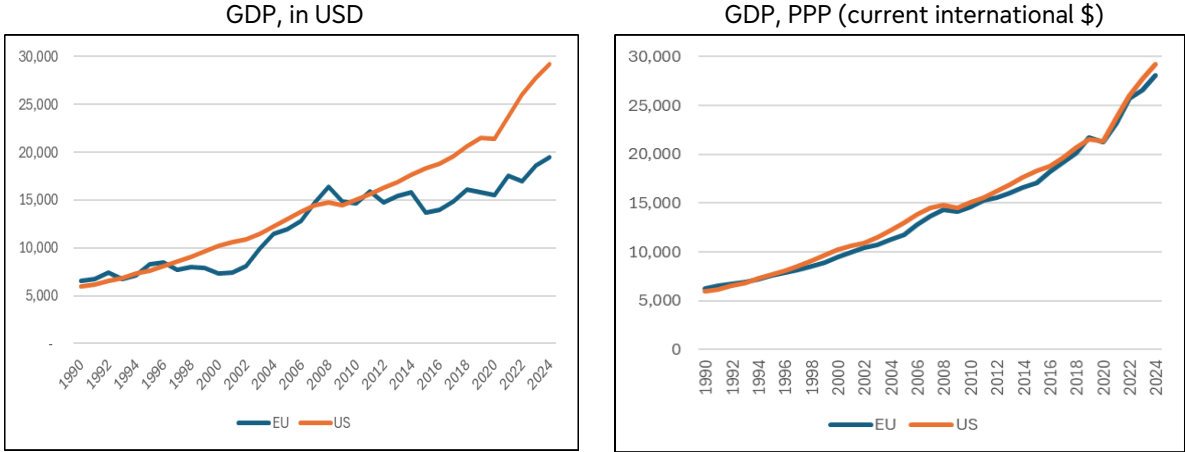
Several economists anticipated that the asymmetries would amplify, resulting in a policy decoupling. For instance, the [Atlantic Council \(2024\)](#) highlight the potential spillover effects of an extended divergence in policy rates—particularly through exchange rate dynamics, capital flows, and inflation expectations. Similarly, [Gebauer et al. \(2025\)](#) discuss how persistent policy asymmetry could amplify transatlantic demand imbalances and complicate the calibration of domestic monetary policy on both sides of the Atlantic. However, more recent developments suggest a possible realignment of monetary stances. The inflationary impact of the new US tariffs has not yet materialised. So far, inflation in the US has remained contained—confined largely to specific sectors—while the euro area has avoided deflationary pressures. Combined with signs of a weakening US labour market, this has prompted a change in the Federal Reserve's tone and further cuts are expected. If this view prevails, the interest rate differential could decline. Nevertheless, the outlook remains uncertain and even more so developments in the exchange rate.

3.2. Signs of EU-US structural divergence

Since the financial crisis, research and policy debates have increasingly shifted from transatlantic cycle synchronisation to growth differentials. From around 2010 onwards, the US has systematically outperformed the EU in terms of nominal and real GDP growth (see , left panel). This marked a reversal of earlier trends and reinforced the perception that the EU has been losing ground to the US. However, this narrative looks different when GDP is compared in purchasing power parity (PPP) terms (, right panel). The divergence between EU and US GDP measured in current USD and their near convergence

in PPP terms reflects differences in price levels, exchange rates, and domestic purchasing power rather than real output. Nominal GDP captures relative market valuations and external competitiveness (e.g. USD appreciation), while PPP-adjusted GDP reflects comparable real economic capacity and living standards. Once price differences are accounted for, the EU and US economies have expanded at broadly similar real rates over time.

Figure 7: EU-US GDP comparisons: current USD (left panel) and PPP (right panel), billion

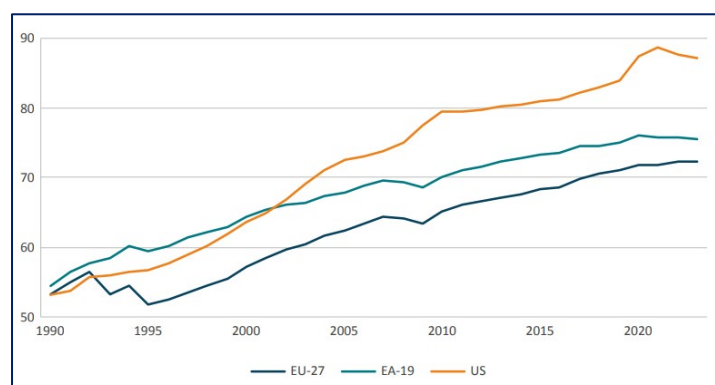


Source: [World Bank](#) and [World Bank](#)

3.2.1. The productivity gap

Such aspects have been largely overlooked, and over the past year, particularly following the publication of the [Draghi report](#), debates on the EU–US economic performance have increasingly focused on productivity. The productivity gap and the faster US productivity growth are widely recognised as the key drivers of the US's better performance. US labour productivity has risen almost continuously over the last 3 decades and has not only overtaken that of the EU, but steadily widened the gap, as EU productivity has increased more slowly and has at times stagnated (see **Figure 8**).

