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Peril and Promise: The Transatlantic Economy in 2025

No two other regions of the world are as deeply integrated as the U.S. and Europe.

2025 is a year of peril and promise for the transatlantic economy. Tensions abound, including transatlantic trade disputes, disruptive politics, dramatic energy shifts, supply chain uncertainties, raw materials scrambles, challenges from China, and Russia's ongoing aggression against Ukraine and other neighbors. Yet the transatlantic economy faces these tests following a remarkably robust year that hit all-time highs on multiple fronts.

2024: a Year of All-Time Highs

Total trade
- U.S. trade in goods and services with Europe: $2 trillion (est.).

Trade in goods
- Goods trade between the U.S. and its NATO allies: $1.8 trillion.
- U.S.-European goods trade: $1.3 trillion.
- U.S.-EU goods trade: $976 billion.
- EU goods exports to the U.S.: $606 billion.

Trade in services
- U.S. exports of services to the EU: $275 billion (est.).

Affiliate performance
- European affiliate income in the U.S.: $205 billion.
- U.S. foreign affiliate sales in Europe: $4 trillion (est.).
- European affiliate sales in the U.S.: $3.5 trillion (est.).

Energy partnership
- U.S. share of Europe's LNG supplies: 48%.
- Europe's share of U.S. LNG global exports: 55%.

These figures are emblematic of the dense ties that bind North America to Europe and form the solid geoeconomic and geostrategic ground from which each side of the North Atlantic can address tremors still to come in 2025 and beyond.

We estimate that U.S.-European trade in goods and services of $2 trillion and sales by the affiliates of U.S. and European companies in each other's market of $7.5 trillion add up to a $9.5 trillion transatlantic economy that is the largest and wealthiest market in the world, employing an estimated 16 million workers in mutually "onshored" jobs on both sides of the Atlantic. No two other regions of the world are as deeply integrated as the U.S. and Europe. Ties are particularly thick in foreign direct investment (FDI), portfolio investment, banking claims, trade and affiliate sales in goods and services, digital links, energy, mutual R&D investment, patent cooperation, technology flows, and sales of knowledge-intensive services. European Commission President Ursula von der Leyen says that ties with the United States remain "our most consequential relationship." The U.S. Trade Representative's Office calls the U.S. trade and investment relationship with the countries of Europe "the largest and most complex in the world."[1]

Box 1. The Most Mutually Beneficial Relationship on Earth

The most immediate challenge for the transatlantic economy stems from two directives U.S. President Donald Trump issued in his first weeks in office: First, a 25% tariff on all U.S. steel and aluminum imports, set to take effect March 12; and second, "reciprocal" tariffs on U.S. goods imports to match foreign tariffs and non-tariff barriers on U.S. goods exports, to be imposed as early as April. The White House has singled out digital services taxes and the EU's value-added-tax (VAT) system as examples of non-tariff barriers. President Trump has also said he is considering tariffs of 25% or more on automobiles, semiconductors, pharmaceutical products, and a 25% tariff on imports from the European Union.

It is unclear to what extent such tariffs may overlap. Nonetheless, these measures could generate considerable harm to American and European consumers, producers, workers, and their families. Possible EU counter-measures would further exacerbate the situation.

Steel and aluminum tariffs would hit European producers who account for about 20% of U.S. imports. Higher prices would shut out some European firms and affect all U.S. and global businesses that rely on these materials throughout the supply chain. Imports displaced from the United States could end up in Europe. Retaliatory tariffs from the EU would punish U.S. companies and their workers and exacerbate ripple effects along global value chains.

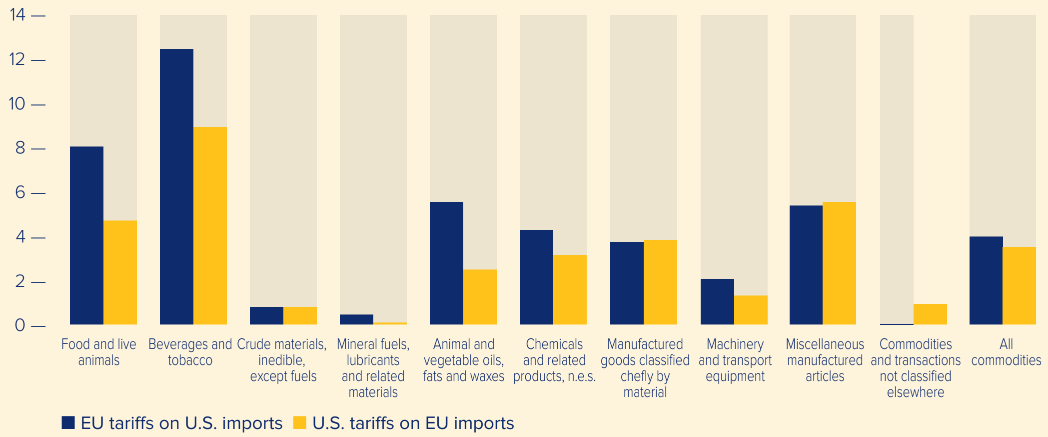
The idea driving the "reciprocal" tariff plan is that other countries will have to cut their tariffs because U.S. tariffs are lower. That is generally true around the world - but not really across the Atlantic.

