

SUMMARY

15 January 2025



EUROPE ALONE AT HOME? THE FUTURE OF EU-US RELATIONS

PANEL DISCUSSION IN COOPERATION
WITH THE VIENNA INSTITUTE FOR INTERNATIONAL
ECONOMIC STUDIES (WIIW) AND THE AUSTRIAN
MINISTRY OF DEFENSE (BMLV)



wiiw

The Vienna Institute for
International Economic Studies



Österreichisches Institut
für Internationale Politik
Austrian Institute
for International Affairs

PANELISTS:

Gabriel Felbermayr

Director, WIFO

Sudha David-Wilp

Regional Director of the German Marshall Fund Berlin

Hannes Swoboda

President, wiiw

INTRODUCTION:

Cengiz Günay

oiiip

Michael Landesmann

wiiw

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Summary report authors:

Zoe Edwards and Ceren Cetinkaya

KEY TAKEAWAYS

1 We are entering a new era in transatlantic relations

Established alliances cannot be taken for granted- every aspect of transatlantic relations will need to be reassessed and renegotiated. With the U.S. becoming an increasingly unpredictable and unstable partner under Trump's second term, Europe must strengthen its strategic autonomy, stand united and resolute, and develop the ability to negotiate effectively in trade, defense, and diplomacy. Rather than being intimidated, Europe must take the lead in shaping its future in a rapidly shifting global order.

2 There is room for negotiations

Although it is true that there is a trade imbalance between the EU and the US, this should be analyzed in further detail. While the EU exports more goods (mainly industrial goods such as cars) to the US, the US exports more services (this also includes digital services, software and licenses) to the EU. This opens room for new deals. Particularly, the IT services sector is important to the US economy and to the tech tycoons who support the Trump administration.

3 Trust in a strong single European market

The EU's biggest reassurance is its large single market. The single market can insulate the EU from many of the effects of increased American tariffs. Therefore, the EU needs to stand united. Promoting unity within the EU in the face of U.S. attempts to exploit divisions requires a multi-layered approach that strengthens internal cohesion, strategic autonomy, and resilience. Europe must assert itself more confidently on the global stage, based on its economic strength, and needs to develop a more integrated approach to international challenges. This includes convincing its own citizens of its capability to manage relations with both the US and China effectively, regardless of potential changes in US leadership.

4 Europe is still one of the most important global economic players

Despite China's rise, the EU still is one of the most important global economic players. It is true that Europe has lost its dominant role, but it still is among the top three in the world. Although, there is a rising trade imbalance regarding goods - China exports many more goods to the EU than the other way round - it is the other way round regarding services.

5 New trade agreements will most probably work in Europe's favor

With the new, tariff-forward trade strategy announced by President Trump, the European Union should expand its circle of trade partners. In the past, free trade agreements have worked in the EU's favor. It also gives the EU some leverage in areas such as environmental protection or the protection of workers' rights. However, the most absolute protection for European economies will come from negotiating new trade agreements with the US and investing in trade deals with other powers, such as the Mercosur countries.

6 NATO under Trump: Time for Europe to Invest in its Defense

Europe must become prepared to redefine its defense strategy. While US-EU security cooperation will remain a key component of European defense going forward, but the United States' strategic focus has shifted to the Pacific region. It's main goal is to prevent China's regional hegemony and its rise to a dominant global power. The US will seek Europe's alignment in this question, but Europe will increasingly need to solve problems on the continent by itself.

INTRODUCTION

A strong transatlantic partnership has been essential to the success of the EU. Europe and the United States have been closely aligned militarily, economically, and politically for many decades. However, the transatlantic partnership has been changing significantly since the end of the Cold War. The strategic shift to the East began in the years of George W. Bush and Bill Clinton and intensified with President Obama's Pivot to Asia.

With the election of President Trump to his second term in November of 2024, projections for the future of the European-American relationship have shifted and concerns about weakening transatlantic relations have intensified. Since taking office, he has already begun to enact his promises from the election campaign—including the withdrawal from the Paris Climate Agreement—and has doubled down on threats of tariffs against the EU. He has reiterated his intention to cut American spending on NATO. Most of all, his rhetoric and his choices for key foreign policy nominations suggest that he will place China policy at the center of his national security strategy. Europe must be prepared for a dramatic realignment of the transatlantic partnership—in trade, in defense, and in all forms of strategic cooperation. Says David-Wilp: “Europe isn't facing isolationism, but it is facing disruption.”

To investigate the future of transatlantic relations in the rule of Donald Trump and the positioning of Europe, the Austrian Institute for International Affairs (oiip), in cooperation with the Vienna Institute for International Economic Studies (wiiw) hosted a panel discussion on January 15, 2025 entitled “Europe Alone at Home? The Future of EU-US Relations” as a part of the event series ‘Europe in a Fragmented World: Geo-economic and Geo-political Dynamics’.

The panel included remarks and discussion from Gabriel Felbermayr, Director of the Austrian Institute of Economic Research, Sudha David-Wilp, Regional Director of the German Marshall Fund Berlin, and Hannes Swoboda, President of the wiiw

1. BUILDING TRADE AGREEMENTS WITH PARTNERS EUROPE CAN TRUST

Although there are concerns about the effect of new American protectionism on European economies, the EU remains one of the world's economic heavyweights, with the greatest value of external trade in goods and services in the world. The EU is the foremost trading partner for 68 countries—just behind China, which leads the world at 71, and well ahead of the US, which comes in third as the leading trade partner of 32 countries. Although the EU has lost economic clout since the peak of its relative economic influence in 1995 it is still very strong. Felbermayr stated that there is “no need to panic”, but that the EU would be vulnerable to economic shocks if the US were to introduce new tariffs. Felbermayr also highlighted that it is important to analyze trade in general and not to look at the import and exports of goods only. Such a perspective leads to a more balanced picture. While there is an imbalance in the trade of goods—Europe exports more goods than it does import from the US—this is balanced by trade of services and financial flows.