Figure 8. Comparing labour productivity in the EU, euro area and in the US, GDP per hour worked (2022 international dollars, PPP) (1990–2024)



Source: [Erixon et al. \(2025\)](#), Figure 1, page 5. Based on The Conference Board, Total Economy Database

While the existence of the productivity gap is undisputed, its size and significance depend on how it is measured. Nominal metrics, which are often used, lead to a more negative assessment for the EU than real indicators do (See Box 3). This suggests that the extraordinary performance of the US economy is partly driven by valuation effects.

Box 2: EU-US productivity gap: how to measure it

A recent publication by the [European Employer Institute](#) contains interesting insights on measuring the true size of the EU-US productivity gap, using different metrics, namely current prices, constant prices (2000) and PPP.

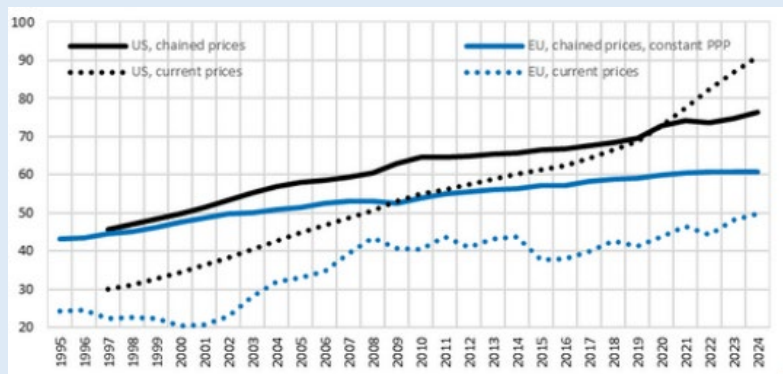
Over the past three decades, the EU has experienced a steady decline in hourly labour productivity relative to the US, resulting in a widening transatlantic gap. The gap is the greatest when using current prices and the lowest when using PPP.

At current prices, in 1997, American workers produced USD 30.1 per hour, compared with USD 22.3 in the EU, implying a 35% difference (in nominal terms). By 2024, this gap had more than doubled to 83%, with US output per hour at USD 90.9 versus just below USD 50 in the EU (see Figure 3.6, continuous lines).

Using constant prices, the difference is still large but smaller. In real terms, using constant 2020 purchasing power parity (PPP) dollars, labour productivity was roughly similar in the US and the EU in 1997: measured in constant 2020 purchasing power parity (PPP) dollars, output per hour worked amounted to USD 45.7 in the US and USD 44.4 in the EU. By 2024, the gap had widened substantially, with US hourly productivity reaching USD 76.5 compared to USD 60.8 in the EU, i.e. about a 25% advantage for the US (see Figure 3.6, dotted lines).

The gap, when measured in value and PPP, has also increased, but this increase is smaller. It rose from 10% in 1997 (USD 30.1 per hour worked in the US versus PPP USD 27.2 in the EU) to 25% in 2024 (USD 90.9 per hour worked in the US versus PPP USD 72.0 in the EU).

Figure 9. EU and US labour productivity in levels, 1995–2024



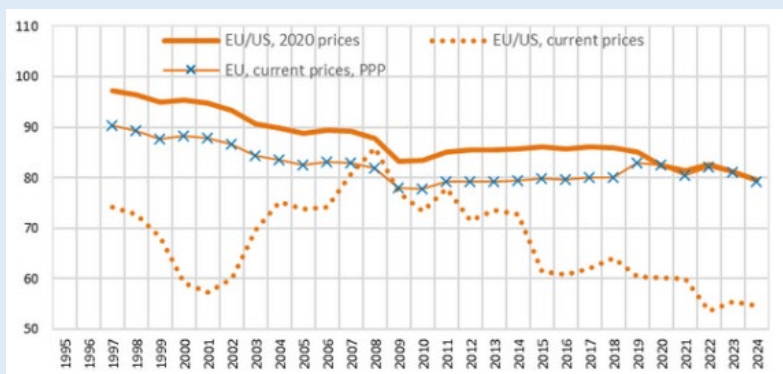
Source: EEI, Understanding the EU-US labour productivity gap, Figure 7, page 14

Each measure provides a distinct perspective. Nominal productivity captures the economic value of output, signalling differences in price levels, profitability, and purchasing power on world markets. Real (volume) productivity growth reflects changes in an economy’s productive capacity. PPP-adjusted productivity offers a measure of relative living standards, accounting for national cost structures and price differentials.

Viewed in ratio form, EU productivity relative to the US shows a clear and persistent decline over the past 30 years. However, since around 2011, the ratio measured in PPP terms has remained remarkably stable, suggesting that the loss of ground in real and nominal terms has not translated into a proportional decline in purchasing-power-adjusted productivity. In other words, while the EU’s capacity to generate value and output lags behind, its citizens’ effective consumption power relative to the US has remained broadly unchanged.

The persistence of the transatlantic productivity gap, but different gaps depending on the measures, points to structural differences in innovation dynamics, market organisation, but also pricing power. US productivity gains appear to have been EU/US more effectively capitalised. In the study, it is argued that this happened particularly in sectors with strong network effects—such as information technology, finance, and digital services—where firms capture a larger share of value added. By contrast, European productivity growth has been more broadly distributed but less monetised, driven by lower mark-ups, stricter competition policies, and slower technological diffusion.