Overall, U.S.-EU differences are marginal: the EU's effectively applied tariffs on goods from the U.S. is 3.95%; the U.S. tariff on EU products is 3.5%. There are notable differences in certain sectors (Table 1). The EU's 10% tax on cars is four times higher than the U.S. rate. EU duties on food and beverages are 3.5% higher, and those on chemicals 1% higher.

However, U.S. tariffs aren't always lower. U.S. levies on light trucks and sport utility vehicles (SUVs) of 25% are far higher than the EU's 10% tariff. U.S. tariffs on apparel of 14.7% exceed the EU's 12% tariff. U.S. tariffs are also higher on commodities and miscellaneous manufactured materials. It is unclear whether the Trump administration would be willing to lower tariffs in areas where U.S. levies are higher than those of its trading partner.

The "reciprocal" plan presents an additional dilemma because it challenges the most-favored-nation basis of global trade. 160 member countries of the World Trade Organization (WTO), including the United States, have negotiated tariff rates that they apply without discrimination to other WTO members. Under this system, "reciprocity" has meant that all WTO members cut their tariffs

Table 1. Effectively Applied Tariff Rates on Goods Trade Between the EU and the United States (%)



Source: WITS database for 2022; Ruben deWitte and Inga Fechner, "Why the EU still holds a Trump card in the face of rising trade tensions," ING, November 24, 2024, https://think.ing.com/articles/eu-us-trade-strategy/.

by the same amount. The U.S. "reciprocal" plan means that general tariffs would be imposed and then negotiated country-by-country, product-by-product. This would generate considerably more red tape and government bureaucracy. The larger problem for the EU is that it is bound under WTO rules to apply any tariff reduction for U.S. goods to all WTO trading partners. If the EU cuts its tariffs on imported U.S. cars to 2.5% from 10%, for instance, it would have to do the same for cars from China, which would exacerbate the European auto industry's challenges and undermine the additional duties it imposed last year on heavily-subsidized Chinese electric vehicles.

The European Commission has said it would prefer negotiations to find "mutually beneficial solutions," but that it is prepared to retaliate with "firm and proportionate countermeasures." Among other things, Brussels could deploy its Anti-Coercion Instrument, which allows trade controls, customs duties, and other measures against companies or countries determined to be engaged in coercive behavior. So far, the EU has aimed this so-called "bazooka" only on China. Should relations deteriorate, Brussels could set its sights on Washington.

Given that the U.S.-EU commercial relationship is by far the largest in the world, such actions would be costly for both sides. Neither party has an interest in being caught in the escalatory spiral of a tit-for-tat trade war that would harm both economies, put a brake on European defense spending, hamper efforts to face down Russia over Ukraine, and destroy any chance that the two parties would align their approaches to the China challenge.[2]

Some commentators looking only at goods trade conclude that the U.S. and the EU are not that reliant on each other, and could withstand a trade war.[3] This perspective is off the mark.

First, a narrow focus on goods trade dependencies ignores other, and often more important, ways the U.S. and European economies are interlinked. We explain these in detail in this study. One example is eye-opening: U.S. companies sold EU customers $3.62 trillion in goods and services in 2022, the last year of available data. $2.62 trillion of that total was through the sales of U.S. companies operating in Europe, and $600 billion through U.S. exports to Europe. EU companies sold U.S. customers $2.93 billion in goods and services that year: $2.2 trillion in affiliate sales in the U.S. and $729 billion in U.S. imports. On this "sell vs. buy" comparison, U.S. companies sold $690 billion more to EU customers than EU companies sold to U.S. customers.

Second, general values do not tell us anything about specific dependencies. For instance, the U.S. relies on the EU for 32 strategically important import products; the EU is strategically dependent on the U.S. for eight products (Table 2). Neither party has an interest in generating even higher dependencies or looking for alternatives – and for some of these products there are no substitutes.