While President Trump has repeatedly threatened increased universal tariffs, even against close economic partners such as Canada, Mexico and the EU, Felbermayr argues that the EU single market serves to significantly insulate and insure member states against

severe economic shocks. The single market serves as Europe's best economic defense.

Furthermore, while China dominates among the EU's trade partners in terms of goods trade, an analysis of financial flows and services trade shows that the trade relations with the US and UK are both more balanced and more significant for the European economy. Projections about the effects of US tariffs show that a new US-EU trade agreement—even one limited to agricultural goods—could allow the EU to avoid nearly all of the effects of Trump's proposed tariffs. New trade agreements with other parties, such as the Mercosur deal finalized in late 2024, would serve to further protect Europe from the effects of Trump's proposed tariffs.

Felbermayr's main takeaway on how to respond to Trump's proposed policies? Look at game theory. In game theory, he notes, you can exploit strategic ambiguity to your advantage. The extreme tariffs proposed by President Trump are "non-equilibrium" strategies in game theoretic terms. They are technically an option, they are threatened, but they are never played except as a temporary step to induce a particular behavior in other players. Trump knows how to do that, and he's done it before—Europe needs to be prepared for strategic ambiguity in American trade policy.

2. NATO UNDER TRUMP: TIME FOR EUROPE TO INVEST IN ITS DEFENSE

NATO is not held in the same esteem by American politicians that it was during the Cold War. The United States has been reorienting its foreign policy for decades, but even during realignments such as Obama's Pivot to

Asia, NATO was held beyond reproach. Not so during the first Trump administration, nor the second. President Trump has freely critiqued European NATO members for their below-target defense spending and has even threatened to leave the alliance. David-Wilp recalls the tumult of the morning following his election: "I woke up on November 6th and heard the news from Pennsylvania [about Trump's election] and then went to bed with the news of the collapse of the German government." She noted that another Trump presidency signals the end of the NATO "renaissance" that was brought on by the invasion of Ukraine and the crystallization of anxieties about transatlantic relations that have been mounting since the 2020 midterm elections.

With Republicans holding the majority in both houses of Congress, President Trump will have substantial freedom with his approach to transatlantic defense cooperation, both in his nominations to key posts and in budgetary appropriations towards the alliance. NATO member in Europe have long since allowed the United States to take on more than its share of financial support for the Organization; if those members want the alliance to endure the second Trump administration, they must be prepared to invest in it.

3. TRANSATLANTIC RELATIONS CANNOT BE EVALUATED WITHOUT EXAMINING THE RELATIONS WITH CHINA

The evolving global landscape and the changes in the US administration require an in-depth consideration of China in transatlantic relations. Felbermayr points out that Europe is still the world's trade leader in goods and services. However, since the 1990s, the world

has changed significantly, with China emerging as a dominant force in its region and across the Global South. While China leads in goods trade with the EU, services and investment relationships show the US and UK as being much more significant for the EU.

In addition to the role of China in its economic relations with the EU, Swoboda argues that a comprehensive understanding of Trump's China policy is central to analyzing EU-US relations under the rule of the new US government. He warned that China poses both economic and political challenges, which should not be underestimated. While a broad anti-China policy may not be feasible, even under Trump, it is essential to recognize that China represents not just an economic competitor but also a security concern. Examples like Tesla's factories in China underscore the interconnected economic and geopolitical risks.

4. A NEW ERA OF TRANSATLANTIC RELATIONS: FINDING THE BALANCE

Transatlantic relations are entering a new era under the unconventional approach of President Trump. David-Wilp highlighted that the new administration in the White House is going against norms, and Trump's "America First" narrative is accelerating shifts in the global order. David-Wilp also noted that US domestic politics—particularly voter resistance to the country acting as the world's policeman—are having a profound impact on foreign policy decisions. This signals both a new chapter for the transatlantic relationship and a broader shift in the liberal international order.

On the other hand, according to Swoboda, Europe's self-perception fails to reflect its global standing. While the rest of the world considers Europe as a stabilizing force in turbulent times, Europe remains highly critical

of itself. In this new term of transatlantic relations, one of the main tasks of the EU is to engage its citizens and demonstrate its capacity to navigate challenges in economy, defense, and diplomacy effectively. Swoboda further emphasized that despite the polarizing image of Trump, the EU must not abandon its quest to find common ground with the US.

Overall, the transatlantic relationship is at a critical juncture. The rise of China and the US policy's unpredictability calls for calls for Europe to strengthen its strategic autonomy while seeking opportunities for pragmatic cooperation with the US. The ability of both sides to find common ground, particularly in their approach to China, will define the future of transatlantic relations and the rules-based international order.

IMPRESSUM:

Österreichisches Institut für Internationale Politik – oiip,
Austrian Institute for International Affairs
A-1090 Vienna, Währinger Straße 3/12,
www.oiip.ac.at, info@oiip.ac.at

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