Figure 10. EU and US labour productivity in ratio, 1995–2024 (Index)



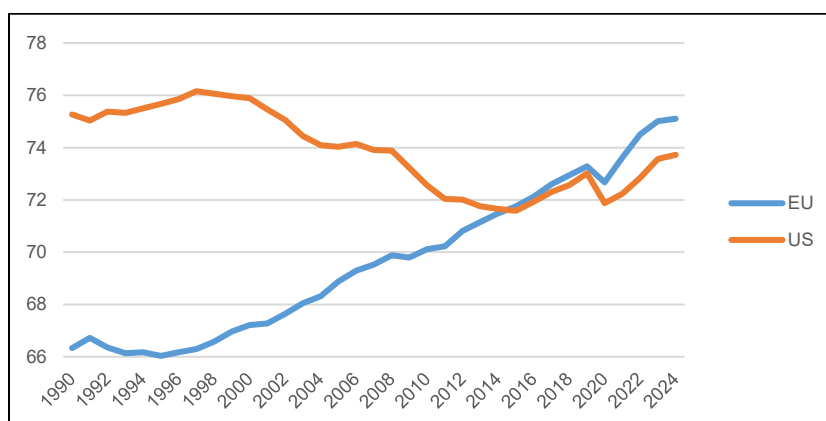
Source: EEI, Understanding the EU-US labour productivity gap, Figure 8, page 15

Interestingly, the stability of PPP-adjusted productivity ratios since 2011 indicates that European consumers have benefited proportionally from global productivity improvements, notably through access to affordable digital and traded goods, many priced internationally and imported from the US. This may also imply that a significant portion of US productivity gains has not been passed on to American consumers via lower prices but has instead been absorbed as corporate profits.

There are multiple explanations for the EU-US productivity gap, but two are widely recognised as central. First, EU markets (from capital markets to sectoral markets) remain fragmented compared to the US and regulatory differences are an obstacle to scaling and the diffusion of best practices, frontier technology production and adoption, and efficient allocation of capital and labour. Second, the US has been fast and gained global leadership in developing and adopting advanced digital technologies and AI-driven productivity enhancements, which have contributed to the widening gap with EU firms, especially in high-tech and service sectors.

However, one striking trend that seems to have accompanied the US productivity growth is the marked decline in labour force participation, which began in the late 1990s (see **Figure 11**). This contrasts with the trend in the EU's labour force participation, which, historically lower, surpassed the US around 2015. This divergence reflects a combination of demographic, social, and institutional factors. For instance, the EU has benefited from higher participation rates among women and older workers, as well as reforms aimed at increasing labour market flexibility in certain member states. Conversely, the US has experienced declining employment among lower-skilled workers, health-related exits, and the long-term impacts of industrial decline in certain regions.

Figure 11. Labour force participation rate, total (% of total population ages 15–64)



Source: <https://data.worldbank.org/indicator/SL.TLF.ACTI.ZS?locations=US-EU>

Note: modelled ILO estimate

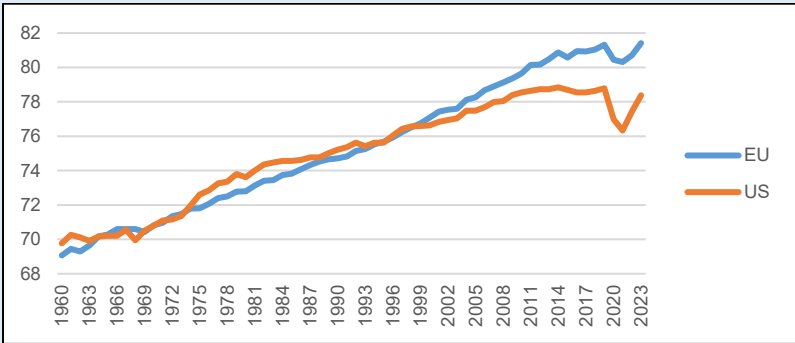
Another relevant factor is demographics and the contrasting trends between the US and the EU. The latter is experiencing a fast-ageing population, which may have contributed to the increase in labour force participation, but also an impressive improvement in life expectancy not seen in the US (see Box 4).

The consequences of these trends are significant. High US productivity paired with low labour participation implies that productivity gains are concentrated among fewer workers, potentially limiting broader income distribution and domestic demand growth. In the EU, higher participation but lower productivity suggests that economic output is likely to be more evenly distributed across the workforce but may be constrained by structural inefficiencies and slower technological adoption.

Box 3: EU–US comparison of life expectancy and old-age dependency ratios

Life expectancy in both the EU and the US has increased substantially over the past decades, reflecting advances in healthcare, living standards, and public health. However, the EU consistently outperforms the US on this indicator. According to World Bank data, in 2023, life expectancy at birth averaged around 80.9 years in the EU, compared to 76.4 years in the US (see Figure 12). A stark difference.