White House officials have indicated that the U.S. would negotiate with trading partners about its "reciprocal" tariffs. This opens possibilities for transatlantic arrangements that could include but go beyond a narrow focus on trade.

A transatlantic accord might include European commitments to boost defense spending, bolster support for Ukraine, diversify further from Russian

Table 2. **The U.S. and the EU: Mutually Beneficial Interdependence**

Dependent Country	Source of Dependency	Number of Dependent Products	Potential for Diversification (% of Dependent Products)				Share in Total Import Value
			Low	Medium	Medium High	High	
US	EU	260	18%	34%	28%	20%	3.10%
EU	US	15	0%	7%	13%	80%	0.10%

Sources: European Commission, Strategic Dependencies and Capacities, 2022; White House, 100 Day Supply Chain Review, 2022.

energy, buy more U.S.-produced liquefied natural gas and other energy exports, agricultural products, and defense equipment, and align more closely on China. The U.S., in turn, might refrain from imposing preemptive tariffs, continue its support for Ukrainian security and sovereignty, and affirm its NATO commitments.

The two parties might revive and extend the agreement struck by President Trump and European Commission President Jean-Claude Juncker to "work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods" and to "reduce barriers and increase trade in services, chemicals, pharmaceuticals, medical products, as well as soybeans." They might conclude a critical minerals agreement to boost mineral production and processing critical to many U.S. and European industries yet largely controlled by China. And they might expand U.S.-EU mutual recognition agreements, some of which were successfully completed during President Trump's first term, which could boost transatlantic trade while reducing each party's reliance on imports from China.

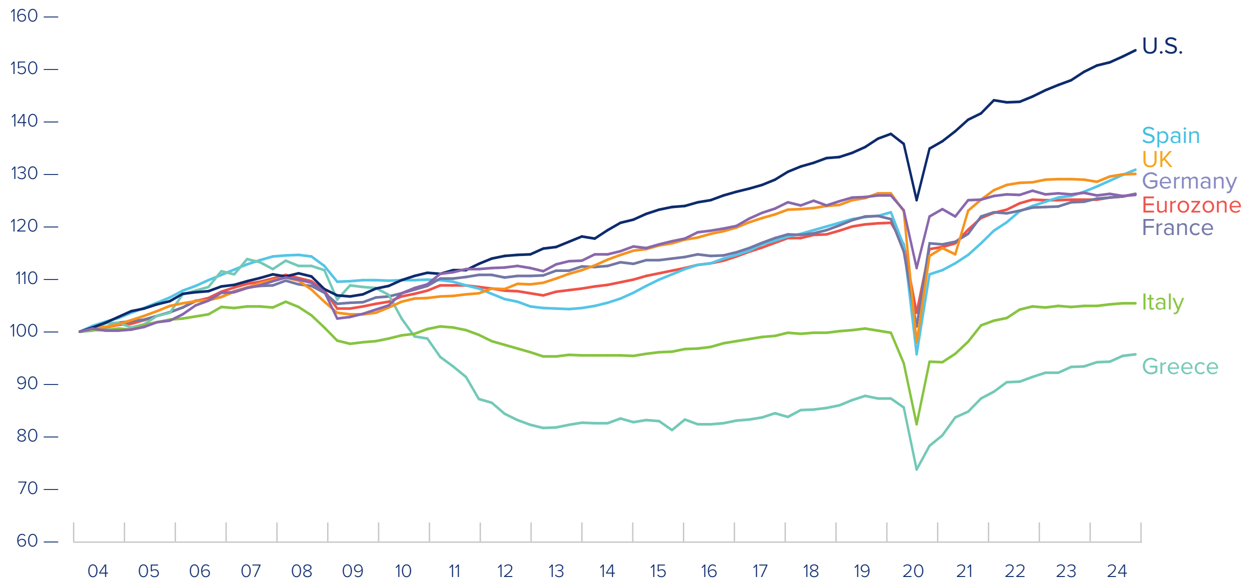
As America's largest commercial partner, Europe does not represent a security threat. A tit-for-tat tariff war based on an "eye for an eye" approach to reciprocity will leave both the U.S. and Europe weaker, poorer, and less able to address other major challenges. An approach that defines "reciprocal" as mutually beneficial would make it clear that U.S.-European commercial links are the most reciprocal on earth.

Peril...