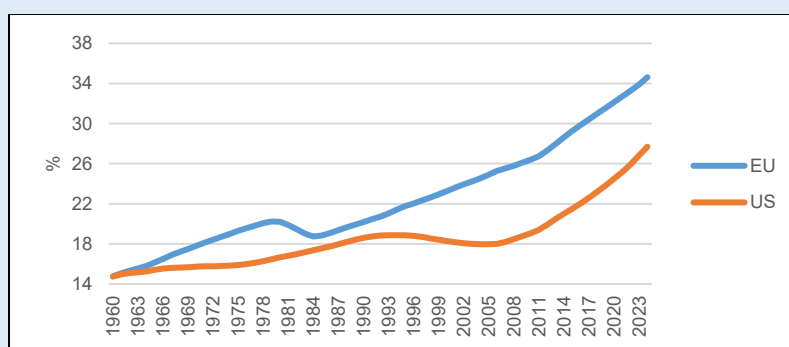
Figure 12. Life expectancy at birth, total (years): EU vs. US



Source: [World Bank](#)

The gap, which has widened slightly over the last decade, is attributed to several structural and behavioural factors. In the US, higher mortality rates linked to chronic diseases, obesity, gun violence, and drug overdoses have offset gains from medical innovation. By contrast, most EU countries benefit from universal health care systems, stronger preventive health policies, and more egalitarian access to care, which contribute to higher and more stable life expectancy levels.

Higher EU life expectancy, combined with lower fertility rates and more limited immigration-driven population renewal compared with the US, are the key drivers of Europe’s faster population ageing and its higher old-age dependency ratio—defined as the number of persons aged 65 and over per 100 working-age persons (15–64). The EU’s ratio reached around 33.7% in 2023, up from about 25% in 2000, while the US ratio stood at roughly 27.5%, up from 19% over the same period. In other words, the EU now has about one person aged 65+ for every three in working age, while the US still has a somewhat more favourable demographic balance.

Figure 13. Age dependency ratio, old (% of working-age population): EU vs. US

Source: [World Bank](#)

Note: Age dependency ratio, old, is the ratio of older dependents—people older than 64—to the working-age population—those ages 15–64. Data are shown as the proportion of dependents per 100 working-age population

The economic and social implications of these trends are profound. Higher life expectancy is a marker of social progress, but it contributes to fiscal pressures on pension systems, healthcare, and long-term care expenditure. In the EU, ageing-related spending is projected to rise rapidly over the next two decades, necessitating policy responses to ensure the sustainability of welfare systems. Although the US has traditionally benefited from a younger population and higher labour force participation, these patterns have shifted in recent years. As shown above, EU labour force participation overtook the US one and since 2020 is substantially high. The US old-age dependency ratio remains lower than in the EU, but it is now rising at a similar speed (see lines becoming parallel over the last decade). The US is likely to face macroeconomic problems similar to the EU ones, as the size of the working-age population declines, potentially lowering growth potential, labour supply, and savings rates. Socially, an ageing population poses challenges for intergenerational equity and social cohesion, as younger workers bear a larger burden in supporting older dependents. This combines with the US's strong inequalities in longevity, which may exacerbate distributional tensions.

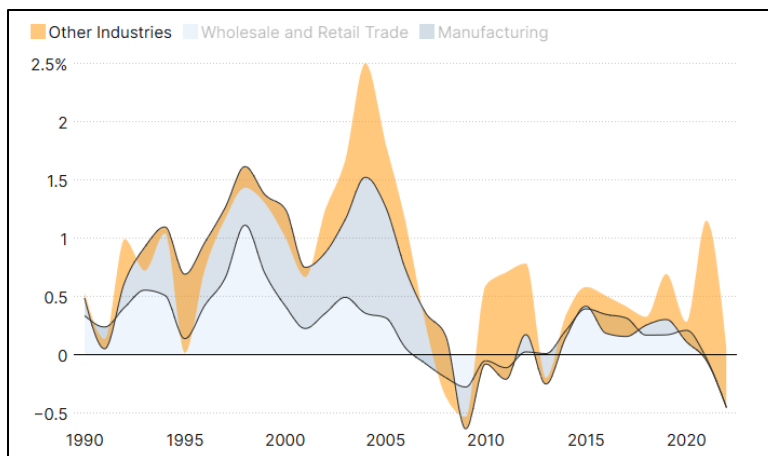
From a transatlantic perspective, the EU's demographic ageing is more advanced, while the US faces greater health disparities and life expectancy stagnation. These differences may contribute to amplifying diverging developments in fiscal, labour market, and social policy agendas on both sides of the Atlantic.

3.2.2. US economy's concentration patterns

Another striking feature of the US economy is the increase in concentration of the value creation and productivity in a few sectors, which are broadly defined or closely linked to the tech sector. [Atkinson \(2023\)](#) illustrates that over the period 2013–2022, of the 71 industries whose value added defines the US GDP (on the production side), only some grew significantly, and 14 of them accounted for more than 80% of GDP growth in the same period. Interestingly, 6 of these 14 growth industries—together accounting for 35% of US economic growth over that decade—are tech sectors. In other words, the technology sector—broadly defined—has been the principal engine of the US economic growth.

A similar message is echoed by Baily and Kane (2025), who estimate industry contributions to total factor productivity (TFP) in the US. Their findings show that around 2007, productivity growth in manufacturing and trade declined sharply and has not recovered since. Over the same period, other industries—particularly finance, insurance, real estate, and leasing (2009–2013), as well as information and services (from 2015 onwards)—became the main contributors to productivity growth. Although these sectors have not been sufficient to drive a strong aggregate productivity rebound, the data clearly indicate a fundamental shift in the sources of productivity growth.

Figure 14. Industry contribution to total factor productivity



Source: [Brookings](#)

While artificial intelligence (AI) has existed for decades, recent breakthroughs have triggered a surge of new applications across industries and massive investment inflows. As a result, US technology stocks, which typically carry quite high risk, now represent a record share of US market capitalisation. The top ten S&P 500 represent close to 40% of the market capitalisation, and they are (almost) all tech companies (see Table 1).

Table 1. S&P 500 index components by market capitalisation

Company	Weight in the S&P 500 (%)
Nvidia	7.5
Microsoft	6.3
Apple Inc.	6.3
Amazon	3.9
Meta Platforms	2.9
Broadcom	2.6
Alphabet Inc. (Class A)	2.5
Alphabet Inc. (Class C)	2.4
Tesla, Inc.	2.4
Berkshire Hathaway	1.8
Total	38.6

Source: [Slickcharts](#) data

This suggests that the tech sector is not only a major driver of productivity but also the dominant magnet for investment, steering the performance of the S&P 500 and, by extension, US financial markets globally. However, this also signals a high degree of concentration, with US economic performance increasingly reliant on a single sector, which traditionally carries potential high returns as well as high risk.

Such concentration is amplified by another structural factor: US household wealth has become heavily dependent on equity market performance. It is estimated that US households now hold [nearly 80% of their assets in equities](#)—a share even higher than during the Dot-Com era peak. These large equity holdings, combined with exceptional market performance, have become the main driver of US consumption growth—a growth pattern largely sustained by wealthier households with significant exposure to asset markets. Consumption is increasingly driven by capital gains, rather than by broad-based income growth. The top 10% of households now account for nearly half of all consumer spending, a historical record. Meanwhile, the purchasing power of middle- and lower-income households continues to erode.

This imbalance implies that US consumption—and, by extension, overall economic growth—has become unusually dependent on affluent consumers and asset valuations, leaving the economy more vulnerable to potential downturns in financial markets.

Such a high concentration of value and risks in one sector raises concerns about the sustainability, the stability and inclusiveness of US growth in the longer term. From a European perspective, this warrants two reflections: in the short term, regarding the potential implications of a correction or the bursting of a possible AI-driven market bubble; and in the longer term, on the opportunities but also the risks of emulating a growth model grounded on high concentration of value creation.

3.3. Diverging policy orientation

A final relevant dimension for assessing whether the US and the EU are moving apart concerns the evolution of US economic policy orientation. Recent US policy developments point to a decisive shift toward an unusual combination of protectionism, targeted state-backed market interventions and selective deregulation. This is going to be a key source of uncertainty and challenges for the EU.

First, there is little doubt that the recent US policy direction has increasingly favoured protectionism, with targeted barriers designed to protect strategic sectors or to exert geopolitical leverage. Protectionist measures, including tariffs, export controls, restrictions on investment and procurement, and conditional market access, have increased dramatically since 2020 under the Biden administration and accelerated since the start of 2025. These measures, aimed explicitly at protecting US interests against economic and geopolitical competitors, represent a marked departure from the liberal trade consensus that previously underpinned transatlantic economic relations.

Second, this has been combined with state-backed strategic intervention (industrial policy and state-anchored market shaping). Alongside trade frictions, the current US administration has increased the state's role in the economy. However, it shifted away from direct subsidies (e.g. grants, tax credits), procurement preferences, large public programmes (e.g. semiconductor or clean-energy funding),

mostly used under the Biden administration, to favoured government equity stakes (see the [Intel case](#)), performance conditions ([Nvidia export tax to China](#)) or pressure on foreign companies (the Immigration and Customs Enforcement raid at [Hyundai plant in Georgia](#)). While these interventions are justified in the name of reducing foreign dependencies and enhancing national security, they are redistributive in nature and blur the line between state and corporate decision-making. From an EU perspective, they raise concerns about legal and political certainty for foreign companies operating in the US.

A third defining feature of the policy mix is selective deregulation coupled with business-friendly tax measures. The current administration has enacted sweeping pro-business reforms, including a permanent reduction in corporate tax rates (via the One Beautiful Bill Act), the easing of financial reporting requirements (e.g., the removal of quarterly disclosures), and looser financial supervision. All these measures are particularly beneficial to large US companies, especially Big Tech, and reinforce their global role, de facto working as a barrier to foreign competition. This explains why the approach retains significant domestic business support.

Several factors can explain the turn toward this unusual combination, from strategic (principally with China) and economic (principally with the EU) competition, to electoral politics and technological externalities, but the consequences for transatlantic relations are large.

In the short-to-medium term, the mix can attract and/or force (taking into consideration the EU-US framework agreement) investment and onshoring by creating strong domestic incentives for domestic investors and firms while exerting political pressure on foreign firms and investors.

Overall, this hybrid policy approach that is neither classical *laissez-faire* nor classical dirigisme makes it difficult to predict what comes next and creates important economic and strategic risks for the EU.

The approach has already led to a further erosion of multilateral institutions. Unilateral tariffs have undercut WTO norms and are pushing what remains of the global trading system toward ad-hoc, fragmented governance. Furthermore, regulatory arbitrage is likely to emerge soon, accompanied by jurisdictional tensions, driven by divergent regulatory regimes (US-friendly deregulation vs. EU precautionary regulation), which complicates cross-border cooperation and standards harmonisation.

The EU faces a strategic dilemma: re-aligning with the new US objectives or protecting its regulatory autonomy and strategic capacity, hence risking frictions and possibly retaliation.