2025 will be a challenging year for the transatlantic economy. As outlined in Box 1, the headline task is to avert a transatlantic trade war.

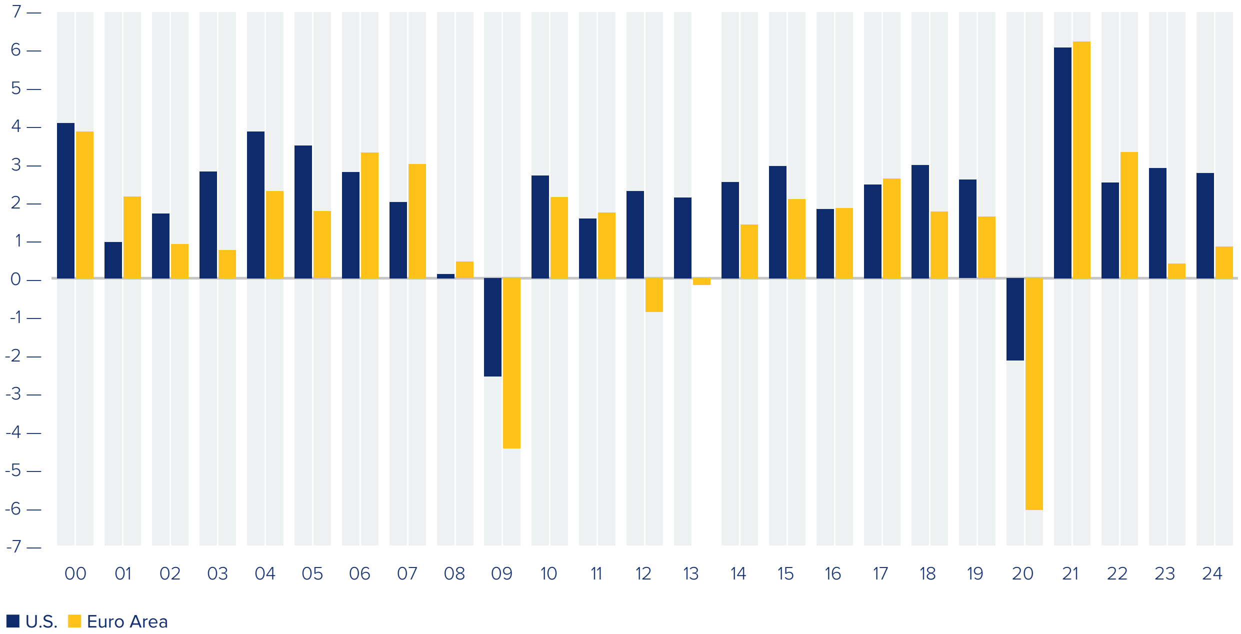
Real economic growth is expected on both sides of the Atlantic, yet absolute and per capita growth rates will be uneven. As in prior years, the U.S. will lead, Europe will lag. Growth in the eurozone is expected to hover around 1%. The UK is projected to grow by 1.6%. Meanwhile, the U.S. is slated to grow by 2.7%, powered by several cyclical factors, such as strong consumer spending, robust capital investment in artificial intelligence (AI), and continued fiscal and monetary support. U.S. real per capita disposable income is growing nearly twice as quickly as in the EU. In 1990, per capita gross domestic product in the U.S. – the total value of the country's output, divided by the number of residents – was only 28% higher than in the euro area. The gap is now more than 80%.[4]

Table 3. Bouncing Back From the Pandemic (Real GDP level, Q1 2004 = 100)



Source: Haver Analytics.
Data through Q3 2024.

Table 4 U.S. vs. Euro Area (Real GDP, Annual % Change, 2000-2024)



Source: International Monetary Fund.
Data as of January 2025.

U.S. growth numbers belie several points of peril. Americans today are less satisfied with their own lives than the two generations before them. U.S. average income is high, but income inequality is among the highest in the world. Rising wages are outpaced by accelerating costs for staples, mortgages, rents, childcare and other basic needs. Actions to curtail immigration, the source of U.S. workforce growth and of substantial labor in U.S. agriculture and other sectors, will affect America's economic future. Healthcare expenditures generate roughly a fifth of U.S. GDP, far above European outlays, even though Americans are more likely to die younger, have multiple chronic conditions, and die from preventable or treatable maladies than citizens in many European countries.[5]