4. POTENTIAL SCENARIOS FOR EU–US ECONOMIC RELATIONS

From an EU policy perspective, the combination of geopolitical tensions, a high degree of uncertainty and diverging transatlantic patterns highlighted above requires thinking about possible futures. This section puts forward three plausible trajectories of the future EU–US economic relations, the risks they entail and the need for EU action.

Continued interdependence and EU vulnerabilities

In this scenario, despite recurring tensions driven by the EU trade and investment policies and regulatory divergence, structural interdependence—particularly through financial markets, investment flows, and technology linkages—continues to anchor the relationship. Even if EU exports to the US decline in certain sectors due to tariffs, the continued centrality of US capital markets, multinational enterprise networks, and the US dollar as a dominant currency would sustain transatlantic ties. At the same time, shared geopolitical priorities—particularly in defence cooperation, supply chain security, and coordination vis-à-vis China and Russia—reinforce a pragmatic partnership, where strategic alignment often outweighs economic competition. However, this pragmatic interdependence is likely to come with growing asymmetries. Policy frictions, especially in trade and technology regulation, would need to be managed through case-by-case negotiation and transactional diplomacy. This approach risks placing the EU in a structurally weaker position, as US economic scale, market influence, and centralisation of decision-making allow Washington to set much of the agenda. Over time, such a configuration could generate several interrelated risks for the EU.

First, the implementation of the EU–US Framework Agreement could, paradoxically, reinforce EU strategic dependence on the US. Increased EU investment in the US, together with sustained purchases of American energy and defence equipment, would consolidate US economic and strategic leverage. The continued reliance on US financial markets, technology ecosystems, and defence capabilities would effectively limit the EU's room for manoeuvre and undermine ambitions for genuine strategic autonomy.

Second, policy subordination may emerge, as US trade, monetary, fiscal, and industrial policies indirectly shape EU decisions—through trade and investment flows, exchange-rate dynamics and capital market spillovers.

Third, a widening technological gap could threaten long-term competitiveness, particularly if EU innovation ecosystems fail to match the scale and pace of US advances in AI and digital infrastructure.

Finally, this would feed a broader political asymmetry: public perception of dependency could erode the EU's credibility as a global actor, weaken domestic support for transatlantic cooperation, and fuel Eurosceptic or protectionist narratives within member states.

In essence, this scenario reflects continuity with a pragmatic adaptation to entrenched interdependence. Although it would preserve many of the economic benefits of transatlantic integration, it risks locking the EU into a structurally dependent position, while preventing a serious search for strategic autonomy.

Managed divergences

In this intermediate scenario, the EU and US pursue selective decoupling in strategic sectors where national security, technological sovereignty, or supply chain control are at stake. While cooperation continues in areas like defence, the tone of the economic relationship becomes more competitive and transactional as policies are increasingly used to protect domestic priorities. The outcome is a gradual regionalisation, with production networks reoriented around trusted partners or regional blocs. Transatlantic production interlinkages weaken. Nonetheless, financial markets, services and capital flows continue to tie the two economies together, creating a mutual incentive to avoid escalation and prevent strategic rivalry from turning into economic confrontation.

This “managed divergence” thus represents an attempt to strike a balance between strategic autonomy and continued interdependence, a controlled rebalancing rather than a rupture. However, this path is difficult to achieve and carries significant risks for the EU.

First, regionalisation is likely to raise production costs and reduce competitiveness, particularly in sectors like pharmaceuticals and technology, which rely heavily on transatlantic supply chains and shared standards. Second, the EU’s limited fiscal capacity and lack of joint policy instruments may hinder its ability to respond symmetrically to large-scale US industrial measures, widening the investment and innovation gap. Third, regulatory divergence between EU precautionary approaches and US pro-business deregulation could increase compliance costs and legal uncertainty for firms operating across both markets. Fourth, strategic exposure may rise as reduced coordination in areas such as AI, defence, and energy leaves the EU more vulnerable to external shocks or crises. Finally, this strategy could deepen internal divisions within the EU, as Member States differ in their exposure to US markets and their appetite for strategic autonomy, complicating common policymaking.

Overall, moving towards a delicate balance where the EU achieves greater strategic independence while maintaining essential economic linkages with the US requires unity on the EU side and stronger fiscal and industrial coordination, as this strategy could entrench asymmetries internally, across Member States, and in the transatlantic relations. On the EU side, this would require deepening single-market integration and EU fiscal/industrial coordination (e.g. pooled financing for joint projects or for strategic value chains). Stronger internal cohesion is key to reducing asymmetric vulnerabilities and giving the EU credible bargaining power in transatlantic talks. In contrast, uncoordinated national subsidies could invite US retaliation, raise production costs, and fragment markets. Weakening the EU single market through national protectionism or slow, fragmented permitting for critical projects (e.g., mines, processing for critical raw materials), which accelerates regionalisation and raises costs, could accelerate the way towards further deterioration of transatlantic relations.

Antagonistic turn

Under this scenario, EU-US economic relations deteriorate further, triggered by escalating policy disputes over tariffs, digital regulation, defence or geopolitical alignment. This results in a trade war, rival industrial policies and further distancing on defence cooperation. As a result, cross-border investment could fall sharply as uncertainty rises, and global value chains that previously spanned both economies begin to reorganise along regional or national lines, with negative impacts on efficiency and

productivity. Retaliatory tariffs and regulatory fragmentation erode competitiveness, shrinking economies of scale and reducing operational efficiency for businesses on both sides of the Atlantic.