America's post-pandemic growth has been fueled in good part by government spending. Since the start of 2023, the government has created more jobs than dynamic sectors like tech, finance, construction and manufacturing combined. Outside of the pandemic and financial crisis, U.S. public sector spending as a share of GDP is near its highest since World War II, and is forecast to rise as debt interest payments pile up. As the world's largest debtor country, the United States relies on capital from Europe and elsewhere to fund its record external imbalances. Foreign ownership of U.S. securities totaled a whopping $30.1 trillion in the third quarter of 2024. Should these inflows diminish, America would feel the pain. And if a world of disruption undermines growth in Europe, the Middle East, and Asia, the effects would ultimately ripple back to U.S. shores.[6]

Europe faces its own challenges. European industry still maintains its global innovation lead in mechanical engineering and advanced manufacturing, with the United States and China significantly behind. It is strong in life sciences, agriculture and food production, automotives, nanotechnology, energy, and information and communications. It is a global leader in reducing emissions, limiting income inequality, and expanding social mobility. In the early months of 2025 European stocks such as Stoxx Europe 600, Germany's DAX, the UK's FTSE 100 and France's CAC outpaced U.S. counterparts for the first time in a decade. Profit growth is picking up.[7]

Nonetheless, Europe remains cyclically challenged by high energy prices, an unsustainable regulatory burden, the trend towards fiscal consolidation, and competitive pressures from China. Trump administration tariffs could weigh significantly on Europe's trade-dependent economies this year.

These tensions threaten to exacerbate Europe's well-known structural challenges. They include rigid labor markets, aging workforces and unfavorable demographics, excessive regulations, lagging industry productivity and technology adoption, high energy prices, the absence of a pan-European capital markets, and expansionist Russia's acute security threat. The IMF estimates that Europe's high internal barriers are equivalent to a 45% tariff for manufacturing and 110% for services. Trade across "Single Market" countries is less than half the level of trade across U.S. states.[8] Mario Draghi, a former Italian prime minister and European Central Bank president, estimates that the EU needs to commit $542 billion in public and private investment just on digital transformation and clean technologies if it is to keep pace with the United States and China.[9] Uneven policy coordination among the 27 EU member states is a further structural disadvantage to growth at a time when both China and the U.S. have unabashedly embraced modern-day mercantilist industrial policies designed to promote security and economic self-reliance.

Among the "Big Three" – the United States, China and the European Union – the Europeans remain the most reliant on a global trading system that is fraying at the seams. Indeed, since the Great Financial Crisis of 2008/09, net exports have been one of the most important drivers of economic growth in Europe, offsetting sluggish domestic demand across the region. Europe's export-led growth model worked until it didn't. It is now challenged by a mercantilist world of geopolitical tensions, resource scarcity and protectionism, and mounting cross-border trade and investment restrictions. As French President Emmanuel Macron remarked last year, "the world is made up of herbivores and carnivores. If we decide to remain herbivores, then the carnivores will win."[10]

Europe will avoid recession this year because the continent's growth dynamics are shifting. In a sharp turn from the eurozone debt crisis – when Europe's debt-laden periphery dragged overall growth lower – now Europe's core, Germany and France, is the weak link to growth while Europe's edge is the growth engine.

Germany's export-led economy has stalled, throttled by a more competitive China that has emerged as the world's top producer and exporter of many manufacturing goods (solar panels, machinery, automobiles) that use to underpin Germany's export machine. Germany's exposure to industrial manufacturing has gone from a strength to a source of weakness. Industrial production in November 2024 was some 15% lower than its peak in 2017. Consumer spending remains anemic. The country's constitutional debt brake constrains countercyclical growth dynamics. According to Goldman Sachs, Germany's GDP has been flat since the end of 2019, while the rest of the eurozone has grown 5% and the U.S. economy by 11%. For the past two years, Europe's largest economy has been in recession, with output down 0.2% last year and 0.3% in 2023.

In France, debt has long been a key support to growth. Now the nation faces a debt reckoning. France's borrowing costs are higher than the cost of capital in Greece, Spain and Portugal. France trails only the U.S. and Japan as the most indebted country on earth. Public sector spending, more than 50% of GDP, is also among the highest in the world. The IMF expects the French economy to expand by less than 1% this year.

Meanwhile, Europe's periphery is registering far healthier growth. The Spanish, Italian, Portuguese and Greek economies are on average 6% larger than they were when the pandemic began. Poland and Ireland are slated to grow 4%, Spain and Greece 2.3%, Portugal 2.1%, and Sweden 2% in 2025. These small economies can't fully make up for the sluggishness of Europe's larger core economies, but they are nudging the continent ahead. Public funding is part of the secret: 78% of the EU's Next GenerationEU investment program, which was launched during the pandemic and slated to last until mid-2026, is going to Portugal, Italy, Spain and Greece.[11]

U.S. and European companies over many decades have woven a dense web of deep transatlantic connections that is proving to be a strength, not a burden, for both in a more competitive and disruptive age.