This would result in an economic shock with collapsing trade and investment flows hitting the export-oriented EU economy particularly hard. Financial instability could also arise as US–EU financial decoupling triggers capital outflows and financial markets fragment. Domestically, slower growth and rising protectionism could further fuel populist pressures, challenge EU cohesion, and heighten political strain. Beyond the economic sphere, deteriorating transatlantic relations would increase the EU's security vulnerability and further expose the limits of its defence capabilities.

Overall, this scenario embeds a major setback defined by a combination of economic shock, financial instability, competitiveness loss, and increased security vulnerability. This is highly unlikely to create the condition for building strategic autonomy.

Table 2. Summary overview of the scenarios

Scenario	Drivers	Features	Risks for the EU
Continued interdependence and EU vulnerabilities	<p>Interdependence in trade, finance, and technology remains</p> <p>Shared security and geopolitical alignment</p> <p>Increased EU investment in US</p> <p>Increased EU energy & defence dependence</p>	<p>Pragmatic, transactional policy coordination</p> <p>Ad hoc management of disputes</p>	<p>Strategic dependence: Persistent reliance on US financial markets, technology platforms, and defence capabilities undermines build-up of EU autonomy.</p> <p>Policy subordination: EU economic policies may be indirectly constrained by US policies (e.g., tariffs, dollar dominance, capital market shocks).</p> <p>Technological gap: Continued lag behind US innovation hubs risks long-term competitiveness.</p> <p>Political asymmetry: Public perception of dependency makes the EU appear weak vis-à-vis US assertiveness; it could weaken support for transatlantic cooperation, but also support for the EU.</p>
Managed divergence	<p>(partial) Strategic autonomy agenda in the EU</p> <p>Persistent domestic-driven US policies</p> <p>Global competition over critical technologies</p>	<p>Selective growing decoupling in key sectors (e.g. AI, semiconductors, clean-tech, energy)</p> <p>Cooperation is maintained in finance and defence</p>	<p>Fragmented markets: Partial decoupling increases costs for EU firms integrated in transatlantic supply chains (e.g. autos, pharma, tech).</p> <p>Limited fiscal capacity: Lack of joint EU instruments makes it difficult to respond symmetrically to US measures.</p> <p>Regulatory complexity: Divergent standards across the Atlantic can raise compliance costs.</p> <p>Strategic exposure: Reduced coordination in AI, defence, or energy could leave the EU vulnerable in crises.</p> <p>Internal divisions: Divergence strategies may deepen gaps between EU Member States.</p>
Antagonistic turn	<p>Escalating trade disputes</p> <p>Regulatory retaliation and protectionism</p> <p>Politicisation of monetary and financial relations</p>	<p>Tariff and subsidy wars</p> <p>Breakdown of regulatory cooperation</p> <p>Defence and financial decoupling</p>	<p>Economic shock: Collapse in trade and investment flows hits export-oriented Member States hardest.</p> <p>Financial instability: US–EU financial decoupling could trigger capital outflows.</p> <p>Competitiveness loss: Retaliatory tariffs and regulatory fragmentation reduce economies of scale and efficiency.</p> <p>Security vulnerability: Deteriorating transatlantic relations weaken the EU’s defence capacity.</p> <p>Political strain: Rising protectionism and slower growth fuel populism and challenge EU cohesion.</p>

5. EU OVERSIGHT AND GOVERNANCE MECHANISMS

This section reflects on the European Parliament’s oversight framework and the role of existing EU–US and multilateral fora in steering fast-evolving transatlantic economic relations. While the European Parliament’s oversight mechanisms and existing multilateral fora together provide a comprehensive institutional framework for managing transatlantic economic relations, they are insufficiently adaptive or able to keep relevance given the pace and scale of current geopolitical and technological change.

The European Parliament plays an important role in shaping and scrutinising EU economic policies, particularly external economic agreements. It possesses formal mechanisms to review trade agreements and influence the EU’s external economic priorities. The International Trade (INTA) Committee legislates (on an equal footing with the Council), gives consent on trade agreements and scrutinises international agreements (including trade agreements), while the Economic and Monetary Affairs (ECON) Committee monitors economic and financial ties and works to ensure a level playing field for European businesses. Both bodies contribute to promoting transatlantic cooperation, competitiveness, and financial stability.

However, the increasingly complex dynamics of EU–US relations, marked by recurring trade disputes, divergent regulatory approaches in the digital and green domains, and broader strategic misalignments, expose both the strengths and limitations of the Parliament’s current framework. The rapid developments in transatlantic economic relations, particularly in areas such as technology standards, investment screening, industrial policy, and digital regulation, often outpace the Parliament’s procedural timelines and information flows. The current oversight framework remains largely reactive. Its limited tools for real-time monitoring constrain its capacity to anticipate and respond to sudden policy shifts or disruptions originating across the Atlantic.

To enhance responsiveness, the Parliament could follow two complementary approaches.

First, it should strengthen its monitoring and early-warning capacities. This could include the establishment of i) a structured early-warning system to systematically track US legislative and regulatory initiatives with potential implications for the EU (e.g., tax measures, tariffs and subsidies, sanctions, financial or data (de-)regulation, export controls) as well as detailed bilateral flows (e.g. trade, investment, foreign exchange, capital-market stress) and ii) a dedicated INTA-ECON transatlantic monitoring task force to synthesise economic intelligence (building on the early warning system), enhance information exchange with the European Commission, identify emerging risks, and timely feed analysis into parliamentary debates. Together, these mechanisms would enable the Parliament to anticipate policy shifts rather than merely react to them.