Share of world GDP

33%

U.S. and EU + UK

31%

Regional Comprehensive Economic Partnership (RCEP)

Against this backdrop, we expect transatlantic trade and investment ties to grow modestly in 2025 after a choppy 2024, which saw the U.S. merchandise trade deficit with the European Union reach an all-time high of $236 billion. The U.S. again imported more goods than it exported to the EU, with exports rising by 1.8% and imports by 5.3%. The growth differential between the U.S. and Europe largely accounts for the widening deficit. That is partially offset by a growing U.S. services trade surplus with the EU of $75 billion, which brought the overall U.S. trade deficit down to $161 billion. That's just roughly a quarter of the U.S. trade deficit with Asia-Pacific partners and less than the U.S. trade deficit with its USMCA partners Canada and Mexico. Still, the Trump administration's emphasis on trade deficits means America's shortfall will remain a source of U.S.-EU tension.

The Promise

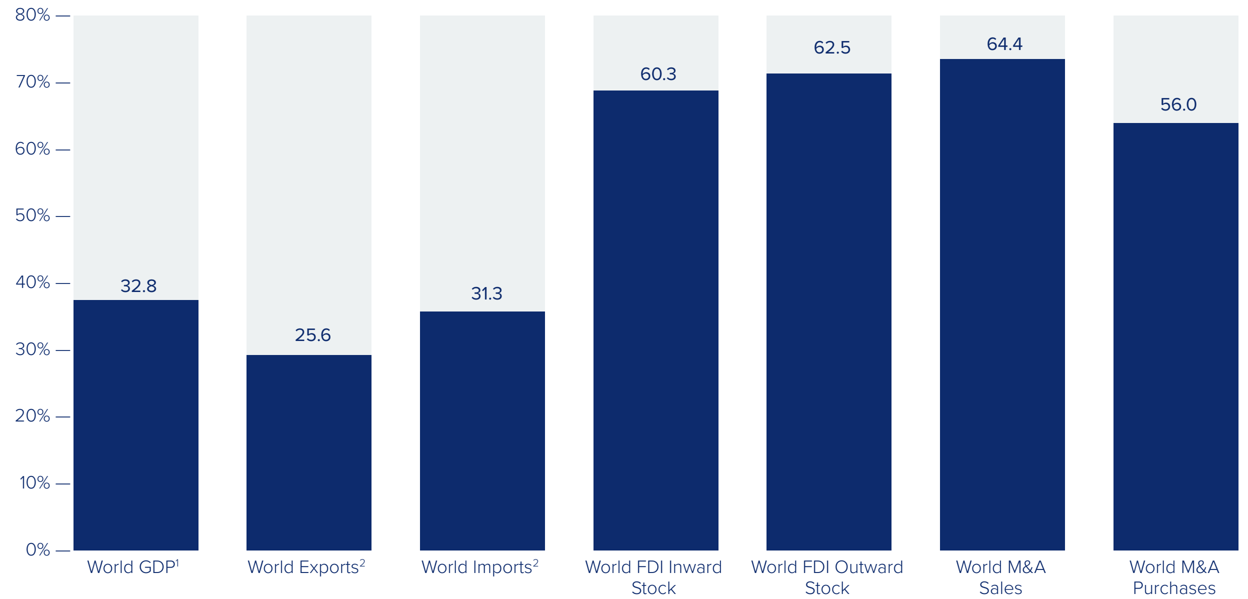
These disputes are serious but surmountable. If the transatlantic partners can stick together, they are well-positioned to benefit from new global commercial patterns, and have ample opportunities to address the associated risks. U.S. and European companies over many decades have woven a dense web of deep transatlantic connections that is proving to be a strength, not a burden, for both in a more competitive and disruptive age.

To this point, the combined economic output of the United States and the EU+UK accounted for roughly 33% of global output based on purchasing power parity in 2024. That is larger than the combined output of China and India (27% of world GDP) and on par with the combined output of the Regional Comprehensive Economic Partnership (RCEP) in Asia of 31% of GDP.