Second, the Parliament should deepen channels for dialogue and engagement. While the G7, G20, and IMF coordination mechanisms play a complementary role in managing and mitigating tensions in EU–US economic relations, their effectiveness is weakening. Traditionally, these platforms provide both political and technical avenues to anticipate and respond to global economic shifts. They also offer a venue for the EU to align with like-minded partners to anticipate and possibly influence US positions on key issues such as climate finance, digital taxation, and supply-chain resilience. However, the coordinating power of these platforms has been waning in recent years. This decline has been driven

by a growing US disengagement from multilateralism and scepticism toward global governance institutions, affecting their effectiveness, which critically depends on the cohesion of its members.

To overcome such a void, the Parliament could reinforce direct communication and cooperation with US legislative counterparts, and continue outreach to citizens (particularly youth), businesses, and civil society organisations. Such engagement would help sustain societal and institutional links, preserve shared values, and support transatlantic alignment beyond political and policy cycles.

Finally, a special mention must be made of the EU–US Trade and Technology Council (TTC). Established in 2021 under the Biden Administration, the TTC provides a structured bilateral forum to address strategic trade, technology, and digital policy issues. It serves as a coordination mechanism, enabling dialogue and helping to pre-empt disputes through regular engagement. The EU envisioned the TTC as a key platform for developing joint approaches to emerging technologies, low-carbon innovation, and regulatory cooperation, potentially facilitating “green trade” and the alignment of transatlantic standards. Yet, the changing political landscape in the US, and particularly the return to a more protectionist or unilateral policy stance, threatens to undermine the TTC’s relevance. Diverging views could severely limit the Council’s effectiveness and widen transatlantic divergences in digital and environmental policy. Until it remains in place, it should be used as an opportunity for transatlantic dialogue and diplomacy.

6. CONCLUDING REMARKS

The paper first provides a detailed examination of EU–US economic relations, to offer evidence of how deep they are, focusing on trade and cross-border investment dynamics and the nexus between them. This relationship, built over decades of cooperation, integrated value chains, and business partnerships, runs deep, perhaps deeper than often understood. EU–US economic ties have delivered significant benefits, including technological progress, employment creation, and profitability on both sides of the Atlantic. Yet, recent US tariffs and policy shifts aimed at discouraging US investment in the EU while attracting European investment to the US are putting these ties under strain. Although the effects appear limited for now, the concerns they raise are justified.

The paper then asks whether the EU and the US are moving along increasingly divergent economic paths, potentially leading to greater distance between the two partners. It analyses short-term, structural, and policy dimensions. The evidence shown suggests that, amid multiple changes, the EU may be approaching a bifurcation point, where it must decide whether to maintain close alignment with the US or to pursue its own economic and political priorities.

Both cyclical and structural indicators point to asymmetries. The US economy is currently expanding robustly, though with mixed signals: a soft labour market, mounting inflationary pressures, and signs of potential asset bubbles. In contrast, the EU economy shows signs of weakening growth. These contrasting dynamics could reinforce policy divergence. Structurally, the productivity gap between the two economies is likely to widen, driven by both US's greater genuine productivity gains and by valuation effects. In the US, productivity growth has been propelled by concentrated technological innovation and capital accumulation within a few dominant sectors and firms whose soaring market valuations have inflated nominal GDP but not translated into broad-based welfare gains—such as higher wages or lower prices. In contrast, the EU's growth model has remained more balanced, though less dynamic and with slower productivity gains.

At the policy level, the contrast is equally stark. The US increasingly combines protectionist measures, targeted state interventions, and selective deregulation, whereas the EU continues to advocate an open, rules-based system underpinned by regulatory clarity and multilateral cooperation. This divergence, coupled with Washington's growing reliance on power politics, marks a defining divide across the Atlantic—one that is likely to generate persistent uncertainty and poses a strategic dilemma for Europe.

Can the EU–US economic partnership withstand the mounting structural, policy, and geopolitical strains and if so, at what cost? For the EU, fears of asymmetric dependence and the potential weaponisation of interdependencies in favour of the US have heightened calls to reinforce its strategic autonomy. To explore possible trajectories, the paper outlines three realistic scenarios for how EU–US relations could evolve: increased (though not deliberate) EU dependence on the US, managed divergence and antagonistic turn. Each of them entails important risks for the EU. While the EU may have limited influence over external developments, a key takeaway is the need to build the capacity to shape its own preparedness. This takes strategy, time, and a deliberate effort to reduce critical

dependencies. Only by doing so can the EU ensure that transatlantic relations evolve on more balanced and mutually beneficial terms, rather than drift into strategic antagonism.

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This paper examines EU–US economic relations, presenting evidence on trade and investment patterns and analysing transatlantic differences in short-term macroeconomic developments, productivity trends, economic structures, and policy orientations. It outlines three plausible trajectories of the future EU-US economic relations, the risks they entail and the need for EU action. Finally, the paper assesses the adequacy of the current European Parliament oversight framework in monitoring and responding to evolving transatlantic macroeconomic dynamics.

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