The transatlantic economy is not only large but also wealthy – and wealth matters when it comes to trade, investment, growth and corporate earnings. Leading the charge is the U.S. consumer, who not only accounts for roughly 70% of U.S. GDP but also a staggering 31.5% of overall global personal consumption, according to figures from the United Nations. Annual consumption levels in the U.S. are greater than the next six countries combined (China, Japan, India, Germany, the UK and France).

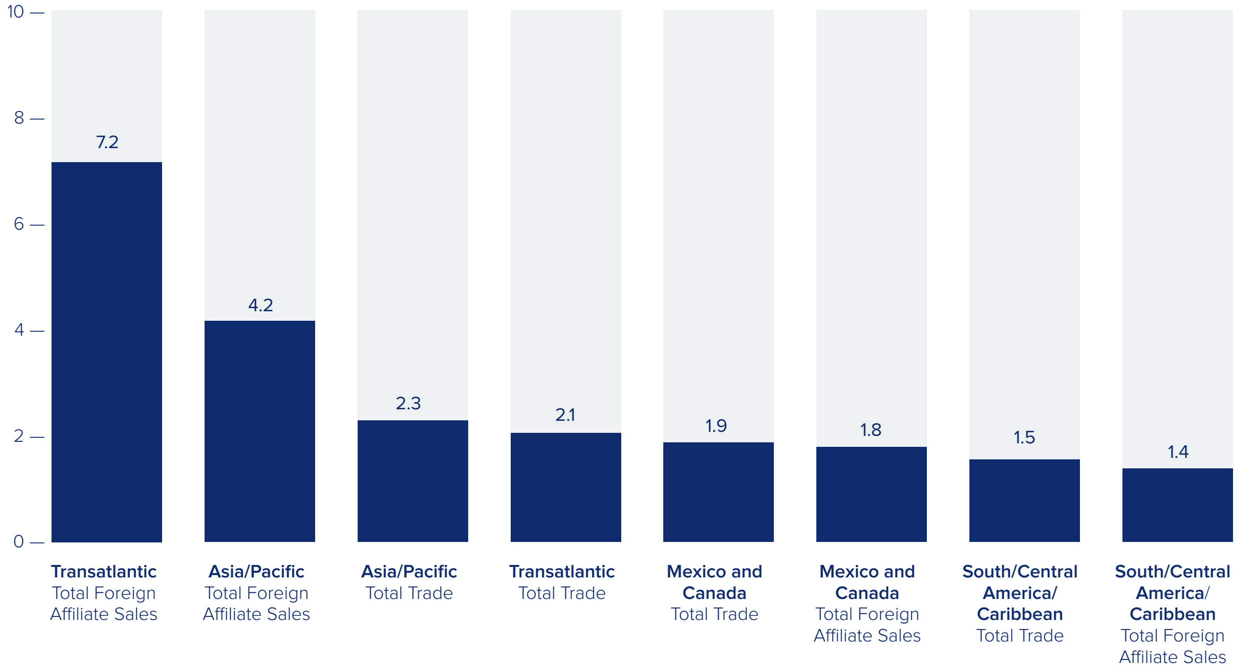
North Atlantic consumers in the U.S. and the EU+UK accounted for nearly 52% of global personal consumption in 2023, the last year of available data, versus a combined share of just 15% for China and India and the ten-member BRICS (22%). Per capita income – the ultimate metric of purchasing power and the wealth of a nation – is what drives consumer spending. On this score, the transatlantic economy easily outpaces the rest of the world. The United States (with an estimated per capita income of $87,000) and the EU (estimated at $44,000) are far wealthier than either China ($12,900), India ($2,700), or many other parts of the world.

Table 5. The Transatlantic Economy vs. the World (Share of World Total)



Sources: United Nations, International Monetary Fund, figures for 2023. Transatlantic economy measured as U.S., EU, UK, Norway, Switzerland and Iceland. Iceland M&A purchases from 2022, latest data available.
1. Based on PPP estimates.
2. Excluding intra-EU, UK, Norway, Switzerland and Iceland.

Table 6. America's Major Commercial Arteries ($Trillions)



Foreign Affiliate Sales: Author's estimates for 2023. Total Trade: Data for goods & services, 2023. South/Central America and Caribbean includes Mexico.
Source: U.S. Bureau of Economic Analysis.

Wealth, in turn, attracts capital, so it is no surprise that taken together, the U.S. and Europe continue to drive and determine global cross-border investment flows, accounting for 60.3% of global inward foreign investment stock and 62.5% of outward stock in 2023, according to data from the United Nations. Through greenfield investments, mergers and acquisitions, each partner has built up most of that stock in each other's economy. Mutual transatlantic investment flows are very large, dwarf trade, and have become essential to job growth and prosperity on both sides of the Atlantic. And speaking of trade, combined U.S. and European goods exports to the world (excluding intra-EU trade) accounted for roughly 25.6% of global goods exports in 2023, while transatlantic imports accounted for 31.3% of the world total (Table 5).

The strength of the U.S. economy – and the dollar – is good news for many European companies, many of whom get more revenue from the U.S. than they do in their home market. That means they can benefit from faster American growth, while a rising dollar makes those sales worth more when translated back into euros or pounds.[12]

In the end, the transatlantic trade and investment infrastructure is the largest in the world. Transatlantic foreign affiliate sales, estimated at $7.2 trillion in 2023, form the largest commercial artery in the world. Transatlantic affiliates sales in 2023 were $3 trillion higher than similar affiliate sales in the entire Asia region, and dwarf other major commercial arteries between the U.S. and the rest of the world (Table 5).

In this year's survey we present ten metrics by which the transatlantic economy can be measured. Goods trade remains the standard benchmark of global commerce, but as we have long argued, there is a great deal more to cross-border linkages than exports and imports of goods, even if they are significant. These ten metrics include but go beyond trade flows to reveal why the transatlantic economy remains the most interconnected, robust, and resilient commercial artery in the world.

Against this backdrop, it is even more important today that policymakers look beyond trade and take notice of the deep and mutually beneficial linkages that bind the U.S. and Europe together. Understanding these variables is essential to comprehending the enduring strength and importance of the transatlantic partnership.

Notes

1 Von der Leyen cited by Eddy Wax, "Brussels Playbook," *Politico*, February 5, 2025; U.S. Trade Representative Office, "Europe," https://ustr.gov/countries-regions/europe-middle-east/europe, accessed February 9, 2025.

2 See Daniel S. Hamilton, "Coming Together or Falling Apart Over China?" Center for European Policy Analysis, January 30, 2025, https://cepa.org/commentary/coming-together-or-falling-apart-over-china/.

3 See, for instance, Ruben deWitte and Inga Fechner, "Why the EU still holds a Trump card in the face of rising trade tensions," ING, November 24, 2024, https://think.ing.com/articles/eu-us-trade-strategy/.

4 Mario Draghi, "The future of European Competitiveness," European Commission, September 9, 2024, https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059.

5 For more, see for instance Douglas N. Harris, et al., "State of the Nation 2025," Tulane University, https://stateofnation.org/assets/stateofnation/downloads/State%20of%20the%20Nation%20Project.pdf; Martin Wolf, "What makes the US truly exceptional," *Financial Times*, December 3, 2024; Julian Mark, Hannah Ziegler and Aaron Gregg, "7 charts that explain why Americans are unhappy with the economy," *Washington Post*, January 20, 2025, https://www.washingtonpost.com/business/2025/01/20/economy-sentiment-charts/.

6 Joseph P. Quinlan and Lauren Sanfilippo, "A New Era of Isolationism is Coming. The US Will Thrive," *Barrons*, Jan 2, 2025; Tej Parikh, "Debunking American exceptionalism," *Financial Times*, January 12, 2025.

7 Chelsey Dulaney, "Europe's Unloved Stocks Are Suddenly on Top of the World," *Wall Street Journal*, February 7, 2025; Frank Vandermeeren, "Understanding EU-China exposure," European Commission, January 2024, https://single-market-economy.ec.europa.eu/system/files/2024-01/EconomicBrief_4_ETBD_23_004ENN_V2.pdf; Massimo Giordano, et al, "Accelerating Europe: Competitiveness for a new era," McKinsey, January 16, 2024, https://www.mckinsey.com/mgi/our-research/accelerating-europe-competitiveness-for-a-new-era.

8 IMF, Europe Regional Outlook, November 2024; Mario Draghi, "Forget the US — Europe has successfully put tariffs on itself," *Financial Times*, February 15, 2025.

9 Draghi, "The future of European competitiveness."

10 Nicholas Vinocur, Clea Caulcutt and Barbara Moens, "Macron to Europe: We need to become 'omnivores' after Trump's victory," *Politico*, November 7, 2024, https://www.politico.eu/article/emmanuel-macron-france-europe-us-elections-donald-trump/.

11 See Olaf Storbeck, et al., "Reversal of fortunes: Europe's thriving south and stagnant north," *Financial Times*, January 14, 2025.

12 Dulaney.